

Company performance during the business game

Entertainment, Games



Introduction

This report will give a clear analysis and explanation of the company performance during the business game.

Learning about four main business functional areas (Finance, Marketing, Operation and Human Resource) will be discussed in part 3. Team performance and individual assessment will be critically evaluated in part 4.

Business Objective

Moon Star Motors aims to provide customers with the ability to own a car and lead the customers to experience comfort and quality at an affordable price. We intend to create a distinctive place in the market for our products and build up brand value of quality and reliability in the mind of customers.

The initial business objectives set up by management team is:

- Increase sales annually
- Maximise our profit
- Sell out 98% of our cars for every round
- Obtain 16% return on investment by the end of round 4.

Company Performance

Discrepancy analysis

Unsold stock In round 1, we forecast to sell out both TIKI and CRUISER. However, only 80% of TIKI is sold, with 17, 393 units left. We concluded three main reasons as following:

- Supply over demand. We are over confident to sell big volumes with low price, but the market actually reached saturation.

- Unattractive and inflexible options. In order to maintain low material cost, we only offer two options for customers to select. It might affect the popularity of our TIKI and make it less competitive compared with other car manufacturers.
- Not enough promotion.

We invested 23 million on market promotion via television and internet, which is about ? 200 for every single car. We didn't invest too much for this round because we want to firstly evaluate the effect of advertisement. Net profit We forecast 20 million net profits and actual figure is minus 116 million. This is mainly due to the large amount of unsold stock and ineffective pricing strategy. The total contribution is unable to recover our fixed cost. In other words, the break-even point is set up too high and our sales volume did not reach BEP.

Meanwhile, some overheads such as professional charges and warranty claims are not properly calculated. Gross margin The difference between forecast and result for gross margin of TIKI and CRUISER is 3. 21% and 7. 08% respectively. It is mainly caused by the unexpected extra direct cost. For example, the worker strike increase our labor cost of both models and the option take-up is more than our estimate. Market share Our target market share is 1. 5% for TIKI and 1. 2% for CRUISER. We sold out all our CRUIER and hit the large car sales target. However, market share for TIKI is around 0. % less than we expected due to our unsold stock.

Business Strategy

New Pricing Strategy

The management team decided to adapt average pricing strategy in round 2 for two main reasons:

- We already access successfully to target market.
- Low price high volumes strategy did not make profit. Sales income must be increased in order to recover all overheads in this round and most of the loss in previous round.

Based on this, TIKI gross margin increased 2% to 14. 24%, while CRUISER gross margin increased 4. 3% to 25. 25%.

Production

Production for TIKI in this round has to decrease due to 17, 393 units in stock, and we try to sell them out in round 2. Meanwhile, results of round 1 indicated that CRUISER won the popularity in the market so we intend to increase the production by 10, 000 units. Based on the production adjustment and market predictions, the market share of CRUISER will increase from 1. 2% to 1. 5%, while TIKI maintains 1. 2% market share. Under this situation, our forecast sales will reach ? 2058 million in round.

Redundancy

The harshest decision made by management team is to cut down 574 workers.

Even though we understand this have negative effects on industrial relations, it is far beyond our business objective to over produce the cars and keep

unsold stock by the end of the year. Therefore, we forecast a 2.4 million of redundancy cost within total overheads.

Discrepancy Analysis

There are three main differences between round 2 forecast and results: (1) production (2) Sales (3) pre-tax profits. Our target production is 96,000 units but we actually produced 94,135 units, with 1,865 units missing. This is mainly because the redundancy decision initiated serious worker strike, which is recorded as 41 days in our company report. Thus, the actual production did not hit our target.

The discrepancy between forecast sales and actual sales is 40 million. We have 387 units CRUISER in stock which could increase our sales by 11 million if we can sell them out. And we will get 29 million more if we are able to hit the target production of 96,000 units and sell them up. Pre-tax profit The actual pre-tax profit is less than the forecast due to wrong calculation on current account interest and loans interest. We have closing bank balance of minus 270 million last round.

According to overdraft facility, we forecast to pay 11% of 270 million as overdraft interest which is around 30 million, but it actually is 15% of that amount and cost us 40 million. Besides, an extra 8 million is deducted as the interest of 100 million bank loans of round 1 and is ignored when we did financial forecast.

Business Strategy

Personnel Decisions Management team decided to maintain the size of workforce and to increase wages by 8% and training investment by 25% in

order to improve worker satisfaction and commitment, especially after we suffer a great loss caused by 41 days strike.

We hope to effectively control the strike in this round and expect the improvement of productivity. Automation Investment Management team made a decision of doubling the automation investment due to two main reasons. Firstly, it is recognized that automation can effectively increase the productivity and decrease the high wage bill. Secondly, the profit we made in previous round increases our confidence and financial capacity to introduce new equipment.

Discrepancy Analysis

The actual gross profit is 65 million less than our forecast, even though our sales reach the target. This is mainly caused by exceeded materials costs.

It is indicated on company report that design and options cost for CRUISER is ? 7572 per unit, but we only count it as 6186 when we forecast. In this situation, we are charged ? 1386 more for producing every CRUISER. It reflects that the options we offer to customers are of great popularity and we should enlarge option take-up percentage when doing the material cost forecast for next round.

Business Strategy

Sales target Encouraging by the good financial performance of last round, management team decided to increase the sales by 32% in round 4 in order to further satisfy our shareholders.

However, we do not plan to increase the gross margin for both models because we guarantee customers of good value formoney. Thus, we expect

the high volumes sales bring us profit. Design and options To make our cars competitive, we add more options to both models for customers to choose based on the popularity indicators (see appendix). Since the very beginning, both 3/5 door hatch with small engine (city car) and MPV with diesel engine (large car) are most popular designs for our target age group. So, the adjustment is focused on the alternative options. Promotion Expenditure

Promotion expenditure will increase by 34% to ? 40 million. This decision is made by management team with attempt to make our products sold better. Market predictions indicated that city car market and large car market will shrink by 12% and 9% respectively. That is to say, risk of keeping stock is high if we increase our production in round 4. Thus, we hope the promotion and advertisement could help reduce that risk.

Discrepancy Analysis

Unsold Stock We expect to achieve zero closing stock but actually have 12,853 units unsold which worth ? 246 million. As a result, we are unable to reach target sales, post-tax profit and target market share.

After evaluation, we conclude two possible reasons which contribute to this result:

- We over estimate our capacity and are hurry to expand the market share. As shown on the table, we increase 0.26% for TIKI and 0.34% for CRUISER. It seems better if we execute market expansion step by step.
- The competitors' price might have negative impact on our sales. In final round, in order to offer more alternative choices and high quality

experience to customers, we added more popular and high cost options for both TIKI and CRUISER, which increase our direct cost per car and make it hard to decrease the selling price.

Performance Evaluation Comments

In general, sales increased from ? 1509 million in round 1 to ? 2274 million in round 4 - an increase of 51%. Over this period, we did not launch any new model and enlarge the sales volumes too much. The main reason for sales increase is the growth of our selling price. Direct cost of sales decreased yearly from 88% in round 1 to 75% in round 4. Even though inflation raises material costs and we offer a pay rise to our workers, we are still able to handle the cost/sales ratio efficiently by adapting smart and efficient pricing strategy.

Profitability: Gross Margin % The gross margin has doubled from 12% (round 1) to 25% (round 4). In real money terms, our gross profit increased from ? 176 million to ? 574 million. This trend indicated that return on sales improved. Although direct cost of sales increased year by year, we adjust our pricing strategy in order to make our business more profitable. **Operating Profit %** Operating profit margin improved from minus 7% (round 1) to 12% (round 4) indicating more efficient operation management. To be specific, stock upkeep cost and redundancy cost are well managed.

The R&D investment and warranty costs are effectively controlled. Even though the investment on promotion and training increase yearly, this cost is balanced by the decreasing depreciation cost due to the book value of our fixed assets reduced yearly. **Net Profit %** Net profit margin shows an

increasing trend from minus 8% (round 1) to 9% (round 4). Our company remains profitable since round 2. This indicated that our business is successful in consistency of earning. Return on Assets % The return on assets grows dramatically from minus 24% (round 1) to 26% (round 4).

This indicates that management is more and more efficient in using business assets to generate profit. Return on Investment % The return on capital employed shows a similar trend, except a slight decline of 3% in round 3. The ROI is 36% by the end of round 4, which has actually achieved our business objective. Liquidity: From round 1 to round 3, the current ratio increase from 0.64 to 3.52 times, and the quick ratio increase from 0.13 to 3.52 times. The increasing ratio indicates that we have more cash flow to pay our creditors (quick settlement) and meet our short-term obligations.

In round 4, the current ratio drop slightly to 3.24 times and the quick ratio drop greatly to 1.45 times. This trend looks good because high ratio does not mean a healthy cash position of the business. It indicates that we do not use our capitals properly and efficiently. In conclusion, according to our current liquidity situation, our company is suggested to reduce the stock levels and to invest surplus cash in longer term investments. Market Share From round 1 to round 4, market share of TIKI increased from 1.21% to 1.35%, despite a slight decline in round 2.

Market share of CRUISER increased sharply in round 2 compared with round 1, then showed a tiny increase trend year by year. It indicated that we are successful in persistently and steadily supplying products to the market. Overall, our company's performance has been improved in several ways, (e.g. sales, profit, creditors, market share, etc.) In addition, it would have been <https://assignbuster.com/company-performance-during-the-business-game/>

more helpful for the further financial performance evaluation if the industrial average figures and key competitors' information had been made available (Behn 2003).

Learning

Financial Management

In the field of financial management, cost-volume-profit analysis is a powerful tool that helps managers identifies the relationships among cost, volume and profit (Banfield, Newcastle Business et al. 2008). It focuses on how profits can be affected by the following variables: selling price, sales volume, unit variable costs, total fixed costs, etc. (Banfield, Newcastle Business et al. 2008). Break even analysis and margin of safety is the important part of cost-volume-cost analysis. The formula is shown as following: Formula: $BEP = \frac{\text{Total Fixed Cost}}{\text{Contribution per unit}}$

Margin of Safety = $\frac{\text{Forecast Demand} - BEP}{\text{Forecast Demand}}$ In round 1, we forecast our total fixed cost and depreciation charge is 241 million, and the contribution per unit is 2316. By using formula, the forecast BEP is 104, 000 units. So we decided to produce 120, 000 units after evaluating market demand. Our forecast margin of safety is therefore around 13. 3%. However, we underestimated the total fixed cost and overestimated our sales volumes. Thus, we suffered a loss of 116 million in the first round. In round 2, we re-evaluate the cost, volume and profit, and then set up 32. % of margin of safety. Financial performance is improved in this round so we adapted the similar approach for round 3 and 4, in which our margin of safety is about 39. 1% and 52. 8% respectively. It has been proved that high margin of safety makes profit less vulnerable to demand drops (Jacobs 2002). Even though we

have 12, 853 units unsold stock, we still make a profit of 198 million in round 4. From the business game, we have practiced how to price products and how much volume of products we must sell in order to make a profit.

Human Resource Management

When we practice the Human Resource function in business game, we put emphasis on rewards, in particular worker wage. High wage will not always improve the work performance from long-term perspective, but annual pay increase works (Banfield and Kay 2008). Based on this learning, we decide to pay our worker ? 355 weekly in round 1 and to increase that wage annually. However, we suffered a loss due to bad company performance in round 1, so wage did not increase even though inflation rate is around 3%. In round 2, company performance is improved and we make profit. Thus, wage increase by 9% ahead of 4% inflation rate in round 3.

In round 4, wage increase by 5% to ? 404. Overall, from round 1 to round 4, wage increase by 14%, but the strike days only reduced 1 day (8 days in round 1 and 7 days in round 4). It is indicated that a reward cannot help to improve work performance if the pay increase does not meet the employee expectation (Corby 2009). According to data on competition, EMPIRE, our key competitors, pays their worker ? 500 weekly in round 4 and the strike day is controlled as 2 days. From the business stimulation, we realized the importance of monetary rewards and the link between rewards and productivity.

On the other hand, poor management of employee relations often end up with strikes (Blyton and Turnbull 1998). With this learning, we could have found another solution to allocate our workers instead of redundancy. There

are some limitations of business game in terms of HR management. High wage and training investment seems to be the only way to motivate productivity. And some other important HR functions such as recruitment and selection, promotion and employee engagement are not covered in the game. Learning experience will improve if those issues are made available in the game.

Operation Management

Quality management refers to the management activities involved in determination of quality policy and its implementation through means such as quality planning and quality assurance (Gitlow 2005). High quality puts costs down and revenue up (Banfield, Newcastle Business et al. 2008). Based on this learning, in order to control product quality, we focus on the R&D (Research and Development) and skills training when we practice the operation function during business game. From round 1, we keep investing on projects of fuel efficient engine and low emissions in order to detect and control the quality of engines.

Both of them are successful after 3 years of research and development. This help to reduce our warranty cost efficiently (see appendix). Due to safety factor, we started to invest on the project of advanced safety systems. We expect the continuous R&D investment bring us long term financial benefit. Meanwhile, we continuously invest on skills training based on the knowledge that investment in skills training can significantly improve product quality (Gitlow 2005). From the business game, I got better understanding about quality management and how quality influences customers' buying decision.

We also learn how to define the quality characteristics, set quality standard and measure the quality of our products. One of the limitations in stimulation process is that it is unavailable to evaluate and select the suppliers by ourselves. If this is made available, I believe that the operation cost would be controlled autonomously and learning experience of students about supply chain would be improved.

Marketing Management

Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value (Kotler and Keller 2011).

In carrying out the marketing functions, the company needs to have a marketing program or strategy. This is known as the marketing mix (Marc 1997). The conventional view of the marketing mix consisted of four components: Product, Price, Place and Promotion. It is indicated that 4Ps constitute the cornerstone of any sound business (Marc 1997). Based on this learning, we tried to use the right marketing mix to reach our target market during the business game. Product: In round 1, 3/5 door hatch and small engine are chosen for city car (24-40 market), while MPV and diesel engine are chosen for large car (41-55 market).

Options are selected due to the factors such as safety, comfort and style. From round 2, we detect the popularity index and aim to offer the most appropriate products to our customers (see appendix). Price: We use market penetration in round 1. In the next three round, we adapt average pricing strategy. The economic trend and income status of our target customers are also taken into account as well. Promotion: We keep increasing our

promotion investment from 23 million to 40 million via various media. In round 1, we invest ? 200 for every car and it increase to ? 450 in round 4.

Through business game, I got better understanding about marketing mix. However, innovation and new product strategy, as another important marketing strategy, is failed to be used in our game. We could have learned more about finding customer value opportunities and creating an innovationculturein our team if we had launched new model.

Team Performance

Management Team

We distributed our team into four groups in order to cover the four main functional areas of business organization: Finance, Marketing, Operation and Human Resource. Based on personal interests and experience, I take the charge of Finance.

Dorothy and Kira take theresponsibilityof managing marketing. Operation is taken charged by Michael and Jayson. Adetoro is responsible for HR. It does not mean that we make decisions and take responsibility separately. Actually, those functional areas are linked with and supported by each other. And everybody of the team is required to know exactly the whole process of our business. In reality, the main purpose of functional areas is to ensure that all important business activities are carried out efficiently. This is essential for a company to achieve its business objectives (Marcouse 2010).

Decision-making Process

The overall decision-making was a collective process. During the business game, we discussed and evaluated all feasible solutions and make sure

every decision is made to help settle the current problems and lead to business objectives. The controversy, however, is sometimes unavoidable. For instance, Dorothy, marketing manager, proposed to launch new model in round 3 due to market attractiveness. I cannot agree with that because we are still experiencing financial difficulty. Our net cash position is minus ? 371 million with poor ability to pay our creditors.

Adetoro is standing by my side, thinking from a long-term perspective. He suggested our team not to launch new model until we gain a reasonable market share. The further discussion and communication led to unanimous approval of the final decision. The similar situation happened when we discussed whether or not to adopt price skimming strategy for our products. The dispute finally is settled properly.

Leadership

I was nominated as the leader in business game due to my ability to manage market information and provide direction to my team members at the very beginning.

Under my leadership, our company is driven to achieve business objectives (execution). I make clear that all my team members are enjoying the game and have learned how to run a business in a real world.

Team Role

Through my observation, I have identified the strengths/weaknesses and work preference of my team members:

- Jayson and Michael prefer to analyze the current situation and raise the issues that we have to face (analysis). Michael is a good team worker

who communicates and cooperates effectively with others. Jayson, as a monitor evaluator, has a high critical thinking ability but lacks expression.

- Dorothy and Kira are intuitive about the market information, and they often give the creative ideas (plan). Both of them play as plant. Dorothy prefers change and innovation. She can work more effectively when cooperate with the people who are identified as implementer in Belbin team role framework.
- Adetoro used to reflect all our decisions we have made for every round and make everything reasonable and explainable (reflection). He is enthusiastic and logic thinker.

Individual

My Contribution

I have little knowledge about car industry when I take this project, but I quickly realize that I have special interest on costing and budgeting due to my previous work experience. So, I went through the user menu and market research then finish the finance forecast sheet before attending the group meeting. In round 1, I am responsible for both Finance and Marketing. During the group meeting, I proposed my ideas about cost/price, most of which are accepted by my team members and I therefore am nominated as manager of Finance. We suffered a loss in round 1.

After analysing the discrepancy between forecast and results, I suggest to adapt new pricing strategy and set a higher gross margin. The strategy is adapted by management team and makes profit for our company by the end of round 2. I am nominated as team leader due to my hard-working,

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efficiency and reliability. And I actively build up team relation and motivate our team members. I play the role of implementer successfully. I monitor every process of the game and every detail of our decisions, and put emphasis on improving efficiency of every group meeting, and record the minutes.

My learning about effective teamwork and decision making

Through business game, along with the knowledge I learn from Developing Self module and the experience of residential weekend, I have better understanding about:

- An effective teamwork involves in a group of people with common objectives and being able to build up trust and cooperate relationship with each other.
- An effective teamwork involves in a group of people who have complementary strengths/weaknesses with each other.
- An effective team should have a leader who is able to provide direction, open mind to different opinions, ake right decision and take risks.
- An effective decision should create the competitive advantage for organization and bring short term profit along with long term development.
- An effective decision builds up the core competency of organization and turn competitive advantage into sustainable competitive advantage.

Suggestions for Improving My Performance

If the game could be played again, I would like to think twice before adapting market penetration strategy in round 1 and try to avoid that loss as much as possible. I would like to pay more attention on developing my leadership capability and making better use of the abilities of my team members in order to build up a powerful and effective team.

Conclusion

Overall, our company is successful in the achievement of business objectives. By the end of round 4, our sales have increased by 50%, and our profit is showing a trend of growth. Even though the unsold stock percentage is larger than what we expect, we are still able to control the inventory and keep profitable. Return on investment in round 4 is 36% which is much more than our target.

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