BUSINESS MODELS FOR PROVIDING EDUCATION TO THE POOR

BY

AYAN SARKAR

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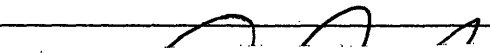INDIAN INSTITUTE OF TECHNOLOGY (IIT), KANPUR, 1997

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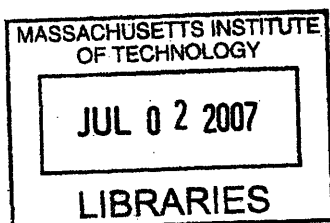
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ABSTRACT

This thesis presents four business cases for delivering education services to the poor. All four business cases meet three fundamental criteria, namely, they are (i) focused on primary or secondary education for the poor, (ii) commercially viable and (iii) highly scalable. These four business cases were developed as part of my efforts to set up The Spark Group – an idea incubator that is focused on improving the quality of education at a grassroots level.

The first business case is Spark Accreditation – India's first universally available school accreditation service. The second business case is Spark Guru – a comprehensive teaching service for Class 8, 9 and 10 Mathematics that promises to bring back teaching where it belongs – inside the classroom. The third business case is Spark TAT – India's first national teacher assessment test. And the fourth and most ambitious business case is Spark School-in-a-box – an idea to form ten-thousand, Rs. 100 ($2) schools.

BACKGROUND

THE VISION BEHOND THE SPARK GROUP

HISTORICAL BACKGROUND

I got interested in the world of development through my involvement with the One Laptop per Child (OLPC – also known as the $100 laptop) project. As is quite well known, the primary purpose of the laptop is to help improve the quality of primary education across the world. As a business student, an engineer and a technology enthusiast, I was curious to find out whether there were other applications of the laptop that could touch at least a million people.

It was at this juncture that I was introduced to the concept of microfinance and to Prof. Muhammad Yunus of Grameen Bank in Bangladesh. I proposed the idea that arming Grameen's field agents with $100 laptops might help reduce operating costs as well as improve their quality of service. Prof. Yunus was intrigued by the idea and asked me to explore it further by spending the summer in Bangladesh. I decided to give structure to my efforts by competing in the development track of MIT's 100K business plan competition. I soon assembled a team, mostly from my classmates in MIT Sloan but also from the Media Lab and the Poverty Action Lab. We did exceedingly well in the competition and ended up winning the Runner's-up prize.

I used the prize-money to fund the Bangladesh trip for me and two of my team-mates. Once there, we soon realized that the $100 laptop was not the solution that Grameen Bank needed – there were far easier operational improvements that could reduce inefficiencies significantly. We ended up making ten recommendations to Prof. Yunus, of which nine were related to operations strategy and one to technology. Prof. Yunus accepted the recommendations but decided to implement them through internal resources at Grameen Bank.

The experience in Dhaka inspired me to further explore whether one could curve out a fruitful career at the intersection of business and development. Was it possible to start an enterprise that served at Dr. C. K. Prahalad's proverbial "Bottom-of-the-pyramid"? Was it possible to develop commercially viable business models that were targeted solely at the bottom quartile of the market? Was it possible to create several of these ideas, one after the other and use their success to attract both commercial-grade investments and world-class talent?

It is with these questions that I approached Dr. Sendhil Mullainathan, professor of Behavioural Economics at Harvard University. Over the weeks of discussion that followed, emerged the idea of The Spark Group.

We envisioned the Spark Group to be an idea incubator working at the grassroots level in India. Using insights from academic research, the Spark Group would develop promising ideas into commercially viable business ventures that deliver services to poor communities. At the outset, it was quite apparent that we would have to restrict our activities to one sector.

As our first venture, we chose the education sector. My focus on the $100 laptop had faded to the background – but I was back to where I started from, education.

We based our decision on a few key favourable factors. First, the need for the product was well-documented and willingness to pay was expected to be high. Also, this was a good first venture as it required relatively low up-front investments, could be implemented quickly and was a good fit with

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the skills of the team. Finally, ventures in the sector had a good possibility of being financially sustainable and provided good options for both exiting as well as defending against competition.

INITIAL ANALYSIS

We evaluated three sector-specific ideas and the following is a snapshot of the results from our analysis:

	Branded network of Private Schools	Dairy Farming using Leased Model	Managed Healthcare for Chronic Diseases
Willingness to Pay for Idea	●	◒	◒
Attractiveness of Market	◔	◕	●
Fit with Team Skills	●	◔	◒
Implementation Speed	●	◔	◒
Long-term Potential for Idea	●	◒	◔
Up-front Capital Requirements	●	◔	◒
Implementation Complexity	●	◔	◒

The following were the details behind our evaluation of the idea in the education sector:

THE IDEA

1) Create a branded network of private schools (new and existing)

2) Provide value-added services (e.g. infrastructure loans, student loans etc.)

THE INNOVATION

1) Use branding to help good private schools separate/differentiate themselves by signalling high quality

2) Use brand-name to improve school quality by attracting better students and teachers

3) Use network size to provide value-added services

REVENUE SOURCES

1) Franchise fees

2) Loan origination fees

Pros:

1) Need for a brand and willingness to pay for it is high:

   - Parents are willing to pay for quality education but are unable to distinguish between good and bad schools

   - Owners of good schools are seeking to associate themselves with a brand to indicate high quality and achieve separation from the competition

   - Schools are profitable and have surplus to invest in branding (For good schools without surplus, financing can be arranged)

2) Good first project for the team:

   - Strong focus on sales, marketing and operations is a good fit with the team's skills, experiences, and interests

   - Low requirement for up-front capital expenditure

   - Less complicated - lower supply chain or inventory complexities

   - Can be implemented quickly

   - Existing channels for cheap mass and direct marketing

   - Access to high-quality data to understand the market and design the product

3) This model is sustainable:

   - Brand can be used to defend against new entrants

   - Customer lock-in through long contracts (5 - 10 years)

   - Strong network externalities

4) Low regulatory requirements

5) High social benefits – increased competition and focus on quality (by both network and non-network members), catalyst for local entrepreneurship

6) Model can be quickly scaled through a dual strategy

   - Identify leading schools and incorporate them into the network

   - Develop a franchise model to be implemented by local entrepreneurs

7) Multiple sources of recurring revenue:

   - School membership fees

- Revenue from provision of value-added services

    o Brand and education-related: teacher training, standardized tests, computers and education software, books, uniforms, product collaborations with local brands, teaching aids, etc

    o Financing: school infrastructure and student loans

    o Equity in best performing schools

    o Savings due to large network size and efficiencies of scale (e.g. bulk purchase of supplies and equipment, cheaper cost of capital etc.)

- Relatively easy to raise soft money

Cons:

1) Need to involve a large number of schools to make model sustainable

    - Average number of students in a rural private school: 72

    - Average fees charged Rs 62 and average revenues of only 4,000 per month. (Muralidharan and Kremer, 2006)

2) Need locally present sales force and campaign in each location: may lead to conflict of economies of scale vs. ensuring non-cannibalization of partner schools

3) Long time to truly prove model: may take a few "classes" to demonstrate results to parents

4) Cyclical business: disproportionate resource requirement shortly before the beginning of the school year -- need to train and coordinate a large campaign

5) Potential misalignment between school's incentives and our incentives once the partnership begins: we cannot easily "drop" a school once we have included it in the network because we have made a commitment to quality to the parents; at the same time, the school has an incentive to free-ride on the brand name and cut costs at the expense of quality

6) Could be less effective in states where public education is of high quality

7) Could be affected by the entry of a very large domestic or international player (e.g. Reliance)

8) Could be affected by changes in regulation

9) Immediate needs/potential short-term constraints:

    - Up-front investments in sales force and advertising

    - Skilled and disciplined sales force

    - Quick development of a defensible and recognizable brand

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- Development of brand standards and of a partnership model that ensures that schools develop/maintain these standards of education

ANALYSIS OF PRIVATE SCHOOL MARKET

1) Market Size & Growth:

   - Moderate but growing fast

   - 28% of villages have private schools

   - Rural private schools is a recent phenomenon - most schools opened in last 10 years

2) Substitutes:

   - Government schools

3) Complements:

   - No complements

4) Buyer Power:

   - Moderate - individual parents do not have bargaining power but can take their children to competing schools

   - High willingness to pay

   - Moderate ability to pay

5) Competition:

   - Moderate competition - schools are highly fragmented

6) Barriers to Entry:

   - Very low - low regulatory requirements

IDEA VALIDATION

We decided that the education idea was attractive enough to pursue it further by formally setting up The Spark Group and moving to India. Over time, the team had morphed and only one of my original team members (Priya Naik) was still on the team. On the other hand we were joined by several talented first-year students at MIT Sloan (Anya Gupta, Shivani Garg and Vanya Pasheva) as well as individuals who we knew from outside MIT (Chetan Choudhury – my classmate in primary and high school and Pratham Naik – Priya's brother)

In parallel to our efforts, Dr. Nachiket Mor of ICICI Bank had set up a private equity fund called the IFMR Fund (since renamed the Network Enterprises Fund) whose vision was to provide funding

to "network enterprises" that develop deep sectoral expertise. The fund had identified fourteen sectors of strategic importance to India's rural development and education was high on the list.

After a quick sequence of meetings, it was agreed that The Spark Group would become the fund's education network enterprise. In this role, our formal charter would be to catalyze the sector especially from the perspective of rural development and be the conduit of ICICI Bank's financial investments in the education sector.

Since none of the four core team members were "educationists", we decided that we needed to spend about twelve weeks trying to form an informed perspective on the "missing markets" in the sector. During the course of these twelve weeks we went to the corners of the country and talked to every conceivable stakeholder in the education sector including school owners, principals, teachers, children, parents, government officials, educationists, policy makers and private agencies (NGOs and for-profit companies).

We went and visited elite schools such as Shri Ram School in Delhi and Indus World School in Hyderabad. Simultaneously we visited schools in the slums of Kolkata, Mumbai Delhi and Hyderabad. We also looked at government schools and schools in Tier 3 towns (Darbhanga, Bihar) and in rural areas. Based on our trips and secondary research we developed a basic understanding of the state of education in India.

THE STATE OF INDIAN EDUCATION

The following is a quick overview of the current state of the Indian education system:

In 2020, the median age of India's population will be only 29 years, far less than that of Europe (45) or China (37). Successfully capitalizing on this 'demographic dividend' could mean a substantial increase in its income levels, across all strata of society.

However, the country is ill-prepared to leverage this opportunity because of the dismal state of its education system. The Indian education system continues to suffer from the basic problems of 'outreach' (millions of children are out of school) and 'quality' (learning outcomes are alarmingly poor). According to Pratham's (2005) study on learning achievements of students of class IV in India, 65% of government schools students did not receive minimum pass marks. Similarly, according to a Poverty Action Lab (MIT) study in Mumbai, 25% of all children in Classes III and IV could not recognize letters and 35% children could not identify basic numbers.

GOVERNMENT SCHOOLS

The approach of the government has been to 'provide' education by 'producing' it through a vast network of government schools managed by the state bureaucracy. However, government schools are failing the poor. According to a recent World Bank report, on any given day, one in four government school teachers are absent, and only half of those present are engaged in teaching.

India's high rate of teacher absenteeism is not due to low salaries. In fact, in India, the ratio of average teacher salary to per-capita income is more than 3.5. The corresponding figures for US and UK are less than 2.0 and those for the East-Asian countries (which have achieved tremendous success in delivering education) are less than 2.5.

Teachers Salaries: An International Comparison
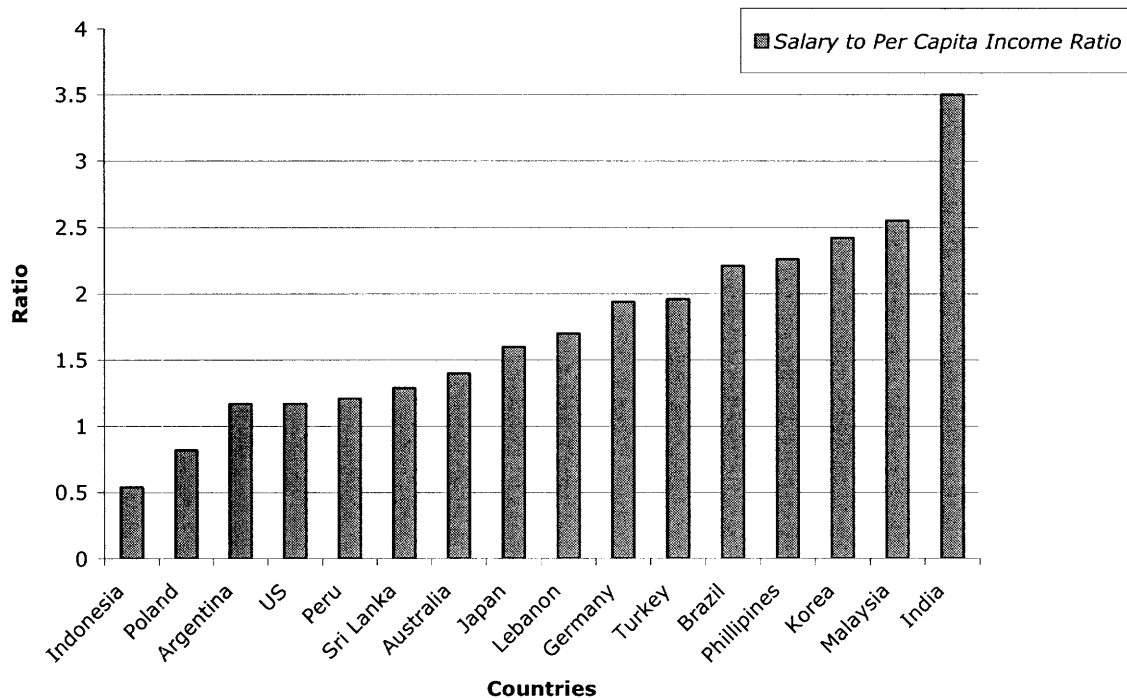
Source: UNESCO (2006). Teachers and Educational Quality: Global Needs for 2015.

The problem is systemic – the government simply does not have the organizational wherewithal to 'produce' quality education for all. Fiscal measures have proven to be incapable of mitigating systemic inefficiencies and failed leadership.

Let's look at a case in point.

IRON GATES AND BRICK WALLS

I visited a government school located in the slum areas of Old City, Hyderabad. The infrastructure of the school was far better than that of the elite, private schools that I attended during my childhood in Kolkata. The building was freshly painted and offered some of the best facilities that I have seen in an Indian school – a large playground, a modern computer lab and large airy classrooms.

And yet, the classrooms were almost deserted by 1 pm. I asked the principal why this was the case. She explained that students had had their fill of the government-provided free mid-day meal and didn't see any reason why they should sit around in classrooms waiting for their teachers to show up.

The only teachers that were present in the school were the few 'contract teachers' that are paid Rs 1,000 ($25) per month and are liable to get fired if they do not teach regularly. The government teachers, on the other hand, earn up to Rs 12,000 ($300) per month and yet choose either not to attend the school or leave early to take private tuitions (which they are legally prohibited from doing) for an extra income. There is simply no way to force them to come to the school and do their job. The principal complained that her life was threatened by the government teachers when she tried to pressurize them to come to school regularly.

The government schools are riddled with many such examples of poorly designed incentive structures and unempowered layers of leadership.

Of the eighteen toilets in the school, seventeen were locked and the only open toilet was filthy. The principal explained that while the government had provided her with excellent facilities, it did not provide her with any budget for their maintenance and upkeep. As a result, she could afford to pay for the occasional cleaning of only one bathroom.

The school had a fancy computer room with several brand new machines and a state-of-the-art projector that was barely used. This is because the school had not been assigned a computer teacher.

Graphs on the principal's office walls showed that only 17% of the students had passed the state board exam.

The school had a shiny new gate that is used to prevent children from escaping until 12:30, which is when the mid-day meal is served. When asked why classes were empty, the principal complained that it was because the school did not have a compound wall! Government data shows that the largest expenditure on the books of the ambitious nation-wide Sarva Shiksha Abhiyaan (Education for All) program has, in fact, been towards the building of school compound walls!

In this particular school, I found entire locked classrooms stacked ceiling-high with unused, brand new furniture. And yet, I saw several students studying on the floor. When asked why this was the case, the principal explained that the furniture was meant for Class 7 (for which she already had abundant desks and chairs), whereas the students that I had observed were in Class 3 and below. She was not empowered to make the common sense decision of using the surplus furniture towards those students who needed it the most.

There are plenty of examples of well-meaning leadership not having the authority to make any meaningful difference. Decision making power is concentrated in the hands of a few politically powerful individuals and abuse of this power is rampant.

A few days after my visit, a news story broke out on how hundreds of Crores (1 Crore = 10 Million) of Rupees were missing from Sarva Shiksha Abhiyaan accounts.

PRIVATE SCHOOLS

On the other hand, the poor are leading a silent revolution in education by opting for budget private schools in preference to government schools. In many Indian states, the proportion of private schools is far greater than that in the developed world. According to a study by Rukmini Banerji, 1 in 5 children in Rafiq Nagar (Mumbai) are enrolled in private schools. Similarly, Tooley and Dixon have found that in Hyderabad there are as many students in private unrecognized schools as there are in government schools. According to Prof. Tooley there is a flourishing market of unrecognized schools which are providing better quality education at far lower costs.

The following is the story of one young entrepreneur that I met.

A GRASSROOTS EDUPRENEUR MOVEMENT

Anwar started one school in a Hyderabad slum a few years ago. Today he runs four schools, is constructing a junior college for girls and wants a loan to start yet another college. Anwar is an edupreneur – a unique breed of innovative, enterprising entrepreneurs committed to delivering education in spite of insurmountable odds.

At the entrance of Anwar's school is a huge banner with pictures of students who received merit ranks – a brilliant strategy that recognizes the success of his students and advertises the school to parents who are choosing between 15 other neighbourhood private schools. Anwar stands below the banner each morning for two hours talking to parents who are concerned about their children's progress. He addresses queries ranging from school fees to complaints about the neighbourhood bully. Anwar is extremely responsive to parent's needs – the students' report cards have graphs depicting their performance, pictorial depictions that help illiterate parents monitor the progress of their children. To address any concerns of teacher absenteeism, Anwar is now installing closed-circuit cameras in all the classrooms.

Anwar's students have done him proud. All the classes that I visited were packed with well-dressed, disciplined, eager students who wanted to become engineers, teachers, doctors and academics. These are children of mechanics, day labourers, farmers and truck drivers. They pay Rs. 70 – Rs 200 ($2 - $5) per month to attend Anwar's school because it offers a good quality education and gives them an opportunity to fulfil their dreams. 90% of the girls in Class X said that they loved Mathematics and wanted to become engineers. It is likely that their parents will force them to discontinue their education because of the absence of a nearby college, but Anwar has a solution – he is building a college that caters exclusively to the hundreds of girls in the neighbourhood!

In a country where the public education system has failed, Anwar's four schools stand testament to the private entrepreneur's determination to provide a decent education to the average Indian child and earn a profit doing so.

A stifling regulatory environment has created a situation where many private unrecognized schools, such as Anwar's, are facing a constant threat of closure. These schools are often forced to pay bribes and borrow at high interest rates from informal credit markets.

Despite these challenges, the proliferation of budget private schools provides India with an exciting opportunity to develop partnerships between the public and the private sector. This is consistent with what is being seen internationally where the role of government in the delivery of public service is evolving from that of a 'producer' to that of a 'provider'.

PRIVATE AGENCIES

In parallel with the proliferation of private schools for the poor, the country is witnessing a flurry of private enterprise activity targeted at taking advantage of the new market dynamics in the primary and secondary education sector.

Education Initiatives, a company formed by alumni of IIM Ahmedabad (India's leading business school), is offering ASSET, India's first private testing system that focuses on fundamentals and not rote learning.

Gyaan Shala, another organization founded by alumni and professors of IIM Ahmedabad, is often referred to as the McDonalds of Indian education. Gyan Shala aims to effectively reach thousands of children from poor urban and rural families at a unit cost well below the existing government budgetary levels.

Another example of successful private enterprise in Indian education is Parikrma. Mrs. Shukla Bose and her team have something good going at the four schools that they have been running in the city of Bangalore.

I was amazed at the enthusiasm of the children and their smartness. Each class is named after a planet. Class I is Mercury, Class II is Venus etc. I asked the class II students why they were called Venus. One girl stood up and told that they were called Venus because Venus is the 2nd planet from the Sun and they were the 2nd class. At this point another kid stood up and said that he disagreed. He felt that they were called Venus because Venus is the brightest planet and they were the brightest kids in the school!

Most kids in Parikrma come from underprivileged backgrounds. Many continue to be child labourers even after joining the Parikrma system. And yet they are clearly getting a good education. The English I heard from these students was better than the English of many students in the elite schools I have visited so far.

One more remarkable aspect of the Parikrma story is their ability to raise funds from CSR programs. Each individual classroom is sponsored by a company. I saw classrooms sponsored by Motorola and Adobe.

I have already mentioned how ICICI Bank, India's second largest bank and largest private sector bank is leading the charge in funding initiatives with a social impact. On a similar vein, the international Orient Global and Geneva Global funds have recently mobilized more than $100 Million with the intention of investing in the Indian education system.

A number of enterprises are also supporting the poor through scholarships, education vouchers, educational aids and student-based funding of education. For example, the Centre for Civil Society has recently launched the Education Choice campaign through which they are providing vouchers to poor students. Other noteworthy efforts are Microsoft's Partners in Learning program, NIIT's "hole in the wall" project and Wipro's education initiatives with government schools. Such efforts are likely to increase accountability and improve efficiency through increased parental and community participation. These endeavours will go a long way in developing the right synergies between able partners, public and private, profit and non-profit.

FOUR BUSINESS CASES

One of the goals of our twelve weeks of market research was to identify and create business cases that meet the following criteria:

1) Focused on primary or secondary education for the poor

2) Commercially viable and

3) Nationally scalable

We identified fours such business cases:

1) Spark Accreditation – India's first universally available school accreditation service

2) Spark Guru – Bringing back teaching where it belongs – inside the classroom

3) Spark TAT – India's first national teacher assessment test and

4) Spark School-in-a-box – Ten thousand 100 rupee ($2) schools

The rest of this thesis is broken into four main chapters – one each for the four business cases. Finally there is a small section dedicated to organizational decisions that we made in order to form the Spark Group

SPARK ACCREDITATION
INDIA'S FIRST UNIVERSALLY AVAILABLE SCHOOL ACCREDITATION SERVICE

THE CONCEPT

Spark Accreditation will be India's first universally available school accreditation service. The service will reflect the most advanced and appropriate thought leadership in school accreditation.

For a reasonable fee, any school - government or private, urban or rural, elite, mid-market or budget - will receive a letter-grade evaluation of its quality.

This accreditation service will be valuable for three reasons:

1) It will help good schools signal to parents that their children are receiving a quality education

2) It will help governments and development agencies measure the effectiveness of their education initiatives

3) Finally, it will help parents make informed choices and demand quality improvements in schools that are performing poorly

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IMPLEMENTATION

Any school in the country will be able to call a toll-free number and an accreditation expert from our national network will perform an on-site evaluation of the following:

1) Quality of learning of the students

2) Proficiency of the teachers

3) Competence of the management

4) Quality of key processes and infrastructure and

5) Viability and transparency of the school's financials

At the end of the evaluation, the expert will sit down with key stakeholders and explain how the school rates along the above dimensions. Finally, the expert will summarize the evaluation into a letter grade that will represent the relative quality of the school within its peer group.

APPROACH

We plan to validate this concept over the next six months. During this phase, we plan to achieve three main goals:

1) Design the service by building upon existing expertise developed by the Azim Premji Foundation and other eminent education organizations

2) Get the service validated and endorsed by leading education organizations

3) Deliver the service to a limited number of prototype schools

Once we have validated the concept, we plan to aggressively operationalize our services at a national scale.

TARGET MARKET

The accreditation service will be open to all schools - private or government, urban or rural, elite, mid-market or budget.

REVENUE MODEL

We will charge a reasonable fee for providing this service. The fee will be a small percentage of the school's monthly revenues.

PARTNERSHIP STRATEGY

We have identified two key partners for developing and delivering the service at a national level:

1) Azim Premji Foundation - The Foundation was set up with financial resources contributed by Azim Premji, India's richest man and the founder of Wipro. It believes that "Education is the vital element in the development and progress of our nation". Programmes of the Azim Premji Foundation focus on "creating effective and scalable models that significantly improve the quality of learning in the school and ensure satisfactory ownership by the community in the management of the school". Azim Premji Foundation says it "dedicates itself to the cause of Universalization of Elementary Education in India." Azim Premji Foundation has significant experience in school accreditation and has accredited 65,000 government schools in Karnataka alone.

2) CRISIL - CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company. CRISIL delivers opinions and solutions that help clients mitigate and manage their business & financial risks, make markets function better, and help shape public policy. CRISIL's majority shareholder is Standard & Poor's, the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research and data. Standard & Poor has significant experience in school accreditation through its schoolmatters.com program in U.S.A

ROLE OF PARTNERS

We hope that our partners will help us with the following activities:

1) Designing the service by building upon existing expertise at the Azim Premji Foundation and other eminent education organizations

2) Getting the service validated and endorsed by leading education organizations

3) Jointly developing the brand for the service and building effective sales and marketing capabilities

4) Help with recruiting and training accreditation experts and delivering the service efficiently and

5) Jointly planning financial requirements and funding our operations

MARKETING STRATEGY

Together with our partners, we will jointly develop the brand for the accreditation service.

We will market this brand extensively to schools as well as poor families through various direct and indirect channels. Examples of potential marketing campaigns include conferences for school owners, competitions for students, information campaigns for parents, street skits, public relations blitzes through local print and broadcast media, etc.

SALES STRATEGY

We will target government schools by forming relationships with organizations that are already working with large sets of such schools.

We will target private schools through a direct sales force as well as targeted marketing campaigns.

SERVICE STRATEGY

We will deliver our services through dedicated accreditation experts. The accreditation expert will be responsible for the customer relationship and will be the single point of contact for order fulfilment, customer service and billing and payment.

PENETRATION STRATEGY

We believe that lead adopters of the service will be top-tier and bottom-tier private schools. The top-tier schools have ability to pay and will use the results of the service as a justification for their high prices. The bottom-tier schools do not have the heavy financial resources required to bribe the official channels in order to get recognized by a government board. They will use the relatively cheaper accreditation service as a quasi-recognition standard.

Mid-tier private schools will be laggards in adopting the service as they do not feel any strong pressure to defend the quality of their service.

We believe that the most effective way to penetrate the government schools is to form strong ties with private agencies that already have relationships with top government officials and generating top-down demand.

THE PLAN

The following is the schedule we are following for the proof-of-concept phase of Spark Accreditation:

1) Management Approval and Concept Design – March

2) Product Design – April and May

3) Live Case Validation (Pilot) – June, July, August, Sept

THE GOALS

The following are the goals we are targeting for Spark Accreditation:

1) Near-term target: 300 schools by March, 2008

2) Middle term target: 2000 schools by March, 2009

3) Long term target: 5000 schools by March 2011

4) Conservative Social Impact: 2.5M students and 50,000 teachers by 2011

CUSTOMERS

We have received a lot of interest in the service from schools as well as education agencies. Among the large-scale organizations that have expressed interest in availing of the service, are:

1) NIIT (3800 schools)

2) American India Foundation (AIF) - 700 schools

3) Association for India's Development (AID) - 8000 schools and

4) Centre for Civil Society (CCS) – Education Voucher Pilot for 1,500 students

PRICING MODEL

We will divide the private school market into four tiers based on fees charged per month per student. We will consider the government schools as a separate tier. The revenue model will be based on a one-time service charge per accreditation.

	TIER 1	TIER 2	TIER 3	TIER 4	GOVT.
Fee Range (per student per month)	Above Rs. 1,500	Rs. 500 – Rs. 1,500	Rs. 250 – Rs. 500	Below Rs. 250	Rs. 0
Service Charge	Rs. 50,000	Rs. 30,000	Rs. 15,000	Rs. 5,000	Rs. 5,000

We project service charges to increase every year in the month of January. An accreditation result will be considered valid for 2 years. A school can call for a re-evaluation anytime within 2 years; the service fee will charged again for the re-evaluation. After 2 years the certificate will expire and a re-accreditation will be required at the prevailing fee.

FINANCIAL STRATEGY

We will raise financing for our operations in several phases.

For the prototype phase we have received some seed funding from Network Enterprise Fund. Along with our partners, we will determine additional funding requirements for the prototype phase.

After the completion of the prototype phase, we will jointly raise money to fund the expansion of our operations. The precise financing requirements will be determined as an outcome of the prototype phase.

FINANCIAL PROJECTIONS

HIGHLIGHTS

2007-2008:

1) First Quarter of profit: April-June, 2008

2) Projected Profit in the second quarter of 2008: Rs 1.0m

3) Staff Headcount – March, 2008 – 27

2008-2009:

1) NPV at the end of March, 2009: (-)Rs 1.9m

2) Break even: April, 2009

3) Staff Headcount – March, 2009 – 55

Phase Projections

Revenue
Expenses
Profit

INR (in Thousands)

20,000
15,000
10,000
5,000
0
-5,000

1 2 3 4 5 6 7 8 9

Time
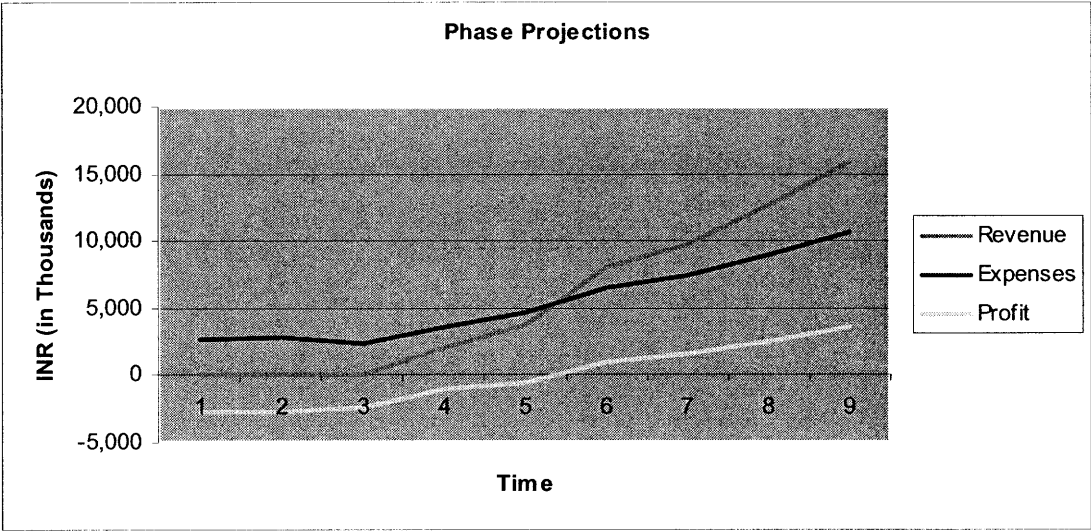
PRO FORMA ANALYSIS

Revenue	2007 (March)	2007 (April, May, June)	2007 (July, August, Sept)	2007 (Oct, Nov, Dec)	2008 (Jan, Feb, March)	2008 (April, May, June)	2008 (July, Aug, Sep)	2008 (Oct, Nov, Dec)	2009 (Jan, Feb, March)
No of regions (urban, peri-urban, rural)	0	1	1	2	2	3	4	4	4
No of institutions	0	10	50	100	150	310	380	465	525
Tier 1	0	2	5	20	30	60	70	100	125
Tier 2	0	2	10	25	35	80	100	120	130
Tier 3	0	3	15	25	40	80	100	120	130
Tier 4	0	3	20	30	45	90	110	125	140
Price									
Tier 1	0	0	0	50	60	60	60	60	70
Tier 2	0	0	0	30	40	40	40	40	40
Tier 3	0	0	0	15	15	15	15	15	15
Tier 4	0	0	0	5	5	5	5	5	5
TOTAL REVENUE	0	0	0	2,125	3,800	8,000	9,700	12,600	15,900

TOTAL REVENUE	0	0	0	2,125	3,800	8,000	9,700	12,600	15,900

Expenses	2007 (March)	2007 (April, May, June)	2007 (July, August, Sept)	2007 (Oct, Nov, Dec)	2008 (Jan, Feb, March)	2008 (April, May, June)	2008 (July, Aug, Sept)	2008 (Oct, Nov, Dec)	2009 (Jan, Feb, March)
Fixed									
One time set up	995								
Management Salary	500	600	600	600	600	600	600	600	600
Office	90	90	90	90	90	90	90	90	90
Telecom	78	78	78	78	78	78	78	78	78
Administration	60	60	60	60	60	60	60	60	60
Office Expenses	60	60	60	60	60	60	60	60	60
Utilities	30	30	30	30	30	30	30	30	30
Vehicle	75	75	75	75	75	75	75	75	75
Total Fixed Expenses	1,888	993	993	993	993	993	993	993	993
Variable									
Partner Revenue Share	0	0	0	637.5	1140	2400	2910	3780	4770
Salaries & Benefits	36	432	702	1080	1404	1728	1998	2484	2916
Marketing	200	400	300	300	400	400	400	400	400
Travel	150	250	200	200	200	200	200	200	200
Service	0	10	25	200	300	500	600	800	950
Telecom	25	60	75	90	100	150	200	250	300
Product Design Raw Material	400	650	100	100	100	100	100	100	100
Total Variable Expenses	811	1,802	1,402	2,608	3,644	5,478	6,408	8,014	9,636

TOTAL EXPENSES	2,699	2,795	2,395	3,601	4,637	6,471	7,401	9,007	10,629

Income	2007 (March)	2007 (April, May, June)	2007 (July, August, Sept)	2007 (Oct, Nov, Dec)	2008 (Jan, Feb, March)	2008 (April, May, June)	2008 (July, Aug, Sept)	2008 (Oct, Nov, Dec)	2009 (Jan, Feb, March)
EBIT	-2,699	-2,795	-2,395	-1,476	-837	1,529	2,299	3,593	5,271
Interest (12% pa)	-27	-84	-72	-44	-25	46	69	108	158
EBT	-2,672	-2,711	-2,323	-1,431	-812	1,483	2,230	3,485	5,113
Tax (30%)	0	0	0	-429	-244	445	669	1,046	1,534
Net Income	-2,672	-2,711	-2,323	-1,002	-568	1,038	1,561	2,440	3,579
NPV (R = 12%)	-1,904								

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Function	2007 (March)	2007 (April, May, June)	2007 (July, August, Sept)	2007 (Oct, Nov, Dec)	2008 (Jan, Feb, March)	b08 (April May, June)	2008 (July, Aug, S	2008 (Oct, Nov, Dec)	Jan, Feb, M
Sales	0	1	5	7	8	10	13	17	20
Service	0	3	5	10	15	18	20	25	30
Marketing	0	1	1	1	1	2	2	2	2
Product	2	2	1	1	1	1	1	1	1
Finance	0	1	1	1	1	1	1	1	1
HR	0	1	1	1	1	1	1	1	1
Strategy	0	0	0	0	0	0	0	0	0
TOTAL	2	9	14	21	27	33	38	47	55
Total Salary	36	432	702	1080	1404	1728	1998	2484	2916

Function	Salary (p.m.)
Sales	18
Service	18
Marketing	18
Product	18
Finance	0
HR	18
Strategy	0

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MANAGEMENT HEADCOUNT

Function	2007 (March)	2007 (April, May, June)	2007 (July, August, Sept)	2007 (Oct, Nov, Dec)	2008 (Jan, Feb, March)	2008 (April, May, June)	2008 (July, Aug, Sep)	2008 (Oct, Nov, Dec)	2009 (Jan, Feb, March)
Sales	0	0.5	1	1	1	1	1	1	1
Service	0	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Marketing	0	0.5	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Product	2	1	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Finance	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
HR	0	0	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Strategy	1	0.75	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL	4	4	4	4	4	4	4	4	4

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We submitted our first proposal to The Centre for Civil Society (CCS).

The Centre for Civil Society is an independent, non-profit, research and educational organisation devoted to improving the quality of life for all citizens of India by reviving and reinvigorating civil society. The centre does not run primary schools, or health clinics, or garbage collection programs. Instead it tries to change people's ideas, opinions, and mode of thinking by research, seminars, and publications. They champion limited government, rule of law, free trade, and individual rights.

CCS is an ideas organisation, a think tank that develops ideas to better the world. They want to usher in an intellectual revolution that encourages people to look beyond the obvious, think beyond good intentions, and act beyond activism.

They believe in the individuality and dignity of all persons, and their right to life, liberty, and pursuit of happiness. The centre trusts their judgement when they cast their vote in a ballot box and when they spend their money in a marketplace. The centre believes that we are driven by the dream of a free society, where political, social and economic freedom reigns.

THE SCHOOL CHOICE CAMPAIGN

The vision of the School Choice campaign is to create a system of education where all children get access to quality education of their choice. The mission includes:

1) To make policymakers aware of the power of incentives to reform that education system

2) To create awareness and generate public debate about how education is funded in India

3) To demonstrate the power of choice by running pilot projects show casing education vouchers

4) To encourage entrepreneurship in education especially in its provision to the poor by advocating regulatory reform and the use of micro credit

5) To advocate the use of independent evaluation using international comparable standardized tests to assess the performance of government and private schools in India

EDUCATION VOUCHER PROJECT

Centre For Civil Society (CCS) will conduct a five year pilot project to assess the efficacy of education vouchers. The pilot project will likely be run out of Udaipur while Bhubaneswar is an alternative location. Vouchers will be provided to 500 randomly selected students entering Class VI. Performance and choices of these students will be tracked for 5 years until they finish Class X. The Spark Group will provide independent evaluation services for the pilot project.

SCOPE OF WORK

1) Number of students = 1,500 (Treatment Group = 500, Control Group Government = 500 and Control Group Private = 500)

2) Number of years = 5

3) Number of test cycles = 11 (Baseline = 1, Mid-year= 5, End-year = 5)

4) Number of Tests administered = 11 x 1,500 = 16,500

5) Tasks that are outside the scope of our work:

    a) Selection of Treatment Group (TG) or Control Groups (CGG and CGP)

    b) Customized analysis of evaluation results

    c) Administration activities such as communicating date and location of test and pursuing no-shows

    d) Monitoring attendance requirements

    e) Maintaining community relations or running awareness programs

    f) Payment of travel allowance to students

    g) Customized analysis of test results

APPROACH

1) Conduct test cycle in one central location:

    a) Large school that can accommodate 1,500 students in an examination setting

    b) Location will stay unchanged for all five years

2) Invigilated by 50 local college students (1 invigilator per 30 test takers)

3) Coordination Team: 6 (overall coordinator: 1, supervisors: 2 , staff: 3)

4) 2 hour test covering English, Mathematics and Science:

    a) Paper-based, multiple-choice

    b) Focused on students' understanding of key concepts

    c) Based on internationally accepted guidelines on competencies expected at a given level (e.g. TIMSS)

    d) Small percentage of questions reserved for understanding the progression of learning achievement over time

    e) Multiple question sets to prevent cheating

FINANCIAL ANALYSIS

All number is INR (Rs.)

All costs per test cycle (unless explicitly stated)

1) Test Development (or Purchase): 112,500

   a) Number of tests: 1,500

   b) Price per test: 75

2) Location Rent: 40,000

   a) Includes access to premises for 12 hours, electricity, water and furniture

3) Invigilation and Correction: 20,000

   a) Number of invigilators: 50

   b) Number of hours: 8

   c) Rate per hour: 50

4) Coordination: 30,000

   a) Number of coordinators: 6

   b) Number of hours: 50

   c) Rate per hour: 100

5) Food (for organizers only): 4,000

6) Printing: 6,000

   a) Number of tests: 1,500

   b) Number of pages per test: 20

   c) Cost per sheet: 20p

7) Supplies (pencils etc.): 5,000

8) Data Entry, Analysis & Reporting: 60,000

9) Overhead (Travel, Lodging etc.): 22,500

FINANCIAL SUMMARY

Price per Test Cycle: 3.0 Lakhs, Total Test Cycles: 11

Total Price for 5 years: Rs. 33 Lakhs

Price per cycle per student: 200

Total price per student for 5 years: 2,200

SPARK GURU

BRINGING BACK TEACHING WHERE IT BELONGS - INSIDE THE CLASSROOM

THE CONCEPT

Spark Guru is a comprehensive teaching package for class 8, 9 & 10 Mathematics for schools serving lower middle class and poor communities. At a price close to the cost of recruiting an in-house Mathematics teacher, Spark Guru provides a total solution that assures dramatically improved class performance.

Spark Guru is delivered in partnership with nationally known organizations such as Education Initiatives, The Network Enterprise Fund, Vidhyasthaan and Bharathi Vidyalaya.

PROBLEMS FACED BY TODAY'S SCHOOL OWNERS

Today's private school owners face 3 major problems:

1) Emergence of attractive alternative careers is significantly increasing the problem of teacher turnover. This leads to:

   a) Uneven quality of teaching and frequent disruptions in the learning experience

   b) Lack of commitment and lacklustre performance of young teachers

   c) Increased recruitment expenses for schools

   d) Reluctance to invest in teacher training among schools leading to further drop in quality

2) Mushrooming of private tutorials is eroding the ability of schools to deliver a comprehensive education. Negative campaigns by private tutorials is undermining the authority of schools

   a) Conflicting advice from multiple authorities is causing confusion and frustration among students

3) Emphasis on rote learning is leading to lack of understanding of fundamental concepts and overall poor performance among students. Poor students are lacking in discipline due to parental apathy and the absence of a supportive study environment at home

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VALUE PROPOSITION FOR SCHOOL OWNERS

Spark Guru offers the following value proposition to school owners:

1) Bring quality teaching into the classroom by creating an environment of accountability and discipline

2) Solve teacher quality and attrition problems by availing of qualified and trained teachers at affordable prices

3) Develop confident students who possess sound fundamentals and achieve superior results

4) Assure parents that they no longer need to waste money on expensive private tutorials

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THE SPARK GURU PROMISE

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1) A complete "worry-free" solution that brings teaching back into the classroom

2) Innovative teaching strategies designed by a team of seasoned education experts

3) Personalized teaching - customized to the strengths and weaknesses of each individual student

4) Comprehensive bank of lessons, tests and homework plans tailored for each education board

5) Qualified teachers selected through rigorous screening and trained extensively on an ongoing basis

6) Frequent testing of students and regular performance reports to principals and parents

7) Cutting-edge technology like video conferencing and online learning to make Mathematics fun and engaging

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SPARK GURU METHODOLOGY

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1) Proprietary teaching techniques for addressing fundamental weaknesses

2) Frequent and rigorous testing - 35% of each class dedicated towards testing

3) Insights into each student's weaknesses through in-depth analysis of test responses by central strategy team

4) Daily teaching strategy customized to the needs of each student

5) Comprehensive package of board specific curriculum, worksheets, tests and exam preparation materials

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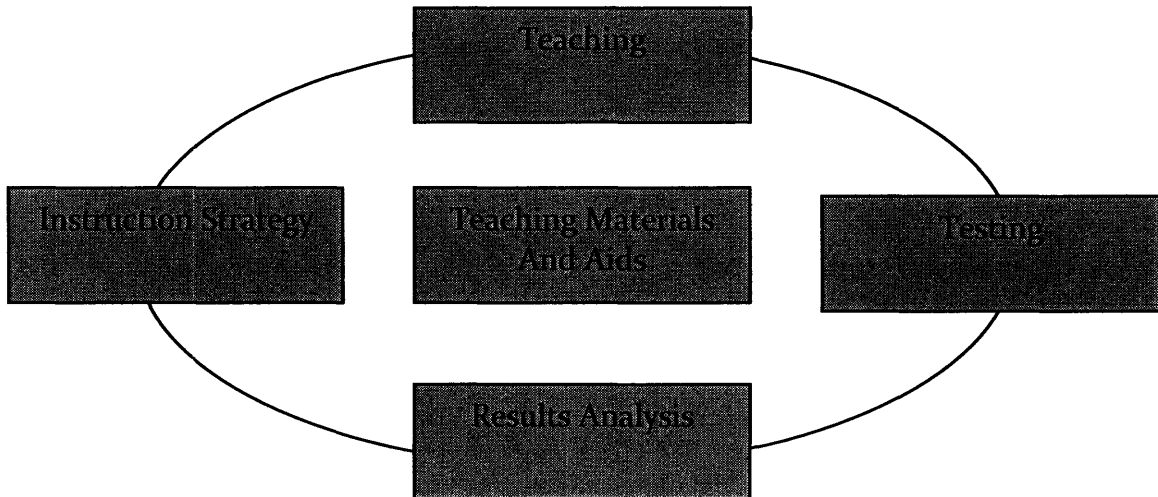
SPARK GURU TUTORS

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1) 100+ B.Ed. and B.Sc. graduates with a specialization in Mathematics

2) Selected through a rigorous screening process which tests for:

   a) Firm grasp of the fundamental concepts

   b) Good teaching skills and genuine concern for learning outcomes

   c) A personality conducive to motivating students towards maximizing their potential

3) Trained extensively in Spark Guru methodology

4) Teaching team consists of generalist and specialist teachers as well as motivational speakers

5) Guaranteed on-time replacement in case of teacher absence or turnover

6) Teachers are contractually bound to not take private tuitions

7) Teachers' payment is contingent on students' learning and performance

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SPARK GURU STRATEGY TEAM AND TECHNOLOGY

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1) Specialized strategy team of 20+ people responsible for:

a) Developing the comprehensive package of board specific curriculum, worksheets, tests and exam preparation materials

b) Evaluating and analyzing daily test results to develop deep insights into each student's weaknesses

c) Formulating teaching strategy customized to the needs of each student

2) Foundation of cutting edge technology and operational processes

a) Seamless communication between every Spark team member

b) Instant access to all Spark material and performance profile of each student

c) Real-time development of insights and teaching strategies

SCOPE & VISION

DIMENSION	PROTOTYPE	LONG-TERM VISION
Subject(s)	Mathematics	Mathematics, Physical Sciences, Life Sciences, English, Computers
Class(es)	8, 9 and 10	6 - 12
Types of Educational Institution(s)	Private Schools with fully loaded cost to student between Rs. 3,000 and Rs. 6,000 per year	All Private Schools with fully loaded cost to student below Rs. 6,000 per year All Government Schools Private Label Tutorial Chain targeted at lower middle class poor communities
Location Type	Urban	Urban, Peri-urban, Rural
Reach	Greater Hyderabad	National
Medium of Instruction	English	Multiple
Supported Curricula	SSC (State), CBSE	Multiple
Channel(s)	Schools	Schools, Tutorials, eLearning kiosks
Scale	25,000 Children 100 Teachers	3.7 Million Children 13,000 Teachers

TARGET MARKET SEGMENTS

Private School Market Segments

Category	Fully Loaded Annual Cost to Student1	Target Per Section Price Point2	Target Per Section Cost Structure3	In Prototype Scope?	In Scale-up Scope?
I	Below 3,000	30,000	20,000	N	Y
II	3,000 - 6,000	35,000	23,333	Y	Y
III	6,000 - 9,000				
IV	9,000 - 15,000	Spak Guru is not offered to these schools			
V	Above 15,000				

[1] All numbers are in INR per year
[2] Revenue for 10 months per year (conservative estimate)
[3] Target Operating Profit = 33%

ECONOMICS OF ONE SPARG GURU (FTE)

Economics of 1 Spark Guru FTE [1]

Revenue

Number of Sections	6
Revenue per Section[4]	35,000
Total Revenue[2]	210,000

Expenses

Human Resource - Market Rate[3]	80,000

[1] Full Time Equivalent
[2] All numbers are in INR per year
[3] Includes Salary, Benefits and Recruitment Costs
[4] Assuming revenue for 10 months at Rs 3,500 per month
(any revenues beyond 10 months will be cancelled out by ad hoc discounts)

Superstructure Cost of 1 Spark Guru Cell [1]

Human Resources

	Count	Human Resource Market Rate[3]	Total
Administration	1	150,000	150,000
Service	1	120,000	120,000
Operations Support	2	100,000	200,000

Infrastructure & Technology

Infrastructure	240,000
Technology	120,000

Total

Total Superstructure Cost for 1 Spark Guru Cell	830,000

[1] Consists of 100 Sections in steady state
[2] All numbers are in INR per year
[3] Includes Salary, Benefits and Recruitment Costs
[4] Includes Support Staff, Training, Infrastructure and Technology

Superstructure Cost of 1 Spark Guru Hub [1]

Human Resources

	Count	Human Resource Market Rate[3]	Total
Administration	2	300,000	600,000
Education Expert	3	360,000	1,080,000
Statistical Analyst	2	240,000	480,000
Sales & Marketing	4	240,000	960,000
Customer Service	6	180,000	1,080,000
Support	3	100,000	300,000

Infrastructure & Technology

Infrastructure	2,400,000
Technology	2,400,000

Total

Total Superstructure Cost for 1 Spark Guru Hub	9,300,000

[1] Consists of 20 Cells in steady state
[2] All numbers are in INR per year
[3] Includes Salary, Benefits and Recruitment Costs
[4] Includes Support Staff, Training, Infrastructure and Technology

Economics of 1 Spark Guru Hub

Revenue

Number of Cells	20
Number of Sections per Cell	100
Revenue per Section	35,000
Total Revenue[1]	70,000,000

Human Resource Expenses

Number of Spark Guru FTEs[2] at 100% Utilization	333
Number of Spark Guru FTEs with 10% Overhead	367
Human Resource Expenses for Spark Guru FTEs[3]	29,333,333

Superstructure Expenses

Superstructure Costs for Cells	16,600,000
Superstructure Costs for Hub	9,300,000
Total Superstructure Cost	25,900,000

Income

Operating Income	14,766,667
Operating Margin	21%
Tax Rate	30%
Net Income	10,336,667
Net Income Margin	15%

[1] All numbers are in INR per year
[2] Full Time Equivalent
[3] Includes Salary, Benefits and Recruitment Costs

Setup Phase of 1 Spark Guru Hub

Setup

Setup Duration	0.25

Revenue

Number of Cells	20
Number of Sections per Cell	100
Revenue per Section[4]	0
Total Revenue[1]	0

Human Resource Expenses

Number of Spark Guru FTEs[2] at 100% Utilization	333
Number of Spark Guru FTEs with 5% Overhead	367
Human Resource Expenses for Spark Guru FTEs[3]	29,333,333

Superstructure Expenses

Superstructure Costs for Cells	16,600,000
Superstructure Costs for Hub	9,300,000
Total Superstructure Cost	25,900,000

One Time Setup Expenses

One Time Setup Expenses	30,000,000

Income

Operating Income	-85,233,333
Tax Rate	30%
Net Income	-59,663,333
Total Setup Cost	-14,915,833

[1] All numbers are in INR per year
[2] Full Time Equivalent
[3] Includes Salary, Benefits and Recruitment Costs
[4] Assumption: There is no revenue during the set up phase of a hub

Quarter	Closing Month	Hubs in Steady State	Hubs in Setup	Number of Children	Number of Spark Gurus [2]	Net Income	Operating Deficit
1	September 2007	0	1	0	333	-14,915,833	-14,915,833
2	December 2007	1	2	100,000	1,000	-27,247,500	-42,163,333
3	March 2008	3	2	300,000	1,667	-22,079,167	-64,242,500
4	June 2008	5	2	500,000	2,333	-16,910,833	-81,153,333
5	September 2008	7	2	700,000	3,000	-11,742,500	-92,895,833
6	December 2008	9	2	900,000	3,667	-6,574,167	-99,470,000
7	March 2009	11	2	1,100,000	4,333	-1,405,833	-100,875,833
8	June 2009	13	2	1,300,000	5,000	3,762,500	-97,113,333
9	September 2009	15	2	1,500,000	5,667	8,930,833	-88,182,500
10	December 2009	17	2	1,700,000	6,333	14,099,167	-74,083,333
11	March 2010	19	2	1,900,000	7,000	19,267,500	-54,815,833
12	June 2010	21	2	2,100,000	7,667	24,435,833	-30,380,000
13	September 2010	23	2	2,300,000	8,333	29,604,167	-775,833
14	December 2010	25	2	2,500,000	9,000	34,772,500	33,996,667
15	March 2011	27	2	2,700,000	9,667	39,940,833	73,937,500
16	June 2011	29	2	2,900,000	10,333	45,109,167	119,046,667
17	September 2011	31	2	3,100,000	11,000	50,277,500	169,324,167
18	December 2011	33	2	3,300,000	11,667	55,445,833	224,770,000
19	March 2012	35	2	3,500,000	12,333	60,614,167	285,384,167
20	June 2012	37	2	3,700,000	13,000	65,782,500	351,166,667

1 All numbers are in INR per year
2 Full Time Equivalent

HIGHLIGHTS

1) Long-term Net Income Margin = 15% (after tax)

2) Number of children impacted by the system by 5 years = 53 Lakhs

3) Number of states with Spark Guru presence in 5 years = All

4) Number of teachers in the system by 5 years = 13,000

5) Cash Requirement (Peak Operating Deficit) = Rs 10 Crores

   a) Cash Requirement for 2007 = Rs 4 Crores

   b) Cash Requirement for 2008 = Rs 6 Crores

6) First positive quarter: Q2 2009

7) Operating deficit wiped out by: Q3 2010

CRITICAL RISK FACTORS AND MITIGATION STRATEGIES

1) Demand for Spark Guru is unproven

   a) The proof-of-concept phase will help us validate demand for the product and the pricing model.

2) The Spark Guru concept is novel and complex and might prove to be hard to comprehend

   a) We plan to mitigate this risk by budgeting for advertising to explain the services to our customers

3) It is unclear that Spark Guru will be effective in identifying the top teachers

   a) We plan to mitigate this risk by partnering with premier thought leaders in the field who have developed adequate and requisite expertise

4) Possibility of competition from big players

   a) No instances of competing products have been found in the system. However, it may not be very difficult for big and established payers like NIIT, IMS etc. to come up with competing and clone products

5) The market is not liquid and there are few currently established exit options

   a) However, we hope that viable options will develop by the time we are seeking an exit

The following is a snapshot of the letter that we send to school owners:

SPARK

Dear School Correspondent:

How many teachers have left you in the last year? How much have you spent on recruiting new teachers? Are you troubled by the commercial attitude and lack of commitment of new teachers? Have the poor quality of teachers and frequent disruptions affected the performance of your students in the board examinations? Do your students routinely seek expensive private tutorials that are a strain on their parents?

The Spark Group can solve your problems. We offer you Spark Guru – a comprehensive teaching package for class 8, 9 & 10 Mathematics. At a price close to the cost of recruiting an in-house teacher, gain peace of mind by handing over the responsibility of teaching Mathematics to our Spark Guru experts and watch the performance of your students improve dramatically. Become "worry-free" with Spark Guru.

Bring back teaching where it belongs – inside your classroom. Solve your teacher quality and attrition problems by taking advantage of qualified and trained teachers at affordable prices. Develop motivated and confident students who possess sound fundamentals and achieve superior results. Reassure parents that their children are both enjoying Mathematics and performing well in exams. The Spark Guru promise is built on six key pillars:

1. Innovative teaching strategies designed by a team of seasoned education experts

2. Personalized teaching customized to the strengths and weaknesses of each individual student

3. Comprehensive bank of lesson, test and homework plans tailored for each board

4. Qualified teachers selected through rigorous screening and trained extensively on an ongoing basis

5. Daily testing of students and weekly performance reports to principals and parents

6. Cutting-edge technology both inside and outside the classroom to make Mathematics fun and engaging

If you want to become one of the select few schools in Hyderabad with the Spark Guru advantage, please call us at 92465-98108 or 0-40-6456-1073.

Yours Sincerely,

Ayan Sarkar
Chief Executive Officer, The Spark Group

ABOUT THE SPARK GROUP
The Spark Group is a social start-up that improves the quality of education at the grassroots level in India. The Spark Group develops commercially viable business models for delivering education services to the rural and urban poor through both government and private channels. Spark stands for "Serving People through Action, Research and Knowledge."

ABOUT SPARK GURU
Spark Guru has been developed for schools serving lower middle class and poor communities. It has been designed by experts from world-renowned USA organizations such as Harvard University, Yale University and the Massachusetts Institute of Technology (MIT) and is supported by the Network Enterprises Fund (an ICICI initiative), Education Initiatives, Vidhyasthan and Bharathi Vidyalaya.

ABOUT THE SPARK GROUP TEAM
Spark's founding team has over fifty years of work experience in world-class organizations such as McKinsey, Microsoft, Deloitte, IBM, Procter & Gamble and the World Bank. The team has graduate degrees in Economics, Business, Accounting, Public Policy and Engineering from premier institutions like MIT, Yale, Berkeley and IIT. Spark's advisors hold positions of eminence in organizations like Harvard University, MIT, the Boston Pledge and ICICI Bank.

The following are snapshots of brochures that we use for the sales and marketing campaign:

The following are snapshots of brochures that are used to compare Spark Guru Tutors with conventional teachers:

The Spark Guru Advantage

	Spark Guru	Conventional Teacher
Approach	Scientific & Objective	Subjective
Process	Rigorous	Cursory
Selectiveness	Highly selective	Undiscerning
Inputs	Systematic	Infrequent
Accountability	Pay for performance	Limited accountability

6) Teachers are not receiving due recognition for their roles in moulding the children of our country

7) They are not receiving adequate compensation for their efforts - low salaries offered by schools is making private tuitions the only viable option

8) They do not have attractive and fulfilling career paths and

9) They are not able to develop their skills because schools are reluctant to invest in their training

SPARK GURU TUTORS – 2 TRACK APPROACH

We plan to address the issues of teacher quality and retention by developing 2 tracks for our Spark Guru Tutors:

1) Corporate Track – Targeted at final year undergraduate students as well as MBA and MCA aspirants. This track offers career progression into some of India's leading name brand organizations

2) Flexible Track – Targeted at housewives, retired teachers and graduate students this tracks offers unparalleled flexibility

MESSAGING STRATEGY FOR CORPORATE TRACK

THE SPARK GROUP

—————— Igniting possibilities ——————

Probability of a Corporate Career

20%

if you take the ICET exam

100%

if you become a Spark Guru!!

AN OFFER THAT CAN CHANGE YOUR LIFE!

1. Get a post-dated job offer at India's most prestigious MNCs TODAY!!!
2. Get FREE job training that ensures that you'll be successful at your job
3. This training is not available anywhere even if you want to pay for it
4. And to top it all, get paid Rs. 72,000†

WHAT DO YOU NEED TO DO?

1. Teach Class 10 Maths at Spark Guru schools
2. Successfully complete your 1-year corporate training

CALL 6456 1073 NOW!!

www.sparkguru.com

† includes value of training

VALUE PROPOSITION FOR CORPORATE TRACK TEACHERS

Spark Guru offers the following value proposition to corporate track teachers:

1) Choose a job you love and you will never have to work a day of your life

2) Get trained and certified in career skills for a productive and successful career

3) Dramatically improve long-term career earning potential

4) Be the face of India's leading education company – get trained and certified for teaching skills

5) Fun and challenging one-year teaching assignment at Spark Guru schools

    a) Be a change-maker in the lives of poor children

SPARK GURU JOB OPTIONS FOR CORPORATE TRACK

Spark Guru provides the following job tracks to its tutors:

1) Quantitative Analyst in the Financial Services industry - Starting salary Rs. 12,000 per month

2) Corporate Trainer in the BPO, Retail and Healthcare industries – Starting salary Rs. 15,000 per month

CORPORATE TRACK TRAINING PACKAGE

1) Teaching skills – Innovative teaching methodology, strengthening fundamentals, evaluation techniques, quality certification

2) Job-specific skills

    a) Management training – planning, organizing, coordination and control

    b) Computer skills – Microsoft Office, Internet, eCommerce

    c) English communication skills – reading, writing, listening and speaking

    d) Personality development – aptitude, leadership and personality development

THE SPARK GROUP

—— Igniting possibilities ——

Teach Part-time!!
Earn Full-time!!

REWARDING!
Earn up to Rs. 72,000 per year!

FLEXIBLE!
Choose your own timings
Teach as little as 2 hrs/day

CONVENIENT!
Teach at a school near your house

PROFESSIONAL!
Work for a leading education
company formed by NRIs

QUALIFICATIONS
You need to teach Class 10 Maths

CALL 6456 1073 NOW!!
www.sparkguru.com

COMPENSATION AND INCENTIVE STRATEGY FOR FLEXIBLE TRACK

SECTIONS	BASE	MONTHLY BONUS			ANNUAL BONUS			TOTAL ANNUAL COMPENSATION			AVERAGE
		Top Performers 33.3%	Average Performers 16.7%	Poor Performers 0.0%	Top Performers 200.0%	Average Performers 100.0%	Poor Performers 0.0%	Top Performers	Average Performers	Poor Performers	
6	4,800	1,600	800	0	9,600	4,800	0	86,400	72,000	57,600	72,000
4	3,200	1,067	533	0	6,400	3,200	0	57,600	48,000	38,400	48,000
2	1,600	533	267	0	3,200	1,600	0	28,800	24,000	19,200	24,000

THE SPARK GROUP
C/o. The Network Enterprises Fund
24 Kothari Road, Nungambakkam,
Chennai 600 034

tel. no: 040-6456-1073
cell no: +91-90466-98808

e-mail : info@sparkguru.com
web: http://www.sparkguru.com

Thursday, 10 May 2007

To: <Fill Full Name>

Dear <Fill Salutation>,

Congratulations! I am delighted to invite you to join The Spark Group as a Spark Guru Tutor in our Hyderabad office.

This letter formally confirms our offer, and the enclosure provides specific information about the key elements of the offer. It covers compensation, contract details, job responsibilities, policies and procedures and a number of administrative details for your review.

In summary, in your first full year, your annual cash compensation could total over Rs. 65,400/ 57,600/ 76,800, including base compensation and performance bonuses.

We are looking forward to working with you and hope that your experience with Spark proves rewarding. Please feel free to contact me at 0-99055-77913 or Priya Naik at 0-99033-77914 if you have any questions or to convey your decision on the offer. We look forward to hearing from you and to the prospect of you joining us.

Sincerely,

Ayan Sarkar,

CEO,

The Spark Group

HYDERABAD • KOLKATA • MUMBAI • BOSTON (USA)

SP∙ARK

TERMS OF CONTRACT

COMPENSATION

There are two aspects to your compensation – base compensation and performance bonuses

1) Base Compensation - You will receive a base compensation of Rs. 4,800/3,200/1,600 per month

2) Monthly Performance Bonuses – Based on your performance, you can receive a bonus of as much as Rs. 1,600/1,067/533 per month. Approximately one-third of all Spark Guru Tutors will receive the maximum bonus possible. Your bonus will be dependent on many factors including:

   a) Performance improvement of the students assigned to you

   b) Satisfaction of the students and school(s) assigned to you and

   c) Your track record of regularity and following instructions

3) Year-end Performance Bonus – Based on your overall performance during the year, you can receive an additional year-end bonus of as much as Rs. 9,600/6,400/3,200. Again, approximately one-third of all Spark Guru Tutors will receive the maximum bonus possible. You will be paid the year-end bonus only if you successfully complete the entire term of your contract

4) We do NOT offer a provident fund benefit as part of this contract

5) Spark will deduct taxes at source, as may be applicable, on the amounts paid to you. All taxes will be borne by you

CONTRACT DETAILS

The following are the details of the contract that we are offering you:

1) Contract Duration - Your contract commences on June 1, 2007 for a duration of twelve (12) months and is extendable based on mutual discussions and agreement

2) Contract Conditions - You are required to accept this contract within seven (7) days of you receiving formal communication of the offer. The contract is no longer valid after this period. Before the commencement of this contract, you are required to submit several documents. Spark reserves the right to cancel this contract, if you do not submit the above documents to our satisfaction:

   a) Two copies of your recent passport size photographs

   b) A formal bio data filled in the Spark prescribed format

   c) Copies of all educational certificates

d) Relieving letter from previous employer, if any

e) Last salary slip / proof of last salary drawn, if any

f) Form 16, if you have been paying tax previously

g) References of two non-family members with whom you have worked professionally in the past

3) Termination of Contract - If you wish to end our relationship, you will provide Spark with a written notice 1 month prior to your last working day. Spark is entitled to terminate this contract at any time with immediate effect for the following reasons:

a) Breach of Spark's standards with respect to integrity, ethics, honesty, sincerity and loss of confidence

b) Failure to follow the rules and regulations of Spark

c) Any falsification or misrepresentation of information or any wilful suppression of material information

d) Moral turpitude or dishonesty in dealing with Spark's material document or theft or misappropriation of Spark's property regardless of the value involved

e) Gross negligence or carelessness or inefficiency in performing your duties

f) Failure to match your skills to market demands

RESPONSIBILITIES

You will be responsible for 6/4/2 sections of students in one or more of Spark's customer schools. This contract will need to be amended if there is a change in the number of sections allocated to you. Your responsibilities will include the following:

1) Teaching Mathematics in the sections assigned to you. Spark will try to assign you to schools close to your residence but cannot guarantee this

2) Following a teaching schedule assigned to you. Spark will try to assign you a schedule and classes based on your preferences but cannot guarantee this

You responsibilities inside the classroom include but are not limited to:

1) Teaching and completing the curriculum

2) Assigning homework and ensuring that it is completed and corrected

3) Administering tests and ensuring that they are completed and corrected

Your responsibilities outside the classroom include but are not limited to:

1) Attending all training sessions and completing all training modules assigned by Spark

2) Preparing for and providing feedback on each classroom session

3) Creating performance reports for principals and parents as stipulated by Spark

At all points in time you will be required to follow the directions provided by the Spark Guru Teaching Support team to the greatest extent possible. You might be instructed to perform duties above and beyond those outlined above. In order to fulfil your duties you might be required to visit locations (e.g. training centres, Spark offices etc.) other than your regularly assigned schools

NO TUITIONS

It is an express condition of this contract that you will not be interested or employed at any time either directly or indirectly, in any other school, tuition class (even your own), company or business, so long as this teaching contract continues, except after discussing with Spark and getting specific written consent in this regard. In addition you will not give tuitions (with or without remuneration) to anybody. It is hereby further clarified that during the period of this contract, you shall not engage in any other employment activity, whether directly or indirectly, without the prior written approval of Spark.

LEAVE POLICY

Each Spark Guru Tutor is required to follow the holiday schedule of the schools they are assigned to. Further details will be made available to you through a formal Leave Policy document.

You will not be paid for any extra holidays that you decide to take. Additionally, in case you need to take holidays or leave early, you need to inform Spark at least forty-eight (48) hours in advance about both the reason and duration of absence. Failure to do so will be considered as valid grounds for termination of this contract

OTHER TERMS

The following are additional details regarding your contract:

1) You are required to adhere to all Spark policies and procedures whether written or oral, and always act in the best interests of Spark

2) All agreements, confidential and non-disclosure information, contracts, covenants and obligations entered into by Spark with any other person or entity is also binding on you

3) You will not disclose, divulge or communicate any matter pertaining to Spark or any of its customers, partners, employees, consultants and suppliers to any member of the press or any other form of media including electronic media, unless with specific consent of Spark. During the period of this contract, you will also not disclose or divulge or communicate to any person any information, which is of a secret or confidential character relating to the trade or business of the company or any information related to methods, processes, appliances, technology, teaching methodology, etc. used by Spark

4) All the material, methodology and inventions developed or contributed by you during the continuance of this teaching contract shall be deemed to have been made on behalf of Spark and shall belong to Spark exclusively and you shall forthwith

communicate to Spark full particulars of every such material/invention / discovery, if any.

5) Upon termination or expiry of this contract, you shall not be permitted to compete with Spark, directly or indirectly, or approach Spark's customers, for a period of 12 months from the date of such termination or expiry. In addition you will not be permitted to use any of the material belonging to Spark after your contract with Spark is terminated

6) As part of our policy, we require you to sign Confidentiality and Non-Disclosure Agreements as well as Conflict of Interest and Intellectual Property Rights Agreements, which are attached in the Annexure.

7) The compensation package being offered to you by Spark has been decided based on various factors including your professional background and merit. We would like you to treat all compensation-related information and materials as personal and confidential

8) You will be responsible for the safekeeping and return in good condition and order all of Spark's property, which is in your possession, use, custody or charge.

9) This teaching consultancy is not a contract of service but a contract for service

SPARK TAT

INDIA'S FIRST NATIONAL TEACHER ASSESSMENT TEST

Spark will provide India's first national teacher assessment test (TAT).

Developed in partnership with Education Initiatives and iDiscoveri, the Spark TAT will reflect India's most advanced and widely recognized teacher assessment service.

THE CONCEPT

The Spark TAT will be an in-depth, scientifically developed, computer-driven examination of a teacher's ability to facilitate learning. It will be used by current and prospective teachers to signal their quality to schools, parents and students.

Spark TAT will give each candidate a Spark TAT Score representing her percentile rank.

In addition, it will provide valuable benefits to top performing candidates:

1) A Spark TAT Star Rating – a widely recognized endorsement signifying that the candidates are exceptional teachers

2) Financial resources to start their own schools or tutorial institutions and

3) Placement at top schools across the country

Candidates will pay a nominal fee for taking the test

THEORY OF CHANGE

The goal of Spark TAT will be to find the best teachers in the country.

We believe that among the large number of average teachers, there are some exceptional ones. Teachers who not only understand their subject well, but genuinely like to teach and are good facilitators of learning. It is the aim of Spark TAT to find these teachers:

1) Current and prospective teachers will use their Spark TAT Scores and Spark TAT Star Ratings to signal their quality to schools and parents and get compensated adequately. Top performers will command a premium and in addition, will receive valuable benefits from Spark and its partners

2) Schools, parents and students will use Spark TAT Scores to make informed choices. Sending their children to Spark TAT Star rated teachers, will assure parents that they are receiving high-quality education.

3) Hiring top rated teachers will help schools enhance the quality of education that they deliver

4) Governments and education agencies will use Spark TAT to evaluate the effectiveness of their teacher training programs

5) Finally, teachers will improve by aspiring to perform better. Spark TAT will facilitate this by providing each candidate with detailed, personalized and constructive feedback.

6) Society will be benefited by more effective and motivated teachers.

THE EXPERIENCE

Spark TAT will be an enriching experience - the teacher will feel that she was evaluated fairly and extensively by a group of professionals who truly understand what makes a good teacher. Additionally, she will feel that she was treated courteously and provided with valuable feedback.

THE PRODUCT

Spark TAT will assess the candidate's grasp of her core subject(s) as well as her ability to facilitate learning in students.

The test will be a computer-facilitated, multimedia-rich, interactive experience that will adapt to the strengths and weaknesses of the candidate. The rigorous (and yet fun) test will be built on a foundation of world-class research provided by Education Initiatives and iDiscoveri. The test will be constantly refined and endorsed by eminent thought leaders in the field of education.

THE SPARK TAT SCORE

Each candidate will receive a Spark TAT Score representing her percentile rank against all other candidates over the most recent twelve months.

THE SPARK TAT STAR RATING

Candidates with a Spark Score of 75 or more will get a Spark Star Rating.

Spark TAT Score	Spark TAT Star Rating	Benefits to Candidate
75 - 95	★★★ (3 Stars)	1. National advertising of the Spark Star Rating endorsement 2. Promotional placement on www.sparkguru.com 3. Business Cards, Letterheads etc.
95 - 99	★★★★ (4 Stars)	1. All of the above 2. Placement at top schools across the country
99 - 100	★★★★★ (5 Stars)	1. All of the above 2. Financial resources to start schools or

		tutorial institutions
		3. Newspaper ads and other events to celebrate and promote these individuals

THE SPARK TAT FEEDBACK SYSTEM

At the completion of the test, a Spark TAT Expert will provide each candidate with detailed, personalized and constructive feedback on how to become a better teacher.

THE SPARK TAT WEBSITE

Spark will develop www.sparkguru.com as a forum for India's teachers. For each candidate, the forum will maintain a profile consisting of her Spark TAT Score, her Spark TAT Star Rating (if applicable), her areas of expertise and a brief, promotional bio.

Spark will make this information widely available to schools, parents and students across the country.

THE SPARK TAT PROMOTIONS

Spark will invest heavily in developing national recognition for the Spark TAT Score and Spark TAT Star Rating concepts.

Spark will also promote the candidates receiving a five star rating through individual ads and celebration events.

THE SPARK TAT PARTNER SCHOOLS

Spark will provide placement services to candidates receiving four star ratings or above at the most reputed two hundred and fifty schools in the country.

Partner schools will pay Spark a fee of approximately Rs. 25,000 for the placement of a Spark TAT Star rated teacher.

THE SPARK TAT PARTNER FINANCIAL INSTITUTIONS

Spark will provide financial resources to candidates receiving five star ratings to start their own schools or tutorial institutions. Extremely attractive terms will be provided to candidates wanting to start institutions in underserved communities.

Partner financial institutions will pay Spark a fee for originating the deal with a Spark TAT Star rated teacher. Spark will brand the new school or tutorial institution and hold minority equity in it.

THE PROOF-OF-CONCEPT

We plan to validate the Spark TAT concept over the next 22 months. During this phase, we plan to achieve 5 main goals:

1. Design the service in collaboration with Education Initiatives and iDiscoveri

2. Get the service endorsed by 10 leading education organizations and educationists

3. Deliver the service to at least 14,000 teachers in 1 metro and 2 tier 2 cities

4. Enlist 2 partner financial institutions

5. Enlist 30 partner schools and junior colleges

TARGET MARKET

During the proof-of-concept phase, the test will be open to Physics, Chemistry, Mathematics and Accountancy teachers of classes 8 to 12.

REVENUE MODEL

1) Candidates will pay a fee of Rs. 2,500.

2) Partner schools will pay Spark a placement fee of approximately Rs. 25,000.

3) Partner financial institutions will pay Spark loan origination fees

PRODUCT STRATEGY

The product content will be developed in 3 months by a team of 10 experts provided by Education Initiatives and iDiscoveri. The test technology platform will be developed in 3 months by a team of 4 technology experts from a reputed IT development company. Alternatively, we will buy an existing technology platform off the shelf. During the 22-month proof-of-concept phase, the 10-member content team will be gradually reduced to a support staff of 6 members. Similarly, the 4-member technology team will be reduced to a 2-member support team.

OPERATIONS STRATEGY

Spark TAT tests will be administered on weekends only. We will run operations out of 20-seat test centres set up at business centres or on the premises of companies that have unutilized office space and computers during the weekends. By running 3 consecutive test sessions in 13-hour shifts, we will have a weekly capacity to administer 120 Spark TAT Tests at each centre. Each centre will be staffed by 6 Spark TAT Experts and supported by a staff of 4 (1 Branch Manager, 1 Receptionist, 1 Technology Support Staff and 1 Office Boy). The entire staff, with the exception of the Branch Manager, will be employed on a part-time basis.

LEADERSHIP STRATEGY

The proof-of-concept will be coordinated by a leadership team of 2 provided by the Spark Group.

THE PLAN

Timeframe	Objective
Mar – Jun 2007	1. Design and develop the product and operating model

Jul – Dec 2007	1. Establish a 20-seat test centre in 1 metro 2. Deliver 1,800 Spark TAT tests
Jan – Jun 2008	1. Establish a second 20-seat test centre in a tier 2 city 2. Upgrade the Spark TAT product to its second version 3. Deliver 4,050 Spark TAT tests through the two centres
Jun – Jul 2008	1. Establish a third 20-seat test centre in the original metro and a fourth 20-seat centre in a new tier 2 city 2. Upgrade the Spark TAT product to its third version 3. Deliver 8,550 Spark TAT tests through the four centres

SALES AND MARKETING STRATEGY

Spark will advertise the test through the education sections of newspapers as well as local cable channels.

FINANCIAL PROJECTIONS

Based on pricing and demand estimates, we estimate that the proof-of-concept phase will make profits of Rs. 7.3 Million. Peak cash requirement will be approximately Rs. 10 Million in the 18th month.

FINANCING STRATEGY

The Spark Group will finance the proof-of-concept using a long-term loan from ICICI Bank. Education Initiatives and iDiscoveri will be offered the option of investing in the proof-of-concept phase of Spark Guru, in exchange for equity.

NATIONAL EXPANSION

The precise long-term pricing strategy, market projections and financing requirements will be determined as an outcome of the proof-of-concept phase.

PRELIMINARY FINANCIAL PROJECTIONS

We project that in the long-term, Spark will run 10 test centres across the country. Some of the test centres might be run by franchisees. We also project that in steady state, a 20-seat test centre will achieve net income of Rs. 10 Million per year.

FINANCING STRATEGY

After the completion of the proof-of-concept phase, we plan to raise additional money through a mix of equity and debt. We believe that we will attract investor interest if we can prove that:

1) The Spark TAT product effectively separates the top teachers from the rest

2) The Spark TAT product sells in metros as well as in tier 2 cities

3) There is a strong leadership team to take Spark TAT forward

PRODUCT STRATEGY

In the long term, Spark TAT will expand to support primary school teachers as well as develop tests for additional subjects. We can also envision providing the Spark TAT tests over the internet outside the test centres. Finally, we will work with Governments and NGOs in providing the Spark TAT service to support their programs and interventions.

CRITICAL RISKS AND MITIGATION STRATEGIES

1. Demand for Spark TAT is unproven. The proof-of-concept phase will help us validate demand for the product and the pricing model.

2. The Spark TAT concept is novel and complex and might prove to be hard to comprehend. We plan to mitigate this risk by budgeting for advertising to explain the services to our customers

3. It is unclear that Spark TAT will be effective in identifying the top teachers. We plan to mitigate this risk by partnering with Education Initiatives and iDiscoveri, two premier thought leaders in the field

4. The market is not liquid and there are few currently established exit options. However, we hope that viable options will develop by the time we are seeking an exit

ABOUT EDUCATION INITIATIVES

Educational Initiatives (EI) is an effort by a group of IIM (Ahmedabad) alumni with first-hand experience of setting up and running educational institutions. It has been formed with a mission to work towards qualitative improvement in India's educational system. It will do this by building a team of people who have been exceptional teachers and who will continuously build expertise by networking, reading, documenting best practices and devising and sharing solutions focused on quality improvement and effective learning. This team will offer products and services to private schools, schools groups, municipal school boards and governments.

The EI team consists of professionals who have vast experience in the area of school education. Its team members have taught in leading schools, been members of the state textbook committees and designed and taught courses at the school as well as teacher-training level. EI anticipates steady growth and spread of operations across the country in the next 5 years by when it hopes to be a multi-division company having expertise in different areas built on a solid base of research.

ABOUT IDISCOVERI

iDiscoveri is a social enterprise with a vision of reviving education in India. Their learning programs touch workplaces, schools, and lives. By providing an experiential learning environment with equal emphasis on intellectual and emotional growth, they assert that learners will discover their true passion.

Founded by alumni of Harvard University, INSEAD, IIT and XLRI, the iDiscoveri team includes a family of scholars and practitioners who are drawn from disciplines of cognitive & social psychology, education, and management sciences.

PROOF-OF-CONCEPT PHASE FINANCIAL PRO FORMA ANALYSIS

Prooof-of-Concept Phase Projections
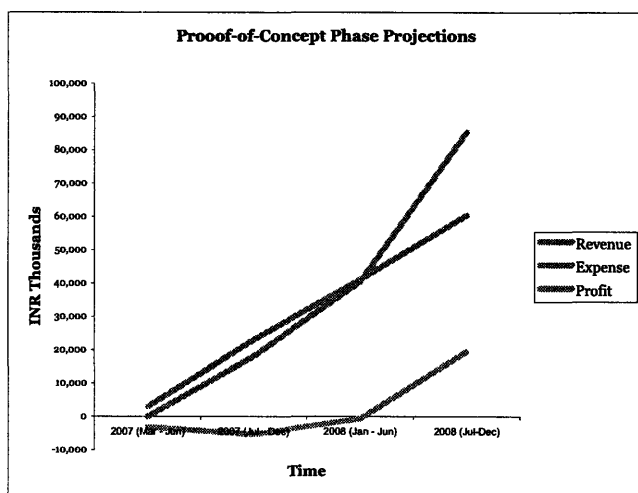
REVENUE (INR 000's)	2007 (Mar - Jun)	2007 (Jul - Dec)	2008 (Jan - Jun)	2008 (Jul-Dec)
Number of cities	0	1	2	3
Number of test centres	0	1	2	4
Number of seats per center	0	20	20	20
No of sessions per day	0	3	3	3
Utilisation	0%	60%	68%	71%
Days of operation per week	0	2	2	2
Price	0	10	10	10
No of operational weeks	15	25	25	25
Total Revenue	0	18,000	40,500	85,500
EXPENSES (INR 000's)				
Product[1]				
Content	2,100	3,500	2,800	2,100
Technology	840	700	700	700
Rent[2]	0	325	650	1,300
Salary[3]	0	700	1,400	2,800
Computers[4]	0	125	250	500
Furniture[5]	0	75	150	300
Stationery[6]	0	75	150	300
Marketing[7]	0	17,500	35,000	52,500
Total Expenses	2,940	23,000	41,100	60,500
INCOME (INR 000's)				
EBIT	-2,940	-5,000	-600	25,000
Interest - 12% per year	176.4	300	36	1500
Earnings before tax	-3,116	-5,300	-636	23,500
Tax - 34%	0	0	0	3995
Net Income	-3,116	-5,300	-636	19,505
NPV (R = 12%)	7,259			

Product	
Content	
Burn rate (per week)	**140**
10 people * INR 7,000 per week * 200% overhead	
Technology	
Burn rate (per week)	**56**
4 people * INR 7,000 per week * 200% overhead	

Rent	
Burn rate (per week per center)	**13**
INR 13,000 per week per center	

Salaries	
1 Branch Manager * INR 5,000 per week	5
6 Experts * INR 3,000 per week	18
1 Receptionist * INR 2,000 per week	2
1 Technology Support Staff * INR 2,000 per week	2
1 Office Boy * INR 1000 per week	1
Burn Rate (per week per center)	**28**
NOTE: Salaries are for part time work of 2 days per week at 12 hrs per day	

Computers	
Burn Rate (per week per center)	**5**
25 units per center * INR 30,000 per unit / 150 weeks life	

Furniture	
Burn rate (per week per center)	**3**
INR 3,000 per week per center	

Stationery	
Burn rate (per week per center)	**3**
INR 3,000 per week per center	

Marketing	
1 Education Times per week * INR 100,000	100
1 Mid-Day per week * INR 100,000	100
250 Cable ads per week * INR 2,000	500
Burn Rate (per week per city)	**700**

LONG-TERM FINANCIAL PROJECTIONS

Number of Test Centres	10
Net Incomer per Test Centre per Year	Rs. 10 Million
Long-term Cost of Capital	12%
10 year Net Present Value (NPV)	**Rs. 565 Million**

Legend	Session	Minutes
	Orientation	15
	Examination	180
	Feedback	45

	Group 1	Group 2	Group 3	Group 4
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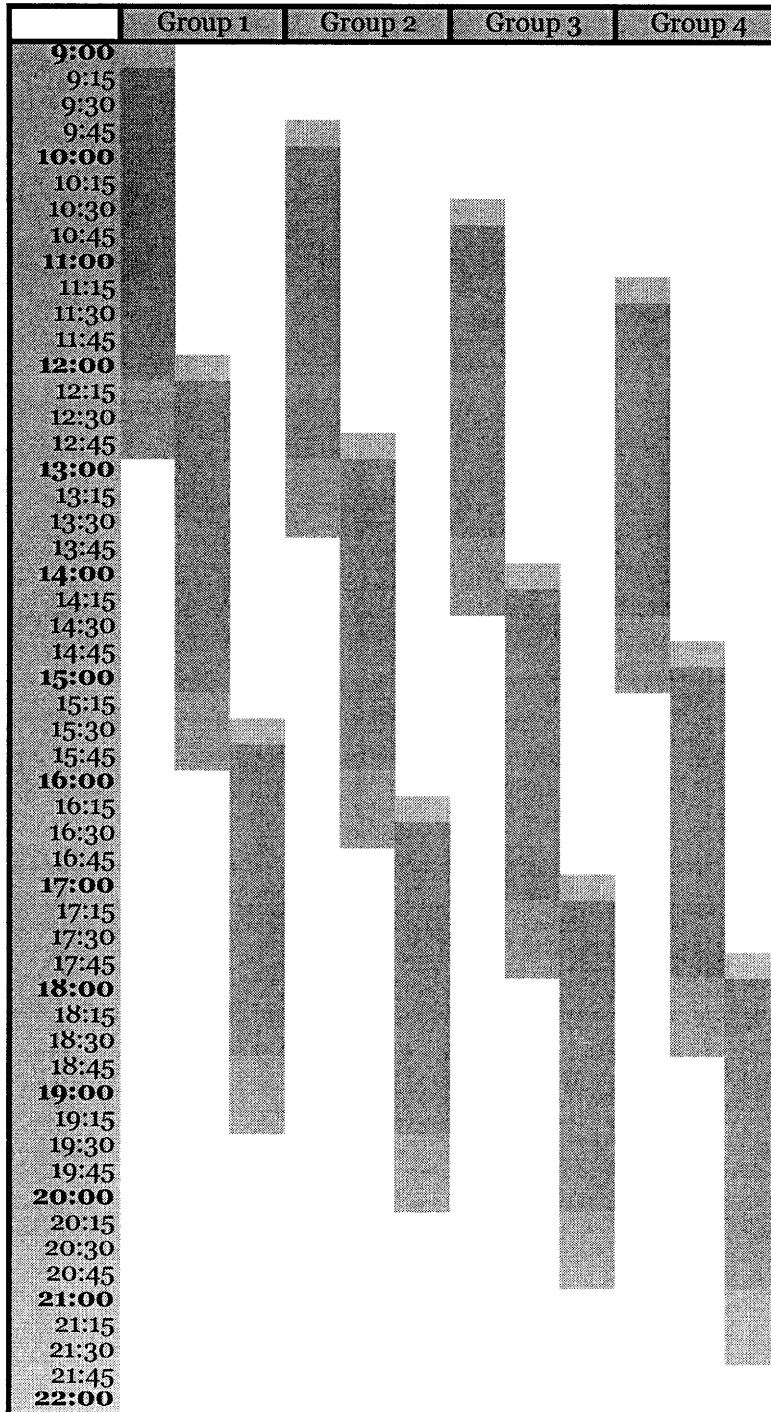
SPARK SCHOOL-IN-A-BOX

TEN THOUSAND 100 RUPEE ($2) SCHOOLS

THE CONCEPT

High-quality schooling delivered at Rs. 100 per child per month through a scalable model built on seven fundamental principles:

1) Private Enterprises Owned and Operated by the Poor: Maximize outcomes by harnessing the power of grassroots entrepreneurship (think HLL Shakti)

2) Industrial Strength Standardization: Plug-and-play model comes with everything required to start and run a school - from curriculum to fee schedule to infrastructure plans (think McDonald's)

3) Lightning Fast Setup: From "ink on the contract" to "chalk on the board" in 100 days flat (think Starbucks)

4) Local Entity, National Identity: Adapted for local needs. Yet integrated under one brand – instantly recognized by every poor family in India (think Parle-G biscuits)

5) Best-of-Breed: No reinvention of the wheel. Assemble the best elements of proven models such as Akanksha, Pratham, Parikrma and Gyan Shala (think Cisco)

6) Economies of Scale: Use size to extract bargain basement prices (think WalMart)

7) Aggressive Expansion Strategy: Presence in every state in 5 years (think Reliance)

OBJECTIVES AND SUCCESS FACTORS

Our aim will be to achieve three main goals:

1) Create a repeatable model for identifying entrepreneurs, making investments in private schools and helping them succeed

2) Foster a climate that is conducive to the success of the model and

3) Scale the model across India

Achieving these goals would be difficult. Investing in private schools for the poor is riddled with unique challenges ranging from regulatory restrictions to negative public opinion. In the following pages, I outline nine factors that would be critical to our success.

1. A LONG-TERM INVESTMENT PHILOSOPHY

Making judicious investments is a balancing act. We will develop a well thought-out investment philosophy that will help us stay aligned to our long-term goals:

A good philosophy for investing in private schools will encompass several factors including:

1) Balancing between increasing school capacity and improving school quality

2) Balancing between investing in unrecognized and recognized schools

3) Balancing between investing in urban and rural schools

4) Diversifying the portfolio across many states and

5) Limiting projects that might involve our entrepreneurs paying bribes

It is in the interest of any good entrepreneur to take a loan rather than an investment, especially if the cost of financial distress is low. Accordingly, a large number of our entrepreneurs will prefer debt over equity. The novelty and complexity of the investment concept in our sector will further accentuate this preference.

However, it is in our long-term interest to establish that equity is a viable investment vehicle.

As a result, in the beginning, we will apportion a small part of our portfolio to equity (say 10%). Over time, we will nudge our entrepreneurs towards accepting investments by gradually raising our equity-to-debt targets to a higher percentage (say 50%).

2. A SCALABLE INVESTMENT MODEL

We will develop an investment model that is repeatable, scalable and portable.

A good model for investing in private schools will encompass several elements:

1) Expected return rates

2) Upper and lower bounds of how much equity we should take in a school

3) Composition of the board of the school

4) A legal process for investing in schools that is cost-effective, replicable in every state and acceptable to our entrepreneurs

5) A strategy for branding our portfolio schools and

6) A standardized term sheet that protects our interests as well as those of our entrepreneurs

There are elements of this investment model that might be uncomfortable to adopt for our entrepreneurs. But it is critical that we implement these elements.

One example of this is the issue of taking dividends from an investment. We need to be comfortable in asking our entrepreneurs to pay.

While our goal should be to make long-term investments in our entrepreneurs, we will force ourselves to take dividends from a limited number of our investments, in order to set examples. This will demonstrate to our investors that our entrepreneurs are not only eager to take investments but

disciplined enough to offer liquidity. Proving this will be critical to attracting serious venture capital in the future.

Finally, there are elements of the investment model that cannot be designed on a whiteboard. For these, we will consciously experiment with various versions of the investment model and adopt those preferred by our entrepreneurs. For example, we could try exercising different amounts of control on school management and adopt the level at which our entrepreneurs are most comfortable.

3. A WELL-ARTICULATED COMMUNICATION STRATEGY

I cannot overemphasize the importance of effectively communicating the investment model to our entrepreneurs:

We will actively address the primary areas of concern of our entrepreneurs:

1) Loss of control and individuality and

2) Conflict of interest between us and our entrepreneurs

We should also clarify the areas of confusion for our entrepreneurs:

1) The difference between debt, grant and equity

2) The legal structure and process for receiving an investment and

3) Our motivations for investing in them

We will invest in creating simple messages that effectively address the areas of concern and confusion for our entrepreneurs:

1) One idea is to solicit the help of our entrepreneurs. For example, we could administer a quiz to our entrepreneurs to identify the most common areas of confusion. We could then ask some of the better communicators for strategies to explain these concepts

2) The other idea is to actively experiment. For example, we could try different messages with different groups of entrepreneurs to see which ones are most effective

4. A RELIABLE PROCESS FOR SELECTING THE BEST ENTREPRENEURS

While it is vital that we consider the past performance of an entrepreneur, it is equally important that we be able to predict their future behaviour, especially under adverse or ethically challenging circumstances.

We will therefore proactively create situations that provide insights into the personal traits of our entrepreneurs. For example, as part of our selection process, we could ask the entrepreneur to perform an accounting exercise (purportedly to ensure that she has the essential skills). The exercise will contain a "hidden" ethical dilemma (such as reporting personal expenses as business costs). Whether she notices and objects to this practice, will help us develop an opinion about her integrity.

Similarly, we will attempt to observe creativity, ingenuity and other traits that we believe make a good entrepreneur. We will keep revising our techniques. Otherwise the process will soon be gamed by duplicitous entrepreneurs.

5. A COST-EFFECTIVE VALUATION METHOD

We will have to repeatedly perform valuation for a large number of schools. The methods we employ need to be acceptable to our entrepreneurs and yet should comprehensively account for the risks associated with investing in this uncertain sector.

We will develop a valuation method that blends locally prevalent norms with global best practices:

1) We will research the valuation methods that are being used informally in school sales and adopt these as rules of thumb

2) We will combine this with the risk measurement techniques used by professional investors in environments with high regulatory risk (e.g. oil drilling investments in Russia)

6. AN ACCOUNTABLE GOVERNANCE STRUCTURE

We will hold ourselves accountable for the impact, returns, reach and integrity of our investments.

We will develop a governance structure that blends the formal compliance processes of an investment fund with the informal checks and balances of a grassroots organization:

1) We will create performance reports that inform investors on the returns and reach of the fund

2) On the other hand, we will use the informal and cordial relationships between the Trust and our entrepreneurs to measure impact and monitor for fraud. For example, we will help the Trust offer standardized Accounting and Student Report Card software to all our entrepreneurs:

   a) This will help improve the efficiency of our schools and provide our illiterate parents with feedback that they can grasp

   b) At the same time, it will help us closely monitor the number of children attending the schools and the fees that they are paying (thus acting as a check against underreporting by our entrepreneur) and

   c) Finally, information on fee defaults will help the Trust decide which students deserve scholarships

7. AN AGGRESSIVE GROWTH STRATEGY

It is important that we succeed in new markets. Our success in a new market will hinge on access to rich, intimate knowledge of entrepreneurs that can only come from grassroots organizations.

1) Once we identify a new target market, we will develop an intimate familiarity of our entrepreneurs by initiating activities in the area six months before our entry

2) A number of NGOs and researchers (e.g. Byrraju Foundation, Pratham and Harvard's Karthik Muralidharan) have already won the trust of large pockets of entrepreneurs – we will develop relationships with these organizations to tap into their knowledge

3) In areas where it has not already been done, it is worthwhile to help entrepreneurs unite by forming federations

8. A STRATEGY FOR FOSTERING INNOVATION

We will actively encourage innovation among our entrepreneurs. To this end, we will provide grants to education agencies for introducing innovations in the areas of teaching techniques, teacher training and scholarships.

We will also carefully listen to innovative ideas coming from our entrepreneurs. Examples of ideas implemented by our entrepreneurs include:

1) Using visual graphs to communicate a child's performance to her illiterate parents

2) Using closed circuit cameras to monitor teaching

3) Publicizing the achievements of meritorious students to advertise the school as well as to motivate the student body and

4) Providing loans that are compliant with Islamic laws

9. A STRATEGY FOR THE PERSONAL DEVELOPMENT OF OUR ENTREPRENEURS

Our success lies in the success of our entrepreneurs. It is in our interest to help them become more effective managers.

We will require our entrepreneurs to attend a 2-week, evening mini-MBA program customized to their needs with modules in accounting, law, marketing and leadership. We could source the curriculum from Boston Pledge, an organization that offers mini-MBA programs to Indian entrepreneurs who do not have a formal education.. Similarly, we could partner with the Indian School of Business, Hyderabad to deliver the program


SUMMARY

We have identified 9 critical success factors and made a number of recommendations:

Success Factor	Ideas
A long-term investment philosophy	1. Gradually raise equity-to-debt targets from 10% to 50%
A scalable investment model	2. Force ourselves to take dividends from a limited number of our investments 3. Consciously experiment with various versions of the investment model and adopt those preferred by our

	entrepreneurs
A well-articulated communication strategy	4. Invest in creating simple messages that effectively address the areas of concern and confusion of our entrepreneurs 5. Solicit the help of our entrepreneurs and experiment actively
A reliable process for selecting the best entrepreneurs	6. Create situations that provide insights into the personal traits of our entrepreneurs
A cost-effective valuation method	7. Develop a valuation method that blends locally prevalent norms with global best practices
An accountable governance structure	8. Develop a governance structure that blends the formal compliance processes of an investment fund with the informal checks and balances of a grassroots organization
An aggressive growth strategy	9. Initiate activities in new target markets six months before our entry 10. Help entrepreneurs unite by forming federations
A strategy for fostering innovation and	11. Listen to innovative ideas coming from our entrepreneurs
A strategy for the personal development of our entrepreneurs	12. Require our entrepreneurs to attend a 2-week, evening mini-MBA program

The following is a visual map of the various processes and sub-processes that we will develop as part of Spark school-in-a-box.
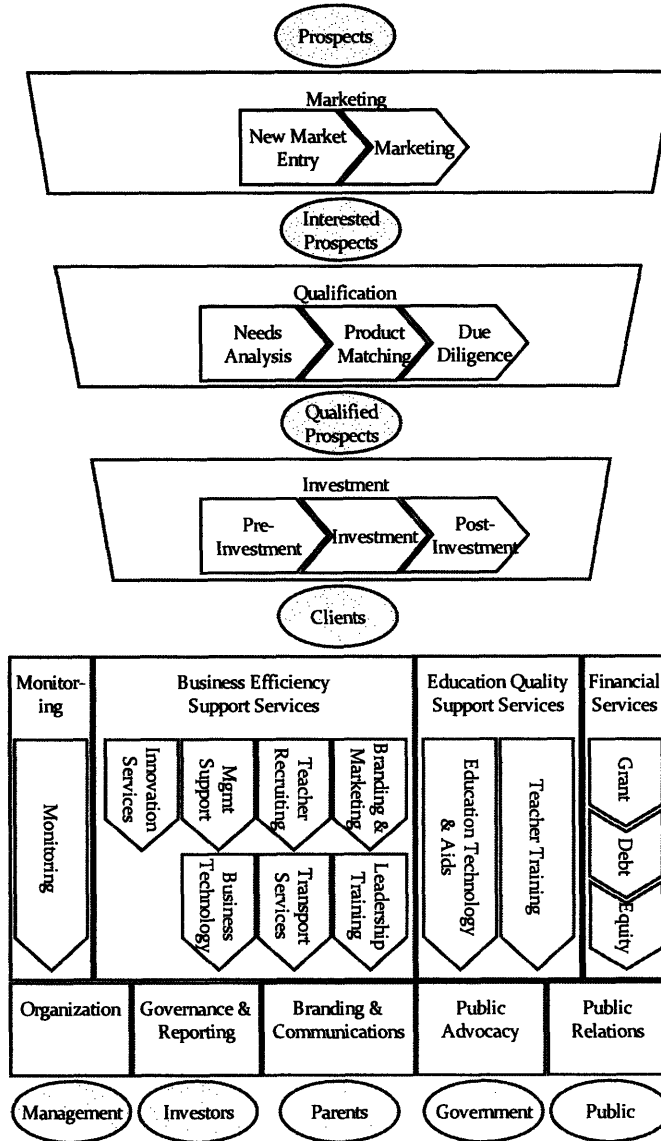
IMPLEMENTAION OPPORTUNITIES

Over the past few months opportunities to implement the above vision has opened up from several sources:

1) The Rajiv Gandhi Foundation (RGF) has expressed its interest in implementing the vision by prototyping in 32 locations of Amethi and then scaling it nationally

2) IL&FS, one of the largest infrastructure finance and education companies in India has expressed a strong desire to partner with Spark and roll the above idea out in the expanding townships of middle-class India

3) iDiscoveri is already on a path to implement the idea through iDiscoveri schools (www.idiscoverischools.com) and an opportunity to partner has arisen through our relationship with ICICI Bank

THE SPARK GROUP

ORGANIZATIONAL DESIGN

THE SPARK STORY

Spark's founding team has over fifty man years of work experience in world-class organizations such as McKinsey, Microsoft, Deloitte, IBM, Procter & Gamble and the World Bank

The team has graduate degrees in Economics, Business, Accounting, and Engineering from premier institutions like MIT, Yale and IIT

Funded by the Network Enterprise Fund, Spark's advisors hold positions of eminence in organizations like Harvard University, MIT, the Boston Pledge and ICICI Bank

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THE TEAM

AYAN SARKAR
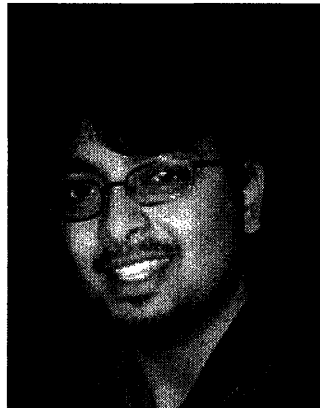
Ayan is an MBA student at MIT Sloan School of Management and has a B.Tech from IIT Kanpur. He has eight years of experience in working with Fortune 500 companies through McKinsey & Company, Deloitte and Oracle. He recently won the runners up prize at MIT's 100K Business Plan competition and spent the summer working with Nobel Laureate Prof. Muhammad Yunus at Grameen Bank in Dhaka.

CHETAN CHOUDHURY
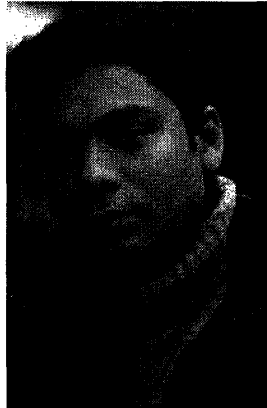
Chetan, a Chartered Accountant and a Bachelor of Commerce from St. Xavier's College, has more than nine years of experience in accounting, auditing, finance and information systems. He recently moved to India from the US where he used to work with Deloitte Consulting as a management consultant. Chetan also has an MBA and a Masters of Science in Information Management from Arizona State University, USA.

PRIYA NAIK

Priya has graduate degrees in Economics from Yale, in Public Policy from University of Michigan, Ann Arbor and in Accounting from the University of Mumbai. She is also a Certified Public Accountant. She has worked at the Poverty Action Lab at MIT, USA, International Finance Corporation (IFC), USA, and Arthur Andersen in India. Along with Ayan, Priya won the runners up prize at MIT's $100K Business Plan competition and spent the summer working with Nobel Laureate Prof. Muhammad Yunus at Grameen Bank in Dhaka. Recently she helped launch Genesis, a social innovation and entrepreneurship competition at IIT, Chennai in India.

PRATHAMESH NAIK

Prathamesh has an MBA from Cardiff University and a Bachelor of Commerce degree from Narsee Monjee College, Mumbai. He moved to India from the UAE, where he served as the Country Manager for Supermax. Prior to that, he worked with Transmed-P&G for two years.

ANYA GUPTA

Anya is an MBA student at MIT Sloan School of Management and has a BA in Economics from the University of Virginia. She has five years of experience working with governments in India and the US on infrastructure and logistics planning through Price Waterhouse Coopers, IBM, and the World Bank.

SHIVANI GARG

Shivani is an MBA student at MIT Sloan School of Management and has B.S. and B.A. degrees in Electrical Engineering and Computer Science from University of California, Berkeley. She has worked primarily in product management and marketing roles at Microsoft and Sun Microsystems. She also managed and served as board-member of various non-profit organizations for the past 8 years.

VANYA PASHEVA

Vanya is an MBA student at MIT Sloan School of Management and has a BA in Economics from Yale University. Prior to business school, she worked at the Centre for Microfinance on a project with SEWA Bank in Gujarat.

THE ADVISORS

SENDHIL MULLAINATHAN

Sendhil Mullainathan is a Professor of Economics at Harvard University. He is a recipient of the MacArthur Foundation "genius grant". His areas of research are corporate finance, development economics, behavioural economics, and labour economics. Dr. Mullainathan received his Ph.D. in economics from Harvard University in 1998, and taught at MIT for 6 years before joining the Harvard faculty in 2004.

SANDY PENTLAND
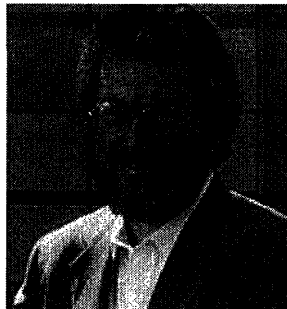
Professor Alex (Sandy) Pentland directs the Human Dynamics research group at the MIT Media Lab. He is a pioneer in wearable computers, health systems, smart environments, and technology for developing countries.

RUSSELL DELUCIA

Dr. DeLucia is the President of S3IDF (U.S.) and Chairman of S3IDF (India) and the primary founder of these organizations. Trained in engineering and economics (Ph.D. Harvard University), for more than thirty years he has been a consultant heading teams examining energy, water and other natural resources and related infrastructure development issues. He has advised Governments, firms, financial institutions and NGOs regarding policy and project matters, with experience in more than sixty countries in Asia, the Americas, Africa and Eastern Europe.

PARTHA S. GHOSH
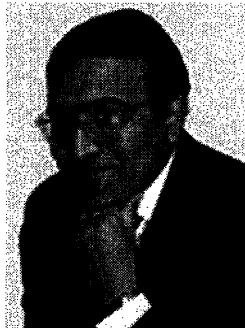
Partha S. Ghosh is a renowned strategist and an innovator of Business and Economic models. He is the Chairman of Boston Analytics, Access International, and Intersoft K.K based in Tokyo. Mr. Ghosh was a partner at McKinsey & Company and is the founder and Managing Director of strategy and policy advisory firm Partha S Ghosh & Associates.

NACHIKET MOR
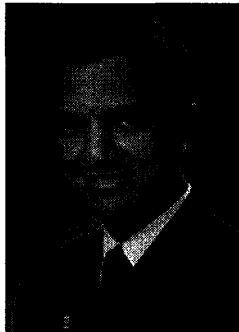
Nachiket Mor is the deputy managing director and a member of the board of directors of ICICI Bank in India. He holds a Ph.D. in financial economics from the University of Pennsylvania, an M.B.A. from Indian Institute of Management in Ahmedabad, and is a Yale World Fellow.

BINDU ANANTH

Bindu Ananth is one of the architects of ICICI Bank's micro finance business in India. She is also the founder of the Centre for Micro Finance Research, a think-tank focused on evaluation and design of micro finance programs and continues to be on their research advisory committee. She is currently on sabbatical at Harvard University's Kennedy School pursuing a Masters in International Development and will return to head ICICI Bank's Development Strategy Group starting July 2007. Bindu has an under-graduate degree in Economics from Madras University and a Masters from the Institute of Rural Management Anand (IRMA).

KARTHIK MURALIDHARAN

Karthik is currently pursuing a PhD in Economics at Harvard University. He obtained his undergraduate degree in Economics at Harvard University and is also an M.Phil in Economics from Cambridge University, UK.
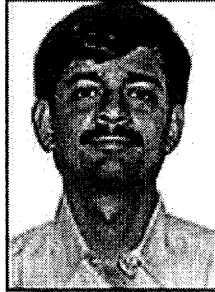
VISHAKHA MULYE

Vishakha Mulye is the Group Chief Financial Officer of ICICI Bank Limited. Vishakha is a chartered accountant and joined the ICICI group in 1993. Vishakha played a key role in
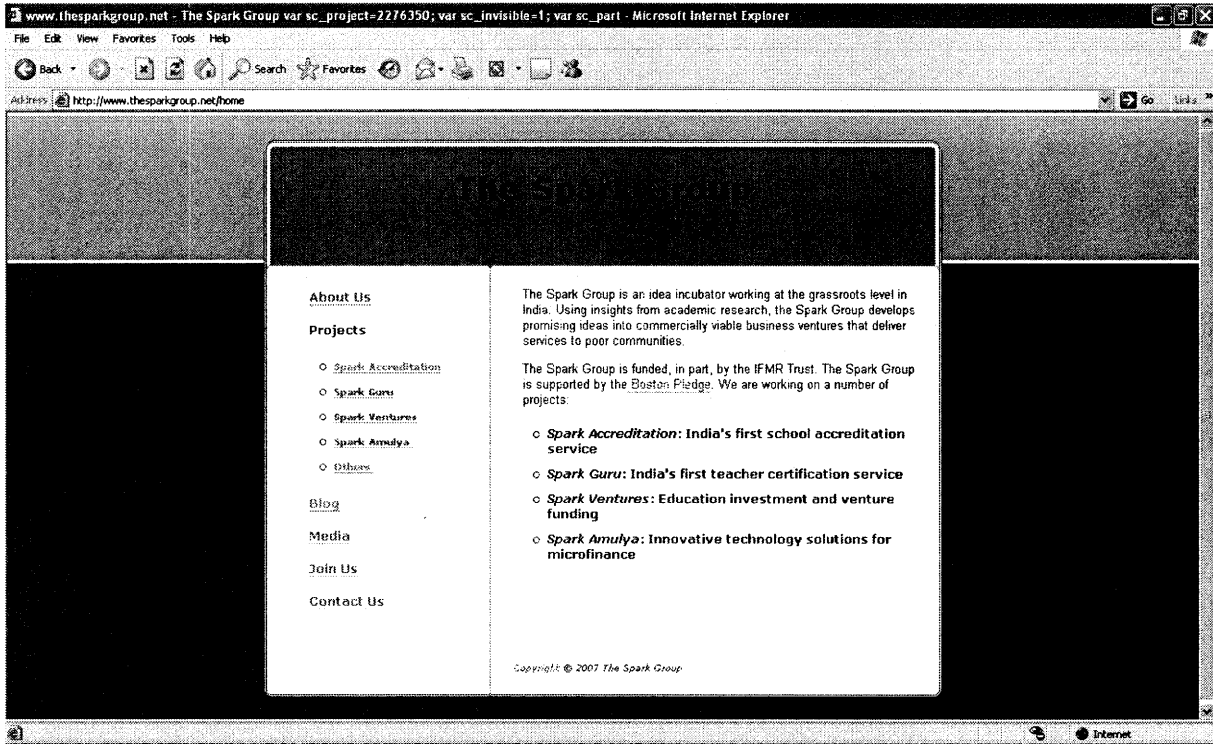
conceptualising and implementing the merger of ICICI with ICICI Bank, which led to the creation of the second largest bank in India.
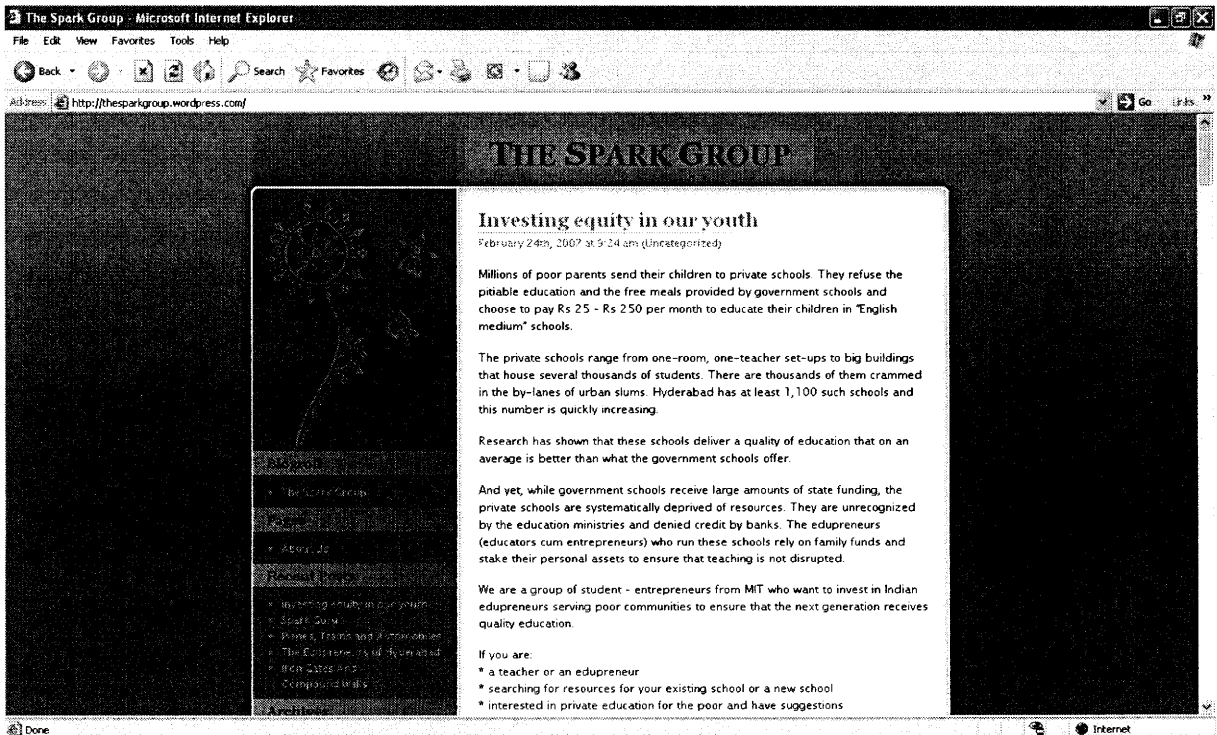
K. SATYANARAYAN

K. Satyanarayan (Satya) received an M.Sc. in Physics from IIT Chennai and an M.S. from Cornell University, USA. Satya was a founder director of the Indian subsidiary of Cricinfo. Apart from publishing and media, Satya's interests include education and entrepreneurship - especially in small businesses, politics and public policy. Satya is a Director on the Board of New Horizon Media Private Limited

THE WEBSITE – WWW.THESPARKGROUP.NET

The Spark Group is an idea incubator working at the grassroots level in India. Using insights from academic research, the Spark Group develops promising ideas into commercially viable business ventures that deliver services to poor communities.

The Spark Group is funded, in part, by the IFMR Trust. The Spark Group is supported by the Boston Pledge. We are working on a number of projects:

- ○ *Spark Accreditation*: India's first school accreditation service
- ○ *Spark Guru*: India's first teacher certification service
- ○ *Spark Ventures*: Education investment and venture funding
- ○ *Spark Amulya*: Innovative technology solutions for microfinance

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THE BLOG – THESPARKGROUP.WORDPRESS.COM

Investing equity in our youth
February 24th, 2007 at 5:24 am (Uncategorized)

Millions of poor parents send their children to private schools. They refuse the pitiable education and the free meals provided by government schools and choose to pay Rs 25 - Rs 250 per month to educate their children in "English medium" schools.

The private schools range from one-room, one-teacher set-ups to big buildings that house several thousands of students. There are thousands of them crammed in the by-lanes of urban slums. Hyderabad has at least 1,100 such schools and this number is quickly increasing.

Research has shown that these schools deliver a quality of education that on an average is better than what the government schools offer.

And yet, while government schools receive large amounts of state funding, the private schools are systematically deprived of resources. They are unrecognized by the education ministries and denied credit by banks. The edupreneurs (educators cum entrepreneurs) who run these schools rely on family funds and stake their personal assets to ensure that teaching is not disrupted.

We are a group of student - entrepreneurs from MIT who want to invest in Indian edupreneurs serving poor communities to ensure that the next generation receives quality education.

If you are:
* a teacher or an edupreneur
* searching for resources for your existing school or a new school
* interested in private education for the poor and have suggestions

ANDHRA PRABHA – APRIL 9, 2007

ANDHRA BHOOMI – APRIL 5, 2007

DECCAN CHRONICLE – APRIL 9, 2007

NRIs come up with a sparkling idea

EANADU – APRIL 9, 2007

HINDI MILAAP – APRIL 5, 2007

INDIAN EXPRESS – APRIL 9, 2007

Igniting spark for a bright future

A group of NRIs are back with the dream of engaging India's ignored youth

Spark Guru launched

Spark Guru, an initiative of a group of NRI students and professionals for improving quality of teaching in neglected schools, was launched in the city on Sunday. Academics and dignitaries from various walks of life spoke on the occasion and appreciated the effort. Teachers from partner schools and parents were present on the occasion.

THE SPARK IGNITED

Typhoon is one of those frailties of the human mind that enjoys universal indulgence. Whether it is because we are comfortable with prototypes or because our consciousness is dominated by the obvious, we are prone to adopting models and discounting exceptions. So it is when we talk of the MBA. More often than not, the three letters conjure an image of corporate leadership, plush offices and exponential hikes in pay packets. And yet, there are others who are inspired by a different vision, for whom the knowledge from business education brings with it a desire to apply it as a greater context than within the confines of organisational boundaries. It was similar zeal and inspiration that saw school friends **Ayan Sarkar** and **Chetan Choudhury** abrogating the comfort of lucrative positions in the United States and buying one way tickets to India to take the road less travelled.

Ayan, an MBA from the MIT Sloan School of Management and Chetan, a Chartered Accountant and MBA from

the W P Carey School of Management in Arizona State University are among the key brains behind The Spark Group – a startup which they describe as "an idea incubator that takes insights from academic research and develops them into

commercially viable business ventures that deliver services to poor communities." They are joined in their enterprise by a small group of promising young MBAs who have also staked their careers on a shared conviction – that you can make a broader social impact and