Report to the Board of Directors

DELUXE FOOTWEAR

Industry 231

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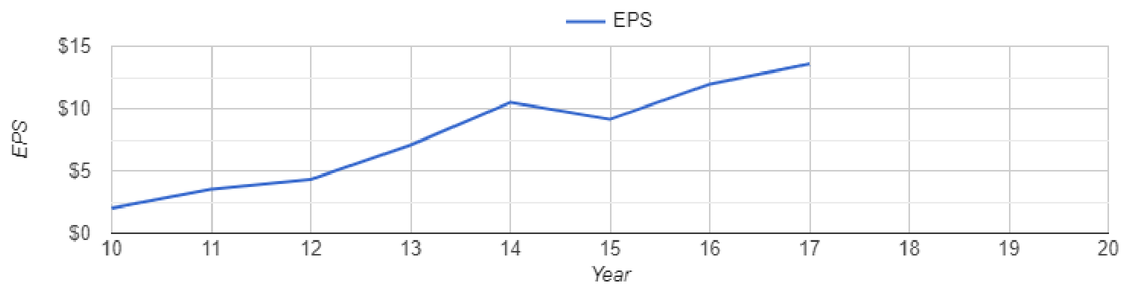
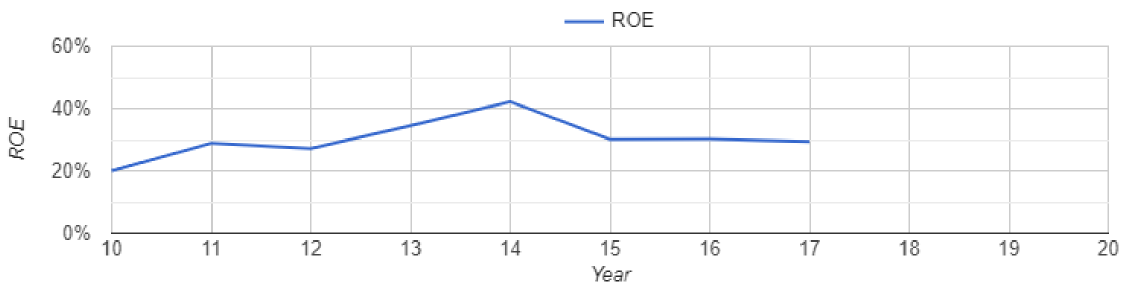
2. Performance Review

a. Earnings per share (EPS)

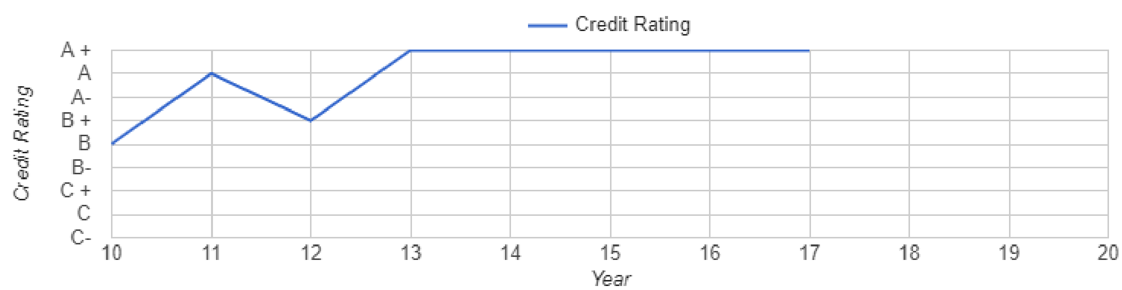


b. Return on equity (ROE)

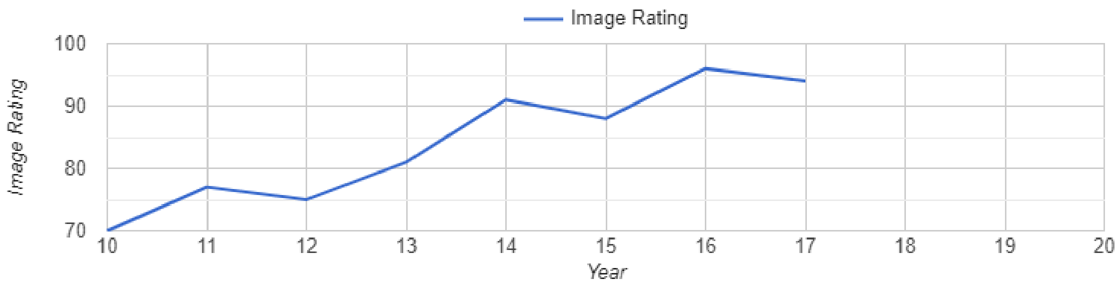


c. Stock Price

d. Credit rating



e. Image rating



In all categories aside from credit rating, there was a slight dip in year 15. This is likely due in part to the breaking news and changes in the game (week of March 27, 2022). The breaking news email informed us of some impactful changes, such as tariffs and other general trends. In year 15, we also needed to re-purchase a lot of expensive equipment and expand out to both Europe and Latin America. Additionally, we bought buy more equipment in two regions.

You may also notice a slight dip in our credit rating and image rating during year 12. The BSG Player's Guide explains the three areas that affect a team's image rating."The image rating is based on: (1) your company's branded S/Q ratings in each geographic region, (2) your company's global market shares for both branded and private-label footwear, (3) your company's actions to display corporate citizenship" While our image rating went down slightly in year 12 we were able to recover quickly by attending to those areas. For example, in year 13, after seeing the decline from year 12, we decide to invest more in corporate citizenship. In year 13, we invested in Improved Working Conditions for both Facilities and Safety/Lighting. These investments paid off in the long term as we received the Corporate Social Responsibility Award for Year 16 and Year 17 and our image rating improved as we had hoped (although it dipped down slightly again in Year 17).

As mentioned above the credit rating also had a large dip in year 12. However, we were able to maintain an A+ rating for four years straight. This successful rating was likely due to our low risk of default, our investments in assets for the future, and our paying back loans early to reduce interest rates.

Overall we are pleased with the performance of our strategies as we scored well and were consistently highly ranked.

3. **Overall strategic vision**:

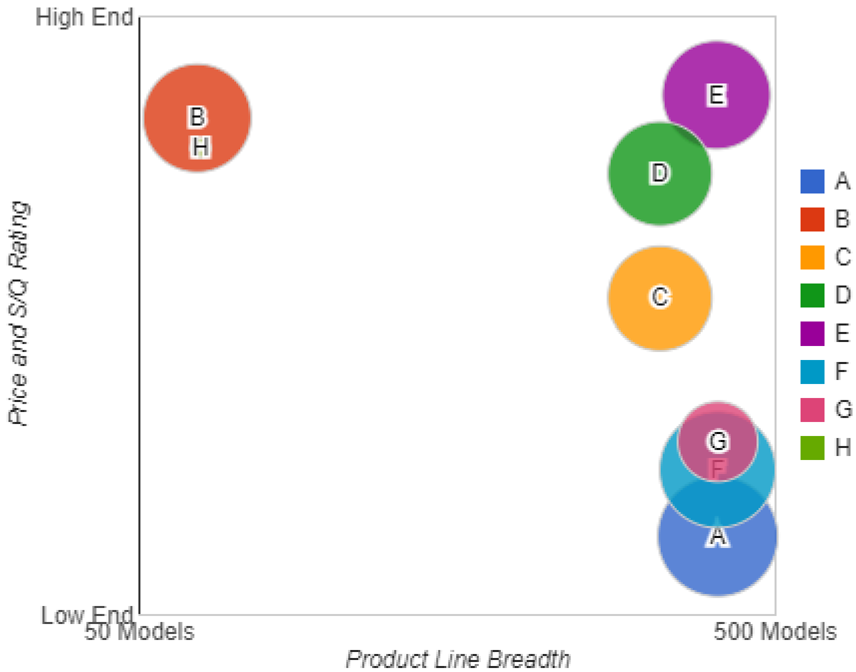
Vision Statement: *To become a global leader in the footwear industry by providing reliable and durable footwear products that ensure quality and consumer satisfaction.*

We're currently in the right upper corner on the competition mapping. As a company, we place significant emphasis on image rating growth with its three key elements: S/Q rating, market share for branded and private labels, and corporate citizenship. We also strive to increase production volume & capacity in all regions every year and invest in marketing to attract more customers and generate enough demand. Although we mainly distribute to North America and Asia Pacific regions, we plan to expand to Latin America.

In our team's initial report, when we just began the BSG as a team, we explained our strategy this way:

> "Our strategy leans towards the upper right side of the graph, with higher quality and a higher number of styles with a slightly above average price. At this stage in the game, we will not be spending any money on free shipping or Search engine advertising so that we will have more money to spend on more effective things.
>
> Our strategy includes raising the ratio of the superior material, increasing the number of styles, increasing enhanced styling, and spending resources on the 6-sigma quality program (notable because of the way it accumulates).
>
> In the wholesale market, we will be spending money on brand advertising and retailer support so that we can have our product in as many stores as possible and make sure to capture that market as well as possible. Additionally, we also keep our wholesale market prices at least 40% lower than our internet prices."

Although the way we executed the strategy and specific details changed as we played the BSG, we kept the same general approach throughout the game. The graphic below shows us in our last year compared to the other teams. We ended up towards the top left-hand corner, as we expected in our initial reports.



4. Branded Footwear Marketing Strategy

Our Wholesale marketing strategy did vary from our internet strategy. While there were many similarities, we did approach them as their own entity. For example, spending money on brand advertising and retail support in the wholesale was something we were very deliberate in deciding. However, we did not compete in the internet market in the same way. In the internet market, we did not spend any money throughout the game on Search Engine Advertising or free shipping. Instead in the Internet market, we used other strategies such as having celebrity appeal. Back to the wholesale strategy, we invested in advertising there while we did not in the internet market. This was because we found that investing in advertising in the internet market was not very effective or useful; while investing in retail support and brand advertising in the wholesale market was effective as it helped us have more stores willing to carry us and increase the demand and accessibility of the product.

Our strategy did vary slightly from geographic region to geographic region for branded footwear. For example, in year 13, we had considerable demand in Latin America. Additionally, after doing well in the previous round and having available resources, we made investments for production capacity in Latin America. This was very helpful in producing for North America and Latin America much cheaper and also keeping up with the Latin America demand mentioned earlier. To continue with our success in Latin America, we also made sure we had good celebrity appeal in that region. In year 14, we had a 425 celebrity appeal score in Latin America.

As mentioned above, we valued celebrity appeal in our strategy, especially for its usefulness in the internet market. In year 11, we placed bids on each of the celebrities; these bids were based on each celebrities values and the bids seen in our individual BSG rounds. However, we only made one celebrity contract that year. The competition for the celebrities with the other teams was unexpected, and we learned that we underestimated how the other teams would bid. In future years we bid more aggressively; for example, in year 15 (seen on the table below), we were offered the highest bid on each contract aside from 2. That year we ended up with five celebrity contracts.

Most Recent Contract Offers
(letter in parens indicates company that made offer)

No. of Offers	Highest Offer	2nd Highest	3rd Highest
6	6,577 (D)	5,005 (E)	4,000 (F)
6	13,578 (D)	10,000 (H)	8,005 (C)
6	8,000 (B)	7,705 (D)	6,000 (F)
6	7,889 (D)	6,000 (H)	5,005 (E)
7	15,678 (D)	8,501 (E)	6,001 (F)
8	21,779 (D)	15,000 (B)	9,002 (C)
7	15,879 (D)	10,001 (F)	8,501 (E)
7	12,888 (D)	8,501 (E)	6,001 (F)
6	19,578 (D)	11,001 (F)	10,000 (B)
4	9,499 (B)	7,953 (D)	1,505 (F)
6	14,588 (D)	9,001 (F)	8,501 (E)

5. Private Label Strategy

The Private Label market was an important market to us, and we succeeded in it. Every year we successfully sold all the pairs of shoes we had offered in the private label market. Additionally, we have maintained a great market share percentage of around 25% almost every year. However, there were a few years where this was not the case, year 11 with 6.3%, year 15 with 4.9%.

Competing in the private label market was also nice because the demand in the market grew each year. In year 11, the demand was 1,776 private-label pairs, and by year 17, demand had grown to 3,192 private-label pairs. This consistent growth was consistent with the demand forecast, which was a helpful tool in seeing how things might be in the future and where we should put our resources into.

Another nice thing about the private label market was how many of our competing teams in the BSG simply did not attempt to sell in the private label market for some years. In some years, such as year 13, there was a demand for 2,120 private-label pairs, but only 1,532 private label pairs were offered. Because of this, that year, every company that offered shoes sold all that was offered in the private label market. That year only our team, Deluxe footwear, and teams A and B competed in the market.

6. Production and Distribution Strategy

Managing inventory is an important aspect, mismanaging inventory can lead to undesirable outcomes such as missing out on sales. On the Distribution and Warehouse tab on the BSG, we have some important information available to us. On this tab, we can see vital information such as projected demand. At the top of the page, we can see all of our production facilities and we are able to decide how many and where our pairs of shoes will be shipped to. At the bottom of the page, we can see the Projected Inventory Surplus (Shortfall) which shows us how many pairs we are shipping vs how many pairs are protected to be demanded. We want this number to be positive, a surplus. Our general strategy here is to make sure we always have a surplus of at least 20 because overestimating would be better for us than underestimating. If the Projected Inventory Surplus is a negative number than we are not capitalizing on the demand we have for the product. Not only are we missing out on sales with this, the demand does not cease to exist, another competitor will fulfill this demand if we are not able to.

In our private label strategy, we aimed to hit a balance between good enough quality to match or pass the global minimum quality rating (S/Q Rating of Private-Label Pairs to be Produced) and also not waste money on making the quality too high. We made an assumption that the other companies in the private label market might increase the quality to capture market share and might spend more than needed. We wanted to have a more efficient strategy and so we adjusted the quality to a spot where we felt we could still sell all of our offered pairs without having to spend too much on our quality rating. This ended up working well, for example in year 16 (as seen on the operating benchmarks industry report page) we managed to be the industry low (23.95) in our North America Cost Per Pair Sold but also sell all of the pairs we offered (3,141 pairs). If we weren't able to be the lowest Cost Per Pair Sold we were always able to stay below the average. For example in Year 17 in North America, our Cost Per Pair Sold was 28.48 which was between the low (25.19) and the average (30.71). In other words, we were still able to have success in the private label market without spending too much money on quality.

7. Human Resources Strategy

Our initial goal was to keep compensations above the industry average while balancing other costs in order to maintain a high level of productivity. While we weren't able to achieve this, we were able to reduce labor costs and save more money by maintaining a regular compensation below the industry average.

According to the Year 11 report, we increased wages, fringe benefits, best practices, and supervisory compensation. In North America, the compensation was $42,138, while in Asia-Pacific, it was $14,472. Despite this investment, we still ended up being a little below industry average in these two regions. We reduced compensation even more in year 12 to cut costs and increase our net revenue and profit. In North America, it was $37,527, below the industry average of $42,376; in Asia-Pacific, it was $13,362, below the average of $16,482. In that year, we planned to spend more on workers' compensation and anticipated a $50,309 increase. Our report for year 12 showed that our workforce productivity was lower than the industry average in Asia-Pacific (3,427) and North America (4,803). The reason for that was that our company paid $1,413 over the minimum wage in both regions, which wasn't enough to compete with the labor market. We also suspected that the problem could lie in incentives, fringe benefits, or best practices training. In year 13, we increased compensation by $2,000-$3,000 in both regions, which was still below the industry average. In years 14 to 17, we kept regular compensation at the same level, which was below the industry average. Throughout the years, we maintained supervisory compensation above the industry average in all regions, allowing the company to hire more qualified supervisors and balance the productivity of the workers they supervised; thus, there were no major problems related to productivity.

8. Corporate Citizenship

Throughout the years, we focused on high image rating. Therefore, we placed high importance on energy-efficient initiatives, charitable contributions, and improved working conditions. The company did not invest in recycling materials, ethics training, or a supplier code of conduct due to their low impact on image rating and high costs.

In year 11, we invested $50 in energy efficiency initiatives and $1000 in charitable contributions. The total administrative expenses in year 11 were $16,650, and in year 12, they were $16,805. The lowest image rating we had during these years was 77 in year 11 and 75 in year 12. Our commitment to energy efficiency initiatives and charitable contributions continued throughout the years. In the years 13 to 17, we started investing in improved working conditions for the cafeteria with on-site child care, as well as additional safety equipment to provide a one-time productivity boost of 100 pairs per year at each facility. This resulted in an increase in administrative costs. Our total administrative costs for year 13 were $18,814, $22,978 in year 14, $23,896 in year 15, $26,570 in year 16, and $27,499 in year 17. Our investment in improved working conditions resulted in a 16% increase in image rating from year 13 to year 17 or 81 in year 13 to 94 in year 17.

9. Finance Strategy

One strategy we used in the finance section was with our loans. In the BSG, our team started out with a few loans. One strategy we used was to pay off these loans with another loan. We did this in order to have a lower interest rate. In other words, we took out a loan with a lower interest rate to pay off our already existing loans at a higher interest rate. In years 12/13, for example, the initial loan had an 8.2% interest rate; we replaced this loan with one with a 7.5% interest rate—this way, we are paying less on our loan.

As mentioned in the Branded Footwear Marketing Strategy section of this report, we had underestimated our competition in their bids for celebrity contracts. Because of this, our team decided to bid very aggressively. Because of this, we took out a small 5-year loan of (16,000) to make sure we cover our expenses from our celebrity bids. Investing in resources like celebrity contracts was vital to be able to compete. Additionally, if things did not go as we had predicted in a round, it would be very bad. If, at the end of a round, there was a cash shortfall, then an overdraft loan would be taken out automatically for the firm. This overdraft loan "carries a 2% added to the current interest rate on 1-year loans," says the BSG Player's Guide. Because we do not want this added interest rate, it is more effective to take out a loan to make sure investments like the aggressive celebrity bids could be covered.

An additional thing that is important to our team was having a good credit rating. While there was a slight dip or two, as mentioned in the Performance Review section. Fortunately, we were able to maintain an A+ rating for many years. Our goal was to have our credit rating at an A rating or at least better or as good as the investors' expectations. Maintaining a good credit rating is done through careful consideration of our interest coverage ratio, debt-to-asset ratio, and default risk ratio. We aim to be a company seen as having a low risk of default.

Another important goal of our teams was to have a successful EPS that beat our investors' target. One way we could increase our EPS was by repurchasing our own stocks each round. Our EPS did well and increased almost every year, and in most rounds, we purchased as many as we could of our own stocks back. Another detail here is that we did issue stocks to raise money, and we did not pay dividends.

10. Competition

Our strongest competitors were Evolve and Bonzai Lux Shoes. Evolve has been pretty aggressive about getting the top spot on the scoreboard. It follows a similar strategy to ours. It invests in high image rating and high model count (400-450) and mainly dominates the wholesale market. According to the latest industry report, its strengths include high net revenues with ROE and image rating. Having a high image rating allows Evolve to attract more customers and possibly even steal some from us, thereby generating higher revenues and profits. In year 17, Evolve achieved a 98 image rating. The comparative competitive efforts indicate that Evolve isn't particularly strong in the internet segment. Evolve doesn't invest in Search Engine Advertising. Despite its brand advertising and celebrity appeal being greater than the average industry, it is not enough to compete with our company.

Bonzai Lux Shoes, on the other hand, has a completely different strategy. Bonzai Lux Shoes heavily invests in image rating but maintains a relatively small number of models (50). Similar to Evolve, Bonzai Lux Shoes suffers from a weakness in the internet segment. Bonzai Lux Shoes does invest in Search Engine Advertising, and its brand advertising exceeds the industry average. However, its celebrity appeal is below the industry average, which may be the reason for the decline in the internet segment. The company's strength is its high net revenues with ROE and differentiation in the market due to its strategy. Currently, there are only two companies with a high end & low-end strategy, Bonzai Lux Shoes and its competitor Hadidas.

Since year 11, our company has been battling for image rating. As a result of our inability to outbid prominent celebrities, our image rating and internet marketing suffered greatly. Later on, due to strong competition with Evolve, our image rating fluctuated constantly. In year 11, we had an image rating of 77, and then in year 17, we had a rating of 94. Even though it was still below our main competition, our image rating still gradually increased by the end of 17 and looked more decent than when we first started. Our image rating improved through S/Q rating, generating good market shares for branded & private labels, and investing in corporate citizenship. We have worked to increase our revenues and profits since year 13. In year 13, our revenue was $776,471, which was below the industry average, and by the end of year 17, our revenue was $1,201,008, which was the highest in the industry. We also started investing in brand advertising, which was $12,422 for the internet segment and $74,381 for wholesale in year 11 and grew to $37,021 for the internet segment and $27,745 for wholesale in year 17. By the end, our consumer appeal was above the industry average and higher than our main competitors in all regions, except in the Europe-Africa region, where Evolve had 15 points more than us.

We mostly outcompeted our competitors by having the biggest financial statistics. By the end of year 17, we had 17,197 shares of stock outstanding. The fact that we had a high net income allowed us to boost our stock price, which was $298.58 in year 17 and the largest in the industry. In order to compete better, our aim was to continue to reduce costs, invest in superior materials with TQM to increase our image rating, expand our warehouse capacity to meet demand, target distribution in specific regions, reduce delivery costs and later purchase more equipment for Asia-Pacific, Europe-Africa, and Latin America. In year 16, we sold more pairs than our competitors in the Asia Pacific and Latin America region based on comparative competitive efforts. In year 17, however, we sold a little below the average of 2,574. Our net sales revenue ended up being the highest of all at $1,201,007 with a total asset value of $952,626. In the end, we were able to save enough money to invest in our company to increase profits even more, which came to $233,283 with a 19.4% profit margin, which was the highest of all, which enabled us to tie in with our competitors.

Company Name	Net Revenues ($000s)	EPS ($/Share)	ROE (%)	Stock Price ($/Share)	Credit Rating	Image Rating
Atlas	950,789	10.55	27.4	211.60	A+	73
Bonzai Lux Shoes	1,068,336	10.22	31.0	220.11	A+	99
Champ Co.	968,289	7.34	23.9	133.12	A+	81
Deluxe Footwear	1,201,007	13.57	29.4	298.58	A+	94
Evolve	1,082,542	10.97	28.8	231.34	A	98
Fantastic Footwear	957,060	8.48	22.3	147.05	A+	78
Goody Two Shoes	626,038	5.30	23.0	68.33	A	73
Hadidas	907,667	7.41	20.1	122.57	A–	83

Industry Report - Year 17

Year 17 Consumer Appeal

(sum of consumer appeal indexes for each company in the upcoming year)

Co.	N.A.	E-A	A-P	L.A.
A	145	160	135	155
B	85	65	60	40
C	100	70	65	75
D	175	170	155	190
E	110	185	130	155
F	135	130	155	155
G	0	0	0	0
H	90	80	100	65
Avg.	105	108	100	104

Selected Balance Sheet Data

($000s)

	Assets				Liabilities			Shareholder Equity				
	Cash On Hand	Current Assets	Fixed Assets	Total Assets	Current Liabilities	Long-Term Loans	Total Liabilities	Beginning Equity	Stock Sale (Purchase)	Earnings Retained	Ending Equity	
A	94,225	345,027	498,645	843,672	54,122	99,840	153,962	556,422	-21,006	154,294	689,710	A
B	47,454	263,659	444,074	707,733	35,227	0	35,227	726,793	-232,969	178,682	672,506	B
C	0	284,118	473,844	757,962	82,760	80,000	162,760	558,813	-73,376	109,765	595,202	C
D	5,094	300,199	652,427	952,626	76,090	87,613	163,703	798,170	-242,530	233,283	788,923	D
E	40,522	344,040	533,238	877,278	84,810	160,000	244,810	659,554	-213,266	186,180	632,468	E
F	19,660	225,379	664,906	890,285	62,914	93,900	156,814	711,468	-138,942	160,945	733,471	F
G	0	178,439	431,581	610,020	73,479	120,000	193,479	424,656	-104,750	96,635	416,541	G
H	19,858	298,435	427,680	726,115	34,514	75,000	109,514	585,085	-89,426	120,942	616,601	H
	28,352	279,912	515,799	795,711	62,990	89,544	152,534	627,620	-139,533	155,091	643,178	

Selected Financial Statistics

	Profitability Measures			Dividend Data			Credit Rating Measures							
	Gross Profit Margin	Operating Profit Margin	Net Profit Margin	Div. Per Share ($/share)	Total Div. Payment ($000s)	Payout (percent of net profit)	Interest Coverage Ratio	Debt to Assets Ratio	Default Risk Ratio	Risk of Default	Current Ratio	Days of Inventory	Shares of Stock Outstanding (000s of shares)	
A	62.2%	29.5%	17.9%	1.00	16,151	9.5%	28.52	0.18	5.22	Low	6.37	84 days	16,151	A
B	65.5%	30.4%	20.3%	1.80	38,194	17.6%	1,000.00	0.05	1,000.00	Low	7.48	17 days	21,219	B
C	52.1%	20.9%	14.2%	1.50	28,200	20.4%	38.66	0.21	8.89	Low	3.43	130 days	18,800	C
D	55.4%	28.6%	19.4%	0.00	0	0.0%	39.24	0.17	8.39	Low	3.95	57 days	17,197	D
E	51.6%	25.8%	17.2%	0.00	0	0.0%	26.50	0.28	6.08	Low	4.06	101 days	16,970	E
F	54.9%	26.1%	16.8%	0.00	0	0.0%	21.84	0.18	4.61	Low	3.58	49 days	18,987	F
G	54.5%	26.1%	15.4%	0.00	0	0.0%	15.87	0.32	8.45	Low	2.43	109 days	18,250	G
H	58.4%	20.7%	13.3%	0.00	0	0.0%	12.56	0.15	1.21	High	8.65	189 days	16,326	H
	56.9%	26.2%	17.0%	0.54	10,318	5.9%	26.17	0.19	5.36		4.99	92 days	17,988	

Financial Statistics - Year 17

11. Learning Outcomes

Through the simulation, we gained a better understanding of how business markets work, as well as what a company needs to do to compete successfully. During the simulation, we improved our decision-making skills, critical thinking, data analysis, and strategic thinking abilities.

- Lesson One: Set SMART Objectives.

While crafting and executing our strategy, we learned that we need to first determine what we want to accomplish with our company's strategy, who or what will be involved in it, what are the requirements, constraints, and what needs to be done to accomplish it—setting concrete goals allowed us to clearly identify our direction for success. The objectives we set should be specific as possible, measurable, achievable, relevant, and have a target date.

They can be applied to achieving our short or long-term career goals. We can use smart objects for a number of tasks, from making a work plan to tracking progress to conducting our own business. They allow us to understand what is most important to us or our company and how to accomplish our goals.

- Lesson Two: Create a Strategy for Each Goal.

Our team learned that we should prepare a strategy for each business process involved in a product or service. For each report, we explained how we would achieve a specific goal, be it a private label or a finance strategy. We were able to clearly set guidance on what we need to do and what improvements can be made by explaining our plans and strategy for each individual criteria. By doing so, we were able to focus on the most important matters without being distracted.

Setting strategy for our goals can be applied in numerous cases in our future careers. We will be able to quickly adapt and adjust to any changes if we establish goals and strategies for them. As with every plan, we need to create a sub plan, and setting the right strategy and completing our goals step-by-step will help us become well organized in our work.

- Lesson Three: Have Business Partners

When working together, multiple skill sets and talents can be utilized simultaneously. As we crafted our strategy, each member contributed their own ideas and thoughts. Being able to see the company from someone else's perspective and learn something new was a great experience. The experience of implementing a strategy devised by the team and observing the results of our decisions and united effort proved to be very valuable in terms of learning. We learned that multiple business partners provide more opportunities and enhance flexibility and productivity.

We can easily apply cooperation in our future careers. Most careers require teamwork and collaboration with others. Thus, being able to effectively communicate with others to achieve a common goal will always be beneficial in our future careers.

- Lesson Four: Identify Strengths and Weaknesses

When we crafted our strategy, we tried to understand our business's strengths and weaknesses as well as our competitors. We found that it was very beneficial from an analysis perspective in that it helped us identify what exactly needed to be improved or enhanced from within. It also allowed us to maintain our competitive edge as we executed our strategy. Understanding strengths and weaknesses also helped us to identify new opportunities and minimize risks. Our strengths were warehouse capacity, quality management, and the internet segment. Our internal weaknesses were productivity, total production cost, and low superior material usage. We realized that expanding the number of models we have would help us in the Internet Segment. We decided to increase wages in order to improve productivity. We increased superior material use and worked to reduce production costs. As a result, our business processes were monitored more efficiently, and we were able to improve them when necessary.

In our future careers, understanding our strengths and weaknesses will help us perform more effectively as employees or business owners. As a result, we will be able to quickly identify our value or our companies' value and new opportunities. Knowing our weaknesses as future business owners will allow us to be more aware of them, motivate us to work on them, and understand other companies better. Being aware of both of these will give us an edge over our competitors.

- Lesson Five: Identify External Opportunities and Threats

As we crafted and executed our strategy, we had to consider our company's external opportunities and threats so as to be prepared for external market conditions and protect ourselves from risks. As a result of these two factors, we strived to improve our performance to gain a better competitive advantage. The majority of our external threats were related to our scoreboard, rebate offer, and breaking news. From External Opportunities, we saw an increase in brand and private label footwear and celebrity appeal. As a result, we made a few changes. To meet demand, we expanded into Latin America, took a small loan of $16,00 to cover celebrity bid expenses, and bought the maximum number of stocks to increase stock price and earnings per share. Knowing threats and opportunities helped us navigate a strategic plan, maximize our responsiveness to opportunities, set new strategic objectives, and have more control over external events.

Knowing these two will help us see threats and opportunities and quickly recognize them in more professional work environments. We can use this knowledge to become consultants and help our company to avoid threats and to take advantage of opportunities without overlooking them.