

MikesBikes-Advanced

STRATEGIC MANAGEMENT SIMULATION



MikesBikes-Advanced Quickstart Guide



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MikesBikes-Advanced (MB-A) is an Online Business Simulation that will give you the opportunity to run your own company, managing all the key functional areas of a Firm. It is used as an interactive tool to enhance the integration and learning of the basic concepts of business in a real life context. You will get hands on experience at making critical price, marketing, operations, product development, and financial decisions.

Getting Started

- 1 Read this Quickstart Guide in full. It contains hints and tips to get you started.
- 2 Go to www.smartsims.com and log in using the login and password provided by your Instructor
- 3 Watch the Screenshot Demonstration of MikesBikes-Advanced (7 mins)
- 4 Download and read the Players Manual.
- 5 Windows Users should download and install the MikesBikes software (if available) from the MikesBikes-Advanced menu. This will install both the Single-Player and Multi-Player on your PC. Mac Users should use the Online version of Single-Player and Multi-Player. (See the Windows vs Mac section below).
- 6 Open your Single-Player and start practicing. This will allow you to get used to the simulation before your Multi-Player competition begins.

Single-Player vs Multi-Player

The MikesBikes-Advanced Single-Player allows you to practice against a single computer controlled competitor. You are able to roll forward into the next decision period / year, or roll back as you wish in order to test and change your decisions. Your primary goals are to familiarize yourself with the simulation and to maximize your Shareholder Value (SHV).

In the Multi-Player you will compete against other student teams in your class to create the highest Shareholder Value. Moving from one year (decision period) to the next is done by automatic rollover on preset dates. Before each of these scheduled times your team needs to have all decisions for the upcoming year entered into the Multi-Player version.

The Multi-Player has more competitors, more market segments, higher demand, and more distributors than the Single-Player, but otherwise looks the same as the Single-Player.

Windows vs Mac Users

Windows PC users can download and install the software version of the MikesBikes-Advanced Single-Player and Multi-Player. This software will not run on a Mac.

For Mac and Linux users we have an Online version which runs inside your web browser. All you have to do is to log into our website, go to the MikesBikes-Advanced menu, and click the blue Launch button to open your firm. Note – we may have to create this for you, so just let us know if you are a Mac user and can't find your Online Single-Player.

The software and the online version have the same functionality, but we recommend that Windows users use the software version if possible.

Note: Some courses will be set up so that all students use the Online version. If this is the case then the software download link will not appear on your webpage and Windows users should use the Online version instead.

Your Goal – Creating Shareholder Value (SHV)

As the Managers of your MikesBikes Firm, the primary goal for your company is to enrich its shareholders (owners) by providing a return on their investment in your company. The measurement of this total return to shareholders is known as Shareholder Value (SHV), so the success of your company is measured by the amount of Shareholder Value you can create in comparison to your competitors.

Shareholder Value is a measure of the current Share Price, including all past dividends paid, plus interest accumulated on these past dividends. It is the value to an investor over time of owning a single share in your firm (if you never pay dividends then SHV is the same as Share Price).

Your Share Price is mainly driven by:

- **Profitability and Earnings Per Share (EPS)**

For example:

Firm A has 2 million shares issued and made \$1 million profit, $EPS = \$0.50$

Firm B has 20 million shares issued and made \$10 million profit, $EPS = \$0.50$

Firm C has 2 million shares issued and made \$2 million profit, $EPS = \$1.00$

- **Debt to Equity (D/E) Ratio**

A higher D/E ratio means higher risk which results in a lower share price

A lower D/E ratio means lower risk which results in a higher share price

The Financial Results for All Firms report under the Financial Reports submenu shows how you are performing relative to your competitor(s).

Decision Areas

All of your decisions will have a direct or an indirect effect on Shareholder Value. The 5 major areas you will make decisions in are:

- **Product Marketing**
The marketing mix for each of your products, including design, price and promotion.
- **Firm Marketing**
The branding budget and distribution strategy for your firm.
- **Operations Management**
Various operations management decisions including the capacity and quality strategy of your firm, plus how many of each of your products to produce.
- **Design and Development**
Decisions about developing and modifying your products to suit the needs of the marketplace.
- **Finance**
Decisions about how to finance your firm, such as whether you want to increase debt or equity, dividend decisions, and takeover strategies.

In a typical year you will review your previous year's performance by reading the various reports available to you then formulate a set of decisions based on this data. You will then enter your decisions in each screen based on your analysis.

If you are using the Single-Player, then use the Rollover and Rollback buttons to see what effect your decisions will have. When you are using the Multi-Player you will have to wait until the next scheduled decision deadline / rollover before your decisions will be processed.

Segments

MikesBikes-Advanced models a bicycle industry in a fictional market but with market data based on a real World scenario in the US market. Consumers in these markets have high discretionary income, and will freely buy any bicycle that suits their individual needs. There are five market segments:

- **The Adventurer Segment:** Broadly typified by the young suburban bicycle purchaser who wishes to buy a mountain bike. Usually prepared to pay more for a reliable product that suits their specific needs.
- **The Commuter Segment:** Consumers who require a bike purely as a means of transport. They place a great deal of emphasis on reliability and comfort, with price being more of a concern than performance or of buying a well-known brand.
- **The Kids Segment:** A large segment with the primary requirements of purchasers being that their bike has to be durable but also relatively inexpensive, while having the best image on the block.
- **The Leisure Segment:** This market is made up of those who own a bike but only use it once or twice a month. Their bike is seen primarily as a means of relaxation or leisure, so comfort and style are important.

- **The Racer Segment:** Dominated by those who view cycling primarily as a competitive activity. The typical racer owns at least two bikes and demand high performance with leading edge technology, therefore will pay a top price for the right bike.

Each of these segments has unique customers with different product preferences, price sensitivities, and shopping habits. Depending on the segment, demand for a product can be determined by Product Attributes (Style and Technical Specs), Price, Product and Brand Advertising, Product Quality, Distribution Coverage, Delivery Lead Time, and how your products compare to your competitors.

See the Scenario Information Reports for more details about each Segment's preferences.

Promotion

Advertising and PR decisions are found under Market->Products->Adv1->Make/sell

Branding decisions are found under Market->Branding

There are three types of promotion available to you:

- **Product Advertising**
- **Product Public Relations (PR)**
- **Brand Advertising:** Brand advertising increases the effectiveness of product advertising and results in increased product awareness. This is especially cost effective when your firm has multiple products in the market.

Within Product Advertising and Public Relations, there are three media choices available to you:

- **Television (TV)**
- **Internet**
- **Magazines**

Each media choice offers different performance in terms of reach, ability to target, and cost.

Brand awareness, product awareness and the influence of product public relations (PR) depend on your current budget and the carry-over effect from previous periods.

In the Make/sell screen you can also enter retail pricing and production decisions for each product for the coming year. Production decisions entered are an estimate based on the coming year's sales minus existing stock on hand. Actual production may vary depending on actual sales demand and your factory capacity.

Distribution

Market->Distribution

Here you can enter your retailer margin and sales promotion support budgets for each retail channel. The number of stores that will stock your products will depend on the total return that you offer distributors in combination with your level of consumer demand. Total return to stores is made up of retail margin, extra support, and unit sales history.

Extra support is useful for achieving a short term boost in distribution coverage, e.g. to coincide with a new product launch. The Retailer Margin indicates the percentage of a product's retail selling price that the retailer receives as commission for selling that product.

All retailers stock all bikes but most customers will shop at one of the three types of stores depending on which type of bike they are looking to purchase. The proportion of consumers purchasing from each retailer (by market segment) is given in the Market Segment Scenario Information report.

Responsiveness

Operations->Manufacturing->Responsiveness

Here you can enter your desired plant size and workforce, and also determine process decisions including batch size, setup time reduction expenditure, supplier relations and raw materials inventory.

Plant size and **Workforce** can be adjusted to increase or decrease your factory capacity in terms of SCUs (standard capacity units). Adjustments of worker numbers will be effective immediately; however plant size adjustments take one period/year to come into effect.

Batch size reflects the average batch size used within the factory. Larger batch sizes will proportionately reduce the number of setups and hence increase available capacity. However this comes at the cost of increasing production lead time and possibly decreasing delivery performance. A balance must be found which fits with the overall strategy of the firm.

Set up time reduction investment will reduce the amount of time spent setting machines up and hence increase effective capacity.

Supplier relations investment includes expenditure directed towards negotiating single source contracts, providing suppliers with forecast demands and educating suppliers in JIT and TQM techniques. Benefits include reducing line stoppages due to the unavailability or inadequate quality of purchased products, and reducing the defect rate of production

Raw materials inventories provide a buffer to protect against unreliable suppliers to ensure there are sufficient materials to cover late deliveries. Increasing supplier relations expenditure will make suppliers more reliable and allow you to hold less raw materials inventory.

Quality

Operations->Manufacturing->Quality

We separate quality into 2 components - internal and external quality.

A high level of internal quality is attained through motivation and training of people, maintenance of machines, good supplier relations and systems which monitor quality ("quality systems"). This corresponds "quality at the source", and to the techniques of Total Quality Management (TQM).

External quality is the quality that the customer sees and could be a result of internal quality or it could be simply the result of extensive inspection at the end of the process. (While the customer does not care how they get quality, external quality is usually much more expensive due to the rework involved.) Different market segments expect different levels of quality. See the scenario information reports for more information regarding this.

Finance

Finance->Finance

Equity: Here you are choosing to issue/repurchase shares in your firm, or pay dividends to your firm's shareholders. Issuing shares is a method of raising capital for investment (e.g. product development, or plant purchase) though this will have a negative effect on your SHV. Repurchasing shares will increase the demand for these and result in a positive effect on SHV. Dividends are income payable to shareholders, shown as dollars per share. Dividends are optional and at the company's discretion, but they do have a positive effect on SHV.

Note: The maximum amount of capital a firm can raise in a given year is 50% of its market value. Similarly, in any given year a firm can only repurchase shares worth 10% of current market value.

Debt: Raising debt is often the easiest way to get money, however it can be expensive in terms of the interest charged. The higher the debt/equity ratio of the organization, the more risk it is perceived to have by investors and the higher the interest on any further borrowing. Also the banks will refuse to loan you any more money once your D/E ratio is > 3 .

Investor Relations: This is a periodic allocation of funds specifically intended to raise the public profile of the firm amongst the investment community. The firm retains some benefit from previous periods' expenditure, but ongoing spending is required to maintain a certain level of Investor PR and to increase it in accordance with its overall strategy.

Investments

Finance->Investments

Takeovers of other firms raises important issues related to considering shareholdings in other firms as strategic investments. Note: this is an optional feature and must be enabled by your Instructor.

Making a Takeover Bid: Since you must pay at least a 40% premium over current market capitalization to achieve a successful takeover, a takeover bid for a company will usually require a significant amount of cash. You will need to carefully evaluate this investment

Overseeing Owned Companies: Once you have successfully taken over a company, you are responsible for making all its finance decisions. You will need to carefully monitor its financial health and decide when to withdraw dividends. You may sell your shareholding back to the share market at large (this takes one year during which you may not meddle in its affairs).

See Reports->Scenario Information->Takeover Rules and Regulations

Development

Development->Design and Development

To release a new product or modify an existing product you must first develop a project. Each design project has a set of target product attributes and prime cost, as well as a project budget (which is always spent). The design project takes a year to complete - even if the targets are not completely met. At that stage the design may be used to launch or modify a product through the product screen.

We advise that each year you check the 'Perceptual Map of Market Segments' report each year as consumers preferences may change each year. The closer you get to the center of the segment circle the higher your demand. If your product leaves the circle customers will no longer purchase the product.

FAQs

Help! My Decisions aren't being saved!

- Make sure you always click the Apply or OK button after changing a decision
- Always check the Current Decisions report after entering your decisions to make sure you haven't missed anything.
- Make sure you are entering your decisions in the right place. Eg. If you are using the Single-Player, your Multi-Player decisions will not be updated. Similarly if you are using Offline Mode, your Multi-Player decisions will not be updated.

Someone keeps changing my decisions! (Multi-Player)

Remember that you probably have 2-5 people assigned to your Multi-Player firm, and any one of them can log in and update the decisions. You should discuss with your team members who is responsible for actually updating your team's decisions to avoid confusion.

If you experience any other difficulties, feel free to contact the Smartsims Support Team:

Email: help@smartsims.com

Website: www.smartsims.com