

**AUSTRALIAN GRADUATE SCHOOL of MANAGEMENT**  
**Strategic and Economic Thinking**

Term 1, 2000

*Case study 2*

***Due: in tutorials on Thursday, 16<sup>th</sup> March, 2000***

Read the following case and answer the questions after it. In this assignment, please be explicit about your assumptions. This is a group assignment. Each member of the group will be given the same mark. For those of you who feel more comfortable with economics, use the assignment to assist those who might feel less competent in the economic way of thinking.

Suppose it is January, 2001. You have done a management project over the summer for a small group of 3 partners trying to set up a dot-com, to be known as SET.com. The web-site will provide financial and marketing advice to other start-ups, so there will be no direct production costs other than researching and writing the material to be provided on the web-site. As part of the project, you have established that the company will face the following costs:

- \$15,000 for computers, phones and a fax machine
- \$1,000 office consumables annually
- \$1,500 for annual subscription fees for an internet provider
- \$10,000 annual advertising fees for advertising their web-site on other web-sites
- \$30,000 for subscriptions to other financial information services

Depreciation on office equipment is  $33\frac{1}{3}\%$  per annum for three years. You also know that each member of the group currently has a job that he or she is considering quitting to work on the project. Greg currently earns \$60,000 a year, Elizabeth earns \$75,000 per year and John earns \$35,000 working part-time (the equivalent of half-time) so that he can stay home and take care of the children the rest of the time.

*Questions*

- 1) If you were an accountant, what would you tell them their annual costs of providing their service would be? What costs have you included to make your calculation? Would your answer be the same if you were an economist evaluating the project? How would the two answers differ?
- 2) Suppose you estimate that demand for their service would be approximately 1000 subscribers in the first year at \$100 per subscription. Would they make a profit? How many subscribers would the company have to have to make a profit? Again, does your answer depend upon whether or not you are acting as an accountant or as an economic adviser?
- 3) You are about to start the second year of your MBA. Suppose SET.com offer you a job with the start-up at a salary of \$80,000. You also have an offer from a consulting firm of \$100,000 in a year's time, provided you finish your MBA. What additional information would you like to assist in your decision-making? Which offer would you take and why? What assumptions have you made in making your decision?
- 4) Does your answer to question 3 change if the start-up offers you \$60,000 plus a share of the profits for the next five years? Why or why not? Does your answer to question 3 change if SET.com offers you \$60,000 plus shares in the company? Why or why not?