# Firm a in the stratsim environment marketing essay

This report is based on firm A performance in the StratSim environment which was in fact an automobile industry within which firm A was competing with six other firms for market share through direct-selling of vehicles to various automobile dealers.

A group of three students did form a management team of one of the seven firms. While initially all firms started out in the same position, manufacturing three vehicles in different classes-Economy, Family and Truck; according to the stratsim briefing notes, it was expected that each firm would develop uniquely based on its strategic choices and implementation. Accordingly; as the online game progressed, a new vehicle was developed in a completely new class.

Specifically firm A manufactured three range of vehicles namely Alec (Economy Class), Alfa (Family Class) and Ace (Truck Class) whereby each product was developed uniquely depending with the targeted customers' needs and preferences.

## 1. 1 Industry Overview

Due to the weak economy whose GDP growth was a mere 1% with a high interest rate of 5. 0% in the first period (a year in the stratsim world), demand for cars was low resulting into slow car sales-industry sales were 6. 6 million units. However; as the economy strengthened and the interest rates dropped, industry sales grew to as high as 8. 4 million units by the end of period 5.

## 2. 0 Strategic Analysis

According to Johnson G, et al (2009) pp. 3, strategy is defined as " the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations"

Therefore; for firm A to succeed and remain competent in the stratsim environment, the management team had to analyse its current position-external environment, stakeholders expectations together with its resources and competency, then set up objectives and goals to be met within five to ten year period, and finally formulated a sound strategy that would be a framework for all the oncoming decision-making.

## 2. 1 Mission & Vision

Coming up with a good mission and vision statements was very essential for firm A, because it did express the overall purpose of the company's existence together with the different range of products and services it provides to customers plus the desired future state of the firm. (Johnson, Scholes and Whittington, 2009, pp. 9)

The firm's mission is to provide high quality and the safest cars and trucks to customers while earning higher margins for its shareholders.

The firm's vision is to be the most reliable provider of high durability car and vehicles that will exceed customer expectations.

## 2. 2 Objectives

“ Objectives are statements of specific outcomes that need to be achieved” (Johnson, Scholes and Whittington, 2009, pp. 114) Hence the management team first task was to set up firm’s A objectives which would provide means of monitoring the firm’s performance-whether actual performance was meeting the targeted goals and objectives.

The objectives were grouped in two parts, financial-based objectives and market-based objectives. The financial objectives were: to generate the highest net income and maximizing sales, so as to provide long-term return for its shareholders over a five to ten year period. On the other hand; becoming a market leader in all the three vehicle classes and exceeding stakeholder expectations were the market-based objectives.

## 2. 3 Basic Strategy

While firm A intended strategy was to operate at a lower cost than its competitors, the management was forced to invest heavily in product development so as to differentiate the firm’s technology capabilities from competitors’ since all the seven firms had started out with the same technology capabilities.

Additionally; firm A had to invest heavily in advertising and promotion to make the current and potential customers aware of the upgraded vehicles, hence increasing demand more of its newly upgraded vehicles.

Consequently firm A had to incur very high expenses from the implemented investments thus failing to focus on its original strategy-cost leadership right from the beginning.

## 2. 4 External Analysis

Organizations have an interdependent relationship with the environment they exist within and since a business environment is not static but rather a dynamic one, it is vital for managers to constantly analyse their external business environment so to anticipate and influence the changes thus ensuring the survival of their organizations. (Johnson et al, (2009), p. 24)

Moreover, there are various models that can be used to conduct a detail analysis of an organization external environment; these include PESTEL, SWOT-OT and Porter’s five forces.

2. 4. 1 PESTEL

In an attempt to study the macro-environment, the PESTEL framework is regularly used to analyse the impact of Political, Economic, Social, Technological, Environmental and Legal factors to the organizational daily operations. (Johnson et al, (2009), p. 25)

Thus; since automobile industry is a high capital intensive, vehicle-manufacturing companies have to pay very close attention to these factors so as to avoid major surprises which may in turn cause huge loses to a company.

Political:

Political factors such as government trade protocols and import tariffs need to be observed to ensure that an automobile company is trading within the legitimate trading zone, and whether the import tariffs on imported vehicles are high enough to discourage consumers from importing foreign vehicles hence positive effect on the profitability level.

Economic:

In accordance with the simulation exercise, the economic outlook provides the firms with economic factors such as GDP growth, inflation rate, interest rate, material and labour costs, gas price, dealer car and truck sales which had positive and negative effects on the automobile industry.

Through the economic outlook (see illustration in appendix 6. 1), firms were able to study the previous, current and future year trends of economy, such as in the case where it was noted that at the beginning of the online game, the real GDP growth was low, with high inflation and interest rates causing weak economy hence lower demand for cars and trucks. Moreover; material and labour costs were decreasing hence firms were able to increase production of cars and trucks, likewise, by observing the gas price indicator firms were able to anticipate future demands.

Social:

Through observation of social factors such as the culture and demographic of the trading area, automobile manufacturers were able to study consumers' behaviour and attitude towards a particular model and price of vehicles, hence targeting their customers on the basis of income level, marital status and job profession.

Technological:

Automobile industry is strongly affected by the technological advances such as the need to produce a fuel efficiency engine, a zero-carbon-dioxide emission vehicle, and meeting customers' demand at a competent speed- just-in-time and ensuring total quality management, and making internet presence, so as to operate efficiently and remain competent in the industry.

Environmental:

Due to the fact that vehicles' engine carbon dioxide emission is contributing heavily to the air pollution, and the fact that the environmental concern is a top priority concern globally, automobile manufacturers are currently under a lot of pressure to produce vehicles with zero carbon-dioxide gas, hence the recent development of a vehicle with a hybrid engine.

Legal:

In order to avoid any legal disputes, automobile manufacturers have to ensure that they are operating in accordance with the rules and regulations by minimizing pollution and producing vehicles that are meeting the universal standards and put more emphasis on consumers' safety.

## 2. 4. 2 SWOT-OT

SWOT analysis is most often carried out by managers in an attempt to study the correlation between their organizational strengths and weakness and its environmental opportunities and threats.

The purpose of carrying out a SWOT analysis is to examine the strengths, weaknesses, opportunities and threats facing a business and using the findings to take advantage of the existing strengths to search for the opportunities and implementing strategic actions to minimize weaknesses and avoiding threats. (Johnson et al, (2009), P. 81)

Since this is an external analysis, the observation will base on the automobile manufacturing companies' external opportunities and threats as follows;

Opportunities:

Due to the fact that all the seven firms started out in the same position- producing one vehicle in each of the Economy, Family and Truck classes, manufacturing vehicles in other different classes like Luxury, Sports, Minivan and Utility was an opportunity that any firm could take advantage of, resulting into gaining the first-mover advantage.

As the simulation exercise progressed, there was a market demand for hybrid vehicle class, thus a great opportunity for any of the automobile companies to utilize and winning hundred percent market shares in that class, but due to financial constraint neither firm A nor any other firm was able to tap into this market segment.

Threats:

Since all the seven automobile firms were targeting same customers, there was always a threat of price war to erupt as firms kept cutting down prices of their vehicles to win gain more market share.

The increasingly rival competition as firms kept upgrading their vehicles, increasing plants capacity and developing new vehicles in an entirely new vehicle was a constant threat of losing market share.

## 2. 4. 3 Porter's Five Forces

Michael Porter's five forces framework helps to determine the industry's attractiveness and profitability. (Johnson et al, (2009), p. 30) These five forces can be used to analyse automobile industry as follows:

Threat of new entrants -Low

Economies of scale and the initial capital investment in automobile industry do act as barriers to entry into this industry because once the existing automobile firms have reached large-scale production; it becomes very expensive for new entrants due to higher unit costs that they'll have to incur, and also the capital equipment costs is very high.

Threat of substitute-medium

While vehicle ownership is currently a necessity for convenient transportation, the increasing problem of vehicles congestion on the roads is forcing people to opt for public city trains or buses for their daily commute to work rather than going through the stress of being caught up in traffic jam for hours.

Bargaining power of buyers-medium

Due to the fact that buyers' switching costs from either purchasing or renting a vehicle is low, automobile manufacturers have to emphasise on their customer satisfaction.

Bargaining power of suppliers-medium

Since automobile manufacturers prefer to have same suppliers of their equipment parts, this creates high switching costs hence giving suppliers power over manufacturers.

Competitive rivals-high

Since the automobile industry is on a maturity level and referring to the stratsim environment, manufacturers were producing same vehicle class with more or less same features hence causing fierce competition as firms' growth was on the expenses of winning market share from a rival. The slow automobile industry growth led to price war hence low profitability.

## 2. 5 Internal Analysis

Internal analysis is carried out so as to analyse how an organizational resources and capabilities can be used to achieve competitive advantage over its competitors. Firm A had to conduct an internal analysis using tools such as VRIO and benchmarking.

## 2. 5. 1 VRIO

Firm A used VRIO model to asses the sustainability of the company's resources and capabilities by looking at each of the four criteria as follows; (Johnson et al, (2009), p. 68-72)

V-Value

To ensure that firms' A capabilities were of values to its customers, the management invested in technology capabilities by expanding them into 4, 6, 4, 7 (interior, styling, safety, quality) consequently, firm A gained ability to develop vehicles with enhanced features.

R-Rareness

So as to achieve unique capabilities from competitors, firm A should have expanded its capabilities up to current technology maximum-11, 12, 11, 12 (interior, styling, safety, quality) but since the management was very cost conscious they failed to do so, hence inability to reap a competitive advantage on the basis of technology capabilities.

I-Imitability

Firms' capabilities were easily imitated in the stratsim environment because the decisions and data of all the firms were published each period, thus making it easier for a firm to copy the leading firm's strategic moves.

O-Organisation (non-substitutability)

Firm A failed to avoid substitution through developing a vehicle in an entirely new class, hence it had to bare market share lose of two of its vehicles-Alec and Alfa to its competitors.

## 2. 5. 2 Benchmarking

Firm A used best-in class benchmarking to compare its vehicles performances with the leading firms performances, although unfortunately the management initiated this model during period four of the simulation exercise which was a bit too little too late. (Johnson et al, (2009), p. 79)

# 3. 0 Decisions

## 3. 1 Technology

While firm A made investment in technology capabilities during the first period, they made a mistake of not expanding all the four vehicle attributes to industry’s technology limits. Major increases were made on quality attribute-7, followed by styling-6, with interior and safety being 4, 4 respectively.

This decision emphasized on quality attribute due to poor rate of the overall quality of all vehicles.

## 3. 2 Marketing

Firm A unwisely spent heavily on marketing of its vehicles. Major upgrade was made on Ace (Truck class) and minor upgrade on Alec, leading to heavy investment on advertising of these two vehicles to make customers aware of the newly upgraded vehicles.

The increasing cost of operations resulted due to the heavy marketing investment made on Alfa (family class) which the management failed to upgrade throughout the simulation. Hence the firm kept making loses, had the management upgraded this vehicle, the firm would have been in a better position to gain market share since the demand for family vehicles was very high.

In an attempt to lower the cost of operation, management decreased the costs on advertising and promotion on north, south and east regions, and focused marketing expenditure on west-region because it had highest dealer rating of 63 hence highest dealer sales of $39 million. (See Appendix 6. 2)

## 3. 3 Finance

The management failure to utilize the firms' financial resources efficiently led to higher costs of operations with profit loses at the end of period 5. In an attempt to raise working capital, firm A stocks were sold during period 2 at a time when its stock price was $22 million.

The pricing structure for firm A was very poor, it was giving high dealership discounts resulting into selling their vehicles at price that was below the cost of production.

Firm A total manufacturer sales increased at a very slow pace, initially the sales were $15, 278. 3 million and they rose to a mere $19. 839. 5 million by the end of period 5. (see Appendix 6. 3)

## 3. 4 Production

Initially, the firm's plant capacity was 1000, 000 units, and total production of vehicles was 945, 000 units, this led to under-utilizing of the plant capacity by 5. 5%, hence during period 3 management increased total production to 1, 280, 000 units.

Since the demand for firm A vehicles was very high, all the produced vehicles were sold out with no inventory at the end of each period, this implied that the firm should have invested more on expanding plant capacity so as to be able to meet the high demand.

The performance results for period 5 showed that there were extreme shortages on Ace and Alec vehicles and significant shortages on Alfa, consequently; the firm had over 30% loss sales on each of its three vehicles. (See manufacturing details on appendix 6. 4)

## 4. 0 Conclusion

While firm A was a market leader on Truck Class with Ace (Truck class) having 19. 8% of the total truck sales, the other two vehicles- Alfa and Alec did not do quite well due to poor decisions made on positioning them in their respective markets.

Firm A should have used the Ace truck advantage to capture more sales by increasing its production, but instead the management put more focus on Alfa car which was not doing well and also they should have discontinue the production of Alec because it was performing very poorly, so as to use cash saved to invest more on Ace truck.

This whole simulation exercise have given the author a chance to put the strategic theories into real life experience, and thus learnt that financial analysis is crucial for company's success. (see performance summary appendix 6. 5)

# 5. 0 References

Johnson G, Scholes K and Whittington R. (2009) Fundamentals of Strategy, Prentice Hal

The StratSim Case