Isaac

Below is my take on what needs to work (that at last meeting didn’t work) at the 28th Game Play with the School

**LEGACY GAME**

1. All functions ‘hooked’ up to the
   1. Accounts
   2. Three indexes (competence, stress, adaptability, legitimacy)
2. The Accounts internal formulae completed to make a full set of accounts and timing of data appearance fixed
3. ACTIONS: the rest of the Actions inserted with data hooked to indexes and accounts
4. Make sure money can be transferred from LegacyCo to NewCo through INTRACOMPANY ACCOUNTS
5. Workforce starting sizes each period – is Adjusted Workforce from prior period
6. Legitimacy index completed and embedded in market share calculator (SEE NOTE BELOW)
7. Check LAGGARDS included in market calculation in period 7
8. Resource acquisitions (least important is CALL CENTRE)
9. PLUS IF POSSIBLE:
   1. Trial balance – I will specify later – not complex but may be tedious
   2. Graphs
   3. Pre-periods reflect number of competitors
   4. DASHBOARD – see separate note

**NEWCO**

1. All functions hooked up
   1. Negotiation 1: I WILL CHECK YOUR LATEST VERSION TOMORROW
   2. Visionary competition with ‘survey’ format (see earlier note)
   3. Negotiation 2
   4. Niches and the same basis growth logic as LegacyCo
2. Accounts internal formulae complete
3. ACTIONS most are same as the LegacyCo
4. Workforce as per LegacyCo
5. Make sure money can be transferred from AND TO LegacyCo to NewCo through intracompany accounts
6. Legitimacy index – see separate note
7. LAGGARDS in period 7
8. PLUS IF POSSIBLE
   1. Trial balance
   2. Graphs
   3. DASHBOARD: see separate note

**LEGITIMACY INDEX**

The legitimacy index is used to weight the MARKET SHARE CALCULATOR. IT IS ONLY INCLUDED ACTIVELY IN THE GAME IN THE LATER PERIODS WHERE WE SIMULATE RUNNING UP THE GROWTH CURVE

The legitimacy index has two parts:

* The ‘basic’ index, which is specified below
* The ‘enhancements’. These are derived from resources acquired etc. and are multipliers of the ‘basis’ number. These enhancements are carried over from period to period. My suggestion: create a cell in the database and start it with 1. Each time an ‘enhancement’ is specified apply it this cell. Enhancements are not niche specific I believe. Then each period take the ‘basis’ legitimacy number and multiply it by the ‘enhancement’.

The below discussion specifies the number of customers. In my original data sheets I specified the NewCo niches in terms of customers and prices and so potential revenue. I do not know if you included that detail. If not then substitute the revenue gained for customers in the legitimacy calculations

**NewCo**

* Period 1: nothing in the index
* Period 2: index size is a function of the visionaries you managed to win and is NICHE-SPECIFIC. If you get both visionaries in a niche then add the legitimacy number
* Period 3: static. Nothing happens
* Period 4: entry basic legitimacy index is as per period 2 – function of visionaries by niche
* Period 5: entry basic legitimacy index is the number of customers gained in a niche in the prior period (or the revenue substitute). This number is increased as follows:
  + The base legitimacy index for niche A is augmented by any customers gained in niche B
  + The base legitimacy index for niche B is augmented by any customers gained in niche C
  + The base legitimacy index for niche C is augmented by any customers gained in niche A
* Period 6: entry base legitimacy index is the cumulative number of customers gained in ALL NICHES. If using revenue it is the revenue from period 4 and 5 added together
* Period 7: entry number is cumulative customers or revenue
* Period 8: not relevant

**LegacyCo**

* Period 1: not relevant
* Period 2: not relevant
* Period 3: not relevant
* Period 4: not relevant
* Period 5: the market and niche data specify a STARTING LEGITIMACY NUMBER that may vary by niche.
* Period 6: entry base legitimacy number is the number of customers or revenue gained in the prior period by niche. If using revenue it is the revenue from period 4 and 5 added together This number is increased as follows:
  + The base legitimacy index for niche A is augmented by any customers gained in niche B
  + The base legitimacy index for niche B is augmented by any customers gained in niche C
  + The base legitimacy index for niche C is augmented by any customers gained in niche A
* Period 7: entry base legitimacy index is the cumulative number of customers or revenue gained in ALL NICHES.

This whole logic is specified in detain in the NICHES / MARKET FILE that I am including.

**DASHBOARD**

The objective of this dashboard is to summarize the highest level data.

The heart of it is the valuation of the companies: in total and by number of issued shares

* Total valuation
* Share price

LegacyCo and NewCo are valued separately and then added for a consolidated valuation

Each company valuation is based on three sets of performance measures:

* Market performance
* Managerial performance
* Financial performance

Each of the above sets are comprised of sub-measures

* Market: market share by offering
* Managerial performance: the three indexes
* Financial performance: return on sales, return on assets, net cash generated

The data for each of these has already been calculated.

To value the company we use the following procedure:

1. Each sub-measure is calculated for each performance category
2. Each sub-measure is ranked against all competitors. So a market share of 50% is rank 1 if the other players have 25%, 13% and 12%. This logic applies in all cases
3. The ranks are then reversed. So if there are five competitors and you have the lowest ranking of 5 it becomes a 1, of 4 becomes a 2, of 3 becomes a 3, of 2 becomes a 4, and of 1 becomes a 5. The objective is for the best to have the highest rank number
4. The new reversed rank numbers are then added together for all sub-measures
5. The highest total is now our baseline. And all other players are expressed as a percentage of the highest. So if the highest has a total of 22 (say) and the second has a total of 12 and the third total of 8 then the percentages would be (1) 100%, (2) 55%, (3) 36% etc.
6. We now move on to creating a dollar valuation, this is done as follows:
   1. A price/earnings ratio is applied to each period for the leading player
      1. Legacy: periods 1-4=20; periods 4 = 10; period 5 to end = 50
      2. NewCo: periods 1-3=no ratio; period 4 to end =50
   2. If a player has 100% it gets the highest p/e ratio; each of the others gets their percentage of the highest. Example from above (1) gets 100%: if the p/e is 50 this would be 50. (2) gets 55% of 50 which is 27.5. (3) gets 36% of 50 which is 18.
   3. Nearly finally we value the business in dollar terms by getting each company’s EBIDA from the Accounts and multiplying it by the above numbers. So if (1) had 100 and an EBITBA of $1,000,000 it would have a value of $50m. If (2) has 27.5 and (by chance) the same EBIDA it would be valued at $27.5m and (3) would be $18m.
   4. Finally, at present all three players have 100,000 issued shares. Each company is treated as if it had 100,000 so to find the share price of LegacyCo and NewCo we divide the appropriate value by 100,000. So in our case above, (1)=$50m / 100,000 which is $500 per share and (2) would be $275 per share.

I know this seems complex but it really isn’t. the only complicated bit is reversing the ranking of the numbers.

**FORMULAE**

Return on sales = EBIDA as percentage of total revenue

Return on Assets = EBITDA as percentage of TOTAL ASSETS

Net Cash Generated = CHANGE IN CLOSING TOTAL CASH POSITION FROM PRIOR TO THIS PERIOD

MARKET SHARE – OBVIOUS

INDEXES – OBVIOUS

**TRIAL BALANCE**

This idea is that people have a restricted amount of money to spend an cannot simply go into debt.

The formula is as follows

TRIAL BALANCE EQUALS % OF TOTAL GROSS MARGIN IN PRIOR PERIOD. THE PERCENTAGE SHOULD BE ADJUSTABLE AND SHOULD START FOR BETA TEST AT 75% (ALLOW IT ALSO TO VARY BY PERIOD)

EACH TIME DURING A PERIOD THAT THE PLAYER SPECIFY AN EXPENDITURE THIS IS DEDUCTED FROM THE TRIAL BALANCE.

VERY IMPORTANT

There are lots of items that could be deducted. However only TWO that truly matter.

* Workforce wages etc.
* Discretionary expenditure

IF YOU CAN DO THIS FUNCTION IN TIME I SUGGEST YOU RESTRICT THE HOOK-UPS TO THE ABOVE TWO ONLY

I ALSO SUGGEST THAT YOU PUT THE TRIAL BALANCE ON TO THE BOTTOM BLUE LINE LIKE YOU DID WITH THE RESTRICTION MESSAGE LAST WEEK