



# MikesBikes-Advanced Quickstart Guide

Revision D



# MikesBikes-Advanced Quickstart Guide

**MikesBikes-Advanced (MB-A)** is an Online Business Simulation that will give you the opportunity to run your own company, managing all the key functional areas of a Firm. It is used as an interactive tool to enhance the integration and learning of the basic concepts of business in a real life context. You will get hands on experience at making critical price, marketing, operations, product development, and financial decisions.

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## Getting Started

- 1 Read this Quickstart Guide in full. It contains hints and tips to get you started.
- 2 Read the MikesBikes Advanced Player's Manual
- 3 When you are ready to access your MikesBikes company, go to [www.smartsims.com](http://www.smartsims.com) and log in using the login and password which has been emailed to you by Smartsims. If you do not have a login and password, email [help@smartsims.com](mailto:help@smartsims.com) to request this.
- 4 We strongly recommend viewing the Tutorial Videos as these demonstrate how to formulate and enter your decisions for each year of the simulation.
- 5 To open your company, click on the "MikesBikes Intro" menu, then click the blue launch button.

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## Single-Player vs Multi-Player

The MikesBikes-Advanced Single-Player allows you to practice against a single computer controlled competitor. You are able to roll forward into the next decision period / year, or roll back as you wish in order to test and change your decisions. Your primary goals are to familiarize yourself with the simulation and to maximize your Shareholder Value (SHV).

In the Multi-Player you will compete against other student teams in your class to create the highest Shareholder Value. Moving from one year (decision period) to the next is done by automatic rollover on dates scheduled by your instructor. Before each of these decision deadlines, your team must have their decisions entered for the upcoming year.

The Multi-Player has more competitors, more market segments, higher demand, and more distributors than the Single-Player, but otherwise looks the same as the Single-Player.

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## Your Goal – Creating Shareholder Value (SHV)

As the Managers of your MikesBikes company, your primary goal is to provide a return to your shareholders (owners) on their investment in your company. The measurement of this total return to shareholders is known as Shareholder Value (SHV). So, the success of your company is measured by the amount of SHV you can create in comparison to your competitors.

Shareholder Value is your company's current Share Price, plus all past dividends paid, plus interest accumulated on these past dividends (if you never pay dividends then SHV is the same as Share Price). This gives us the value to an investor of owning a single share in your company over time.

Your Share Price is mainly driven by:

- **Profitability and Earnings Per Share (EPS)**

For example:

Firm A has 2 million shares issued and made \$1 million profit, EPS = \$0.50

Firm B has 20 million shares issued and made \$10 million profit, EPS = \$0.50

Firm C has 2 million shares issued and made \$2 million profit, EPS = \$1.00

- **Debt to Equity (D/E) Ratio**

A higher D/E ratio means higher risk which results in a lower share price

A lower D/E ratio means lower risk which results in a higher share price

*The Industry Benchmark report under Key Reports shows how you are performing relative to your competitor(s).*

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## Decision Areas

All of your decisions will have a direct or an indirect effect on Shareholder Value. The 5 major areas you will make decisions in are:

- **Product Marketing**

The marketing mix for each of your products, including design, price and promotion.

- **Firm Marketing**

The branding budget and distribution strategy for your firm.

- **Operations Management**

Various operations management decisions including the capacity and quality strategy of your firm, plus how many of each of your products to produce.

- **Design and Development**

Decisions about developing and modifying your products to suit the needs of the marketplace.

- **Finance**

Decisions about how to finance your firm, such as whether you want to increase debt or equity, dividend decisions, and takeover strategies.

In a typical year you will review your previous year's performance by reading the various reports available to you then formulate a set of decisions based on this data. You will then enter your decisions in each screen based on your analysis.

If you are using the Single-Player, then use the Rollover and Rollback buttons to see what effect your decisions will have. When you are using the Multi-Player you will have to wait until the next scheduled decision deadline / rollover before your decisions will be processed.

## Market Segments

MikesBikes Advanced has five different market segments:

- **The Adventurer Segment**  
Broadly typified by the young suburban bicycle purchaser who wishes to buy a mountain bike. Usually prepared to pay more for a reliable product that suits their specific needs.
- **The Commuter Segment (Multi-Player Only)**  
Consumers who require a bike purely as a means of transport. They place a great deal of emphasis on reliability and comfort, with price being more of a concern than performance or of buying a well-known brand.
- **The Kids Segment (Multi-Player Only)**  
A large segment with the primary requirements of purchasers being that their bike has to be durable but also relatively inexpensive, while having the best image on the block.
- **The Leisure Segment**  
This market is made up of those who own a bike but only use it once or twice a month. Their bike is seen primarily as a means of relaxation or leisure, so comfort and style are important.
- **The Racer Segment (Multi-Player Only)**  
Dominated by those who view cycling primarily as a competitive activity. The typical racer owns at least two bikes and demand high performance with leading edge technology, therefore will pay a top price for the right bike.

Each of these segments has unique customers with different product preferences, price sensitivities, and shopping habits. Depending on the segment, demand for a product can be determined by Product Attributes (Style and Technical Specs), Price, Product and Brand Advertising, Product Quality, Distribution Coverage, Delivery Lead Time, and how your products compare to your competitors.

*See the Market Information Report under Key Reports for more details about each Segment's preferences.*

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## Promotion

*Advertising and PR decisions are found under the Products Menu*

*Branding decisions are found under the Distribution and Branding Menu*

There are three types of promotion available to you:

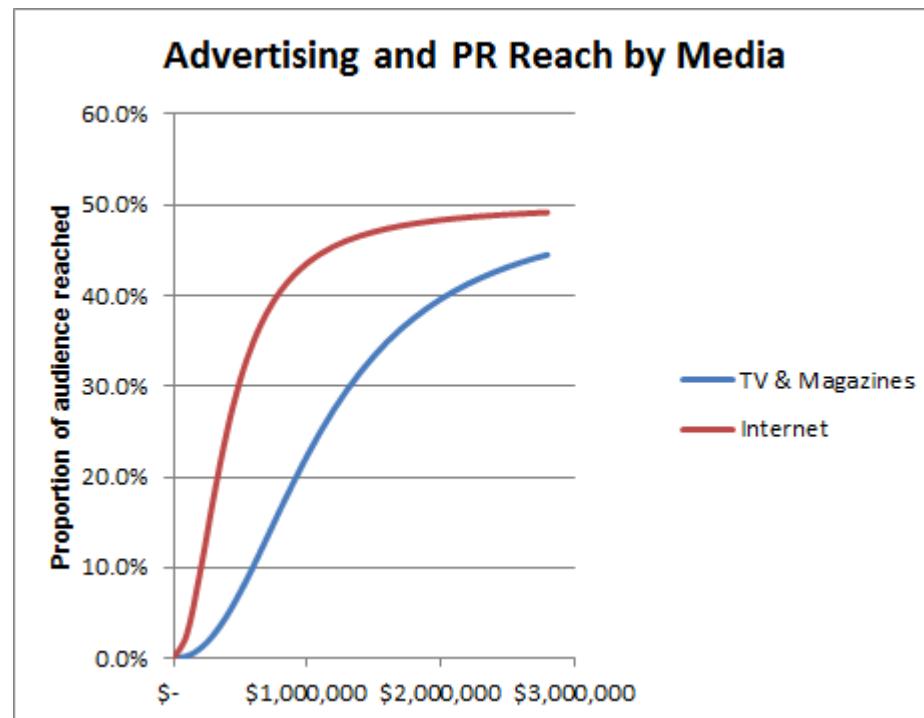
- **Product Advertising**
- **Product Public Relations (PR)**
- **Brand Advertising:** Brand advertising increases the effectiveness of product advertising and results in increased product awareness. This is especially cost effective when your firm has multiple products in the market.

Within Product Advertising and Public Relations, there are three media choices available to you:

- **Television (TV)**
- **Internet**
- **Magazines**

## Advertising and PR Reach and Media Viewing Preferences

Each media choice offers different performance in terms of reach, ability to target, and cost.



The above Advertising and PR Reach chart shows the proportion of each media audience that can be reached with various levels of Advertising and PR spending.

For instance, \$2m spent on TV or Magazine advertising could reach around 40% of the potential TV or Magazine audience, whereas \$2m spent on Internet advertising could reach around 48% of the potential Internet audience.

However you also have to consider what proportion of your target markets actually use each media channel.

Media Viewing Habits					
Segment	TV	Internet	Magazines	Sensitivity to Advertising	Sensitivity to PR
Kids	70%	20%	20%	High	Low
Racers	10%	40%	60%	Low	High
Commuters	50%	20%	10%	Med	Low
Leisure	60%	30%	20%	High	Low
Adventurers	40%	30%	50%	Med	Med

Note: Because people watch/read more than one media channel, the rows can add to more than 100%

So lets look at the above example again and assume we have a \$2m advertising budget to spend targeting the Adventurer market segment.

50% of the Adventurer segment read magazines. So our \$2m spend would reach approximately  $40\% * 50\% = 20\%$  of the Adventurer segment.

But only 40% of the Adventurer segment regularly watch TV. So our \$2m spend would reach approximately  $40\% * 40\% = 16\%$  of the Adventurer segment.

And only 30% of the Adventurer segment are reachable via Internet advertising. So our \$2m spend would reach approximately  $48\% * 30\% = 14.4\%$  of the Adventurer segment.

So from that, you might think that your best use of your \$2m product advertising budget is to spend it all on Magazines.

But maybe we can do better than that still. What happens if we spend half on Internet, and half on Magazines?

If we spent \$1m on Internet we could reach approximately 43% of Internet viewers. And 30% of the Adventurer segment is reachable via Internet advertising. So we could reach approximately  $43\% * 30\% = 12.9\%$  of the Standard segment.

If we spend \$1m on Magazines we could reach approximately 23% of Magazine viewers. And 50% of the Adventurer segment reads Magazines. So we could reach approximately  $23\% * 50\% = 11.5\%$  of the Adventurer segment.

So together, our \$2m budget spent half on Internet and half on Magazine advertising would reach approximately 24.4% of the Adventurer segment. This is obviously a better use of our advertising budget than the first three options.

*Note: You should read the Market Information report under Key Reports for more detailed information on the preferences of the market segments.*

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## Distribution

*Found under Distribution & Branding Menu*

Here you can enter your retailer margin and sales promotion support budgets for each retail channel. The number of stores that will stock your products will depend on the total return that you offer distributors in combination with your level of consumer demand. Total return to stores is made up of retail margin, extra support, and unit sales history.

Extra support is useful for achieving a short term boost in distribution coverage, e.g. to coincide with a new product launch. The Retailer Margin indicates the percentage of a product's retail selling price that the retailer receives as commission for selling that product.

All retailers stock all bikes but most customers will shop at one of the three types of stores depending on which type of bike they are looking to purchase. The proportion of consumers purchasing from each retailer (by market segment) is given in the Market Information report under Key Reports.

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## Manufacturing Process

*Found under Manufacturing->Process*

Here you can enter your desired plant size and workforce, and also determine process decisions including batch size, setup time reduction expenditure, supplier relations and raw materials inventory.

**Plant size** and **Workforce** can be adjusted to increase or decrease your factory capacity in terms of SCUs (standard capacity units). Adjustments of worker numbers will be effective immediately; however plant size adjustments take one period/year to come into effect.

**Batch size** reflects the average batch size used within the factory. Larger batch sizes will proportionately reduce the number of setups and hence increase available capacity. However this comes at the cost of increasing production lead time and possibly decreasing delivery performance. A balance must be found which fits with the overall strategy of the firm.

**Set up time reduction** investment will reduce the amount of time spent setting machines up and hence increase effective capacity.

**Supplier relations** investment includes expenditure directed towards negotiating single source contracts, providing suppliers with forecast demands and educating suppliers in JIT and TQM techniques. Benefits include reducing line stoppages due to the unavailability or inadequate quality of purchased products, and reducing the defect rate of production

**Raw materials** inventories provide a buffer to protect against unreliable suppliers to ensure there are sufficient materials to cover late deliveries. Increasing supplier relations expenditure will make suppliers more reliable and allow you to hold less raw materials inventory.

## Quality

*Found under Manufacturing->Quality*

We separate quality into 2 components - internal and external quality.

A high level of internal quality is attained through motivation and training of people, maintenance of machines, good supplier relations and systems which monitor quality ("quality systems"). This corresponds "quality at the source", and to the techniques of Total Quality Management (TQM).

External quality is the quality that the customer sees and could be a result of internal quality or it could be simply the result of extensive inspection at the end of the process. (While the customer does not care how they get quality, external quality is usually much more expensive due to the rework involved.) Different market segments expect different levels of quality. See the Market Information Report under Key Reports for more information regarding this.

## Finance

*Found under Finance menu*

**Equity:** Here you are choosing to issue/repurchase shares in your firm, or pay dividends to your firm's shareholders. Issuing shares is a method of raising capital for investment (e.g. product development, or plant purchase) though this will have a negative effect on your SHV. Repurchasing shares will increase the demand for these and result in a positive effect on SHV. Dividends are income payable to shareholders, shown as dollars per share. Dividends are optional and at the company's discretion, but they do have a positive effect on SHV.

*Note: The maximum amount of capital a firm can raise in a given year is 50% of its market value. Similarly, in any given year a firm can only repurchase shares worth 10% of current market value.*

**Debt:** Raising debt is often the easiest way to get money, however it can be expensive in terms of the interest charged. The higher the debt/equity ratio of the organization, the more risk it is perceived to have by investors and the higher the interest on any further borrowing. Also the banks will refuse to loan you any more money once your D/E ratio is > 3.

**Investor Relations:** This is a periodic allocation of funds specifically intended to raise the public profile of the firm amongst the investment community. The firm retains some benefit from previous periods' expenditure, but ongoing spending is required to maintain a certain level of Investor PR and to increase it in accordance with its overall strategy.

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## Investments

*Found under Investments Menu*

**Takeovers** of other firms raises important issues related to considering shareholdings in other firms as strategic investments. Note: this is an optional feature and must be enabled by your Instructor.

**Making a Takeover Bid:** Since you must pay at least a 40% premium over current market capitalization to achieve a successful takeover, a takeover bid for a company will usually require a significant amount of cash. You will need to carefully evaluate this investment.

**Overseeing Owned Companies:** Once you have successfully taken over a company, you are responsible for making all its finance decisions. You will need to carefully monitor its financial health and decide when to withdraw dividends. You may sell your shareholding back to the share market at large (this takes one year during which you may not meddle in its affairs).

*See All Reports->Scenario Information->Takeover Rules and Regulations*

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## Development

*Found under Design and Development menu*

To release a new product or modify an existing product you must first develop a project. Each design project has a set of target product attributes and prime cost, as well as a project budget (which is always spent). The design project takes a year to complete - even if the targets are not completely met. At that stage the design may be used to launch or modify a product through the product screen.

We advise that each year you check the 'Perceptual Map' report each year under Key Reports as consumers preferences may change each year. The closer you get to the center of the segment circle the higher your demand. If your product leaves the circle customers will no longer purchase the product.

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## Production Flexibility

Your MikesBikes-Intro scenario **may** have 20% Production Flexibility built in.

To check, see *Reports -> Scenario Information -> Operations Information Report*. If your scenario has Production Flexibility activated, you will see a +/- 20% next to "Production Volumes flex according to demand". A figure here of zero indicates no Production Flexibility.

If activated, this means that your production figures become a target, and your factory can adjust production up or down by up to 20% to try to meet actual demand (assuming sufficient spare capacity). This reduces the impact of poor production planning decisions and reduces the likelihood that your Firm will become bankrupt.

For example: If you planned to produce 20,000 units of a bike then actual production could flex between 16,000 and 24,000 units to meet actual demand (again, provided you don't hit any capacity constraints).

*View the Product Summary report under Key Reports to compare Planned vs Actual production.*

## FAQs

*Help! My Decisions aren't being saved!*

- Make sure you always click the Apply or OK button after changing a decision
- Always check the Current Decisions report after entering your decisions to make sure you haven't missed anything.
- Make sure you are entering your decisions in the right place. Eg. If you are using the Single-Player, your Multi-Player decisions will not be updated. Similarly if you are using Offline Mode, your Multi-Player decisions will not be updated.

*Someone keeps changing my decisions! (Multi-Player)*

- Remember that you probably have 2-5 people assigned to your Multi-Player firm, and any one of them can log in and update the decisions. You should discuss with your team members who is responsible for actually updating your team's decisions to avoid confusion.
- Check if Production Flexibility is enabled for your simulation (see above)

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

Email: [help@smartsims.com](mailto:help@smartsims.com)

Website: [www.smartsims.com](http://www.smartsims.com)