

Quickstart Guide

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.

There are two variants of MB-A, the Single-Player and the Multi-Player. The main differences between the two are detailed below:

Single-Player

- Practice version of MB-A, no Internet connection required.
- 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.
- One competitor firm, in the form of a computer robot. You will start from a weaker market position and should give you a challenging competitive experience for up to 10 years (rollovers).

Multi-Player

- In the Multi-Player version, you will compete against other student teams within a 4 to 7 Firm Industry for the highest Shareholder Value (SHV).
- The Multi-Player requires an Internet connection to be open before logging in. Moving from one year (decision period) to the next is done by automatic rollover on preset dates set by your Instructor.
- Before each of these scheduled times your team needs to have all decisions for the year ahead entered into the Multi-Player version, clicking Ok in any decision screen will save the decision on our server (if they are saved on screen, they are saved on our server). Decisions can be edited at any time before the rollover.
- MikesBikes Multi-Player version can also be used in Offline Mode (File → Play Offline) for making practice decisions. You will be able to roll forward and roll back as you wish to give you an indication how your decisions may result (without your competitor's decision).
- All members can login, view their reports, and take an Offline copy, though we recommend that you select one team member to enter or at least check your final decisions.

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 driven by:

- **Profitability and Earnings Per Share (EPS)**
E.g. Firm A has 2 million shares issued and made \$1 million profit, $EPS = \$0.50$
E.g. Firm B has 20 million shares issued and made \$10 million profit, $EPS = \$0.50$
E.g. 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

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.

When you login to your Firm you will be making decisions for the year ahead (click 'OK' in a decision screen for these to be saved on our server) and at the decision deadline/Rollover, these will be processed.

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.

We recommend that you focus on accurate forecasting, this can be done using the reports available as well as the Offline Mode feature to give an indication of your results (Note: Offline Mode does not factor in your current competitors' decisions, only their past decisions). In Offline Mode once you are ready to enter decisions into the Online Mode, take a copy of the Current Decisions and/or Previous Decisions Report, disconnect then re-connect.

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)**
- **Newspapers:** It is important to note that the readership of newspapers is heavily influenced by age.
- **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 your firm's selected product for the coming year. Production decisions entered are an estimate based on the coming years sales minus existing stock on hand, your factory will manufacture plus or minus 50% of the production decision depending on actual sales 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 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 SCU's (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 balance sheet value. Similarly, in any given year a firm can only repurchase shares worth 25% of balance sheet equity.*

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.

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 firm's 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).

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 will change each year, the closer to the center of the segment circle the higher your demand. If your product leaves the circle customers will no longer purchase the product.

Where to From Here:

This Quickstart Guide is merely an overview of the decision areas that you will experience when playing MB-A. For a more detailed explanation, we advise you to consult the MikesBikes-Advanced Players Manual and also view the Single-Player Demonstration found on our website.

From here you can start practicing on the MikesBikes Single-Player, then once you have received your personal login details proceed to login to the Multi-Player to make your teams decisions for the first rollover.

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

Email: help@smartsims.com
Website: www.smartsims.com