



# STRATSIM MARKETING INTRODUCTION

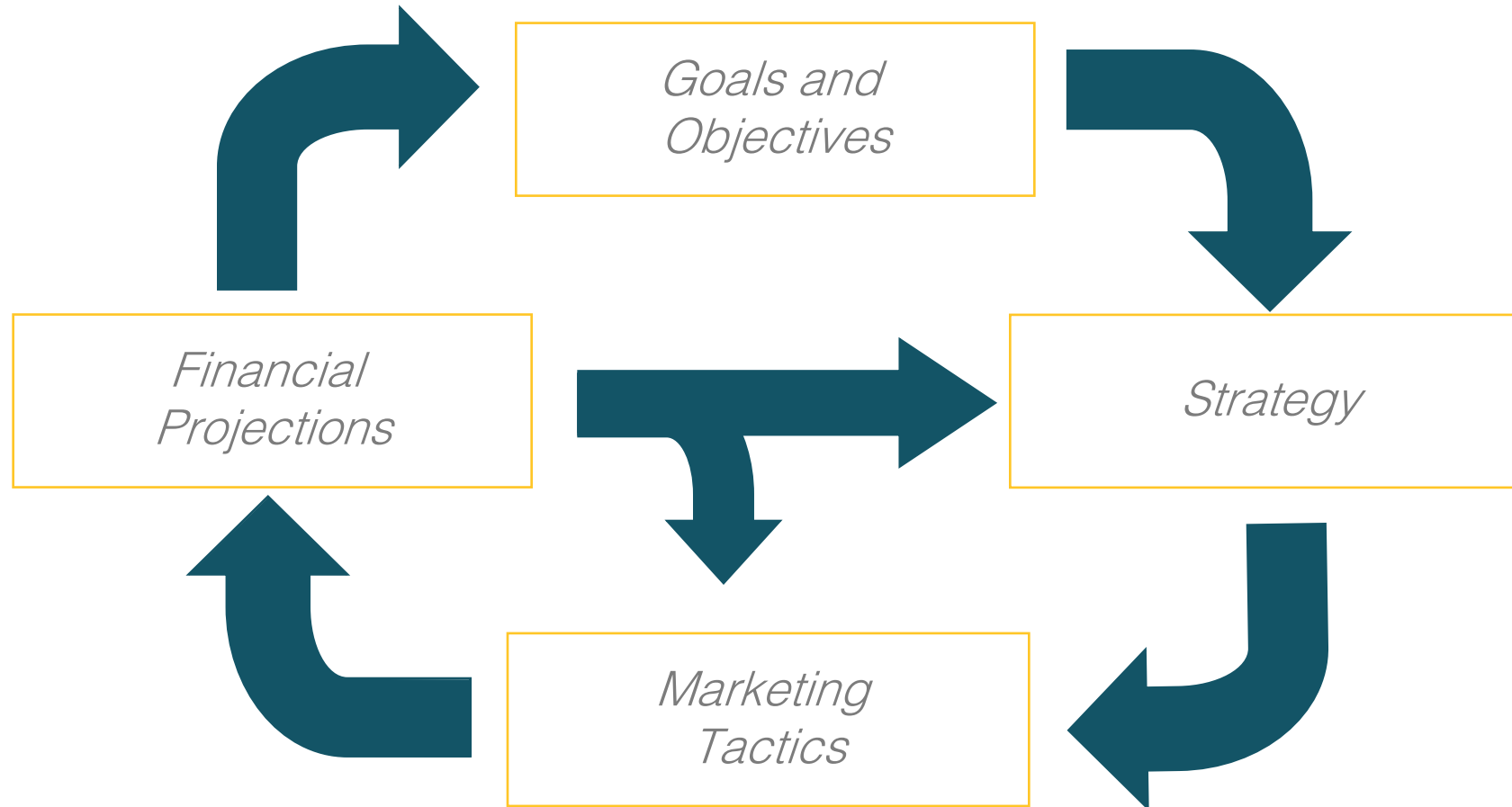
# STRATSIMMARKETING

In this computer simulation, your team will take over the management of one of five automobile manufacturing companies for up to 10 simulated years and make **decisions** in the areas of:

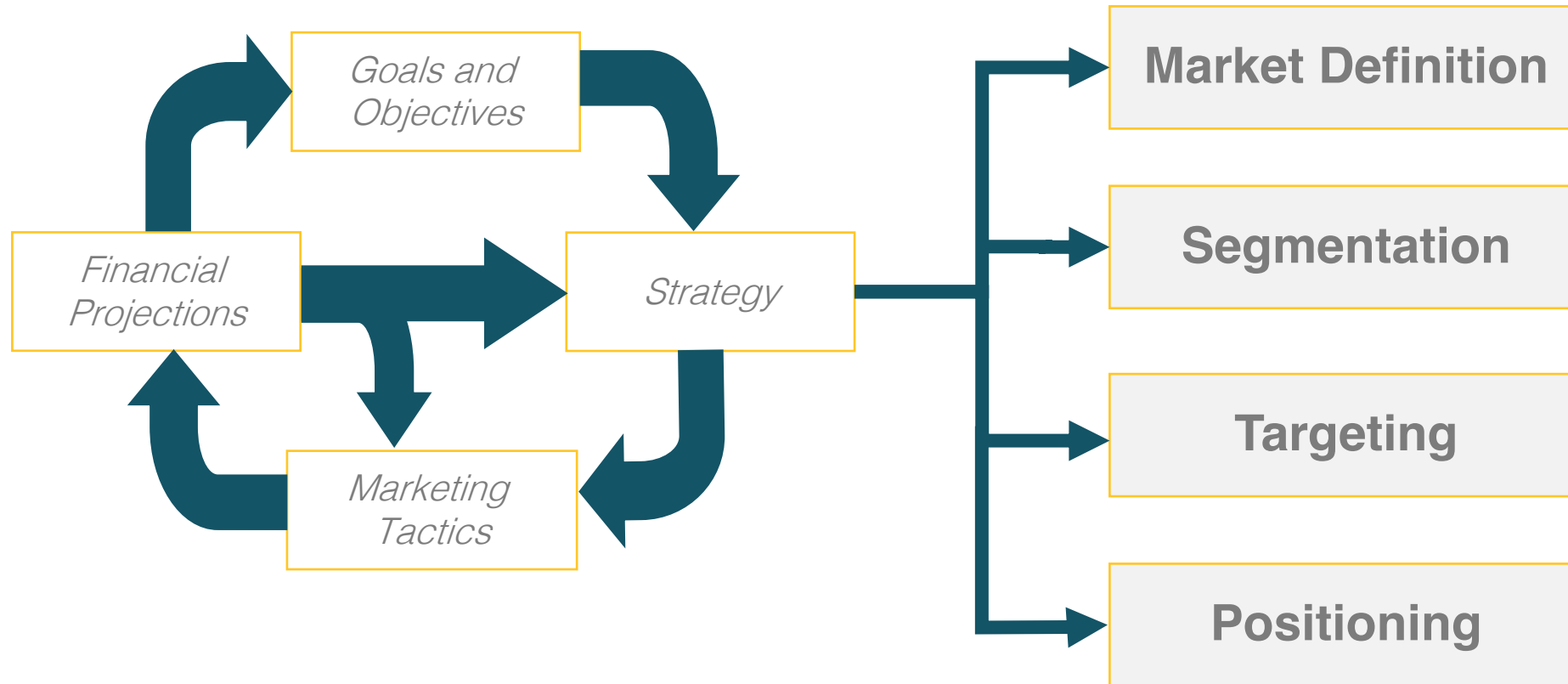
- Marketing
- Product Development
- Distribution
- Manufacturing
- Finance

**Integrated, long-term, market-focused strategy, while managing for short-run outcomes.**

# THE STRATEGIC PLANNING PROCESS

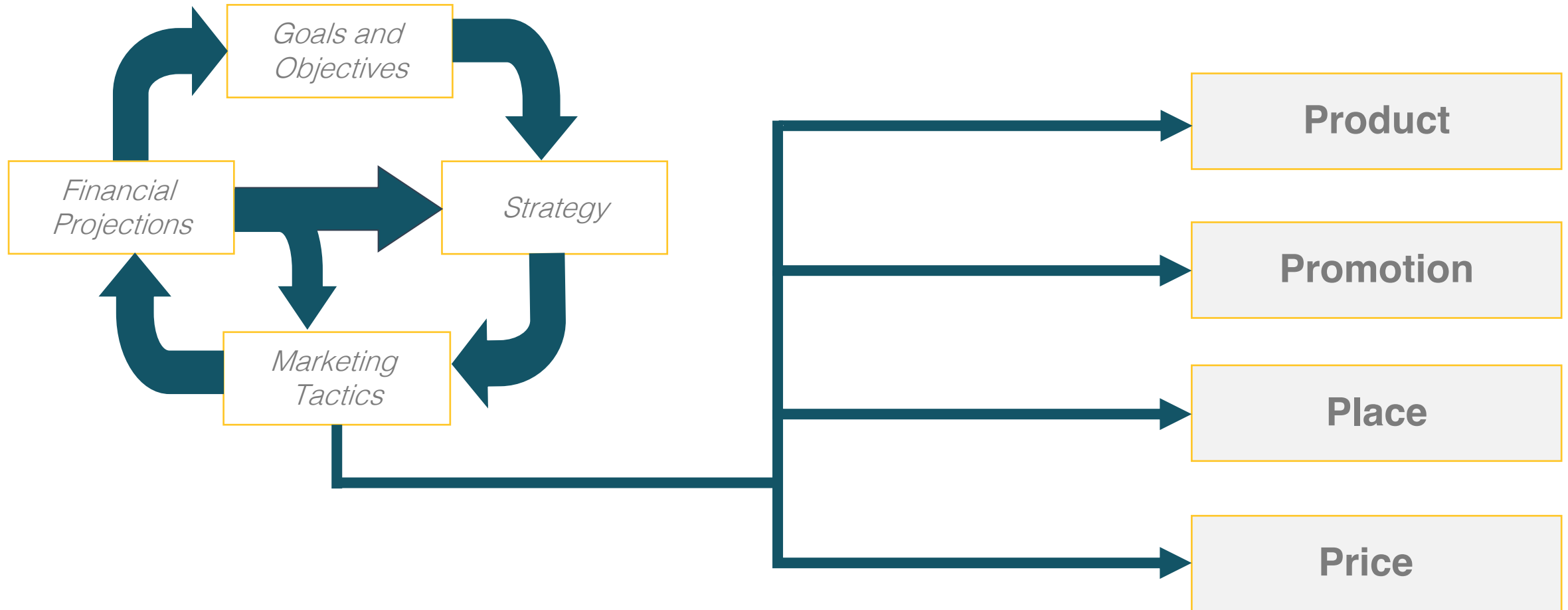


# THE STRATEGIC PLANNING PROCESS

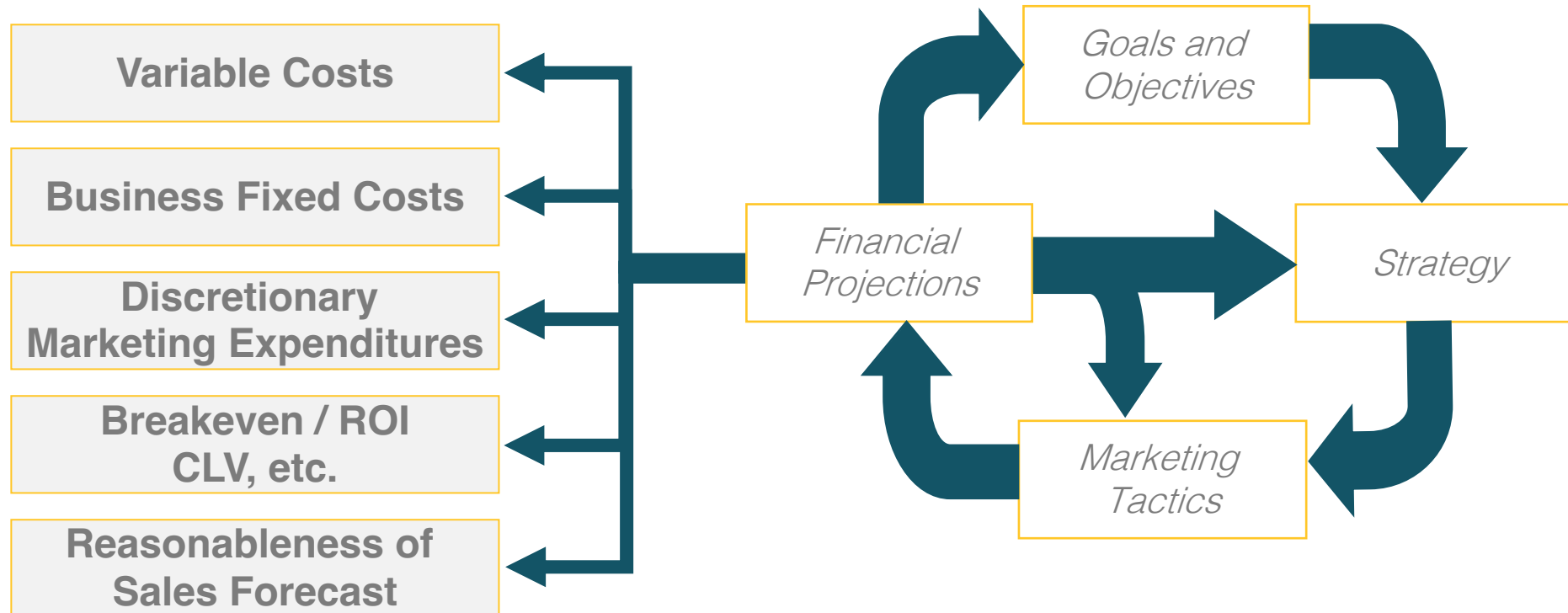


***Supported and integrated with non-marketing business functions: technological capabilities, operations capacity and efficiency, and financial capacity and structure.***

# THE STRATEGIC PLANNING PROCESS



# THE STRATEGIC PLANNING PROCESS



# STRATSIM ENVIRONMENT

- Based on the automobile industry with two markets:
  - ***Consumer market of approximately 150 million people (sold via dealerships)***
  - ***B2B market of numerous fleet contracts (sold directly, serviced at dealerships)***
- Currently, low GDP and inflation growth rates.
- Demand sensitive to GDP, interest rates, and decisions that you make as an industry.
- Maximum of 10 yearly decision periods.

# STRATSIM ENVIRONMENT

## PRODUCTS: VEHICLE CHARACTERISTICS

### Principle Characteristics

- Vehicle Class
- Size
- Engine / Performance (“HP”)
- Interior, Styling, Safety, Quality (“ISSQ”)

### **AND...**

- Price (MSRP, Retail Price, Dealer Invoice)
- Cost (to Manufacture)



# STRATSIM ENVIRONMENT

## PRODUCTS: VEHICLE CLASSES

### 7 Vehicle Classes with Existing Products:

(E)conomy	(M)inivan
(F)amily	(U)tility
(S)ports	(T)ruck
(L)uxury	

### Plus two potential new classes if developed

- (A)EVs
- (D)elivery (B2B only)

# STRATSIM ENVIRONMENT

## THE COMPETITION

**5 Firms (A-E), each with 3 vehicles on the market.**

- Amazing Cars ( A\* ) . . . . . Alfa ( F+ ), Alec ( E ), Awesome ( U )
- Best Motor Works ( B ) . . . . . Boffo ( F ), Beaut ( L ), Buzzy ( S )
- Cool Cars ( C ) . . . . . Cafav ( F ), Camini ( M ), Climax ( L )
- Driven Motor Co. ( D ) . . . . . Defy ( F ), Delite ( E ), Detonka ( T )
- Efficient Motors ( E ) . . . . . Efizz ( F ), Estruck ( T ), Euro ( U )

*\*Corresponds to Firm Name*

*+Corresponds to Product Class.*

- ❖ All five firms have a Family class vehicle (F), plus two other vehicle classes.
- ❖ The firms have different **strengths** and **weaknesses** and are uniquely positioned in the market.

# STRATSIM ENVIRONMENT

## THE COMPETITION

Starting positions on several key performance measures:

	MANUF. SALES ( B\$ )	MARKET SHARE ( \$ )	NET INCOME ( B\$ )	STOCK PRICE ( \$ )
FIRM A	21.9	24.8%	1.3	49
FIRM B	11.7	13.2%	1.2	45
FIRM C	13.3	15.1%	1.2	46
FIRM D	20.0	22.7%	1.3	47
FIRM E	21.3	24.1%	1.3	48

# STRATSIM ENVIRONMENT

## INDUSTRY OVERVIEW

CLASS	POSITION	SEGMENTS	VEHICLES	EXAMPLE
<i>ECONOMY</i>	Smaller Low Price	1, 2	Alec, Delite	
<i>FAMILY</i>	Mid Size Mid Price	2, 4	Alfa, Boffo, Cafav, Defy, Efizz	
<i>LUXURY</i>	Larger Expensive	4, 5	Beaut, Climax	
<i>SPORTS</i>	Mid Size Mid Price	3	Buzzy	
<i>MINIVAN</i>	Larger Mid Price	2	Camini	
<i>UTILITY</i>	Larger Mid-High Price	3, 5	Euro, Awesome	
<i>TRUCK</i>	Mid-Large Size Mid Price	1, 3	Detonka, Estruck	

# CONSUMER MARKET

5 Consumer Segments (1-5) with different needs and class preference.

Microsegment = Intersection of segment and class preference  
(e.g., 1T is a Value Seeker (1) who prefers a (T)ruck)

## SEGMENTS

- Value Seekers (1)
- Families (2)
- Singles (3)
- High Income (4)
- Enterprisers (5)

## MICROSEGMENTS

- 1E, 1T
- 2E, 2F, 2M
- 3S, 3T, 3U
- 4F, 4L
- 5L, 5U

***...New microsegments may emerge!***

# CONSUMER MARKET

## PURCHASE PROCESS

- Consumers have different needs and expectations with regard to vehicle characteristics.
- Their “consideration set” is based on vehicle class, size, and price.

*(Sample shown for 2M Microsegment)*

The blue rectangular area indicates the expected size (68-88) and price (20-30K) ranges for the 2M (Families / Minivan) microsegment. Most likely vehicles that would be considered are designated by the letters A, B, and C.



# CONSUMER MARKET

## PURCHASE PROCESS

- Consumers prefer a particular size vehicle.
- Consumers prefer a specific engine horsepower (HP) due to the trade-off between performance and fuel economy.
- Consumers prefer better (more) Interior, Styling, Safety, and Quality (“ISSQ”).
- Consumers weigh this bundle of goods against the price charged.

***HINTS: Consumers may have certain “hot buttons” or attributes that are particularly important to them, and some may be more price-sensitive than others.***

# B2B MARKET *(optional)*

## New Opportunity in direct sales to Fleet Buyers

- Rental Car Fleets (6)..... (e.g. Hertz)
- Delivery fleets (7)..... (e.g. FedEx)
- Other (8)..... (e.g. Gov't)

### **NOTE:**

*Segments designated 1-5 are consumer customers.  
Segments designate 6-8 are B2B customers.*

- B2B Customers have a very different purchase process from the Consumer Market.
- Guaranteed unit sales are awarded to all firms that meet contract requirements.
- Preferred Supplier status awarded to firm that meets all contract requirements with the lowest bid price each period and receives twice the guaranteed amount.



# B2B MARKET (*optional*)

- Adds potential sales volume, but requires additional management time and resources.
- Make sure you meet ALL minimum requirements.
  - 1. Meet or exceed all ISSQ requirements**
  - 2. Within range on size and HP specifications**
  - 3. Meet or exceed dealer coverage requirements in ALL regions**
  - 4. At or below maximum price**
- Consider impact on margins and production especially if you are chosen as preferred supplier. B2B contracts are the first units allocated from production.
- Think about synergies (or not) between B2B customers and consumer customers.

# COMPANY

- Dashboard
- Product Contribution
- Income Statement
- Balance Sheet
- Cash Flow

The screenshot displays the StratSimMarketing application interface. The top navigation bar includes 'Introduction', 'Company', 'Market', 'Competition', 'Tools', and 'Decisions'. The 'Company' menu is open, listing 'Dashboard', 'Product Contribution', 'Income Statement', 'Balance Sheet', and 'Cash Flow'. Below the menu, a table shows financial metrics for 'Previous' and 'Current' periods. The table includes rows for Net Income, Cumulative Net Income, Stock Price, Total Shareholder Return, Revenue, and Cash.

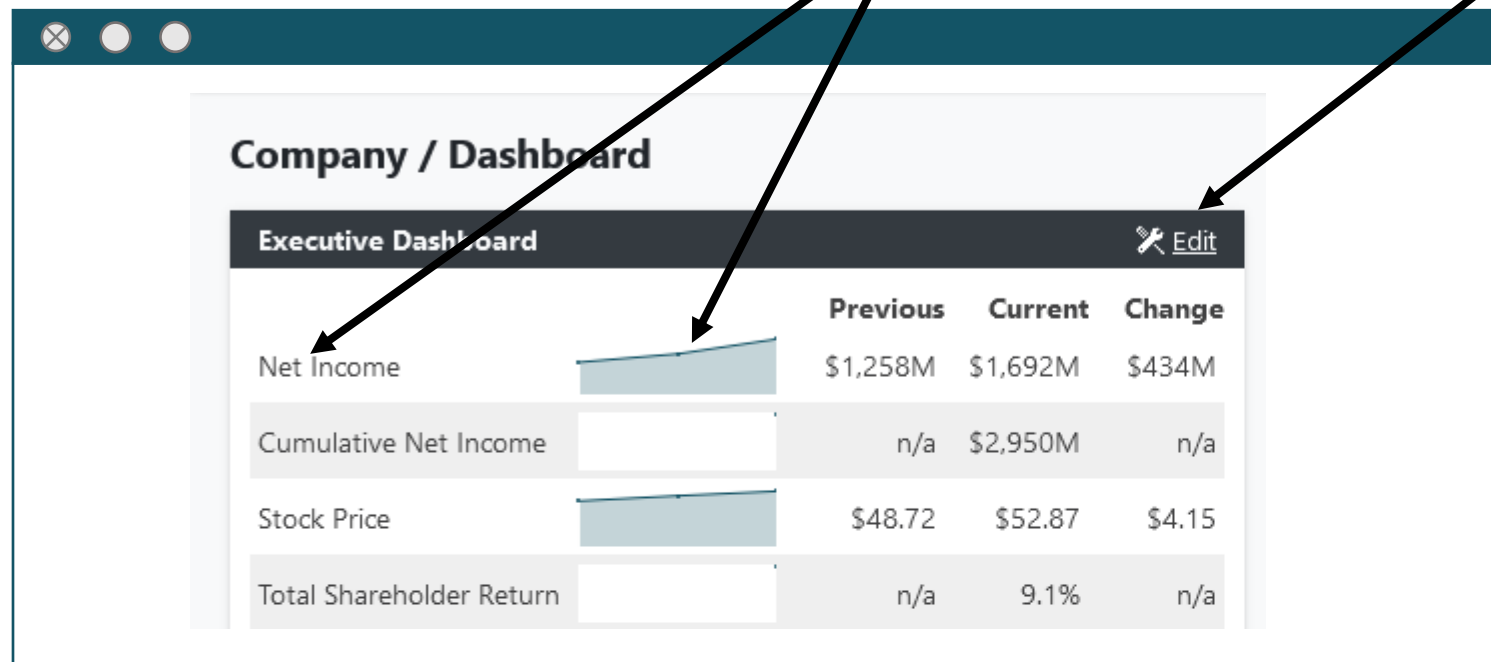
	Previous	Current	Ch
Net Income	\$1,012M	\$1,258M	\$2
Cumulative Net Income	n/a	n/a	
Stock Price	\$43.91	\$48.72	\$
Total Shareholder Return	n/a	n/a	
Revenue	\$19,766M	\$21,886M	\$2,1
Cash	\$990M	\$5,250M	\$4,2

# DASHBOARD

- Net Income
- Cumulative Net Income
- Stock Price
- And more...

Click on a measure for a competitive graph. Note that mini-graphical trend display begins in Year 1.

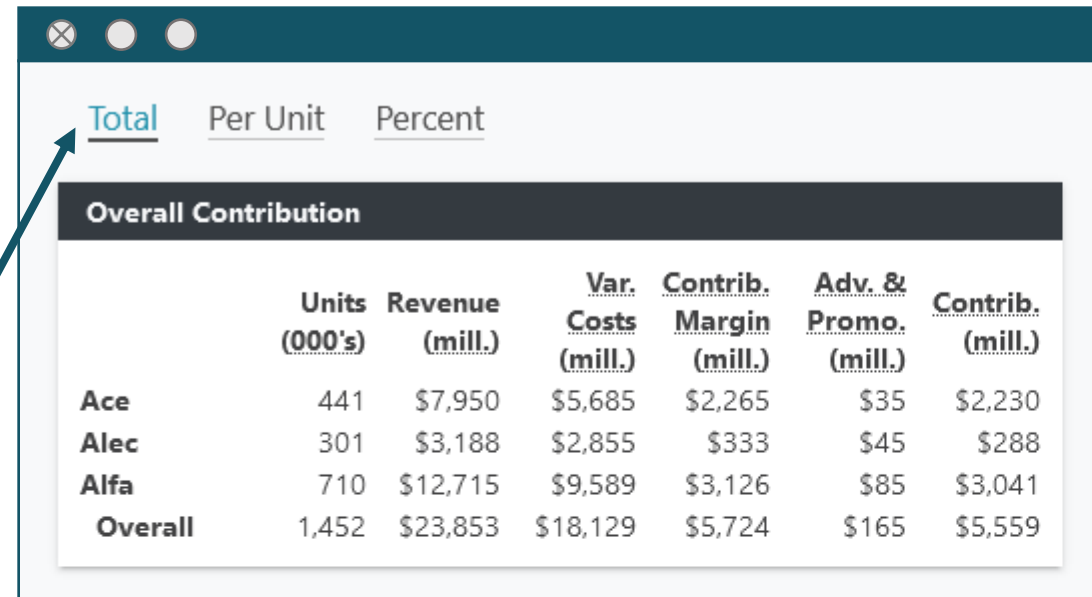
Change which measures are displayed and their order by clicking the Edit link.



# PRODUCT CONTRIBUTION

- Total (sums of all units)
- Per Unit
- Percent

Click on the **Total**, **Per Unit**, and **Percent** tabs at the top of the page for each view.



	Units (000's)	Revenue (mill.)	Var. Costs (mill.)	Contrib. Margin (mill.)	Adv. & Promo. (mill.)	Contrib. (mill.)
<b>Ace</b>	441	\$7,950	\$5,685	\$2,265	\$35	\$2,230
<b>Alec</b>	301	\$3,188	\$2,855	\$333	\$45	\$288
<b>Alfa</b>	710	\$12,715	\$9,589	\$3,126	\$85	\$3,041
<b>Overall</b>	1,452	\$23,853	\$18,129	\$5,724	\$165	\$5,559

# FINANCIAL STATEMENTS

- Income Statement
- Balance Sheet
- Cash Flow

*Links* are available for detail on some line items.

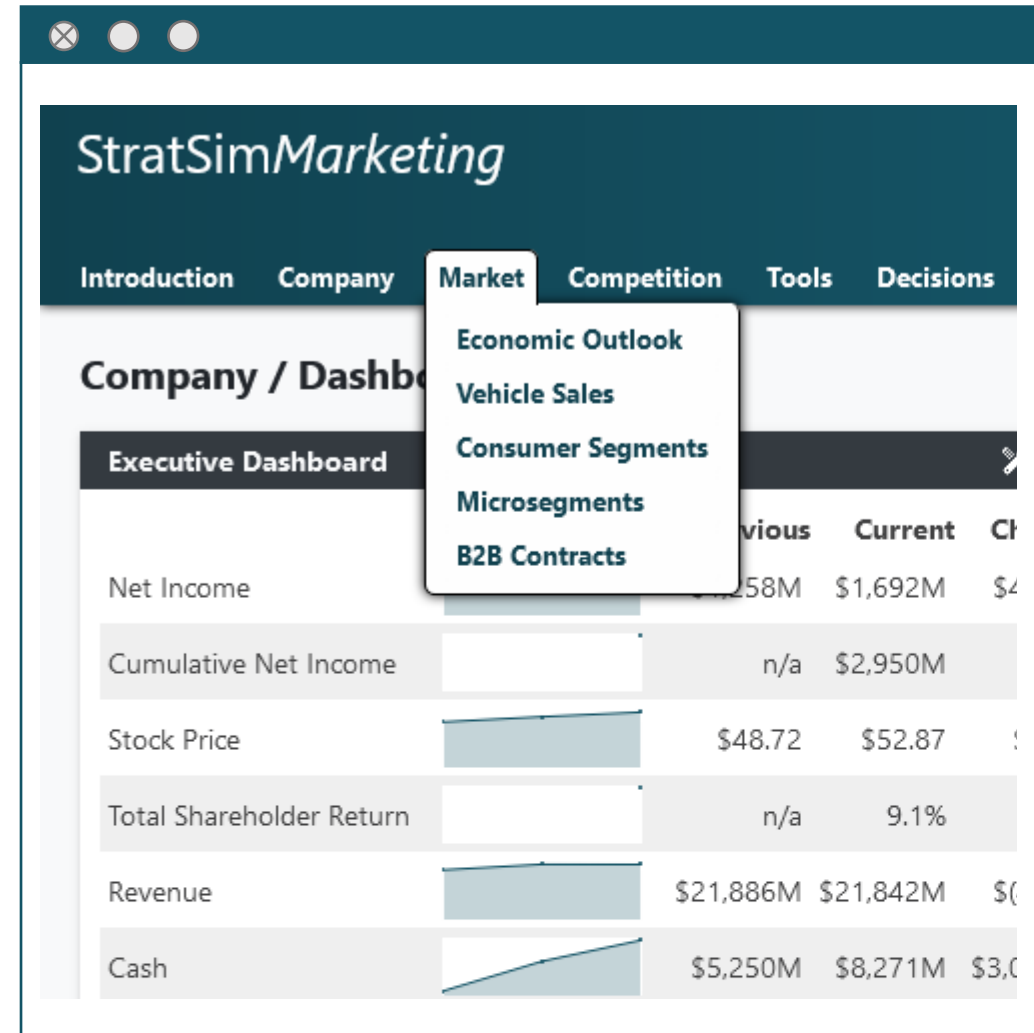
Income Statement for Year 0			
	Millions	Millions	Percent of Revenue
<a href="#">Sales</a>	\$23,853		100.0%
<a href="#">Cost of Goods Sold</a>	\$(20,338)		-85.3%
Gross Margin		\$3,515	14.7%
Marketing	\$(215)		-0.9%
Research and Development	\$0		0.0%
General and Administrative	\$(948)		-4.0%
Income from Operations		\$2,352	9.9%
Interest Income	\$0		0.0%
Interest Expense	\$(500)		-2.1%
<a href="#">Extraordinary Items</a>	\$0		0.0%
Income before Tax		\$1,853	7.8%
Less Tax @ 35%	\$(648)		-2.7%
Net Income		\$1,204	5.0%
Dividends Paid (500M shares)		\$100	0.20/sh

# MARKET

## MARKET ANALYSIS

- Economic Outlook
- Vehicle Sales
- Consumer Segments
- Microsegments
- **B2B Contracts\***

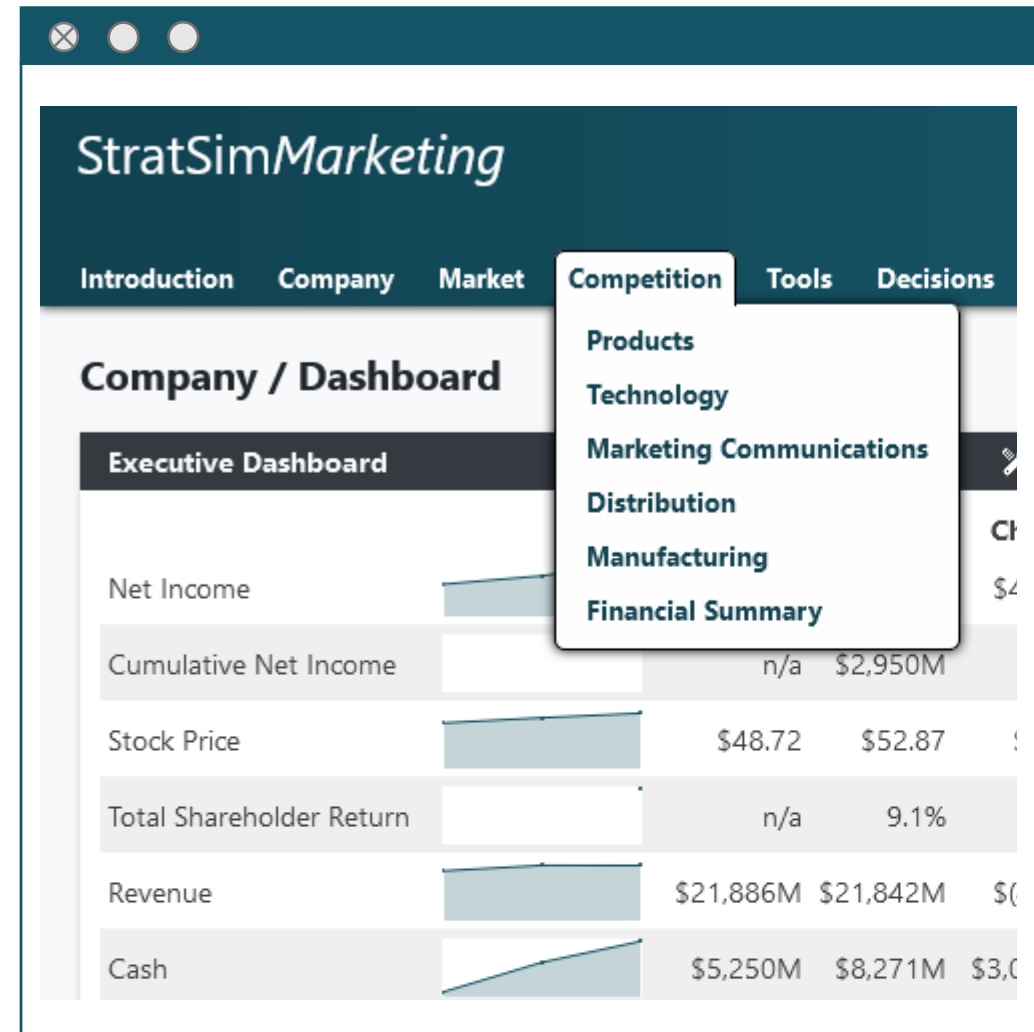
*\*B2B is an optional feature and will be displayed only if selected by the instructor.*



# COMPETITION

## COMPETITIVE ANALYSIS

- Products
- Technology
- Marketing Communications
- Distribution
- Manufacturing
- Financial Summary

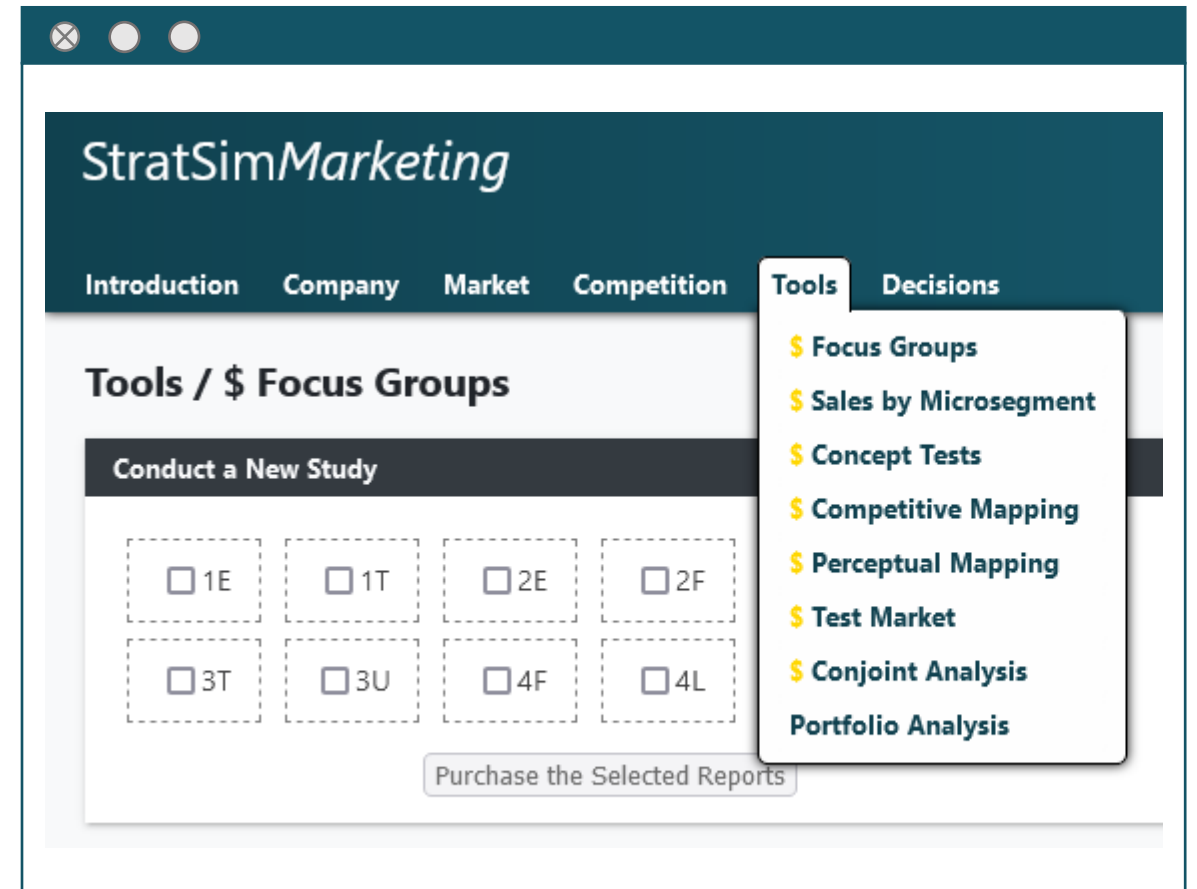


# TOOLS

## TOOLS & MARKETING RESEARCH

- Focus Groups (\$)
- Sales by Microsegment (\$)
- Concept Tests (\$)
- Competitive Mapping (\$)
- Perceptual Mapping (\$)
- Test Market (\$)
- Conjoint Analysis (\$)
- Portfolio Analysis (Free)

*NOTE: Tools available will vary based on customization selected.*



The screenshot displays the StratSimMarketing website interface. At the top, there is a navigation menu with the following items: Introduction, Company, Market, Competition, Tools, and Decisions. The 'Tools' menu is currently open, showing a list of available tools, each preceded by a yellow dollar sign icon: Focus Groups, Sales by Microsegment, Concept Tests, Competitive Mapping, Perceptual Mapping, Test Market, Conjoint Analysis, and Portfolio Analysis. Below the navigation menu, the main content area is titled 'Tools / \$ Focus Groups'. Underneath this title, there is a section labeled 'Conduct a New Study' which contains a grid of eight study options, each in a dashed box: 1E, 1T, 2E, 2F, 3T, 3U, 4F, and 4L. At the bottom of this grid, there is a button labeled 'Purchase the Selected Reports'.



# DECISIONS

- Technology
- Product Development
- Licensing (optional)
- Consumer Marketing
- B2B Marketing (optional)
- Distribution
- Manufacturing
- Financing
- Special Decisions

The screenshot shows a software interface with a dark teal header and a light gray main area. The header contains navigation tabs: Introduction, Company, Market, Competition, Tools, and Decisions. The 'Decisions' tab is active, and a dropdown menu is open, listing various decision categories: Technology, Product Development, Licensing, Consumer Marketing, B2B Marketing, Distribution, Manufacturing, Financing, Special Decisions, Decision Summary, Timeline, Pro-Forma, and Decision Rationale. The main content area is titled 'Decisions / Technology' and contains a table with the following data:

Technology	
	<b>Interior</b>
Maximum	10
Firm Maximum	5
Cost to Increase by 1 (mill.)	\$187
Est. cost savings of increase (mill.)	\$10
Increase Attribute:	<input type="checkbox"/> Yes
Curr. Expenditure (mill.)	\$0

*Note: Investing in technology does not automatically increase the spe*

# TECHNOLOGY

- Each firm has an overall **technology capability** with regard to **I**nterior, **S**tyling, **S**afety, and **Q**uality (ISSQ) that can be improved through investment in technology.
- For Example: If firm A's technology profile is 4, 5, 4, 5, it can develop and/or upgrade vehicles to these maximum specifications.
- A firm with greater technology capability can produce vehicles with better ISSQ features AND produce vehicles with the same features at lower per unit cost.
- Weigh benefit against cost of investment, but also consider the long-term implications of not developing your technology capabilities.

***IMPORTANT: Investing in technology does not automatically improve the specifications of your products, only your ability to do so through upgrades.***

# TECHNOLOGY

**Cost of Investment** and  
**Estimated Benefit.**

*(Estimated savings based on  
current vehicles and volume).*

Technology					
	Interior	Styling	Safety	Quality	Total
Maximum	10	11	9	11	
Firm Maximum	4	6	4	6	
Cost to Increase by 1 (mill.)	\$196	\$300	\$327	\$338	\$1,161
Est. cost savings of increase (mill.)	\$23	\$8	\$34	\$2	\$67
Increase Attribute:	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes	
Curr. Expenditure (mill.)	\$0	\$0	\$0	\$0	\$0

*Note: Investing in technology does not automatically increase the specifications of your vehicles.*

Click on checkboxes to change your **Technology Capabilities**. Maximum 1 unit increase on any or all technology capabilities per period.

# PRODUCT DEVELOPMENT

## DEVELOPMENT CENTERS

- All product development takes place in **Development Centers**.
- **New products** begin as **concepts** and then may be moved into a development center once specifications are finalized.
- **Upgrades** also take place in the centers.
- Each firm starts with **2 development centers** allowing concurrent development on two products (new products or upgrades).
- New development centers can be added over time up to a **maximum of five** (one additional center per period).
- Development centers cost money and take one year to build.

# PRODUCT DEVELOPMENT

## CONCEPTS

- To introduce a **New Product** (new brand name, not an upgrade), a firm must first develop a product **concept**.
- Your firm receives feedback on the projected **base cost (unit cost @ 100K units), development cost, and time to develop.**

- ❖ Build button (to move concept into development) and delete checkbox to the right of the concept name.
- ❖ Your firm may also run a concept test to see how a potential market (“microsegment”) views your concept.

Concepts

Name / Class	Size	HP	Interior	Styling	Safety	Quality	*Est. Base Cost	Devel. Cost (mill.)	Devel. Time	
AE-0001 Economy	(1-35) 1	(50-175) 50	(1-4) 1	(1-6) 1	(1-4) 1	(1-6) 1	\$9,592	\$375	2 Years	<input type="checkbox"/> Delete <input type="button" value="Build"/>

\* Estimated Base Cost is for 100,000 units.

# PRODUCT DEVELOPMENT

## UPGRADES

- Improving existing vehicles is important as customer needs and competition change. This is done through **Upgrades**.
- Three types: **Cost Reduction** (same specifications at a lower unit cost), **Minor** (small changes), **Major** (large changes). Both minor and major upgrades also will attempt to reduce costs.
- Upgrades take place in your development centers and your firm will receive feedback on the upgrade's unit cost, development cost, and time to develop.
- Your team must specify the changes in the Minor and Major upgrades. Multiple attributes may be adjusted in the same upgrade.

# PRODUCT DEVELOPMENT

## IN SUMMARY, 5 GENERAL APPROACHES:

- 1. Cost Reduction:** Based on existing product, uses 1 center for 1 decision period, prepare launch now (immediate impact after advance).
- 2. Minor Upgrade:** Based on existing product, uses 1 center for 1 decision period, prepare launch now (immediate impact after advance). Inventory disposed now.
  - ***"tweak" – Max. change of any combination of +/-2 size, +/-5 HP, +/-1 other specs.***
- 3. Major Upgrade:** Based on existing product, uses 1 center for 2 decision periods, prepare launch in one year. Inventory disposed in one year.
  - ***Max change of any combination of +/-10 size, +/-20 HP, +/-2 other specs + "tweak" next year***
- 4. New Product, Same Class:** Based on concept, uses 1 center for 2 decision periods, prepare launch in one year.
- 5. New Product, New Class:** Based on concept, uses 1 center for 3 decision periods, prepare launch in two years.

***Balance opportunities, speed to market, cost, and need for change.***



# PRODUCT DEVELOPMENT TIMELINES

## General Rule:

*A brand upgrade or new brand enters the market in the last year it is in a development center.*

	CURRENT PERIOD	PERIOD +1	PERIOD +2	PERIOD +3
<b>Cost Reduction</b> \$100-\$200 Million in current year	Project in Dev. Center (no changes to specifications allowed)	<b>In Market</b> Retooling. Results impacted. (vehicle costs reduced)		
<b>Minor Upgrade</b> \$100-\$300 Million in current year	Modify Specs In Dev. Center Adjust Marketing Mix Adjust Production (Inventory disposed)	<b>In Market</b> Results impacted. (Including sales, retooling, inventory write-off)		
<b>Major Upgrade</b> \$250-\$750 Million Spread over 2 years	Modify Specs In Dev. Center Build Additional Capacity	Modify Specs In Dev. Center Adjust Marketing Mix Adjust Production (Inventory disposed)	<b>In Market</b> Results impacted. (Including sales, retooling, inventory write-off)	
<b>New Product (Existing class)</b> \$250-\$1,500 Mill. Spread over 2 years	Create Concept Name Product Modify Specs In Dev. Center Build Additional Capacity	Modify Specs In Dev. Center Set Marketing Mix Set Production	<b>In Market</b> Results impacted. (Including sales, retooling)	
<b>New Product (New class)</b> \$500-\$2,500 Mill. Spread over 3 years	Create Concept Name Product Modify Specs In Dev. Center	Modify Specs In Dev. Center Build Additional Capacity	Modify Specs In Dev. Center Set Marketing Mix Set Production	<b>In Market</b> Results impacted. Including sales, retooling)
<b>Licensing (Optional feature)</b> Immediate Negotiate with Licensor	Negotiation of terms of license, make and accept offer, enter marketing mix decisions	<b>In Market</b> Results impacted by license launch. Revenues to licensor. Re-enter terms of license (or renegotiate)		



# PRODUCT DEVELOPMENT

## EXAMPLE

- In the 1<sup>st</sup> decision period, a firm initiates a minor upgrade and a **new product** in a new class...
- If, in the following period, the firm thinks it will want to initiate **two more upgrades**, what are its options?
  - *Build a new development center in the 1<sup>st</sup> decision period so they would have 3 operational centers in the 2<sup>nd</sup> decision period.*
  - *Only choose one upgrade in the 2<sup>nd</sup> decision (because the new product would occupy one development center).*
  - *Choose to discontinue development of the new product to free a development center.*

**HINT: Be sure to consider development time lines and development capacity.**

# PRODUCT DEVELOPMENT

## EXAMPLE

Sample development screen showing an *upgrade* (Alfa),  
*new product* (Aphid), and a *new development center*:

Upgrade (Alfa)

New Product (Aphid)

New Development Center

Projects										
Dev. Center Project	Class	Size	HP	Interior	Styling	Safety	Quality	Base Cost*	Current Expense (mill.)	
<b>Maximum:</b>										
1 Alfa	Family	28	145	2	2	3	1	\$13,566	\$133	
Major Upgrade		(25-38)	(125-165)	(1-4)	(1-4)	(1-4)	(1-3)	\$14,265	<input type="checkbox"/> Delete	
Launching Y#2		25	125	4	2	3	3			
2 Aphid	Economy	(1-35)	(50-175)	(1-4)	(1-6)	(1-4)	(1-6)	\$9,592	\$187	
New Vehicle		1	50	1	1	1	1		<input type="checkbox"/> Delete	
Launching Y#2										
3 Beginning construction									\$624	<input type="checkbox"/> Cancel
<b>Total Expense:</b>									<b>\$944</b>	

\* Base cost only; use the Pro-Forma for a projection of the unit cost when you launch the upgrade.

# CONSUMER MARKETING

## CORPORATE MARKETING

- **Corporate Advertising Budget** by region in North, South, East, West to create general firm preference and support dealerships.
- **Corporate Ad Theme(s)** of Interior, Styling, Safety, Quality, and/or Performance to position your firm in the mind of the consumer.
- **Social Media** to stimulate interest in recent firm announcements.
- **Direct Marketing** to particular consumer segments.

# CONSUMER MARKETING

## PRODUCT MARKETING

- **MSRP** set per vehicle.
- **Dealer Discount** % by vehicle.
- **Advertising Budget** to build and maintain awareness.
- **Advertising Theme** (performance, interior, style, safety, quality) to appeal to target segment
- **Promotion Budget** to help spur sales during slow periods used for rebates, special financing, dealer incentives, attractive leases, etc.
- **Sales Forecasts** for the coming year to use in pro-forma reports.

# CONSUMER MARKETING

## VEHICLE PRICING

- **MSRP = Manufacturer's Suggested Retail Price** used to position vehicle and set expected price in mind of consumer and dealership.
- **Dealer Discount (%) = Discount off MSRP to dealer.** Determines price of vehicle to dealer or “dealer invoice”.
  - ***Dealer Invoice (\$) = MSRP \* (1 – Dealer Discount %)***
  - ***Dealer Invoice (\$) = Revenues to your firm***
- **Retail Price** (price to consumer) determined by dealer.
  - ***Retail Price (\$) – Dealer Invoice (\$) = Revenues to Dealer***

# CONSUMER MARKETING

## Consumer Marketing *Decision Screen*

Corporate Marketing Decisions

Product Marketing Decisions

**Corporate Marketing**

Corporate Advertising	Millions
North	\$ 10
South	\$ 10
East	\$ 10
West	\$ 10
Social Media	\$ 8
Direct Marketing	\$ 2
<b>Total</b>	<b>\$50</b>

**Ad Themes**

- Interior
- Styling
- Safety
- Quality
- Performance

**Segment Targets**

- Value Seekers (1)
- Families (2)
- Singles (3)
- High Income (4)
- Enterprisers (5)

**Product Marketing**

Vehicle	MSRP	Dealer Discount	Advertising (millions)	Advertising Theme	Promotion (millions)	Sales Forecast (000's)	Remove From Market
Ace	\$ 20,498	12.0%	\$ 25	Quality	\$ 10	441	<input type="checkbox"/> Yes
Alec	\$ 11,492	8.0%	\$ 30	Quality	\$ 15	301	<input type="checkbox"/> Yes
Alfa	\$ 20,350	12.0%	\$ 50	Safety	\$ 35	710	<input type="checkbox"/> Yes
<b>Totals</b>			<b>\$105</b>		<b>\$60</b>	<b>1,452</b>	

# B2B MARKET *(optional)*

## INITIAL PERIOD

- Determine whether to pursue the B2B market (Strategic Decision).
  - *Use B2B market research to evaluate the B2B contracts.*
- Select contract(s) to target for potential bidding next period on the B2B decision screen.
  - *Hires salespeople at approx. \$100k each to establish relationship.*
- Consider investments necessary to meet requirements.
  - *Vehicle upgrades, dealership expansion, cost reduction, etc.*

# B2B MARKET *(optional)*

## SUBSEQUENT PERIODS:

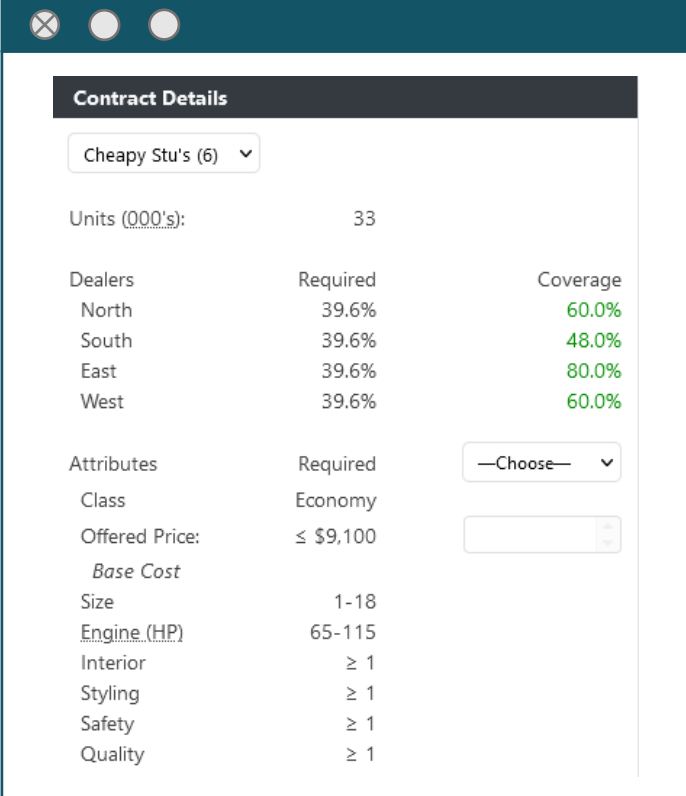
- For contracts where you qualify, select vehicle and enter bid.
  - *Check main decision page to make your qualify after entering bid.*
- For contracts where you don't qualify, decide if it is worth the investment necessary to bid on the contract in the future.
- Adjust your target contracts and bid price as necessary.



# B2B MARKETING *(optional)*

## EXAMPLE: CHEAPY STU'S

- **To qualify** for this contract, you must offer an economy vehicle with size 1-18, HP between 65-115, Interior, Styling, Safety and Quality greater than or equal to 1.
- Must have dealer coverage of more than 40% in ALL regions.
- Must bid a price equal to or below \$9,100.
- If **ALL** of those requirements are met, you will sell 33k units (guaranteed).
- If you offer the **lowest bid** of any firm, you will be selected as preferred supplier and sell 66k units (2x) total.



**Contract Details**

Cheapy Stu's (6) ▾

Units (000's): 33

Dealers	Required	Coverage
North	39.6%	60.0%
South	39.6%	48.0%
East	39.6%	80.0%
West	39.6%	60.0%

Attributes Required ▾

Class Economy

Offered Price: ≤ \$9,100

*Base Cost*

Size 1-18

Engine (HP) 65-115

Interior ≥ 1

Styling ≥ 1

Safety ≥ 1

Quality ≥ 1

# DISTRIBUTION

- Dealerships make the actual sale to consumer.
- Set up on a regional basis (North, South, East, West).
- Decision is to open or close dealerships in each region.
  - ***Maximum of 10% change each year.***
  - ***Changes in number of dealerships takes one year to take effect.***
- Dealer ratings (1-100 scale) indicate customer experience at dealership, impacted by:
  - ***Profitability and product offerings.***
  - ***Training, education and support.***
  - ***Dealer discounts and servicing.***

# DISTRIBUTION

Note **Coverage**  
( = established / full)

... decision in the North region is to add 5 new dealerships resulting in coverage of **62.5%** once the new dealerships have opened.

Dealers					
	Total	North	South	East	West
Full Coverage	800	200	250	150	200
Established	480	120	120	120	120
Sched. Change	0	0	0	0	0
Coverage	60.0%	60.0%	48.0%	80.0%	60.0%
Dealer Inc./Dec.	20	<input type="text" value="5"/>	<input type="text" value="5"/>	<input type="text" value="5"/>	<input type="text" value="5"/>
Coverage with Current Decisions	62.5%	62.5%	50.0%	83.3%	62.5%
Training and Support (mill.)	\$ <input type="text" value="10"/>	\$3	\$3	\$3	\$3
Per Dealer	\$20,833				

*Note: The estimated cost of opening or closing a dealership is \$2 million. Average overhead per dealer is estimated at \$291 thousand.*

# MANUFACTURING

## CAPACITY

- Total vehicle production must be less than capacity or incur **over-capacity charges**.
- Capacity may be increased, **but takes one year to build** and become available for use.
- Entering the capacity increase will display the cost of the investment in capacity.
- Capacity investment is depreciated over 10 years.
- Maximum increase (or decrease) in a year is 50% of current capacity.

# MANUFACTURING

## PRODUCTION

- Set production based on **sales forecasts** and **inventory levels**.
- **Retooling cost** for initial or increased production.
- Remember there is a **cost to dispose of inventory** of old vehicles if upgraded (minor or major).
- Set flexible production (+/- 10%)

***Adjusts production if > 120 days or insufficient to meet orders.***

# MANUFACTURING

Note **Alfa inventory write-off** (upgrade) and retooling costs...

...and **over-capacity** line with **resulting charge**.

**Production & Capacity Decisions**

	Prev. Sales (000's)	Current Inventory (000's)	Scheduled Production (000's)	Flex	Retooling Costs Mill. \$
Ace	441	37	445	<input checked="" type="checkbox"/> Yes	\$33
Alec	301	25	274	<input checked="" type="checkbox"/> Yes	\$0
Alfa	710	*59	713	<input checked="" type="checkbox"/> Yes	\$230
Total	1,452	121	1,432		\$263

Capacity (000's) 1,000

Scheduled Production 1,432

Over Capacity Charge (mill.) \$1,423

Est. Plant Cost for Add'l 100k Mill. \$ \$715

Capacity Change (000's) 0

Est. Plant Cost Mill. \$

Est. Plant Sale Price Mill. \$

Book Value Mill. \$

Loss on Sale of Plant Mill. \$

\*Vehicle being upgraded: this inventory will be written off. Be sure to produce enough to match forecast.

# LICENSING (*optional*)

- One firm makes “offer” to another firm that **specifies vehicle class, size, HP, and minimum specifications** – The “licensee”.
- The firm that receives the offer **must have a vehicle that meets the requirements** and **they must accept the offer in order for the license to go into effect** – The “licensor”.
- Additional terms to be negotiated:
  - ***Price licensee pays per vehicle***
  - ***Units purchased***
  - ***Any additional fees***
- License is re-entered each period (even if you negotiate a long-term agreement).
- Once licensor accepts the offer, it is a legally binding contract.

# FINANCING

## USES OF CASH

- Technology, product development, capacity, retooling, marketing, distribution, repurchase of bonds and stock, repayment of loans, dividends.

## SOURCES OF CASH

- Operations, selling bonds and stock, short-term borrowing.

***HINT: Use Pro-Forma to see likely impact on cash position based on YOUR forecasts and decisions***



# FINANCIAL DECISIONS

Inputs for **CDs, stock and dividends, short-term debt, and bonds.**

- To repurchase stock, enter a negative value (in \$).
- Bonds are optionally callable after three years.

Cash	Debt
Current Cash Balance	Short-Term Debt
\$2,096M	Loan Balance @ 7.5%
Purchase 1 Year CD @ 3.0%	\$6,660M
\$ <input type="text" value="0"/> M	Loan Repayment
	\$ <input type="text" value="0"/> M
Stock	Long-Term Debt
Current Stock Price	Current Bond Rating
\$35.32	BBB
Current Shares Outstanding	Issue Bonds @ 5.5%
500M	\$ <input type="text" value="0"/> M
Current Market Value	Total Debt
\$17,660M	\$6,660M
Issue/Repurchase Stock	
\$ <input type="text" value="0"/> M	
Dividends Paid	
\$ <input type="text" value="100"/> M	

*HINT: Implement a capital structure that is consistent with the nature of this business: cost of capital, financial leverage dynamics, amount of long-term fixed capital, new investment in long-term capital projects, sales volatility risk, technology change risk, inventory size and timing risk, competitive dynamics risk, etc.*

# SPECIAL DECISION

- Check this menu option for one-time events that may require management's attention.
- Some events will have an immediate impact on your results, some may be delayed, while others may just require you to think about an issue and be prepared to discuss in class.
- Often, there is not a right or wrong answer. Some responses may be better than others, but will likely depend upon your particular firm's situation.

# DECISION ANALYSIS

- Check your decisions using the **Decision Summary** menu option before the simulation is advanced to the next period.
- **Timeline** provides a graphical representation of when major events will take place
- Use the **Pro-forma** to enter your forecasts and estimate the financial impact of your decisions.
- Explain your decisions in the **Decision Rationale**

The screenshot displays a software interface for decision analysis. The main window has a dark teal header with navigation tabs: Introduction, Company, Market, Competition, Tools, and Decisions. The 'Decisions' tab is active, showing a 'Decisions / Decision Summary' section. This section is divided into two main areas: 'Technology' and 'Product Development / Projects'.

**Technology**

	Interior
Maximum	10
Firm Maximum	5
Cost to Increase by 1 (mill.)	\$187
Est. cost savings of increase (mill.)	\$10
Increase Attribute:	No
Curr. Expenditure (mill.)	\$0

**Product Development / Projects**

Dev.	Class	Size	HP
Center Project			
Maximum			

A dropdown menu is open from the 'Decisions' tab, listing the following options: Technology, Product Development, Licensing, Consumer Marketing, B2B Marketing, Distribution, Manufacturing, Financing, Special Decisions, Decision Summary, Timeline, Pro-Forma, and Decision Rationale.

# PRO-FORMA

- Enter forecasts for each product then click on the **Reports** tab to view pro-forma:

- **Product Inventory**
- **Income Statement**
- **Balance Sheet**
- **Cash Flow**
- **Product Contribution**

Vehicle	Previous Sales (000's)	Sales Forecast (000's)
Alec	604	604
Alfa	358	358
Awesome	316	316

**Direct Sales Contracts**

Your firm has not licensed any vehicles this period.

**B2B Sales Forecast**

Your firm has not made any bids this period.

*Modify decisions and forecasts until the decision deadline or until your team is satisfied.*

# CHECKING DECISIONS

Check **Alerts** for warning messages before the decision deadline.

**StratSimManagement** [Past] [Start] [Alerts] [Refresh]

Introduction Company Market Competition T Price: ?

### Decisions / Decision Summary

**Decision Alerts**

You have an unused concept awaiting development.

No changes made for Ace product marketing or production decisions.

No changes made for Alec product marketing or production decisions.

No changes made for Alfa product marketing or production decisions.

Technology					
	Interior				To
Maximum	10				
Firm Maximum	4	6	4	6	
Cost to Increase by 1 (mill.)	\$196	\$300	\$327	\$338	\$1,1
Est. cost savings of increase (mill.)	\$23	\$13	\$34	\$2	\$
Increase Attribute:	No	No	No	No	
Curr. Expenditure (mill.)	\$0	\$0	\$0	\$0	

Product Development / Projects										
Dev.	Center Project	Class	Size	HP	Interior	Styling	Safety	Quality	Base Cost*	Curre Expen: (mil)
	Maximum:				4	6	4	6		
1	Alfa Minor Upgrade Launching Now	Family	28 +0	145 +0	2 +0	2 +1	3 +0	1 +0	\$13,566 \$13,494	\$18

# LOGISTICS

- All decisions are automatically saved on the server as you enter them.
- When one person makes a change, the whole team makes that change. In particular, when one team member purchases a tool, the whole team purchases the tool. In other words, organize your decision process!
  - ***All decisions other than the purchase of market research / use of tools may be modified until the decision deadline.***
- It is recommended that you review the decision summary and pro-forma income statement when your team is done entering its decisions.
  - ***Team leader may lock decisions (not required)***
- Decisions must be completed by the decision deadline.
- Results will be available after the simulation is advanced and the results are released.

# FINAL CONSIDERATIONS

*Integrated, Long-Term, Market-Focused.*

- Your strategy drives your decisions – make sure you have one!
- Focus on how to best serve your target markets through a total offering – product, marketing, service, and price.
- Importance of team organization and process.
- Manage your margins and understand the financial implications of decisions.
  - ***Understand fixed and variable costs.***
  - ***Long term vs. short term.***
  - ***Make wise investments.***
  - ***Use the Pro-Forma for insights.***

***Try new approaches – apply concepts – experiment – have fun!***



 interpretive simulations