



UNIVERSITI PUTRA MALAYSIA

**CAPE ELEGANCE SDN. BHD. ("CESB")
A CASE STUDY**

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CAPE ELEGANCE SDN. BHD. (“CESB”)

A Case Study

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Bibliography



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PART ONE

The Case

It was a monthly affair at BI Walden Management Sdn. Bhd. ("BIW") to hold an Investment Committee Meeting (ICM). The personnel who participated in ICM were mainly the approving authorities such as Lip-Bu Tan (Managing Director for Walden International Investment Group), CC Tang (Managing Director for Walden Singapore), KK Kuah (Executive Vice President for Walden Malaysia), and other Investment Officers; i.e. Norazharuddin Abu Talib (Assistant Vice President), Chang Tat Cyan (Financial Controller), and Rahmat Ismail (Investment Analyst).

During the meeting, the following took place:

Lip-Bu Tan:

Rahmat, we have been looking at Cape Elegance Sdn. Bhd. (CESB) for about a month now. The President did call me yesterday to find out if we decided to support her or not. I promised her that I will



give her an answer next week. Therefore, it is very critical for you to give me your recommendation in three days?.

Rahmat:

At this point, we have gathered substantial information on the Company. However, I do need to really sit down and conduct return analysis and decide to invest in her company or not. Besides, if we were to invest, we need to contribute more on how to help her market her product in order to capture at least 40% of the market share quickly; i.e. in the first year of operation.. I believe, with all the information I have gathered, I will be in a position to put forward a recommendation to invest in CESB or not.



Background on BI Walden Management Sdn. Bhd. (BIW)

BIW's had been invited to invest in CESB. BIW was a venture capital firm. As a venture capital firm, its fundamental objective was maximising return on investment. Means objectives could be multiple such as to support entrepreneur and to help industrialise the country. Please refer to profile on BIW¹.

BIW's normally looked at several criteria for investments as follows:

1. Quality Management Team

BIW believed in investing for long term and in forming strong partnership with company management. BIW actively seek out opportunities to work with experienced entrepreneurs who had successful track

¹ Appendix Four - Company Profile of BI Walden Management Sdn. Bhd.



records and strong local knowledge; and whose objectives were compatible with those of BIW.

2. Product Differentiation

Unique and differentiated products or services was key to achieving sustainable profitability. BIW seek to invest in companies whose competitive advantage would enable them to sustain profitability over a long period of time.

3. High Growth Market

BIW was attracted to high growth markets, coupling good management execution and sufficient capital, emerging growth companies would have a high chance of realising their growth potential.

4. Entry Barriers

The existence of entry barriers would allow a company to build lead time over potential competitors and enjoy healthy profitability. Entry barriers could be in the form of proprietary technical know-how, patents, capital requirement, market access and regulatory requirement.

At BIW, they constantly emphasise "value creation." By applying local market knowledge on a global scale, BIW was in a unique position to create value in its portfolio companies. They did it in a number of ways as described below:

1. Business Opportunities

BIW, as a part of Walden International Investment Group, had presence in the United States, Asia



Pacific and Israel. WIIG seek to maximise the strengths of each region in which it operated.

WIIG created value for its United States and Israeli portfolio companies by introducing global market opportunities as well as minimizing manufacturing costs through leveraging on the cost advantage of having suppliers, sub-contractors, manufacturing and strategic partners in the Asia Pacific.

As the United States was a key export market, WIIG assisted its Israeli and Asia Pacific portfolio companies to penetrate the United States market through formulating competitive strategies, encouraging strategic alliances, joint ventures and merger and acquisition, and arranging initial public offerings.



2. Industry Expertise

WIIG had adopted a strategy of developing expertise in specific industries through its international network of industry advisors and multi-disciplinary investment professionals. This allowed WIIG to offer entrepreneurs a broad range of value-added services; not merely access to capital, but also access to technology assessment, corporate partnership and global distribution.

3. Active, Hands-on Investor

WIIG typically acted as lead investor and played a proactive role in assisting its portfolio companies in formulating and implementing growth strategies. We also served as a sounding board, working closely with entrepreneurs to upgrade management skills, and facilitating strategic marketing, financial planning and technological alliances with international partners.



4. Partnership Approach

Every investment was a long-term commitment and partnership. Successful venture capital investment required not only good initial investment decisions, but also the ability to identify good management and render good support to the management in the development and implementation of growth strategies. WIIG seek to complement management is the execution of these plans.

Background on CESB

CESB was a start-up company embarking on a venture of cable broadcasting. It would be providing infotainment services over TV monitors to hotels, and other commercial areas such as LRT stations, Airport, Bus Stations, Shopping Malls and Hospitals in Malaysia. They would concentrate on hotels for the first year and LRT stations on the second year of operation. The



product will be called CHANNEL 10. Please refer to CESB's Catalogue².

Product Description

The existing in-house hotel channels was not catering to the influential and powerful audience group; i.e. the Malaysian businessmen. The delivery system of these companies did not offer the quality and flexibility that today advertisers require.

CESB would use Channel 10 to deliver traditional goods, services or media into digital product. By utilising the latest in video server technology by IPC, Channel 10 would be the premier narrowcast network in Malaysia.

Channel 10 would distribute and update video and audio programming at hotels, airports, light rail transit stations, bus terminals and service apartments.

² Appendix Five - Catalogue on CESB



The video distribution system relied on central unmanned computer narrowcast to identified locations. This system took advantage of the latest digital development in the broadcasting technology.

All the necessary infrastructure would be provided at the locations and no costs will be lievied on the owner of the premises or the viewer.

The Demand, Supply and Competition

There were 1250 (year 1995) or more hotels in Malaysia. The occupancy rate was around 68.2% which made it a reasonable healthy industry. The number of the hotels rooms at the time was 94,744. The number of visitors from the following counties which were on the top five:



Country	Visitors (1995)
Singapore	4.53 million
Thailand	0.53 million
Taiwan	0.93 million
Indonesia	0.23 million

Table-C1 [*Visitors recorded for various countries*]

The estimated viewership from visitors could be as high as 5.5 to 6 million.

Yet the dedicated hotel cable channel was non-existence. An existing in-room entertainment service was provided by VisionFour which operated video tape players in the hotels. The possibility of a dedicated hotel channel therefore had been surveyed to be attractive to the hoteliers in view of the some what cumbersome service provided by VisionFour.

The targeted hotels were those to whom Telekom Malaysia can provide a fibre connection at the earliest. Based on this and in consultation with Telekom Malaysia, the addressable market was as follows:

CITY	HOTELS	ROOMS	VIEWERSHIP
Kuala Lumpur	41	12,376	467,812
Selangor	10	3,159	59,705
P.Pinang	26	7,096	134,114
J. Bahru	11	2,761	52,182
Kuching	7	2,203	41,636
Langkawi	21	5,656	106,898
T O T A L	116	33,251	755,451

Table-C2 [Viewerships in Hotels in various Cities in Malaysia]

The contents of the media (basically they are media owners similar to TV3, RTM, VisionFour), would be delivered to hotels and other destinations from a main server through TMB fibre optic network. For their service TMB would be paid based on revenue sharing basis. The terms had yet to be agreed upon.

Contents to be aired would be in forms of Video Clips, Documentaries, Box Office movies (Local, American, and other foreign movies). Contents; however, must be

edited by FINAS prior to showing. Contents placed on the network would be targeted for businessmen, holiday makers, and hoteliers for distributions to hotels and mainly video clips for LRT stations.

The Revenue Model

Their revenue would be generated from sales of advertisement slots to advertisers. They would start by charging RM3,000 per 30 second slot which would be aired 30 times in a month and would increase up to RM11,000 when the hotel coverage had reached nationwide.

The Project Economics

The total project cost was estimated to be RM9.8 million. Bank Pembangunan Malaysia Berhad ("BPMB") had in principal agreed to provide a RM5 million in loans to part finance the project. Current paid-up capital



of the company was RM800,000 which would be increased up to RM4.8 million. They had invited several investors and Venture Capital Companies; i.e. MTDC (Malaysian Technology Development Corporation), IPC Corp., Dataprep Bhd, and BIW to take-up up to 30% equity to help them get the Company off the ground.

Financial Projection

The projected sales and profit made by CESB for the next five years were as follows:

(figures in RM'000)

	1996	1997	1998	1999	2000
Sales	286.2	16,218	22,896	26,712	30,528
Profit	(2,336)	3,756	8,708	12,067	14,908

Table-C3 [*Profit and Loss Projection for CESB*]

The profit and loss projection can be graphically illustrated as follows:

