

1999

Business Studies

P925

P1325

JAL

2. Describe five criteria a Venture Capitalist might use for assessing a business. [5 marks]

Write, in terms of these criteria, an assessment of the Apple iMAC project.
[3 points for each criterion]

Answer:

1. Global sustainable under-served market need
2. Defensible technological advantage
3. Strong management team
4. Believable plans
5. 60% IRR – money repaid in third year of trading

The Apple iMAC is a stylishly, low cost (£799) personal computer designed for easy use and setup.

Taking each criterion in turn:

Global sustainable under-served market need

Market Need

There is clearly a market need for an easy to use home computer for the majority.. Penetration of computers in the US is about 40% of households, and less in other countries. Households may have need of multiple machines, one for each family member. Uses include word-processing, email, internet access, education and games. Although there is some move to combine these functions with entertainment in a set-top box, the one-on-one three foot experience is and will remain distinct from the TV experience.

Apple is well placed to exploit this market. The company has good understanding of this market, distribution and reputation.

Under-served

The major competition is from PC systems, which approach the price point, and are becoming easier to use and set-up ("plug and play"). They remain a serious threat, and the multiplicity of manufacturers allow greater resources to be deployed than Apple can make available.

Sustainable

The market is sustainable. Any individual household will exhibit a similar purchase pattern to other brown goods, such as a television or VCR. However the pace of technological change (Moore's Law) mean that continuous innovation and new models will be needed, each model with a comparatively short lifetime.

Global

The market is global, although homologisation and localisation will be needed for each country. Apple is a global company, with worldwide sales and distribution.

Defensible technological advantage

Apple has always maintained control of its technology, and in particular its software. This has, however, been a disadvantage as well as an advantage, in that it has suppressed third party innovation and licensed manufacture, thus requiring the majority of development, manufacturing investment, stock-holding and marketing to come from Apple themselves. This ultimately limits their growth.

Strong management team

Apple is a strong and experienced team, with particular strengths in technology and marketing and distribution. The return of Steve Jobs has given the company a new vision.

Believable plans

Not enough information to assess. However, Apple can be assumed to be a professional and realistic organisation.

60% IRR – money repaid in third year of trading

Not enough information to assess fully

Assume by guesswork:

Sales price:	799.00
Factory price: (60%)	479.40
Cost (30% of factory price)	159.80
Net profit/unit (10% of factory price)	47.94
Annual sales:	1000000 (guess)
Profit	47940000.00
Set-up costs:	25000000.00 (including initial marketing)
Stocking (6 months at cost)	79900000.00
Capital need	104900000.00
Payback time	2.19 years

Decrease of technology price may affect both manufacturing cost and sales price, and may require improved performance over the period.

Overall

The iMAC project fulfils the requirements for a successful business. However the competition from PC's is likely to remain severe.

Apple could consider licensing their technology to other manufacturers to gain more resource and hence faster and greater market penetration.