

# The Business Challenge™

Case  
Study  
Guide



# The Business Challenge™

**FIRM DECISIONS**

- Corporate Advertising (By Region, Themes)
- Social Media
- Direct Marketing (Budget, Target Segments)

**PRODUCT DECISIONS**

- Pricing (MSRP, Dealer Discounts)
- Advertising (Budget, Theme)
- Promotion

**FIRM DECISIONS**

- Dealer Openings / Closings (By Region)
- Training and Support

**PRODUCT DECISIONS**

- Distribute in Market

**FIRM DECISIONS**

- Technology Investment (Interior, Styling, Safety, Quality)

**PRODUCT DECISIONS**

- Vehicle Upgrade (Major, Minor, Cost Reduction)
- New Vehicle (Create Concept, Move to Development)



Decision Alerts!

Market research reports

**FIRM DECISIONS**

- Sell Stock
- Issue Bonds
- Borrow / Repay Loan
- Purchase CD
- Distribute Dividends

**FIRM DECISION**

- Capacity Change

**PRODUCT DECISIONS**

- Schedule Production
- Distribute in Market

## Decision Map

# Table of Contents – Case Study Guide

Welcome to The Business Challenge™ .....4

Objectives of This Course .....4

Learning Through Simulations.....4

The Process and Competition “Periods” .....5

Leading and Managing Your Business .....5

Market .....6

Results & Decisions .....8

Decision Analysis .....17

Competition.....18

Tools .....18

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The Business Challenge™ Case Study Guide

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## Welcome to The Business Challenge™

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Ready to run a manufacturing company? Good. Because you have been placed on the leadership team of a computer-simulated company in competition with other teams. You and your team will have sole control and responsibility for all decision-making.

In this live, interactive “business laboratory”, you will run your company over several simulated periods of competition. Your mission is straightforward: improve company performance. In doing so, you will make long-term (strategic) decisions and short-term (tactical) decisions.

At the end of each period, you will receive feedback on your performance. The management team that runs the “best” company will win the competition!

Our goal in this class is to develop your business acumen including your strategic thinking, financial skills, leadership, and business decision-making.

Good luck!

## Objectives of This Course

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Running a company is a complex undertaking. This simulation you will use in the course has been designed to realistically challenge you with this task to improve your business acumen and to:

- ▶ Better understand the “whole picture” of a business.
- ▶ Think of a company as an integrated system of processes that produce an overall business result.
- ▶ Build your financial skills, and understand how companies make profit.
- ▶ Develop your skills in strategic thinking, business planning, and market and competitor analysis.
- ▶ Recognize the “lifetime value” of customers and the importance of meeting their needs and wants.
- ▶ Understand that competitors and markets are constantly changing and evolving.
- ▶ Cultivate your leadership and teamwork skills.
- ▶ Share and discuss best practices with peers and/or business partners.

## Learning Through Simulations

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The data and information used to develop this simulation were taken from real-world companies. The strategic, financial, and operational relationships that you observe on the computer screens and in your reports were derived from that data and information.

While the simulation doesn’t encompass all of the complexities and dynamics of a real-world business, it does reflect many important industry dynamics that will help improve your business acumen. The scope of the dynamics are limited, as are your decisions, to focus your thinking on concepts that are critical to your development as an effective business decision-maker.

Simulations can be very useful learning tools:

- ▶ The knowledge and judgment required to be successful in today’s business world is best developed through experience. Simulations provide a practice ground where you can gain experience that might otherwise take years to gather. Rather than just talking about topics such as strategy and financial statements, you will apply and experience the subject matter in action.

Studies have found that when people engage in this manner, information-retention jumps from 20% to nearly 80%.

- ▶ The consequences of risk taking are reduced, and you can practice decisions and gain on-the-job experience without the risks and implications of making those decisions in the real world.
- ▶ In addition to the opportunity to see business interrelationships you might not normally be exposed to, you will also immediately see the impact of your decisions.
- ▶ The broad range of business dynamics mirrored in a simulation will allow you to see “the big picture”. You will be better prepared to apply the lessons learned from the simulation and to improve your performance when you return to the real world and make real business decisions.

## **The Process and Competition “Periods”**

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We have divided the class into several competing teams. Each team will run a separate company for several competitive periods. Each period will last between one and three hours, and represents 1-year of competition.

After you are done at the end of each period, the Instructor will collect and process decisions from all the competing teams. The competitive results of each period will be given to you in the form of financial statements and other reports for your analysis. 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, and so on...

This competition is a “zero-sum game” in which customers purchase from the company that best meets their specific needs; and all other companies miss out on the sale!

## **Leading and Managing Your Business**

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You will take over a struggling manufacturing company that has been run with no real direction or focus – and it shows in its lackluster performance! Your challenge is to lead and manage the business and to improve its performance.

At the start of the competition, you will:

- ▶ Conduct a SWOT Analysis (Strengths, Weaknesses, Opportunities, and Threats):
  - Assess your company’s strengths, weaknesses, and past performance.
  - Analyze opportunities and threats in the external market.
- ▶ Define your Mission, Objectives, and Strategies, and Tactics (MOST).

As you run your company through each successive competitive period, you will:

- ▶ Analyze the results of the previous period and the current marketplace including:
  - Market – analyze industry dynamics, vehicle sales, and demand by customer segments and “microsegments”.
  - Results & Decisions – “dashboard” overview of the previous period’s actual results, financial statements, and product contribution report. You will also make your business decisions in this section.
  - Competition – assess your competitors’ performance and positioning in products, technology, marketing, distribution, manufacturing, and financial results.
  - Tools – analyze Sales by Microsegment, conduct Focus Groups, and run Portfolio Analysis.

- ▶ Revise and adjust your Mission and Strategies as needed.
- ▶ Execute your Mission and Strategies by making business decisions in the Results & Decisions section:
  - Technology – investment in capability to improve products’ interior, styling, safety, and quality.
  - Product Development – major and minor upgrades to products, cost-reduction projects, and new concept development, and invest in constructing new development centers.
  - Marketing – pricing, dealer discount, advertising, sales forecasting, and corporate advertising, social media, direct marketing, ad themes, and segment targeting.
  - Distribution – increase/decrease number of dealerships, and conduct training and support.
  - Manufacturing – schedule production, enable flex-production, and build/sell-off firm capacity.
  - Financing – purchase 1-year CDs, issue/repurchase stock, pay dividends, re-pay short-term debt, and issue/call long-term debt (bonds).
- ▶ Analyze your forecasted results in the Decision Analysis section.

As you run your company, the information and decision sections are shown on the main menu of the simulation. You can access any of the sections in any order you would like.

However, be aware that making decisions in one area will likely impact many of the other areas of your company.

## Market

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We recommend that you take a very customer-focused approach in your entire decision-making process. The Market section of the simulation includes customer and industry information that you can use to “inform” your decision-making as you run your company.

### Industry News

Describes key actions by the companies within the industry during the previous period of competition, along with selected industry-wide statistics.

In addition, you can view an Economic Outlook including projected GDP growth, inflation, interest rates, gas prices, and aggregate products sales.

### Vehicle Sales

Each product selling in the marketplace is described in this section.

Products have been divided into eight Vehicle Classes. These may include all or some of the following, depending upon the version of the simulation you are running in your course:

Not all Vehicle Classes will necessarily be actively selling in the marketplace if no firm in the industry is currently producing and selling them.

- ▶ Economy (E) – Small, basic car that is inexpensive to buy and operate.
- ▶ Family (F) – Mid-sized car for reliable, safe transportation at a reasonable price.
- ▶ Luxury (L) – High-end vehicle with top of the line features and performance.
- ▶ Sports (S) – Cars emphasizing performance and style. Size and price range widely, but all are fun to drive.
- ▶ Alternative Energy Vehicle (A) – Alternative-energy-drive vehicles use new drive technology that is energy efficient and low polluting.
- ▶ Minivan (M) – Family-oriented vehicles with lots of passenger and storage room.
- ▶ Utility (U) – Classified as a truck, but more passenger room and style.
- ▶ Truck (T) – Traditionally working vehicles, trucks are finding broader appeal as second vehicles and alternatives to sport cars.

Vehicle Classes represent a unique vehicle configuration that will require a significant R&D expenditure for any new products you choose to develop. 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.

Each Vehicle Class is described in more detail including:

- ▶ Number of units sold by class and by each firm.
- ▶ Units sold by region (North, South, East, West).
- ▶ The % change in units sold for each class and region.

### Consumer Segments and Microsegments

Business success in any industry requires that you have a deep understanding of your marketplace and that you identify who your customers are and what they need and want. In the competition, customers differ in their sensitivities to price and the experience offered by your company.

Analysis has already been completed for you on all potential customer segments. Your challenge is to quickly determine which segments you will target. Recognize that it takes time to build awareness with any of the customer segments in the marketplace.

Customer Segments are labeled 1 through 5. These customers desire different product classes. As an example, customers who are Value Seekers (1) may prefer an Economy (E) class of vehicle. For other customers, there may be two or more product classes that they desire.

- ▶ 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, higher disposable income, and interested in styling and performance.

A Position Map is also available in both the Class Analysis section and the Microsegments section showing the expected range of MSRP and Vehicle Size for the selected class.

Identify your target segments early, and align your pricing, customer experience, etc. with them.

- ▶ High Income (4) – Families, professionals, and retirees with higher disposable income. This segment values extra 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.

Customer “Microsegments” provide an additional level of customer segmentation. Each Microsegment represents the intersection of a Customer Segment and an associated Vehicle Class.

New Customer Microsegments may be identified as customers’ needs change and as new products are introduced. New products may entice them to emerge and create new demand – but there is no guarantee they will do so!

### Customers’ Needs and Vehicle Attributes

Each customer segment has specific needs that can be measured and compared against each vehicle’s attributes. Customers first consider Vehicle Class, then other attributes, and weigh them against price as they make purchase decisions.

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

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.

## **Results & Decisions**

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You and your team will execute your Mission and Strategies by making business decisions in the Results & Decisions section.

The “Results” portion of this section begins with a dashboard summary of your firm’s prior-year actual operating results, your firm’s financial statements including an Income statement, Balance Sheet, Cash-Flow Statement, and a Product-Contribution report showing revenue, cost, and profit data by vehicle-type.

After studying the information in Results, you will make decisions in this section in all areas of the business including technology, product development, marketing, distribution, manufacturing, and financing.

### **Technology**

Each firm has an existing set of technological capabilities in 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 invest to improve their capabilities to gain two advantages:

Investing in Technology does not automatically increase the specifications of your existing products, but it may influence customer preference.

- ▶ Lower unit-costs to produce existing products.
- ▶ The ability to develop new or upgraded products with improved features.

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 end-user customer preference ratings.

A firm with higher 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 5, 5, 5, 5.

*Within the **Technology Decision Screen**, you can make the following decisions:*

Firm Decisions
<ul style="list-style-type: none"> <li>▶ Checkboxes to Increase Your Firm’s Technology Capabilities:               <ul style="list-style-type: none"> <li>▪ Interior</li> <li>▪ Styling</li> <li>▪ Safety</li> <li>▪ Quality</li> </ul> </li> </ul>

### **Product Development**

You will have the opportunity to upgrade current products, develop new products, and 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.

Development costs are expensed in the current period, except multi-period development projects (major upgrades and new products) in which costs are spread over the time-period that the project remains in the development center.

### Development Centers

Each firm has a limited number of product development centers in which new upgrades or concepts can be developed. 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.

It takes 1 period for a new development center to become available for development projects. Only 1 development center can be added per period up to a maximum of 5 total centers. There is a one-time cost associated with building a new center.

This investment includes hiring more product development engineers and expanding R&D facilities. More development centers allow a firm to work on more new concepts or upgrades at the same time.

## Upgrades

Upgrades allow you to make small changes and to modify the specifications of existing products. Upgrades may also lower your production costs.

### ▶ Minor Upgrade:

- Occupies a development center for 1 full period.
- Launches and generates sales immediately in the current period.
- Allows you to make small changes in vehicle attributes:
  - Adjustments to Interior, Styling, Safety, and Quality by 1.
  - Changes to HP by 5.
  - Changes to Size by 2.

In the period in which an upgrade is launched, any current inventory will be written off at a loss, and a retooling charge will be incurred. The previous per-unit base cost and an estimate of the new cost for each unit produced is shown for each project.

### ▶ Major Upgrade:

- Occupies a development center for 2 full periods.
- Launches and generates sales in the year after development begins.
- Allows for larger adjustments to Interior, Styling, Safety, and Quality and to HP and Size.

Consider increasing your firm's level of advertising when launching a new upgrade or concept so that potential customers are aware of the benefits.

### ▶ Cost Reduction Upgrade:

- Occupies a development center for 1 full period.
- Launches and generates sales immediately in the current period.
- Will reduce the unit cost of the vehicle, but does not change the vehicle attributes – and will not by itself impact customers' perception in the marketplace.

Any development project can be adjusted during any period in which it is still in development.

## New Concepts

You can develop brand new products, designated as "concepts" in the simulation. A new concept can be either in a product class in which you already have products or in a product class that is totally new to your company.

There are 2 types of new concepts:

- ▶ A new product concept in an existing vehicle class in which your firm already has experience:
  - The project starts from a new concept-base rather than upgrading an existing product. At launch, there will be no brand awareness for the product, since it will have a new nameplate.

A "concept" is a set of potential specifications for a vehicle to give to the R&D department for further study. Development costs will only be incurred when a concept is actually moved into a development center. You can create and evaluate several concepts at the same time during a given period.

- Occupies a development center for 2 periods.
- Launches and generates sales in the year after development begins.

An estimate of the per-unit base cost at 100k units produced is shown for each new concept.

- ▶ A new product concept in a new vehicle class in which your firm does not have prior experience:
  - Occupies a development center for 3 periods.
  - Launches and generates sales 2 years after development begins.
  - Attributes can be adjusted in each development year.
  - There will also be no brand awareness for the product at launch, since it will have a new nameplate.

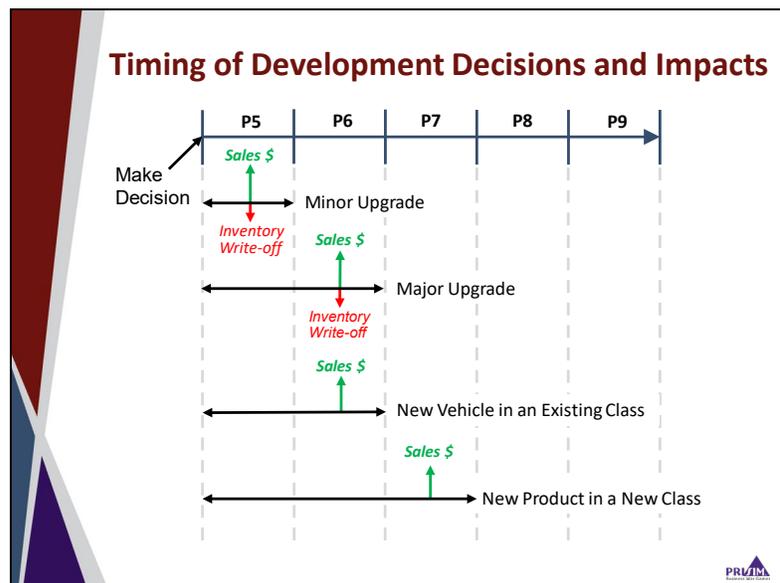
Several points regarding new product development should be kept in mind:

The Tools section of the simulation offers additional customer-analysis tools.

- ▶ A development center will still be occupied in the launch-year of any development project.
- ▶ New Concepts will only be available to move to development during the current period.
- ▶ 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 on the Balance Sheet over 10-years.

- ▶ Your firm's ability to design products is limited by your firm's technology competencies. If a proposed development design does not meet your expectations, consider waiting a year, investing in your competencies, and trying again.

Be sure to click "Develop" to move your upgrades and new concepts into development!



*Within the **Product Development** Decision Screen, you can make the following decisions:*

Firm Decisions	Product Decisions
<ul style="list-style-type: none"> <li>▶ Checkbox to Construct a New Development Center</li> </ul>	<ul style="list-style-type: none"> <li>▶ Option to Develop a New Upgrade Project:               <ul style="list-style-type: none"> <li>▪ Choose Existing Vehicle to Upgrade</li> <li>▪ Upgrade Type:                   <ul style="list-style-type: none"> <li>➢ Cost Reduction</li> <li>➢ Minor Upgrade - Increase/Decrease Attributes</li> <li>➢ Major Upgrade - Wider Range of Adjustments to Attributes:                       <ul style="list-style-type: none"> <li>○ Size</li> <li>○ Horsepower</li> <li>○ Interior</li> <li>○ Styling</li> <li>○ Safety</li> <li>○ Quality</li> </ul> </li> </ul> </li> </ul> </li> <li>▶ Option to Develop a New Vehicle Concept (remember to click "Develop" to move it into a Development Center!):               <ul style="list-style-type: none"> <li>▪ Vehicle Class</li> <li>▪ Size</li> <li>▪ Horsepower</li> <li>▪ Interior</li> <li>▪ Styling</li> <li>▪ Safety</li> <li>▪ Quality</li> <li>▪ (name the vehicle when it launches)</li> </ul> </li> </ul>

## 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 end-user customer preference, which can give your firm a competitive edge in your targeted markets.

### Corporate Marketing:

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

- ▶ Advertising - on a regional level to create general awareness of the firm and to support dealerships. This can also help generate a corporate identity to support product-level advertising.
- ▶ Social Media - expenditures to generate interest in your firm's products.
- ▶ Direct Marketing - to generate interest within a particular customer segment.
- ▶ Ad Themes - focusing at a corporate level on particular aspects of your vehicles.
- ▶ Segment Targets - to direct your corporate marketing budgets.

Targeting specific segments tailors your advertising to provide a consistent company image.

## Product Marketing

Product-level marketing plays an important role in establishing product awareness and shaping consumers' perceptions of your products. You can make several decisions including:

- ▶ Pricing – 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.

If the average retail price is significantly below the MSRP this could indicate that your dealers are not able to sell the product easily without discounting. This can negatively impacting their profitability and your Dealer Rating.

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.

- ▶ Advertising – is your spending to build and maintain customer 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 to what is important to your target consumers.
- ▶ Promotion – is spending on brochures, mailings, etc. aimed at dealers and consumers. Promotion can help drive increased sales of mature products during slower periods of demand.
- ▶ You can set a Sales Forecast for projected unit sales for the period. The number will be used to generate pro-forma results only – be aware that actual results will be different once competitor moves and actual market conditions are included after the decision period is complete. Be very careful when setting this number as it will inform many of your other decisions such as production and capacity.
- ▶ You can also access contribution margin data by vehicle overall and Per Unit to give you insights into pricing and volume.

The Tools section of the simulation offers additional customer-analysis tools.

*Within the **Marketing Decision Screen**, you can make the following decisions:*

Firm Decisions	Product Decisions
<ul style="list-style-type: none"> <li>▶ Corporate Advertising Budget by Region (North, South, East, West)</li> <li>▶ Ad Themes</li> <li>▶ Social Media Budget</li> <li>▶ Direct Marketing Budget</li> <li>▶ Segment Targets for Direct Marketing</li> </ul>	<ul style="list-style-type: none"> <li>▶ Set Vehicle MSRP</li> <li>▶ Dealer Discount</li> <li>▶ Advertising Budget</li> <li>▶ Advertising Theme</li> <li>▶ Promotion Budget</li> <li>▶ Sales Forecast (your Projected Unit Sales by product. Alternatively, you can enter your forecasts into the Pro-Forma Forecast screen in the Decision Analysis section)</li> <li>▶ Remove From Market (Caution: removes the vehicle from the consumer market!)</li> </ul>

**Distribution**

In the simulation, each firm has a relationship with a group of dealerships that sell only that firm’s products. The dealerships are organized on a regional basis, and are your firm’s only outlet for selling cars and providing follow-up services.

Decisions you make as you work with your dealership-partners include:

- ▶ How many dealerships to open or close in each region each period. In any period, you can add or remove up to 10% of the existing dealerships. It takes one year for dealerships to become fully operational, and one year to close a dealership.
- ▶ Setting a budget for dealership training and support. This expenditure can improve the customer experience at the dealerships.
- ▶ The “Dealer Discount” you will offer based on your suggested MSRP (you can set this for each product on the Marketing decisions screen).
- ▶ Whether or not to distribute a given product through the dealerships. Choosing not to distribute a product through your dealership will remove that product from the market.

Dealer Discount is set as a % of MSRP. For example, a 10% Dealer Discount on a \$20,000 MSRP means the Dealer makes \$2,000 in revenue and your firm makes \$18,000 in revenue.

The profitability and success of a dealership depends to a large extent on the marketability 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 of that region.

You will also need to analyze sales and “gross” per dealer (the difference between the dealer invoice and the actual retail price that customers pay) as indicators of the optimal number of dealerships.

- ▶ Having too few dealerships can leave smaller markets uncovered.

- ▶ Having too many dealerships can lead to poor results due to sales that are spread too thinly across dealerships and overly competitive pricing within regions.

Dealer Ratings (1-100) indicate customer satisfaction index scores at your dealerships, and provide insight into their success. These ratings are critical to the success of your company; poor

ratings can lead to low sales of otherwise well-positioned products. Training, support, dealer discounts, service revenues, quality products, and dealer profitability can impact dealer ratings.

Excess inventory may lead to lower average retail prices.

*Within the **Distribution Decision Screen**, you can make the following decisions:*

Firm Decisions
<ul style="list-style-type: none"> <li>▶ Dealership Increase/Decrease by Region (up to 10% of existing Dealerships)</li> <li>▶ Training and Support (spread equally across all Dealers)</li> </ul>

## Manufacturing

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

- ▶ You will need to set production volumes for each product in each period. These volumes should be based on sales forecasts and inventory levels.
- ▶ 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.
- ▶ The “Flex” production option will increase or decrease 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, production will be increased up to 10%. If your supply of products for sale is greater than 120 days, production will be decreased by 10%.

Set sales forecasts in the Marketing decisions screen or in the Pro-Forma section.

- ▶ 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 and will be shown as a line-item under Cost of Goods Sold on the Income Statement.
- ▶ When the production level on a line is increased or decreased from the previous period, the production capacity to be used for that product is retooled and updated, or is repurposed. 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.
- ▶ If a product is being upgraded any current inventory will be written off at a loss.

Current inventory levels should be taken into account as you make your production decisions.

*Within the **Manufacturing Decision Screens**, you can make the following decisions:*

Firm Decisions	Product Decisions
<ul style="list-style-type: none"> <li>▶ Capacity Change (build or sell off production capacity)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Scheduled Production (units)</li> <li>▶ Flex Production (automatically increases/decreases production 10%, depending upon demand)</li> </ul>

### Financing

Management of your company’s financials is essential: successful firms will closely manage cash flow and capital structure, and will consider the impacts of operating decisions on stock price and earnings.

Sources of cash include cash from operations, from issuing stocks and bonds (long-term debt), and from short-term borrowing.

The Financing section allows you to manage the following areas:

- ▶ **Cash:** Shows your current cash balance, and gives you the option to invest some of your cash into a 1-year Certificate of Deposit (CD) with a defined interest rate.
- ▶ **Stock:** Your current stock price, the number of shares outstanding, and your current market value are shown. You can issue or repurchase stock and can also pay a dividend.
- ▶ **Debt:** Short-Term Debt is automatically borrowed for you if your firm needs additional cash. You can choose to repay all or a portion of your short-term debt if you have sufficient cash available.

Market Value (Market Capitalization) is equal to the number of shares of outstanding stock multiplied by the current market price per share.

Long-Term Debt can be issued in the form of Bonds at a lower interest rate than short-term debt. The bonds have a 10-year term and can be called after 3 years; but be aware that you will pay interest on the bond in the year you pay it off. No “partial calls” are allowed.

Your firm’s bond rating is also shown. Bonds are rated from D (lowest) to AAA (highest), where higher ratings typically lead to lower interest rates offered to your firm on new debt issues.

Issuing stock has the benefit, as opposed to debt, of not creating interest expense. However, dilution can lower stock price as more shares are issued.

Within the **Financing Decision Screen**, you can make the following decisions:

Firm Decisions
<ul style="list-style-type: none"><li>▶ Purchase 1 Year CD (at displayed interest rate)</li><li>▶ Issue/Repurchase Stock (in the open market. 20% of outstanding shares can be Repurchased)</li><li>▶ Dividends Paid (total amount)</li><li>▶ Loan Repayment (of short-term loans, up to the Loan Balance amount shown)</li><li>▶ Issue Bonds (new bonds at displayed interest rate; 10-year bonds, can be called after 3 years)</li></ul>

### Special Decision

Depending upon your specific course, special decisions may be enabled so you can manage “incidents” that may arise in some periods.

### Decision Analysis

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At any point during the decision period, you can access your company’s pro-forma financial statements showing forecasted performance for the period. Your decisions in this period and your sales forecasts together are the foundation of your pro-forma reports. If needed, you can go back to the Results & Decisions screens and modify any of your decisions.

- ▶ Analyze your forecasted results in the Decision Analysis section of the simulation including:
  - Detailed summary of your decisions made in this period.
  - Timeline showing a high-level summary of your company’s decisions in the current and previous periods.
  - “Pro-Forma” (estimated) financial reports based on Sales Forecasts that you will enter for each product:
    - Product Inventory.
    - Income Statement.
    - Balance Sheet.
    - Cash Flow Statement.
    - Product Contribution Report.

“Pro-Formas” are not the same as “Actuals”: a pro-forma that forecasts a 50% growth rate based on Sales Forecasts that you enter does not mean it will actually happen. Competitors and other market dynamics will impact your results too.

“Tweaking” the various levers and decisions within the software will not maximize your performance – strategic, well-aligned decision-making are what create successful outcomes!

Within the **Decision Analysis Screen**, you can make the following decisions:

<b>Product Decisions</b>
▶ Sales Forecast (your Projected Unit Sales by product. Alternatively, you can enter your forecasts into the Marketing decisions screen)

## **Competition**

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This section of the simulation provides several reports outlining the competencies and relative positions of each competing company:

- ▶ Products – List of products offered by each competing company along with pricing and details about features.
- ▶ Technology – List of competitors’ development centers available to design and introduce new products. Technology capabilities by firm in interior, styling, safety, and quality.
- ▶ Marketing Communication – Comparison of each company’s corporate-level marketing efforts, product-level advertising and promotion spending, value of market share, unit share, and firm preference. Dealer discount, days of inventory, and other data are also shown by firm.
- ▶ Distribution – Information by firm on number of dealerships, regional coverage of dealerships, dealer training, and dealer rating. Unit sales by firm, vehicle, and region are also shown.
- ▶ Manufacturing – Production capacity, utilization, and inventory levels by firm.
- ▶ Financial Summary – A summary of selected key performance measures for each company as of the end of the previous period including overall market share, customer preference, sales, R&D, profit, and stock price. View each company’s prior-period Income Statement, Balance Sheet, and Cash Flow Statement.

## **Tools**

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The Tools section of the simulation provides access to additional product and customer analysis tools. Tools available to you may include the following, depending upon your specific course:

- ▶ Sales by Segment/Microsegment – Provides sales-volume detail for existing products sold in the marketplace. Units and percent of sales are shown by customer segment/microsegment.
- ▶ Focus Groups – Shows the results of focus group sessions run with customers currently buying products in the marketplace. The customers’ desires and feelings regarding competing vehicles’ size, price, attributes, and “hot buttons” (the most-important attributes) are detailed.

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

- ▶ **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 can be generated using either vehicle classes or customer microsegments.

The Portfolio Map is presented in the Boston Consulting Group (BCG) format and uses the associated quadrant-labels of star, cash cow, dog, and question mark.