

# Business report: simventure



**ASSIGN  
BUSTER**

This report is based on the engagement with SimVenture - a business simulation which allows us as a team to setup and run our virtual company and learn about business and being an entrepreneur. This report evaluates team performance and decision making within the perspective of results achieved in the simulation at the end of three virtual years. This report also reflects the use of relevant entrepreneurial theories into practise while making decisions in the business and clearly stating the financial achievements at the end of it. The report takes you through the initial six months of the business in details where the crucial strategies were developed; thereafter the illustration is only on a half yearly basis.

A question with many answers is that what drives people to turn into entrepreneurs to begin companies? Frequently we as individuals are not completely sure ourselves, and the answers to the questions are apt to change over time as our perception keeps changing. The reasons can be divided into two broad categories. First, the 'reactive reasons' being things those are objectionable about working for others. They are the negatives that push us out. And secondly, the 'active reasons' being things that are attractive about having our own business. They are positives that pull us out. Starting a new company is an immense challenge and to those with entrepreneurial impulse, it is very appealing (Kurtako et al, 2001). The attributes that a successful entrepreneur should possess while the start-up of a business is a competitive mind-set, one in which flexibility, speed, innovation, and strategic leadership are valued highly. With this mind set, firms can identify and completely exploit opportunities that emerge in a new competitive landscape. These opportunities surface primarily because of the

disequilibrium that is created by continuous change. More specifically, although uncertainty and disequilibrium often result in seemingly hostile and intensely rivalrous conditions, these conditions may simultaneously yield significant product driven growth opportunities. Through effective entrepreneurial leadership, growth firms can adapt their behaviours and exploit such opportunities (Kurtako et al, 2001).

It is interesting to see the differences between mind-set of an Entrepreneur, Manager and a Bureaucrat from the self explanatory Fig 1.

### **Scenarios and assumptions at the beginning of the game**

Prior to the beginning of our business, we assumed to have a finance of £10,000 for start up. The business was supposed to commence with a one man show by our virtual entrepreneur, who had already been working for 40 hours a week in another business. But as a team we had decided each individual to take the decision making responsibility of a particular department, with me being the one in charge of marketing. We initially decided to get our entrepreneur working part time for this new venture at a monthly salary of 500£. He had been selling computers to friends and families for the past few years and always had a knack towards technology and assembling computers. Having only one sales order in hand for the first month, our entrepreneur intended to begin his business from home so as to maintain his costs as low as possible. At this stage the aspects which are of utmost concern are that he has limited knowledge in sales, marketing and about his local competitors.

Our new business was inspired by the venture development stages, namely: New Venture Development, Start-Up Activities, Growth, Business Stabilization, and Innovation (Kurtako et al, 2001). Of these five stages the first stage consisted of activities associated to initial formulation of the venture, which has been mentioned above. The stages into which our business activities over the 3 years of simulation could be split into are Start-Up Activities and Growth.

### **Start-Up Activities Stage**

The Start-Up Activity encompasses the foundation work needed in searching for capital, carrying marketing activities, taking up competitor analysis and developing effective entrepreneurial skills. This stage is typified by strategic and operational planning steps designed to identify the firm's competitive advantage and uncover funding sources. With the availability of limited skills and working hours, in the first month we decided to outsource our firm's competitor analysis and market research activities to specialized external agencies, the primary intention behind outsourcing being to get expert and skilled services efficiently. A legal advisor had been hired to specify the terms of a customer contract, not only keeping in mind the benefits of detailing the scope of work and means and methods of payment, but also with a future view to gain trust from prospective clients (a contract can also be seen as a marketing tool) and establishing a strong relationship with them while negotiating the terms of the contract. Other major customer awareness activities of the first month were to publish a press release for the launch of the company; joining a business networking group; and creating a standard website, designed and supported in-house to balance time and

expenses of our working entrepreneur. Apart from these we had planned to take up a book based writing skills training course for our virtual entrepreneur, to provide him with the expertise of business communications which most small business owners lack in. And we planned to invest on a distributor research, because it is difficult and very expensive to reach a market with many customers with a directly employed sales force. Moreover distributors by and large aim to win business on sales rather than technical services. And our core competence being technical expertise we decided to use distributors to enhance our sales, although they bought products from us at a lower rate. After evaluating the suppliers on the criteria of their prices and flexibility to pay on account, we decided to choose ' ProSupply' as our supplier because of its 60 days credit offering, at an additional expense of 0.5£ per component. Apart from the legal liabilities of a limited company to maintain accurate information on its financial transaction which includes sales, purchases, income and payments by an organization, book keeping assists any entrepreneur to maintain the business on top of its competition by easily watching how the business is performing. Thus having a small scale start up business we decided to keep this particular activity in house.

The second month of our business started on a positive note as we received two grants disbursed by the government, £500 each: one was for training and the other was for research activities to be conducted. Although we had invested time on the application process for this funding, as a new company with limited finances this allowance was much needed to us. We also happened to receive our customer research report, following which we decided to choose our target customers to be ' Corporation'. This decision

was completely based on a few factors from our customer research report: market size, order size, order frequency and typical price. These four factors provided us inputs to calculate the average orders generated per year and the probable sales for each segment. Analysing our market research report (Fig 3) closely we noticed that there were much similarities in the 'product preferences' sections of 'Corporations' and 'ICT Businesses' and both customers catered to a similar 'typical price' range of £630-680. This made us decide to build a product with 'preferences' that would suffice both the customer segments providing each one of them differentiation on certain product attributes.

Referring to Porter's generic strategies framework, we were serving a narrow market which demanded product uniqueness, thus we decided to use a differentiation focus strategy to increase our market share rapidly. Also a firm using a differentiation focus strategy enjoys a high level of customer loyalty which discourages other firms to compete directly. Analysing the competition and market report together, we designed our product offering to cater for both the target segments with the following attributes: extreme features, good quality, extreme performance, good style. Thus the product was differentiated for the 'Corporations' with extreme performance, where they had demanded only for a good performance, and for the 'ICT Businesses' with good quality and good style, where they had demanded for above average quality and above average style only. The unit cost of the product was £452.62 and it was priced to the customers at £679 initially, which was pretty high as compared to what our competitors were offering. I individually thought for market penetration a lower price was required.

The marketing activities for this month were placing an advert in a local newspaper and joining a business community network where we could make our target customers aware of our unique selling points. Apart from this we spent our entrepreneur's remaining time in negotiating contracts with our distributors, namely: Norman, Harton Brothers, Rad, and Aztak, and manufacturing three product units in-house anticipating the future demand. We negotiated with our distributors in terms of size of orders per month, price of each unit of product and the methods of payments. The rationale behind choosing three of them as our distributors was because Normans had the maximum share in ICT Businesses followed by Solo Businesses and Corporations, Harton Brothers had 20% share in ICT Businesses and Rad captured 30% market share for ICT and Solo Businesses. Although Aztak held very little market share with ICT Businesses or Corporations but we still went with them, which I personally feel might not have been an appropriate move.

Since at the end of the previous month, the number of enquiries were too low to sustain our business, thus the third month was very crucial for us where we had to take our strategic moves very carefully. Therefore we intended to hire a consultant to carry on a customer research, which we thought would help us find the reason behind the low number of enquiries. Along with a lucky break which resulted in good publicity for our company in the local media, this month we planned to go for a direct marketing campaign with 3000 basic leads bought as a database and promotional materials being designed in house. In the remaining time we planned manufacturing 9 products for future sales.

On the fourth month of our business, we received the customer research results which provided us with the statistics of what our customers thought about our product and how did they hear about us. We used this information to fine tune our product design, work out the best marketing approach and get the price right with respect to our competitors. We understood that previously we had set up a very high price for our product to maximise short term profits, which was the reason for us to receive lower number of enquiries which hardly turned into orders. As quoted by Dolgui and Proth (2010), “ High price is accepted if it agrees with the value of the product perceived by the customers, otherwise such a strategy leads to commercial failure. While a low price can lead to a commercial success depending on the number of clients attracted by the product, but a low margin should be compensated by a higher number of items sold. Moreover with a high or a low price strategy the image of the items sold by the company is somewhat frozen and a long term price expectation is established, which can reduce the flexibility of the decision-making system.” Thus justifying the aforesaid analysis we had to set the unit price of our product neither too high nor too low, at £660, while we were operating in a range where customers were ready to pay from £630-£680. On the marketing front we managed to attend the monthly business club meeting and exhibit ourselves at the Business2Business matters along with a direct marketing campaign to 3000 leads. Since by now our entrepreneur was overdoing his hours every month which was gradually making him tired, thus we decided to increase his part time working hours to 51 hrs a week and increasing his salary by £100 to keep him happy.



This was the fifth month of our business where we already had sales of 4 products from our last month and another new order for 4 products to be sold this month. The business was gradually taking its pace, but there were financial hurdles in front of us. Due to lack of cash in our account we were unable to pay our suppliers on time. The options we had to borrow money were either through bank loans or friends and family or overdraft or by selling equity. We thought the most viable option we had was to take a loan of £50,000 for three years at an interest rate of 13% from the bank. Our monthly instalment to the bank summed up to £1684.70 for three years which was lesser than our monthly estimated profit after selling units to distributors (refer Appendix 1). I individually thought we should have taken our first loan from friends and family instead of a bank because the interest rate was only 5.25%. Eventually in the next month we could have taken a bank loan.

There was a business exhibition which was supposed to be held in the month of February, the next year. Having considered the fact that such events would provide us a platform to bring our product in front of the targeted customers and make them aware of it, we booked a place for our entrepreneur in this event, bearing in mind that Corporations were our primary target segment. Apart from this we also booked two more exhibitions for our entrepreneur to attend during the next month. One was an exhibition at New Ventures and the other was at Sparks. We heavily started relying on exhibitions primarily as a mean of marketing and advertisement for our business.

We had a very clear marketing plan as a start-up company, which was the process of determining a comprehensive approach to the creation of customers. For developing this plan, the following elements were critical to us:

Marketing research: determining who the customers were, what they want and how they buy.

Sales research: promoting and distributing products according to market research finding.

Sales forecasting: coordinating personal judgement with reliable personal information.

Marketing plan: formulating plan for achieving long term marketing and sales goal.

Evaluation: identifying and assessing deviations from marketing plans.

(Kuratko and Hodgetts, 2007)

As a marketing mix (refer Fig 5) for our Product offering we were having a strategy of focus differentiation to targeting only two business client segments. Our Price was set neither too high nor too low and was rationalized by setting it to £660. We Placed our product through distribution channels, direct and indirect selling and also had a retail shop in place from the sixth month. And for Promotion we used individual communication channels like word of mouth, networking, public relations and direct

marketing, and mass communication channels like exhibition, website and advertising.

The sixth month was a fortune turner for us when we received 9 orders for the next month. Anticipating this huge number of orders, we already had been manufacturing products from the previous few months, even though at times we didn't have a single order to deliver. Our application for bank loan had been approved and we were able to successfully raise £50, 000 to clear all our pending bills. Having the right communication and marketing skills because of our previous training in the relevant departments this month we decided to create a small advert in-house, for a trade magazine. Since our business was growing bigger, this was the time when we had to decide relocating to a retail unit from the next month which was 100 sq. ft and £208 of rent per month. Also convenience is an issue for most shoppers, whether its business or individual shoppers, and so sales location can have a major bearing on sales performance. Since we were only operating in a B2B environment we developed the following business model (refer Fig 6) where our products were reached to our customers either buy the distributors (which gave us less profit but large number of sales) or through our retail shop (which gave us higher profit but lesser number of sales). Because of the sudden rise in sales, hereafter we had to follow a model where most of our manufacturing had to be outsources and the remaining was to be built in-house. This month onwards we transited from the Start-Up Activities stage to the Growth Stage of our business.

## **Growth Stage**

The Growth stage often requires major changes in entrepreneurial strategies, which is reformulated because of competition and other marketing forces (Kurtako et al, 2001). Thus now onwards our primary focus became the management of various departments involved in our business including the various stakeholders: direct customers, distributors, suppliers etc.

The planning of operations was a major part of our start up venture. From the self explanatory Fig 7, we had adopted the 'bottom-up' and the 'market requirements' perspectives to design our operational strategy. The 'bottom-up' view of operations strategy was to see strategic decision making as an accumulation of practical experiences. After all, our business would find it difficult to invent strategies in a total vacuum. Our ideas were formed from our previous months' experience of dealing with customers, suppliers and their own processes. These were strategic ideas which emerged over time as our organisation began to understand the realities of the situation. The 'market requirements' perspective begun from the commonsense notion that our operations strategy should reflect what our business was trying to do in its markets. Our competitors competed in different ways; some competed primarily on cost, others on the excellence of their products or services, others on high levels of customer service, others on customising their products and services to individual customer needs, and so on. Our operations function therefore had to respond to this by providing the capabilities which allowed us perform in an appropriate manner to satisfy the requirements of our market (Slack et al, 2007).

After the initial breakthrough in the sixth month of our business, the next six months were more or less running at a constant pace, with 7-9 orders every month on an average. We did have to improve our product design based on the Customer Research results and by comparing our offerings with that of our competitors. We attended a marketing exhibition and carried out marketing campaigns with other sales activities almost every month to keep our enquiries and order numbers high. Apart from that, instead of failing to cater to our increased order rate every month, we kept manufacturing products by primarily outsourcing the major bulk of it at (£452.62+£80) £432.62 per unit and partially building it in-house. By the end of the first year our business had again dried up in cash, thus making us unable to pay suppliers on time. It was time to consider a funding option again to cater to our growing business needs. As overwork was making our entrepreneur tired, this affected the scheduled tasks being incomplete in few of the months during this span of six months. We had the option of recruiting an employee for our business which I individually thought as the wisest option, but as a group we thought it wouldn't have been affordable for our entrepreneur in terms of time and money to opt for a new employee at this stage of our business. Thus we increased his part-time working hours and paid him a larger salary, doing our best to keep him happy and motivated. Previously and in future we not only did motivate him with only extrinsic factors like money but also encouraged him with intrinsic motivational factors like relevant training in various departments, namely: Production, writing skills, design and development, basic finance, business management, IT, communications skills, marketing and sales which helped him build a

entrepreneurial identity of his own (enhancing his business qualities as an entrepreneur).

In the first six months of the second year our main focus was to look out for the most feasible source of finance to our business. With the various options available in simventure, a bank loan of £30, 000 was the most viable option, which got approved within a span of three months. There was a noticeable increase in number of orders, the average being around 11 orders monthly, but on a couple of occasions the count had spiked to 16 and 17 orders which resulted in generating cash inflow for our business in the later months.

During this period we also realised that the insufficiency of cash in our account was due to the fact that some of our customers did not clear their bills on time. Thus we had to take on the Credit Control strategy to closely observe all our customers who owed us money. A process was implemented which adhered to three steps. The first step was to send our customers a written reminder to clear their dues. If this didn't work the second step was to give them a phone call in the same regards. And if the first two steps failed then the final step was to take a legal action against the defaulter by hiring a third party agency who charged us 20% of the recovered money. In this process we had to compromise on shedding off a part of our profits rather than agonising our suppliers by failing to pay them on time, which could have lead to termination of our contract with them.

During the last six months of our second year we had an average of 13 orders which was more than before. There had also been a dip in orders to 9 in number during the month of November and December. During this period we also decided to hire a few resources (namely: Premium Equipments,

Premium Furniture, Premium Tools, Premium Transport) for our retail space to cater to the smooth running of the business as we were constantly growing. The marketing, advertising and sales activities were more or less similar to the previous half of the year, with our entrepreneur planning to attend more number of exhibitions for ICT Businesses apart from Corporations.

The first six months of the third year saw a little decrease in orders, with the average being 11 orders a month. Because of this our entrepreneur had more time than the previous six months, which he decided to invest in an aggressive marketing campaign to create a base for the last six months of the third year of our business. He had also suffered from illness for 5 days during this period.

The last six months of our third year was the span in our business where we received the most number of orders, the highest being 19 in the month of August. Our business had an added advantage, i. e. the economy became stronger resulting in rising of customers' confidence in us. With Net Assets of £240, 077. 47, Fig 8 depicts the financial health of our business at the end of the third year. And Fig 9 highlights the sales vs. Profit for the 3 years showing that although there had been continuous increase in sales over the three years, but the profit maximization was only achieved in the 2nd year of our business. This is because of the fact that with the increase in cost of sales in the third year of our business we didn't increase the product price, which resulted in decrease of profit margins, when compared to the previous year.

## **Conclusion**

Throughout the span of this report we have been focussing on the competitive and entrepreneurial mindset of a start-up business owner, by recognizing and exploiting the opportunities that came across. We have been discussing about the entrepreneur's engagement in key areas of strategy, marketing, operations, finance and HR which enhanced the performance of our organization. The critical evaluation of decisions taken over the three years span of our business has given us an understanding of how differently various obstacle could be tackled. We begun from the star-up activity stage of a business simulation and happened to reach the growth stage in our business, by developing and nurturing our abilities as an entrepreneur while taking vital decisions at various junctures across the span of three years of entrepreneurship.

## **Appendix 1**

### **Distributor**

### **Order size**

### **Price / unit**

### **Fixed cost / unit**

### **Overhead Cost\***

### **Profit / unit**

### **Cost of total sale**

### **Profit per month per distributor**

Normans



£599

£452. 62

£90

£56. 38

£5, 426. 20

£563. 80

Harton Bros

15

£594

£452. 62

£90

£51. 38

£8, 139. 30

£770. 70

Aztek

5

£604

£452. 62

£90

£61. 38

£2, 713. 10

£306. 90

Rad

25

£589

£452. 62

£90

£46. 38

£13, 565. 50

£1, 159. 50

Total

55

£2, 386

£1, 810. 48

£360

£215. 52

£29, 844. 10

**£2, 800. 90**

\*Note: Overhead cost is estimated by adding Manufacturing cost (i. e. £80 for any order above 25 units) and miscellaneous cost ( i. e. £10 kept as a margin)

Table : Distributor Analysis

Source: Adopted from SimVenture