OWN yourPhone

Business Plan
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1. Executive Summary

The ringtone market is over $3 billion/year worldwide and growing. OwnYourPhone.com will capture a significant portion of this market by making it easy for customers to put their own music onto their cell phones as ringtones. OwnYourPhone's customized approach allows greater personalization then existing ringtone sellers at a lower price.

With diligence and sufficient financing, OwnYourPhone intends to achieve sales in excess of $1 million by November 2007, and $10 million in the following year. This sales goal is ambitious yet achievable, with the sole competition already attaining new customers at the rate of 1200/day.

OwnYourPhone holds patent rights that could be used to limit the threat from competitors.

1.1 The Market

Estimates of the total size of the world ringtone market vary, with the low estimate at $1 billion worldwide, and the consensus at approximately $3 billion. Market growth is expected to continue for the foreseeable future. Estimates of that growth range from around 4 percent to over 30 percent per year. Much of this growth will be in the United States, which is a relative latecomer to the world of ringtones.

Currently, in the United States, consumers typically pay $2-$4 for each ringtone on their mobile phone. The prices are comparable all across the developed world.

1.2 Problem and Opportunity

Almost all ringtone companies sell premade ringtones. However, often a customer will want a ringtone that is hard to find or not available through commercial channels. Furthermore, premade ringtones are subject to licensing restrictions from the artists or music labels. This drastically raises the prices for consumers: artists, record labels and ringtone sellers all take their share.

Until very recently, the technology didn't exist to create an easy-to-use service where people could make their own ringtones from music that they had previously purchased. OwnYourPhone expects to both capture a percentage of the premade ringtone market and grow the market by providing this service to attract new customers.

1.3 Advantages of OwnYourPhone's Services

- Any song can be made into a ringtone. The selection of available ringtones is limited only by the size of a user's personal music collection.

- The price we charge consumers can be much lower then competitors, and customers do not need to buy their music again after buying the CD.

- Any part of a song can be a ringtone, for instance, a part of a song with a person's name, or a particularly meaningful verse. This intense personalization both raises customer satisfaction and increases loyalty.

- Custom ringtones have very strong appeal for trendsetters/opinion leaders.

1.4 Business Model

OwnYourPhone has a very simple business model. Users come to OwnYourPhone.com, upload their music (or, in the near future, other content, such as videos or wallpapers), choose the part of the song they want, and pay to download the content back to their phone. Payment is made through premium-rate SMS (the charge shows up on the customer's phone bill).

1.5 IP Rights

OwnYourPhone applied for a patent on this business process in November, 2006, referencing a provisional patent from November, 2005. If the patent is granted, OwnYourPhone could exclude all other Internet-based custom ringtone companies from the US market and possibly other markets worldwide, and/or require licensing fees.

1.6 Keys to Success

- A novel and very useful service

- An attractive, user-friendly and bug-free Web site that will allow users with little or no technical skills create their own ringtones

- A public relations campaign and marketing initiatives to rapidly grow our customer base and reach the goal of 40,000 ringtones/month by May.

- OwnYourPhone must receive enough start-up capital to reach the break-even point and cover any unforeseen expenses.

2. Company Summery

2.1 History

OwnYourPhone was born in June of 2005 when co-founder Daniel Hornal wanted to put a custom ringtone on his phone and was unsatisfied with the options available to him. He entered into a partnership with co-founder Adam Eivy to create an online ringtone creator. After Adam wrote a proof-of-concept ringtone creator, they obtained a provisional patent and OwnYourPhone, LLC was created as a legal entity.

Adam and Daniel have continued to improve the product and have gained a customer base and some press attention.

2.2 Ownership Details

OwnYourPhone is a Washington State Limited Liability Company, owned entirely by Daniel Hornal and Adam Eivy. Both co-founders own 50 percent of the company.

2.3 Services

Currently, OwnYourPhone can turn any unprotected music file on a user's computer into a ringtone for their phone. The customer can choose any part of the song for their ringtone, and can add simple effects like fade-in and fade-out. Users will be able to pay for their ringtone either by credit card or though direct billing to their phone bills.

2.4 Future Services

OwnYourPhone will also allow customers to create "semi-custom" ringtones: for example, a school music department could create a ringtone of their fight song and make it available to their students, or an independent band could create a ringtone of their music.

OwnYourPhone will also enable users to make other customizations to their phones, such as custom wallpapers. Other opportunities include ringback tones (music that callers hear, rather then "ring-ring"), and advanced text messaging services for individuals and businesses.

3. Competition Analysis

OwnYourPhone faces the following competitors:

- Traditional ringtone sellers
- "Do-it-yourself" custom ringtone creation
- Downloadable custom ringtone software
- Free custom ringtone sites
- PhoneSherpa

3.1 Traditional Ringtone Sellers

This category includes ringtone Web sites and other ringtone sellers such as "Jamster!", as well as ringtones sold by the carriers themselves. These sites all have premade ringtones that users can download to their phone. Their terms and conditions vary wildly, as do their costs. Sites that sell individual ringtones usually have prices that vary between $1.99 and $4.99. Others have a subscription model that ranges between $4.99 and $9.99/month for either a certain number of downloads or for unlimited downloads. OwnYourPhone's custom ringtone service is significantly different from what the traditional ringtone sellers offer. OwnYourPhone offer both a better service (allowing users to choose any part of any song they like) and better pricing.

3.2 "Do-it-yourself" custom ringtone creation

It is possible, using a combination of free software products, to create your own custom ringtones. It is unknown how many people do this. To create your own ringtone using free software requires a significant amount of computer skills and about 45 minutes to obtain and configure the software. Once the process has been learned, it takes 10-15 minutes to create and transfer each ringtone. The user also needs either a Bluetooth phone and a Bluetooth adaptor on their computer, or a data cable for their phone.

The advantage of do-it-yourself ringtone creation over OwnYourPhone is cost: once someone obtains a data cable ($10-30) there is no cost. The disadvantages are accessibility (only geeks can do it) and compatibility: many phones will not allow ringtones to be transferred to them under any circumstances. (This restriction is built-in by the phone companies to encourage users to buy the ringtones from them)

3.3 Downloadable Custom Ringtone Software

There are many downloadable software packages that allow users to create their own ringtones. The most successful of these software packages is called Xingtone. The prices for these software packages vary: Xingtone is $20. While these software packages can be effective, there are three major, unsolvable problems that keep them from being serious

competitors to OwnYourPhone:

To use this software, users must either buy (and configure) a data cable for their phone, or subscribe to Internet service with their phone. Internet service on the phone is very expensive (T-Mobile is charging $30/month for unlimited internet right now, Verizon is charging $60) and is a hassle to have added to a phone plan.

Ease of use: they require the user to install software and configure it for their phone, which can be very difficult, especially given that the software needs to access the Internet. Windows firewall and antivirus software both interfere with the use of ringtone creation software.

Phone companies can and will continue to block installation of ringtones made by this method on many phones.

3.4 Free Custom Ringtone Web Sites

This includes sites such as http://mobile17.smashsworld.com/ and http://www.mytinyphone.com/. These sites, to one degree or another, can be easier to use then the downloadable custom ringtone software. However, they still fail on one key point: they require their users to subscribe to the Internet with their phones in order to use their services. Subscribing to the Internet costs a lot of money and only a very small proportion of cell phone users do so. Furthermore, phone companies often block these sites from functioning to encourage the purchase of paid ringtones.

3.5 PhoneSherpa

PhoneSherpa was founded in Seattle after OwnYourPhone was operational and has grown faster then OwnYourPhone because of access to capital. It offers custom ringtones and wallpapers to its subscribers. They are growing quickly and offer a generally polished user experience. A single ringtone costs $2, and unlimited ringtones cost $24.99/year. As of August 18, 2006, they claim 438,561 customers and 1.4 million downloads. The site has been in operation since early 2006, and was founded in Seattle, Washington.

PhoneSherpa has the following advantages over OwnYourPhone: an ample supply of capital, an established customer base, more experienced managers and a more refined Web site.

OwnYourPhone has the following advantages over PhoneSherpa: A better ringtone trimmer and user experience, compatibility with a greater variety of music formats, lower costs and prices, and we are patent pending.

Finally, the market for custom ringtones is very large, and both OwnYourPhone and PhoneSherpa can grow significantly before we truly begin direct competition.

3.6 Barriers to Entry

There are three main barriers to entry that protect OwnYourPhone from competition: Technical, B2B relations, and patent protection.

Technical: To create a custom ringtone is not horribly complex, however, there are many components that must be built and tied together to create a properly functioning custom ringtone Web site. In particular, creating a user-friendly ringtone trimmer is a novel

and difficult task. OwnYourPhone has overcome this barrier.

B2B relations: To operate in this market, you must make deals with the cell phone carriers. Each carrier has many specific requirements for how a ringtone Web site must operate. They also require an outlay of capital. These requirements are not simple and prevent hobbyists and less-dedicated organizations and individuals from engaging in this business. They also greatly increase the time-to-market for would-be competitors. OwnYourPhone is currently in the final stages of integrating with the carrier's networks

Patent protection: In November of 2005, OwnYourPhone applied for a provisional patent covering our technical and business model. If this patent is accepted by the US Patent office then OwnYourPhone will be able to exclude competitors or require license fees, which would provide a significant competitive advantage.

3.7 Competition Comparison

	OwnYourPhone	Phone Sherpa	Xingtone	Traditional Sellers
Any song can be a ringtone	✓	✓	✓	✗
Create from .mp3 files	✓	✓	✓	✗
.m4a (iTunes) files	✓	✗	✗	✗
.wma (windows) files	✓	✓	✓	✗
Wallpapers	✓	✓	✗	✓
Don't need Internet/cables	✓	✓	✗	✓
Bill to phone	✓	✓	✗	✓
Bill to credit card	✓	✓	✗	✓
No software to download	✓	✓	✗	✓
Patent protection	✓	✗	✗	✗
Customizable sounds	✓	✓	✓	✗
Upfront cost	$0	$0	$20	$0
Ongoing cost/ringtone	$1.50	$2.00	$0	$2-$5

4. Market Analysis

The worldwide ringtone market is somewhere between US $1 billion and $5.2 billion a year. The consensus estimate is $3 billion. Most of the sales outside of the US are in Western Europe, followed by Japan, Taiwan and South Korea.

Market growth is expected to continue for the foreseeable future. Estimates of that growth range from around 4 percent to 42.5 percent per year.

Currently, in the United States, consumers typically pay $2-$4 for each ringtone on their mobile phone. The prices are comparable all across the developed world. 69 percent of all ringtones are downloaded by women, according to Telephia research.

4.1 Segmentation

There are two major ways to segment the ringtone market: by region and by age.

Regions

Ringtones are popular throughout the developed world. The market is most mature in Western Europe and the Pacific Rim countries of Japan, Korea and Taiwan.

As a matter of convenience, OwnYourPhone intends to target the growing market of the US and Canada first. In the United States, the ringtone industry saw sales of $68 million in 2003, $245 million in 2004, and around $500 million in 2005, according to UPI interviews of Richard Conlon, VP of marketing and business development at Broadcast Music Inc. This market has huge potential for continued growth, as only about 25 percent of Americans have ever text-messaged or downloaded something to a mobile device.

After the service is working properly in North America, expansion is not difficult. OwnYourPhone will expand in England and Australia next, and finally to the Pacific Rim and the rest of Europe.

Age

Consumers of all ages purchase ringtones, however, a plurality are purchased by those in the 18-24 demographic. The 25-34 demographic is a close second.

The popularity of ringtones among these demographics is somewhat self-perpetuating, as the majority of ringtone marketing is targeted toward young people and popular music. In 2005, the top 5 mobile ringtones were all Hip-hop/R&B songs.

4.2 Targeting Strategy

OwnYourPhone will target our marketing first at 14-18 and 18-24-year-olds. This will be accomplished through marketing to schools and Internet marketing (mostly Myspace and blogs). Custom ringtones have a very strong appeal to musicians and fans of underground/independent music, so marketing effort will also target these groups.

OwnYourPhone also has an appeal to 34-54-year-olds, in that we can enable them to get ringtones of older music which is not readily available to them now. OwnYourPhone will not immediately target these groups in marketing materials, but it will make the service accessible and friendly to this demographic.

5. Implementation Strategy

5.1 Value Proposition

OwnYourPhone allows customers to personalize their cell phone and helps them project whatever image they wish to project, regardless of what is popular. OwnYourPhone provides value by offering a superior service to all competitors in this expanding market at a lower price.

5.2 Competitive Advantages

OwnYourPhone has 5 competitive advantages that will propel it to success.

- Better price and value then competition

- Low overhead

- IP Rights

- Early to market

- Management that understands the market

5.3 Positioning Strategy

OwnYourPhone.com will position itself as a facilitator of rebellion. People don't like being told what they can and cannot do with their phones, and OwnYourPhone provides an alternative to the big phone company. This strategy is designed to appeal to youth and opinion leaders/trendsetters.

5.4 PR / Marketing Strategy

The initial focus will be on public relations and low-cost marketing options. This includes the following methods:

- Blogs, such as MySpace and Internet forums (we expect this to account for 10 percent of new customers over the next year)

- Independent and small-label musicians who want to make ringtones available to their fans (30 percent)

- Person-to-person (word of mouth) – this is a very powerful source of marketing for a business like OwnYourPhone, which taps and targets the creative side of individuals (40 percent)

- Traditional public relations activities, such as press releases (20 percent)

Future possibilities include:
- Street-team activities

- Promotion via organizations with a powerful association with a particular song, such as high school and college fight songs.

- Pay-per-click web advertising

- Radio advertising

- Sponsorship of music events

- Affiliate programs

6. SWOT Analysis

The objective of this SWOT analysis is to show the strengths, weaknesses, opportunities and threats that OwnYourPhone will face as it grows.

6.1 Strengths

- A unique idea that will excite and engage an untapped part of the ringtone market.
- Intellectual property rights to exclude competitors from the field.
- Very low operating costs.
- A dedicated, customer-experience-focused management team, with experience in interface design, programming and marketing.
- A functional prototype with real, paying customers.
- People get very excited about the idea and feedback from the public has been nearly universally positive.
- A vision for future growth.

6.2 Weaknesses

- Limited business experience in the management team
- Web site is functional but not yet fully developed
- Currently under-capitalized, which hampers growth opportunities
- A lack of diversity in the management team

6.3 Opportunities

- The potential market is huge and growing, and that growth will continue for the foreseeable future.
- As first-mover in this market, OwnYourPhone has free access to customers and nearly unlimited growth potential.
- OwnYourPhone can grow into related markets, such as custom wallpapers, premade ringtones, SMS services, and games.

6.4 Threats

- The OwnYourPhone patent could be denied or declared invalid, which would open up the competitive market. If this happens, OwnYourPhone faces the following threats:

- - Better capitalized companies could drown out our marketing.

  - More competitors could enter the field.

- The cell phone carriers could decide to prohibit OwnYourPhone from operating on their networks.

- Our service is vulnerable to Denial of Service attacks from malicious hackers. This threat will become less serious when OwnYourPhone hires a full-time systems administrator.

- This service relies entirely on users for the source material for the ringtones, and the ringtones are copied to the phone in much the same users currently copy music to their iPod. Thus, OwnYourPhone should not run afoul of copyright law. However, it is possible that we may face legal harassment from music companies in the future.

- The company is dependant on the physical health of the founders.

7. Management

7.1 Management Team

OwnYourPhone currently has two managers, who share responsibility for the vision of the company.

Daniel Hornal graduated from the University of Washington with a degree in Journalism. His experience includes communications, marketing and public relations work for a labor union and ITTIA, a small but rapidly growing database technology firm in Bellevue, Washington.

Adam Eivy is a Web Developer who has created various rich media applications, digging deep into the habits and concerns of web users through diverse projects involving professional eLearning, non-tech-savvy user interfaces, community growth and social networking. His experiences include Pacific Northwest Graffiti (community for the technically disinclined), Sublime Media (eLearning Course Production), and Premium Design Works (Graphic Design and Programming).

7.2 Management's Missions

OwnYourPhone Co-founder Daniel Hornal thought it was wrong that a few large organizations were telling him what he could and could not do on his cell phone. Co-founder Adam Eivy agreed and put his knowledge of technology and vision for design into the project.

When one invests in a company, one is also investing in the principles of the principals. Adam and Daniel both share some basic philosophies:

1. Technology should increase, not restrict, freedoms

The Internet changed the world because it allowed people anywhere to distribute, for almost no cost, any commercial, artistic or political project that could be viewed or interacted with via a computer. We intend to help extend that freedom to the mobile Internet, which is growing at a tremendous rate and may even supplant the traditional Internet.

2. Don't be evil

It's not just good karma, it's good business. This simple 3-word phrase is what enabled Google to surpass Yahoo, MSN and the other also-rans of the search-engine world. Because of upbringing and circumstance, Adam and Daniel hold this philosophy very close to our hearts. OwnYourPhone intends to be financially successful. But it will be done in a way that is ethical and right by the world.

8. Financial information

8.1 Expenditures to Date

Phone Carrier Network Connections	$7500
Office Expenses	$72.56
Misc	$115.01
Patent	$8638.65
Bank Charges	$52
Advertising	$19.95
Web Hosting	$745.50

Total Expenses to Date: $16,505.02

8.2 Projections and Risks

Predicting financial results for a completely untapped market is an incredibly difficult and inexact science. Given that, OwnYourPhone believes that the market for custom ringtones is approximately 10 percent of the total ringtone market. OwnYourPhone is poised for phenomenal growth, as we intend to capture this market and use our brand recognition and experience to expand into related markets as well.

See Appendix A for tables estimating the OwnYourPhone expenses and growth for 2006-2007. All numbers are in real dollars, and are projected. The "Fixed Expenses" listed have a high certainty level, while the marketing and Salary numbers are dependent on performance.

8.3 Fixed and Variable Costs

OwnYourPhone has the following fixed costs:

1. $1500/month for the contracts with the cell phone companies and shortcode rental.
2. At least $3000/month for the salary of lead developer and co-founder Adam Eivy.
3. A similar salary will also need to be paid to CEO and co-founder Daniel Hornal.
4. Current server costs are $79/month

All other costs are variable and will scale linearly with our customer growth. These costs include transaction fees, additional server costs, office space, support employees, additional programmers and marketing costs. These costs are all shown in the attached financial estimates.

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