Glo-Bus Annual Report

Industry 8

BAA Drones-Cameras

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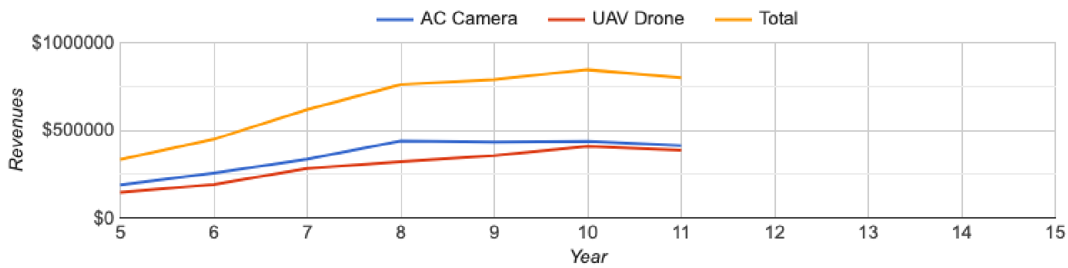
December 1st, 2023

Table of Contents

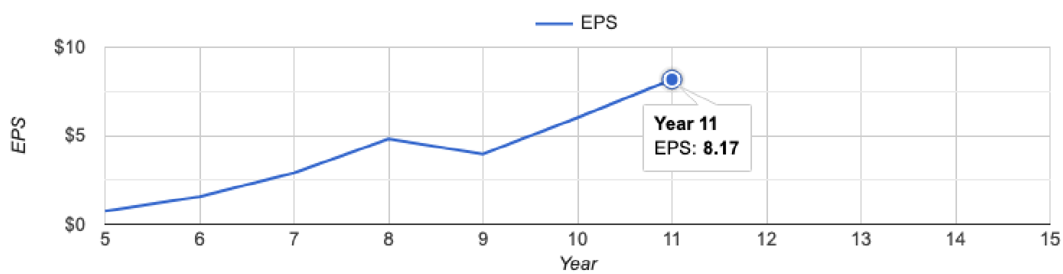
1. Review of Financial Performance

Total Revenues



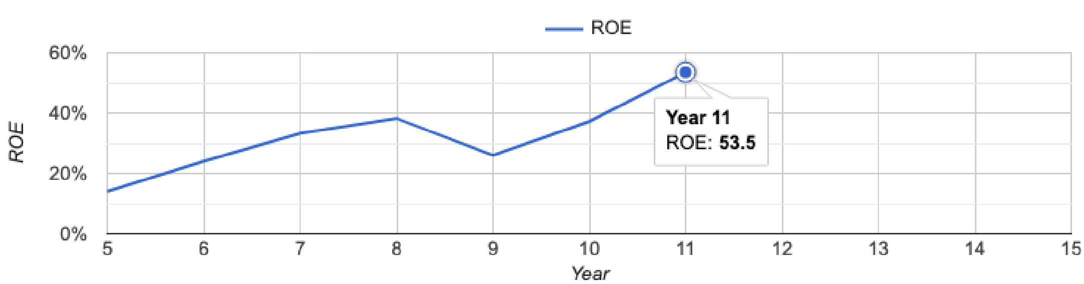
In terms of BAA Drones-Camera's annual total revenues, throughout the specified period, the company has demonstrated consistent growth in total net revenues, showcasing an overall strong business performance. The starting net revenue of $334,128 in Year 5 culminated in $799,642 in Year 11. This upward trajectory underscores successful product/service demand, effective marketing strategies, and potential expansion into new markets. BAA is therefore favorable in terms of financial stability and market competitiveness in Industry 8.

Earnings Per Share (EPS)



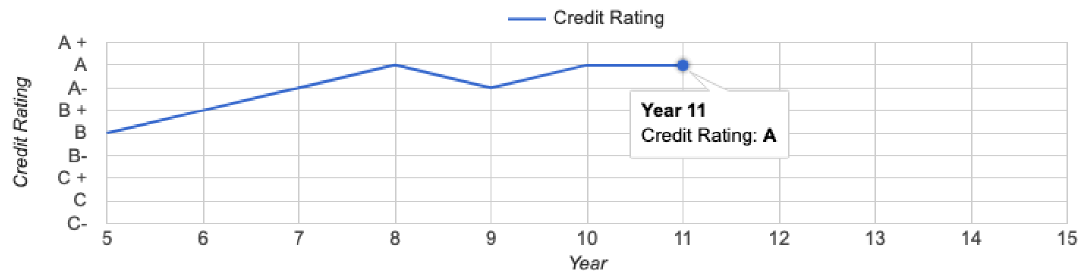
The trend in the Earnings Per Share graph above conveys a significant increase in BAA's profitability. The company showed a great improvement in the EPS, rising from around $0.75 in Year 5 to $8.17 in Year 11. This rise indicates a notable improvement in BAA's bottom line and effective cost management. Thus, investors are likely to perceive this trend positively, as higher EPS suggests a more profitable return on their investments and a profitable outlook for the company's future profitability.

Return on Equity (ROE)



The Return on Equity (ROE) is a key factor in how a company uses shareholders' equity to generate profits. The ROE at 14.0% in Year 5 increased to 53.5% in Year 11 representing an upward trend highlighting BAA's effective financial management. This growth reflects good resource allocation and strategic decision-making skills that stakeholders appreciate. The increase in ROE over the specified period demonstrates the company's financial health and operational excellence, emphasizing its commitment to maximizing the value of shareholders through substantial financial practices.

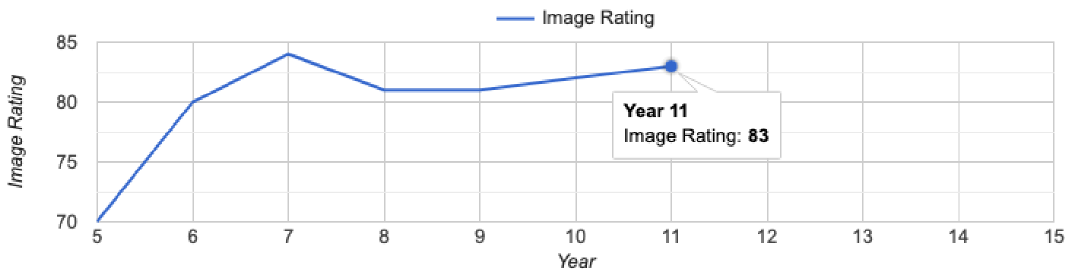
Credit Rating



BAA's annual credit rating progress starting with a B in Year 5 and ending with an A in Year 11 indicates an improvement in their creditworthiness. Credit rating is an important evaluation of the company's capacity to fulfill its financial obligations. Thus, the shift from a credit rating of B to A represents an upward trajectory showcasing the market's confidence in BAA's financial abilities and sensible strategic management practices. Sustaining an A rating over the years underscores BAA's ability to reinforce its reputation with both investors and lenders positioning it favorably within Industry 8.

Year-end Stock Price

The year-end stock prices showcase investor trust and positive sentiment in the market. Starting at $12.00 in Year 5 and reaching $229.37 in Year 11, this rise reflects a strong belief in BAA's ability to achieve financial success in a diverse and competitive market. The upward trend is a clear indication that investors have a sense of trust in BAA's ability to seize growth opportunities and navigate the market effectively. Hence, the increasing stock prices not only represent the growing value attributed to BAA but also convey the market's optimistic stance regarding the company's future performance and success.



The rising trend in BAA's annual image ratings, starting at 70 in Year 5 and ending at 83 in Year 11, elucidates the idea that BAA has successfully built an overall positive brand image. A good brand image is crucial for customers' loyalty, making investors more confident, and attracting individuals to join the company. A high image rating doesn't just ensure that customers see BAA in a certain way, but also impacts how investors view the company and whether or not skilled people want to work there. The consistent rise in image rating over the specified years suggests that BAA has done well financially whilst maintaining a great brand reputation within a highly competitive market for drones and cameras.

2. Strategic Vision

Our company BAA-Droneas-Cameras' strategic vision is to be a premium product brand that gives back to the community and provides the best products and services. We wanted to grow our company in the long term to give back to all of our stakeholders and most importantly be profitable. To accomplish this we decided to compensate our workers well above the industry standard to improve our reputation and also spend a significant amount on corporate citizenship. Our goal is to not only have the best drones and cameras but also be the most well-known company in the market. We aimed to win the social responsibility award or be in the top quartile of companies in terms of CSRC cash outlays. To maintain this premium service, product, and overall brand image we will continually invest in research and development and constantly upgrade our product as years go on to create continuous demand for our products. Slowly conditioning the consumer is important so we cannot rapidly make changes but every year we can upgrade a few features or slowly add extra performance features.

In the future, we want to be a brand name that everyone knows like Apple or Amazon so spending a lot on marketing will be important. We also want to dominate the market share so we will try to partner with as many online and in-person retailers as possible to spread our name and be known to as many customers as possible. BAA should eventually become the benchmark for other premium companies and lead the industry with innovations and technologies in the AC camera and UAV drone market segment. Our prices will be higher than most companies but not too far from the industry average. This way we stay profitable but also build a good reputation for having fair prices that will also attract as many new customers as possible and grow our market share and total yearly revenue. Overall BAA aims to be the future of cameras and drones leading the industry with premium products but also focusing on our corporate citizenship efforts to have a good reputation and brand name that is known in every region of the world to as many people as possible.

3. Performance Target Forecasting

Firstly, the average growth rate of earnings per share (EPS) between Year 5 to Year 11 calculates to around 48.89% through the formula:

$$Average\ Growth\ Rate\ = \frac{Ending\ EPS}{Beginning\ EPS}^{\frac{1}{Number\ of\ Years}} - 1$$

This consistent upward trend demonstrates BAA's ability to generate higher earnings for shareholders over the specified period. Hence, setting a Year 12 target of $12.80 is not only aligned with the growth pattern of previous years, but when recalculated, the average growth rate becomes 49.97%. Hence, this prediction takes into account BAA's sustained financial strength and commitment to obtaining a good level of shareholder value through strategic management and profitable operations. For year 13, the projected earnings per share is $18.75 percent in which the new average growth rate becomes 49.53%, like the value from Year 5 to Year 12. Hence, the forecasted value considers the average growth rate and the upward trend for the previous years. This signifies BAA's anticipation of exceptional revenue growth, resonating with its strategic objectives and forward-looking method to seize any opportunities.

The return on equity (ROE) of BAA had an average growth rate of approximately 25.04% from Year 5 to Year 11 calculated by:

$$Average\ Growth\ Rate\ = \frac{Ending\ ROE}{Beginning\ ROE}^{\frac{1}{Number\ of\ Years}} - 1$$

This reflected the company's sustained capital utilization and ability to maximize returns for shareholders. Thus, setting a Year 12 target at 65.5% is quite viable with a new average growth rate of 24.66%, therefore, considering the increasing trend from the previous years. This represents BAA's dedication to maintaining a balance between aggressive growth and tactical financial management. The target conveys BAA's confidence in its ability to sustain high returns in terms of shareholder equity. For Year 13, a viable forecast for return on equity could be around 82.5% in which the new average growth rate is 24.82%. This prediction maintains the rising growth trend of the previous years while recognizing BAA's commitment to effective capital utilization whilst obtaining a good value for shareholder equity.

Thirdly, the growth rate in credit rating between Years 5 and 11 had an upwards trend ending at 'A'. This showcased BAA's continuous improvement in financial health and risk management. Thus, aiming for an 'A+' rating in Year 12 resonates with the upward trend from the previous years whilst recognizing the company's consistent financial cautiousness and dedication towards securing a strong credit standing within the highly competitive Industry 8.

This target for the next year assures investors and creditors, thereby, reinforcing BAA's credibility in the financial markets. Since 'A+' is the highest credit rating that can be obtained, the forecast for Year 13 would therefore be the same which follows the already rising trend for this specific element. Hence, this target displays BAA's consistent attempts to strengthen the company's financial position and manage risk factors successfully.

Another important factor for BAA was the year-end stock price which averaged approximately 63.52% from Year 5 to Year 11 calculated by:

$$Average\ Growth\ Rate\ = \frac{Ending\ stock\ price}{Beginning\ stock\ price}^{\frac{1}{Number\ of\ Years}} - 1$$

This shows that BAA gained sustained confidence from investors and excellent market recognition within Industry 8. Setting a target of $275 is justified by this rising trend in stock price growth and a new average growth rate like the original value which is now around 57.62%. The prediction reflects the market's anticipation of BAA's continued success, aligning with its strategic initiatives and reputation among its customers. A stock price target of $380 with a new average growth rate of 54.01% for Years 5 to 13 seems quite reasonable as this reflects the market's expectations about BAA being able to maintain investor confidence and obtain long-term shareholder value.

Lastly, the image rating had an average growth rate of about 2.88% from Year 5 to Year 11 calculated through the formula:

$$Average\ Growth\ Rate\ = \frac{Ending\ Image\ Rating}{Beginning\ Image\ Rating}^{\frac{1}{Number\ of\ Years}} - 1$$

meaning that BAA has seen a gradual improvement in the perception of stakeholders (specifically consumers). Hence, an increase of image rating to 85 in Year 12 relates to the growth trend of the previous 6 years with a new average growth rate of 2.81%. This prediction emphasizes BAA's importance towards financial success as well as stakeholder engagement. An image rating of 88 for Year 13, aligns with the average growth rate with the new value being 2.75% and the consistent increasing trend of the previous years. This goal represents BAA's ongoing goal of building a strong and positive image among both internal and external stakeholders.

4. Company's Competitive Strategy in Action-Capture (AC) Cameras

For the action capture cameras (AC Cameras) our company decided at the beginning to have a premium high-priced product that also had high profit margins. Our goal was to have the highest or one of the highest price-to-quality ratings and we did so by slowly upgrading the components of the camera and putting a lot of money into research and development for the first five years of the simulation. We aimed to stay at the top of our industry for research and development and only dropped it to a lower amount during the last year as we were already industry leaders in both product quality and total research and development spending. Further during each decision year, we upgraded some components of our camera to continuously increase the price to quality rating and keep the product at a premium level that justified its high pricing. Year seven was our biggest increase in price as during year six we were below the industry average and thus not as profitable as we could have been. After this spike in pricing, we lowered the increase in yearly price for each region to make sure that we were not pulling too far above the industry average (except in Latin America and Asia where we tried to keep prices lower).

Since our goal was to become a premium product there was one year where the upgrade in components led to lower profit margins but we continued with the same strategy to focus on research and development which helped a lot during the last 2 years where we greatly increased our profit margins. We planned to develop our facilities as fast as possible to ensure that once our product had top-of-the-line components, production costs would be low, and the quality produced would be consistent (thanks to the implementation of robotics). In addition to this, we kept our advertising, website display, and retailer support spending high to have as many retail outlets as possible (online, local, and multi-chain). Another important aspect of our advertising was having frequent sales to match the industry average and stay competitive with other companies that were also offering frequent sales. When the special contract offer opened in year nine we began to focus on using this option in Asia and Latin America as these regions had the highest value index and volume of sales for our company. In addition, we did not believe it was completely necessary to use this option in North America and Europe-Africa as we had a premium product and people in these regions are usually more accepting of that kind of product and pricing.

Other specific key strategies used in Asia and Latin America include having prices that were lower than the industry average. This was because consumers in these regions look heavily at the price quality ratings, and brand image but at the same time are also much more price-sensitive than consumers in the other two regions. We initially tried to increase prices a lot in these regions but after seeing that strategy fail, we decided to switch to more conservative pricing that minimized the loss in market share caused by several other companies offering cheaper alternatives. Further, we did not spend as much money on advertising in these regions as consumers were more concerned with price and quality compared to the brands' public image. In North America and Europe-Africa on the other hand we significantly increased prices while also increasing expenditures in advertising and website information/displays as consumers in this region were less price sensitive and looked more at advertisements (we needed more ads and retailer support to keep customers loyal). We were not able to make different products for each region, so this adjustment helped us keep a premium product while also retaining customers by having slightly lower profit margins. Finally, during year 10 our company reduced the number of camera models from 5 to 4 which decreased our overall revenue but it greatly increased the price to quality rating which we were more focused on. We did this because, in the previous year, several other companies were catching up to our rating while having lower prices so by increasing our quality we were able to keep our prices higher which was very successful as we jumped from fifth to third between year 3 to year 5.

5. Company's Competitive Strategy in Unmanned Aerial View (UAV) Drone

With the unmanned aerial view (UAV) drones we also aimed to have a premium product with a higher profit margin. To accomplish this just like with the AC cameras we also put in a lot of money for research and development for the drones and slowly upgraded the components. In addition to upgrading the components, we had major upgrades every year for the built-in camera after the initial two years to gradually change our product and not shock the consumer. By slowly upgrading the drones we were able to keep our prices high but also very close to the industry average. This was also done to ensure that our market share would not drop too low thus increasing the volume of our sales as the years passed. Furthermore, since we immediately changed to robotics our production costs were as low as possible and the quality of the product was very consistent. Our companies strategically did all this early spending so that in the later years our profitability would be higher than other companies as we would have the best product with the highest price to quality ratings and a competitive price.

As with the AC cameras during the final year of the simulation, we decreased the upgrades in the product and spending in research and development because we were industry leaders in total R&D expenditures and had a significantly higher quality rating. For both this product and the camera we took out 1-year loans during the first two years. This was to upgrade our facilities to include robotics but also increase the number of workstations to meet the current (year 6/7) and future (year 8 and beyond) demands of the company. We decided it was best to do this at the start of the simulation so that in later years we could focus more of our spending on drone upgrades, search engine advertising, and website product displays/information. Our strategy was to have low discounts for the drones while also having the most online retailers so that we would have the best profit margins while also being able to sell to the most amount of customers. This was also done by our company to improve its image rating, which would also contribute to more consumers buying our products resulting in more sales and greater profitability. Since we aimed to have a top-of-the-line product we also offered the longest warranty available, which did decrease our total revenues, but it was necessary to attract customers and stay with the industry average, which eventually got to 270 days.

The only two regions where we used a slightly different strategy were Asia and Latin America. Just like with the cameras, we focused more on quality and volume of sales than the increases in the average retail price. We stayed a little bit above the industry average and also spent less on advertising and retailer recruitment in these regions because the price-to-quality rating was enough to increase our profitability and overall revenue. The final thing we did differently in these regions was offer slightly higher sales during certain years compared to the other regions to attract more customers. At the same time, we offered slightly higher sales in North America and Europe-Africa in years when the exchange rate changed or our increase in pricing was steeper. Overall, we also used a strategy for both products where we focused on having a strong workforce by having high salaries, bonuses, and a lot of training. This was done to maximize productivity and minimize the number of people who would quit working for our company. As a premium company, we also needed to make sure that every product was consistent with our quality standards to reduce warranty claims and maintain our image. To conclude BAA Drones-Cameras used a competitive strategy that included having premium drones with high profitability that were heavily advertised to increase customer base and overall revenues.

6. Competitor's Analysis

<u>AC Cameras</u>

Our closest competitors in AC Cameras as of the last couple of years are the H Company, the Dynamic Drones Company, and the A Company.

The H Company was the biggest competitor in the last couple of years as they held the largest market share across all regions. They were at the top of the industry as a result of having a high brand reputation with a low wholesale price per unit. This resulted in the H Company having the highest unit demand and the highest number of AC Camera units sold. The H Company also offered one of the highest discounts offers of 40% off the standard price across all regions. In each of these stats, the H Company was well ahead of the industry average.

The Dynamic Drones Company is also another big competitor of our company. In the last couple of years, they've held a higher market share than our company across all regions except for the Asia-Pacific region. Compared to our company, the Dynamic Drones Company offers a lower warranty period of 180 days compared to our 360 days warranty period. Their Company also invested more money towards their advertising budget and website displays across all regions.

Another big competitor for our company in the last couple of years was the A Company. Their company held a higher market share in both the North American region and the Europe-Africa region. They had a lower wholesale price per unit across all regions along with a slightly lower brand reputation at 80 compared to our company's brand reputation of 82. Similarly to the H Company, they also had discount offers of 40% off standard price across all regions. These factors resulted in the A Company having a higher unit demand and AC Camera units sold compared to our company.

<u>UAV Drones</u>

Our closest competitors in UAV Drones as of the last couple of years are once again the H Company, the Dynamic Drones Company, and the A Company.

Our company's biggest competitor in this segment was the H Company. They dominated in this segment as they held a market share of almost 5% higher than the second highest in each region. In each region, they had the lowest price per unit while also having the highest direct unit demand. This resulted in the H Company having the highest number of units sold across all regions.

Another one of our biggest competitors in the UAV Drones segment in the last couple of years was the Dynamic Drones Company. In each region, they have a market share of roughly 1% more than our company. In each region, they also have their UAV Drones priced a couple of hundred dollars less than our company's UAV Drones. The Dynamic Drones Company offers shorter warranty periods as well as a high discount to online retailers across all regions. This has resulted in them receiving a higher demand and selling more UAV Drones than our company.

The A Company is yet another big competitor of our company in the UAV Drones segment in the last couple of years. Their company had a market share of roughly 1% or more than our company in each region. Just like the other companies, they also had their UAV Drones priced a couple of hundred dollars less than our drones. Direct drone unit demands were similar in both North America and the Europe-Africa regions, but the A Company had a high demand in both the Asia-Pacific and Latin America regions. In each region, they also had more units sold than our company.

7. Strategy to "Out-Compete" Closest Competitors

AC Cameras

Over the next two years, to out-compete our biggest competitors in the AC Camera segment, our company would do the following. Firstly, we will lower our AC Camera prices per unit to match the profits of our competitors. Our company will also invest more in the advertising budget and website displays. This will allow us to bring more attention to our AC Cameras, which will be sold at cheaper prices than in previous years, making them appear more lucrative in the eyes of the consumers. Simultaneously, our brand reputation will also increase if we are selling premium AC Cameras at reduced prices across all regions. Another thing our company can do is increase our company's sales promotion percentages. Currently, across all regions, our discount percentage is lower than the industry average. Our strongest competitors all have discounts a few percent higher than our company does. By increasing our discount percentage, we can match our strongest competitors in terms of special offers on our AC Cameras. Although we may lose profit initially, in the long run, these decisions will help us attract more customers and increase our market share across all regions.

UAV Drones

Over the next two years, to out-compete our biggest competitors in the UAV Drones segment, our company would do the following. We would lower our UAV Drones prices as in every region, we are over the industry average whereas our biggest competitors are a couple hundred dollars below the industry average. Our company would also invest a little more in our website displays and search engine advertising as it will allow us to bring more attention to our drones. Seeing our drones at reduced prices compared to previous years while maintaining the same high-quality design, our demand will also increase in both the direct demand and the third-party retailer demand sections. Also if we can improve our brand image through the changes made to both the AC Camera and the UAV Drones, our total demand will naturally increase. Another way we can save money is to lower our retailer recruitment budget a little as we are currently over the industry average across all regions. In the Asia-Pacific region, our retailer recruitment budget is over the industry average by almost $200. In the Latin America region, our retailer recruitment budget is over the industry average by almost $200 as well. Overall, with these changes, we can put ourselves in a position for our company to out-compete our biggest competitors in the coming years.

8. Lessons Learned

Our time throughout Glo Bus as a group, we would say was truly a remarkable experience. With the combination of each group member's ideas and strategies, our group managed to always stay in the top 4 in the rankings. In the end, we managed to finish in second place with a company score of 97. Maintaining this type of ranking taught us a lot about ourselves and when working as a group. Throughout the simulation, we learned many things. One of the things we learned was the essentials of managing an international business and just how many decisions need to be accounted for. Another thing we learned is that it is really important to plan instead of making every decision last minute. Planning in advance and trying to predict what other companies might do for the week of the decisions gave us the results we wanted and taught us how important it is to look at other companies' results and decisions.

At the end of every decision period, we learned that we need to not only watch the change in our company's performance but also every other company in the industry. It was vital that we closely watch the industry average and as a premium product we learned that we had to stay at the high end of the number one position for research and development. Having four regions to manage also taught us that different consumer markets respond differently to different decisions and price points. For example, in North America, we were able to have bigger price jumps but we learned in Asia and Latin America that we needed sales to attract customers. Further, we learned that in addition to short-term decisions we also need to make sure we have long-term sustainability and growth. This involved investing in robotics and making sure we constantly grow through means of product upgrades, stock repurchases, or growing our market share. Overall we learned that looking at our competitors was vital to maintaining a high position and that geographic regions play a big role in the decisions that we must take.

Finally, the most important lesson we learned through this simulation is group communication and productivity because without this, we wouldn’t have managed to maintain this high of a ranking and it shows how exceedingly important it is, as this is ultimately what influences our decisions each year. Everyone in the organization needs to be on the same page and follow the same strategic vision because if not the decisions made by one person who has no idea what everyone else is doing could cause the entire company to lose a lot of revenue and profit. For example, since we were aiming for a premium product if one person priced the product high and the next day someone came and reduced the price the profit margins would drop affecting the results for that year. Communication was vital to our success and we learned that without clear communication it would be impossible to run a successful global business as everyone needs to be informed and follow a common vision or goal.