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# VeriChip Corporation

**Marketing Plan**  
**by Uri, Senem and Alexis**

# Value Proposition – What?

What are they buying?

A human implantable RFID chip and RFID reader to be used for user authentication in firearms.



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## Value Proposition – Why?

### Why are they buying it?

- Predicted pressure from Public for safety
- Growing concern over the issue of “STRAW PURCHASES”

Straw Purchase: People with clean records purchase firearms for people with criminal records or histories of mental illness.

# Value Proposition – Why?

## Predicted pressure from Public for safety

### How Views on Gun Control Have Changed, 2000-2007 (%)

Issue	March 2000	May 2000	June 2003	Feb 2004	April 2007
More important to...					
Protect Gun Owner's Rights	29%	38%	42%	37%	32%
Control Gun Ownership	66%	57%	54%	58%	60%
Ban on Hand Guns					
Favor	47%	-	-	-	37%
Oppose	47%	-	-	-	55%
Don't Know	6%	-	-	-	8%

Source: The Pew Research Center for the People & the Press

# Value Proposition – Why?

## Predicted enforcement from Obama Administration

Small Firearms Ownership by Political Party Affiliation 2007 (index)	
Political Affiliation	Small Firearms Arms Ownership
Democrat	103
Independent	173
Republican	240
Other	108

Source: Simmons Market Research Bureau, Spring 2007 *Study of Media and Markets*; SBI.

# Value Proposition – Why?

## Need for differentiation

- US Gun Ownership is Strong, but dropping.

(“Public Attitudes Towards the Regulation of Firearms”, General Social Survey (GSS) by National Opinion Research Center (NORC) at the University of Chicago, Aug 07)

- The NORC data show that the percentage of U.S. households that report having any guns in the home has dropped from 54% in 1977 to 35% in 2006.
- Some reason for falling ownership may include....
  - An aging consumer base
  - Decreasing Popularity of hunting and target shooting
  - Increase in the number of female heads of household
- A firm grasp of safety is important to new consumers

# Value Proposition – Who?

## Target Customers

- Gun Manufacturers

200 gun manufacturers operating in military, law enforcement and hunting/sporting segments.

Top 3 Customers:

- Herstal Group - significant military business
  - Glock - dominates law enforcement
  - Smith & Wesson - law enforcement and federal govt. business
- 
- Consumers: 60-65 million gun owners in the US
  - Units: app. 3.7 million guns produced in 2007
  - Dollars: \$2 billion industry

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# VeriChip - RFID for People

- RFID (Radio Frequency Identification) refers to technologies that utilize radio waves for automatic identification
- Saw opportunity in the marketplace during Sept. 11th - recognized the need for personal identification in emergency situations
- Mission: positive impact on people's lives
- The only FDA-approved, human implantable RFID microchip

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# RFID Industry Solutions

- VeriChip's RFID solutions are used in over 5,000 installations worldwide in healthcare, security, government, and industrial markets
- Current Businesses
  - VeriMed - Patient Identification
  - VeriTrace - Emergency Management
- Our New Business Proposal
  - *VeriShot* - Gun User Identification

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# Buying Process

Decision makers: design, development, manufacturing and marketing departments

3 main questions:

1. Can we make the product?
2. Can the customers support it?
3. Will the consumers (ie law enforcement etc.) want it?

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## Can we make the product?

YES

Support:

- We will utilize the same technology currently being used in our VeriMed and VeriTrace businesses

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## Can the customers support it?

YES

Support:

- The industry is highly concentrated - creates the need for unique product offerings
- Gun manufacture requires precision machining and assembly - a typical gun has 50-100 parts
- Inventory control systems are necessary

Possible Issue:

- Manufacturers will have to incorporate implanting the readers into the guns

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# Will consumers want it?

YES

Support:

- VeriShot will be a meaningful and useful tool to law enforcement and govt. agencies as well as individual consumers.
- Straw Purchases - A deterring tool against illegal weapon holders.
- Obama Administration

Potential for saving lives:

- Keeps guns away from children.
- Help to prevent teenage suicides and homicides (eg Virginia Tech Massacre).
- Help to prevent terrorist acts.

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## Additional points

- Despite remarkable progress in law enforcement and decreasing crime rates throughout the '90s, gun fire remains a prominent issue in our society.
- Congress is pressuring manufacturers to create safer guns, childproof guns- smart guns that fire only when an authorized user pulls the trigger.

Gun Murder Statistics					
Year	1970	1980	1990	2000	2007
Murders	13,649	21,860	20,045	14,263	14,831
By Gun Use	9,639	13,650	12,847	9,528	10,086
%	70.6%	62.4%	64.1%	66.8%	68.0%

# Competition

## 2 Main Competitors:

- Axxess International Inc. (Public)
- Precision Dynamics Corporation. (Private)

## Axxess International Inc.

- *ActiveTag*<sup>™</sup> automatic Identification product line: personnel, vehicle, asset monitoring & tracking.
- *Dot* - A micro-wireless technology platform a small, low-cost battery powered wireless computer for identification, locating, tracking, protecting, and monitoring personnel, physical assets, and vehicles.

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# Competition

## Precision Dynamics Corporation

- Bar code and RFID systems. Identify hospital patients, ticket holders in entertainment venues, people in police custody, and Corpses.
- ID bands for animals identification.

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# Competition

	VeriChip	Axcess	PDC
Sales (\$, million)	\$32.1	\$3.4	\$31.5
Sales Growth	17.60%	127%	N/A
Net Income	-\$11.9	-\$4.9	N/A
	Patent Identification Infant Protection Wander Prevention Asset Tracking Equipment Mgmt. Vibration monitoring Emergency Mgmt.	Asset Tracking Vehicles Personnel Sensing (As leaks)	Health Care Animal ID Law Enforcements Crowd Control

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# Place

- Direct Sales Force / Aggressive Sales Quotas

	2009	2010	2011
Number of Sales Force 20 Sales Rep / 1 Account Each 10 Sales Rep / 2 Account Each	30	30	30
Compensation/sales rep (5% increase each year)	\$120,000	\$126,000	\$132,300
Total Salary Exp.	\$3,600,000	\$3,780,000	\$3,969,000
Commission 4%	\$766,040	\$1,352,440	\$1,963,880
Sales Account (Ave. \$1500/month/salesrep)	\$720,000	\$720,000	\$720,000
Sales Rep Expenditure	\$5,086,040	\$5,852,440	\$6,652,880

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# Promotion

- Press Packages to the trade:
  - all manufacturers and secure meetings for demonstration with free samples
  - RFID Journal, RFID Weblog and American Firearms Industry Magazine (AFI)
- Exhibit at trade shows such as SHOT Show
- Advertise in trade journals and magazines such as *Shooting Industry and Guns Magazine*



# Promotion in Numbers & Schedules

## Magazine Advertisement

Trade Magazine / Magazine Advertisements		
Shooting Industry	6 x Cover, 4C, \$5,850/issue	\$35,100
Gun Magazine	6 x Cover, 4 C, \$7,752/issue	\$46,512
American Handgunner	Feb 09, editorial: Safety (\$3,500) Sept 09, editorial: High-Tech (\$3,500) 6 x Cover, 4 C, \$5,300	\$38,800
Gun Digest	13 x Regular one page insert ad (average \$3,000)	\$39,000
Gun World	12 x Regular one page insert ad (average \$3,000)	\$36,000
Gun Hunter Magazines		\$18,000
Guns		\$36,000
Guns & Ammo		\$36,000
Handguns		\$18,000
Rifle Shooter		\$18,000
S.W.A.T		\$36,000
Shooting Times		\$36,000
<b>TOTAL Magazine Expenditure (2009)</b>		<b>\$393,412</b>

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# Promotion in Numbers & Schedules

## Trade Shows

Trade Shows	Date	Cost
SHOT Show	Jan 15-18 2009, Florida, MI	
Sponsorship		
Official Show Bags (for long-term use)		\$12,000
Internet Lounge (for immediate access)		\$30,000
Foot/Back Massage (for something they can remember) "RELAX, no one can use your gun, enjoy the massage...."		\$12,000
Truck/Race Car		\$6,900
Attendee Badge Envelope (4 color)		\$7,700
Registration/Booth		\$5,000
<b>SHOT TOTAL</b>		<b>\$73,600</b>
<b>Budget for 3 Trade Show in Q1 and for 3 Trade Shows in Q3</b>		<b>\$441,600</b>

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# Promotional Materials

Promotional Materials	Cost
Comprehensive Press Release Kit	\$250
200 gun manufacturers	\$50,000
30 Most Popular Gun Magazines	\$7,500
<b>TOTAL Promotional Material Expenditure</b>	<b>\$57,500</b>

Overall Promotion Expenditures for 2009: \$892,512

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# Company Financials Overview

(\$, thousand)	2005	2006	2007
Total revenue	15,869	27,304	32,106
Total cost of products and services	6,395	11,779	14,960
Gross profit	9,474	15,525	17,146
Selling, general and administrative	12,442	17,620	23,514
Research and development	1,958	3,786	4,678
Interest expense	343	868	1,698
1 year T-Bill yield	2%	3.10%	5.3%
Total Expenditure	14,806	22,331	30,112
EBIT	-5,332	-6,806	-12,966
(Benefit from) provision for income taxes (8.14%)	-434	-554	-1,055
<b>Net loss after tax</b>	<b>-4,898</b>	<b>-6,252</b>	<b>-11,911</b>

# 2007 Year Financials

(\$, thousand)	2007		
Product revenue	30,051	93.60%	
Service revenue	2,055	6.40%	
Total revenue	32,106	100%	
Cost of products sold	13,677	42.60%	
Cost of services sold	1,284	4%	
Total COGS	14,961	46.6%	
Gross profit	17,145	53.4%	
Selling, general and administrative expense	23,502	73.20%	
R & D	4,687	14.60%	
Interest expense	1,702	5.30%	
Total Expenditure	30,113	93.10%	
EBIT	-12,968	-40.40%	
Benefit (provision) for income taxes	-1,037	8.14%	
<b>Net loss</b>	<b>-11,931</b>	<b>-43.70%</b>	<b>Losing 43 cents of every dollar gained</b>



# Financials Forecasted/Calculated

(\$, thousand)	Forecasted					2009	
	2005	2006	2007	2008	2008		
Total revenue	15,869	27,304	32,106	41,330	41,330	68,600	Calculated
Total cost of products and services	6,395	11,779	14,960	19,610	19,610	23,280	Forecasted
Gross profit	9,474	15,525	17,146	21,720	21,720	54,806	
Selling, general and administrative	12,442	17,620	23,514	28,931	28,931	34,666	
R&D	1,958	3,786	4,678	6,194	6,194	7,294	
Interest expense	343	868	1,698	1,310	1,310	3,725	
1 year T-Bill yield	2%	3.10%	5.3%	3.17%	3.17%	4.8%	
Total Expenditure	14,806	22,331	30,112	36,435	36,435	45,684	
EBIT	-5,332	-6,806	-12,966	-14,714	-14,714	9,122	
(Benefit from) provision for income taxes (8.14%)	-434	-554	-1,055	-1,177	-1,177	729.7	
<b>Net loss after tax</b>	<b>-4,898</b>	<b>-6,252</b>	<b>-11,911</b>	<b>-15,892</b>	<b>-15,892</b>	<b>0.095</b>	

## How much needed from new business?

(\$, thousand)	Forecasted		Calculated
	2008	2009	2009
Total revenue	\$41,330	\$49,449	\$68,600
Total cost of products and services	\$19,610	\$23,280	\$23,280
Gross profit	\$21,720	\$26,169	\$45,320
Selling, general and administrative	\$28,931	\$34,666	\$34,666
R & D	\$6,194	\$7,294	\$7,294
Interest expense	\$1,310	\$2,359	\$3,272
1 year T-Bill yield	3.17%	4.77%	4.77%
Total Expenditure	\$36,435	\$44,318	\$45,232
EBIT	-\$14,714	-\$18,149	\$88
(Benefit from) provision for income taxes (8.14%)	-\$1,177	-\$1,452	\$7
<b>Net loss after tax</b>	<b>-\$15,892</b>	<b>-\$19,601</b>	<b>\$95</b>

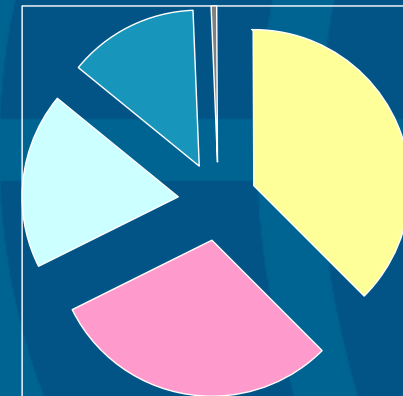
\$19,152

Necessary from implantable tag

# Industry Overview

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Year	Firearm Manufactured in the US (units)
2001	3,000,000
2002	3,400,000
2003	3,300,000
2004	3,100,000
2005	3,500,000
2006	3,600,000
2007	3,700,000
2008	<b>3,757,143</b>
2009	<b>3,818,367</b>
2010	<b>3,977,843</b>
2011	<b>4,125,823</b>



# Big Players in the Industry

Manufacturer	Pistols	Revolvers	Rifles	Shotguns	Total (2009)
Remington	-	-	304,721	294,167	598,888
Smith & Wesson	260,662	185,078	4,650	-	450,390
Sturm,	100,976	115,293	196,472	5,202	417,943
O.F.	-	-	26,912	225,909	252,821
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Marlin	-	-	226,761	-	226,761
Saeilo	23,696	-	5,593	-	29,289
Colt's	15,613	3,256	8,480	-	27,349
Glock	26,542	-	-	-	26,542
<b>TOTAL</b>	<b>996,536</b>	<b>424,339</b>	<b>1,534,489</b>	<b>815,647</b>	<b>3,818,367</b>

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# Possible Price Options for 2009

Market Share (2009)	Total Units (2009)	Targeted Units (2009)	Min. Required Sales (2009)	Price (2009)
10%	3,818,367	381,837	19,152,000	\$50
20%	3,818,367	763,673	19,152,000	\$25
30%	3,818,367	1,145,510	19,152,000	\$17
40%	3,818,367	1,527,347	19,152,000	\$13
50%	3,818,367	1,909,184	19,152,000	\$10
60%	3,818,367	2,291,020	19,152,000	\$8
70%	3,818,367	2,672,857	19,152,000	\$7
80%	3,818,367	3,054,694	19,152,000	\$6
90%	3,818,367	3,436,531	19,152,000	\$6
100%	3,818,367	3,818,367	19,152,000	\$5

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# Price Decision (\$17/unit)

Smith & Wesson		
COGS	\$203,514,105	
Units	450,000	
COGS/unit	\$452	
Net income	\$9,121,114	
Predicted Net Income Holding All Others Constant (i.e. no growth in 2009)	-\$13,378,886	\$50
	-\$2,164,338	\$25
	<b>\$1,597,480</b>	<b>\$17</b>
	\$3,478,388	\$13
	\$4,606,933	\$10
	\$5,359,297	\$8
	\$5,896,699	\$7
	\$6,299,751	\$6
	\$6,613,236	\$6
	\$6,864,024	\$5

Max. they would consider  
 - without loss  
 - without price increase  
 - without growth

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# Possible Price Options for 2009

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60%	3,818,367	2,291,020	19,152,000	\$8
70%	3,818,367	2,672,857	19,152,000	\$7
80%	3,818,367	3,054,694	19,152,000	\$6
90%	3,818,367	3,436,531	19,152,000	\$6
100%	3,818,367	3,818,367	19,152,000	\$5

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# Overall Picture

(\$, thousand)	2009	2010	2011
Market Share	30%	40%	50%
Target Volume (units)	1,145,510	1,988,921	2,888,076
Price/unit	\$17	\$17	\$17
Revenue from RFID	\$19,474	\$33,812	\$49,097
Revenue from others	\$49,126	\$56,462	\$65,133
Total revenue	\$68,600	\$90,273	\$114,230
Total cost of products and services	\$23,280	\$27,604	\$31,492
Gross profit	\$45,320	\$90,246	\$114,199
Selling, general and administrative	\$34,666	\$40,188	\$45,852
Research and development	\$7,294	\$8,671	\$9,864
Interest expense	\$3,272	\$4,338	\$5,186
1 year T-Bill yield	4.77%	4.80%	4.54%
Total Expenditure	\$4,523	\$4,386	\$5,242
EBIT	\$0.088	\$85,859	\$108,957
(Benefit from) provision for income taxes (8.14%)	\$7	\$6,869	\$8,717
<b>Net gain/loss after tax</b>	<b>\$0.095</b>	<b>\$78,990</b>	<b>\$100,240</b>

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# Marketing Budget Determination & Allocation

	2009	2010	2011
Selling, general and administrative cost (\$, thousand)	\$34,666	\$40,188	\$45,852
Rev. from implantable tags	\$19,151	\$33,811	\$49,097
Total Rev.	\$68,600	\$90,273	\$114,230
<b>Rev. % from implantable tags</b>	<b>28%</b>	<b>37%</b>	<b>43%</b>
<b>% cost allocation of marketing budget</b>	<b>\$9,678</b>	<b>\$15,052</b>	<b>\$19,708</b>
Number of Sales Force	30	30	30
Compensation/sales rep (5% increase each year)	\$120,000	\$126,000	\$132,300
Total Salary Exp.	\$3,600,000	\$3,780,000	\$3,969,000
Commission 4%	\$766,040	\$1,352,440	\$1,963,880
Sales Account (\$1500/month/salesrep)	\$720,000	\$720,000	\$720,000
Sales Rep Expenditure	\$5,086,040	\$5,852,440	\$6,652,880
Promotion Expenditures (10% increase each year)	\$892,512	\$981,763	\$1,079,940
<b>TOTAL Sales &amp; Marketing Expenditure</b>	<b>\$5,978,552</b>	<b>\$7,891,688</b>	<b>\$9,743,352</b>

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THANK YOU...

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