

Sales Channels

Company X has realized current sales through the more difficult sales channels – namely reseller referrals, Internet sales, and a small base of pre-existing customers. All of these product sales were to new customers in 2001. In 2002, we are now beginning to receive quotations for repeat purchases.

Because mail order and Internet sales do not let us "get close" to customers, we are experiencing difficulty rising beyond the 10% closure rate.

(This is because most mail order and Internet customers are very focused on getting the rock bottom price on individual security components). Our changes in May, featuring price match policies, and expanded pre-sales support are raising our closure rates gradually. We expect this to continue, and also believe

that this improved service will greatly increase customer retention (as witnessed by e-mails and calls we've recently received extolling our courtesy and support. We are now also receiving many more calls in which "Word of Mouth" is the way that these prospects heard of us. **With new sales staff and a facility, we expect to be able to rapidly improve this situation, by targeting a broader set of customers.**

Today, we realize most of our sales through our manufacturing partners. They have proven to be highly satisfied with our ability to bring closure to their "more difficult leads". They also remain very excited about the professional level of our services and sales processes.

In contrast, products sold through services and via direct sales are not nearly as sensitive to absolute price, and customers demand a highly knowledge technical sales and customer support staff. We believe that focusing on direct sales in the local and

Mid-Atlantic area will allow both the volume of quotations to increase, with a significant increase in closure rate.

We will continue to advertise our promotions through the Internet, as we find this benefits the Internet buyer, and the interested prospect (no matter what sales channel is used). This catalog site was designed for the non-technical business executive who wants to be able to search by need as well as by vendor, location, and product name. For

Sales Channel	Today	6 Months After New Facility	Two Years Thereafter
Retail	0%	15%	25%
Reseller Referrals	90%	50%	30%
Phone Sales/ Telemarketing	5%	5%	10%
Direct Sales (Tech Rep)	0%	20%	20%
Internet Sales	5%	10%	15%

those domestic customers who know exactly what they want or for those visitors that read the accompanying product information on our site, the website offers a one-stop shopping experience for consumers that purchase from Company X's resellers. If the domestic customer wants a product from the catalog using a vendor that ITGS has no relationship with, the customer fills out an "RFQ" form and Company X will contact the vendor on the consumer's behalf. May 2002 – Significant upgrades to buy directly and receive quotes has occurred. Contact Cheryl Campbell, (202) 332-5878 to learn more about our improvements to our point-of-sale systems.

Advertising

Total advertising and marketing costs (selling expenses) typically constitute 13-22% of our monthly operational costs, during this period of growth. Costs are distributed roughly 20% in

Internet advertising, and 80% in direct advertising.

Internet advertising is limited solely to techniques that have worked effectively – namely sponsored links to our product promotions through target search engine queries, and cross-link promotions on related web sites (such as BuyUSA and our reseller vendor sites).

associated with sales staff or our Business Office.

The last six months (of which only the last three have been more active) have demonstrated initial statistics on the relative effectiveness of each advertisement type. The relative performance of the different advertising

Advertising Medium	Average Campaign or Monthly Cost, Where Applicable	Percent of Actual Monthly Budgets	
Conventional			
Direct Mail - Internal Subscriber List	\$200/campaign	5%	
DC Chamber of Commerce - Event Sponsorship	\$500/event	5%	
Newspaper Press Releases	\$500/release	10%	Shown As Percent of Monthly Conventional Marketing Budget
BusinessWire Wire Service	\$500/wire	5%	
Weekly or Monthly Magazines	\$3000/ad	10%	
Direct Sales Literature - Handcarry to Clients	\$1000/ mo	10%	
Direct Mail Campaign - Procured Mail Lists	\$3500/campaign	20%	
Daily Newspaper - Ads	\$4000/newspaper	10%	
Tradeshows	\$5000/event	25%	
Metro Diorama Cards in Metro Stations	\$12000/campaign		
Radio (Ads 2 days per week rush hour)	\$12000/month		
Online			
YellowPages.com - 1 listing	\$39/month	2%	Shown As Percent of Monthly Web-Based Marketing Budget
Search Engine Registration	\$69/month	2%	
Internet Press Releases	\$100/month	5%	
Yahoo/E-Bay/Amazon Store	\$120/month	5%	
IT Global Website Internet Promotions	\$350/ promotion	5%	
WashingtonPost Online Buyers Guide	\$400/month	3%	
External Online Newsletters	\$400/month	10%	
White Paper Posting Services	\$1500 per month		
HTML Email/Newsletter Campaigns	\$1500/campaign	15%	
Sponsored Ads in Search Engines (Google/ Overture)	\$1500/month	50%	
Monthly Magazine - Regional Magazines - Online Edition	\$2000/article	3%	

Advertising Media Types. Cost Information and Prevalence of Usage

Direct advertising cost allocations are shown below, with percentages based on averages during October 2001 – March 2002. Monthly allocations for conventional advertising average \$12,000 per month. Internet marketing efforts average approximately \$2,500 per month. These costs are for advertising only, and exclude selling expenses

methods is shown below. Some advertising media – particularly radio – are believed to be effective, but have not yet been tried until our monthly sales volume increases, and until we get a new facility. We want to host seminars and promotions at our new facility, and will postpone radio advertisements until such time as the facility is ready.

Advertising Medium	Sales Effectiveness	Lead Generation Effectiveness	Partnership Effectiveness	Aggregate Value
Conventional				
Direct Mail - Internal Subscriber List	10	0	0	3.33
DC Chamber of Commerce - Event Sponsorship	0	5	7	4.00
Newspaper Press Releases	3	10	5	6.00
BusinessWire Wire Service	4	8	3	5.00
Weekly or Monthly Magazines	2	5	3	3.33
Direct Sales Literature - Handcarry to Clients	10	8	2	6.67
Direct Mail Campaign - Procured Mail Lists	5	10	0	5.00
Daily Newspaper - Ads	5	5	2	4.00
Tradeshows	7	10	5	7.33
Metro Diorama Cards in Metro Stations	5	10	0	5.00
Radio (Ads 2 days per week rush hour)	3	8	4	5.00
Online				
YellowPages.com - 1 listing	2	3	0	1.67
Search Engine Registration	2	10	3	5.00
Internet Press Releases	3	7	7	5.67
Yahoo/E-Bay/Amazon Store	3	2	0	1.67
IT Global Website Internet Promotions	8	4	3	5.00
WashingtonPost Online Buyers Guide	2	2	0	1.33
External Online Newsletters	3	4	2	3.00
White Paper Posting Services	1	4	1	2.00
HTML Email/Newsletter Campaigns	2	5	3	3.33
Sponsored Ads in Search Engines (Google/ Overture)	6	10	7	7.67
Monthly Magazine - Regional Magazines - Online Edition	2	3	0	1.67

Code: Red/Dark 0-3 = Lower Value
Yellow/Light 4-6 = Medium Value
Green/Grey 7-10 = HIGH VALUE

Service & Warranty Policies

Company X provides installation services and third-level engineering support. While the manufacturers provide first-level troubleshooting, Company X provides the specialty engineering support for the more unusual or complex problems. With purchases, customers receive a limited amount of support (based on number of emails, customer calls, or trouble tickets). Additional support is billed by incident or by time used.

Pricing Strategy/Positioning

Company X takes advantage of its lean overhead structure to deliver quality products at competitive prices. We heavily promote those products for which we have best pricing, but do allow customers to "swap out" components if they feel strongly about another vendor. We also offer special promotions to new customers, and offer a

small discount for credit card purchases (to reduce our day receivables). Product discounts are typically 10-20% below list, with Company X making between 5-15% profit margins on individual component sales (slightly higher on business protection packages).

Service sales result in typical pre-tax profit margins of 25-40% (this varies greatly!), with slightly lower profit margins on managed services, which are priced for volume sales, and increase margins resulting on increased sales.

May 2002 – We experience price "shoot-out" on selected brands. In May, we have made significant improvements in our infrastructure for dynamic pricing, so that we can win sales over our competition, and feature manufacturer's promotions as they are issued.

Competition

The following companies implement, in very different ways, some portions of the business

strategy of Company X. None of these, however, fully implements our business strategy. None of them have positioned themselves for doing business in multiple languages – this is a powerful “edge” for us, nor do most of them have a rich set of manufacturer partners. Very few of them have any logistics capabilities to handle rapid delivery of products. The majority of the companies run information-only sites and deliver consulting hours only; others sell only a handful of specialty products. Others are beginning to act as “honest brokers” of a variety of products, but typically only do so for security niche areas (vulnerability analyses, intrusion detection systems). The Company X strategy has not yet been implemented in full by any competitor, but all the companies below bear watching. The most viable competitors are marked by a square (■).

has changed. They do not sell products or services (3/2002)

www.net-security.org This .org web site points to the same URL as above /www.security-db.com/ in Croatia, hosted at an ISP in Amsterdam.

<http://searchsecurity.techtarget.com/> General content site. Heavy advertising.

<http://www.itsecurity.com/products/products.htm> Could become a good Buyer's Guide, but right now it is solely a list of products with references to other companies. Community Sites – Distributors of Content and Message Boards. Advertising Revenue and Subscriptions.

www.intelbrief.com Information portal with interactive message boards, email subscriptions, and free e-mail (messaging). Overly busy with no discernable business model.

www.anti-online.com Hackers news site with newsletter. Very active online community. Service Brokers – Revenue Based on Subscriptions.

www.onvia.com/usa/home/index.cfm A brokerage for between businesses and government that is not focused on the IT security market, only **Features** general IT. It makes money from match-making, not the direct sales of products or services.

www.security-online.com Formerly, this site looked like it might move towards our business model. But it has now closed shop.

www.sk.com Buyer-Seller Exchange for General IT (3/2001). Today, they have moved back into e-commerce (3/2002). Sells Products From Multiple Vendors or Professional/Managed Services (EXCLUDES MANUFACTURERS)

www.esecurityonline.com This is an excellent content site, but the only managed service they sell is vulnerability assessments and policy framework tools. They do not sell products.

<http://www.europe.f-secure.com/products/> Network and computer security for the mobile market. Need to keep a watch on this newer company. They are European based, and sell only their own products. However, they could easily expand and develop reseller relationships with other vendors. They are Multi-Lingual.

www.idefense.com Useful content site focused only on their corporate products. Excessive graphics makes the site unpleasant to use. (3/2001) Now, they

Company Name

www.infowar.com They call themselves a content-based site, and use product advertising to cover their costs. Appears as if Company is in fiscal decline.

www.securityportal.com Another very cutesy information portal (as of March 2001) that now appears to be out of business.

www.securityfocus.com This site has the product information that could be used to form the basis for E-commerce, but is still postured as an English-only information portal. However, it is rich in content information, and would be able to compete with our Buyer's Guide, if restructured.

<http://www.microsoft.com/technet/treeview/default.asp?url=/technet/security/Default.asp>

Focus

ed on security incident handling and diagnostics. While interactive, it is not similar to Company X's strategy at all.

www.security-db.com This is a very interesting company to watch. It is run by Help Net Security (HNS) out of Croatia. It contains a wealth of product information (138 companies), but is not yet a brokerage for product sales. It appears to be funded only by advertising. (3/2001). Nothing

are a hacker alert company, with international alert services (3/2002).

<http://www.isecure.com/> Sells low-end CD media for antivirus and file protection. Suitable for consumers only, not SME or larger business.

<http://www.computersecurity.com/> Computer security for laptop and computer theft only (physical security)

www.kcfishnet.com

FishNet is a competitor, but is focused on the US Market, and is heavily oriented to firewall and intrusion protection systems. They are on the GSA schedule and realize significant Federal, state, and local government sales. They have posted their numerous affiliate relationships, but have not built a buyer-seller exchange. It appears they may be planning to debut in French soon. This site contains both content and product information. (3/2001) In 2002, they have moved their focus back to professional services (3/2002)

<http://www.oleran.com/security.htm>

Sells primarily managed services, but has several reseller relationships established.

www.securehq.com

This site is a "network security superstore" and could be a competitor to us on raw product sales, based on cost. It has implemented useful shopping features, but focuses on the U.S. market only. This company is a division of Sword and Shield, a company in Tennessee that has some business objectives that overlap with ours. (3/2001) Today they are 16 employees, 1,500,000 in annual revenues. Focused on lower end consumer security products and some SME products.

www.forensics-intl.com

New End Technologies does not directly compete with us, though they do provide a level

of security engineering that is more specialized than other security companies with significant online presence. (3/2001) They maintain their strengths in this niche area (3/2002)

Market Share Analysis

By far the bulk of security products are sold directly from the manufacturer, leaving the burden of product selection to the consumer or the integrator (performing work on behalf of the consumer). Company X is placing its efforts into become a well-known and well-branded distributor of IT Security products, by bringing together compatible products under our IT ARMOR trademarked Business Protection Packages. Company X therefore becomes both a distributor and retail sales outlet for business and government.

Much as has occurred in home entertainment systems, consumers are seeking choice and a wide selection at a competitive price. By offering a wide range of products, combined with online and conventional pre-sales technical support, Company X believes it can realize greater sales volume than simply representing a handful of products. By building sales volume, we can negotiate better discounts with all manufacturers, thereby realizing greater sales with consumers.

