

Introduction to MarkStrat: The Simulation

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Introduction to MarkStrat: The Simulation

Outline

- **Why we use MarkStrat**
- How we use MarkStrat
- Team time!

Why use a simulation?

Putting insights into action

The best way to learn about marketing strategy is through experience

- Marketing strategy is a dynamic process
- Success comes from applying strategic thinking to different situations
- Talking about marketing strategy is helpful but insufficient

Marketing strategy is best learned through experience

Accountability changes thinking and behavior

“Until you are accountable for it, you don’t really feel the pressure.
You learn through pain sometimes, and by trying things and making mistakes.”

- Raphael le Masne de Chermont
CEO, Shanghai Tang

How MarkStrat will do this

Putting insights into action

- It reinforces the core marketing frameworks, theories and concepts
- It is a way to actually experience the process
 - Formulating strategies
 - Developing plans
 - Executing
- It simulates the real world
 - Constraints are very real
 - Dynamics are close

How MarkStrat will do this

Putting insights into action

- The Markstrat industry is big and complex
 - 4 different companies
 - At least 8 different brands
 - Potentially two product categories
- It is a dynamic system
 - Lots of variables
 - Changing dynamics

For this reason, MarkStrat is not easy!

Just like in real life, marketing strategy is hard

- There are lots of variables
- Information is plentiful
- Uncertainty is high
- You have very talented competitors

Three key lessons MarkStrat should reinforce

Lesson 1:

Marketing strategy requires a general management approach

- Marketing strategy operates at a high level
- It has an impact on every function; every part of the organization

Three key lessons MarkStrat should reinforce

Lesson 2:

Marketing strategy is a lot harder than it looks

The Marketing Strategy Paradox

- Many marketing strategy frameworks and theories are not that complicated
- Many organizations struggle with marketing

Three key lessons MarkStrat should reinforce

Lesson 3:

It is all about profit and cash flow

- Ultimately the goal is to create long term value
- Short term profits and cash flow are a major concern
- A core marketing strategy challenge is balancing short term profits and long term business health

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- Why we use MarkStrat
- **How we use MarkStrat**
- Team time!

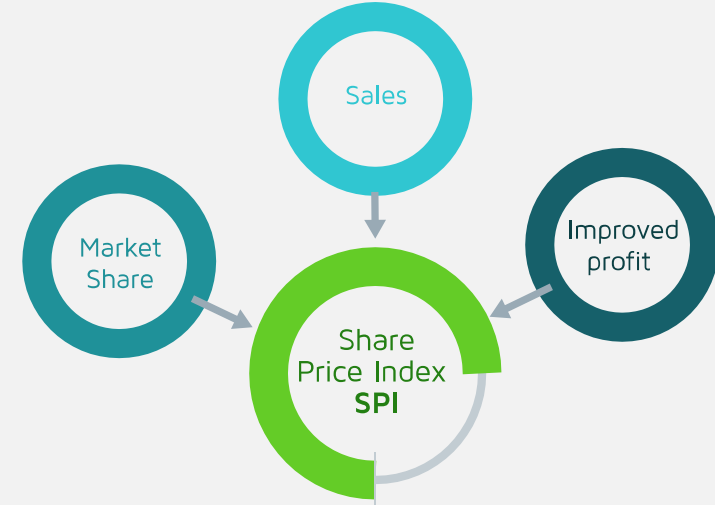
CONGRATULATIONS ON YOUR NEW POSITION

You have been recruited to manage the marketing department of the Electronics division of a large corporation:

- You will compete with several other firms to market two types of durable goods to consumers
- You will be responsible for formulating and implementing the long-term marketing strategy of your division

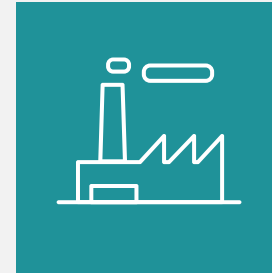
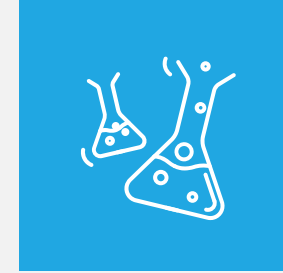
Your performance will be assessed each year on:

- Your business results – sales, market share gain and improved profit – are combined in a **Share Price Index (SPI)**



YOUR ROLE FOR THE NEXT 6 YEARS

- Work in a highly competitive market
- Target consumer segments and position your products
- Interface with R&D to design and develop new products
- Launch new products and improve existing ones
- Interface with the production department
- Make marketing mix decisions: pricing, advertising, ...
- Decide on the size and priorities of your commercial team
- Order market research studies to get up-to-date information for decision making.







THE MARKSTRAT WORLD

80 MILLION INHABITANTS:



40% URBAN
(top 5 cities)



25%
SMALLER
URBAN



35% RURAL

MARKET CONDITIONS:

- Large territory with a highly developed economy
- Inflation and GNP growth fairly stable and no major political, social or economic events are anticipated.
- Currency: Markstrat Dollar (\$)



4 COMPETING FIRMS EACH MANAGED BY A TEAM:

- All firms start in a different situation: Product specification, target consumers, brand awareness levels, market share, distribution coverage, profitability, R&D expertise, ...
- The marketing strategy of your firm should be adapted to its particular situation



ANNUAL BUDGET FUNCTION OF RESULTS:

All competitors operate under similar budget constraints, with annual budget granted as a percentage of past period profits.



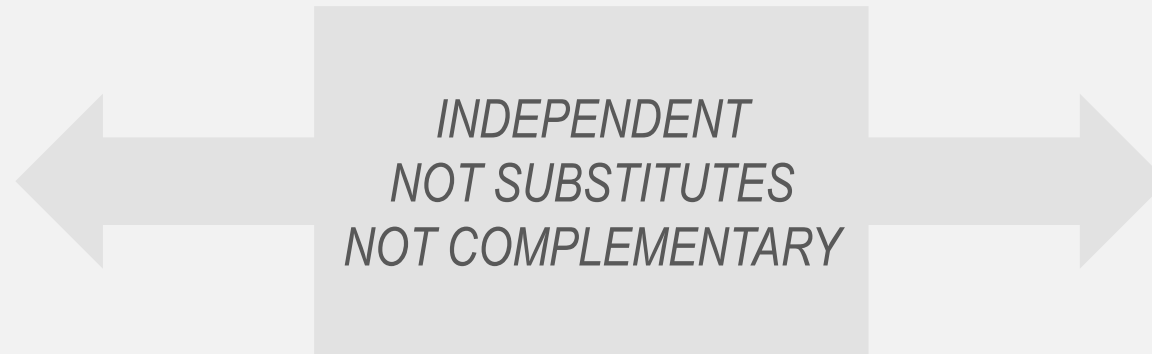


TWO PRODUCT CATEGORIES

You can market up to 5 brands in each category at a given time



SONITES



VODITES



SONITE PRODUCT ATTRIBUTES

Sonite brands are already marketed, each characterized by 6 main attributes



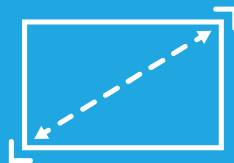
NUMBER OF
FEATURES
10 – 20



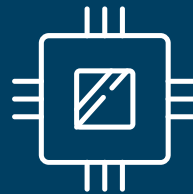
DESIGN
INDEX 3 – 10



BATTERY LIFE
24 – 96 HOURS (H)



DISPLAY SIZE
4 – 40 INCHES (")



PROCESSING POWER
5-100 GIGAFLOPS
(GFLOPS)

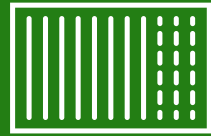


BASE COST
MINIMUM \$10



VODITE PRODUCT ATTRIBUTES

No Vodites exist yet. Experts believe that they will be characterized by



RESOLUTION
20 – 100 LINES/MM



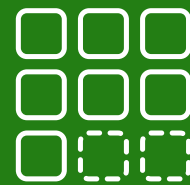
ENERGY EFFICIENCY
10–100 BIO
COMPUTATIONS/WH



CARBON FOOTPRINT
5 – 50 KG



CONNECTIVITY
INDEX 3 – 10



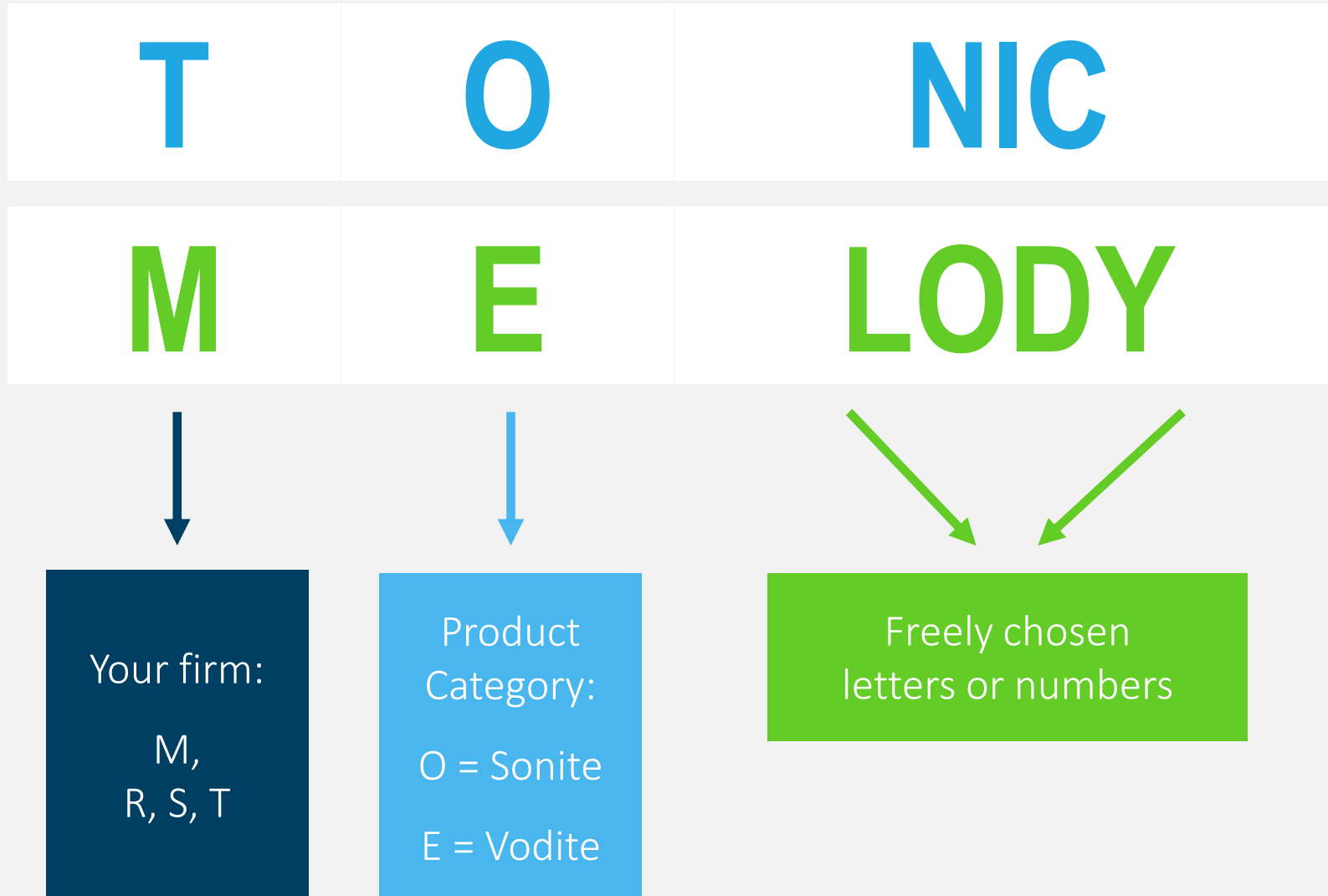
NUMBER OF APPS
5 – 100



BASE COST
MINIMUM \$10



BRAND NAME CONVENTIONS





SONITE CONSUMERS

EXPLORERS (Ex)



Highly interested in Sonite product
Demand high performance products
Quite price sensitive

PROFESSIONALS (Pr)



Personal and professional usage
Look for high quality, high-performance and easy-to-use products
Can afford expensive products

SHOPPERS (Sh)



Good product knowledge through extensive product comparison.
Demand high quality–price ratio
Quite price-sensitive.

SAVERS (Sa)



Cautious in the way they spend their money
Demand cheap, low-performance, average convenience products
Future growth rate could exceed forecasts.

HIGH EARNERS (Hi)

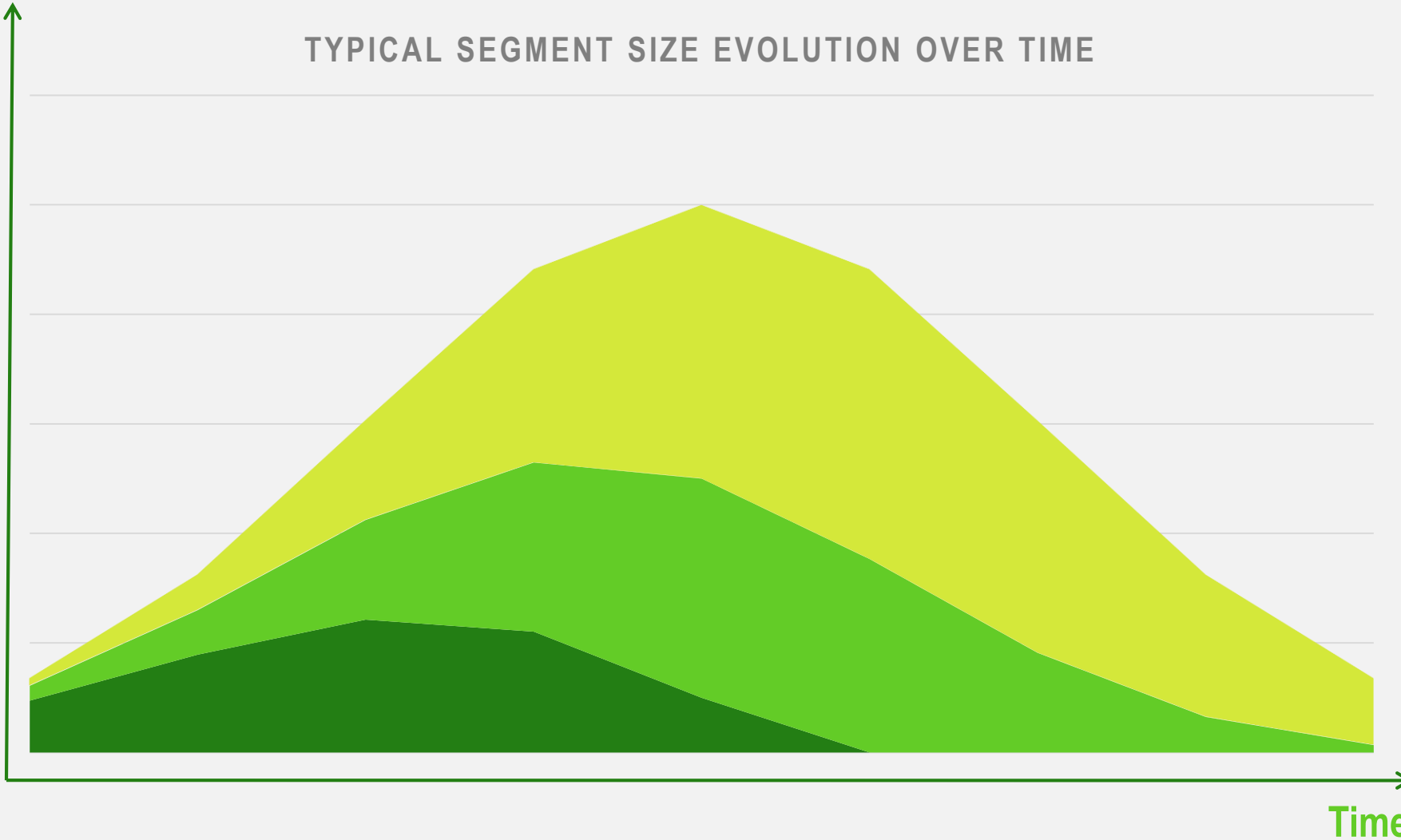


High income level
Demand performance and convenience
Purchase expensive products

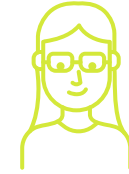
DIFFERENT SEGMENTATION SCHEME FOR VODITES

Sales

TYPICAL SEGMENT SIZE EVOLUTION OVER TIME



FOLLOWERS



EARLY ADOPTERS



INNOVATORS





DISTRIBUTION CHANNELS

SPECIALTY STORES



- Small stores not necessarily organized in chains
- Located close to their customers and providing a high level of service and technical support
- Broad product line including high-end products

MASS MERCHANDISERS



- Operate on a low-price, high-volume basis
- Lower level of service than in specialty stores
- Depth of product lines usually restricted to a few units
- Distribute the cheaper, low-performance products

ONLINE STORE



- Includes web-only merchants and retailers' websites
- Low but significant percentage of sales are done on the web
- High convenience as consumers shop from home
- Almost unlimited choice and easy comparison
- Likely to become more important in the next 5 to 10 years

1 THE
MARKSTRAT
WORLD

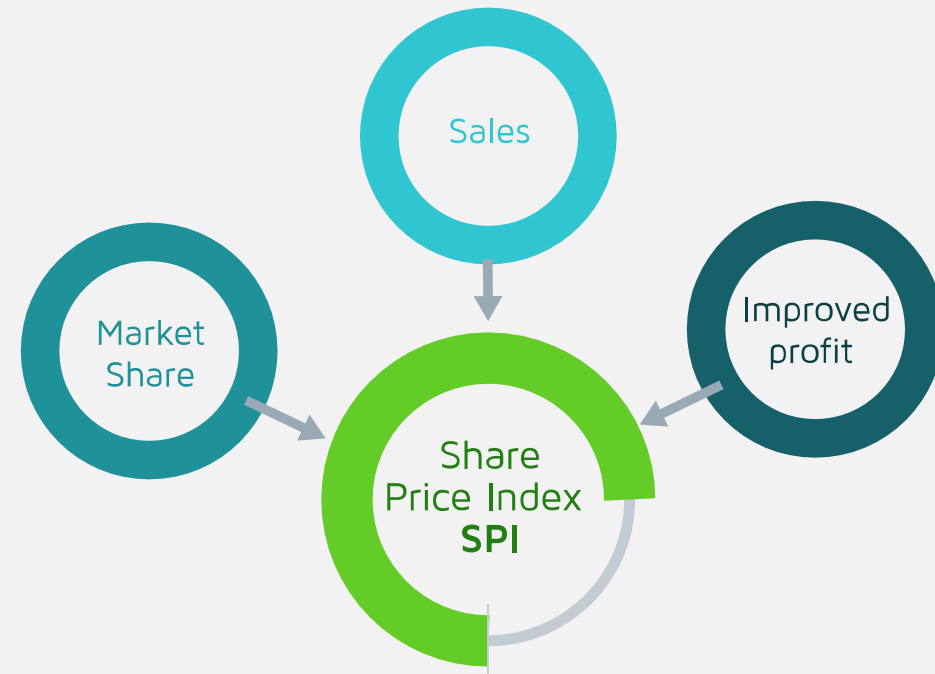
2 MANAGING
YOUR
FIRM

3 GETTING
STARTED



YOUR OBJECTIVE

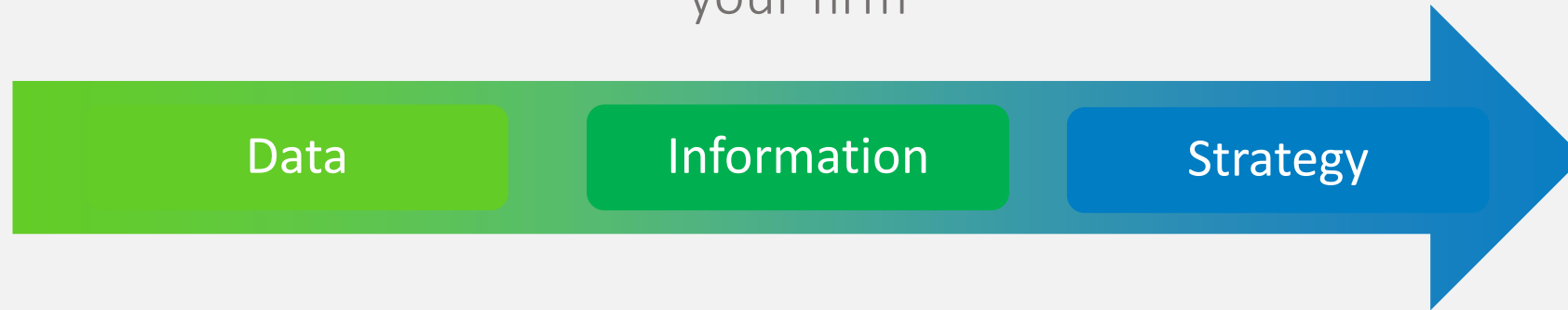
- Maximize your **Share Price Index**
- You will have to optimize:
 - Market share
 - Sales growth
 - Net contribution
 - Cumulative net contribution
 - R & D investments
- ...but the main objective is to **LEARN!**





FROM DATA TO STRATEGY

You will need to do a certain amount of analysis before setting a strategic direction for your firm



Conjoint analysis



Advertising and commercial team experiment



Competitive advertising & commercial team



Market forecast



Multi-dimensional scaling (MDS)



Semantic scales



Distribution panel



Consumer survey & consumer panel

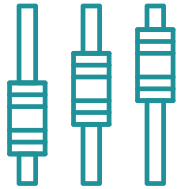


Industry benchmarking



TACTICAL DECISIONS PERIOD 1

MARKETING MIX



- Production planning
- Pricing
- Advertising & segmentation strategy

COMMERCIAL TEAM



- Size of commercial team
- Allocation across distribution channels
- Allocation across marketed brands

MARKET RESEARCH



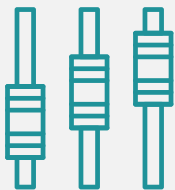
- Ordering industry-wide market studies
- Ordering market-specific market studies



PRODUCTION PLANNING

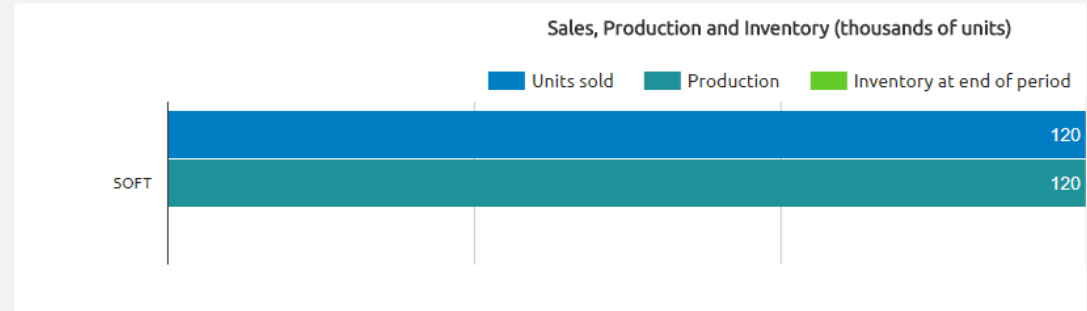
- A **production plan** must be submitted each period for **each brand**, taking into account:
 - The potential sales for the brand
 - The existing inventory at the beginning of the period
 - The flexibility of the Production department
- From one period to the next, production plans may be increased or decreased without any penalty
- Actual production levels are automatically adjusted in response to actual demand by plus or minus 20%

MARKETING MIX



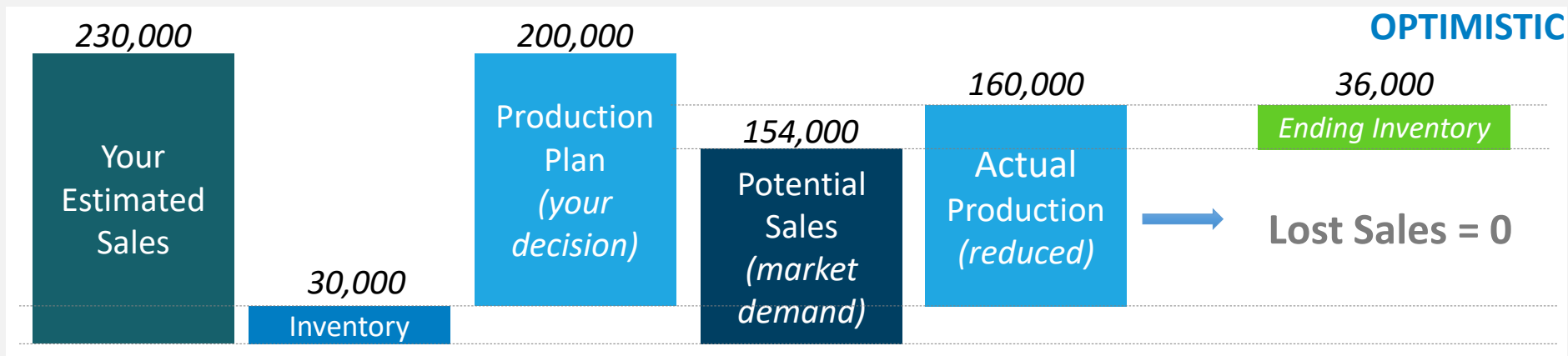
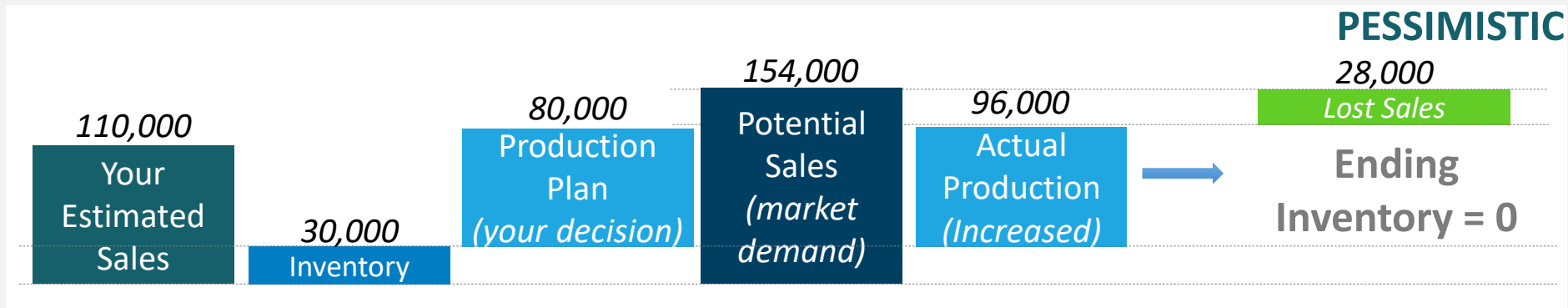
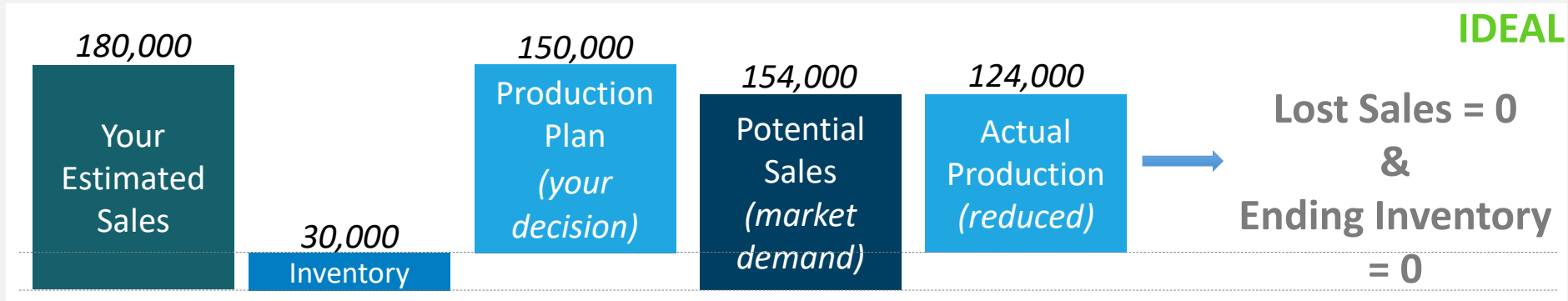
Production

Enter here your production plan in Units for SOFT.
120,000 units of SOFT were sold during Period 0.





SAMPLE PRODUCTION PLANNING DECISIONS





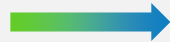
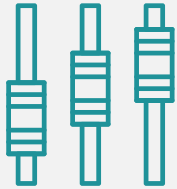
ESTIMATING LOST SALES

Comparing purchase intentions with market shares at the end of the period can give you a feel for how many sales you have lost



- Every year, you set the Recommended Retail Price in \$

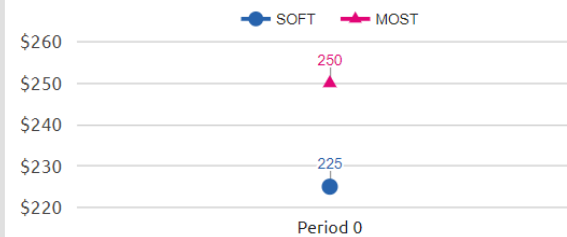
MARKETING MIX



Price

Specify the recommended retail price in \$ at which you wish to sell brand SOFT.
This is the list price for consumers.
This price was 225 in Period 0.

Competitor price evolution



Unit Margin	SOFT
Price	225
Average Distribution Margin	84
Average Selling Price	141
Base Cost (\$)	56
Unit Margin	85

- To **decide on a price**, you should take into account
 - The margin of the distributors
 - The discounts made by some channels
 - Consumers' expectations
 - Competitive prices
 - Etc...



SAMPLE PRICES AND CONTRIBUTIONS

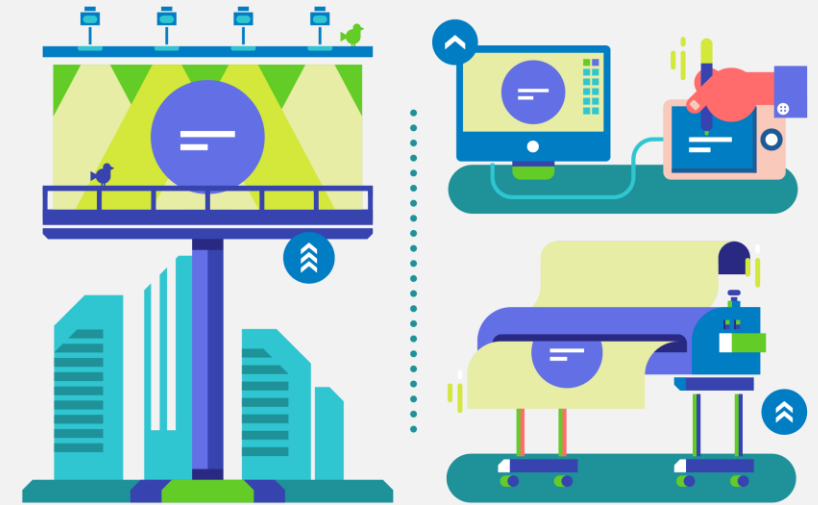
- Assuming a price of \$400 and a transfer cost of \$125

	Specialty Stores	Mass Merchandisers	Online Stores
Average Discount	None	10% – \$40	5% – \$20
Actual retail price	\$400	\$360	\$380
Distribution margin	40% – \$160	30% – \$108	30% – \$114
Selling price	\$240	\$252	\$266
Transfer cost	\$125	\$125	\$125
Unit gross contribution	\$115	\$127	\$141



ADVERTISING

- To build brand awareness
- To make consumers familiar with product characteristics and price
- To develop demand for the whole market
- To influence the decision of distributors to carry or not your products
- To create a barrier to entry for your competitors

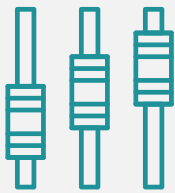


Media budget: to purchase media space and time

Research budget: to improve the quality / persuasive power of your message

Segmentation Strategy: Indicate which consumers should be targeted & normalize to 100% to save

MARKETING MIX



Advertising
Enter below your advertising media and research budgets for brand SOFT, in thousands of \$.
The advertising budget of brand SOFT in Period 0 was 2000.

Media
\$ 1,920 k

Research
\$ 80 k

Total
\$ 2,000 k



Indicate also how you want to allocate these budgets across consumer segments.

Explorers	Shoppers	Profs	High Earners	Savers	Total
10%	30%	10%	10%	40%	100%
					Normalize




COMMERCIAL TEAM DECISIONS

- You decide the size of your **commercial team** for each channel and brand
- Your **commercial team** is responsible for obtaining and entering orders, and for supporting distributors
 - Visiting stores, distributors and wholesalers
 - Enrolling customers in trade programs
 - Helping stores organize and conducting promotions
 - Taking orders and handling out of stock situations
 - Participating in trade shows



COMMERCIAL TEAM



	 Specialty Stores	 Mass Merch.	 Online Stores	Total
SOFT	<input type="text" value="5"/>	<input type="text" value="15"/>	<input type="text" value="10"/>	30
SOLO	<input type="text" value="5"/>	<input type="text" value="15"/>	<input type="text" value="10"/>	30
TOTAL	10	30	20	60



EACH FIRM RECEIVES A MARKETING BUDGET FOR THE COMING PERIOD

The budget amount is based on the previous period's performance

Budget, Expenditures & Deviation	
Authorized budget	\$ 16 100k
Capital borrowed	\$ 3 500k
Budget change	\$ 500k
Available budget	\$ 20 100k
Advertising expenditures	(\$ 4 538k)
Commercial expenditures	(\$ 2 483k)
Research & Development	(\$ 7 500k)
Market research studies	(\$ 602k)
Total expenditures	(\$ 15 123k)
Budget deviation	\$ 4 977k

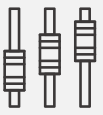
40% of previous year EBT, with a minimum of \$7m and a maximum of \$20m

Loan and budget increase/decrease granted by instructor

Total available budget

Expenses generated by your decisions

Deviation from budget. Should always be positive or equal to 0



UNDERSTANDING P&L

Company Profit & Loss Statement

The table below shows the evolution of firm R financial results in thousands of dollars, as well as the cumulative results since Period 0.

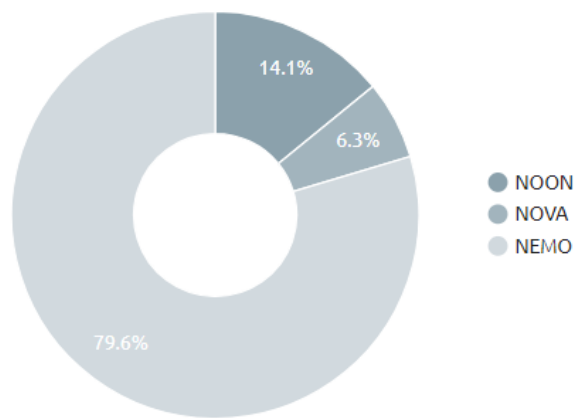
	Period 6	Period 5	Period 4
Revenues	244,301	252,137	121,519
Cost of goods sold	-96,340	-100,915	-60,858
Inventory costs	-3,211	-1,984	-3,210
Contribution before marketing	144,750	149,238	57,452
Advertising expenditures	-16,880	-10,723	-3,406
Commercial costs	-4,718	-3,520	-2,867
Contribution after marketing	123,153	134,996	51,178
Market research studies	-1,018	-542	-522
Research and development	-1,240	-2,350	-7,945
Loan reimbursed	0	0	0
Loan received	0	0	0
Loan interests paid	0	0	0
Exceptional cost or profit	0	0	0
Earnings before taxes	120,895	132,103	42,711



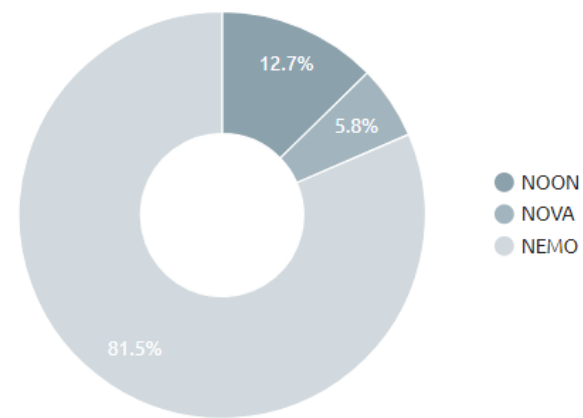
UNDERSTANDING BRAND CONTRIBUTION

	NOEXPLO Sonites	NOON Sonites	NOPRO Sonites	NOVA Sonites	NEMO Vodites
Revenues	26,494	199,394	12,170	88,526	1,126,802
Cost of goods sold	-9,897	-56,684	-2,251	-19,551	-240,573
Inventory holding cost	-341	0	-326	0	0
Inventory disposal loss	0	0	0	0	0
Contribution before marketing	16,255	142,710	9,592	68,975	886,229
Advertising media	-1,750	-3,000	-1,750	-3,000	-3,500
Advertising research	-250	-300	-250	-300	-500
Commercial costs	-1,324	-2,650	-1,325	-2,651	-3,183
Contribution after marketing	12,932	136,760	6,267	63,024	879,046

Revenues



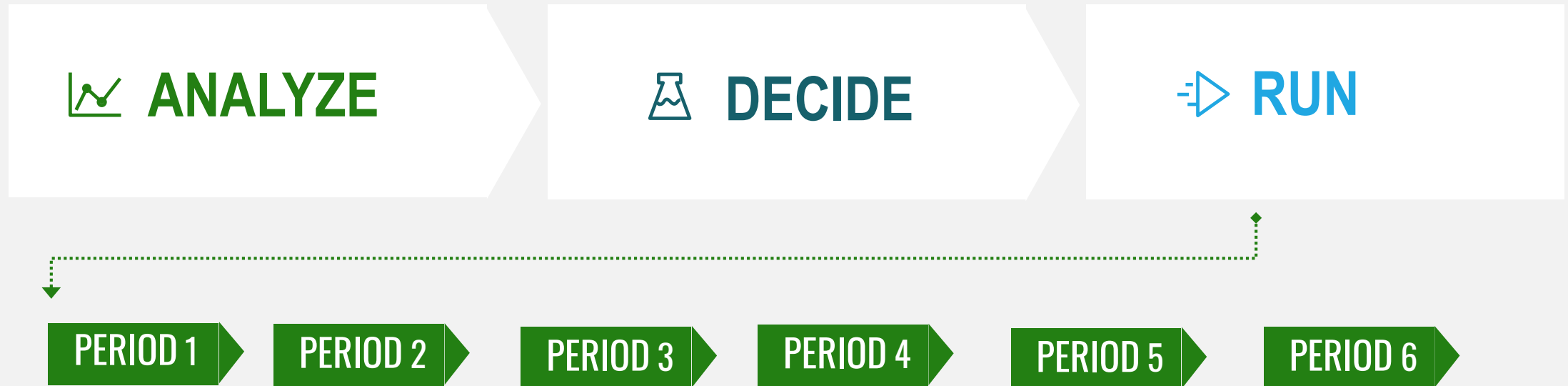
Contribution after Marketing



▶ GETTING STARTED

Ready to get started on your first year's decisions?

- Get familiar with Markstrat and with your teammates
- Do not make any major changes in your firm's operation in the first round!



MANAGE THE GROUP PROCESS



1 THE
MARKSTRAT
WORLD

2 MANAGING
YOUR
FIRM

3 GETTING
STARTED

ACCESS THROUGH WEBSITE OR DIRECT URL



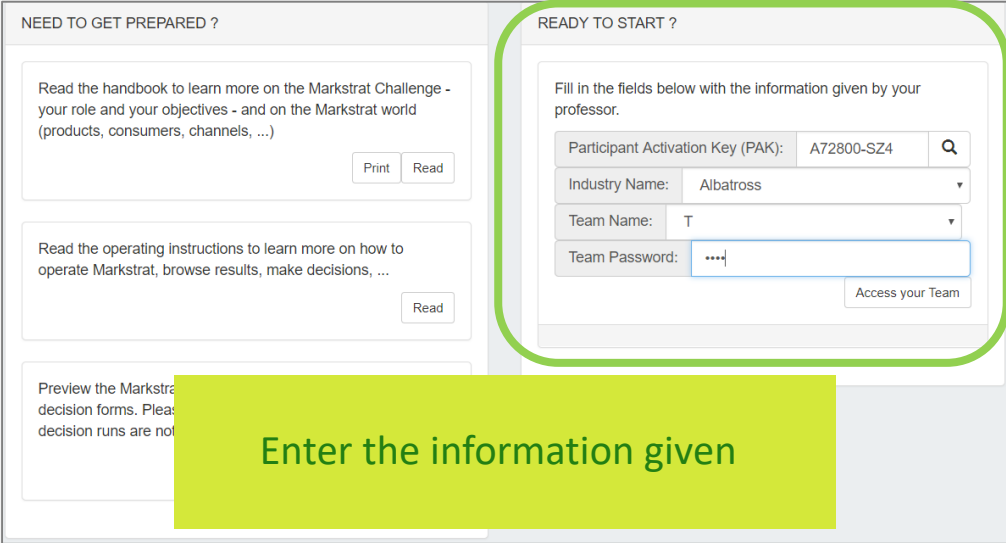
1 Sign in www.stratxsimulations.com using your Participant Activation Key (PAK)

2 Click the Markstrat Logo

The screenshot shows the STRATA SIMULATIONS website interface. At the top left, there are 'SIGN IN' and 'REGISTER' buttons. A blue circle with the number '1' highlights the 'SIGN IN' button. Below the navigation bar, there is a 'Participant Home' section with a 'Student Home' dropdown menu. A blue circle with the number '2' highlights the 'Markstrat' logo in the main content area. Below the logo, there is a button that says 'ACCESS MARKSTRAT' with a note to turn off pop-up blockers.

1 Go to <http://login.markstrat.com>

OR



NEED TO GET PREPARED ?

Read the handbook to learn more on the Markstrat Challenge - your role and your objectives - and on the Markstrat world (products, consumers, channels, ...)

Read the operating instructions to learn more on how to operate Markstrat, browse results, make decisions, ...

Preview the Markstrat decision forms. Please note that decision runs are not available for all teams.

READY TO START ?

Fill in the fields below with the information given by your professor.

Participant Activation Key (PAK): A72800-SZ4

Industry Name: Albatross

Team Name: T

Team Password: [masked]

Access your Team

Enter the information given

The screenshot shows the Markstrat login page. It is divided into two main sections: 'NEED TO GET PREPARED ?' and 'READY TO START ?'. The 'READY TO START ?' section is highlighted with a green border and contains a form with four input fields: 'Participant Activation Key (PAK)', 'Industry Name', 'Team Name', and 'Team Password'. Below the form is an 'Access your Team' button. A green callout box at the bottom of the page says 'Enter the information given'.

ANALYZE REPORTS AND MARKET STUDIES BEFORE MAKING DECISIONS



CHOOSE A NAME FOR YOUR FIRM



TEAM IDENTITY

Choose a name for your firm that reflects your team spirit. It must start with the letter 'S' and may be up to 8 characters long. Make sure to involve all your teammates in this choice. Beware, you will not be allowed to change your firm name once decision round 1 is over.

Team name

**It must start with the initial
of your firm and be 8
character long maximum**

CHECK YOUR BUDGET AT REGULAR INTERVALS

The dashboard displays a 'MARKETING BUDGET - 1' overview. It includes a table of budget details, a stacked bar chart for 'Breakdown of main expenditures by market', and a grouped bar chart for 'Brand Advertising & Commercial Budget'. A callout box points to a budget deviation value of +1602 K\$ in the top right corner.

MARKETING BUDGET - 1

Marketing Budget Overview

The charts and graphs below provide a financial recapitulation of all your decisions. All numbers are given in thousands of dollars.

Budget, Expenditures & Deviation

Authorized budget	7 100 K\$
Capital borrowed	-
Budget change	-
Available budget	7 100 K\$
Advertising expenditures	4 000 K\$
Commercial expenditures	1 248 K\$
Research & Development	-
Market research studies	250 K\$
Total expenditures	5 498 K\$
Budget deviation	1 602 K\$

Breakdown of main expenditures by market

Market	Expenditure (K\$)
Advertising	4 000
Commercial	1 248
R & D	0

Brand Advertising & Commercial Budget

The graph below shows the breakdown of advertising and commercial budget by brand. All numbers are given in thousands of dollars.

Brand	Advertising (K\$)	Commercial (K\$)
Brand 1	2 000	624
Brand 2	2 000	624

Click here to check your budget

CHECK YOUR ERRORS & WARNINGS AT REGULAR INTERVALS

The screenshot shows a Markstrat dashboard interface. At the top right, there is a balance indicator showing "\$ +1602 KS" and a notification bell icon with a red circle containing the number "3". A modal window is open in the center, displaying a list of messages. The messages are as follows:

Title	Message
Brand SOFT : marketing mix decisions not made From: Marketing Department	Title: Brand SOFT : marketing mix decisions not made From: Marketing Department Sent on: Team:
Brand SOLO : marketing mix decisions not made From: Marketing Department	
Commercial Team : decisions not made From: Commercial Department	
Market research studies : decisions not made From: Market Research Department	You have not made the marketing mix decisions for brand SOFT. The decisions of the previous period will be replicated: same production level, same price, same advertising budgets and same segmentation strategy. No communication objectives will be specified. Please note that these decisions might not be optimal

A green callout box on the right side of the dashboard contains the text: "Click here to check your messages". An arrow points from this box to the notification bell icon in the top right corner. A "Close" button is located at the bottom of the modal window.

Tips from the prior winners

Insights

“I made a google doc spreadsheet and we divided up the areas of MarkStrat that we would update - we set the spreadsheet up in such a way that we could easily copy it for the next period of work. Since it was a shared file, it was pretty easy for us to divide and conquer and review the work.”

Tips from the prior losers

Insights

“I think our biggest challenge was understanding the game’s nuances. To be clear, we read the materials before we started and repeatedly as our bewilderment grew.

The most significant driver of our trouble (in my opinion) was not understanding what we were “buying”: We didn’t spend any money researching our ads because we didn’t realize what that option meant. Even though we spent more and more money on ads, we kept making terrible, ineffective marketing campaigns. We could not reach the segments we targeted.

We did not purchase all reports at the outset. We assumed some were unnecessary and tried to only purchase the ‘most relevant.’ We did not realize the significant value of the Semantic Scales data or Multidimensional Scales data and accordingly did not purchase those reports until Period 5.”

RESPECT THE DEADLINES – GOOD LUCK !

**ON YOUR MARKS,
GET SET, GO!**

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Outline

- Why we use MarkStrat
- How we use MarkStrat
- **Team time!**