Marketplace

The Learning Strategy and Mental Discipline of Integrated Business Management
Learning Strategy

I listen, I forget.
I see, I remember.
I do, I understand.

Old Chinese Proverb
Learning Strategy

Business simulations are a form of combative training where participants pit their business skills against those of formidable opponents under the watchful eye of a training coach.
Learning Strategy:
Learn by Doing

- Participants learn about all aspects of business by managing a simulated business.
- The *Marketplace* scenario follows the lifecycle of a new product and new business.
- Business decisions are introduced as they become relevant in the evolution of the company.
Mental Discipline & Business Culture

• Develop leadership, teamwork and interpersonal skills.

• Promote better decision making by learning to manage a totally integrated company, including the management of sales outlets, marketing, production, and human and financial resources.

• Facilitate learning of important business concepts, principles and ways of thinking.
Mental Discipline & Business Culture

• Develop strategic planning and execution skills within a rapidly changing environment.

• Instill a bottom line focus and the simultaneous need to deliver customer value.

• Crystallize the financial implications of business decisions and how they flow to bottom-line performance.
Mental Discipline & Business Culture

• Discover how important it is to use market data and competitive signals to adjust the strategic plan and more tightly focus business tactics.

• Live and breathe performance-based management

• Learn what it takes to start up and manage a new venture.
Mental Discipline & Business Culture

- Build confidence through knowledge and experience.
How is the business simulation conducted?

- Teams are placed in a new venture scenario - starting up and running a new business.

- The opposition is played out by competing teams.
Objective is to profitably capture a dominant market position
Business Teams

Each team member assumes a tactical area of responsibility.

- Marketing
- Finance
- Distribution
- Production
- Human Resources
- Overall Management
How conducted?

• Business team receives information on current situation.

• Current situation is evaluated, strategy formulated and tactics set in placed.

• Tactical decisions are fed into the Marketplace simulator, along with decisions of opponents.

• Results of decisions are fed back to business team.
How conducted?

• The business team can acquire information on what is happening in the marketplace:
  – internal operations
  – customer reaction to market decisions
  – competitor actions

• Current situation is evaluated, strategy formulated, and tactics set in place.

• Tactical decisions are again fed into the Marketplace simulator.
Game Scenario

• You and your business partners have decided to enter the international microcomputer industry.

• The microcomputer industry is in its introductory stage of the product life cycle.

• Several other international firms are entering the market at the same time.

• Market potential, exchange rates and tariffs are affected by international politics and economy.
Chronology of Events

- Q1, organize the team, name the company and contract for a survey of potential customers.
- Q2, analyze market information, establish strategic direction and set up shop (build plant, design brands and set up a sales offices and/or regional web centers).
Chronology of Events

• Q3, test-market brands, prices, ad copy, media campaigns, sales staffing, and internet tactics. Determine production schedule for each brand.

• Q4, study end user feedback, competition, operating performance, employee morale, and financial performance and make adjustments in strategy.
Chronology of Events

• Q5, prepare a one-year business plan. Present business plan and financial request to venture capitalists and negotiate equity investment.

• Q5 – Q8, initiate international roll-out campaign.
Chronology of Events

• End of game, prepare Report to the Board regarding
  – second year performance,
  – deviations from plan,
  – justification for departures,
  – analysis of current market, and
  – plan for future.
Equity Financing (Q1-Q4)

- The initial capitalization is 4,000,000 which is being invested by the executive team in 1,000,000 increments over the first 4 quarters.
- The executive team owns 100% of the company.
- Forty thousand shares of stock will be issued to the executive team in exchange for their 4,000,000.
- The initial stock value is 100 per share.
Equity Financing (Q5)

• At the end of the first year of business, the executive team will have the opportunity to request up to 5,000,000 from a venture capitalist

• The venture capitalist will expect an outline of the strategic plan for the second year in business, including target markets, sales channel expansion, R&D, plant expansion, quality improvements, etc.
Debt Financing (Q5 and beyond)

- The bank will extend a line of credit to the executive team equal to one and a half times the firm's equity position in the previous quarter.
- The bank is highly risk adverse and will call in your loan in part or whole if your debt capacity declines due to unusual or extended losses.
Debt Financing (Q5 and beyond)

• Other financial institutions will also buy long-term notes at 2 points over conventional bank loans. The acceptable debt capacity is two times the firm's equity position in the previous quarter.

• Long-term debt is for 5 years with little possibility of the financial institution calling in the note due to short-term swings in income.
Special Financing Needs

- The bank is intolerant of poor financial management.
- If a firm ends a quarter with a negative cash position, the bank will contact a loan shark by the name of Guido to obtain an emergency loan to cover the firm's checking account.
Guido’s Financing Terms

- Guido requires repayment in the next quarter
- The emergency loan interest rate is a sliding scale which begins at 10% per quarter and may go as high as 25% per quarter.
- For each 100 which Guido places in your checking account, he will take one share of stock in your firm.
- The issuing of stock to Guido causes a dilution of your stock value and your share of the company.
Bankruptcy

- A firm is technically bankrupt if its cumulative losses exceed its equity investment.
- Stated differently, the management has used up all of the equity of the firm when the negative value of the retained earnings exceeds the value of the common and preferred stock.
Performance Evaluation

- Balanced Scorecard for last four quarters of play
- Business Plan
- Report to Board
- Strategic thinking and analysis in Executive Briefings
- How well company is prepared for the future
Total Business Performance

Financial performance

Market performance

Marketing effectiveness

Investments in the firm’s future

Human Resource Management

Creation of wealth

Asset management

Manufacturing productivity
Why Use a Balanced Scorecard?

• It is too easy to get caught up in market share and short-term profits.
• Long-term viability requires that managers also deliver customer satisfaction and invest in the future.
• The balanced scorecard measures both the long-term and the short-term.
• The best managers will be good in all areas measured.
Mental Discipline of Marketplace

Environmental analysis

Feedback

Business Strategy

Assessment of Business Conditions

Market conditions
Market assessment
Market objectives
Marketing strategy
Marketing tactics
Market performance

Manufacturing conditions
Manufacturing assessment
Manufacturing objectives
Manufacturing strategy
Manufacturing tactics
Manufacturing performance

Human resource conditions
Human resource assessment
Human resource objectives
Human resource strategy
Human resource tactics
Human resource performance

Financial conditions
Financial assessment
Financial objectives
Financial strategy
Financial tactics
Financial performance

Business Performance

Strategy

FUNCTIONAL LEVEL

BUSINESS LEVEL
The Following Slides are for Quarter 2

• Establishing the Firm’s Strategic Direction and Setting Up Shop
• (with a focus on brand design considerations)
Q2, Establish Strategic Direction

- Analyze market information to evaluate the market opportunity
- Consider
  - Available financial resources
  - Costs to open sales outlets
  - Costs to set up and operate factory
- Establish strategic direction
  - Formulate corporate strategy
  - Formulate functional strategies
Q2, Setup Shop – Tactical Decisions

- Locate factory
- Build fixed plant capacity
- Open initial sales offices
- Design two brands for target market segments
Review Software
Things to Think About in Designing Brands
Customers Buy Benefits, Not Features
Once you select a segment, you must design a brand to meet the needs of the segment.

Using the computer on the road is important to the traveler segment. What features would provide this benefit?

- Slim, rugged, portable design
- 10” color flat screen for portable
- Network and Internet connections
How far do you go in giving the customers what they say they want?

Is more speed, software applications, memory, keys on the keyboard, etc. always valued?

Could “more of some feature” even make a customer unhappy?
What is the elasticity of the peanut?

Searching for the Market’s Response Function
Suppose you could design the ideal candy bar. How many peanuts would you put in the candy bar to make you the happiest?

- None
- A few?
- A bunch?
- A whole lot?
Influence of peanuts on candy bar enjoyment

Number of Peanuts

None  few  bunch  whole lot

Um-um good  Yuk
Which Candy Bar has the Most Peanuts?

- Baby Ruth
- Snickers
- Payday
- Milky Way
Which Candy Bar Do You Like the Most?

- Baby Ruth
- Snickers
- Payday
- Milky Way
What does your response function look like for peanuts?

Is more always better?

Would your happiness increase with every new peanut we added to the candy bar?

Is there a limit?
What would be your response function for the following?

- Chocolate
- Caramel
- Nougat
- Coconut
- Rice
- Peanut butter
Here are a number of response functions. Which one applies to peanuts, chocolate, coconut, etc?

More is always better

More is good to a point and then ceases to add excitement

More is good to a point and then ceases to add excitement
Response Functions

More adds value to a point & then takes away value

A little is just right, more only takes away value

Hot

Cold

Less

More
Response Functions

- Hot
  - Little interest until threshold is crossed

- Cold

- Hot
  - Any amount is bad

- Cold

- Less
  - More

Less

More
Response Functions

- Hot
- Cold

No reaction/indifference to having the feature

Less  More
Take Any PC Segment, How Excited Will It Become if You Provide?

• More memory
• More functions on the key board
• More software
• More …. 

Just like the candy bar ingredients, you must discover the response function for each PC component.
Select components that yield benefits for Travel PC segment

- Rugged casement
- Micro-circuitry
- High resolution flat LCD display
- Wireless modem
- 6-hour battery
- Low-profile, built-in disk, CD drives
- Compact keyboard
- Trackball mouse
- Wrist rest on keyboard

Portability
Use on road
Connect to office
Easy to use
Did you take the candy bar you said you wanted?
Learning Points for Quarter 2

- Market opportunity analysis
- Strategic and tactical planning
- Segmentation and target marketing
- Financial management
Learning Points for Quarter 2

- Game theory - competitive positioning
- Brand design –
  - linking product features to customer benefits
  - finding the customer’s response functions
- Marketing & manufacturing tradeoff - satisfy the customer or run the most efficient factory, the issue of changeover
Learning Points for Quarter 2

- **Distribution strategy**
  - Largest potential in target segments
  - Fewest competitors
  - Economies of distribution and marketing

- **Financial liquidity**
  - Cash versus assets
  - Spend on heavily on sales outlets and plant capacity or wait or hold onto to cash

- **Logistics of plant location**
  - Production economies versus
  - Shipping economies versus
The following slides are for Quarter 3
Q3, Go to Test Market

The Goal is to Maximize Learning and Not Profits.
Q3, Go to Test Market

- Set selling prices
- Develop advertising campaign
  - design 2 ads, one for each brand
  - determine number of placements per ad
- Execute distribution strategy
  - hire sales force for quarter
  - expand sales channel for Q4
Q3, Test Market

• Schedule production
  – set minimums and maximums for warehouse
  – forecast demand
  – run factory simulation, check numbers
• Contract for market research on customers and competition
• Check pro forma financial statements
You are a market maker, not a market taker

- The market is not waiting for you to take their orders.
- You must create the market
  - Sell brands that customers want and at a price they are willing to pay
  - Locate sales channels where the largest number of customers can be found
  - Inform and persuade customers to buy a PC through advertising
  - Hire sales people to find customers and persuade them to buy your PC
How to Set Price?

• Costs (production, marketing, overhead)
• Profit goals
• What market will bear
• Competition
In the beginning, you will not be able to price above your costs

- There are many startup costs which will exceed your revenues.
- Your production volumes will be very low, resulting in high per unit costs
No Early Profits

Costs to setup & grow the business

Money

0

Time
Revenues will fall below costs at outset of new business

Money

Time

Revenue

Costs to setup & grow the business
Profits will come later

Costs to setup & grow the business

Time

Profits

Revenue

You are here

Profits come later

Profit

Costs to setup & grow the business

You are here
Your goal is to speed up the adoption rate

You are here, high costs-low demand
What will the market bear?

You must discover the market response function regarding price.
What is the market’s price response function?

- **Elastic**: (demand drops fast with increasing prices)
- **Inelastic**: (price is not a big factor)
Or, maybe it looks like this?

Demand drops slowly with small price increases and then drops dramatically with larger price increases.
A differential advantage can reduce price elasticity

Differential advantage shifts demand curve and reduces price elasticity

Price premium for your brand ➔
How will the market respond to competitor prices?

- Low competitor prices will kill your demand
View Software on Pricing
How to create ads?

Low price
Easy to use
More productive
Fast
Office applications
Picture office workers

Your Ad

Order of priority implies importance of message to customer

Most important

Order of priority tells the ad agency what to stress in the ad

Least important
How much to say in an ad?
(number of benefits)

Which response function is at work?

More is good to a point and then ceases to add excitement

More adds value to a point & then takes away value
How often do you advertise?
But it also depends on what your competitors do.
View Software on Advertising
How many sales people?

Your Demand

Diminishing returns

Too many

Too few

Number of sales people
The response function is dynamic!

- Shift the response function upwards with better brands, prices, advertising, web tactics, sales force placement and compensation.
View Software on Sales Force Staffing
Managing Inventories and Cash (the razor’s edge)

• **High production**
  - Lower unit production costs
  - Risk of too much inventory
    - Uses up large volumes of cash
    - Risk of brand obsolesce (wrong product in warehouse)

• **Low production**
  - Low cash requirements
  - Higher per unit production costs
  - Risk of too little inventory –
    - Stock outs
    - Lost revenue
    - Customer ill will (unhappy customers)
Projecting Demand

- Sales people will probably sell between 30 and 100 units each.
- Demand is a function of market potential of the segment and market and the quality of marketing decisions.
- On average, sales people will sell 50 units each for the entire first quarter of test market.
Scheduling Operating Capacity

- Forecast total demand for quarter
- Add 30% more for long changeover times

**Example:**
- 10 sales people
- each can sell 50 units,
- probable demand for quarter = 500 units
- add 150 units more for long changeovers
- set operating capacity = 650 units for quarter in order to serve potential demand of 500
Investing in Changeover

• Brands with diverse components force long changeovers and thus lower production utilization and higher production costs
• Tensions exists between marketing (which wants lots of brands to satisfy the many different needs of customers) and manufacturing (which wants few brands in order to allow long production runs and lower production costs)
• By investing in R&D to improve changeover equipment, materials, or procedures, it is possible to have it both ways, many brands and lower production costs (changeover costs cease to be a factor)
• The ultimate goal is mass customization
Setting Replenishment and Target Points

- Target is the maximum number of units in the warehouse and does not have much of an effect until Q4 or later.
- Replenishment point is the minimum number of units in warehouse. When the inventory of a brand drops to the RP, it is the signal to the plant manager to do a changeover and start production as soon as possible.
- Replenishment point is the key in Q3
  - Lower numbers cause shorter production runs, more changeovers, higher production costs, lower inventories, and more stockouts.
  - Higher numbers have the opposite effect, but can lead to higher stockouts if RP is set too high because of the long time between changeovers.
- Safe values until experience is gained
  - Target = 100
  - Replenishment = 20 to 50
View Software on Manufacturing
Projecting Pro Forma Cash Flows

• Enter all decisions – the financial component of each decision will be posted to the pro forma cash flow
• Run factory simulation to estimate production costs and revenues
• Load data into pro forma cash flows
• Check ending cash position – it should be 500,000 or more
• Prepare pessimistic scenario
  • Reduce demand by 50%, keep all other expenses the same
  • Rerun factory simulation
  • Reload pro forma cash flow
  • Under worst case scenario, ending cash should be 300,000 or more
Expect net losses and negative cash flow

Profits come later

You are here

Costs to setup & grow the business

Profit

Time

Revenue

Profits

You are here

Profits come later
View Software on Pro Forma Projections
Link Tactics to Strategy

- Strategy follows from objectives and tactics follow from strategy
- Always be thinking of how your tactics support your strategy
- Make sure your tactics are consistent and coordinated within and between functional areas
Learning Points for Quarter 3

- Execution of a coherent strategy
- Management of cash in the face of great uncertainty
- Learning to walk before you run
Learning Points for Quarter 3

• Marketing strategy - coordinating a host of tactics
• Pricing - balancing costs, profit, what the market will bear, and competition
• Testing the market - discovering the market’s many response functions
• Production - managing capacity, inventories, and costs in light of demand goals
The following slides are for the introduction to Q4 decisions.
Q4, Evaluate Performance

Skillfully Adjust Strategy

• Check overall performance
• Check customer reaction to brands, prices, advertising and sales channel
• Check financial performance
• Check production operations
• Check out competition
  – strategic direction
  – tactics
  – market’s response
Q4, Skillfully Adjust Strategy

- As needed, adjust
  - strategy
  - brand designs and prices
  - advertising
  - sales channel management
  - production plan
- Check finances
- Feed decisions into Marketplace simulator
Check Overall Performance

• Check Balanced Scorecard
• Market demand and market shares
• Check financial performance
Measurement of the Firm’s Performance

The Balanced Scorecard
Why Use a Balanced Scorecard?

- It is too easy to get caught up in market share and short-term profits.
- Long-term viability requires that managers also deliver customer satisfaction and invest in the future.
- The balanced scorecard measures both the long-term and the short-term.
- The best managers will be good in all areas measured.
Action Potential of the Firm =

Financial performance x
Market performance x
Marketing effectiveness x
Investments in the firm’s future x
Creation of wealth x
Asset management x
Manufacturing productivity
Cumulative Balanced Scorecard

Simulation performance will be based upon cumulative score for quarters 5, 6, 7 and 8
View Software
Measures of Customer Satisfaction

- Brand judgment (0 to 100)
- Price judgment (0 to 100)
- Ad judgment (0 to 100)

100 indicates complete satisfaction. 70 would be a good brand and ad rating until new technology is available in Quarter 5. Price ratings should be near 100.
View Software
Goal of Monitoring Customer Satisfaction

Give the customer what they want and do so better than the competition.
Deduce the market’s many response functions
Based upon customer feedback, skillfully adjust marketing tactics

- Revise brand designs or create new ones
- Revise ad copy
- Adjust prices
- Hire more sales people or deploy them differently
- Add or take away elements to find the sweet spot in the customer’s response function.
Competitor Benchmarks

- Brand and ad designs
- Prices and sale priorities
- Channel strategy
- Sales staffing
- Ad placements
- Demand by brand by segment
Goals of Competitive Benchmarking

- Reverse engineer the strategy of each competitor
- Determine who is a threat and who is not
- Determine strengths and weakness of competition
- Emulate good decisions
- Predict direction of competitive moves
- Adjust strategy and tactics in reaction to competitor strengths and weaknesses and in anticipation of future moves.
Financial Performance

- Firm profitability
- Brand profitability
- Region profitability
- Return on investment
- Asset management
- Gross margin
- Net margin
- Etc.
View Software
Goals of Financial Management

• Discover which brands, markets and business functions are making the greatest and weakest contribution to the bottom line.
• Deploy resources to correct weaknesses and take advantage of strong performers.
Managing Inventories and Cash (the razor’s edge)

- **High production**
  - Lower unit production costs
  - Risk of too much inventory
    - Uses up large volumes of cash
    - Risk of brand obsolesce (wrong product in warehouse)

- **Low production**
  - Low cash requirements
  - Higher per unit production costs
  - Risk of too little inventory –
    - Stock outs
    - Lost revenue
    - Customer ill will (unhappy customers)
Quality Control

- Reliability of production process – customers are not happy
- Warranty costs – customers are sending back computers for your firm to fix
- Quality control program – multiple quarters to significantly improve reliability
- Steps in program
  - Inspection (fix problems before shipped) - Q4
  - Variance study (discover how bad is problem) – Q4
  - Source study (find causes and solutions to problems)
  - Actions to improve quality (invest to reduce unwanted variance)
View Software
Q4, Strategic Assessment

- Competitor Analysis
- SWOT (Strengths, weaknesses, opportunities and threats)
- Corrective Actions
- Control Measures
Learning Points for Quarter 4

- The management of strategy
  - learning from your customers
  - learning from your competition
  - learning from your financial information
  - skillfully adjusting your strategy and tactics
- Management of resources
Quarter 5
Making Plans for the Future

The following slides are for the introduction to Quarter 5 and the Venture Capital Fair.
Quarter 5
Making Plans for the Future
Agenda

• What is new?
• Venture capital opportunity
• What goes into a business plan?
• Venture capital presentations
• Learning points
What Is New In Quarter 5?

- Control charts
- Feature R&D
- Debt
- Licensing
- More quality control
- Tactical plan
- Extended pro forma planning
Licensing R&D

Team A
- Q5: Invest in Keyboard

Team B
- Q6: Design in new brand
- Q7: Receive income
- License R&D from Team A
- Receive Keyboard Pay fee
Cross-Licensing R&D

Team A

Q5 Invest in keyboard
Q6 Design in new brand
Q7 Receive Keyboard/Pay Fee

License to B
License to A

Team B

Invest in hard drive
Design in new brand
Receive Hard drive/Pay Fee
License Agreements in Q5

• Nothing in the software for writing licenses until Q6.
• During Q5, parties can agree to execute a license in Q6 (i.e., exchange of R&D).
• Agreements must be in writing.
• Might want to include penalties if contract is broken for any reason.
Making Plans for the Future
Your goal is to speed up the adoption rate

New brand features, sales outlets, and plant capacity will push you into the growth phase.
Business Challenge

Money

Cash to setup & grow the business

Time
Business Challenge

Cash from the business

Money

Cash to setup & grow the business

Time

Marketplace
Business Challenge

Money

Cash short-fall

Cash to setup & grow the business

Cash from the business

Time

Free cash flow
Business Challenge

You are here  You want to Be here

Free cash flow

Money

Time
What do you do when cash and net income from current operations are not sufficient to fund new business development

- Expand owners’ equity (bring in new investors)
- Leverage your investment (borrow money from others)
New Funding Options

• Sell part of the company to venture capitalists
  • venture capitalists are willing to invest up to 5,000,000
  • venture capitalists may ask for up to 60% of the company in exchange for their investments

• Borrow money
  • short-term bank loans
  • long-term bank loans
The venture capital community is willing to invest $5,000,000

- Demand is up for the entire industry
- Your firm has established itself as a viable competitor
- New sales outlets would greatly expand distribution, drive up unit volume, and thereby reduce unit costs.
- New brand features could be brought on the market if you invest in R&D. These brand features will increase customer satisfaction, and thereby demand.
- New production capacity and quality improvements will allow substantial market expansion.
Venture Capitalists Want a Plan
Strategic Planning

Objectives: Results to be attained before a certain date

Strategy: Set of carefully selected / integrated business priorities to achieve objectives

Tactics: Actual actions and operations that are necessary to execute strategy
Strategic Planning

Objectives
- Definition of problem

Problem
- Definition of problem

Strategic Analysis
- Internal appraisal
- External appraisal

Strategy
- Resources made available
- Strategic options
- Choice of option(s)
- Strategic Thrusts

Strategy Formulation
- Tactical Plans
- Pro forma
- Execution

Tactics
- Pro forma
- Execution

Control

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The best-planned strategies will not survive the test of battle.

Gen. George Patton
Plans are worthless, but planning is everything

Gen. Dwight D. Eisenhower
The devil is in the details

Adm. Rickover
It is better to have a class A team with a class B plan than to have a class B team with a class A plan.

Almost any venture capitalist
Venture Capitalists Want a Plan

• Strategic analysis
• Corporate strategy
• Marketing strategy
• Manufacturing strategy
• Financial strategy
• Pro forma financial statements
• What is in it for them?
Strategic Analysis

- Nature of business opportunity
- Performance to date
- Competitor assessment
- SWOT (strengths, weaknesses, opportunities, threats)
Nature of Business
Opportunity

- Market potential
  - Total Potential
  - Segment
  - Region
- Demand served to date
- Where best opportunities lie
Firm’s Performance After 1 Year

- Market position
  - Segments targeted
  - Geography targeted
- Market performance
  - Demand and market share
  - Customer satisfaction (brands, prices, reliability)
- Financial performance
  - Cash
  - Profitability
Corporate Strategy

- Mission
- Corporate objectives
- Basis for competitive advantages
- Strategic thrusts
- Target segments
- Key performance goals by end of second year
Functional Strategies

- Strategic thrusts
- Tactics to support strategic thrusts
  - List key decisions to be made over next 4 quarters
  - Link key decisions to strategic thrusts
- Key performance goals by end of second year
Marketing Issues To Consider

- Portfolio of brands
- New brands
  - R&D investments in new features
  - Timing of introduction of new brands
- Pricing
  - Skim the cream versus penetration
  - Margins
- Advertising
  - Volume
  - Themes
Sales Channel Issues

- Rate of geographic market expansion
  - timing and order of new markets
    - sales offices
    - regional web centers
  - expansion of sales staff
Manufacturing Issues

• Projected demand by quarter
• Plant expansions
  • when
  • how much
  • size of investment
• Productivity improvements
  • changeover
  • quality
Financial Issues

- Cash flow requirements
- Sources of capital
  - venture capital
  - debt
    - short-term
    - long-term
- Profitability and asset projections
- Return on investment
Sources and Uses of Capital

- Venture capitalists want to know how their money will be spent?
- Venture capital can only be spent on R&D, new sales outlets offices, and factory improvements.
- Venture capital cannot be spent on advertising or compensation.
- Use long-term debt for factory expansions.
- Use short-term debt for market uncertainty and inventory fluctuations.
What is in it for the Investor?

- They are not here because they like you.
- They are not here because they want to help you.
- They are not here to listen to how good you are (although this is important).
- They are here to discover if you can make a lot of money for them with the least amount of risk on their part.
- Do not loose sight of their objective!
What will be the value of the investment at the end of year 2?

- You have invested 4,000,000 to date.
- You will ask Investors for money, up to 5,000,000.
- What is your projected profitability by the end of Q8?
- What will the firm be worth by the end of Q8?
- What will be the return on investment for the Investor at the end of Q8?
Required Appendices

- Strategic analysis
- Strategic Plan
  - Corporate
  - Each function
- Tactical plan through Q8
- Pro forma financial statements through Q8
Tactical Plan follows from the Strategy

A tactical plan is a series of interconnected tactics purposely organized to be executed in a particular order in time and space for the purpose of achieving specific strategic goals.
## Tactical Plan

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<th>Q5</th>
<th>Q6</th>
<th>Q7</th>
<th>Q8</th>
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<tbody>
<tr>
<td><strong>R&amp;D</strong></td>
<td>Flat screen Fast Internet</td>
<td>Flat screen Fast Internet</td>
<td>Comfort Keyboard Plug &amp; play</td>
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<td><strong>New Brands</strong></td>
<td>NY, LA, Toronto</td>
<td>Paris, London, Montreal</td>
<td>Berlin</td>
<td>Rome</td>
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<td><strong>Prices</strong></td>
<td>Penetrate Sand 2800 Ham 2000</td>
<td>Penetrate Sand 2700 Ham 1800</td>
<td>Premium new brand Sand II 3200</td>
<td>Premium new brand HamII 3100</td>
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<td></td>
</tr>
</tbody>
</table>
# Project Revenues and Expenses

## Historical

<table>
<thead>
<tr>
<th></th>
<th>Quart 1</th>
<th>Quart 2</th>
<th>Quart 3</th>
<th>Quart 4</th>
<th>Quart 5</th>
<th>Quart 6</th>
<th>Quart 7</th>
<th>Quart 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Cash Balance</strong></td>
<td>0</td>
<td>13,680</td>
<td>12,130</td>
<td>311,966</td>
<td>616,106</td>
<td>2,345,341</td>
<td>4,390,904</td>
<td>10,037,753</td>
</tr>
</tbody>
</table>

## Future

### Receipts from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>Quar ter 1</th>
<th>Quar ter 2</th>
<th>Quar ter 3</th>
<th>Quar ter 4</th>
<th>Quar ter 5</th>
<th>Quar ter 6</th>
<th>Quar ter 7</th>
<th>Quar ter 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>0</td>
<td>0</td>
<td>671,100</td>
<td>2,542,480</td>
<td>5,325,162</td>
<td>12,68,1,800</td>
<td>20,706,000</td>
<td>25,228,000</td>
</tr>
<tr>
<td>+ Licensing Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>+ Other Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>+ Interest Income</td>
<td>13,680</td>
<td>6,450</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Receipts from Operations</strong></td>
<td>13,680</td>
<td>6,450</td>
<td>671,100</td>
<td>2,542,480</td>
<td>5,325,162</td>
<td>12,68,1,800</td>
<td>20,706,000</td>
<td>25,228,000</td>
</tr>
</tbody>
</table>

### Disbursements from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>Quar ter 1</th>
<th>Quar ter 2</th>
<th>Quar ter 3</th>
<th>Quar ter 4</th>
<th>Quar ter 5</th>
<th>Quar ter 6</th>
<th>Quar ter 7</th>
<th>Quar ter 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>0</td>
<td>0</td>
<td>595,215</td>
<td>1,160,403</td>
<td>2,383,428</td>
<td>5,682,588</td>
<td>8,639,400</td>
<td>10,812,000</td>
</tr>
<tr>
<td>+ Research and Development</td>
<td>0</td>
<td>120,000</td>
<td>125,000</td>
<td>185,000</td>
<td>2,451,927</td>
<td>400,000</td>
<td>310,000</td>
<td>275,000</td>
</tr>
<tr>
<td>+ Quality Cost</td>
<td>0</td>
<td>0</td>
<td>16,883</td>
<td>210,938</td>
<td>273,799</td>
<td>595,811</td>
<td>326,567</td>
<td>326,567</td>
</tr>
<tr>
<td>+ Licensing Fees</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>+ Advertising</td>
<td>0</td>
<td>0</td>
<td>104,516</td>
<td>299,814</td>
<td>417,078</td>
<td>735,148</td>
<td>617,078</td>
<td>717,078</td>
</tr>
</tbody>
</table>
Oops Factor in Strategic Planning

- Develop tactical plan
- Check cash flow
- Revise tactical plan
- Check cash flow
Venture Capital Fair
Venture Capital Request

- The team is free to ask for up to $5,000,000 in common stock
- The maximum you may take is $5,000,000
- All buyback options and conversion options must take affect after the last quarter of play.
Procedure

• Each team is given 15 minutes to present its business plan to a group of investors.
• Each team will make two presentations to two sets of venture capitalists.
• The objective is to let the venture capitalists see all teams before they sit down to negotiate an equity investment with any one of them.
At the end of the presentations

• The venture capital group will quickly evaluate the quality of the teams.
• Each individual investor:
  – decides which teams he or she wants to negotiate with and the order (probably no more than three for detailed negotiations);
  – may inform a team whether and when he or she wants to meet with them (team can approach venture capitalists);
  – meets with the team to ask questions and negotiate an equity position.
Each Investor is a Free Agent

• Each Individual Investor:
  – has $4,000,000 to invest;
  – is free to negotiate an equity position in any team; and
  – is free to contact each other for consultation.

• It is not necessary that the investors agree on a common stock price.

• Investors are encouraged to consider a stock price between 70 and 120 per share.
The Deal

• The negotiation is concluded when the venture capitalist physically gives the cash (in play money) for the equity investment. Both parties should sign a contract for the exchange.

• The instructor will issue the stock once the team has turned over the cash to the instructor, along with a copy of the stock agreements which the team has negotiated with the venture capitalists.
Fast Eddy's Venture Capital Fund

• Fast Eddy's Venture Capital Fund is the investor of last resort in case a team is not able to find suitable investors.

• FEVCF will make an open offer at a stock price 10 less than the worst stock price on the market.
Details

• See schedule for the team presentation times.
• Negotiations will run for approximately one hour.
• The venture market is a free market – any team may contact any investor in their universe even if the investor has not asked to speak with it.
• All transactions must be completed within the allotted time.
• Quarter 5 decisions will be due shortly after the Venture Capital fair.
Procedure for Next 2 Weeks

• Complete Q5 and meet with Business Coach this week

• Next, prepare strategic analysis, corporate strategy, functional strategies, tactical plan and pro forma financial statements through Quarter 8 and submit them to your Coach for review and feedback

• Then prepare Power Point presentation and submit it to your Coach for review and feedback (much of the presentation will be drawn from the above)

• Your Business Coach will set the deadlines, but everything must be done before the presentation
Learning Points for Quarter 5

• Managing the future (taking the initiative now by expending resources that will shape the events and opportunities of the future)
Learning Points for Quarter 5

- Strategic and tactical planning
  - Specify objectives
  - Perform strategic analysis
  - Evaluate strategic options
  - Choose strategic direction
  - Select strategic thrusts
  - Specify tactics
  - Time phase tactics into the future
  - Work investment money and debt to support tactical plans
  - Project cash flows
  - Evaluate feasibility and attractiveness of strategic plan
Learning Points for Quarter 5

- Understanding cash flows
  - cash is king
  - how is profit different from cash?
- Knowing how to value of the firm and estimate ROI
- You can not go to Hawaii on market share

(at the end of the day, wealth creation is the goal)
Competitive Thinking

- Competition or cooperation - strategic alliances with competitors
  - multiplying resources
  - developing markets more quickly
  - versus helping the competition
- Game theory and prisoner’s dilemma
  (if I do this and they do that, then ……?)
- Negotiations
Quarter 5
Making Plans for the Future
The Following Slides Are Used for the Final Summary
Lessons Learned
The Learning Strategy and Mental Discipline of Marketplace
Learning Strategy

I listen, I forget.
I see, I remember.
I do, I understand.

Old Chinese Proverb
Learning Strategy

Business simulations are a form of combative training where participants pit their business skills against those of formidable opponents under the watchful eye of a training coach.
When we study one discipline at a time, we are like a bunch of blind people trying to understand what an elephant is.

Please tell me what it is?

It’s a sheet of rawhide.

It’s a snake.

It’s a steel tube.

It’s a tree trunk.
With business simulations, you can crawl all over and under the enterprise to help you to see and understand the whole thing. It is an enterprise!
Mental Discipline & Business Culture

• Develop leadership, teamwork and interpersonal skills.

• Promote better decision making by learning to manage a totally integrated company, including the management of sales outlets, marketing, production, and human and financial resources.

• Facilitate learning of important business concepts, principles and ways of thinking.
Mental Discipline & Business Culture

• Develop strategic planning and execution skills within a rapidly changing environment.

• Instill a bottom line focus and the simultaneous need to deliver customer value.

• Crystallize the financial implications of business decisions and how they flow to bottom-line performance.
Mental Discipline & Business Culture

• Discover how important it is to use market data and competitive signals to adjust the strategic plan and more tightly focus business tactics.

• Live and breathe performance-based management

• Learn what it takes to start up and manage a new venture.
Mental Discipline & Business Culture

- Build confidence through knowledge and experience.
Congratulations on a job well done!