BNA FOOTWARE.

BUSINESS SIMULATION

STRATEGIC MANAGEMENT

JHT2: Task 1

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Artifacts

Below you will find BNA Footwear's balanced scorecard, cash flow statement, income statement, and balance sheet.

BNA Footwear **Year 1**

Industry 84

INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT		North America $000s	North America $ / pair	Europe-Africa $000s	Europe-Africa $ / pair	Asia-Pacific $000s	Asia-Pacific $ / pair	Latin America $000s	Latin America $ / pair	Overall $000s	Overall $ / pair
Gross Revenues —	Internet	38,216	68.00	37,740	68.00	32,368	68.00	34,136	68.00	142,460	68.0
	Wholesale	109,391	49.95	109,590	49.95	83,491	45.95	97,092	45.95	399,564	48.0
	Private-Label	31,950	31.95	52,250	34.95	31,950	31.95	57,320	40.00	173,470	35.2
Gross Revenues from Footwear Sales		179,557	47.86	199,580	47.03	147,809	44.89	188,548	46.58	715,494	46.6
± Exchange Rate Adjustment		0	0.00	–1,960	–0.46	–2,145	–0.65	–7,121	–1.76	–11,226	–0.7
Net Revenues from Footwear Sales		179,557	47.86	197,620	46.56	145,664	44.23	181,427	44.82	704,268	45.9
Operating Costs —	Cost of Pairs Sold	89,489	23.85	111,282	26.22	67,367	20.46	109,227	26.98	377,365	24.6
	Warehouse Expenses	11,449	3.05	11,881	2.80	10,020	3.04	11,161	2.76	44,511	2.9
	Marketing Expenses	22,733	6.06	21,190	4.99	14,218	4.32	13,070	3.23	71,211	4.6
	Administrative Expenses	4,067	1.08	4,062	0.96	3,388	1.03	3,864	0.95	15,381	1.0
Operating Profit (Loss)		51,819	13.81	49,205	11.59	50,671	15.39	44,105	10.90	195,800	12.7

	Overall $000s	Overall $ / pair
Interest Income (Expenses)	-13,744	-0.9
Other Income (Expenses) [1]	0	0.0
Pre-Tax Profit (Loss)	182,056	11.8
Income Taxes [2]	54,617	3.5
Net Profit (Loss)	127,439	8.3

PROFITABILITY & PAYOUT	Year 17	Year 18
Earnings Per Share	$11.32	$14.68
Dividends Per Share	$1.00	$1.25

[1] This item includes any charitable contributions and/or instructor-imposed fines (appearing as negative) and/or instructor-awarded refunds (appearing as positive).

[2] The income tax rate is 30%. If a net loss was recorded in Y17, the loss is carried forward and may offset some or all taxable Y18 profit and reduce Y18 income taxes.

BALANCE SHEET

ASSETS			$000s
Cash On Hand			27,842
Accounts Receivable (see Note 1)			176,067
Footwear Inventories			8,452
Total Current Assets			212,361
Net Plant Investment (see Note 2)			423,250
Construction Work in Progress			0
Total Fixed Assets			423,250
Total Assets			635,611
LIABILITIES			**$000s**
Accounts Payable (see Note 3)			33,397
Overdraft Loan Payable (see Note 4)			0
1-Year Bank Loan Payable (see Note 5)			0
Current Portion of Long-Term Loans (see Note 6)			39,300
Total Current Liabilities			72,697
Long-Term Bank Loans Outstanding (see Note 7)			132,452
Total Liabilities			205,149
SHAREHOLDER EQUITY	Beginning Balance	Change in Y18	**$000s**
Common Stock (see Note 8)	9,082	–400	8,682
Additional Capital (see Note 9)	-43,059	–92,164	-135,223
Retained Earnings (see Note 10)	440,416	+116,587	557,003
Total Shareholder Equity	406,439	+24,023	430,462
Return on Average Equity for Year 18 (see Note 11)			30.5%

CASH FLOW STATEMENT

CASH AVAILABLE IN YEAR 18			$000s
Beginning Cash Balance			28,667
Cash Inflows	**Receipts from Sales** (see Note 1)		685,188
	Bank Loans	**1-Year**	0
		5-Year	0
		10-Year	29,520
	Stock Issues (0 shares issued)		0
	Sale of Existing Plant Capacity		0
	Loan to Cover Overdrafts		0
	Interest on Y17 Cash Balance		573
Total Available Cash from All Sources			743,948
CASH OUTLAYS IN YEAR 18			**$000s**
Payments to Materials Suppliers (see Note 2)			129,313
Production Expenses (see Note 3)			158,678
Distribution and Warehouse Expenses			95,885
Marketing and Administrative Expenses			86,591
Capital Outlays	**Plant Upgrade Options Initiated**		0
	Purchase of Used Plant Capacity		29,520
	Construction of New Capacity		0
	Energy Efficiency Initiatives		0
Repayment of Principal on Bank Loans (see Note 4)	**Overdraft Loan**		0
	1-Year Loan		0
	5-Year Loans		21,080
	10-Year Loans		22,688
Interest Payments	**Overdraft Loan**		0
	Bank Loans		14,317
Stock Repurchase (400 shares @ $231.41/share)			92,564
Income Tax Payments			54,617
Dividend Payments to Shareholders			10,853
Charitable Contributions			0
Total Cash Outlays			716,106
Net Cash Balance (at the end of Year 18)			27,842

Industry 84 — **COMPANY PERFORMANCE REVIEW** — **Year 18**

Earnings Per Share ($)

EPS scores are based on a 20% or 20 point weighting. Bold numbers indicate achievement of the investor expected EPS shown below each yearly column head. Best-In-Industry performers earn a top score, and scores of other companies are a percentage of the industry-leading EPS performance. Game-To-Date scores are based on a weighted average of the annual EPS performances.

	Y11 (2.67)	Y12 (2.85)	Y13 (3.05)	Y14 (3.26)	Y15 (3.49)	Y16 (3.66)	Y17 (3.84)	Y18 (4.03)	Y19 (4.23)	Y20 (4.44)	Wgt Avg. (3.36)	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**4.27**	**6.34**	**7.77**	**9.28**	**11.91**	**12.14**	**11.44**	**16.28**			**9.63**	24	20	24	20	A
B	1.29	**3.06**	**4.86**	**6.10**	**9.19**	**9.16**	**11.32**	**14.68**			**7.15**	24	18	24	15	B
C	1.27	1.05	0.74	1.27	1.17	1.07	1.42	1.72			1.21	9	2	7	3	C
D	**2.90**	**2.89**	1.95	2.94	2.75	3.58	3.50	3.95			3.06	20	5	18	6	D
E	2.22	1.52	1.06	0.90	0.92	2.10	1.66	2.31			1.58	11	3	9	3	E
F	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00	0	0	0	0	F
G	1.28	2.26	1.80	2.98	3.29	1.74	2.18	3.14			2.34	16	4	14	5	G
H	2.02	2.58	1.69	2.56	3.31	**4.17**	**4.72**	**4.61**			3.20	21	6	19	7	H
I	2.14	**3.70**	**3.14**	**3.33**	3.22	2.57	**4.65**	**5.33**			**3.46**	23	7	20	7	I
J	**4.06**	0.97	0.61	1.76	1.88	1.99	2.03	3.27			2.04	16	4	12	4	J
K	2.00	2.35	2.28	2.49	2.21	1.70	1.42	1.45			1.98	7	2	12	4	K
L	1.42	1.97	2.40	3.15	**3.58**	2.95	2.30	**4.09**			2.69	20	5	16	6	L

Return on Equity (%)

ROE scores are based on a 20% or 20 point weighting. Bold numbers indicate achievement of the investor-expected ROE shown below each yearly column head. Best-In-Industry performers earn a top score, and scores of other companies are a percentage of the industry-leading ROE performance. Game-To-Date scores are based on a weighted average of the annual ROE performances.

	Y11 (15.0)	Y12 (15.0)	Y13 (15.0)	Y14 (15.0)	Y15 (15.0)	Y16 (15.0)	Y17 (15.0)	Y18 (15.0)	Y19 (15.0)	Y20 (15.0)	Wgt Avg. (15.0)	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**25.4**	**31.3**	**33.2**	**36.9**	**43.3**	**38.5**	**33.3**	**44.7**			**36.5**	24	20	24	20	**A**
B	8.3	**16.1**	**21.7**	**23.6**	**29.8**	**24.8**	**27.0**	**30.5**			**24.4**	24	14	24	13	**B**
C	8.0	6.2	4.2	6.7	5.8	5.2	6.6	7.5			6.3	10	3	8	3	**C**
D	**17.4**	**15.2**	9.4	12.7	10.7	12.7	11.6	14.2			12.8	19	6	17	7	**D**
E	13.6	8.4	5.5	4.5	4.4	9.4	6.8	9.3			7.6	12	4	10	4	**E**
F	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0	0	0	0	**F**
G	8.1	13.5	9.2	13.6	13.1	6.3	7.4	9.8			9.9	13	4	13	5	**G**
H	12.9	**15.2**	9.3	13.0	14.6	**15.8**	**15.3**	14.0			14.0	19	6	19	8	**H**
I	13.2	**19.3**	13.9	12.9	11.1	8.0	12.5	13.1			12.6	17	6	17	7	**I**
J	**24.2**	4.7	2.9	8.4	8.4	8.1	7.3	12.0			9.1	16	5	12	5	**J**
K	12.8	**15.4**	12.5	13.6	10.1	7.2	5.6	5.6			9.5	7	3	13	5	**K**
L	8.9	11.2	12.1	14.1	14.8	11.8	11.2	13.4			12.3	18	6	16	7	**L**

Stock Price ($ per share)

Stock Price scores are based on a 20% or 20 point weighting. Bold numbers indicate achievement of the investor-expected stock price shown below each yearly column head. Best-In-Industry performers earn a top score, and scores of other companies are a percentage of the industry-leading performance. Game-To-Date scores are based solely on the most recent year's stock price.

	Y11 (32.00)	Y12 (34.25)	Y13 (36.75)	Y14 (39.25)	Y15 (42.00)	Y16 (44.25)	Y17 (46.25)	Y18 (48.75)	Y19 (51.25)	Y20 (53.50)	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**92.26**	**136.32**	**167.47**	**185.61**	**233.10**	**225.44**	**189.50**	**342.37**			24	20	24	20	**A**
B	16.83	**38.39**	**78.19**	**110.26**	**170.85**	**169.65**	**221.22**	**272.13**			24	16	24	16	**B**
C	16.27	10.23	6.48	12.34	11.66	12.86	14.76	19.85			8	1	8	1	**C**
D	**37.67**	**39.05**	20.91	33.11	32.45	**49.01**	**51.47**	**51.47**			21	3	21	3	**D**
E	21.74	13.04	9.96	7.99	8.54	25.40	22.79	29.10			12	2	12	2	**E**
F	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0	0	0	0	**F**
G	16.97	23.27	17.34	39.04	38.79	20.74	23.54	34.56			14	2	14	2	**G**
H	20.74	31.08	17.47	27.17	39.27	**57.34**	**69.17**	**76.38**			24	4	24	4	**H**
I	21.32	**54.55**	35.87	**43.06**	37.21	28.34	**60.84**	**90.84**			24	5	24	5	**I**
J	**59.03**	29.86	17.21	20.17	21.93	24.82	20.64	**53.26**			21	3	21	3	**J**
K	21.81	28.05	24.88	30.71	25.12	17.74	13.99	17.55			7	1	7	1	**K**
L	16.84	19.00	23.83	**44.41**	**49.70**	35.30	22.77	**49.63**			20	3	20	3	**L**

Credit Rating

Credit rating scores are based on a 20% or 20-point weighting. Bolded credit ratings indicate meeting or beating the B+ investor expectation shown below each column head. For the Best-In-Industry scoring, companies with an A+ credit rating earn a score of 20 points, and lesser credit ratings earn lower scores. Game-To-Date scores are based solely on the most recent year's credit rating.

	Y11 (B+)	Y12 (B+)	Y13 (B+)	Y14 (B+)	Y15 (B+)	Y16 (B+)	Y17 (B+)	Y18 (B+)	Y19 (B+)	Y20 (B+)	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**A**	**A+**	**A+**	**A**	**A**	**A+**	**A+**	**A+**			24	20	24	20	**A**
B	B–	B	**B+**	**B+**	**A–**	**A–**	**A**	**A**			23	19	23	19	**B**
C	B	B	B	**A–**	**A**	**A+**	**A+**	**A+**			24	20	24	20	**C**
D	**A–**	**A**	**B+**	**A+**	**A+**	**A+**	**A+**	**B+**			20	17	20	17	**D**
E	B	B	**B+**	**A–**	**A–**	**A+**	**A+**	**A+**			24	20	24	20	**E**
F											0	0	0	0	**F**
G	B	**A–**	**A–**	**A–**	**B+**	**B+**	**A+**	**A+**			24	20	24	20	**G**
H	B	**A–**	**B+**	**A**	**A+**	**A+**	**A+**	**A+**			24	20	24	20	**H**
I	**B+**	**A**	**A–**	**A**	**A+**	**A+**	**A+**	**A+**			24	20	24	20	**I**
J	**B+**	C	C+	**A**	**A**	**A+**	**A+**	**A+**			24	20	24	20	**J**
K	B	**B+**	B	**A**	**A+**	**A+**	**A+**	**A+**			24	20	24	20	**K**
L	C+	C+	C+	C	C	C–	B–	**B+**			20	17	20	17	**L**

Image Rating

Image rating scores are based on a 20% or 20-point weighting. Bolded image ratings indicate meeting or beating the yearly target shown below each column head. Best-In-Industry performers earn a top score; scores of other companies are a percentage of the industry-leading image rating. Game-To-Date scores are based on the average image ratings over the last three scheduled years.

	Y11 (70)	Y12 (70)	Y13 (70)	Y14 (70)	Y15 (70)	Y16 (70)	Y17 (70)	Y18 (70)	Y19 (70)	Y20 (70)	Y16 -Y18 Average	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**84**	**79**	**92**	**85**	**90**	**90**	**91**	**85**			**89**	22	17	23	18	**A**
B	**71**	**85**	**99**	**87**	**90**	**92**	**91**	**95**			**93**	24	19	23	19	**B**
C	62	62	63	62	63	63	57	59			60	17	12	17	12	**C**
D	**75**	**75**	**72**	68	66	**74**	**70**	**77**			**74**	21	16	21	15	**D**
E	66	64	67	63	64	**70**	**70**	67			69	19	14	20	14	**E**
F	0	0	0	0	0	0	0	0			0	0	0	0	0	**F**
G	68	67	**72**	**73**	**84**	**85**	**83**	**84**			**84**	22	17	22	17	**G**
H	63	62	56	52	55	62	68	66			65	19	13	19	13	**H**
I	66	**73**	69	**75**	**74**	**75**	**71**	**73**			**73**	20	15	20	15	**I**
J	60	59	63	69	**75**	**76**	61	**72**			**70**	20	15	20	14	**J**
K	67	**71**	**74**	**79**	**86**	**85**	**80**	**85**			**83**	22	17	22	17	**K**
L	**77**	**85**	**90**	**89**	**100**	**99**	**100**	**99**			**99**	24	20	24	20	**L**

Corporate Social Responsibility and Citizenship

	Industry 84 Expenditures for Corporate Social Responsibility and Citizenship: Total ($000s)			Per Pair Sold ($/unit)			Image Rating Points Generated from CSRC Expenditures		
	High	Avg.	Low	High	Avg.	Low	High	Avg.	Low
Year 11	11,113	4,472	0	2.09	0.86	0.00	4	2	0
Year 12	14,461	6,722	0	2.30	1.18	0.00	8	4	0
Year 13	16,103	7,950	0	2.71	1.33	0.00	11	7	0
Year 14	20,916	9,458	0	2.76	1.41	0.00	14	10	1
Year 15	24,508	12,241	1,253	3.15	1.73	0.22	17	13	2
Year 16	24,373	14,285	2,362	2.74	1.78	0.34	18	14	3
Year 17	27,380	11,498	2,588	2.77	1.53	0.28	20	16	5
Year 18	25,324	11,930	0	3.13	1.49	0.00	20	16	9

★ Gold Star Award ★

for Corporate Citizenship

Beginning in Year 14, the World Council for Exemplary Corporate Citizenship presents a Gold Star Award to the company spending the biggest % of its revenues for social responsibility and citizenship initiatives.

	Award Winner	2nd Place
Y14	**Gladiator Footwear**	Llamas
Y15	**EasyFeet**	D- Deeds
Y16	**EasyFeet**	Llamas
Y17	**EasyFeet**	Gladiator Footwear
Y18	**EasyFeet**	Llamas

Competitive Strategy

BNA Footwear's vision was to provide quality footwear to the entire world at an affordable price. This vision was executed by employing a global differentiation strategy that set BNA apart from rival brands based on attributes like a higher S/Q rating, more models/styles, more advertising, greater celebrity appeal, higher mail-in rebates & a bigger network of retail outlets carrying BNA's brand shoes. However, there was years that BNA felt like it moved more towards a "global best cost" or "more value for the money" strategy. Such a strategy meant that BNA provided 7-star footwear at a lower price than other 5-star brands. Moving to a perceived "global best cost" strategy was not intentional but the result of not accurately predicting market pricing trends. BNA choose a broad differentiation strategy because it allowed BNA to capture large markets, be less affected by dips and spikes in market trends, and it allowed them to have a large revenue base to increase capacity quickly in the early rounds of the competitions. The quick increase of capacity allowed BNA to get ahead of competitors and gain market share and build customer loyalty quick. Figure 1 below shows evidence that BNA was having some success in differentiating its merchandise from competitors. BNA's goal was to increase the S/Q rating quickly during the first 3 years and maintain a 7 or higher star rating throughout the simulation. Also, BNA wanted to keep its prices competitive or below the industry average through all rounds. Coupled with large advertising, celebrity appeal, decent rebates and large retail support BNA was able to sell high volumes of its shoe products and eventually surpass the top competitor in total revenues and net profit (See figure 2 & 3 in the section "Effectiveness & Competitor"). To say the least, BNA Footwear chose a very competitive and sustainable strategy.

Evidence that our company is having some success in differentiating its product offering from rivals on a global basis:

Areas of Potential Differentiation from the Offerings of Rivals		Our Company's Differentiation Efforts in Y18	Industry Average in Year 18 (per data in Competitive Intelligence Reports)	Amount Above or Below Year 18 Industry Average
Internet Segment	Free Shipping	No	No	Same
	Models Offered	200	178	+12.4 %
S/Q Rating	North America	7 stars	6 stars	1 stars
	Europe-Africa	7 stars	6 stars	1 stars
	Asia-Pacific	7 stars	6 stars	1 stars
	Latin America	7 stars	6 stars	1 stars
Models Offered (wholesale segment)	North America	200	200	0.0 %
	Europe-Africa	200	199	+0.5 %
	Asia-Pacific	200	198	+1.0 %
	Latin America	200	196	+2.0 %
Advertising Budget ($000s)	North America	$ 1400	$ 10545	–86.7 %
	Europe-Africa	$ 13500	$ 10227	+32.0 %
	Asia-Pacific	$ 7500	$ 7136	+5.1 %
	Latin America	$ 7500	$ 5691	+31.8 %
Celebrity Appeal (index sum)	North America	125	77	+62.3 %
	Europe-Africa	125	77	+62.3 %
	Asia-Pacific	150	77	+94.8 %
	Latin America	150	77	+94.8 %
Rebate Offer	North America	$ 3	$ 3.1	–2.9 %
	Europe-Africa	$ 2	$ 2.6	–21.6 %
	Asia-Pacific	$ 3	$ 2.3	+32.2 %
	Latin America	$ 0	$ 1.7	–100.0 %
Retail Outlets Utilized	North America	2933	2766	+6.0 %
	Europe-Africa	2983	2824	+5.6 %
	Asia-Pacific	1643	1506	+9.1 %
	Latin America	1649	1470	+12.2 %
Delivery Time	North America	3 weeks	2 weeks	Worse
	Europe-Africa	3 weeks	2 weeks	Worse
	Asia-Pacific	3 weeks	2 weeks	Worse
	Latin America	3 weeks	2 weeks	Worse

Figure 1: Global Differentiation Strategy

Effectiveness & Competitor (SWOT)

BNA had a very successful company in the business simulation game. As you will se in figure 2 and 3, BNA Footwear (Company B) had the highest net revenue for most of the simulation and close to or the highest net profit.

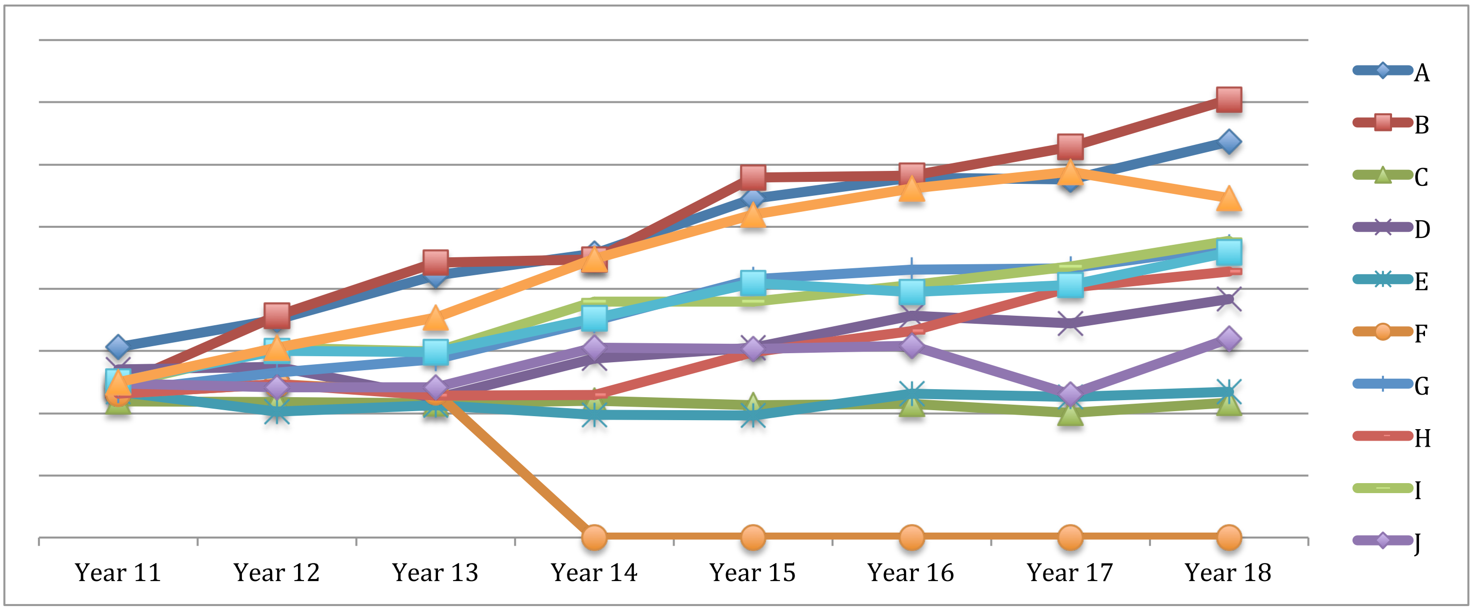


Figure 2: Net Revenue

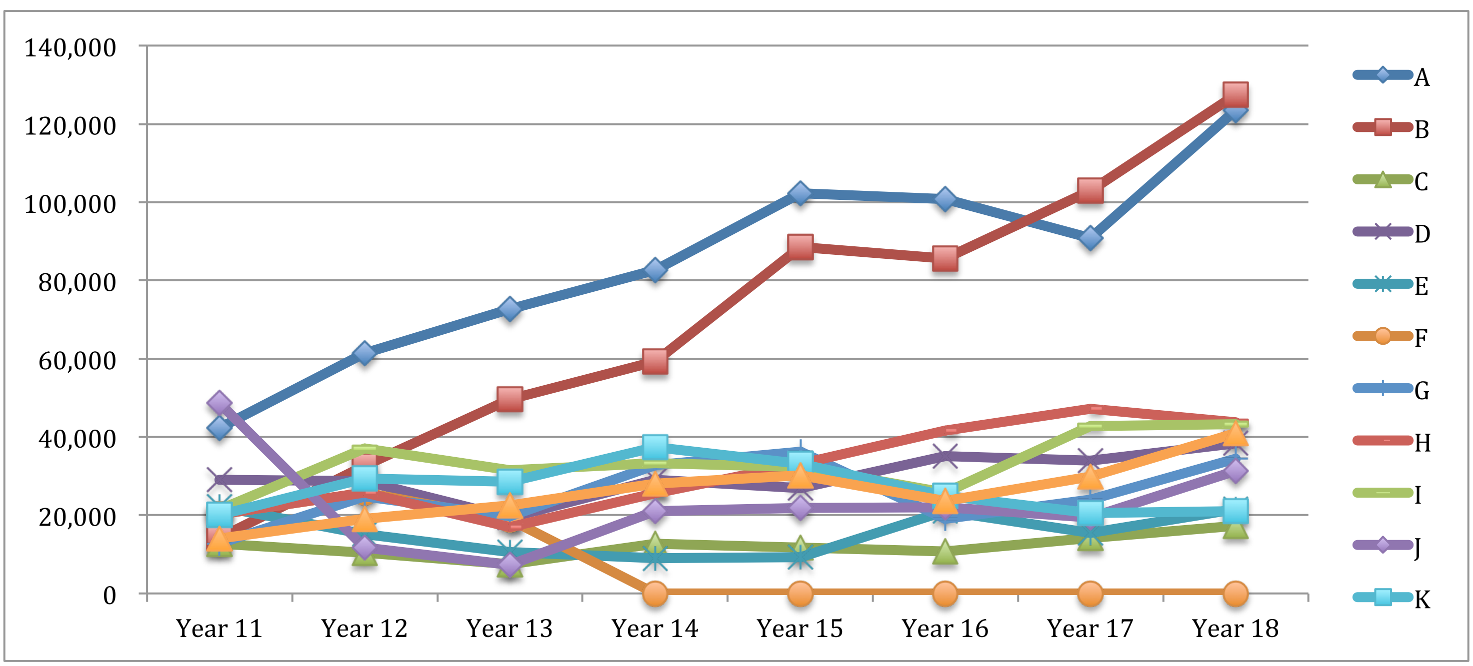


Figure 3: Net Profit

You will also notice that the BNA Footwear's net revenue and profit in were sustainable (had an upward trend) through all eight years of the simulation.

SWOT

Strength

- Star rating of 7 provided a competitive edge by offering a quality shoe and by keeping shoe costs in check.
- Pricing was at or below average allowing BNA to sell its projected sales volume.
- Large capacity. Could easily meet wholesale demand and capitalize on private label sales (Year 8 Capacity: BNA – 13,100 units; Closest competitor – 10,600 units.
- Higher than average advertising got the word out early in the simulation to build customer loyalty and maintained to keep up demand.
- Higher than average celebrity appeal, helped to sell a higher volume of shoes. It is important to sell lots when you have a low price or else low quantities sold create low profits.
- Retail store support was above industry average. Thus retailers wanted to carry BNA Footwear products.

Weakness

- Selling 1,000 shares of common stock in the first year decreased BNA's overall EPS through out the simulation.
- Cost of pairs sold was higher for all rounds compared to the top competitor.
- Current ratio was much lower compared to the industry meaning BNA was less likely to be able to pay current liabilities than its competitors (Year 8: BNA – 2.92; Industry Average – 4.44). However, this could also be a strength and sign that BNA was better at managing its working capital to create wealth than its competitors.
- High debt to asset ratio compared to the industry average (Year 8: BNA – 27%; Industry Average – 10%).

Opportunities

- Higher celebrity appeal. More aggressive bidding will sign more endorsements that will increase BNA's appeal thus increasing demand.
- Lower costs in producing shoes while maintaining a 7-star rating.
- Increase year 18 wholesale, Internet, and private label prices to industry average.
- Re-purchase stock to increase EPS.
- Pay down debt to decrease interest expenses.

Threats

- Cost of pairs sold is 7 percent higher than the top competitor.

- Competitor pricing is constantly changing and even erratic. This can dramatically change BNA's market share potential.
- Producing to many products and selling them at a price that does not get a bid in the private label sector.
- Changing S/Q minimum consumer expectations.
- Increased competitor advertising, S/Q rating, retail support, rebates, appeal and models offered.
    - S/Q currently half of the industry has a S/Q rating of 7 or over. If competitors that have an S/Q lower than 7-stars increases their S/Q it could mean less demand for BNA products. BNA will need to increase to a 8-star rating which will increase overall costs to produce their footwear.
    - Increased competitor rebates entice consumers to buy brands that are not from BNA.

Next Moves

BNA Footwear was extremely successful in predicting their competitors' next move. They way that BNA gained success was through historical trend analysis of competitors reactions to past market trends (i.e. Pricing, exchange rates, advertising, S/Q, retail support, units offered, etc.). For example, in the private label market BNA looked at five things to determine potential sales, (1) S/Q rating, at the lowest BNA had to meet the minimum consumer expectation; (2) Past total number of units offered per a market; (3) Price at which units were offered; (4) Total Units demanded per a market; (5) Maximum price, (6) manufacturing capacity, and (7) Exchange rate and shipping costs.

S/Q ratings were pretty simple. If the minimum allowed was a 5-star rating BNA made sure that its product that it was offering to the private label sector met that requirement.

The past amount of units offered, demanded, sold, exchange rate, shipping costs, and the price went hand in hand. First often markets would demand more than what was offered in the private label. Figure 4 shows the a year 10 to 18 comparison between Demand, units offered and units sold for the North America market. Notice the difference between the demand and units offered. Variances like these created much potential for BNA because they could calculate a projected gap

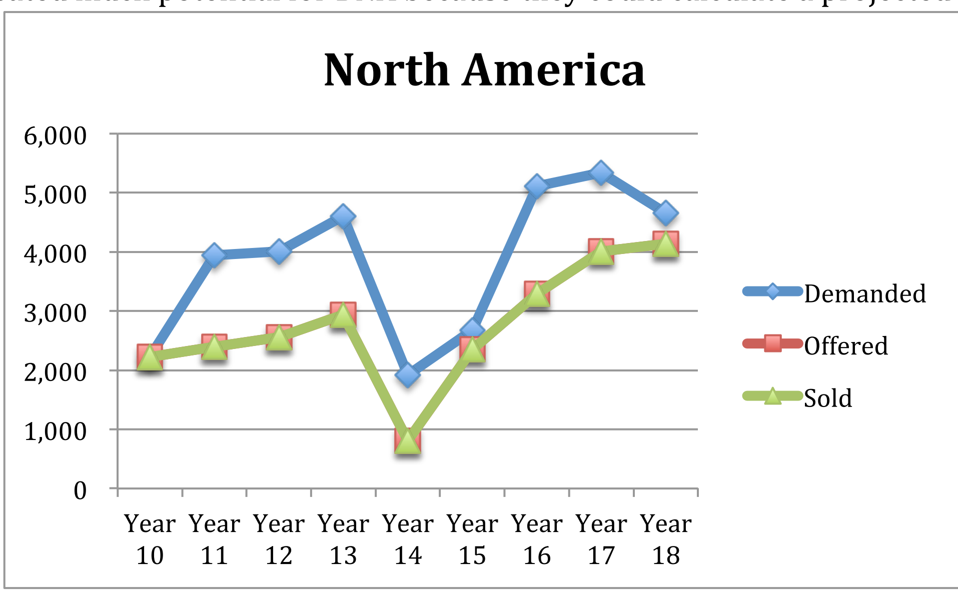


Figure 4: North America (Demand, Units Offered, Units sold)

between demand and units offered and supply that variance at a very competitive and profitable price. Latin America offered such a variance in the early years of the simulation. What made Latin America even better than North America was the extra income that was produced due to the exchange rate difference. BNA was able to capitalize on the demand/offered gap for a few years before competition caught on. However, when competitors caught on started to switch to Latin America BNA was able to diversify its private label market shares, or how many units it was offering to each market, and sell at an optimal price because demand was not being met. When BNA thought the units offered would exceed the demand they would offer their units at the best or lower than average price. The pricing strategy was to price lower than most competitors as to sell the amount of units BNA intended to offer. The hope was always to sell at the highest possible price and still sell all of the units offered. BNA was always able to make more revenue & profit, whether it sold at a high or low price, in the private label sector because it had more capacity available to sell. Figure 5 is an example BNA's units sold vs. it competitors.

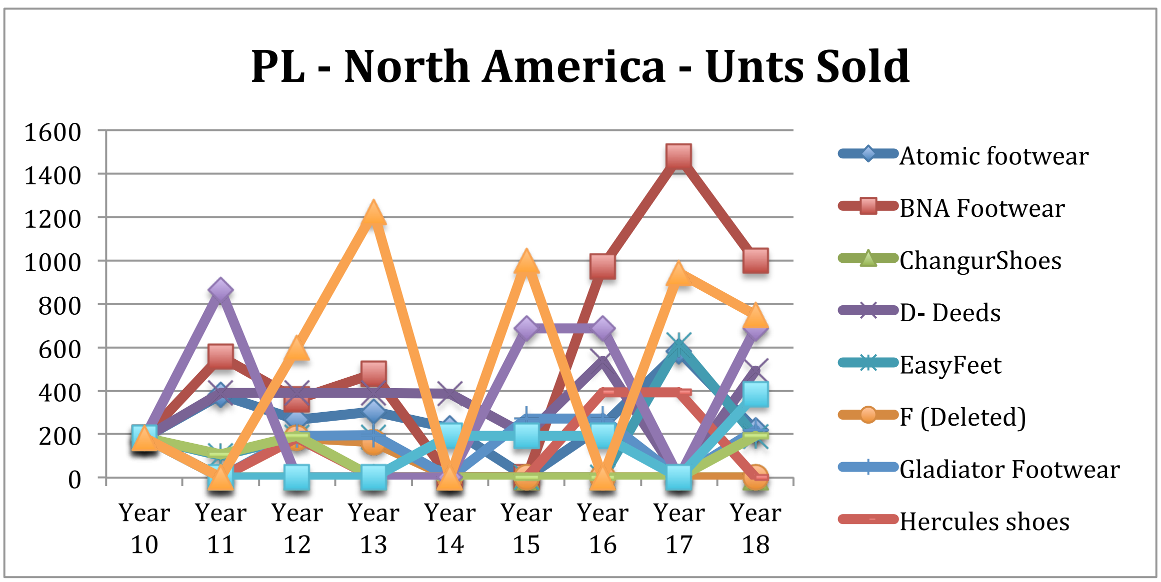


Figure 5: PL - North America - Units Sold

BNA Footwear followed a similar trend of forecasting past trends to be able to out beat competitors. However, one of the best tactics that was used to perform in well in the wholesale segments was mirroring the movements of the best competitor Atomic Footwear and at the same time trying to find ways to perform better. Atomic Footwear also sought a broad differentiation strategy. For example, BNA found that if they decreased the Internet price and increased marketing and wholesale production it could increase its demand and sell more units at a higher price than wholesale. Figure 6 shows how BNA decreased its internet price. Figure 7 shows the increase amount of pairs sold because of the decreased price.

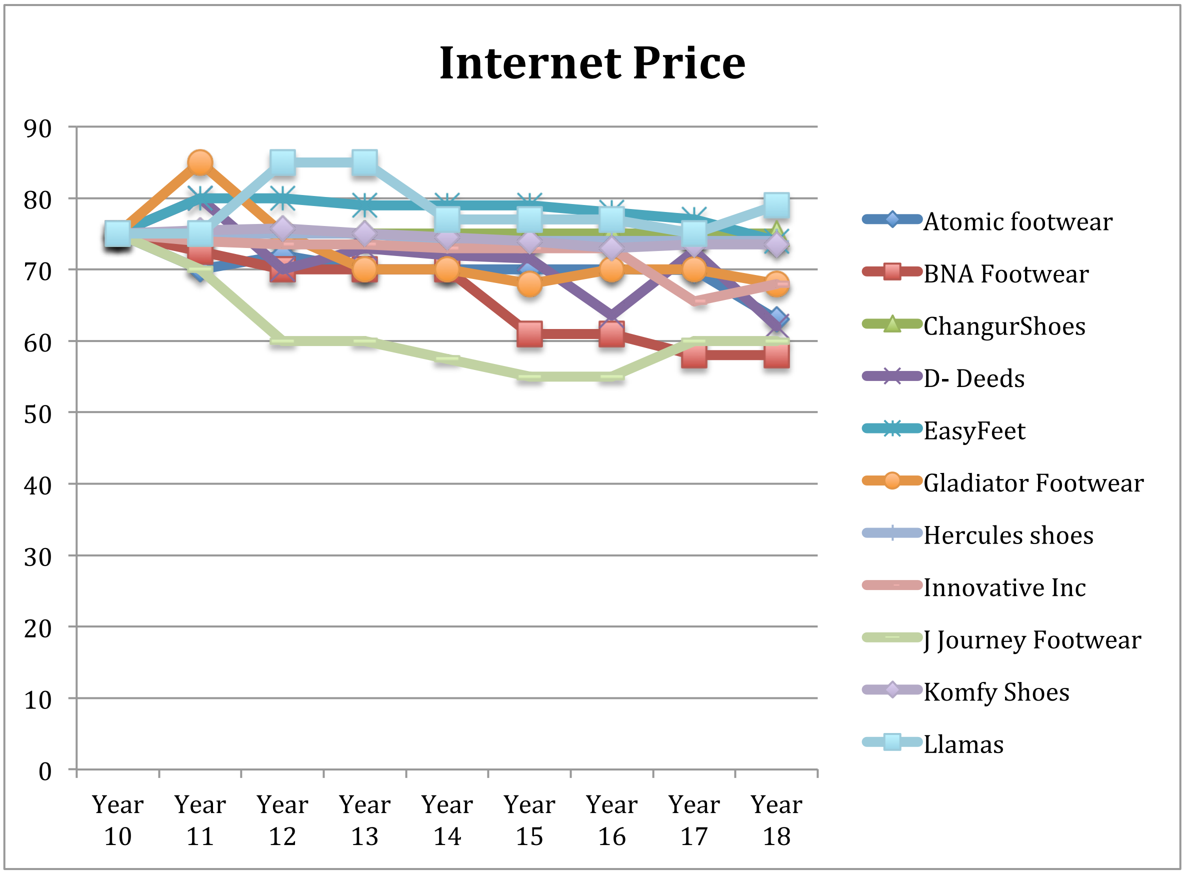


Figure 6: Internet Price

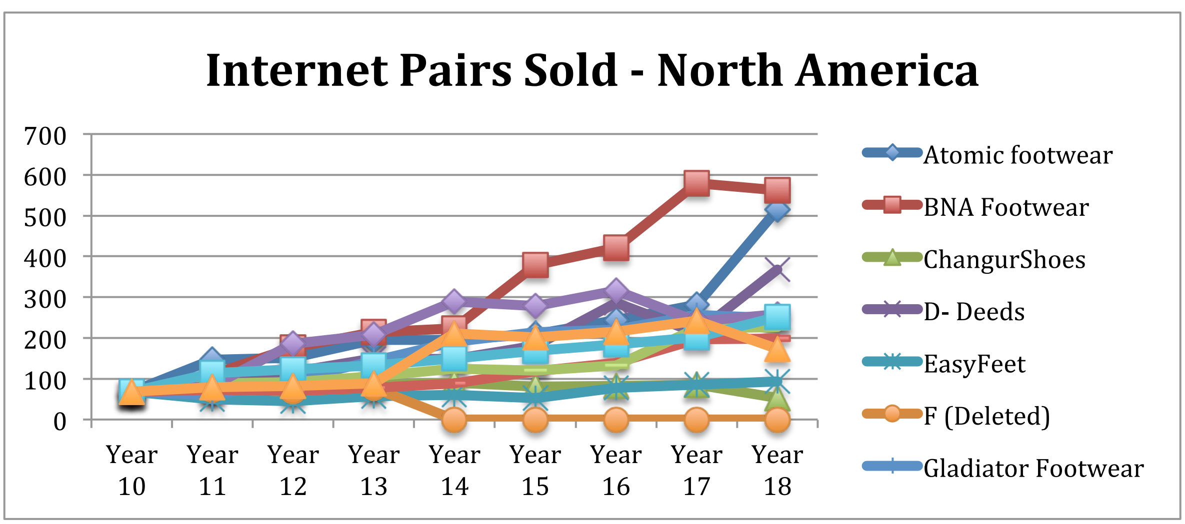
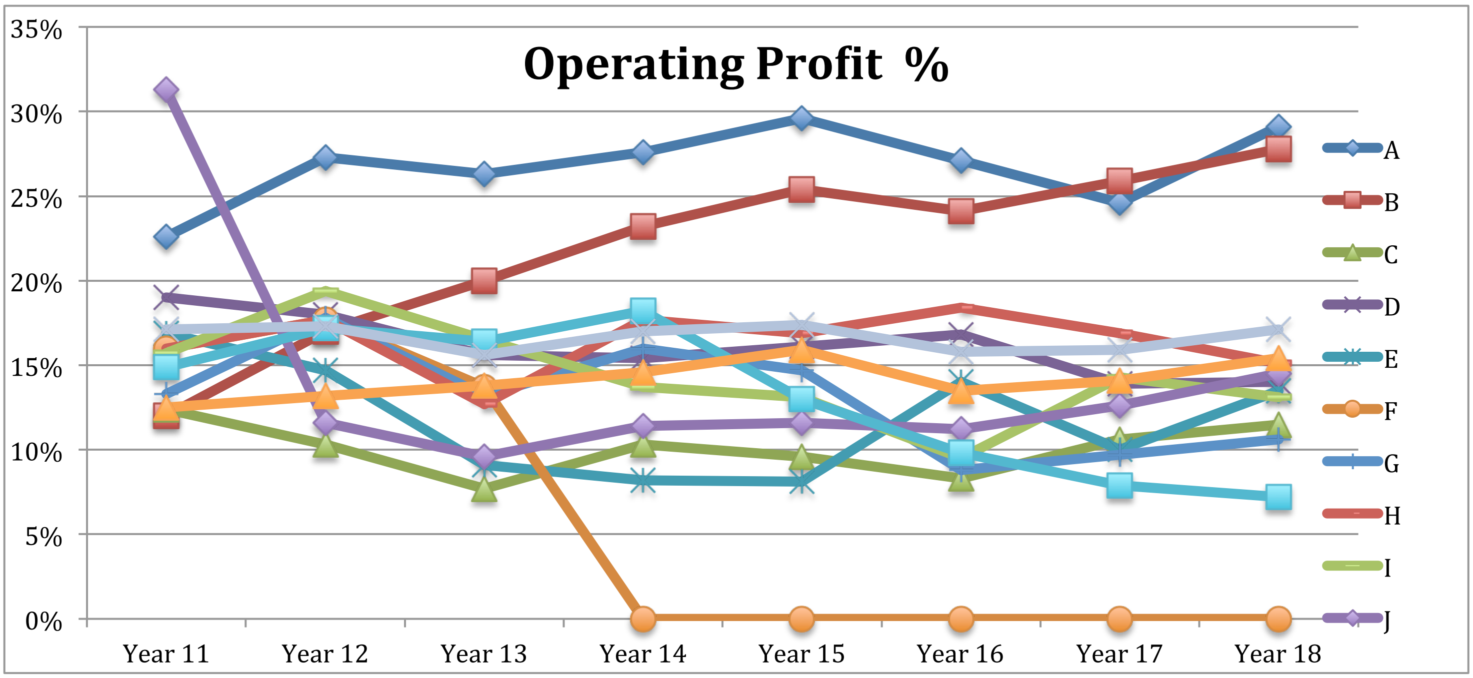


Figure 7: Internet Pairs Sold – North America

Sustainability

The most dominant competitive advantage was held by Atomic Footwear but was closely followed by BNA Footwear. The competitive advantage that Atomic Footwear (A) held was being able to keep it costs low and sell at an average to above average price. Figure 8 demonstrates this competitive advantage below.



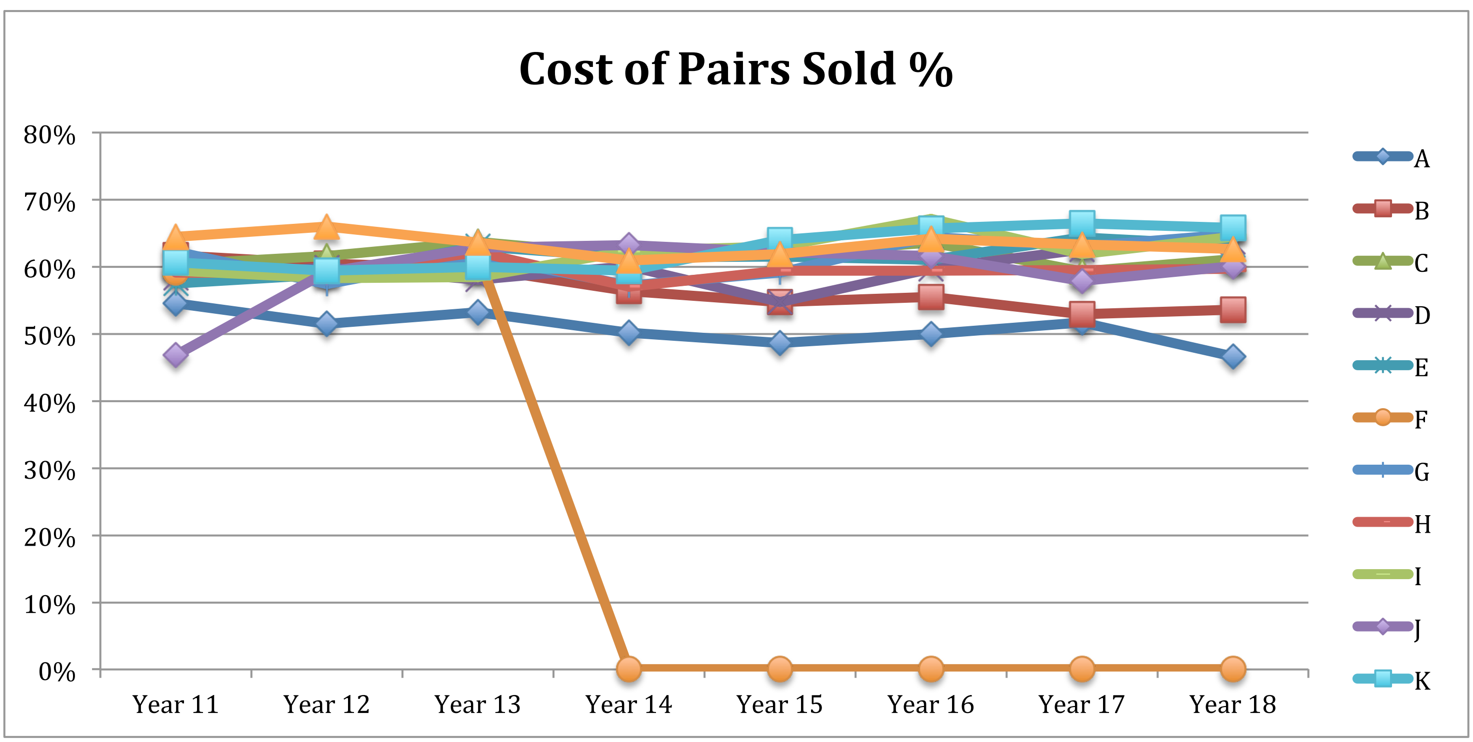
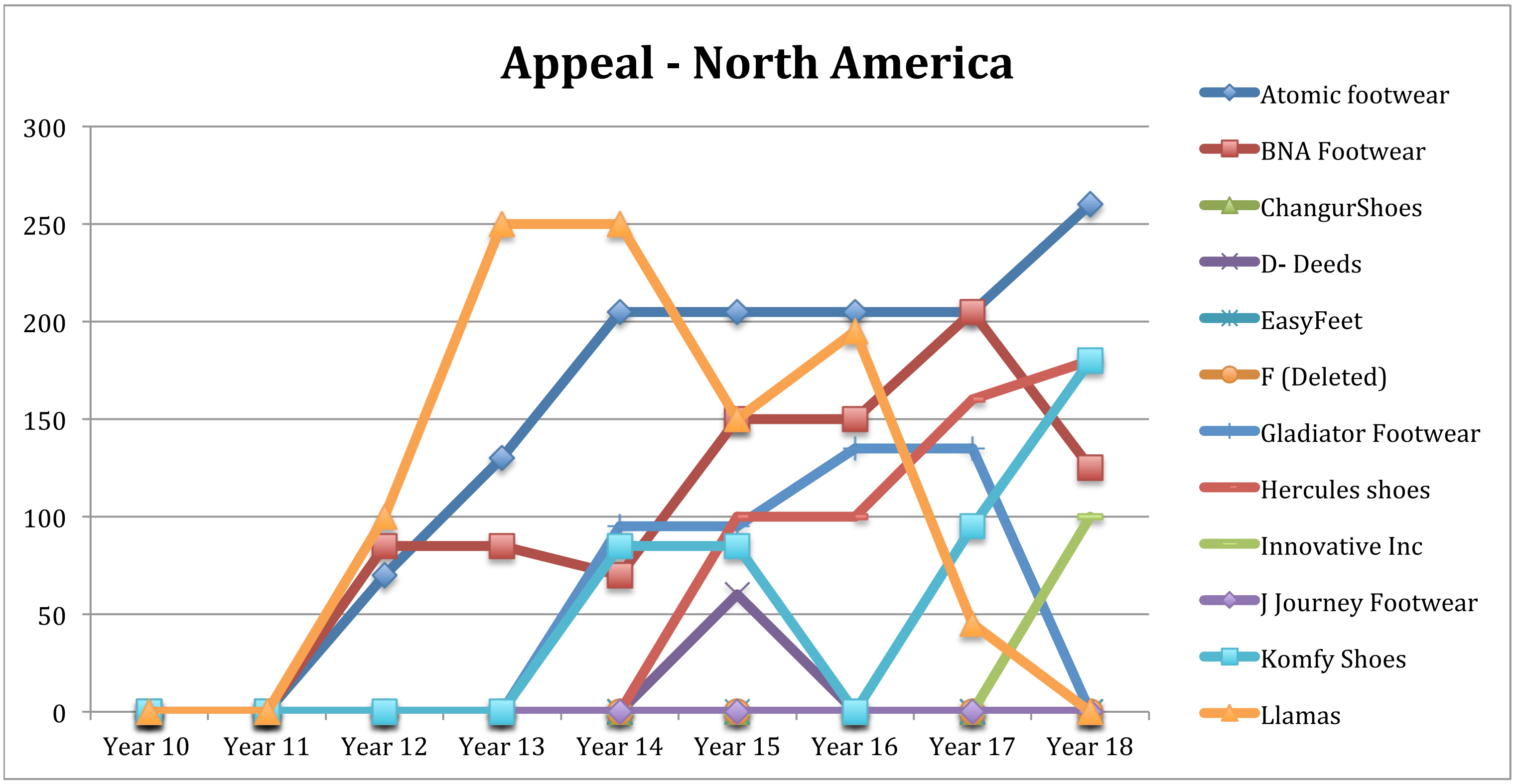
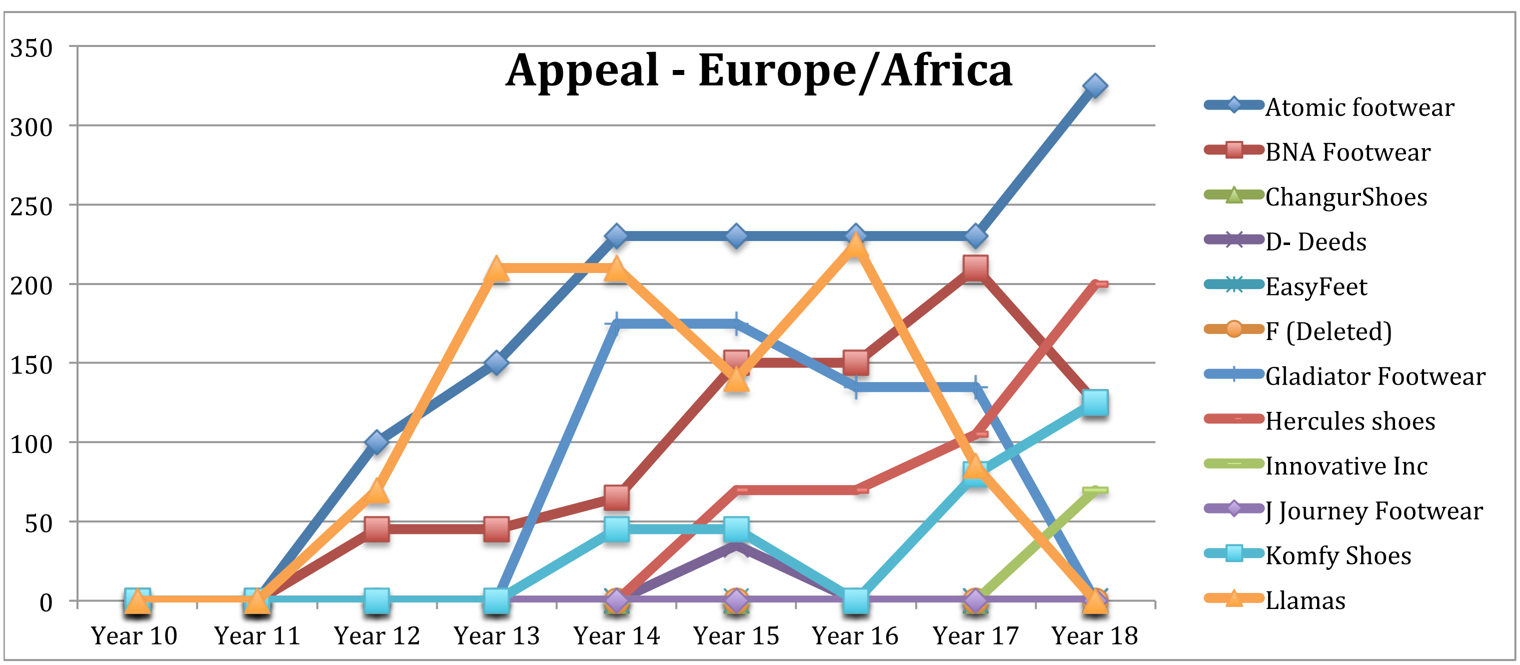
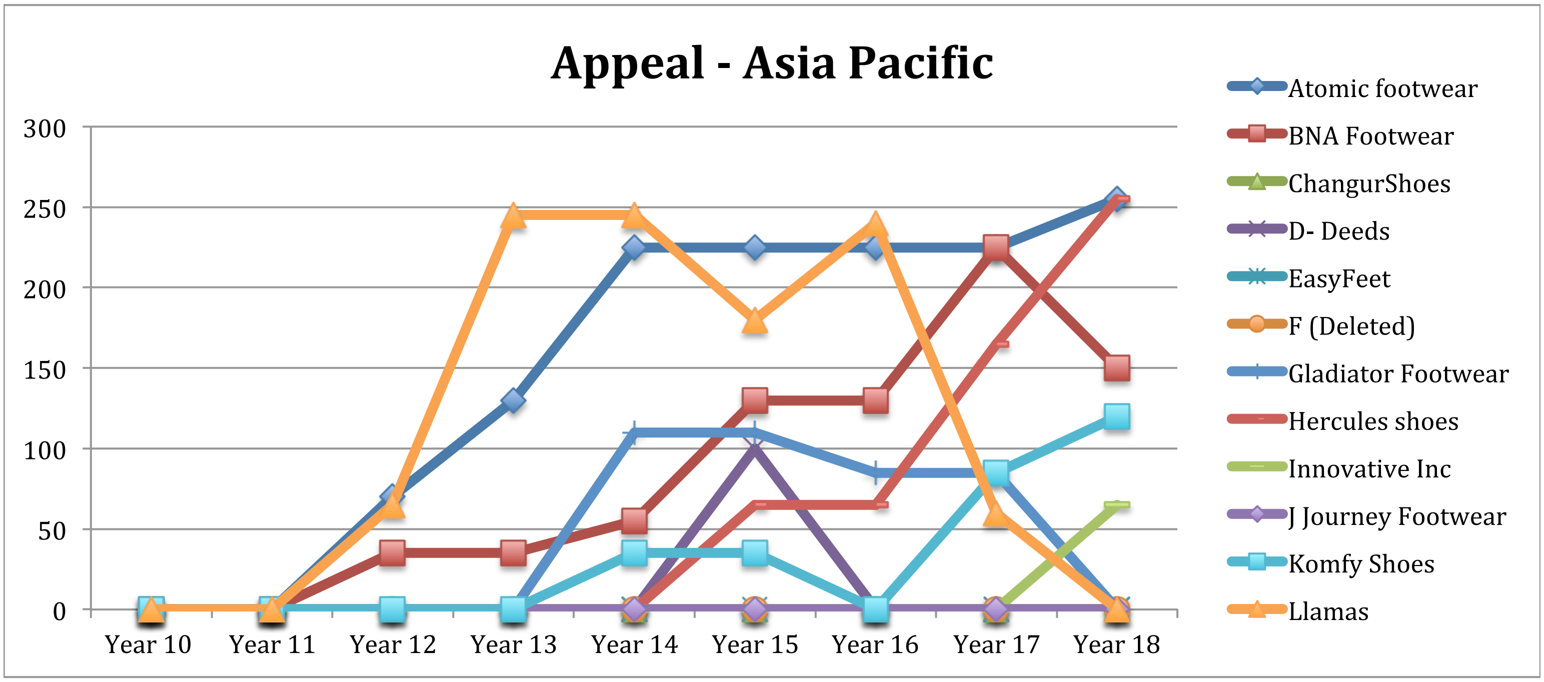


Figure 8: Cost of Goods Sold

Celebrity Appeal is another area where Atomic Footwear dominated. Consistently through all simulation rounds Atomic Footwear had the highest appeal for its footwear. The high appeal offered a higher demand for their products and allowed them to sell more at a higher price. Figure 9 below shows Atomic Footwear's appeal vs. the other 11 competitors for each market area.







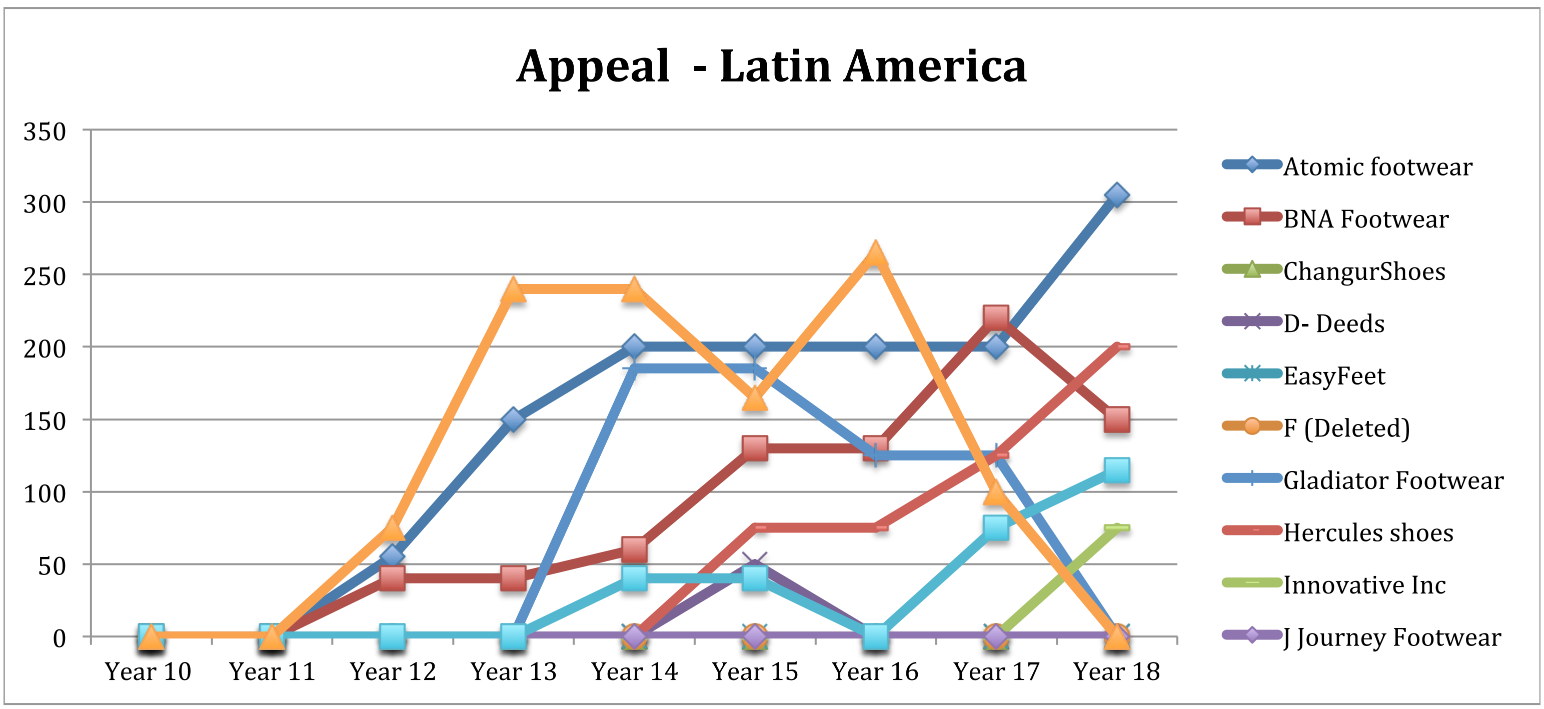


Figure 9: Celebrity Appeal

The balance scorecard in the financial section of this paper shows that Atomic Footwear was able to outperform its competitors in nearly all areas. Let me mention a few specifics below.

Return on Equity (ROE)

Return on Equity (%)

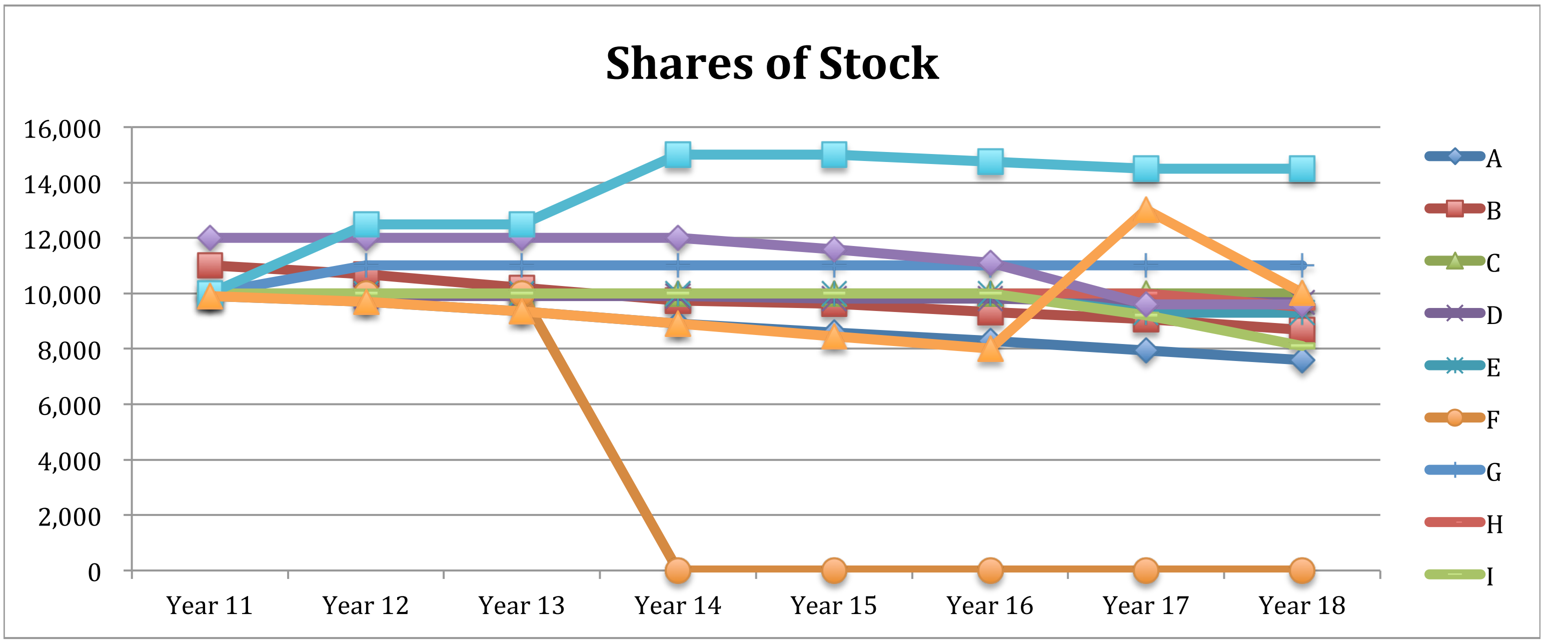
ROE scores are based on a 20% or 20 point weighting. Bold numbers indicate achievement of the investor-expected ROE shown below each yearly column head. Best-In-Industry performers earn a top score, and scores of other companies are a percentage of the industry-leading ROE performance. Game-To-Date scores are based on a weighted average of the annual ROE performances.

	Y11 (15.0)	Y12 (15.0)	Y13 (15.0)	Y14 (15.0)	Y15 (15.0)	Y16 (15.0)	Y17 (15.0)	Y18 (15.0)	Y19 (15.0)	Y20 (15.0)	Wgt Avg. (15.0)	Y18 Score I. E.	Y18 Score B-I-I	G-T-D Score I. E.	G-T-D Score B-I-I	
A	**25.4**	**31.3**	**33.2**	**36.9**	**43.3**	**38.5**	**33.3**	**44.7**			**36.5**	24	20	24	20	**A**
B	8.3	**16.1**	**21.7**	**23.6**	**29.8**	**24.8**	**27.0**	**30.5**			**24.4**	24	14	24	13	**B**
C	8.0	6.2	4.2	6.7	5.8	5.2	6.6	7.5			6.3	10	3	8	3	**C**
D	**17.4**	**15.2**	9.4	12.7	10.7	12.7	11.6	14.2			12.8	19	6	17	7	**D**
E	13.6	8.4	5.5	4.5	4.4	9.4	6.8	9.3			7.6	12	4	10	4	**E**
F	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0	0	0	0	**F**
G	8.1	13.5	9.2	13.6	13.1	6.3	7.4	9.8			9.9	13	4	13	5	**G**
H	12.9	**15.2**	9.3	13.0	14.6	**15.8**	**15.3**	14.0			14.0	19	6	19	8	**H**
I	13.2	**19.3**	13.9	12.9	11.1	8.0	12.5	13.1			12.6	17	6	17	7	**I**
J	**24.2**	4.7	2.9	8.4	8.4	8.1	7.3	12.0			9.1	16	5	12	5	**J**
K	12.8	**15.4**	12.5	13.6	10.1	7.2	5.6	5.6			9.5	7	3	13	5	**K**
L	8.9	11.2	12.1	14.1	14.8	11.8	11.2	13.4			12.3	18	6	16	7	**L**

ROE = Net income / Shareholder's Equity

The return on investment ratio helps investors understand how well management is at generating profit from the money shareholders have invested. "ROE is especially useful in comparing the profitability of a company to that of other firms in the same industry" (Investopedia - ROE, 2014). Companies that are able to produce a larger ROE with less initial investment are better. Atomic Footwear is better because it was able to create a greater percentage of wealth compared to the money investors put in. For example, year 18, Atomic Footwear was able to produce an ROE of 44.7 for its investors. That is 14.2 percent larger than that of BNA's ROE.

Some of the reasons that Atomic Footware was able to achieve such an outstanding ROE is because it did not sale any new stock to finance any of its operations. In fact, Atomic Footwear bought back stock (treasury stock) every year of the simulation. So even though BNA had a greater revenue and net profit towards the end of the simulation, Atomic Footwear still had a better ROE and EPS (See figure 10).



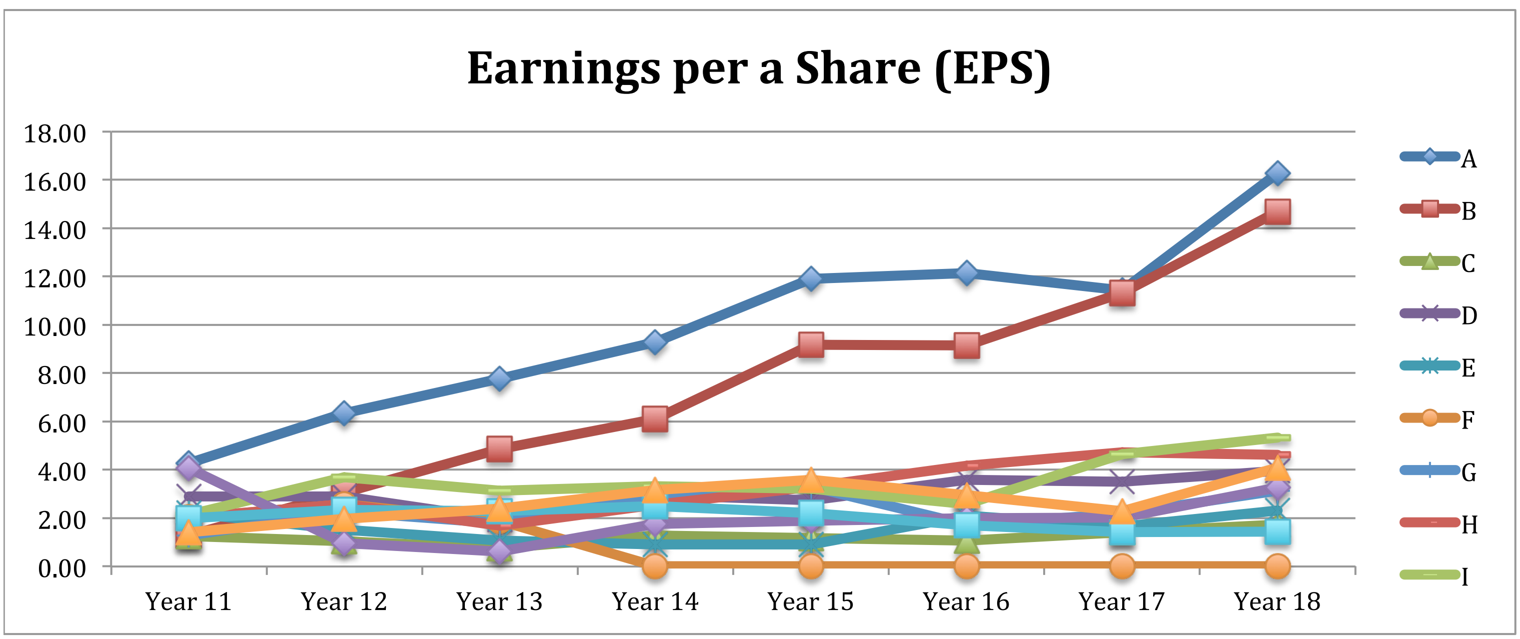
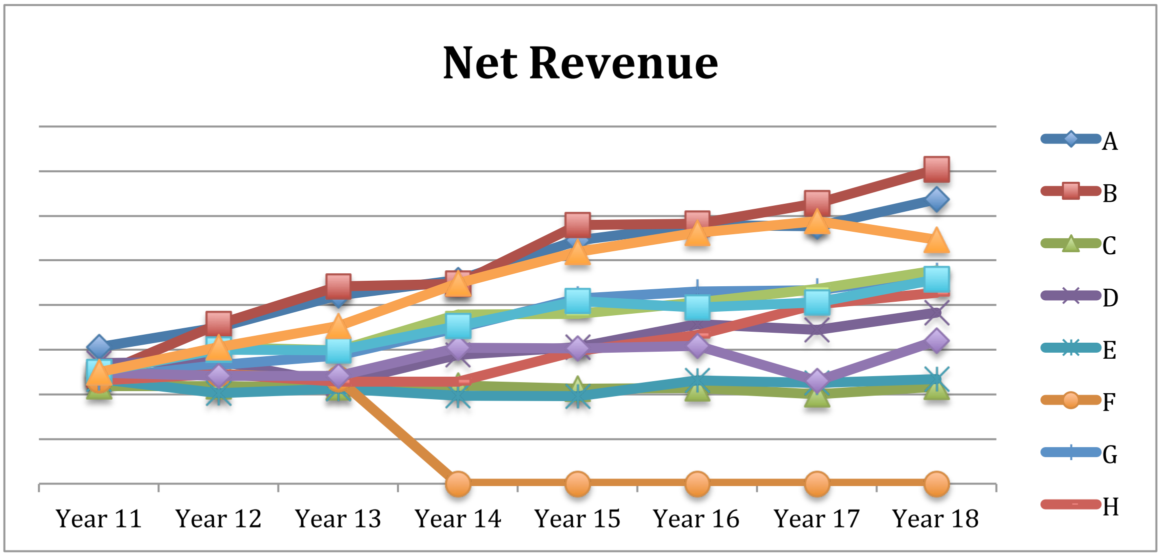
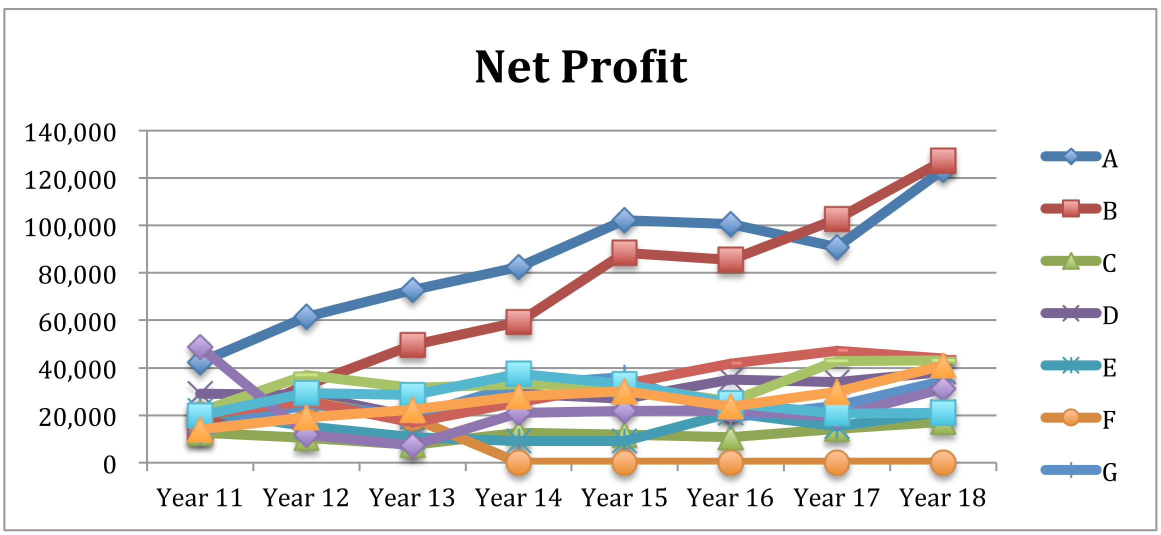
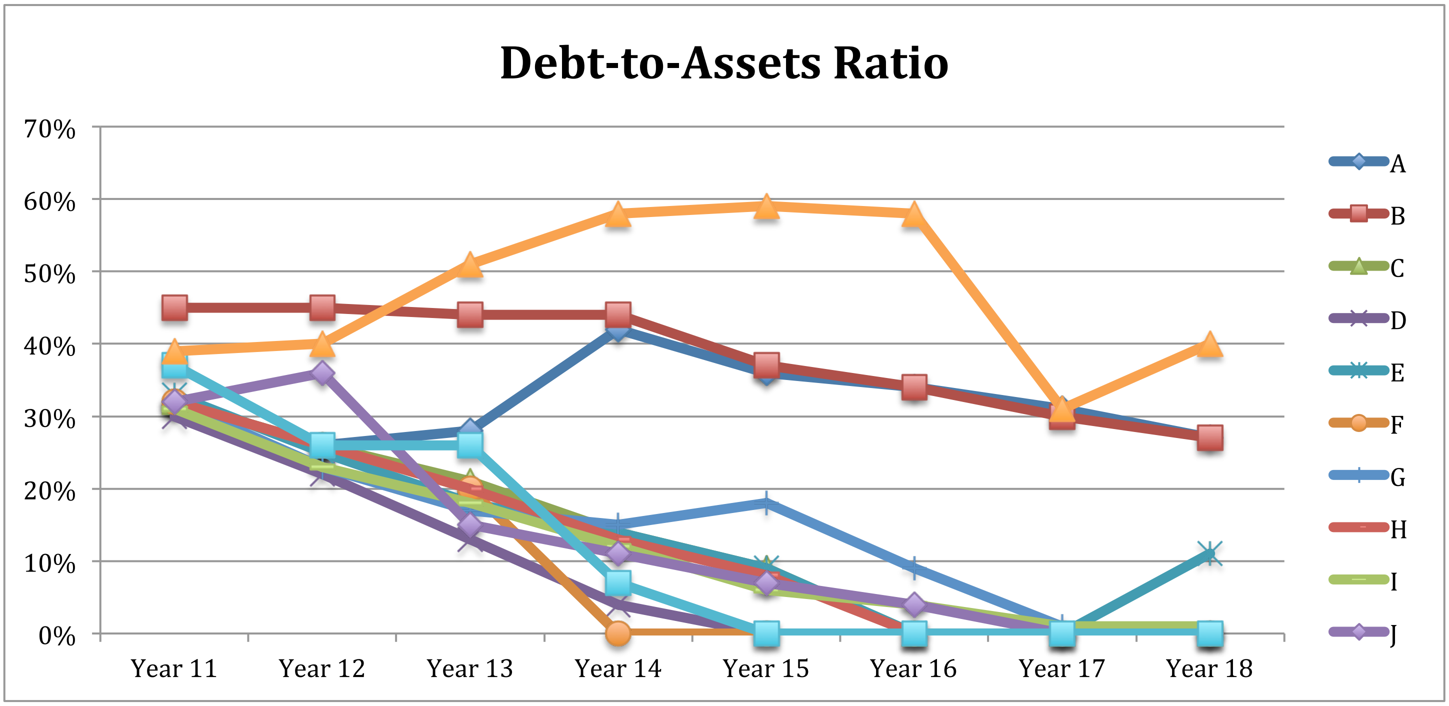


Figure 10: Shares of Stock & EPS

It is important to note that Atomic Footwear consistently had a upward trend in all of it is profit figures and a consistent downward trend in its debt to asset ratio and an upward trend in its current ratio. An upward trend in profit and downward trend in debt clear indicates a sustainable operation and strategy (See figure 11).







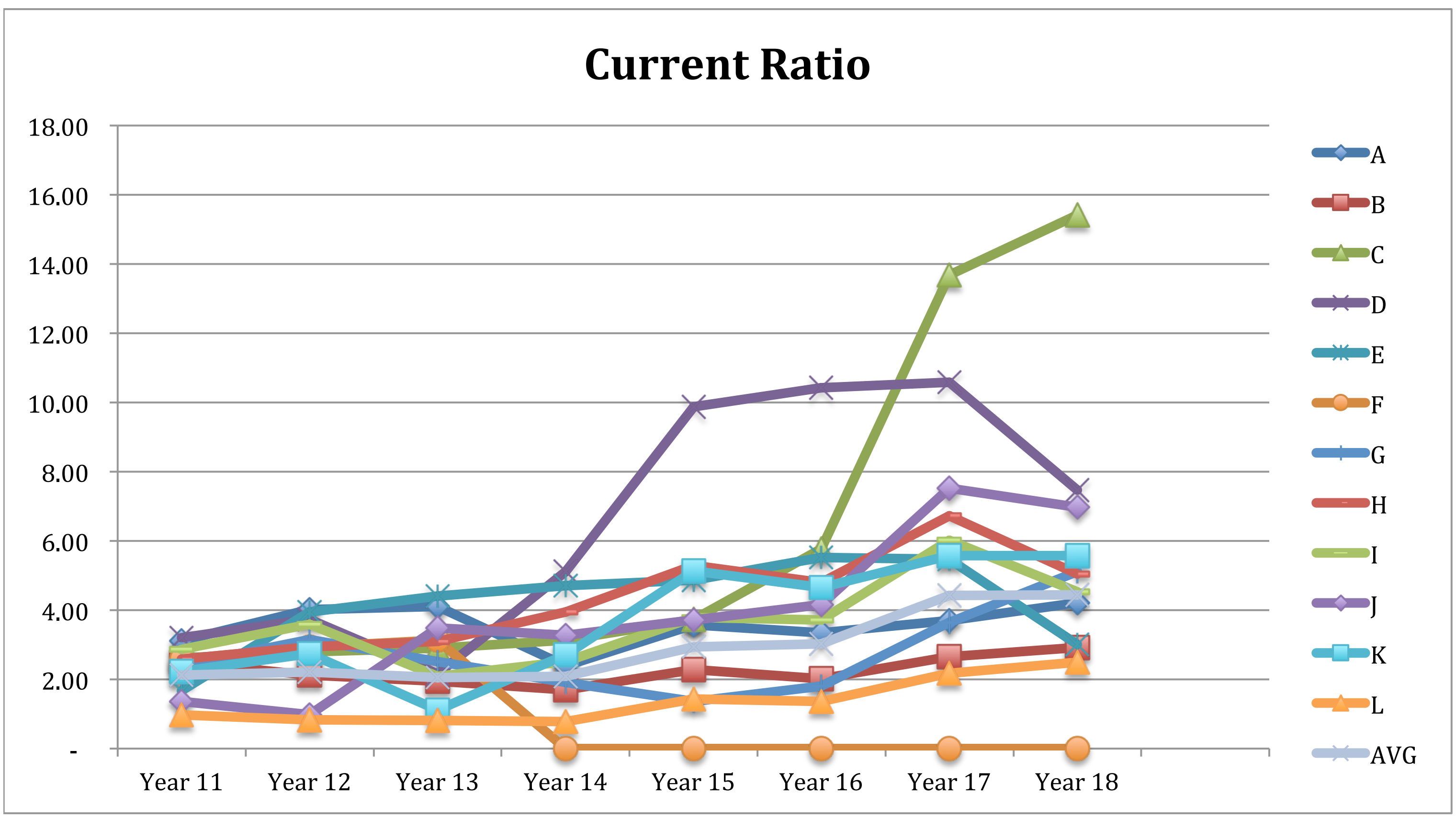


Figure 11: Net Revenue, Net Profit, Debt-to-Assets Ratio, Current Ratio

Strategies

BNA choose a broad differentiation strategy in its wholesale & internet segments with a multi-regional strategy in the private sector. To evaluate how effective a broad differentiation strategy is in the BSG – Online simulation we will use the 3 tests of a winning strategy: The Fit Test, The Competitive Test, and The performance Test.

The Fit Test

The fit test is a measure of a company's ability to match its resources and abilities with the opportunities found within the external competitive atmosphere. In other words, a company must have the tangible and intangible assets to execute its strategy in the environment in which it competes. For example, it would be a bad idea for a company to choose a "focus strategy" in Europe-Africa when it is the most costly market for the company to operate in. Companies that have lower costs and/or a manufacturing plant in the market could easily outperform such a poorly constructed strategy.

Tangible and intangible assets that are necessary to successfully accomplish a broad differentiation strategy are: Large manufacturing capacity, low costs, supreme forecasting, competitive pricing, above average star ratings, large amounts of advertising, celerity appeal, effective goods dispersion to decrease currency exchange rate costs and in general the ability to sell large quantities of goods across multiple markets.

Lucky for us BNA had all of the above-mentioned tangible and intangible assets. As mentioned before, BNA had the highest manufacturing capacity in the simulation. A large manufacturing capacity allowed BNA to produce many units and sell at a lower than average price while still making an excellent profit (See figure 12 & 13). Also, the extra capacity allowed BNA to capitalize in the Internet and private sector markets. Where other competitors were selling 200 to 400 units in the private sector BNA was selling 1,000 to 1,500 units per a market in the private sector (see figure 14)

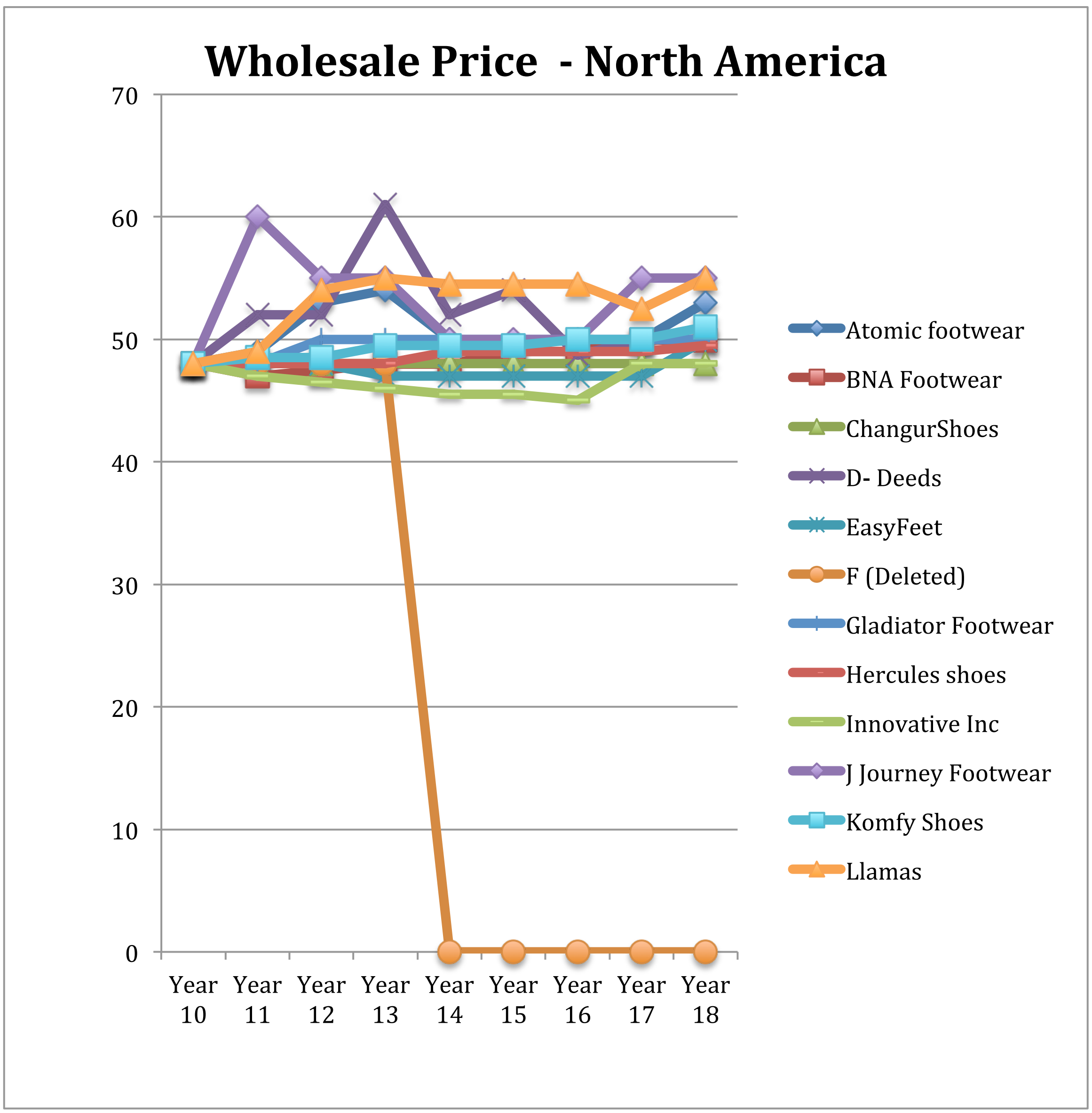


Figure 12: Wholesale Price – North America

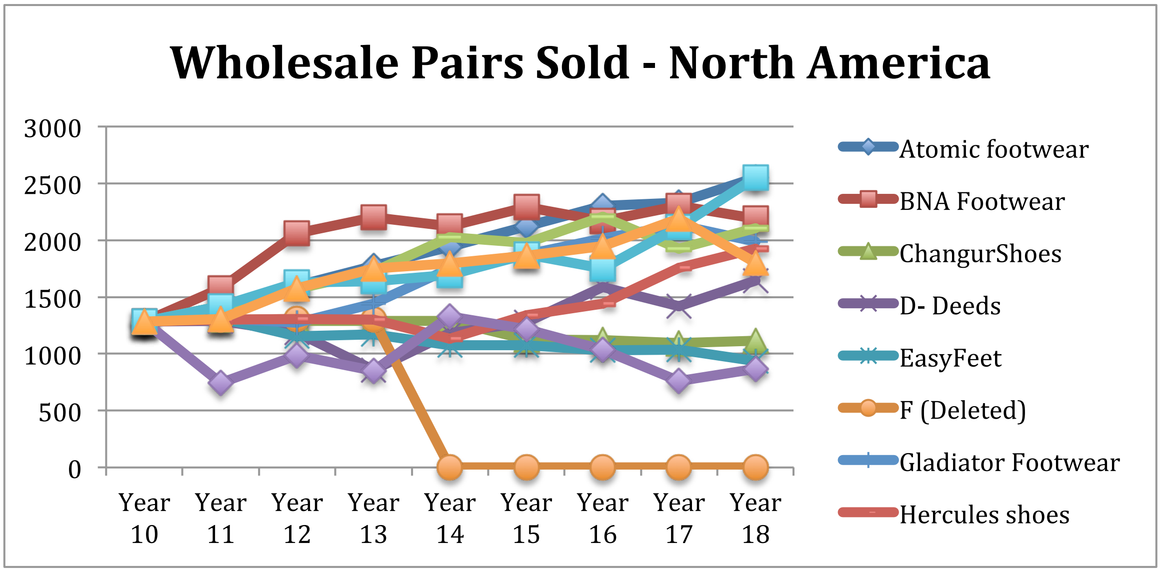


Figure 13: Wholesale Pairs Sold – North America

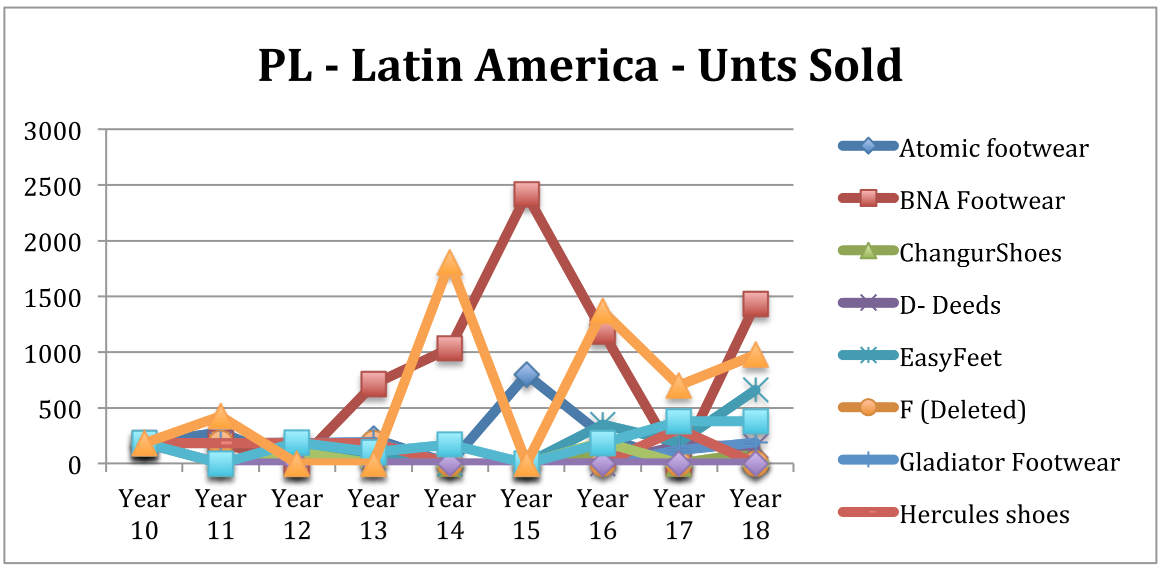


Figure 14: PL – Latin America - Units Sold

The Competitive Advantage Test

The competitive advantage test is a strategy that can attain a sustainable or durable competitive advantage (Thompson, 2011). Durable or sustainable means that while using the strategy the company is able to maintain excellent results over a period of time verses just having a brief moment of success before experiencing a major dip in performance. As mentioned before, BNA had the same strategy as the leading competitor and trailed the leading performer throughout the simulation. Through all years BNA had the highest net revenue and in the last two years BNA surpassed Atomic Footwear in net profit. Furthermore, net revenue and profits had a continuing upward trend while the debt-to-assets ratio continually decreased and the current ratio continually increased or maintained stability. BNA meets the Competitive Advantage test fully.

The Performance Test

"Two kinds of performance indicators tell the most about the caliber of a company's strategy: (1) profitability and financial strength and (2) competitive strength and market standing. Above-average financial performance or gains in market share, competitive position, or profitability are signs of a winning strategy" (Thompson, 2011).

BNA had the highest net revenue and profit in year 17 and 18. Also, its debt-to-asset ratio was the same as the leading competitor according to the balanced score card or 27 percent. However, BNA's current ratio was 2.92 in year 18 when the industry average was 4.44. The difference in the current ratios is an indication that BNA had to spend a lot more money then its competitors to achieve its outstanding results. However, the continued upward trends in net revenue and profit as well as the continued decreases in costs is a sign that BNA passes the performance test.

Value Chain Analysis

"Value-chain analysis looks at every step a business goes through, from raw materials to the eventual end-user. The goal is to deliver maximum value for the least possible total cost" (Investopedia - Value Chain, 2014). BNA Footwear took the value chain analysis to heart during the simulation. As you will see in figure 15 BNA continually decreased it operating costs throughout the simulation. Also, shown in figure16, BNA increased the its footwear to a 7-star rating by the 3rd year.

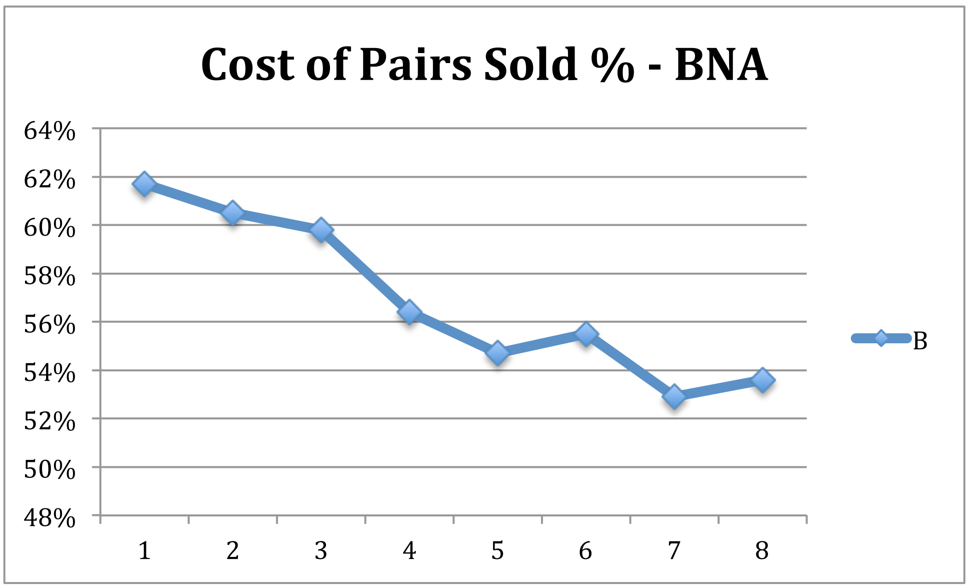


Figure 15: Cost of Pairs Sold - BNA

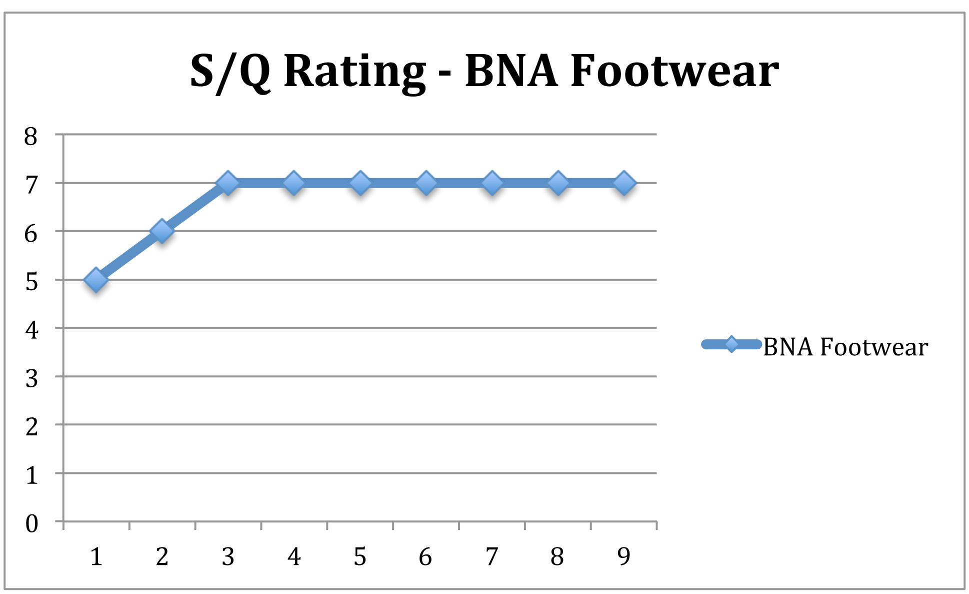


Figure 16: S/Q Rating – BNA Footwear

The 7-star rating was above industy average which was 6-star. Selling quality footwear at nearly the lowest cost was two ways that BNA added value to its business and economy.

BNA Footwear was able to achieve its low costs by first decreasing the amount of superior materials used and increasing the in amount of money that was spent on enhanced styling/features. In the simulation, when 50 percent or more of a shoe used superior materials the cost of superior materials went up. Half of all the industry was using more than 50 percent of superior materials to achieve a 7 start rating or higher. Therefore, it was cheaper to max out the amount of money BNA could spend on styling/features and decrease the amount of superior materials used and still reach a 7-star rating.

Another way that BNA was able to decrease the cost of its products was to decrease TQM/Six Sigma training to 40 cents in America and 10 cents in Asia while at the same time increasing best practices training to maintain the 7-star S/Q rating. The best practices training was cheaper and it increased the value of our employees.

A third way BNA decreased costs was by being aware of exchange rate changes. Often in the simulation, shipping and selling to Latin America was extra profitable one year then the next it was mediocre to an option that lost the company money. If an exchange rate was unfavorable, BNA decreased its marketing costs in Latin America (i.e. advertising) and sold increased marketing efforts in another market segment that generated a better net profit. The same was done in the private label sector.

Fourthly, BNA wanted to have optimal demand but did not want to pay a ton for celebrity appeal. The strategy was set forth to pay at the max 1.5 million for every year that a contract was viable with a celebrity. For example, if contract with Opera Winfrey lasted for 2 years the most that BNA would pay was 3 million. BNA would add on an extra 6 dollars to win the bid if someone else also bided the same amount. Priorities were set for all bids with a maximum bid allowance so BNA did not spend to much on celebrity contracts and thus increase the cost of each shoe sold. On average BNA was able to keep an over 100 appeal in all markets and spend under $1.00 per a pair of shoes to maintain the over 100 appeal.

Important Issues

The very first year BNA under produced capacity from management error. Starting in the second year BNA management produced 30 to 50 units of capacity over the forecasted demand. The extra stock helped BNA not to stock out but was not so excessive that it hurt the company if the forecast was not as accurate as perceived.

In the first few rounds BNA was just trying to make sure that it had the capacity to meet whole sale and internet demand. However, by the third round BNA management noticed the untapped potential in the private label sector. Meaning there was more demand than units that were being offered. Therefore, BNA decided to continue with is increase of400 units in Asia and 400 units in North America but also sought all opportunities to purchase capacity at a discounted price if competitors sold any. BNA was able to purchase capacity sold buy competitors 3 different times adding nearly 2,500 unit of capacity. Since the purchased capacity from competitors was not needed to meet wholesale demand it was used to invest in the private label sector. In total BNA was able to sell an additional 17,098 units in the private sector throughout the eight years at an average price of $33.19. Add it all together and that was nearly an extra $600,000 in revenue.

In the first year BNA sold 1,000 shares of stock to pay for purchased capacity. However, this sale of stock decreased the company's Earnings per a share dramatically. To increase earnings per a share (EPS), BNA started to purchase back stock every year. By year 18 BNA had the third lowest amount of outstanding shares and the second highest EPS. Through buy treasury stock and sticking to its strategy approach BNA was able to become a formidable opponent in the Footwear industry. In fact, if BNA would not have bought the initial 1,000 shares of stock in the first year its EPS and ROE would have most likely been higher than that of Atomic Footwear.

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