Case Study Guide
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PriSim Mini-MBA Case Study Guide

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Welcome to Your PriSim Course!

Today is your lucky day! You have been selected to be part of the leadership team for a multi-billion dollar manufacturer in competition with several other companies. You and the rest of your management team will have sole control and responsibility for all business decision-making at your organization.

Over several simulated decision periods (each period representing one year) you will manage the entire business. Your mission is simple: improve your company’s performance. You will make long-term (strategic) and short-term (tactical) decisions.

At the end of each period of play, you will receive feedback on your performance – whether you want it or not...

Only time will reveal which Team will be most successful.

Best of luck!
Objectives

Running a company is a complex undertaking. The business simulation has been carefully designed to mirror the realities of running a manufacturing company. By challenging you with this problem in a controlled environment, we will help you improve your business acumen and decision-making skills. Specifically, this exercise has been designed to help you:

- Better understand the “whole picture” of running a company. By the end of this exercise you should be thinking of the company as an integrated system of processes that produce an overall business result.
- Enhance financial acumen and understand how a company makes money.
- Understand the importance of long-term market positioning, strategic thinking, business planning, and how to apply these principles to the management of the business.
- See the longer-term value of customers and the importance of meeting or exceeding customers’ expectations.
- Understand and prepare for changes in the competition and in the marketplace.
- Discuss and apply best practices with peers and business partners.

By design, this course will motivate you to think both strategically and tactically about business. The team that best analyzes the marketplace, their competitors, and their internal operations will outperform the other teams!

What is a Simulation?

Simulations are computer-based models of business processes and dynamics. The information used to design this simulation was taken from real companies operating in the real marketplace. We use this information to create the foundation for the strategic, financial, and operational relationships that you observe on the screens and in your reports.

When this simulation was built, the designers did their best to incorporate the important dynamics of the marketplace. However, simulations are only representations of real organizations operating within a real marketplace. Although this simulation has been based upon the dynamics of an actual company, we cannot account for all dynamics. We limit the scope of the dynamics, and thus your decisions, to focus your time and thoughts on issues that are critical to your development as an effective business decision-maker.

Why Simulate?

- Engaged Learning
- Risk-Free
- Instantaneous Results
- See the Big Picture

“All genuine knowledge exists in direct experience.”
Mao Tse-tung

“I hear and I forget. I see and I remember. I do and I understand.”
Confucius
Why use a Simulation?

We have found simulations to be useful learning tools for four main reasons:

► You learn more because you are engaged in the learning process.

Engagement in the learning process means more than simply listening to someone talk to you about topics such as strategy, financial statements, and competencies. True engagement involves listening, debating, analyzing, and actively applying the subject matter. Studies have found that when people engage in this manner, information retention jumps from 20% to nearly 80%. The knowledge and insights required in today’s business world cannot be fully developed solely through traditional teaching methods, it must be gained through experience.

► The consequences of taking risks are reduced.

Because you are making decisions that may be new to you, you are bound to require some practice. When you are put into the realistic business environment provided by the simulation, you can practice those decisions and gain on-the-job experience without the risk that comes with testing those decisions in the real world.

► You immediately see the results of your actions.

In addition to the opportunity to see relationships you might not normally be exposed to, you also quickly see the effects of your decisions. You have the opportunity to play out your decisions or to alter them based upon new information you receive.

► You see the big picture.

The broad range of business dynamics encountered in a simulation will increase your business acumen. You will be better able to apply the lessons learned from the simulation and to improve your performance when you return to the real world and make real decisions in today’s competitive market environment.

Leading and Managing Your Business

To begin the exercise, you will inherit a company that has had its share of problems. The business was run with no real direction or focus – and it shows in its current poor performance!

Your challenge is to manage and improve the business for a number of decision periods, each period representing one year. During each period, you will:

► Assess the company’s strengths, weaknesses, and current and past performance.

► Analyze opportunities and threats in the external market.

► Benchmark against competitors.
- Set direction and strategy.
- Put your strategy into action.

Each period will last between one and three hours. At the end of each period, the facilitator will collect and process decisions from all the competing teams. The results of your decisions will be distributed back to you for analysis through a variety of reports. Prior to beginning the next period, the instructor and all teams will discuss the results. Teams will then make another set of decisions for the next period.

**Competitive Environment**

Your firm is one of several competitors in the simulated business environment. Revenues are generated through the sale of products to dealers in the simulated world. Industry sales in the most recent year were several million units and minimal growth is expected in the next year given current market and competitive conditions.

This is a “zero-sum game” in which customer demand is awarded to the companies with the best value proposition as perceived by the customer. The management team that runs the best company over the simulated years of competition wins!

**Business Areas in the Simulation**

The information and decision sections of the company you have inherited are shown on the opening screen of the simulation (see Business Areas in the Simulation below). You can access any of the areas in any order. Be aware that making decisions in one area will likely impact many of the other areas.

We recommend that you take a very customer-focused approach in your entire decision making process. A customer-focused approach in which a company strives to understand customers’ needs and wants while also striving to establish better relationships will yield a much higher rate of success in the marketplace.

Information and decision screens are grouped into the following sections:

- **Startup** – Presents a briefing on the competitive environment and starting-point. However, much of the information in the briefing section is already covered in this Case Study Guide.

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- **Internal Analysis** – Contains your firm’s financial statements, product cost, marketing, distribution, and manufacturing data from the previous year. This detailed information is only available to your team.

- **Market** – Provides information about general economic conditions and about customers. In addition, there are several reports that will help you understand customers’ needs and wants. This information is available to all teams; however, some of the reports must be purchased (with simulated money) to be viewed.

- **Competition** – Reports contain detailed information about you and your competitors — products, market share, technology, marketing communications, distribution, production, and financials. These reports are available to all teams.

- **Tools** – Offers detailed market research reports and studies including customer segment, focus-group, development-concept and market-testing, and competitive comparisons. Parameters can be selected as you design the reports; several of the reports must be purchased to be viewed.

- **Decisions** – After studying the information in the sections above, you and your team will enter your decisions in this section of the simulation. You will make decisions in all areas of the business including technology, product development, marketing, distribution, manufacturing, and finance.

- **Decision Analysis** – Once you’ve made your decisions, use the pro forma data in this section to project your firm’s performance. If needed, you can go back to the Decisions screens and modify any of your decisions. You will also be alerted to any incomplete decisions on the Decisions Alerts screen.

Note: Any time you see a word in the simulation that is in blue-font and is underlined you can click on it to get additional information or to make decisions.
**Internal Analysis**

You will be running your company for several competitive rounds. Thus, as with any company in the real world, it will be important that you understand the results of the decisions you have made in each prior year. In the Internal Analysis section of the simulation, you can access reports summarizing your company’s decisions in previous competitive rounds along with the associated outcomes.

Historical information available to you includes the following. This detail is available only to your team.

- Performance Summary – Key financial and operating ratios.
- Marketing – Pricing, advertising, attribute levels, and market share results.
- Distribution – Regional coverage, sales, and dealer-ratings.
- Manufacturing Details – Overall production capacity and product-level production, sales, and inventory data.

**Market Analysis**

Successful business development requires that you have a deep understanding of your marketplace and your customers. The Market Analysis section of the simulation includes key information in the following areas. This information is available to all teams; however, some of the reports must be purchased (with simulated money) to be viewed.

- Industry News – Highlights selected significant events that happened during the previous round of competition.
- Economic Outlook – Projected GDP growth, inflation, interest rates, gas prices, and aggregate products sales.
- Vehicle Classes and Regional Analysis – Descriptions of products offered and sales in each class of vehicle. Summaries of product sales by region.
- Consumer Segments – Segment details including descriptions of customers’ needs and wants and market share by competitor.
- Consumer Customers – Customer details for each segment by desired classes of vehicle. Demand projections, expected price ranges, hot buttons, and product sales by market share.
- New Customers – New segments may be identified as customers’ needs change and as new products are introduced. New products that interest one of these new customer segments may entice them to emerge and create new demand. Only one new customer can actually emerge and begin purchasing products in any given period – and there is no guarantee they will do so!

**Consumer Segments and “Consumer Customers”**

One of the key strategic questions you will need to address with your team very early in the competition is which markets and customer segments you will build your business around.
Customer segmentation has already been completed for you in the simulated marketplace. Each customer segment has specific and unique requirements and/or expectations with respect to the product and non-product features they deem important.

Your challenge is to determine which segment(s) you will target. Recognize that it takes time to build awareness with any of the customer segments in the marketplace.

Specific segments of “consumer customers” (as opposed to “business customers”) are labeled 1 through 5. These customers desire different product classes. As an example, 1E customers are Value Seekers (1), who prefer an Economy (E) class of vehicle. For other customers, there are two product classes that they may desire. However, in both cases, if the customer finds another product class that provides a better solution to their needs and budget, they might purchase that other product instead.

Note: Click on a segment name to get a detailed description of that segment. Click on a consumer customer name to get details specific to that consumer/product pair including demand projections, expected price ranges, and other details. However, carefully consider what information you will actually use as there is a charge for each Consumer Customer Detail report.

- **Value Seekers (1)** – Basic transportation needs, price sensitive, and concerned about safety and quality.
- **Families (2)** – Basic transportation needs, people and cargo-carrying capabilities, price sensitive, and concerned about safety and quality.
- **Singles (3)** – Young, high disposable income, and interested in styling and performance.
- **High Income (4)** – Families, professionals, and retirees with high disposable income. Highly value product features and good performance.
- **Enterprisers (5)** – Vehicle is an extension of business and personal aspirations and is used for business transportation and to impress clients.

**Vehicle Classes**

Products have been broken into eight classes. Each of these classes represents a unique configuration that will require a significant expenditure for any new developments you choose to undertake. Remember that there are underlying customer needs met by these product classes. For example, a minivan meets the need for family transportation plus cargo room in a fairly economical package.
The Classes include: Economy (E), Family (F), Luxury (L), Sports (S), Alternative Energy Vehicle (A), Minivan (M), Utility (U), and Truck (T)

Note: Click on the product class name to get details of the products sold in that class, and click on Description to get details of the ranges of expected prices and attributes for the class of vehicle.

Customers’ Needs and Vehicle Attributes

Each customer has specific desires that can be measured and compared in each product’s attributes. These desires have been identified and are summarized as follows:

- **Size** – Length and width of vehicle including passenger and cargo space.
- **Performance** – Engine horsepower.
- **Interior** – Comfort, vision, instrumentation, music systems, and ergonomics.
- **Styling** – General curb appeal, styling, handling, finish, and workmanship.
- **Safety** – Structural design, braking systems, and safety features.
- **Quality** – Overall reliability, durability, and consistency of products.

Each attribute has a feasible range that can be designed and built by a firm. The interior, styling, safety, and quality attributes have a maximum value dependent upon the firm's technical capability in that area.

Customers consider all attributes when deciding which product to purchase. Of course, the overall appeal of the product is weighed against the price the customer will ultimately pay. This trade-off between price and appeal is what creates value in the mind of the customer. Each customer has different needs and also places a different importance on each need. Some attributes may be very important to the customer (“hot buttons”) while others are less important. In some cases, customers may want more of an attribute, in other cases; they may have a particular ideal in mind. Thus, sensitivity to any attribute is customer-specific; a higher level of an attribute, engine-performance or size for example, is not always better. Customers’ decisions may also be impacted by their knowledge of the product (awareness), experience at the dealership (dealer rating, dealer coverage), and special promotional offers and activities.

Another way to get an overview of customers’ needs and how competing products compare is through the use of a two-dimensional Position Map, available to you in the Customer Detail section of the simulation. A position map is available for each vehicle class, competitor, and customer in the market (see example below). The axes of the map are size and price, and each legend is specific to that position map and to that period. Products are listed in descending order from highest to lowest market share for that customer. Note that the first letter of each product-name matches the first letter of its manufacturer’s name for easy identification.

By placing customer segments and available products in this space, one can quickly see how competitors are positioned in relation to size and price. Obviously, there is more to consider than just size and price, but a Position Map is one place to start.
**Competition**

In business planning, knowing your own strengths and weaknesses provides only a portion of the answer. You also need to have an understanding of the strengths and weaknesses of your competitors and how you compare with them. Only then will you have enough information to develop plans to out-maneuver them.

The Competition section of the simulation provides several reports outlining the competencies and relative positions of each competing company. These reports are available to all teams.

Reports include:

- **Products** – List of products offered by each competing company along with pricing and details about features. Click on a product name to get product details; click on the vehicle class name to get a detailed description of the ranges of expected prices and attributes for the class of vehicle.
- **Market Share** – Firms’ share by class of vehicle.
- **Technology** – List of competitors’ development capacity to design and introduce new products. Technology competency levels by firm in interior, style, safety, and quality.
- **Marketing Communication** – Comparison of each company’s corporate-level marketing efforts and product-level advertising and promotion spending.
- **Distribution** – Information on number of dealerships, regional spread of dealerships, dealer training, and dealer rating.
- **Manufacturing** – Production capacity, utilization, and inventory levels. Click on a firm name to get additional manufacturing data by product and new production capacity coming on-line.
- **Financial Summary** – A summarization of performance measures for each company including overall market share, customer preference, sales, R&D, profit, and stock price. Click on a company name to access Income Statement and Balance Sheet details.

Note: All data in the Competition section is as of the end of the previous round.
**Tools**

The Tools section of the simulation provides access to detailed development-concept testing, market-testing, and competitive-mapping analysis tools. Most of these reports will need to be purchased to be viewed, so carefully consider what information will actually be useful to you. In addition, be aware that using these tools will use up time during the round. You might consider waiting to use the tools until after the first round of competition.

Note: Results shown in the reports in this section are only estimates based on historical data up through the last completed round and test market data and thus don’t reflect competitive or other market factors.

Reports you can access are:

- **Sales by Customer** – Provides purchase detail for any existing product sold in the marketplace, your firm’s or your competitor’s. Percent of sales is shown by consumer customer type, providing key insights into whether targeted customers are purchasing a specific product or whether “unintended” customers are actually doing the buying.

- **Focus Groups** – Shows the results of facilitator-moderated focus group sessions run with consumer customers currently buying products in the marketplace. The customers’ desires and feelings regarding competing vehicles’ size, price, attributes, and “hot buttons”, or most-important attributes, are detailed for each product that the customer segment has purchased.

- **Concept Tests** – Once your firm has developed a new-product concept in the Product Development screen in the Decisions area of the simulation, you can test that concept at a specific price-point with a specific customer group. The results of the study will be in the format that the focus group reports; that is, the customer group’s desires and feelings regarding the concept’s size, price, attributes, and “hot buttons” will be detailed. Note: You will be charged for each concept test that is run at a different price point, even with the same customer group.

- **Competitive Mapping** – Allows you to assess competitors’ movements on key decision variables by creating a map showing two products plotted against two dimensions, or attributes. You can choose to plot either one of your products vs. a competitor’s or two competitors’ products vs. each other.

- **Test Market** – Gives you the ability to test the potential impact of different price, advertising, and promotion levels for any of your existing products in the marketplace. The impacts on awareness, unit share, market share, and net product contribution are shown and are compared with levels at the current “baseline” levels of price, advertising, and promotion. Note: You will be charged for each test you run, even if the same product is used.

- **Portfolio Analysis** – This tool gives you a snapshot of your firm’s relative market share in your target markets versus each product market’s growth rate, or attractiveness. The “4-block” map also shows each of your products’ relative size in terms of revenue generated for your company. The map is presented in the Boston Consulting Group (BCG) format and uses the associated quadrant-labels of star, cash cow, dog, and question mark. The map can be generated either using vehicle classes (e.g., Economy, Family, Truck) to define the market or using consumer customers (e.g., 1E, 2F, 1T) to define the market.
**Decisions**

The Decisions area of the simulation is where you and your team, after studying the information in the sections above, will enter your decisions. You will make decisions in all areas of the business including the following. Each of these areas is further described in the sections below:

- Technology – Increase your firm’s competencies in interior, styling, safety, and quality attributes.
- Product Development – Develop new products and add product development capacity through new development centers.
- Marketing – Manage your company’s corporate-level and product-level marketing including regional corporate advertising, direct mail, public relations, and product advertising, promotion, and pricing.
- Distribution – Open or close dealerships by region, set dealer training and support budgets, and analyze coverage and dealer-rating metrics.
- Manufacturing – Increase or decrease overall production capacity and establish production levels for each product.
- Financing – Analyze stock price, share volume, bond ratings, and short-term and long-term interest rates. Issue or call bonds, issue or buy-back stock, and set dividend levels.
- Decision Summary – Once you’ve entered all of your decisions, you can view a summary and print it for reference in later rounds.

**Technology**

Each firm in the simulated world has technological capabilities that parallel the customer needs of interior, styling, safety, and quality. These are rated from 1 to the current maximum, where 1 equals a low rating on that attribute and where the maximum varies by period and by firm investment.

Firms can expand their capabilities up to current technology limits through investments in technology capabilities. These investments provide two advantages:

- The ability to develop products with enhanced features.
- Lower costs to develop a similar set of characteristics. For example, a firm with technology capabilities of 8, 8, 8, 8 (interior, styling, safety, quality) would be able to produce a 4, 4, 4, 4 product at a lower unit-cost than a firm with a technology profile of 6, 6, 6, 6.

A product with higher ratings on these attributes within the same class is more appealing to the customer – assuming the attribute is valued and that the price is right – and will generate higher customer preference ratings. Customers may find a particular attribute more important than other attributes depending on their needs. Customers weigh these attributes against the price of the product, and also consider the size and engine-performance of the vehicle. Remember that sensitivity to any attribute is customer-specific; a higher level of an attribute, engine-performance or size for example, may not appeal to all customers.

Note: Investing in technology does not automatically increase the specifications of your products, but it will influence customer preference.
Product Development

In this section of the company, you will have the opportunity to develop new products and to add product development capacity through new development centers.

As is the case in the real world, product development can be expensive, time consuming, and risky. However, the reward of having a leading product is often well worth the investment. Additionally, the risk of falling behind in terms of styling, performance, and appeal can be dangerous. The product development department calls a particular set of design attributes a “platform”; platforms may ultimately become products in the market.

Each firm has a limited number of product development centers that affects its ability to work on multiple development projects concurrently. You can add one development center in each period of competition to increase your development capacity, but you cannot decrease them once you’ve added them. This investment includes hiring more product development engineers and expanding R&D facilities. More development centers allow a firm to work on more new platforms or upgrades at the same time.

There are two types of product development projects. Each of these options has different costs and development time-frames:

- **Upgrades** – to make small changes in an existing product’s attributes.
- **Concepts** – to design a new product.

Upgrades allow you to “tweak” the specifications of existing products, and may lower your production costs. Minor Upgrades only allow you to make small changes to the product’s attributes, but the results will be immediate. Major Upgrades allow deeper changes, but these will take a year to complete.

- **“Minor Upgrade”** – Same Class, Based on Existing Platform, Same Target Customer. Sales in the Current Year (This Period), Development Center Occupied for One Year.

  A minor upgrade to an existing vehicle is completed and launched in the current decision period and normally costs in the range of $100 to $300 million, depending on the significance of the upgrade. A minor upgrade will have lower unit cost and/or enhanced product attributes. For example, Firm A markets a family vehicle (Alfa) with characteristics 2, 2, 3, and 2. Upgraded characteristics might be 3, 2, 3, 3, with changes to the horsepower and size as well. The maximum change for a minor upgrade is 1 on each of the four vehicle specifications, 5 on HP, and 2 on size. If you choose to upgrade a vehicle, any current inventory will be sold off in a secondary market outside the simulation at a loss.

- **“Major Upgrade”** – Same Class, Based on Existing Platform, Same Target Customer. Sales in One Year (Next Period), Development Center Occupied for Two Years.

  A major upgrade to an existing vehicle is completed and launched in the year following when it is begun and normally costs in the range of $250 to $750 million depending on the significance of the upgrade. For example, Firm A currently markets a family vehicle (Alfa) with characteristics 2, 2, 3, and 2. Upgraded characteristics might be 4, 2, 3, 4, with changes to the horsepower and size as well. The maximum change for a major upgrade in the first year is 2 on each of the four vehicle specifications, 20 on HP, and 10 on size. Attributes can be adjusted in each development year. If you choose to upgrade a vehicle, any current inventory will be sold off in a secondary market outside the simulation at a loss.
Developing a new Concept will allow you to develop brand new products, either in product classes in which you already have products or in product classes that are totally new to your company. You will first create the Concept, defining the attributes of the product, running test marketing studies, and potentially modifying it as needed. When you are satisfied with the Concept, you will then move the Concept out of testing and into development.

- **“New Product Concept – Existing Class” – Same Class, New Platform, Possibly New Target Customer. Sales in One Year (Next Period), Development Center Occupied for Two Years.**
  A firm can choose to develop a new product in a class where it has experience, starting from a new concept rather than upgrading an existing product. This option is completed and launched in the year following when it is begun and normally costs between $250 million and $1.5 billion to complete, again depending on the particular characteristics. For example, Firm A currently markets a family vehicle (Alfa) with characteristics 2, 2, 3, 2. Firm A decides to come out with a totally new, higher-end, family class product named Aphid. Attributes can be adjusted in each development year. At launch, there will be no brand awareness for the product, since it will have a new nameplate.

- **“New Product Concept – New Class” – New Class, New Platform/Product, Possibly New Target Customer. Sales in Two Years (The Period After Next Period), Development Center Occupied for Three Years.**
  Another more expensive development option is for a firm to develop a new product in a class in which it has no experience, making it necessary to start from a totally new concept. This option is completed and launched in the second year following when it is begun and normally costs in excess of $1 billion. As an example, Firm A currently markets products in the economy, family, and sports product classes. They decide to develop a product in the truck category. Attributes can be adjusted in each development year. There will be no brand awareness for the product at launch, since it will have a new nameplate.

Several points regarding new product development should be kept in mind:

- In all of the platform development options, a development center will still be occupied in the launch-year.
- You can perform a minor upgrade to a platform in the year you launch the platform’s major upgrade or new product development project.
- A New Concepts that you’ve created will only last for the duration of the round you are currently in. It must be moved to the development phase in the current round or it will no longer be available for you to develop.
- A firm should also recognize the potential need for additional production capacity in the year prior to product introduction, as new manufacturing capability takes a year to come on-line. When the new or upgraded product is launched, the factory will have to undergo retooling. These costs will be reflected as an additional Plant and Equipment investment, and will be depreciated. Please refer to the Manufacturing section below for more details on production.
- Your firm’s ability to design products matched to consumer customers’ needs (e.g., size and performance) is determined by your firm’s technology competencies. If a proposed development design does not meet your expectations, consider waiting a year, building your competencies, and trying again.
Note: The Tools section of the simulation offers detailed development-concept and market-testing analysis tools; most of which need to be purchased to be viewed.

**Marketing**

There are two types of marketing activities available to your company: corporate-level marketing; and product-level marketing. These marketing efforts are a key driver of customer preference levels, which indicate overall feelings regarding vehicles’ size, price, attributes, and “hot buttons”. Higher customer preference levels give your firm a competitive edge in your targeted markets.

At the corporate-level, you make several marketing decisions including:

- Advertising on a regional level to create general awareness of the firm and to support dealerships. This can help generate a corporate identity to support product-level advertising.
- Public Relations work to generate interest in the firm, support publicity events for the firm, and to build investor relations.
- Direct Mail can be used to generate interest within a particular customer segment.

At the product-level, you also make several marketing decisions. Product-level marketing plays an important role in establishing product awareness and shaping consumers' perceptions of products.

- Advertising budgets and themes to build and maintain awareness. Without adequate customer awareness, even a great product at a great price will fall flat. Awareness builds over time, and newer products will require a larger advertising budget. The majority of the budget is spent on media buys, with the remainder on the creative input and theme. The theme emphasizes one of the primary characteristics of the product – performance, interior, styling, safety, or quality. You should attempt to match the advertising theme with the "hot buttons" of your target consumers.
- Promotion spending at the product-level to drive increased sales of mature products during slower periods of demand. This includes funds for brochures, advertising in support of incentive programs (e.g., 0% financing, cash-back at time of sale), mailings, trade shows, rebates, motivational contests, and other sales incentives. The promotion incentive is provided to the dealer or to the consumer through the dealer.
- Pricing is also a critical component of your product-level marketing decisions. Keep in mind that, depending on the context, the word “price” can have several meanings.

You will set your MSRP (Manufacturer's Suggested Retail Price), which is the price that is posted on the product. However, MSRP is rarely the price that the customer actually pays. Average Retail Price is the average of the actual price that customers pay. This price includes promotional discounts, negotiated discounts, dealer mark-ups, etc. The Dealer Invoice is what the dealer pays your firm for the product, and is calculated based on a “Dealer Discount” off of MSRP. Thus, dealer invoice is your firm's actual revenue, not MSRP or retail price. The Manufacturing Cost of the product is the variable cost associated with the production of the product. The dealer invoice less the manufacturing cost is the margin the manufacturer receives for each sale.

- You can also discontinue any of your existing products at any time, however, any current inventory will be sold off in a secondary market at a loss.

Note: The Tools section also offers detailed market research reports and studies including customer segment, focus-group, market-testing, and competitive comparisons.
**Distribution**

While the purpose of advertising and promotion is to generate interest, create an image, and communicate information about the product, it is the dealership that actually makes the sale and provides follow-up services.

In the simulation, each firm has a captive-dealership relationship organized on a regional basis. You will need to decide:

- How many dealerships to open or close in each region each period. In any period, you can add or remove up to 10% of your existing dealerships.
- What your budget will be for training and support.
- The dealer discount you will offer off of your suggested MSRP (set by product line in the Marketing decisions section of the software).

The profitability and success of a dealership depends to a large extent on the popularity of your firm’s products. However, “Coverage” percent also plays a role. Coverage percent refers to the number of dealerships you currently have established in a region compared with the number of dealerships that would constitute full coverage. You should look to the sales, gross profit per dealer, and coverage levels as indicators of the appropriate balance of dealerships:

- Having too few dealerships can leave smaller markets uncovered.
- Having too many dealerships can lead to poor results due to sales being spread too thinly across dealerships and overly competitive pricing within regions.

Dealer ratings (1-100) indicate a customer satisfaction index at dealerships, and provide insight into the success of dealerships. These ratings are critical to the success of your company; poor ratings can lead to poor sales of otherwise attractive and well-positioned products.

- Training, support, dealer discounts off of MSRP, service revenues, quality products, and dealer profitability can impact dealer ratings.
- Excess inventory may lead to lower average retail price and also to lower dealer ratings.

**Manufacturing**

Production and manufacturing decisions involve setting production levels for each product line and building or selling off capacity as needed.

Keep in mind the following as you manage this area of your business:

- You will need to set production volumes for each product selling into the market in each period. These volumes should be based on sales forecasts and inventory levels; you set sales forecasts in the Pro Forma section of the Decision Analysis area of the simulation (see below).
- Changes in capacity, up to 50% of existing capacity, may be implemented at any time, and any increase or decrease takes one year to take effect. Thus, additional capacity is available for production in the year following the request for the increase. The original costs of the capacity are shown on the Balance Sheet under Plant and Equipment, with accumulated depreciation shown below it. Depreciation is expensed each year on the Income Statement.
- Firms may choose a flexible production option that increases or decreases production by up to 10% from the firm’s target production value depending on demand. If demand is greater than
your supply of products for sale, and if the flexible production option is selected, production will be increased up to 10%. If your supply of products for sale is greater than 120 days and the flexible production option is selected, production will be decreased by 10%.

- Firms can produce above their current production capacity by running extra shifts and paying overtime. In this case an over-capacity charge will be incurred as an extraordinary item on the Income Statement.
- If production volume is insufficient for demand, consumers who are unable to purchase a product at the end of the period may postpone their purchase decision until the next year – or they may instead purchase one of your competitor’s products!
- When the production level on a line is increased from the previous period, the production capacity to be used for that product is retooled and updated. This retooling and updating effort is reflected as an investment and an increase in the Plant and Equipment line item on the Balance Sheet. Lower plant maintenance costs are likely when the factory is retooled and updated.
- The estimated unit cost for production of a product line is driven by production volume, technology capabilities, and your firm’s experience.
- Inventory levels should be considered when deciding on production volume for the current year.
- If a product is being upgraded or discontinued, any current inventory will be sold off in a secondary market at a loss.

**Financing**

Management of the company’s financials is essential. In addition to choosing among investments in technology, manufacturing capacity, retooling, and platform development, a firm must also manage its cash flow, its capital structure, and investor expectations. Sources of cash include cash from operations, from issuing stocks and bonds, and from short-term borrowing.

Information available to you in this section of the simulation includes the following:

- Stock price and number of shares outstanding.
- Bond ratings.
- Short-term and long-term interest rates.

Decision options available to you include:

- Issue 10-year bonds, which will be callable (can be paid off) after 3 years. Be aware that you will pay interest on the bond in the year you pay it off. The interest rate will reflect the current credit rating for your company. AAA-rated bonds offer the lowest investment risk and thus the lowest interest rate.
- Issue new shares of stock. This has the benefit, compared to bonds, of not creating interest expense. However, one drawback is dilution of the value of shares of stock that may lower the share price. You can also re-purchase, or buy-back, shares of stock from the market.
- Set dividend levels to distribute cash to shareholders.
Note: Your firm may be forced to take on Short Term Debt if you need cash and neither of the first two options is exercised, issuing bonds or stock. This will be done automatically for you if it is needed. Short Term Debt typically demands a higher interest rate than Long Term Debt.

**Decision Summary**

Once you’ve made your decisions, you can view a summary on this screen and print it for reference in later rounds. In addition, decision “alerts” may be shown here to inform you that you have not made changes or decisions in specific areas of the simulation.

**Decision Analysis**

Once you’ve made your decisions, use the pro forma data and reports in this section to project your firm’s performance. In addition, you will enter your projected sales forecast for each product you are producing. Your decisions in this period and your sales forecasts together are the foundations and drivers of all of your other pro forma reports, including your Income Statement and Balance Sheet.

If needed, you can go back to the Decisions screens and modify any of your decisions. You will also be alerted to any incomplete decisions on the Decisions Alerts screen.

Note: Remember that your pro forma reports are based on forecasts and that actual results will likely differ based on market conditions and competitor actions that you are not yet aware of.

Performance reports that you can access include the following:

- **Consumer Sales Forecast** – Enter a sales forecast for each product you are selling. These forecasts will drive the financials shown on all the other reports in this area of the simulation.
- **Inventory Forecast** – Projections of inventory and retooling costs based on your scheduled production levels and your sales forecasts.
- **Income Statement** – Sales, cost, and profit projections based on this period’s decisions and your sales forecasts.
- **Balance Sheet** – Forecasted asset, liability, and shareholder equity levels based on your decisions and your sales forecasts.
- **Cash Flow Report** – Summary of projected cash flows from operations, investing, and financing activities.
- **Product Contribution Report** – Projected profitability (contribution) for each product line is shown in two ways: aggregated by total sales for a particular product line; and on a per unit basis. Per unit contribution figures are shown in both dollars and in percentages (margin).
Appendix: Situation Analysis

Prior to making decisions for your company, it would be wise to perform a situation analysis to increase your understanding of your company and the market it serves. This is known as an “As-Is” analysis.

Once you have completed the “As-Is” analysis, you will be in a better position to define your long-term objectives for the company (the “To-Be”) and to identify the gaps that exist and that must be addressed to achieve your objectives.

When performing a situation analysis of your business, you should look through each of the screens of the simulation. At the end of this activity, your team will have a greater understanding of your company and the marketplace. Feel free to document the results of your analysis in a format that your team has agreed upon (i.e., a SWOT matrix might be useful; a brief description follows).

SWOT Analysis

The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. The SWOT framework is commonly used as part of an organization’s planning activities. SWOT is used to identify key elements in:

- **Internal Organizational Capabilities** – What are the things that the organization does well? What are the things the organization does not do well? These are the internal strengths and weaknesses.

- **External Environment** – What are the favorable conditions in the external business environment? What are the unfavorable conditions? These are the external opportunities and threats.

The identification of these factors can help an organization develop specific goals and strategies to address the realities of the current internal and external business environment.
Appendix: Decision Map

Decision Analysis:
Once you've made your decisions, use the pro forma data in this section to project your firm's performance. If needed, you can go back to the Decisions screens and modify any of your decisions. You will also be alerted to any incomplete decisions on the Decisions Alerts screen.