

Finance: capital budgeting essay sample

[Education](#)



**ASSIGN
BUSTER**

The New Heritage Doll Company, based in Sacramento, California, was a privately held company with 450 employees and approximately \$245 million in fiscal 2009 revenues. This represented approximately 8% of the \$3.1 billion U. S. doll industry, which was projected to grow by 2% annually to \$3.4 billion in retail sales by 2013. In turn, the doll industry represented a 7.4% share of the total \$42 billion U. S. market for toys and games, which was dominated by global enterprises that enjoyed economies of scale in design, production, and distribution. Revenues were highly seasonal; the largest selling season in the United States coincided with the winter holiday period. The doll category included large, soft, and mini dolls, as well as doll clothes and other accessories.

The phenomenon of “age compression”—the tendency of younger children to prefer dolls that had traditionally been designed for older girls—reduced growth in the “baby-doll” sub-segment. Competition among doll producers was vigorous, as a small number of large producers targeted similar demographics and marketed their dolls through the same media. Lasting franchise value for a branded line of dolls was rare; the enormous success of Barbie® dolls was an obvious exception. More recently and on a much smaller scale, New Heritage also had created a durable franchise for its line of heirloom dolls. However, the popularity of most doll lines waned after a few years. New Heritage’s Production Division

New Heritage Doll Co. had three operating divisions: a doll and doll-accessory production division, a retailing division, and a licensing division. New Heritage’s doll production division designed and assembled dolls, doll accessories, and children’s accessories into finished product and then

packaged them for shipment. The production division generated \$125 million in revenue and \$7.5 million in operating profit a year. 1 Seventy-five percent of its sales were internal, to New Heritage's retail division; 25% of its revenues were generated from private-label goods manufactured for other firms. The dolls ranged from relatively inexpensive baby dolls (\$15 to \$30 retail price range) to fashion dolls modeled after movie stars that were targeted as upscale collectors' items (\$75 1 The division revenue figures include approximately \$95 million of internal sales within divisions which are eliminated when considering consolidated revenue for the company.

Harvard Business School Professor Timothy Luehrman and HBS MBA Heide Abelli prepared this reading to accompany the Finance Simulation: Capital Budgeting (HBP No. 3357). This reading is fictionalized, is not a source of primary data or an illustration of elective or ineffective management and any resemblance to actual persons or entities is coincidental. Copyright © 2010 Harvard Business School Publishing. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business Publishing. Harvard Business Publishing is an affiliate of Harvard Business School.

Online Simulation Foreground Reading—Finance Simulation: Capital Budgeting

<https://assignbuster.com/finance-capital-budgeting-essay-sample/>