

Capsim strategy essay sample

[Finance](#), [Investment](#)



We chose Broad Differentiator as the basic strategy for our company. Through this strategy, our company will attempt to differentiate our product line in several distinct dimensions. By providing products that are vastly superior and unique from our competitors and pricing the products affordably, we can gain customers' loyalty and awareness. Since our company's main focus is premium products we will aim for high contribution margins, around 50%, on average, over all five products. After establishing our company brand and products within the market we will look to increase contribution margin to be between 55%-60% over all five products. Our company's optimal balance is to have variable costs outweigh fixed costs unless our company gains rapid success. Fixed costs such as rent, insurance, and salaries will have to be paid regardless of our company's success, whereas variable costs will rise with the popularity of our products. We plan to cover fixed and variable costs with the sale and profits from our products. Our planned revenues will cover the variable costs, with a large enough contribution margin to cover fixed costs while still providing the company with a profit. Because our company is practicing a Broad Differentiator strategy, we will invest yearly in R&D in each segment of the market.

We will put a special emphasis on high end products in order to be up to date and innovative market leaders. Specifically, this upcoming year we will be investing between \$350- \$400 dollars in the Traditional segment, between \$650 and \$700 in the Low End segment, between \$900 and \$950 in the High End segment, between \$500 and \$550 in the Performance segment, and lastly between \$350 and \$400 in the size segment. In order for our strategy to be effective, our optimal timing for planned investments will be when

demand is predicted to be high. Hence, we will increase our capacity levels where demand is forecasted to peak. According to the drift rates, in the next 8 years, ideally, we will be investing predominantly when performance is 0 and size is 0 in the Traditional segment, when performance is -.8 and size is .8 in the Low End segment, when performance is 1.4 and size -1.4 in the High End segment, when performance is 1.4 and size is 0 in the performance segment, and when performance is 1 and size is -1.4 in the size segment.

Our company will plan to finance our strategy principally through issuing stock and cash flows from operating activities generated from the company's normal business functions. It is undesirable for our strategy to issue debt because we would like to stay away from interest payments. Our company anticipates our debt to equity leverage ratio to be around 0.5.

Through this strategy, a strength our company possesses is the ability to offer a premium product for every customer in each segment of the industry. We compete by giving all of our customers the very best, up-to-date products. Another strength is that since we have a premium product line, we are able to charge an above average price to our customers, thus leading to higher profitability in the long run. Although these are positive qualities of our company, our competitive advantage is costly. By having a product for every customer, we may not be focusing enough on our best product that could be generating the highest profit. If we invest the same amount for every product, it could lead to investing too much money on those products not performing as well; moreover, not investing enough on those products

performing the best. It's also costly to invest on all 5 of our products. As we continue to better our product line, R&D costs will always be higher because we have to consistently keep up with new trends in the marketplace.

We have many positive attributes by being a premium company intermixed within every segment. Since we are not issuing debt as a financing strategy, we don't have to worry about interest payments, so we will be able to fund more in all areas of our products including R&D, Marketing, etc. Although it is costly to keep our products fresh and new, by developing a loyal clientele from the start we will be able to leverage those costs and make them profits in the long term. To leverage those costs, we could invest more on those products who that are performing the best later in the simulation.

The products not performing as well will not have those same costs for Production or Marketing, since fewer of them need to be produced. Thus, the fewer costs for those products can lead to more money available to be invested in our best selling products. By taking advantage of those premium value products, outshining the rest, we are able to mitigate those weaknesses of costly finances to our benefit by investing in those products. Moreover, we will continually improve all 5 products in the areas that are most important to our customers in those segments. By doing this we are still able to keep our designs new, exciting and fresh, and keep our loyal clientele happy in each segment.