

FIRST BOOK MARKETPLACE BUSINESS PLAN

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1. EXECUTIVE SUMMARY

The Venture. The First Book Marketplace is a web-based venture that sells high quality new children's books to programs serving disadvantaged children at prices well below any other options available to this market.

The Need. There are an estimated 26.8 million children under 18 years of age in the United States from low-income families.¹ Fully 80% of preschool and after-school programs serving this population have no books at all for their children.² These programs, numbering more than 181,500 nationwide among cities with populations exceeding 50,000 alone,³ constitute a market segment with an overwhelming need for affordable age-appropriate books. Literacy organizations are unable to meet this demand with free books:

- Reading Is Fundamental (RIF), the country's largest literacy program, currently reports a staggering backlog of requests for books. Books are needed for over 1 million children who are served by the programs making these outstanding requests.
- First Book's programs are routinely overwhelmed by requests for books and unable to meet the demand. Within 48 hours of announcing a 400,000-book distribution, all books are gone and thousands of programs are turned away.

The Solution: The First Book Marketplace. The First Book Marketplace (FBMP) meets the need for affordable high quality books by offering books:

- At a price level that is not available to programs serving disadvantaged children;
- In unlimited quantities;
- Of high quality, broad selection, and relevance to children and programs served;
- Through a user-friendly online ordering process with no complex procedures.

The Ability to Pay. There is substantial evidence indicating that these programs have the means to purchase books.

- **Buying power of the programs themselves.** Research suggests that programs composing this customer segment have an annual estimated book buying power of \$86.8MM.⁴
 - Survey of 10,000 organizations. A recent survey of eligible preschool and after-school programs with a 16.4% response rate (see Appendices A, B) indicated that 87% are interested in an online store of the FBMP's description and 68% have money available for the purchase of low cost new children's books.
 - Major literacy organizations. The National Head Start Association reports that its 2,500+ programs have budgets of \$250 per month for book purchases.
- **Access of the programs to additional resources.** Corporations and large service organizations purchase books for programs in the target market. In the 9 month FBMP pilot alone, these two sources made over \$200,000 in book purchases.

¹ www.kidscount.org. "Low-income" is defined as family income equal to or less than 200% of the poverty level.

² Neuman, Susan. Access for All: Closing the Books Gap for children in Early Education. International Reading Association, Inc. 2001.

³ 2002 Census of Governments. Volume 1, number 1, Government Organization. Washington, D.C.: U.S. Department of Commerce, Bureau of the Census; and survey of First Book communities with populations in excess of 50,000.

⁴ Estimate based on U.S. Census data, First Book survey and statistics derived from ordering data during the 9 month pilot phase of the FBMP.

The Logistics: How the First Book Marketplace Works.

- FBMP acquires selected inventory and customized reprints from publishers in carton quantities on a non-returnable basis.
- Books available for purchase are posted on the FBMP website.
- Inventory is stored using donated, excess warehouse space.
- Customer programs register and order through a simple, online system. The price per book averages \$1.80 and generates a margin to the FBMP of \$0.75 per book.
- Purchases are pre-paid with credit card or electronic check; fulfillment takes place within 1 – 4 weeks. FBMP issues no invoices, and no accounts receivable accrue.

The Key: Leveraging Parent Organization's Assets. The First Book Marketplace is built upon the infrastructure and core competencies already well established by its parent company, First Book, a 501(c)(3) that currently gives over 6 million books per year to programs serving the most disadvantaged children in the country. In its 13 years, First Book has provided more than 30 million new books to programs in more than 1,000 communities nationwide. FBMP relies upon the assets of First Book, including:

- Efficient and sophisticated book order processing and distribution software system.
- National established system of donated warehousing.
- Pre-negotiated below-market shipping rates.
- Strong relationships with major children's publishers.
- Expertise in children's publishing industry, and ability to form mutually beneficial deals.
- Customer database of 12,000 programs, growing at a rate of 50-70% annually.
- Strong reputation nationwide among target customer groups, including preschool and after-school programs, service organizations, and large corporations.

The Pilot: Early Success for the FBMP. In July 2004, First Book (FB) quietly launched a pilot of the First Book Marketplace. The pilot has exceeded expectations, generating over \$366,000 in sales of 209,000 books to 320 programs. Registration, ordering, processing and fulfillment were accomplished and no substantial challenges have arisen.

The Management: Experience and Entrepreneurial Leadership. The Executive Management Team for the First Book Marketplace is comprised of four members, including First Book's President and CFO, the Executive Director for the FBMP, and the Executive Director of The First Book National Book Bank, who will serve as the Director of Operations for the FBMP. An external Advisory Panel and Title Selection Committee offer guidance and monitor developments.

The Goals. First Book's goal is to reach all low-income children in need of books and remove the barriers to book ownership. Through its sales, FBMP will augment the stream of high quality new books reaching this waiting population while also generating revenue to fuel the expansion of FB. Specifically, by 2007 the FBMP will:

- ⇒ Generate minimum annual profit of \$1MM for First Book's core activities.
- ⇒ Distribute a minimum of 2.0MM books annually to targeted programs.

The (Double) Bottom Line: Financial and Social Returns. The First Book Marketplace is the business venture that can augment the stream of high quality new books reaching this waiting population while generating revenue to fuel the expansion of the parent organization.

2. DESCRIPTION OF BUSINESS

2.1 Venture. The First Book Marketplace offers a large selection of high quality children's books for sale at low prices to an underserved market: the preschool and after-school programs serving millions of children from low-income families. The FBMP will generate substantial revenues for the continued growth of First Book as well as provide the lowest price alternative for the purchase of high quality books to programs serving children in need. The FBMP differentiates itself with a broad selection of high quality titles, the lowest prices and excellent access to the target customers.

2.2 First Book, the Parent Organization. First Book is an award-winning nonprofit organization with a single mission: to give children from low-income families the opportunity to read and own their first new books. Founded in 1992, First Book has become nationally recognized as a significant resource for programs serving disadvantaged children. First Book has won numerous awards as a leading social enterprise that engages corporations in cause-marketing campaigns, which fund more than 90 percent of its operating budget annually. The organization is also highly efficient. Notably, non-programmatic expenses have never exceeded 2% of revenue annually.

- **The need.** Research has repeatedly established that access to books is critical to reading development. However, 61% of low-income families have no age-appropriate books for the children in their homes and over 80% of preschool and after-school programs serving low-income children in the U.S. have no books at all.⁵ The children served by First Book are found in existing literacy programs in preschools, youth centers, libraries, housing projects, pediatric clinics, migrant worker camps, after-schools, daycare centers, and other community-based initiatives serving children in need.
- **First Book's core activity: free books to eligible programs.** The volume of books distributed by First Book to programs serving disadvantaged children has been growing steadily over the past several years. Currently, First book handles and distributes over 6 million books per year. Through its network of volunteer local Advisory Boards as well as the First Book National Book Bank (FBNBB), First Book provides books to programs in more than 1000 communities annually and in 2004 celebrated the distribution of its 30 millionth book. The books are either purchased with funds raised by First Book or are in-kind contributions of overruns from children's publishers.
- **The limitation.** Funding and the limitations of in-kind donors limit the volume of books that First Book can supply for free, yet the demand for books is consistently far greater than the supply of free books available.

2.3 Mission of the First Book Marketplace. The First Book Marketplace was created as a mission-compatible, **revenue generating enterprise** to enable First Book to expand its reach to more programs in the target population. By relieving current supply side constraints and utilizing collective purchasing power to significantly lower the barriers to book ownership for disadvantaged children, the FBMP will also serve the parent organization's main mission.

⁵ Neuman, Susan. *Access for All: Closing the Books Gap for children in Early Education*. International Reading Association, Inc. 2001.

2.4 Business Model. The elements of the business model of the First Book Marketplace are:

- **Customer.** The customer base for the First Book Marketplace is comprised of programs, large and small, that serve millions of children from low-income families. These programs exist in two major areas, although new channels will be constantly assessed:
 - Preschool, after-school and literacy programs. The early FBMP customers have been preschools and after-school programs that are already registered with and have received books from First Book. The First Book National Book Bank (FBNBB) regularly announces book distributions of around 400,000 books by email and the books are spoken for within 48 hours, while many groups go away empty-handed. All programs of this type are targeted as customers for the FBMP.
 - National organizations. Umbrella organizations, such as the National Head Start Association, also constitute a substantial market. Over the years, First Book has established strong relationships with most major national umbrella organizations serving low-income populations. These organizations have already committed to alerting their local member programs to the opportunity to purchase books through the FBMP. In the case of the National Head Start Association, for example, there are 2,500 programs, each of which has a monthly budget of about \$250 for book purchases – thereby collectively holding a book budget of \$7.5 million annually.

The Wilkes Community Partnership loves ordering from First Book Marketplace because we can get quality books at good prices. We have a great need to have large numbers of preschool books, especially board books and like the easy ordering method available.

Returning customer
Wilkes Community Partnership
North Wilkesboro, NC

Market size. First Book’s customer database currently includes over 12,000 programs that registered with First Book without any concerted marketing effort. Quantitative research shows that the actual market size is far greater. In fact, data shows that more than 181,500 of such programs are in operation in communities with populations exceeding 50,000 alone.⁶ It should be noted that the number of cities in the United States with populations exceeding 50,000 represents a minority of American cities, numbering only 605, while cities with populations below 50,000 number 18,824.⁷ Therefore the First Book estimate of the FBMP market size represents a conservative estimate.

Purchasing power. As noted above, a survey conducted of 10,000 likely customer programs during the FBMP pilot revealed that a majority of these preschool and after-school groups currently have resources of their own. It is notable, that during the pilot phase of the FBMP, individual preschool and after-school programs

⁶ 2002 Census of Governments. Volume 1, number 1, Government Organization. Washington, D.C.: U.S. Department of Commerce, Bureau of the Census; and survey of First Book communities with populations in excess of 50,000.

⁷ 2002 Census of Governments. Volume 1, number 1, Government Organization. Washington, D.C.: U.S. Department of Commerce, Bureau of the Census.

ordered on average more than \$717.00 of books – indicating substantial resources for book purchases from these institutions. In addition, when combined with the purchasing power of national service organizations and corporations as described in the Marketing section of this document, these programs represent a very substantial market segment that has been largely ignored.

Access to additional sources of revenue. The same survey of over 10,000 programs already registered with First Book revealed that 68% of these programs do have some funds for the purchase of books. This survey result was verified by purchase data during the pilot phase of the FBMP. Beyond these resources, new purchasing power will be given to programs that cannot afford even these low prices through corporations and national nonprofit organizations, as described in the detail in the Marketing portion of the document (Section 4).

- Corporations. As an element of cause marketing campaigns, employee volunteer initiatives, and community relations programs through First Book, companies are able to channel funds to programs needing books.
 - Nonprofit service organizations. As a means of fulfilling the community service goals of their membership, large service organizations will be able to fund and direct book purchases to eligible community programs nationwide.
- **Product.** The books that will be available for purchase through the Marketplace will generally be paperback editions of high-quality children’s books from the major children’s publishers. The books are attractive to programs and will cover a wide spectrum of topics (both fiction and non-fiction), languages, and age ranges. The First Book Marketplace will also feature a variety of titles from small to mid-sized publishing companies, thereby enhancing the title selection for the programs served. The books will come from three categories:
 - Active titles and overstocks. Some titles will be selected from publisher lists of active titles (not remainder inventories) that have been printed in quantities exceeding current demands.
 - Unique “First Book Marketplace Editions.” Many highly regarded children’s titles are never published in paperback edition. For this reason, there are many beloved and best-selling children’s books that have never been available for less than \$15.00-20.00 per copy and have therefore remained completely out of the reach of children from low-income families. FBMP is negotiating with publishers to create unique paperback “First Book Marketplace Editions” of these titles that will be available for the first time at prices that are within reach for programs serving needy children.
 - Adding to existing print runs. The FBMP will negotiate with publishers to expand planned print runs of selected titles to provide copies for final sale to the FBMP.
 - **What makes FBMP attractive to publishers?** First Book has increased the interest of publishers in the Marketplace by developing a series of favorable sales parameters. Publisher sales advantages include:
 - New market segment. The FBMP is recognized as accessing a brand new market segment that the industry has largely ignored due to the difficult challenge of reaching this diffuse market. Although the margins may be smaller, First Book’s access to this diffuse segment means that the publishers realize additional sales without incurring marketing or distribution costs.

- Non-returnable sales and lower per unit costs. Risk to the publisher is minimized due to the fact that all sales to the Marketplace are final and non-returnable. This is particularly attractive to publishers because, for most retail sales in the publishing industry, the retailer can return the books if they do not sell. This non-returnable arrangement results in more substantial discounts. Additionally, FBMP's purchase of copies added to print runs will lower publishers' per unit printing costs.
 - Predictability. Children's publishers will know in advance that they are guaranteed to sell a specific number of copies of a given book to the FBMP, and that certainty motivates a willingness to produce and sell that book at significantly lower price points to the FBMP.
 - Special customer segment protections. To ensure that sales do not cannibalize the publisher's current customer base, the FBMP has established rigorous registration procedures for the organizations served, including the requirement that they fax a copy of their tax status documentation to the First Book office within 36 hours of registering online. FBMP staff then verifies these records with the Internal Revenue Service. The program's FBMP registration must be renewed annually to ensure that the records remain accurate.
 - Special product protections. To ensure that the books offered for sale on the Marketplace do not compromise retail sale transactions, FBMP is also developing a special medallion that will be placed on the cover of all special print runs of Marketplace titles. These medallions will identify the book as a First Book Marketplace premium edition, not for resale or return.
- **How can the FBMP afford to sell books at lower prices than anyone else and why will it succeed?** The FBMP enjoys the broad, balanced and leveraged infrastructure, systems, staffing, and network of the parent organization, First Book, and the FBNBB.
 - Warehousing. Because of the FBNBB, First Book has a large, well-established set of relationships with institutions that contribute excess warehouse capacity throughout the country, including the U.S. Coast Guard, which selected First Book as its 'Signature Charity.' Recently, First Book has established a new relationship with the Southeastern Warehouse Association, which has committed the resources of its members. Associations and warehouse companies that participate enjoy a range of public relations announcements, press releases as well as documentation acknowledging their tax-deductible contributions.
 - Shipping. United Parcel Service has for years provided deep discounts for shipping for First Book and the FBNBB. These rates have been extended to the new activities of the FBMP. In addition, other carriers are being evaluated to ensure that the FBMP obtains the best possible price for shipping.
 - First Book online system. The First Book online system, which was customized for FBNBB activities, has been refined over several years and has already handled the distribution of millions of books. This system provides ease of inventory management, registration of applicant programs, maintenance of shipping and distribution information, and a powerful Web site presence to facilitate book selection and ordering.
 - First Book customer database. The database system, developed for the FBNBB and modified for the FBMP, incorporates a preliminary existing directory of over 12,000 pre-registered customers. First Book has established networks of

programs serving the target population of children throughout the country. Despite the lack of any marketing efforts, the growth curve for this customer database has been impressive: from 4,780 in 2002 to over 12,000 in early 2005. The growth rate of this database in coming years is estimated at 50%-70% annually.

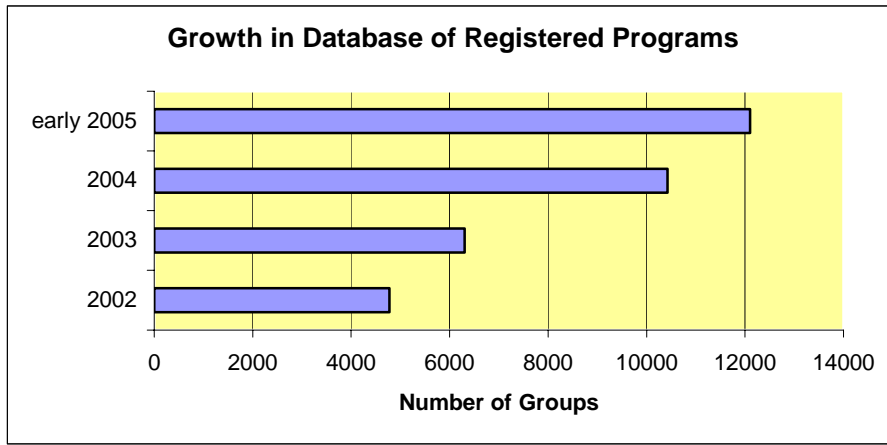


Fig. 1 Growth Trajectory of Market Segment

- Sales transactions. All sales are completed through an online system by credit card or electronic check so that no invoicing is necessary, no accounts receivable accrue, and no collection efforts are necessary. The functioning of these systems during the pilot phase has been exceptionally smooth.
- Staffing and facility. FBMP staffing is simplified by the fact that it relies, in part, upon the existing First Book staff as well as facilities of First Book, including innovative online technology, professional expertise, existing office space and administrative resources. In this way, operating costs are minimized and the organization's existing resources are leveraged.

2.5 FBMP Pilot Phase. In 3rd Quarter 2004, First Book quietly launched a pilot of the Marketplace with impressive results.

- **Product selection and financial results.** Quantities of 85 titles were selected from publishers' inventory stocks, for a total of 280,000 volumes, and purchased by the FBMP on a non-returnable basis in carton quantities at an average price of \$1.07 per volume and sold at an average price of \$1.80 per volume. Over 209,000 books have been sold to date, with sales exceeding \$361,000, an average of \$1.72 per book. 320 programs received new books. (165 ordered and paid themselves while 155 received shipments paid for by corporations and service organizations.)
- **Logistics and marketing.** First Book decided to launch a pilot phase for the FBMP to provide a limited, yet valid, test of the market as well as to evaluate the venture, the logistical response, and inventory management systems. Marketing efforts during the pilot phase of the Marketplace were strictly limited to a handful of e-mail reminders sent to organizations already registered as First Book recipient organizations. Registration, order placement, processing, fulfillment, and credit card processing all proved manageable and no untoward challenges arose.
- **Warehousing.** Outreach to a new source of warehousing resulted in immediate offers of space. The next phase of inventory acquisition is being shipped to warehouse space donated by a new contact with the Southeastern Warehousing

Association that has agreed to provide warehousing on a sustained basis for the FBMP.

- **Alternative purchasing sources.** In addition to the direct purchases by preschool and after-school programs of approximately \$118,000, two alternative purchasing sources have emerged with funds for book purchases on behalf of those literacy programs that have no access to funds.
 - Corporate. Funding of selections from the FBMP was part of several cause marketing initiatives with corporations including TD Waterhouse, SunTrust Mortgage and Gen Re. These successful campaigns will stand as prototypes for future initiatives and both TD Waterhouse and SunTrust Mortgage have decided to extend their relationships with First Book. Purchases from these corporations during the pilot phase totaled \$191,300.
 - Nonprofit partner service organizations. The Veterans of Foreign Wars expressed great enthusiasm for the FBMP as a mechanism to enhance their community service outreach, and their chapters around the country have already participated throughout the pilot phase. The VFW and other groups made purchases of over \$52,000.

BUYERS	No. of Groups	Purchases	Buyer Category as % of Total	Average purchases
Individual literacy programs	165	\$118,000	30%	\$717
Corporations	4	\$191,300	55%	\$47,750
National service organizations	5	\$52,000	15%	\$10,400

Fig. 2 Profile of Buyers during FBMP Pilot Phase

2.6 Value Proposition. The Marketplace provides innovative and highly motivating incentives for each participating stakeholder. The benefits for each of the participants are:

- **Children’s programs – customers:**
 - Lowest cost books;
 - High quality books;
 - Ability to give feedback to further the power of collective purchase;
 - Reputable and trusted source;
 - Avenue to funding for purchases;
 - Experienced customer service;
 - For those umbrella organizations representing literacy groups, the FBMP offers an efficient, low-cost resource for high quality books that they can offer to their constituents.
- **Children’s publishers:**
 - Sales to unreachable demographic, new customers, future customers;
 - Lower per unit cost on print runs;

- Wide range of possible additional publicity for authors;
- Certainty of sales via non-returnable sales terms of FBMP.
- **Corporate partners:**
 - Opportunity to partner with national nonprofit organization with acclaimed cause-marketing experience;
 - Creative customized concepts for community relations initiatives and employee volunteer opportunities through partnership with First Book;
 - Access to low-cost and efficient means of providing tangible benefit to children from low-income families through First Book and the FBMP;
 - Potential advertising opportunities on the FBMP Website.
- **National service organizations:**
 - Receive the opportunity to efficiently boost their community service campaigns in a tangible and low-cost way that makes a lasting difference for the children and communities they serve.
- **Warehouses:**
 - Tax deductibility for in-kind contributions of excess warehouse capacity;
 - New business contacts with FBMP publishing partners;
 - Public relations opportunities at the local, regional and national level.
- **Parent Organization (First Book):**
 - Revenue generation to fuel the central model of the organization;
 - FBMP book sales increase the number of books in the hands of low-income children, thereby helping to achieve the First Book mission of providing books to all children in need.

2.7 Enterprise Objectives. The business objectives and performance milestones for the first through third years of the First Book Marketplace are:

- **Profit generation.** The primary objective of the First Book Marketplace is to generate revenue to enable First Book to extend its reach to more children who are waiting for books. A goal is established of profit generation of \$1,000,000 annually for First Book by FY07.
- **Books sold.** An increase to 2.0 million books sold annually by FY07 is projected. This will mean a cumulative purchase of over \$4.1MM from children's publishers through FY07. With a mainstream retail value estimated at \$7.99 on average and a FBMP average purchase price of \$1.80, this annual book total will translate to a potential savings to participating groups of nearly \$20.7MM in 2007 alone.
- **Programs reached.** Book purchases by 2,500 participating literacy programs by FY07 is estimated. Projected marketing and promotional efforts combined with the current log of registered programs and current growth trajectory of First Book make this estimate reasonable.
- **Mission advantages of the Marketplace:**
 - **More and better books.** The First Book Marketplace increases the number and quality of books available to children from low-income families and programs serving that population. It is the lowest-cost, online-accessible site offering the highest quality books for sale to this target population.
 - **More programs served.** The First Book Marketplace will expand the number and range of organizations and children served by extending the reach of First Book beyond its current core activities. The FBMP product range will reflect a broad range of programs by providing titles by for four age groups (0-3 years; 4-8 years; 9-12 years; young adult).

- **Improved programs.** By providing access to best-loved children’s titles, the First Book Marketplace elevates the quality of the educational environment in programs serving children in need.
- **Saved resources.** The book prices offered by the FBMP dramatically extend the resources of literacy programs.
- **Increased purchasing power.** The FBMP increases the purchasing power of First Book, enabling it over time to leverage additional discounts for all books it purchases.

Objectives	FY04/05 Pilot	FY05 Bal	FY06	FY07
Profit to First Book	\$ 10,373	\$ 231,000	\$ 633,886	\$1,051,176
Books to literacy programs	209,000	500,000	1,200,000	2,000,000
Programs reached	320	625	1,500	2,500

NB: Full explanation of the assumptions underlying growth projections is included in the financial section of this document.

Fig. 3 Objectives of the Enterprise, FY04 through FY07.

3. INDUSTRY AND MARKET ANALYSIS

3.1 Industry Overview. The children’s book market is a \$27 billion industry with over 460 million books sold annually. However, despite the size of the market, publishers have historically competed over the same limited pool of customers. In 2002, just 34.5% of U.S. households purchased at least one children's book. The past few years have been especially difficult for the children’s publishing industry despite meteoric successes, including the Harry Potter series. In fact, the trade hardcover publishing market is down 27% due primarily to increases in the retail cost of books and consolidation of the marketplace. With industry standards allowing retailers to return unsold books, publishers continually struggle to find guaranteed profits in a market that sees many projects end up in the red.

3.2 Publishing Industry Involvement. This downturn in the book market actually increases the likelihood of publisher involvement in the First Book Marketplace due to the following reasons:

- Access to diffuse new market. FBMP opens access to a market that is otherwise inaccessible due to its diffuse nature; unlike publishers, FBMP does not incur significant costs to reach this market, as FBMP is already closely connected with the market through the core operations of First Book. In fact, First Book has provided more than 30 million books for free to the programs that comprise this market, serving tens of thousands of organizations since its founding.
- No-return policy. Since FBMP is taking the unusual step of buying books with a no-return policy, publishers have essentially risk-free customers.

- Substantial profits. With variable production costs as low as \$0.40 per book, publishers can make both certain and substantial profits by increasing print runs or selling product in mass quantity to the FBMP.

When HarperCollins works with First Book, it is working with a great business partner. Their new venture, the First Book Marketplace, is clearly a win for any children's publisher because of the strong evidence on this new market segment. First Book's proposals for special print runs and Marketplace editions only make the partnership more attractive, bringing certain revenue to our company while serving a population we care deeply about. This is the best of all worlds – doing well by doing good.

Susan Katz

President and Publisher, HarperCollins Children's Books

3.3 Product and Pricing Trends. Organizations serving low-income children currently purchase books at prices 91% to 270% higher than the average price of books available for purchase through FBMP—or they opt out of book purchases altogether due to lack of availability of low priced books. Appendix P shows that while the average price of a FBMP book is approximately \$1.80, other alternatives are significantly more expensive. For example, top resellers such as Amazon and Barnes & Noble price less than 1% of their children's books under this \$1.80 price point. This considerably lower price point has three important ramifications: (1) organizations currently purchasing books will be able to purchase more books for the same dollar amount; (2) organizations currently purchasing books will be able to obtain more funds with which to purchase books because of the increased return on their investment offered by the First Book Marketplace; (3) organizations not previously able to purchase books because of prohibitively high price points will now be able to purchase books for the children they serve. In this way, The First Book Marketplace anticipates capturing a substantial market share while simultaneously expanding the market.

3.4 Market Size. FBMP's target market consists of programs serving the estimated 26.8 million children less than 18 years of age in the United States from low-income families⁸ through a broad range of direct service providers working with those children. Although there is currently no central registry that provides a comprehensive profile of all programs in the target market, several data points provide significant insight as to the size of the market.

- Among the largest cities in the United States, there are an estimated 181,500 preschool and after-school programs serving children from low-income families.⁹ These programs constitute a significant share of the market for the FBMP.
- The National Head Start Association has a reported 2500 individual Head Start programs throughout the country serving nearly one million disadvantaged three and four year olds.

⁸ www.kidscount.org. "Low-income" is defined in this report as family income equal to or less than 200% of the poverty level.

⁹ 2002 Census of Governments. Volume 1, number 1, Government Organization. Washington, D.C.: U.S. Department of Commerce, Bureau of the Census and survey of First Book communities with populations in excess of 50,000.

- The National Association of Child Care Resource and Referral Agencies, (NACCRRA), the national network of more than 850 agencies that serve as local ombudsman for child care providers, reports that it currently serves child care programs representing more than 7.4 million children from low income families. NACCRRA has expressed a strong willingness to help publicize the FBMP because they believe it is an invaluable resource for those agencies serving low-income families.

3.5 Market Segmentation. The two primary market segments of the FBMP market are direct service programs and national outreach organizations, as follows:

- **Direct service programs.** Direct service programs are comprised of a range of initiatives that reach children through preschool centers, after-school programs, homeless shelters, health care clinics, and other institutions.
 - Preschool programs. There are over 49,000 preschool and Head Start programs in the U.S. with annual expenditures totaling approximately \$15 billion.¹⁰ A majority of preschool children are enrolled in center-based preschool programs and are therefore easily “reachable” as potential customers through the First Book Marketplace. In 1999, more than half of low-income preschool-age children were enrolled in center-based preschool programs.¹¹
 - Resources. It is important to note that organizations such as Head Start, which serves almost 1 million three and four-year-old children living at or below the poverty line, provide discretionary funds to individual programs for the purchase of educational supplies such as books. In fact, Head Start has estimated the average monthly budget for books to be \$250.00 for each of their 2,500 locations throughout the country.¹² Early Head Start serves an additional 55,000 low-income infants and toddlers.¹³ Total potential book purchasing budgets for Head Start annually are therefore calculated to be \$7,500,000.

...each Head Start program has about \$250 each month for book purchases.... The price of books from the First book Marketplace will allow [these] programs to continue to enrich children's lives by giving them greater access to quality reading materials they can take home.

Michael McGrady
Deputy Director, National Head Start Association

- After-school and related programs. There is a wide array of effective after-school programs in the target market for the First Book Marketplace. In addition to school-based reading programs, First Book has long-standing relationships with the following organizations:
 - Communities In Schools,¹⁴ runs 194 programs serving 985,000 students each year.
 - Boys and Girls Clubs of America,¹⁵ runs 3,400 clubs nationwide reaching over 4 million young people annually.

¹⁰ 2002 Economic Census.

¹¹ National Center for Education Statistics.

¹² www.nhsa.org/about.index.htm

¹³ U.S. Department of Health and Human Services, Administration for Children and Families report, evaluating Early Head Start.

¹⁴ CIS runs 194 programs serving 985,000 students.

- 4-H,¹⁶ over 7 million young people participated in 4-H activities in 2003.
- **National outreach organizations.** These national organizations provide broad outreach services to local programs serving low-income populations, including education, hunger relief, health care and other social services for low-income families. The organizations include library-based programs, Reach Out and Read,¹⁷ (with over 1,900 program sites nationwide distributing over 3 million free books), Reading Is Fundamental (with a waiting list of prescreened programs serving 1 million children), hunger relief organizations like Share Our Strength, housing organizations including Habitat for Humanity, service organizations such as Kiwanis, and many others. As a further service to the local programs they serve, many of these organizations have already expressed interest in promoting the FBMP and the FBMP team will develop customized outreach plans accordingly.

3.6 Competitive Analysis. There are four primary alternative sources of books for nonprofit preschool and after-school programs: direct sales from publishers and distributors; retail options; national literacy organizations that provide books for free or at reduced cost; and discount wholesalers.

- **Direct sales from publishers and distributors.** Several major publishers and distributors provide books for sale at discounted prices to literacy programs serving disadvantaged children. Although these sales compete directly with the Marketplace, they will not substantially threaten the success of the venture for several reasons:
 - Publishers unlikely to develop market segment. The ability of individual programs to pay for books is limited and the margins on sales to these programs are small. For this reason, the publishers cannot afford to invest the necessary funds to define and market to this diffuse segment in a truly substantial way. It is more attractive to the publishers to allow First Book to develop the segment and sell their books through this new channel.
 - First Book established national network. First Book has already established extensive community networks in more than 240 markets nationwide. This large group of volunteers stands ready to promote the Marketplace in a way that no traditional sales force can match.
 - First Book customer database of programs. The First Book database of programs serving the target population is growing daily. The database currently contains over 12,000 customer programs, increasing in 2004 to 65% over 2003 totals.
 - Market extent. The market that has been defined by the Marketplace is so vast and diffuse that it is impossible for any single publisher to corner it, given current resources. Therefore, First Book Marketplace projected market share will not be affected substantially by these sales efforts.
- **Retail options.** The identified market segments sometimes resort to purchasing books for children in their programs through a range of commercial retailers from Barnes & Noble to Wal-Mart. As the Marketplace grows and begins to prove the

¹⁵ There are 3,400 Boys and Girls Clubs nationwide reaching over 4 million young people.

¹⁶ Over 7 million youth participated in 4-H programs nationwide in FY2003.

¹⁷ There are currently more than 1,900 ROR program sites nationwide that distribute more than 3 million free books per year. First Book's central model and the First Book National Book Bank serve many Reach Out and Read sites.

existence of this new market, the risk of awakening these retailers will grow as well. For this reason, it is vital that The Marketplace establishes brand loyalty early and keeps prices low and service strong. There are two reasons, however, why retail options will not overwhelm the potential market for the FBMP.

- Retail options are too expensive for this segment. First, with the average retail price of a front list children's book estimated at \$15.00 per copy, the price of books in retail outlets like Barnes & Noble means that prized children's titles are almost always out of reach for the FBMP's target population. It should be noted that in a recent survey of retail prices, prices for selected titles were 91% to 270% higher from these retail options than from the FBMP. (See Appendix P)
 - Selection of discount retailers rarely includes best-selling titles. Selection also favors the FBMP, as less expensive retailers may offer lower prices periodically, but their selection of titles is often limited in breadth and quality.
- **National literacy organizations.** Programs serving the most disadvantaged children in the country may already be receiving free books from First Book, its subsidiary organization the First Book National Book Bank, or other nonprofit literacy organizations such as Reach Out and Read, or Reading Is Fundamental. These distributions, however, are unlikely to significantly impact an organization's interest in purchasing additional books for the children it serves because the need for books in these programs is so great that existing national literacy organizations are unable to satisfy demand.
 - Literacy organizations as potential customers, not competitors. Many of these organizations, such as local Reach Out and Read sites, are required to purchase their books and are therefore actually likely customers of the FBMP because of the lower priced offerings. These national organizations do not have the infrastructure to handle mass purchases of books and so the prices offered to their affiliates are usually much higher than those offered by the FBMP. In fact, national Reach Out and Read representatives have offered to publicize the FBMP because of the benefit that it provides their local affiliates in stretching their program dollars.
 - **Discount wholesaler distributors** Some schools and large youth organizations sometimes use wholesale distributors, such as Ingram Book Group or Baker and Taylor to save time and money on the ordering process. While each distributor has specific requirements for new accounts, they do offer 35% discounts and no minimum quantities. Considerations regarding this option include:
 - Little overlap in target markets. However, because most distributors focus on the retail market and large school districts, there is likely to be little overlap in customers.
 - FBMP still beats discount. Even with 35% discounts, there are only a handful of middle school chapter books (that retail for \$2.95 and under) that have prices as low as FBMP prices.
 - **Comparative summary.** The following table provides a comparison of pricing between the major sources for book purchases and illustrates the significant price differential that the First Book Marketplace provides its customers.

Alternative Source of books	Comparison of book price relative to FBMP
Budgetext Discount Wholesale Distributor	91% higher
Ingram Book Group Publisher	98% higher
Follett Educational Services Discount Wholesale Distributor	103% higher
Books a Million Retailer	180% higher
Amazon.com Retailer	184% higher
Walmart.com Retailer	270% higher

Fig. 4 Comparison of Prices, Competition v. FBMP

3.7 Competitive Advantages. First Book’s history perfectly positions it to establish this innovative venture. Some of its competitive advantages are:

- **Substantive expertise.** First Book’s recognized expertise in children’s literature, publishing, communications and outreach provide a substantial advantage to the Marketplace.
- **Operational experience.** First Book has 13 years of experience in the logistics and operational demands required to provide millions of books to children in every state in the country. This experience encompasses warehousing, shipping, and customer relations.
- **Technical infrastructure.** First Book already has developed the technical capabilities necessary to implement the First Book Marketplace. First Book has an extensive database of over 12,000 customers, most of whom have already ordered books through the First Book National Book Bank. In addition, First Book has created specially designed software that will provide a substantial resource for the new venture.
- **National reputation and credibility with customer base.** First Book has established itself as an innovative and reliable partner that has consistently worked to elevate the efforts of community preschool and after-school programs.
- **Network of more than 240 First Book volunteer boards.** First Book has a powerful national marketing and communications network that will support the rollout of the Marketplace.
- **Highly flexible and free warehousing system.** The First Book National Book Bank has developed a national warehousing system that relies on contributed excess warehouse capacity from a range of partners including the U.S. Coast Guard and the National School Supply and Equipment Association, a trade association of more than 1500 companies.
- **Trained and experienced staff.** First Book recruits staff with substantial experience in their fields. The First Book team has proven to be innovative, dynamic and strategic in their work.

- **Experienced leadership.** The First Book Marketplace has the additional advantage of a leadership team comprised of an award-winning social entrepreneur, a strategic financial executive, an experienced program and operations director, and a former chief executive of several organizations.
- **Strong relationships with all major players in the children's direct service world.** First Book's relationships with the full spectrum of children's organizations are invaluable to the success of the Marketplace. The Points of Light Foundation and the National Head Start Association, for example, have worked with First Book more than a decade on a series of initiatives.
- **Long-standing relationships with the major children's publishers including Scholastic, Random House, Simon & Schuster, HarperCollins and Disney.** The First Book Marketplace provides these and other publishers with access to a new and expanding demographic targeted by the Marketplace. This is a previously unmined market and publishers are eagerly negotiating sales with the First Book Marketplace team and welcoming this new market opportunity.
- **Buying power.** The First Book Marketplace is able to leverage its relationships with publishers and broad reach to its customer base to obtain drastically reduced pricing. Much like school districts pool individual school purchases into one order, FBMP essentially acts as a collective buyer for children's service providers.
- **Global access.** The Internet provides global access to the FBMP and its products. FBMP's innovative online system, together with its proprietary database, provides highly efficient transactions for entities looking for ease of purchase. In addition, the FBMP innovative online system provides an opportunity for those programs serving children in areas where access to retail locations is limited and where mail order solicitations are less effective due to inefficient economies of scale.

3.8 Barriers to Entry. The primary barriers to new market entrants in the defined category of business include:

- **Reputation with children's publishers.** The good will of the children's publishing industry is an important, if not essential, component of success. Although there is a clear business rationale for publishers to support the venture, tremendous advantages are gained because of First Book's solid reputation in the industry. It would require years to establish this level of industry commitment.
- **Reputation with customer organizations.** In any business, knowing the customer, having a strong relationship with the customer segment, and knowing how to communicate with the customer are invaluable assets. Because of the diffuse nature of this market, First Book's longstanding relationships with these customers at both the national level and in more than 1000 communities nationwide are essential to ensuring the exponential growth of the FBMP in the coming years. Efforts to build similar relationships would be prohibitively expensive and would require years to develop.
- **Infrastructure.** First Book has designed, implemented and refined a substantial software package that enables the organization to integrate book ordering, warehouse space donations, volunteers needed for shipping efforts and a range of other logistics. This system has been used to place millions of books in the hands of children nationwide for several years. Any competitor to the FBMP would be required to invest substantially in order to manage the necessary activities and customer and supplier interactions.

- **Expertise.** Because book quality and selection is so essential to the success of the venture, significant expertise would be required in children's literature. In addition, significant expertise would be required to manage the logistical side of the venture, including warehousing, shipping, allocation, and related matters.
- **Credibility and Time.** The literacy field is a well-established part of the social sector and credibility in this field would be required to attract the necessary support for a successful venture. Credibility is not easily won and would require years to nurture. FBMP will protect its customer base by shipping all orders and maintaining its mailing lists in house.

4. MARKETING PLAN

4.1 Marketing Objectives. The First Book Marketplace will market extensively to the large customer base. First Book and the First Book National Book Bank have never engaged in widespread marketing to the FBMP customer segment because, prior to the First Book Marketplace, the supply of books was limited and the organization would have faced turning groups away. The new marketing objectives are:

- To expand the customer base, from a current unsolicited registration of 12,000 programs serving underprivileged children to **100,000 programs**;
- To raise awareness among all qualified recipient programs that the new source of high quality, affordable books is open for business and contains attractive products. Increased sales will be the most direct measure of success; the goal is to sell **2.6 million books** annually by FY07;
- To **communicate** the ease with which the FBMP can be accessed, including the registration process; surveys will be conducted semi-annually to measure improvement; and
- To strengthen and expand relationships with all umbrella organizations of customer programs, such as the National Head Start Association, and **complete registration of all** of their members with the FBMP.

4.2 Meeting Customer Needs - Survey of Customers. To analyze the needs of target customers, First Book conducted a recent online survey of over 10,000 likely customers of the First Book Marketplace and received a response rate of over 16% (1647 participants). A complete copy of FB's recent online survey is included in Appendices A and B. Survey responses have already informed the Marketplace title selection process. Major findings include:

- **Quality of books cited as highest priority.** The response to the issue of quality was unmistakable. 94% of respondents stated that quality was either very important or crucial.
- **Relevance to existing curriculum critical.** Respondents were also concerned about the relevance of the titles to their current curriculum, with 69% responding that this factor was either very important or crucial.
- **Award-winning titles not a crucial priority.** While the respondents were very focused on the quality of the books, many were less concerned that the books be award-winning titles, with less than 50% stating that this was either very important or crucial. This indicates that while the national awards may inform the selection process, it does not need to comprise the exclusive inventory of the site.
- **Broad variety of titles essential.** A strong majority of respondents (81%) indicated that the variety of titles was either very important or crucial. This response indicates

that the Marketplace must include fiction as well as non-fiction and should offer books for a substantial range of ages, languages, and themes. The FBMP currently provides titles in four age ranges (0-3 years; 4-8 years; 9-12 years; and young adult).

4.3 FBMP Pricing. The First Book Marketplace utilizes “cost-to-customer” based pricing. That is, pricing is based on an understanding of customer organizations’ ability to pay based on 13 years of experience of First Book, the parent organization. Unlike traditional retail options, the FBMP will offer selections at a price that is affordable to the target customer base. Currently, the FBMP offers books to the target audience at an average purchase price of \$1.80, and a maximum cost per book of \$2.50. The inventory cost during the pilot phase ranged from \$0.50 to \$1.75 per book and averaged \$1.073 per book. The profit margin to the Marketplace is currently set at \$0.75 per book, which will cover shipping estimated at \$0.15 per book, bank charges estimated at 2.2% of sale price on those transactions handled with credit cards, administrative costs, and net revenue to the parent company, First Book. It is notable that the FBMP prices are significantly lower than the alternative sources. Prices at those alternative sources are 91%-270% higher than prices offered by the FBMP.

4.4 Marketing Approaches and Promotional Strategies. First Book has 13 years of experience in marketing to the corporate sector and brings that history of considerable success to the marketing of the First Book Marketplace. Additionally, First Book routinely designs effective campaigns employing a range of techniques to disseminate information about its activities to national partner organizations, recipient groups, and First Book supporters across the country. These techniques will be harnessed initially to announce the launch of the Marketplace and then continually employed to increase the number and breadth of organizations registered with the Marketplace.

- **Preschool, after-school and literacy programs.** Tailored multi-dimensional promotional campaigns will be created from the following elements:
 - Opt-in First Book e-mail newsletters. The FBMP will develop an series of engaging e-mail news flashes to the growing database (currently 12,000) of eligible, pre-registered groups in order to keep the visibility high and attract buyers. Periodic sales on the FBMP will be offered to these organizations as well as promotional opportunities provided by specific corporate partners.
 - Contagious good news. Organizations will also be encouraged with gift certificates to spread the word about the FBMP to other programs, a natural community of similarly situated customers.
 - National registry campaign. First Book is in negotiation with corporate partners to secure sponsorship for a national campaign to register all recipient programs eligible for the Marketplace. As part of this effort, First Book has also developed templates for corporate employee involvement initiatives that include a campaign to register eligible recipient programs in selected communities nationwide.
 - First Book local presence. First Book’s 240 local volunteer Advisory Boards will regularly be encouraged to inform all potential customer programs in their communities about the FBMP and will be given materials to help these programs register for the FBMP. To further support this effort, the local FB boards will be given incentives of book grant funds to further the First Book work at the local level.

- **Umbrella associations for target programs.** First Book has held a series of meetings with the leadership of many of the major associations representing preschool, after-school, and literacy programs. In one example, the National Association of Child Care Resource and Referral Agencies (NACCRRA) has representation in 850 communities nationwide and provides services to child care providers serving over 7 million children.
 - Targeted promotional materials. Based on discussions, First Book is developing co-branded materials that promote easy access and registration for programs served by the associations.
 - Special offers. In partnership with these organizations, First Book will conduct outreach and special introductory offers and discounts in order to familiarize these programs with the FBMP.
 - Conferences. FBMP will participate and present materials at national conferences with organizations like the National Association for the Education of Young Children, which has over 8,500 accredited members and an annual conference attended by more than 25,000 representatives.
 - First Book local presence. The First Book network can be used most effectively in the context of these large associations as well. The FBMP is developing outreach tools to help volunteers communicate this new resource through the umbrella organization's networks, including bookmarks for circulation in large forums. These gatherings are perfect settings for spreading the word, as their very purpose is to share new opportunities and best practices.
 - First Book Web site. The First Book Web site also offers the ability to communicate marketing messages to potential customers of the FBMP. First Book is able to develop engaging information sheets that are downloadable from our site for these partner organizations and their affiliated programs.

4.5 Marketing to Secondary Stakeholders. As stated previously, sales for the FBMP are not wholly dependent upon the customers' access to funds. The innovative solution to the financial limitation of the target customer base is to involve two groups that are invested in the market, i.e., 1) private corporations with whom First Book partners on cause-based marketing campaigns, and 2) large membership service organizations with a mission of community service. First Book has already successfully engaged networks of purchasing sources to channel funds to the customers of the Marketplace, thereby financially equipping those recipient literacy programs that cannot otherwise afford even the low FBMP prices.

- **Corporations.** The potential of this segment became clear during the FBMP pilot phase: corporations provided funds for \$202,000 for book purchases benefiting 155 programs.
 - Reasons for involvement. Private sector corporations have a range of reasons for purchasing books through the First Book Marketplace.
 - Cause marketing campaigns. FBMP is an element that can be part of a First Book tailored cause marketing campaign. The FBMP is particularly relevant for a corporation with a demographic that includes women and families with children. First Book is a market leader in the design and implementation of cause based marketing initiatives and has already begun to include the FBMP in its marketing pitches.

- Community relations. In some instances, the Marketplace books can be utilized as an additional dimension for community relations platforms. In these cases, the corporation may decide to fund purchases for literacy programs in their communities through the Marketplace.
- Employee relations. First Book has already developed successful initiatives with employee organizations within major companies, including Verizon's CITE, DisneyHand, and others. These effective and dedicated volunteer groups contribute time and talent to their communities throughout the country. The First Book Marketplace will work through these employee groups to promote the idea of book purchases to complement their volunteer efforts and corporate employee bases will be engaged to register groups in their communities. Outreach will include Web-based promotions, newsletter announcements, links to The Literacy Site (a high-traffic cause-based Web site), and events celebrating book distributions. Similar strategies will also be presented to umbrella associations such as the Society for Human Resources Management (SHRM), the world's largest association devoted to human resource management, representing more than 190,000 individual members.
- FBMP marketing. First Book will engage corporations as the organization has done successfully for 13 years, through regular presentations to corporate marketing departments several times per year, through public relations agency contacts, and through continued creative proposals with several multiyear partnerships enjoyed by First Book.

They have uncovered a unique philanthropic opportunity and provide a critical service to both publishers and organizations that serve disadvantages kids.

Kathy Franklin, Vice President
Disney Worldwide Outreach

- **National service organization partners.** The Marketplace provides a national outlet enabling groups such as the Veterans of Foreign Wars (VFW), Kiwanis and others to serve any community within their network via a single source. These groups have extensive memberships comprised of hundreds of thousands of volunteers across the country. During the pilot phase, the VFW alone accounted for over \$20,000 in sales.
 - Reason for involvement. National service organizations are attracted to the FBMP as a means of benefiting their members.
 - Community service. The organizations require a steady stream of robust community service opportunities for their volunteers and members. Many members participate in programs designed to improve the environment of the children in the community.
 - FBMP marketing. First Book has existing relationships with many major national service organizations, including Kiwanis, The VFW, The Association of Junior Leagues International, Inc., and others.

- Although First Book works with these organizations routinely, special materials are under development to raise awareness of the FBMP for these organizations and their extensive membership bases.
- First Book will present the Marketplace at national conferences and in newsletters and other forums.
- Playful challenges are also being developed that are expected to rally enthusiastic support within these large membership groups.
- Events also provide powerful ways to generate interest and ultimately sales. First Book will work with contacts within these organizations to host events that highlight the FBMP.

The First Book Marketplace concept has made our involvement with First Book 'user-'friendly' for the representatives at the Military Family Support Centers around the country. First Book has enabled the VFW to financially support the centers' needs by allowing them to directly order books and allowing the VFW to pay the very low costs...it is through our relationship with First Book that the VFW has become involved with the literacy of military children and we have expanded to some urban low income families as well. With our continuing partnership with First Book, we will be assisting more children.

Michael Gormalley
Assistant COO, VFW Programs and Special Projects

4.6 Positioning. First Book enjoys a strong reputation among the FBMP market segment, based on the strong performance of the organization throughout its 13-year history. The FBMP is already developing a positive position with these same programs nationwide.

- **Preschool and after-school programs.** The FBMP is positioned to these programs as a means of attaining books that are affordable, high quality and age-appropriate. The FBMP will provide customers with an experience that is user-friendly and reliable. In addition, as the FBMP finalizes negotiations for the simultaneous release of selected first run titles, the FBMP will also be positioned as a source for the latest high visibility books for children.

We have absolutely loved the convenience and efficiency of the First Book Marketplace. It is such a user-friendly service. Whenever I feel Web site challenged, I just call the contact number and immediately get a helpful person to answer my questions. I love the e-mails that keep me abreast of new books that become available. I have shared this resource with other partners in my organization so that they too can reap the many benefits.

Leslie Eslinger, Director
Neighborhood Child Care Resource Program, Philadelphia

- **National service organizations.** The FBMP is positioned to these associations as a highly professional organization, reliable, and with a proven, efficient and effective means of national distribution.
 - First Book has existing relationships with all major national service organizations, including, Kiwanis, The Veterans of Foreign Wars, The International Association of Junior leagues International, and many others. Lynda Lancaster, First Book's Senior Vice President for National Outreach serves on several of these boards and has established long-term

relationships with all of the major contacts. Discussions are taking place to raise awareness of the FBMP and its potential role as a tool for community service and the newest of First Book's mechanisms to lower the barriers to book ownership.

- **Corporations.** First Book and the First Book Marketplace are positioned to corporations as the designer of creative, award-winning cause marketing campaigns. The non-controversial mission of the FBMP is highly attractive in regard to both employee and customer bases. These initiatives effectively integrate employee volunteer and community relations programs while promoting the corporate citizenship at the national level in press and media. The parent organization has an outstanding record reflecting its business-savvy orientation.
 - National awards. First Book has established a reputation in key areas including cause-marketing innovation, social entrepreneurship, creative joint ventures, and financially efficient management.
 - 2003 and 2004 Fast Company Social Capitalist Awards
 - 2003 Forbes Magazine Top Ten Gold List Charities (the only year the List was created)
 - 2005 Author's Guild Foundation Award for Distinguished Service to the Literary Community
 - 2003 Connect America Partner of the Year Award
 - 2002 and 2003 Promotion Marketing Association Gold Reggie and Bronze Reggie Awards
 - 2003 Cause Marketing Forum Gold Halo Award, Best Social Service/Education Program
 - 2004 Oprah's Angel Network Award
 - 4-Star Top Rating from Charity Navigator, 3 consecutive years (First Book uses only 2% of revenue for non-programmatic expenses)

5. MANAGEMENT PLAN

5.1 Management Expertise and Track Record. The executive management team for the First Book Marketplace is comprised of four members, described below. This team is responsible for strategic development and daily operations of the Marketplace. This team holds formal weekly meetings and is in regular communication to make all critical decisions relating to the First Book Marketplace. Brief bios are provided as Appendix D.

- **Executive Management Team.**

President. Ms. Kyle Zimmer, co-founder and President of First Book, serves as President of the First Book Marketplace and as its primary champion. For most of her career, Kyle has worked at the intersection of policy, business and social issues, first as a lawyer and then as an award-winning social entrepreneur. Kyle and two colleagues founded First Book in 1992; three years later she began serving full time as President of the organization. During the intervening years, Kyle has steered First Book's rapid growth to its current level of activity in more than 240 communities nationwide. In addition, Kyle has successfully designed and launched several new subsidiaries, including the First Book National Book Bank and First Artists. Kyle is

responsible for the development and implementation of the marketing plan for the Marketplace and she oversees all planning and operations of the Marketplace. Ms. Robinson, Ms. Bhagat, and Ms. Lonoff report to Ms. Zimmer.

Executive Director. Ms. C. J. Lonoff is serving as the Interim Executive Director of the First Book Marketplace and is primarily responsible as Project Manager for the growth of the business, including negotiations for product procurement as well as marketing initiatives. Ms. Lonoff is an entrepreneur with marketing experience. Over the course of her career, C. J. has served in leadership roles in a wide range of business ventures and has succeeded in developing a thriving business promoting speakers across the country. A results-oriented executive with extensive experience, she combines knowledge of marketing and promotion with expertise in strategic planning, business management, negotiation and leadership skills. C. J. oversees product selection processes, negotiations with publishers and warehousing associations, as well as managing operations and logistics.

Chief Financial Officer. Ms. Jane Robinson, who serves as the Chief Financial Officer for First Book, also serves as the Chief Financial Officer for the First Book Marketplace. Jane had a distinguished career with a major DC-based national law firm, where she served as CFO for two decades as it evolved from a small firm to its current status as a major institution with multiple offices throughout the United States. Jane has superior skills in financial management and has provided strategic guidance for First Book and its subsidiaries during a period of unparalleled growth. Jane is responsible for the finances of the Marketplace and will contribute to the planning and implementation of strategic corporate involvement.

Director of Operations, FBMP. Ms. Wendy Bhagat, the Executive Director of the FBNBB, serves as the Director of Operations for the FBMP. Given her leadership role in the success of the FBNBB, Wendy brings in-depth, hands-on experience of all logistical and operational details of the First Book Marketplace, including oversight of warehousing, and shipping, as well as the ordering process, and the customer database.

- **First Book Marketplace Staff and Supporters.**
 - **Information technology.** First Book has a highly skilled and dedicated IT staff led by Jeffrey Popovich. Jeff has extensive experience in corporate infrastructure and Internet consulting and management. Jeff managed the design, testing, and implementation of the pilot phase of the FBMP. The FBMP has experienced exceptional uptime and availability during the pilot phase and has been praised for its ease of use in the design.
 - **Logistics and implementation.** Under Wendy Bhagat's leadership, the FBNBB has distributed more than 22 million books to children. A senior logistics team at the U. S. Coast Guard that has provided longtime support to the FBNBB, has also indicated their willingness to lend their expertise as well as their warehouse space to the effort.
 - **Communications.** A broad range of communications needs is required to launch and maintain the Marketplace. First Book's Senior Director of Communications, Eugenia Hull, will contribute oversight duties to the FBMP.

- **Marketing.** Strong and persistent outreach to the full range of potential consumers will be required for the long-term success of the Marketplace. President Kyle Zimmer has led the marketing efforts for First Book for over 10 years, setting records and winning awards for cause-marketing campaigns with many corporations. First Book's Senior Director of Corporate Strategy, Jennifer Kaplan, is currently heading the effort on The Literacy Site and will contribute heavily to the FBMP initiative.
- **Hands-on warehousing and shipment.** First Book staff has unparalleled and perfectly matched experience in operating and implementing the First Book National Book Bank. Rachael Voorhees is serving as the primary staff person managing FBMP orders, shipments, and inventory maintenance. In addition, through its Web site and national partnerships, First Book is able to recruit and coordinate high quality volunteers who assist in the effort to fill the orders.
- **Growth.** During the next three years, at least one additional dedicated staff person will be hired to complete fulfillment of orders and other First Book staff will increase the percentage of their time spent on the FBMP. Unexpectedly rapid growth will be met with increased staffing covered by FBMP income, since any such growth will be accompanied by increased profits.
- **Governance.** Because the Marketplace is precisely focused on First Book's core mission, legal counsel has advised First Book that there is no need to incorporate the entity separately. For this reason, the Marketplace functions as a subsidiary program of First Book and is governed by the First Book national Board of Directors. The list of the national Board of Directors for First Book is provided as Appendix E. In addition, the First Book Marketplace will recruit two voluntary external committees to assist the venture, as follows:
 - **The National Blue Ribbon Panel.** To provide informal guidance regarding the development of the Marketplace as well as to increase the awareness and prominence of the venture, First Book is recruiting a small group of highly visible individuals to assist in a range of activities. The nominating process is underway and individuals currently under consideration include prominent writers, business leaders, and public officials.
 - **External Advisory Panel.** First Book has recruited a team of individuals to serve as members of an informal panel of advisors for the Marketplace. These individuals include experts in children's publishing, marketing and communications. A complete list of the initial group of external advisors can be found in Appendix F.

5.2 First Book's Commitment to the Marketplace. First Book, the parent organization, is committed to reaching all low-income children in need of books and is convinced that the Marketplace is the new social sector business venture that will powerfully augment the stream of high quality new books to this waiting population.

- **The First Book Marketplace: newest subsidiary of the First Book family.** The First Book Marketplace is positioned as a subsidiary within the parent organization, First Book. This FBMP design is modeled after the First Book National Book Bank, which has proven to be a highly efficient system that strongly encourages integration of all parts of the staff and resources of the organization.

- **First Book serves as major underwriter to the Marketplace.** First Book was able to provide all necessary funding for the pilot phase of the Marketplace. This support also extends to staff resources and significant expertise and industry relationships.

6. OPERATIONS PLAN

6.1 Product Selection. The FBMP has developed several means by which book titles are selected for inclusion on the site. The selection of titles is renewed regularly to keep the site fresh and engaging.

- **Customer Feedback on Title Selection.** Customers' feedback will be solicited on a regular basis through surveys. The survey completed in 2005 (Appendices A and B) of registered programs provided excellent information regarding product selection. Of particular note, it was not deemed to be significantly important to respondents that they have the opportunity to influence the titles offered (only 34% indicated crucial or very important). Therefore, while offering direct input on the selection of titles may heighten the engagement with the customer, it does not appear to be an essential part of the model at this time.
- **Award Winners and Children's Literature Experts.** The primary process for identifying the titles to be offered begins with the development of a list of Caldecott and Newberry winners, *New York Times* best sellers, titles cited by the American Library Association, and titles recommended by literacy experts. This list is then circulated to the current **Marketplace Selection Advisors** ("Advisors"). The Advisors simply check the titles that they recommend and those titles receiving the highest number of endorsements serve as the base list. This base list is then used to approach the publishers to determine which titles are available as existing stock or as special reprints and at what price and quantities. The books from the base list that are available at the lowest prices will be those offered on the Marketplace.
 - **Marketplace Selection Advisors** include: 1) experts in reading and children's literature; 2) highly experienced tutors and mentors who have worked directly with disadvantaged children in preschool and after-school programs; 3) representatives of The American Library Association; 4) First Book staff relying on 13 years of experience with book ordering through the central First Book model; 5) top children's authors. A list of initial Advisors is attached as Appendix C.
- **Publisher Input on Title Selection.** Publishers have three major ways to propose potential titles for inclusion in the FBMP inventories:
 - Print run expansions. Publishers that are producing reprints or are printing new editions of children's books can offer added volume to their print orders for sale on the Marketplace. This allows the Marketplace and the publishers to take advantage of special economies when Marketplace books are part of a larger print run. In addition, of course, these extra copies lower the cost per unit for the publisher for all the books printed and so may enable them to pass along additional savings to the Marketplace. Titles proposed through this means are cleared through the Advisors prior to purchase.
 - Simultaneous release of First Book Marketplace editions. The First Book Marketplace is negotiating for the simultaneous release of a special paperback Marketplace edition of selected new hardback releases on the market. Because there is little or no overlap in the demographic between retail customers who purchase new release hardcover children's books and

the customers of the First Book Marketplace, publishers have expressed interest in engaging the Marketplace with their latest releases. This may provide additional marketing opportunities for the Marketplace, as the new releases will have higher visibility in the public eye.

- Special "First Book Marketplace Editions" reduce product cost. First Book has begun a series of discussions with industry representatives to assess the cost of "First Book Marketplace Edition" print runs. These books would be award-winning titles that had been available only in hard cover editions at higher costs to the general public. Under the proposed scenario, First Book would negotiate the rights for the creation of special "First Book Marketplace Editions" that would be paperback versions of the books. According to present estimates, the unit cost of these books is significantly lower than the cost of the books First Book purchases from existing publisher inventories. In fact, unit costs are estimated at \$0.30 to \$0.40 per book. Because First Book has requested cost plus pricing when purchasing from the publishers, the estimated cost to First Book would likely be under one dollar. This lower cost figure will then be figured into the pricing plans for those titles.
- Titles currently in inventory. During the pilot phase of the Marketplace, First Book approached the largest children's publishers and reviewed available titles from current active inventories. Purchase orders were created for the Marketplace selections, sent to the publishers and the books were drop-shipped to a warehouse currently used by the First Book National Book Bank. The books selected have been top quality, active titles that are currently available through book retailers for the general public, not remaindered books. In the post-pilot phase, there may be appealing titles that become available from active inventories. Again, the Advisors will be requested to clear these titles prior to purchase.

6.2 Distribution Strategy: Ordering, Processing, Fulfillment. Operational plans were made to fully utilize the First Book and FBNBB infrastructure and staff, relationships with publishers and warehousing. A flowchart of distribution can be seen below.

- **Online access.** Recipient organizations can access the First Book Marketplace only through a dedicated Web site, www.firstbookmarketplace.org, or through a link from the First Book Web page. The online technology was tested and refined during the pilot phase of the Marketplace.
- **Recipient group registration.** Potential recipient groups are required to register with the First Book Marketplace and prove their 501(c)(3) status via fax before they are allowed to order books. A substantial part of the registration process is handled online. All registrations will be verified to ensure that the FBMP is serving only the intended constituency.
- **Warehousing.** Very broad access to warehousing is available free of charge through national partners with such facilities. For example, First Book is proud of its status as the Signature Charity for the U.S. Coast Guard, which has supplied free warehouse space on a rotating basis for several years. At 1000 square feet per 100,000 books, the FBNBB has already efficiently used over 220,000 square feet of warehouse space for varying periods of time. Service personnel assist with on-site logistics whenever possible. In addition, First Book has recently established the first of several planned partnerships with warehousing associations around the country.

The Southeastern Warehouse Association, an umbrella association that includes warehousing facilities throughout the southeastern US, has agreed to provide warehousing facilities and support for the FBMP through their members on an ongoing basis. Their members are attracted by positive public relations through The Literacy Site, community service opportunities, and tax deductibility of in-kind contributions of space.

The Southeastern Warehouse Association is very excited about partnering with the First Book Marketplace... The warehouse companies in the SWA can offer logistics and warehouse support while receiving tax-deductions for the contributions and great community publicity. We hope that this joint endeavor can enlighten these children and change the world!

Bill Milligan
Director, Southeastern Warehouse Association

- **Inventory Management.** The FBMP software includes a system of monitoring the depletion of existing inventories in order to allow the FBMP to maintain a steady and diverse range of titles. When defined criteria are met indicating impending a low stock of titles, the FBMP purchases new books in that category.
- **Payment.** The FBMP requires payment in full at the time the order is placed and therefore prior to shipment. Payment may be made by credit card or electronic check. First Book has experience with online payment through its donation pages and new shopping cart technology, used throughout the pilot phase of the FBMP.
- **Shipping.** First Book has the ability to ship books anywhere in the country at dramatically discounted rates through relationships established with companies such as UPS. These rates have been extended to the Marketplace.
- **See Appendix G for Process Flow.**

7. FINANCIAL PLAN

7.1 Early Venture. After a successful and instructive pilot phase, it is projected that the FBMP will begin to generate significant profit of \$231,000 to the parent organization, First Book, by the end of 2005, through sales of \$900,000.

7.2 Funding and Breakeven Point. First Book made the initial cash investment of \$298,000 for start up inventory. Additional hard costs of shipping and payment processing totaled \$14,000. The venture was initiated using internal resources of First Book, including technological infrastructure, facility and staff time. A prorated portion of staff time and facility rent, totaling \$38,000, was attributed to the FBMP. As of this writing sales have exceeded \$360,000, covering the initial outlay for inventory and all other costs and providing a net profit of just over \$10,000. See Statements of Sources and Uses (Appendix O).

Economies of Scale and Infrastructure. The First Book Marketplace during its pilot phase utilized the technological infrastructure, facility, database, staff, inventory and warehousing maintenance capacity, database of several thousand potential customers, and warehousing and publisher relationships of First Book and the First Book National Book Bank. With this advantage, at this time there are no significant venture-specific facility costs, leasing issues, or equipment purchases. A percentage of infrastructure,

facility and administrative costs are allocated to the FBMP, as well as increases in marketing expenses and travel to the warehouse space.

7.3 Pro Forma Financial Statements and Cash Flow.

Pro Forma Statement of Activities (Appendix H)

Pro forma Balance Sheet (Appendix I)

Pro forma Cash Flow Analysis (Appendix J).

Key Assumptions.

For the projected period of this plan, the price point for the books offered on the FBMP is a flat \$0.75 over the inventory purchase price. This margin is budgeted to cover all administrative costs (shipping, payment processing, staffing, etc.) and provide net profit of approximately \$0.45. This margin will be evaluated as the venture grows. Currently, the FBMP is purchasing inventory for an average of \$1.07 per book. This number is projected to go down as negotiated special print runs are put into effect. Early conversations with publishers indicate that the price per book to the FBMP for special runs may be under \$1.00. The margin of \$0.75 serves the multiple goals of covering costs, generating profit, and keeping the product affordable for the customer.

- Administrative costs were 11% of sales during the entire pilot phase and are projected to be 11% in FY05, 9% in FY06 and 10% in FY07. The percentage of administrative costs remains about the same though new line items, such as marketing expenses and new salaried positions, are added in increasing numbers after the pilot phase as new marketing initiatives are created and more staff is hired to handle increased traffic on the FBMP. This is a consequence of the profit margin, which covers the increased volume of costs and keeps the percentage flat.
- Processing fees for online purchases are calculated assuming conservatively that one-half of the books purchased take place through the online site and one-half are from funds received from corporation and national organization as described in the plan. While the number of programs purchasing books is 95% of the customer total, sales from this group is 30% of total sales because the groups purchase at an average of \$717 per order. (See reiteration, Fig. 5 below.)
- Salaries and benefits for staff were calculated using exact time spent for the pilot and are estimated to increase through FY07 in proportion to the increased volume projected. The full time of the Executive Director is budgeted to begin in late FY05 along with an increase of 70% to 100% per year of other staffing time, including more time of the Director of Operations and the addition of coordinator level positions to handle fulfillment and online transactions.
- In-kind warehouse space contributions are calculated using a \$1/sq. ft./mo. calculation and estimating 1,000 square feet for 100,000 books. These calculations are taken from reports to First Book in prior years from the U.S. Coast Guard warehousing facilities.

- FBMP assumes 75,000 books will remain in inventory at the end of 2005, 100,000 at end of 2006, and 125,000 at end of 2007.

Straightline budget. There are no seasonal fluctuations in the financials. Several elements permit this simplicity.

- There is no cost incurred when warehouse space is left vacant or inventory is untouched for any length of time.
- There is no extra staff time or facility cost incurred if there is a lull in sales. Additional staff will not be hired for busier times. The processing timeline allows for a conservative fulfillment period between ordering and delivery to ensure that extra staff is not needed
- Unsold inventory will not become a liability. The availability of (a) corporate funding from cause-marketing campaigns and (b) service organization funds means that inventory can be controlled because these funds can be immediately and directly channeled to the programs that are ready to make purchases but are without funds to do so. In addition, corporations and national service organizations rarely have preferences regarding which titles they purchase; therefore, corporate and national service organization dollars can be used to move any specific titles.

7.4 Revenue Generation Projections. Three categories of buying power were active during the pilot phase. These sources are (1) corporations, (2) national service organizations, and (3) literacy programs. While literacy programs accounted for \$118,000 of the sales generated during the pilot phase, corporations accounted for \$191,300 and national service organizations for \$52,000.

Gross revenue, and number of books sold, is projected to more than double during the 9 months following the 9-month pilot. The FBMP is projecting book sales to increase by rates that appear to be aggressive but which are in fact decidedly conservative, for the following reasons:

- No marketing has occurred yet. Zero dollars were expended in marketing the early venture, yet the need was confirmed and current discussions with organizations like Head Start give very specific projections about potential availability of funds and enthusiasm for the Marketplace products.
 - No marketing has been done to the literacy programs. Only one email was sent to registered groups when new titles were put on the FBMP. No effort has been expended to increase registration yet.
 - No marketing has been done to corporations. First Book did not present the FBMP as an element in cause-marketing campaigns during the pilot, yet even then, corporations who found out about this element wanted to participate.
 - No marketing has been done to national service organizations. All sales occurred from conversations that had already taken place in the context of regular business.
 - The new product uniquely and as never before fits their needs. Pricing is set at a flat \$0.75 over the initial cost of a book. This covers costs, crucially keeps prices low for the customers, and generates profit to the parent organization of \$0.45. (See Price Comparisons, Appendix P.)

- The pilot phase saw the emergence of vibrant new centers of buying power that can be directly channeled to the programs that need it the most. These sources are (1) corporations and (2) national service organizations.

BUYERS	No. of Groups	Purchases	Buyer Category as % of Total	Average purchase
Individual literacy programs	165	\$118,000	30%	\$717
Corporations	4	\$191,300	55%	\$47,750
National service organizations	5	\$52,000	15%	\$10,400

Fig. 5 FBMP Buyer Profile

- New market segment is targeted. FBMP is perfectly positioned to engage this customer base since they know First Book and First Book knows their needs.
- Surveys returned by the new customer base indicate that they have funds available for the types of books sold by FBMP. (See Appendices A and B.) The base is already widening through word-of-mouth and confirming this.
- The book purchase volume is monumentally routine for parent organization infrastructure. First Book and its FBNBB distribute 6 million books annually. The number of books moving through the FBMP in the early venture phase was under 300,000 and in the 2nd 9-month phase is just 500,000.

Critical success factors: The most important factors for the future success of the venture are:

- Successful marketing to the at least 181,500 literacy programs attracted to this product. This will be accomplished with the marketing plan described in this document.
- Maintenance of prices that are affordable to this targeted group. This will be accomplished through the printing arrangements with publishers and inventory storage arrangements with warehouseers described in this document.
- An expanding base of corporations and national service organizations that purchase for literacy programs. This will be accomplished through the inclusion of the FBMP as an element in cause-marketing campaigns and through the continued building of robust partnerships with service organizations nationwide who are eager to access this new tool for service to their communities.

8. RISK ASSESSMENTS AND CONTINGENCY PLAN

8.1 Major Risks and Management Plan to Mitigate Risk.

- **Risk:** Low sales, slow-moving inventory. **Mitigation:** If sales to nonprofit recipient groups are slow, First Book can bring corporate partners to the Marketplace through extensions of cause-marketing campaigns and corporate community relation's

efforts. Corporations often choose the inclusion of Marketplace purchases as an element in their promotional campaigns with First Book. Funds are channeled to the Marketplace and the choice of titles and recipients are normally left to First Book. In this way, the FBMP can direct the new books to those programs serving the children who are waiting for these vital resources.

- **Risk:** Competition. **Mitigation:** Competitors such as retail chains, online retail outlets and discount markets sell books at price points that are higher than the FBMP. The Marketplace will continue to monitor the competition, evaluating margins, negotiating deals with publishers for the lowest possible prices for the selected titles. By initiating deals with the publishers for special editions and special add-on print runs, the FBMP will be an agent in the formulation of deals and have a say in the price point calculations.
- **Risk:** Difficulty attracting talented staff. **Mitigation:** First Book has experienced in its own recruitment efforts an increase of candidates with an interest in entrepreneurial opportunities. First Book and the FBMP strive to bring business standards to issues of compensation and benefits and will continue its positive trajectory in this area. The combination of an exciting entrepreneurial opportunity with a compensation package more in line with the market will undoubtedly continue to attract suitable staff members.
- **Risk:** Marketing barriers. **Mitigation:** First Book is actively seeking funding through a corporate initiative to support the creation and promotion of a National Registry of eligible programs serving children from low-income families. First Book's long history of cause-marketing campaign success attracts corporations who are interested in literacy and children and a proposal is being considered in May. Once the Registry is funded by a sponsor, the FBMP will be promoted through online outreach, periodic sales, and presentations to the umbrella organizations that will raise awareness of the availability of this resource.
- **Risk:** Crisis in reputation of a partner. **Mitigation:** If there is a crisis in the reputation of a partner of the FBMP, the organization will extricate itself as quickly as possible, repair any resulting damage to relationships with other partners, and find new partners to fill the function. First Book has worked hard to create an excellent reputation. Its partnerships are important and the organization is loyal, however, this is a risk of doing business in any setting.
- **Risk:** Inadequate warehouse space. **Mitigation:** The FBMP will plan well in advance and secure warehouse space prior to placing any order, and will continue to use its current partners and enlist new partners to the list of those who are willing to contribute available warehouse space, both short-term and long-term. New avenues of search include corporations and regional governments. A higher national profile will also recruit new partnerships and the FBMP will constantly nurture possible new warehousing capacities over time.
- **Risk:** Shipping rate increases. **Mitigation:** The Marketplace is already beginning to develop relationships with additional shippers and also is developing strategies to approach underwriters that might contribute to reduce the cost of shipping for the Marketplace. These strategies would assist in the event of a shipping rate increase.