Overview

Marketing/Sales Business Strategy

Strategic Thinking in the System Thinking

Part 1
Why Simulations?

Level of Involvement

Traditional

New Approach

Learning Impact

Experience Based

Real Time Based - CBT/WBT

Good Experience

Bad Experience

Simulations

Case Studies

Group Exercises

Discussions

Lectures

Reading

Why Simulations?
Purpose to approach the systems perspectives to sales and marketing in a networked functions

BALDRIGE CRITERIA FOR PERFORMANCE EXCELLENCE FRAMEWORK
A Systems Perspective

Customer and Market Focused
Strategy and Action Plans

1. Leadership
2. Strategic Planning
3. Customer and Market Focus
4. Information and Analysis
5. Human Resource Focus
6. Process Management
7. Business Results
Markstrat is a simulation designed to focus on strategic system thinking issues in business marketing

- Understanding customer needs
- Long term perspective
- Marketing as profit center
- Competitive environment
- Sales/Marketing strategy is based on segmentation, positioning, and resource allocation... marketing mix decisions are secondary

Customer is the system
Company is the system
Employee is the system
Market is the system

How to do? What to do?
System Approach

- The Markstrat World
- Managing your firm
- Getting started
The "Markstrat World": a large territory with a highly developed economy System

- Population: 250 million
- Currency: Markstrat Dollar ($)

Updated on 15 Nov 2002
01755-07-2002-TPM-48-K
http://www.StudyBusiness.com/
The competing firms start in different positions
The competing firms start in different positions. But a networked collaboration in a team/company leads to WIN-WIN thru best communications.
Markets perspectives .....
Each firm can compete in **TWO** product markets

- independent
- not substitutes
- not complements

- Maximum: 5 brands/market
The Sonite market is already developed, each product having 6 main physical characteristics:

- **Weight**: Kg
  - 10 - 20

- **Design**: Index
  - 3 - 10

- **Volume**: dm³
  - 20 - 100

- **Max. Frequency**: kHz
  - 5 - 50

- **Power**: W
  - 5 - 100

- **Base Cost**: $ min. 10
Vodites will likely also have 6 main physical characteristics, but the market is as yet untapped.

- **Autonomy**: m
  - 5 - 100
- **Max. Frequency**: kHz
  - 5 - 20
- **Diameter**: mm
  - 10 - 100
- **Design**: 
  - 3 - 10
- **Weight**: g
  - 10 - 100
- **Base Cost**: $
  - min. 10

$5 - 100, 5 - 20, 10 - 100, min. 10$ kHz mm g
It is easy to recognize the origin of the brands from their names

Product Type:
S=Sonite
V=Vodite

Company marketing the brand:
A, E, I, ...

Freely chosen letters or numbers
Sonite customers have traditionally been classified into 5 segments...

- Singles
  - Si
- High Earners
  - Hi
- Buffs
  - Bu
- Professionals
  - Pr
- Others
  - Ot
...whereas initial studies for Vodites have pointed to a different segmentation scheme

Typical segment size evolution over time

- Followers
- Early adopters
- Innovators
Pragmatists create the dynamics of high-tech market development.

Innovators
Early Adopters
Early Majority
Late Majority
Laggards

Pragmatists: Stick with the herd!
Conservatives: Hold on!
Visionaries: Get ahead of the herd!
Skeptics: No way!
Techies: Try it!
High Tech Market Development Model

- Early Market
- Chasm
- Bowling Alley
- Tornado
- Main Street
- Total Assimilation
Technology vs. Category Life Cycles

Product Category Life Cycle
(Onsgoing sales)

Technology Adoption Life Cycle
(First time adopters)

- Infant*
- Shooting Star*
- Cash Cow*
- Lazy Dog*

* From Boston Consulting Group portfolio management model
Market Development Model Convergence

(1) Legacy Model

(2) High Tech Model

Deal Driven

Mass Marketing

1 on 1 Marketing

(3) Digital PSM Model

Niche Marketing

1:N Marketing (Mass Customization)
Sonite & Vodite customers have the choice of purchasing through 3 distinct distribution channels.

- Specialty Stores
- Department Stores
- Mass Merchandisers
Summary of Markstrat World environment:

- Market growth
- Technology
- Economic environment
System Approach

The Markstrat World

Managing your firm

Getting started
Your objective in managing your company is to maximize your Share Price Index

To do that, you will have to optimize:

- Market share
- Sales growth
- Net contribution
- Cumulative net contribution
- R&D investments ...

... but the main objective is to LEARN!
You will need to do a certain amount of analysis, before setting a strategic direction for your firm.

Data → Information → Strategic Options

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
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<td>457</td>
<td>856</td>
<td>745</td>
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<td>P1</td>
<td>542</td>
<td>596</td>
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<td>P2</td>
<td>650</td>
<td>587</td>
<td>824</td>
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<td>P3</td>
<td>745</td>
<td>900</td>
<td>1203</td>
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</table>
The Data you will receive are composed of following four categories:

- **Study Data Sources**
- **Company Report**
- **Industry Newsletter**
- **Market Research Studies**
- **Analysis**
Company Report provide the performance of the previous period’s decision. These are confidential.

- Company Results - Company Scorecard, Company Performance, and Messages
- Brand Results - Contribution by Brand, and Market Share and Distribution Coverage
- Research & Development Results
- Cumulative Results - Cumulative Brand Results, and Cumulative Company Performance
Industry Newsletter provide the data that get through News Media. These are open to all firms.

- Stock Market and Key Performance Indicators
- Economic Variables and Costs
- Information on Sonite and Vodite Market - Characteristics and Market Shares
Market research studies provide market data ... it is up to you to prioritize, digest and interpret them

- Consumer survey
- Consumer panel
- Distribution panel
- Semantic scales
- Multidimensional scaling
- Industry benchmarking
- Market forecast
- Competitive advertising
- Competitive sales force
- Advertising experiment
- Sales force experiment
- Conjoint Analysis
Once your strategy is clear, you should proceed to make a number of tactical decisions each year

- Production, Pricing & Advertising - Production Planning, Inventory disposal, Pricing, Mass communication
- Sales Force & Distribution
- Market Research
Your production department will automatically adjust production levels up to 20% (+ or -) against your plan.
Comparison of purchase intent with market share can give you a feel for the size of "lost sales"

<table>
<thead>
<tr>
<th>Purchase Intent</th>
<th>≈</th>
<th>competitors</th>
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<tbody>
<tr>
<td>-</td>
<td>≈</td>
<td>order-book</td>
</tr>
<tr>
<td></td>
<td></td>
<td>lost to industry</td>
</tr>
</tbody>
</table>
Pricing in Markstrat is fixed once a year

Recommended Retail Price = $ 100

<table>
<thead>
<tr>
<th></th>
<th>Specialty Stores</th>
<th>Department Stores</th>
<th>Mass Merchandisers</th>
</tr>
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<tbody>
<tr>
<td><strong>Average Retail Price</strong></td>
<td>$ 100</td>
<td>$ 100</td>
<td>$ 90</td>
</tr>
<tr>
<td><strong>Distrib. Margin</strong></td>
<td>$ 40</td>
<td>$ 30</td>
<td>$ 27</td>
</tr>
<tr>
<td><strong>Average Selling Price</strong></td>
<td>$ 60</td>
<td>$ 70</td>
<td>$ 63</td>
</tr>
</tbody>
</table>
Each firm receives a marketing budget for the coming period, based on the previous period’s performance.

- **Advertising**
  - Advertising expenditures
  - Advertising Research expenditures
- **Sales Force**
  - Operating cost
  - Hiring & training cost
  - Firing cost
- **R & D**
  - Development budget
- **Market Research**
  - Sonite and Vodite study costs

For each brand:

For each project:
### CONTRIBUTION BY BRAND

<table>
<thead>
<tr>
<th>Sonite Brands Base R&amp;D project</th>
<th>Unit</th>
<th>Total</th>
<th>SEMI PSMO3</th>
<th>SELF PSL01</th>
<th>SEXY PSSI2</th>
<th>SEBU PSBU2</th>
<th>SEOT PSOT2</th>
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<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units sold</td>
<td>U</td>
<td>742 649</td>
<td>260 829</td>
<td>162 484</td>
<td>211 336</td>
<td>60 000</td>
<td>48 000</td>
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<tr>
<td>Average retail price</td>
<td>$</td>
<td>358</td>
<td>399</td>
<td>442</td>
<td>279</td>
<td>357</td>
<td>204</td>
</tr>
<tr>
<td>Average selling price</td>
<td>$</td>
<td>233</td>
<td>264</td>
<td>282</td>
<td>181</td>
<td>222</td>
<td>140</td>
</tr>
<tr>
<td>Revenues</td>
<td>K$</td>
<td>172 969</td>
<td>68 858</td>
<td>45 820</td>
<td>38 251</td>
<td>13 320</td>
<td>6 720</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units produced</td>
<td>U</td>
<td>860 000</td>
<td>320 000</td>
<td>112 000</td>
<td>320 000</td>
<td>60 000</td>
<td>48 000</td>
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<tr>
<td>Current unit transfer cost</td>
<td>$</td>
<td>-</td>
<td>114</td>
<td>116</td>
<td>96</td>
<td>202</td>
<td>109</td>
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<tr>
<td>Average unit transfer cost</td>
<td>$</td>
<td>117</td>
<td>114</td>
<td>120</td>
<td>96</td>
<td>202</td>
<td>109</td>
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<tr>
<td>Cost of goods sold</td>
<td>K$</td>
<td>-86 800</td>
<td>-29 734</td>
<td>-19 426</td>
<td>-20 288</td>
<td>-12 120</td>
<td>-5 232</td>
</tr>
<tr>
<td>Units in inventory</td>
<td>U</td>
<td>232 955</td>
<td>59 171</td>
<td>65 120</td>
<td>108 664</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Inventory holding cost</td>
<td>K$</td>
<td>-1 977</td>
<td>-539</td>
<td>-604</td>
<td>-834</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Inventory disposal loss</td>
<td>K$</td>
<td>-1 498</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-1 498</td>
<td></td>
</tr>
<tr>
<td>Contribution before marketing</td>
<td>K$</td>
<td>82 693</td>
<td>38 584</td>
<td>25 790</td>
<td>17 129</td>
<td>1 200</td>
<td>-10</td>
</tr>
<tr>
<td>Marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising expenditures</td>
<td>K$</td>
<td>-9 506</td>
<td>-3 007</td>
<td>-1 995</td>
<td>-3 007</td>
<td>-500</td>
<td>-997</td>
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<tr>
<td>Advertising research expenditures</td>
<td>K$</td>
<td>-392</td>
<td>-93</td>
<td>-105</td>
<td>-93</td>
<td>-49</td>
<td>-52</td>
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<tr>
<td>Sales force</td>
<td>K$</td>
<td>-2 097</td>
<td>-385</td>
<td>-488</td>
<td>-386</td>
<td>-433</td>
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<tr>
<td>Contribution after marketing</td>
<td>K$</td>
<td>70 692</td>
<td>35 098</td>
<td>23 202</td>
<td>13 642</td>
<td>216</td>
<td>-1 466</td>
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</tbody>
</table>
## Company Performance

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>Total</th>
<th>Sonite market</th>
<th>Vodite market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units sold</td>
<td>U</td>
<td>779 797</td>
<td>742 649</td>
<td>37 148</td>
</tr>
<tr>
<td>Average retail price</td>
<td>$</td>
<td>364</td>
<td>358</td>
<td>473</td>
</tr>
<tr>
<td>Average selling price</td>
<td>$</td>
<td>237</td>
<td>233</td>
<td>324</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>K$</td>
<td>185 007</td>
<td>172 971</td>
<td>12 035</td>
</tr>
<tr>
<td><strong>Production</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units produced</td>
<td>U</td>
<td>897 148</td>
<td>860 000</td>
<td>37 148</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>K$</td>
<td>-97 239</td>
<td>-86 800</td>
<td>-10 438</td>
</tr>
<tr>
<td>Inventory holding cost</td>
<td>K$</td>
<td>-1 978</td>
<td>-1 978</td>
<td>0</td>
</tr>
<tr>
<td>Inventory disposal loss</td>
<td>K$</td>
<td>-1 498</td>
<td>-1 498</td>
<td>0</td>
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<tr>
<td><strong>Contribution before marketing</strong></td>
<td>K$</td>
<td>84 290</td>
<td>82 693</td>
<td>1 597</td>
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<tr>
<td><strong>Marketing</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Advertising expenditures</td>
<td>K$</td>
<td>-12 517</td>
<td>-9 507</td>
<td>-3 010</td>
</tr>
<tr>
<td>Advertising research expenditures</td>
<td>K$</td>
<td>-883</td>
<td>-393</td>
<td>-490</td>
</tr>
<tr>
<td>Sales force</td>
<td>K$</td>
<td>-2 313</td>
<td>-2 099</td>
<td>-214</td>
</tr>
<tr>
<td><strong>Contribution after marketing</strong></td>
<td>K$</td>
<td>68 577</td>
<td>70 693</td>
<td>-2 116</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Market research studies</td>
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<td>-1 381</td>
<td>-657</td>
<td>-584</td>
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<tr>
<td>Research and development</td>
<td>K$</td>
<td>-2 900</td>
<td>-900</td>
<td>-2 000</td>
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<tr>
<td>Interest paid</td>
<td>K$</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional cost or profit</td>
<td>K$</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net contribution</strong></td>
<td>K$</td>
<td>64 295</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Next period budget</strong></td>
<td>K$</td>
<td>24 350</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The simulation starts at the end of the initial period, the new management (you!) making decisions for the next period.
The decisions for the first period are limited in scope, so that your team can familiarize itself with Markstrat

- Gather information
- Do not make any major changes in your firm's operation
- Do not introduce new brands, modify or withdraw existing ones
- Do not start R&D projects
- Do not give perceptual objectives for advertising
Organize yourselves and manage the group process through system thinking

- Information overload
- Time pressure
- Conflicting opinions
System Approach

The Markstrat World

Managing your firm

Getting started
When you return to your team room, the Main Menu will be on your PC screen.
After accessing the Decision Module Main Window, you will start making decisions for the coming period.

Click here to access the Production, Price and Advertising module.
Decisions on production, price and advertising should be entered for each brand.

- Switch from Sonites to Vodites
- You are currently making decisions for brand SEMI
- Switch from one brand to the other
The sales force is organised by channel type to better meet the specific needs of the channels.
Buying market research studies will help you make sound decisions

Costs are updated according to your selection
You can monitor the status of your decisions at any time.
Don't forget to transfer your decisions ...

1. Click here to access the interface module.

2. Transfer your decisions and hand your data disk over to the Administrator.

Markstrat is a registered trademark of Strat*X. Contact Strat*X for additional information.
On your marks. Get set. Go!

• Give a name to your company
• Respect the deadline

Good luck!