



NZ INSTITUTE OF MANAGEMENT

BusinessChallenge

participants

manual



NEW ZEALAND
Management
THE LEADERS MAGAZINE

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interactive

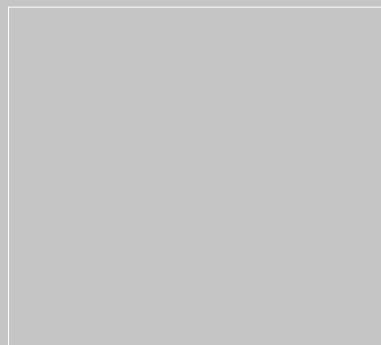
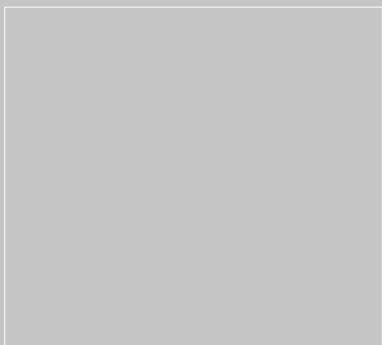


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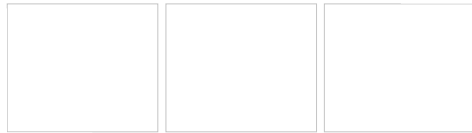
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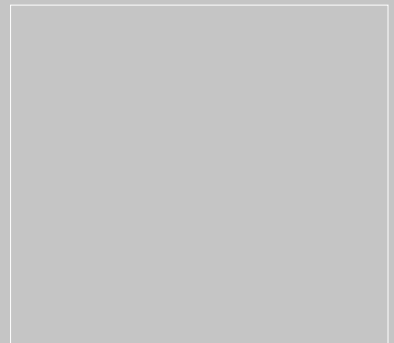
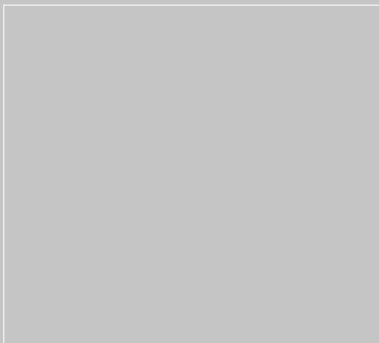
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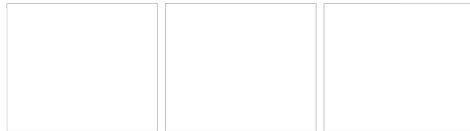
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SECTION 1: OVERVIEW OF THE GAME

1.1 OVERVIEW OF THE GAME

Manufacturing Business

The Business Challenge simulates a manufacturing business which you, the executive team of that business, will manage over a number of trading periods.

In order to do so you will need facts and figures about your company, such as production costs, stock levels, market sizes and trends, competitors' prices, your cash situation and so on. This information will be provided during the game in a number of ways:

- Management Reports will be prepared for you at the end of each trading period.
- Newspapers will be available to provide additional information and commentaries about the game.
- A set of initial economic conditions (ECN) will be publicised to state the initial economic situation.

On the basis of these facts, your team makes decisions each period. These decisions, along with those of your competitors, will determine your company's performance during the next trading period.

Competitors

You will make these decisions in the knowledge that you are competing with *four* other teams. You, and your competitors, all start from the same position. Your decisions affect their performance, and their decisions affect yours, so the game is truly interactive and competitive.

Zones

Your products may be sold throughout your home country in five separate zones, and in two further export zones. You begin with one home zone (within your home country) that you have a distinct market share advantage in, as well as savings on distribution because your warehouse is positioned there.

Your home zone corresponds to your team number, i.e if you are Team 1 in your game then your home zone will be Zone 1, Team 2 = Zone 2, etc.

Storage and Distribution

In addition to manufacturing, you must also manage the storage and distribution of your products. The BMG expects you to make provision for adequate storage and transport capacity each trading period. If you do not provide enough then emergency capacity will automatically be provided, usually at very expensive rates.

Finance and Cash Flow

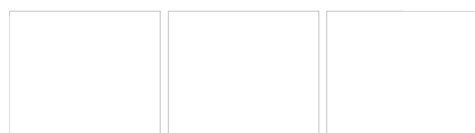
In order to operate effectively, your company must always have sufficient cash available at the start of each trading period to be able to fund your intended activity. The Business Challenge provides facilities for loans, purchase and disposal of manufacturing plant, vehicles, investments and, if the facility is being offered, the ability to increase shareholders funds. It also expects you to manage the cash flow of your operating expenses.

Sales, Marketing and Contracts

The Business Challenge expects you to set your prices, marketing expenditure, delivery priorities across the zones and to bid, if desired, for various contracts which will usually be on offer throughout the game.

General Consultants

Various consultants are available to help you improve your company's operating effectiveness. These may be used each period, and each improves a specific area of your business.



Decisions

When you have taken all of these factors into account you will be ready to make your decisions for the next trading period. Your decisions are entered into the decision form, one of the web pages within the game. The set of decisions for each competing group of five companies are collectively presented to a complex business simulator. This will firstly, determine the overall business situation resulting collectively from all decisions, and then apportions the business across the five teams according to the merits of individual decisions.

At this stage many factors are taken into account such as any market leader advantages gained in previous periods, general economic trends, the amount of credit being offered and so on.

Management Report

The results of each trading period are documented into a set of Management Reports. These are available as web pages within the game, which you may print as required. A full set of reports can also be downloaded each period, created as a Microsoft Word file. Clearly these results are confidential. Each team can view their own results plus additional information from the balance sheets of their competitors.

Periods & Rounds

The Business Challenge runs for a number of trading periods, typically six. A group of such periods is called a round. There may be a number of rounds in a competition during which contestants accumulate points to qualify them for a place in a semi-final. The exact structure of each contest will vary depending on the nature and size of the competition. Full details of the specific structure of your contest will be published before the contest begins.

You are required to make decisions for each period which, along with the decisions from your competitors, are used to determine the performance of all teams in the current period.

It is usual to arrange our trading into trading periods. The maximum period allowed by law in most countries is 12 months. Many companies arrange their trading into monthly periods.

At the end of each period, a Profit & Loss Report is produced, and the Balance Sheet updated.

In this game, the trading period does not relate to a fixed calendar period. It is simply a period of time. Therefore the values for interest rates, and depreciation are 'per period', and may not realistically relate to a specific or consistent time period such as 'month' or 'year'.

1.2 ADMINISTRATOR

Central Co-ordination

The Business Challenge Administrator will co-ordinate your game. All decisions each period must be entered through the web, before the published period deadlines. If there are any difficulties with this process, contact the administrator immediately, before the deadline.

Because the Business Challenge is interactive between all teams in any one game, the game cannot be processed until all decisions have been received.

Discrepancies

Discrepancies, such as a decision price being published which was not the one you set, or plant purchase not being processed, should be reported to the Business Challenge Administrator immediately.

Do not wait until the next decision deadline. All discrepancies must be reported to the Business Challenge Administrator within 24 hours of the time when the period was processed, in order to receive a re-run, where this is necessary.

If the game is in error, the period will be re-run with the correct data, and it is important to do this quickly so as to maintain the timetable. Any team affected by a re-run will receive updated information, and will be informed by email as soon as the re-run is completed.

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1.3 MAKING DECISIONS

Management Decision Making

This game is all about making balanced decisions.

It is no use producing heaps of product, if your sales team cannot sell them and your delivery team cannot delivery them.

It is no use gaining heaps of sales if your cash flow position is so weak you cannot afford to product the goods.

This game requires you to balance your company’s resources and capacities, and make the best of the funds available to you, given the overall situation in which you find yourself.

1.4 PROFIT AND LOSS REPORT

Profit and Loss Explained

The Profit and Loss Report (often abbreviated to P&L) itemises the taxable income and allowable expenses for the current period. From these figures a net profit is derived. The Net Profit After Tax is carried through to your Balance Sheet, from where the game winner is calculated.

Income

Taxable Income in this game is derived from Open Market Sales, Contracts and Investment Interest Received.

Expenses

Allowable expenses are summarised in this section. Most of the figures are expanded in other reports.

Cost Of Goods Sold represents the total manufacturing cost for each of the items delivered in this period. See Cost Of Goods Sold for a complete description of this item.

All other items represent a summary of the various expenses incurred in achieving the sales and investment income this period.

Profit

The profit is calculated as total revenue less total expenditure.

This could be negative, i.e a Loss.

Tax Loss Brought Forward

Tax losses from previous periods may be brought forward and used to offset any tax liability in the current period. This line itemises any losses being brought forward.

Tax and Profit After Tax

Any tax liability from this period is added to the “Provision for Tax” in the Balance Sheet. Any profit, less the tax liability, (known as Profit after Tax) is added to the “Retained Profits” section of the balance sheet.

Losses are deducted from the “Retained Profits” section of the balance sheet.

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1.5 BALANCE SHEET

Balance Sheet Explained

Balance Sheets are a normal part of the financial management of business.

A Balance Sheet is a snapshot of the company's financial picture, taken at a point in time, usually the end of a period of trading. It shows where the company's funds have come from, and where they are currently being deployed.

Legally, in the real world, companies are required to produce a Balance Sheet at least once, at the end of each year's trading. Most companies produce interim balance sheets more often than this, to help the directors manage their company better.

Your Balance Sheet is a snapshot of the situation at the end of each period.

Why it Balances

Balance Sheets are divided into two sections:

Liabilities: showing where the funds in the company have come from

Assets: showing where those funds are currently placed

These two totals therefore should always be the same. Otherwise there are some funds we cannot account for, or we have purchased assets with funds we cannot justify. A balancing Balance Sheet is part of the ongoing integrity of the corporate accounts.

Your Liabilities

The funds your company is using have come from the following sources:

Shareholders Funds:	These are the funds put into the company in exchange for shares in the company
Retained Profits:	These are the accumulated profits, which your company has generated from past periods of trading.
Loans:	These are loans which your company has taken to finance its operations.
Provisions for Tax:	These are funds set aside in the balance sheet to acknowledge the fact that you owe tax to the Tax Department, but the due date for payment of these taxes has not yet arrived.
Provision for GST:	This is the Goods and Services Tax which you have charged on your sales, less the GST you have paid on your purchases. The balance is due for payment to the Tax Department, but the date for payment has not yet been reached.
Creditors:	These are suppliers of goods and services to your company who have sent you an invoice, but you have not paid them yet. You owe them.

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Assets

Cash:	This is the cash in your bank account.
Debtors:	These are funds owed to you by your customers, for services already provided by you, and as yet, payment has not been received.
Stock:	This is the value of the items in stock at the end of the trading period. This is the manufacturing value, not the sales realisation value.
Plant:	This is the current valuation of your Manufacturing Plant
Vehicles:	This is the current valuation of your Vehicles
Buildings:	This is the current valuation of your buildings and warehouses.

Public Domain

The balance sheets of most large companies are public property. Therefore, this game will publish the balance sheets of all teams each period.

Useful Information in the Game

Having the balance sheets available to you means that you can carry out some analysis on your competitors. You can deduce their stock situation, and their production capacity. You can judge their financial resources.

This will be useful information for you, and will help you make better decisions.

1.6 BUDGET AND CASH FLOW

Period Budget

You must assemble a budget for the next period.

The budget is shown on the right hand side of the decision form. You should use this to ensure that you have enough funds available to cover all of your expenses.

You Can Only Spend What Is Available

Most countries now have laws to ensure that Directors are personally liable for corporate expenditure if this was knowingly made to be beyond the resources of the company.

This game simulates these laws by requiring you to construct a budget in which the expenditure can be afforded from the resources expected to be available in the next period.

Increasing the Funds Available

You can increase the available funds by selling assets, redeeming investments and taking more loans, subject to the various rules and limits stated throughout the game.

Reducing the Expenditure

If you cannot, or do not want to make more funds available, and you are trying to allocate more expenditure than the funds will allow, then you have no choice but to decided where to cut your budget.

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You Can Only Save a Workable Budget

The game will not allow a team to save a budget where the allocated expenditure exceeds the expected available funds. If your team sends in a decision that over allocates its expenditure, the Game Administrator will remove expenditure from the decision until it balances. This is obviously not the best way to make a decision, and should be avoided at all times.

1.7 MARKETING DECISIONS

Values

Marketing expenditure can be allocated to none, some, or all of the zones.

Any positive whole number is allowed. Values are expressed in \$000. For example, an entry of 46 would allocate an expenditure of \$46,000.

There is an upper limit of \$999, other than the constraints arising from your available funds and current budget.

The effect is roughly proportional to the amount allocated, up to the value of 100 in each zone (i.e an expenditure of \$100,000). The excess above this amount, will have an effect, but with reducing effectiveness compared to the first \$100,000.

1.8 OPERATING EXPENSES

Administration Costs

Your company needs administration services to function properly.

The game includes administration costs which move roughly in proportion to the size of your sales turnover. The changes in the export zones influence your administration costs slightly more than home zones since these require additional administration.

Increases in the size of your sales will also cause a quicker reaction in the size of your administration charge than decreases, where the reduction in admin will be much slower. This reflects the ease with which you can increase your workforce, and the difficulty when you want to decrease it.

Technology Update and Administration Costs

Expenditure allocated to Technology Update will reduce your administration costs. This reduction will be carried forward to future periods.

Conversely, if you do not allocate any expenditure to Technology Update, your administration costs will increase each period.

1.9 PRICING

Values

Any positive number in the range 20 to 125 (inclusive), or ZERO.

A price of zero indicates that you do not want to sell your products in that zone.

Consequences

Lower pricing will reduce your profitability per item sold.

Pricing lower than your competitors will bring a larger share of the available market, unless your prices are significantly below the average of other teams, in which case your credibility is damaged and you will lose market share.

These calculations are carried out on a zone-by-zone basis. Pricing in one zone does not affect the performance of other zones.

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1.10 PUBLIC RELATIONS

Develops Your Home Zone Market

Public Relations Expenditure will encourage sales to migrate from other home zones into your base home zone.

It does not affect the overall size of the home market (i.e the combined size of zones 1 through 5 inclusive).

This means that you can encourage sales to come to you where you have a delivery and sales advantage over your competitors. Effectively, this means that you can increase the size of your base zone at the cost of reducing the size of the competitors base zones.

1.11 SALES AND MARKETING

Market Zones

Your company sells its products in seven zones.

Five of these zones are in the home country; they are numbered 1-5.

The remaining two zones represent export countries. They are referred to as Ex-1 and Ex-2.

Zone Pricing

You are required to set prices for your product in each zone. In the home zones, prices are set in home-country currency. In export zones, prices are set in the currency of that country.

All other things being equal, if you set prices lower than your competitors, you will achieve a bigger share of the available market, provided that your prices do not stray too low, in which case your credibility might be damaged.

Zone Marketing

You are required to allocate marketing expenditure to promote your products and ensure that you achieve an adequate volume of sales. Expenditure can be set for each zone.

All other things being equal, increasing your marketing expenditure above that of your competitors will achieve a larger share of the available market.

1.12 SALES REPORT

Sales Performance by the Team

This report shows that sales and deliveries achieved by this team in the current period. Each Zone is itemised separately.

Back Orders

When you are unable to deliver all of your orders, 50% of the undelivered portion is placed on 'back order', the remainder is placed back on the open market.

Back orders are delivered next period, ahead of your normal sales for the next period.

The existence of back orders will also reduce your market share of the available sales next period, since the market will react to your reputation of 'inability to deliver' by a reluctance to buy your products. You should think about a strategy to offset this reputation next period, such as increasing your marketing expenditure and/or lowering your prices in some or all of the zones where you collected back orders.

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Additional Sales

Any additional sales which were offered to you as a result of other teams being unable to deliver are shown on the line "Additional Sales" in the Sales Report. These sales are delivered at your open market prices, and are treated in the same way as normal sales. All teams who have stock remaining fulfilling all of their commitments will be awarded a proportion of the additional based on normal sales criteria.

Delivery Sequence

The delivery sequence for your sales is in the following order: regular contracts, back orders, normal sales, instant contracts and additional sales.

1.13 ECONOMIC CONDITIONS NOTICE

Referred to Throughout this Guide as ECN

The ECN contains all other information necessary for you to make an informed decision.

Buy, Sell, Store and Delivery Prices

It describes the prices at which assets can be bought and sold, and the delivery charges per unit delivered by each of the delivery modes. The cost of warehousing and space hire will also be given.

Financial Data

Interest rates and tax/GST payment schedules will be specified.

1.14 GENERAL MARKETING REPORT

PUBLIC DOMAIN INFORMATION: The information in this report is available to all competitors.

Contents

Prices:	are shown in each zone for each item.
Market Last Period:	shows the size of the market last period.
Market This Period:	shows the size of the market this period.
Deliveries:	shows the quantity of sales actually delivered this period. Where deliveries is less than sales by more than a few items, then there will be at least one team who has been unable to satisfy all of their orders and contracts.
Back Orders:	shows the number of items, which all teams have been unable to deliver this period, and for which back orders now exist. Back orders will be delivered next period, before normal sales.
Marketing:	shows the total expenditure on marketing across all teams in each zone this period.
Public Relations:	shows the amount of expenditure being applied by each team in their own Home Zone.



1.15 MANAGEMENT REPORT

Reports

Management Reports are prepared at the end of each period and published as web pages. In addition, a Microsoft Word document can be downloaded. These reports contain information about the market place in general, plus specific reports about the performance of your own team.

Published to all Teams

The General Market Report and the Balance Sheets are published to all teams each period.

Confidential Material

All other sections of the report are confidential to your team, and your data is therefore not published to other teams.

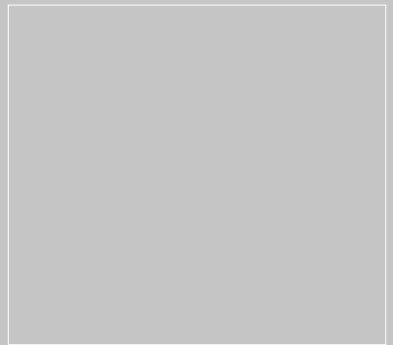
Interpretation

You can deduce much about your competitors' performance by analysing the information that you know about them. For example:

- You can easily calculate their profit, by analysing the changes in their balance sheet in the "Retained Funds" and "Provision for Tax" entries.
- You can watch the movements in their plant value and stock value to judge what their likely stock situation and capacity might be.
- You know that PR expenditure in any zone will have been contributed by the Home Team for that zone.
- You can analyse their different pricing policies, and perhaps gain some clues about what they are trying to do.
- You can analyse your own share of the market, and compare this to your share of the overall marketing. Are you doing better than average, or worse? If you are doing worse than average, then perhaps your prices are too high, or other teams are using the marketing consultant more than you.

It is important to try and work out what your competitors' position and strategy appears to be. This will help you make better decisions.

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SECTION 2: MANUFACTURING OVERVIEW



- 2.1 Manufacturing Plant
- 2.2 Production Costs
- 2.3 Overtime
- 2.4 Buy in Ready Made
- 2.5 Production Decisions

SECTION 2: MANUFACTURING OVERVIEW

2.1 Manufacturing Overview

You have a factory, which manufactures your products.

The factory is modular, comprising a number of units of plant. Each unit has the same capacity each period.

You can change the overall capacity of your plant by buying or selling units of plant.

The production section of the Management Report will declare how many units of plant, and the total manufacturing capacity of that plant, at the end of each period. The information in Period 0 report is your start position, and is the same for all teams.

Manufacturing Plant Value

Your factory is an asset, and it has a value, which appears in the balance sheet.

In Period zero each unit of plant has the same individual value, being the total plant value divided by the number of units of plant. Once the game begins, it tracks the value of existing plant and those units purchased throughout the game. The game therefore sells any plant on a first in first out basis.

Depreciation

Plant depreciates in value each period. The depreciation rate will be specified in the ECN.

Depreciation reduces the value of the asset and this reduction, the depreciation amount, is charged as an expense to the Profit and Loss Account for that period.

Deterioration

Plant also deteriorates each period. Through wear and tear, the capacity of each unit will gradually reduce. The deterioration rate will be specified in the ECN and may change as notified in a period newsletter.

Buying More Plant

Buying more plant increases your capacity, and increases the plant value in the balance sheet. The purchase price and capacity of each new unit of plant will be specified in the ECN and may be changed via a newsletter.

Selling Plant

You may sell some or most of your plant, but not all. You must keep a minimum of 10 units of plant at all times.

Your current Plant Value per unit is (Plant Value in Balance Sheet) divided by (Number of units of plant). This calculation alters once you have purchased further plant, because of the different purchase price of each unit which is tracked by the game.

Example: If you were to purchase 35 units of plant in period 1, and sell 20 units of plant in period 3, what would be the loss on sales.

Opening Plant Value:	\$375,000	Purchase Price:	\$30,000
Depreciation Rate:	10%	Resale Value:	\$15,000
Opening No of Plant Units:	15	Book Value (PO):	\$375,000

Depreciated Values:

Existing Plant: (15 Units)

PO: \$375,000

P1: \$337,500

P2: \$303,750

P3: \$273,375

Value Per Unit = \$18,225

Sale Value Per Unit = \$15,000

Loss on Sale/Unit = \$3,225

New Plant: (35 Units)

PO:

P1: \$1,050,000

P2: \$945,000

P3: \$850,500

Value Per Unit = \$24,300

Sale Value Per Unit = \$15,000

Loss on Sale/Unit = \$9,300

Total Loss on Sale = $(\$3,225 \times 15) + (\$9,300 \times 5)$

Total Loss on Sale = \$94,875

When plant is sold, the price achieved (per unit) will be different from the plant value in your Balance Sheet. It will usually be lower than the book value, so you will be selling plant at a loss. This loss must be accounted for, and is a chargeable expense to your Profit and Loss Account. It will appear under "Loss on Sale of Assets".

It is sometimes worthwhile to sell plant, take the loss, and buy new plant, which has a much higher capacity per unit. Check out the figures in your game. This is an important decision to be made, and one, which faces every manufacturing company from time to time. When to upgrade, at what cost, and for what benefit?

Note: The sale of an existing unit of plant occurs at the start of a decision period. The purchase of plant units takes one period to install.

2.2 PRODUCTION COSTS

Fixed Costs

Your company incurs a fixed cost of production each period, regardless of how many products are produced. This represents the cost of retaining the labour force, and maintaining the factory.

Fixed costs will increase if you buy the plant, and decrease if you sell plant.

Variable Costs

Each item manufactured incurs a unit cost (raw materials, etc).

Total Production Cost

The total cost of production is calculated from:

- the fixed cost plus
- the variable cost for the number of units produced plus
- any overtime premiums if you exceed the normal maximum capacity plus
- the cost of any Bought-In items.

You will need to work this total out and add it to your budget.

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2.3 OVERTIME

Increase Production

Overtime can be used to increase your production capacity beyond the normal maximum.

Weekday Overtime

Weekday overtime will increase your capacity by 10% above normal maximum.

However, this brings an increase in the unit cost of production because the products produced in overtime must also carry an overtime premium in addition to the normal production costs. This premium will be incurred as soon as you produce one unit over your normal capacity (i.e Do NOT round up ANY decimals over a whole unit, or you will incur additional fixed costs charges).

Weekend Overtime

Weekend overtime can be used after weekday overtime, to increase your capacity by a further 10% of normal maximum. The additional overtime premium for weekend overtime is even greater than weekday overtime. This premium will be incurred as soon as you produce one unit over your weekday overtime capacity. (i.e Do NOT round up ANY decimals over a whole unit, or you will incur additional fixed costs charges).

Example Background Information: Assume current plant has 100 units and a total capacity of 40,000 items. The plant variation is \$5,000,000. Fixed costs are \$250,000. Variable cost is \$18 per item. Deterioration rate is 2% per period. All figures refer to the start of the current period.

New Plant costs \$60,000 per unit and has an initial capacity of 700 items per unit. Assume plant in period "0" was 100 units.

Example 1: If you were to produce to the maximum capacity of your plant including both weekday and weekend overtime, the total cost would be:

<i>Fixed Costs</i>	<i>\$250,000</i>
<i>Variable Costs (48,000 x \$18) includes 20% overtime</i>	<i>\$864,000</i>
<i>Overtime Premium (10% of 250,000 + 20% of 250,000)</i>	<i>\$75,000</i>
	<i>\$1,189,000</i>

2.4 BUY IN READY MADE

Augment Your Production

When demand for your products is high and your stock has run low, you can buy ready-made products and put them into stock for resale.

This is reasonably expensive, because it costs more to buy in than if you were manufacturing them in your own factory.

The ECN will state the cost of "buying in" each item.

Bought-in products are put into stock and accounted for in exactly the same way as products manufactured by your own company. The costs are absorbed into the total production cost for that period.

Example 2: If you were to produce to the maximum capacity of your plant including both weekday and weekend overtime, and you bought in 7,000 units, the total cost would be:

<i>Fixed Costs</i>	<i>\$250,000</i>
<i>Variable Costs (48,000 x \$18)</i>	<i>\$864,000</i>
<i>Overtime Premium (10% of 250,000 + 20% of 250,000)</i>	<i>\$75,000</i>
<i>Units Bought in (\$18 x 2) x 7,000</i>	<i>\$252,000</i>
	<i>\$1,441,000</i>

2.5 PRODUCTION DECISIONS

Production Volume

State the volume of items you want to be produced this period.

You will need to calculate the cost of producing your specified volume of production. The figures needed to calculate this are contained in the production section of the management reports.

The absolute maximum capacity is 120% of normal capacity. This uses a full weekday and weekend overtime.

You must maintain a minimum production volume of 100 units.

Buy or Sell Plant

This dialogue shows your current number of units of plant.

To purchase or sell plant units, put the quantity in the appropriate box. You should calculate the cost and transfer it to the budget section of your decision form.

You cannot sell more plant than you already own.

You must maintain a minimum of 10 units of plant.

Changes to Fixed Costs

Buying more plant will increase your production fixed costs by a ratio of one quarter of the ratio by which you have increased your number of Plant units. For example, if you have 100 units of plant, and you buy 10 more, you have increased your units by 10%, so your fixed costs will increase by 2.5%.

Selling your units of plant will decrease your fixed costs by a ratio of one half of the ratio by which you have decreased your number of units of plant. For example, if you had 100 units of plant, and you sell 10, you have reduced your units by 10%, so your fixed costs will reduce by 5%.

Formula:

$$\text{New FC} = \text{Old FC} \times (\text{CurrentQtyPlant} - (\text{QtySell} / 2)) / \text{CurrentQtyPlant}$$

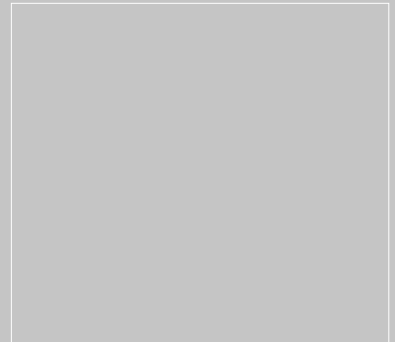
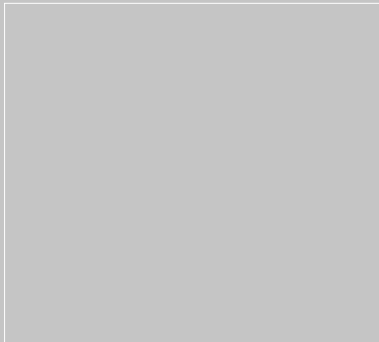
Example 3: If you were to buy 10 units of plant for use next period, the allocation of fund for purchase of plant would be \$600,000. The fixed cost increase would be:

<i>Fixed costs next period would be</i>	<i>\$250,000</i>
<i>Plant increased by ratio 10/100</i>	<i>+ \$6,250</i>
<i>Therefore fixed costs increase by 1/4 of this ratio</i>	<i>\$256,250</i>
	<i>i.e (2.5)/100</i>

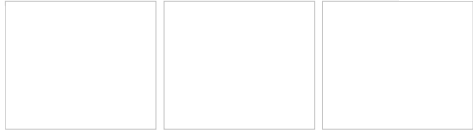
Example 4: If you were to sell 50 units of plant (i.e reduce from 100 to 50)

<i>Revised fixed cost after sale:</i>	<i>\$250,000</i>
<i>Plant units reduced by ratio 50/100</i>	<i>- \$62,500</i>
<i>Therefore fixed cost is reduced by</i>	<i>\$187,500</i>
	<i>Half of this ratio, i.e 25/100</i>

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SECTION 3: CONSULTANTS OVERVIEW



- 3.1 Consultants Decisions
- 3.2 Consultants
- 3.3 Marketing Consultant
- 3.4 Production Consultant
- 3.5 Research and Development
- 3.6 Storage and Distribution Consultant
- 3.7 Technology Update

SECTION 3: CONSULTANTS OVERVIEW

3.1 CONSULTANTS OVERVIEW

Values

Enter the expenditure you want to allocate to each consultant in \$,000.

Any positive whole number is allowed. There is no upper limit, subject to the constraints of your budget.

Up to the first \$100,000 of expenditure (i.e a value of 100 entered in a box) the effect will be reasonably proportional to the expenditure. Any excess above this amount will have a gradually decreasing effect.

Consequences and Period of Effectiveness

Consultants improve the effectiveness of various sections of your business.

Some consultants make changes only in the period in which they are used. Others make changes which carry forward into future periods.

Some consultants are not always as effective as you might hope for. You should always try to calculate whether the consultant was worth the cost. This is not easy in the game, but it is also not easy in the real world.

3.2 CONSULTANTS

Business Improvement

Consultants can improve the efficiency of your business. This game simulates the following types of consultant.

3.3 MARKETING CONSULTANT

Improves Effectiveness of Marketing

This consultant improves the effectiveness of your marketing and public relations expenditure.

The improvement is only felt in the period in which the consultant is used.

NO EXPENDITURE, NO POINT!

If you have not allocated any expenditure on marketing, there is no point in using this consultant.

3.4 PRODUCTION CONSULTANT

Improves Production Efficiency

The Production Consultant is able to reduce your variable cost of production and fixed costs, and increase your production capacity.

These changes will be carried forward to subsequent periods.

The production consultant will be most effective in first time used. The effectiveness reduces in each subsequent use.

The effect of this consultant is felt after the end of the period in which the consultant is purchased, and the improved production capacities and costs will show up in the Production Section of the Report Pack, in the "forecast" column.

The changes brought about by this consultant do not take affect until the beginning of the following period.

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3.5 RESEARCH AND DEVELOPMENT

General Product Improvement

This activity generally makes your products more attractive, and automatically closes the gap slightly between product characteristic and perception.

It also reduces fixed costs of production, and slightly reduces the amount by which your production plant deteriorates each period.

These changes will be carried forward to future periods.

First Time Usage is Best

The first time this activity is used will bring better results when compared to future uses, although there will always be improvements.

3.6 STORAGE AND DISTRIBUTION CONSULTANT

Improves Warehousing and Distribution Sections

This consultant will reduce delivery costs in the period in which the expenditure is allocated, and also increase vehicle capacity.

Carry Forward

The increase in vehicle capacity is carried forward to future periods for those vehicles owned at the time the consultant is used.

First Time is Best

The nature of these improvements is such that subsequent use of this consultant after the first time brings a lower level of improvement compared to the first time the consultant is used.

There will always be improvement.

3.7 TECHNOLOGY UPDATE

Improved Information Systems

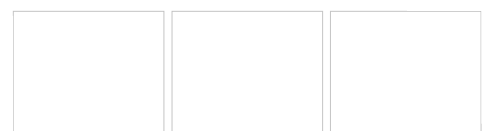
Expenditure on Information Technology Update will keep your company serviced with good Information systems.

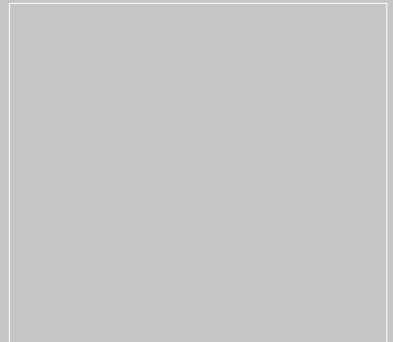
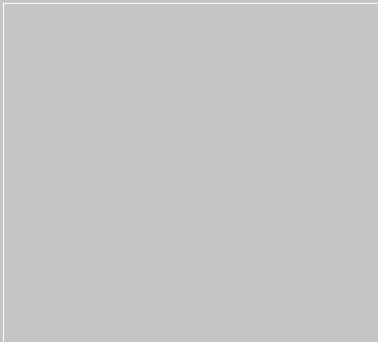
This expenditure has two effects:

1. It will reduce administration costs. The reductions will be carried forward to future periods.
2. It will improve market share by having more accurate and timely information available for your sales staff.

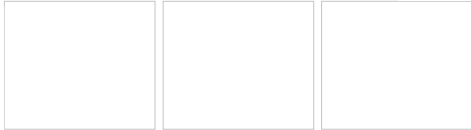
Deterioration

An expenditure of about 1% of period turnover is needed each period to keep systems up-to-date, otherwise administration costs will rise and market share will fall.





SECTION 4: CONTRACTS OVERVIEW



- 4.1 Contract Decisions
- 4.2 Contracts
- 4.3 Instant Contract Report
- 4.4 Regular Contact Report
- 4.5 Contract Award Rules

SECTION 4: CONTRACTS OVERVIEW

4.1 CONTRACT DECISIONS

Values

To bid for a contract enter a “tender price” to try and secure the contracted amount of units on offer. The bid price can be any positive value within the limits as described in Contract Award Rules.

Consequences

Subject to the award rules, each contract will be awarded to the team with the lowest bid.

Teams with identical bids will share the contract between them.

If a contract is not awarded, it is lost. Unawarded contracts are not carried forward to future periods.

4.2 CONTRACTS

Instant Contracts

Instant Contracts are bid for, awarded and delivered in the same period.

They are one-off contracts. Once delivered, there is no further involvement. You may bid for and win as many instant contracts as you like.

Instant contracts are on offer in the home country and in each of the export countries in every period.

Regular Contracts

Regular Contracts are bid for in one period, and delivered in the next and all subsequent periods. Once you have committed to a regular contract, you must deliver that contract each period.

Limits

You may only have TWO regular contracts in the home country, and TWO regular contracts in each of the export countries. If you have been awarded two regular contracts, there is no point in bidding for more regular contracts in that country.

Delivery Sequence

Regular contracts are delivered before your normal orders.

Instant contracts are delivered after your normal orders.

Contract Penalties

Undelivered contracts incur significant financial penalties. These are charged as a cost onto the Profit and Loss Account for the period in which the non-delivery took place.

You must be able to deliver all of a contract. Part deliveries are not allowed.

4.3 INSTANT CONTRACT REPORT

Purpose

To show where the Instant Contracts went this period, at what price, and to forecast the contracts coming up in future periods.

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Contracts Awarded

The amount and price of each contract awarded is shown alongside the team which won the contract.

Where more than one team wins the same contract (identical bids), the contract is shared evenly between those teams.

Delivered

This item shows the instant contracts delivered by this team this period.

Forecasts

The last two lines forecast the contracts coming up in the next two periods.

In this game, these contracts will appear, and will be awarded, subject to the bidding and award rules being satisfied!

Defaulted

You will know you have defaulted one a contract if the report has your bid price, but shows nothing as being awarded/delivered. There will also be a corresponding value in the profit and loss statement under "contract penalties". This figure will be approximately 25% of the value of the awarded contract.

4.4 REGULAR CONTRACT REPORT**Purpose**

To show where the regular contracts went this period, at what price, and to forecast that contracts coming up in future periods.

Contracts Awarded

The amount and price of each contract awarded is shown alongside the team who won the contract.

Where more than one team wins the same contract (identical bids), the contract is shared evenly between those teams.

Delivered

This item shows the regular contracts delivered by this team this period.

Forecasts

The last two forecast the contracts coming up in the next two periods.

4.5 CONTRACT AWARD RULES**Maximum Price Rules**

Home Contract bids must not be greater than the lowest of your prices in the five home zones.

Export Contract bids must not be greater than your corresponding price in the open market for that country.

Minimum Price Rules

Contract prices, when translated into home zone currency, will be considered too low if the price is less than your variable cost of production in the current period.

Currency

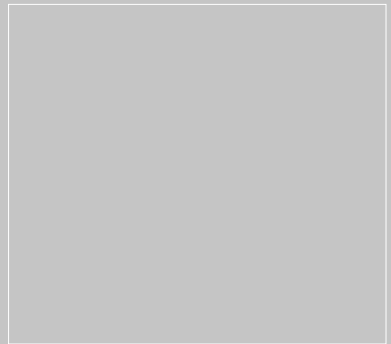
Home Contract bids should be given in home country currency.

Export contract bids should be given in the currency of that export country.

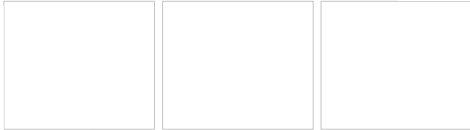
Optional

Contract bids are optional. If you do not want to bid for a contract, leave the box blank or enter zero.

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SECTION 5: DISTRIBUTION OVERVIEW



- 5.1 Distribution
- 5.2 Transport and Distribution Report
- 5.3 Delivery Decisions
- 5.4 Delivery Sequence
- 5.5 Delivery Costs

SECTION 5: DISTRIBUTION OVERVIEW

5.1 DISTRIBUTION

Methods of Delivery

You may deliver your products through three different modes:

- Own Transport Fleet
- Contract Hire
- Emergency Hire

Own Transport Fleet

You have a fleet of vehicles which can deliver your products. Each vehicle has a fixed capacity each period, and you may increase or decrease the size of your fleet by buying or selling vehicles. The ECN will specify the vehicle buy and sell costs, and the carrying capacity of new vehicles.

Vehicles are an asset, and appear on the Balance Sheet. Each vehicle has the same “book” value, being the total vehicle value divided by the number of vehicles.

If you sell vehicles, the price you achieve may be less than the vehicles “book” value. This difference is a loss and is a chargeable expense on the Profit and Loss Account. It appears in the “Loss On Sale of Assets” item.

It is sometimes worthwhile to take this loss, and sell your fleet, to buy new vehicles which may have a much better carrying capacity.

Contract Hire

You may buy a contract each period to have your products delivered. If you do not use the full value of the contract, it is not refundable.

Contract delivery could be used to augment your own fleet, or as a complete alternative. The ECN will tell you how much the contracted carrier will charge for deliveries.

Emergency Hire

If you have insufficient capacity in any period to deliver all of your orders, you will be allocated emergency carriers. Your goods will always be delivered.

Emergency carriers are expensive. This is not a good use of your corporate funds. The ECN will state the emergency rates.

5.2 TRANSPORT AND DISTRIBUTION REPORT

Purpose

This report helps you track your Transport and Delivery Costs.

Vehicles and Capacity

The first section of this report confirms the number of vehicles and delivery capacity at the start of the period.

The number of vehicles bought and sold this period are itemised.

The number of vehicles and closing capacity as at the end of the period are itemised.

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Transport Costs

Standing Charges:	are the costs incurred, per vehicle, in having the vehicle available, insured and maintained this period.
Variable Costs:	are the total delivery charges incurred for each delivery made by your own fleet this period.
Contracted Costs:	is the delivery contract that you requested this period.
Total Costs:	are the total of all delivery charges for the current period. This figure should be the same as the "distribution" charge in the Profit and Loss Report.

5.3 DELIVERY DECISIONS

Delivery Sequence Rules

There are seven zones. You must specify the delivery sequence, by assigning each zone a delivery priority.

This is particularly important if you do not have enough stock to satisfy all of your orders. In these circumstances, it is essential that you deliver those sales which have the bigger profit margin.

You must assign a priority to each zone, in the range 1 to 7.

All zones must have a different priority.

Delivery sequences in violation of these rules will be disallowed.

Contract with Carrier

If you want to engage a Carrier, enter the amount of the contract into the 'Carrier Contract' box.

Negative values are not allowed. The maximum value is 999000 (i.e an entry of 999 in the box).

Buy and Sell Vehicles

If you want to increase or decrease the size of your own fleet of vehicles, enter the number of vehicles you want to buy, or sell, into the appropriate boxes. The purchase of vehicles occurs at the beginning of the period, and so the capacity is available for use in the period in which they are purchased.

You cannot sell more vehicles than you own. Negative values are not allowed.

Important: Vehicles are now sold on an "oldest vehicles first basis". This differs from 2007. This will effect the values held in the Balance Sheet and whether you make a gain or loss from the sale of the asset.

5.4 DELIVERY SEQUENCE

Deliver to Each Zone

Your instructions to the distribution department must include a delivery sequence.

You must give them the sequence in which deliveries are to be carried out, by specifying a delivery sequence number for each zone. The zone with Delivery Sequence "1" will be delivered first, then the Zone with Delivery Sequence "2", and so on.

Important If You Have Low Levels of Stock

This is important when your stock levels are low. If there is a chance that you will run out of stock, and not be able to meet all of your orders, then the delivery sequence can be used to ensure that you deliver to your most profitable regions first.

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Important to Maximise Contract Deliveries

Careful control of the sequence can maximise the number of products delivered by your fixed delivery contract (if you are using this facility). You will utilise your own vehicles first (if available), then your delivery contract, and in the case where you run out of space you will utilise emergency delivery last.

Delivery Sequence Rules

You must assign a priority to each zone, in the range 1 to 7.

All zones must have a different priority.

Delivery sequence in violation of these rules will be disallowed, and the game administrator will amend your decision to bring it in line with the game rules.

5.5 DELIVERY COSTS

Own Vehicles

Each vehicle incurs a standing charge each period, plus a depreciation charge.

In addition, each product delivered incurs a delivery charge.

In most cases the delivery cost is lower for deliveries in your home zone, higher for other zones in the home country, and even higher for delivery to export countries. The ECN will state the delivery charges per item delivered to each zone.

If you sell vehicles, the standing charge and depreciation for those vehicles sold is no longer incurred. You may sell all of your vehicles.

Vehicles are sold at the beginning of the period and are not available for deliveries in the period in which they are sold.

Contract Hire

In addition, or as an alternative to running your own fleet, you may engage a delivery contractor. Because you use your own fleet first, before you engage a contractor, in order to use them as an alternative delivery source you must sell ALL of your own vehicles first.

To do this, simply allocate a fixed expenditure in the "Contract Delivery" box of the delivery decisions.

There are no standing charges or depreciation for contracted deliveries. Each product delivered simply incurs a delivery charge (according to the zone being delivered to) and this charge is deducted from the value of the contract.

The exact number of deliveries bought by this expenditure will therefore depend on the delivery sequence.

If you do not use the full value of the contract, the unused portion is not refundable.

Contracts are for one period only. You must allocate expenditure in each period when you want a contract.

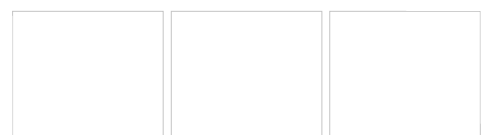
Emergency Delivery

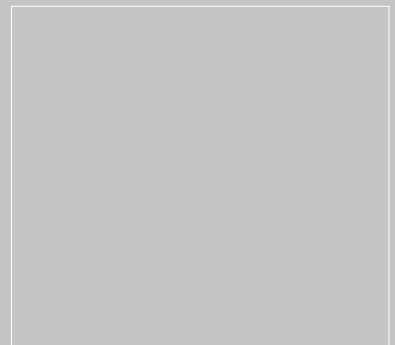
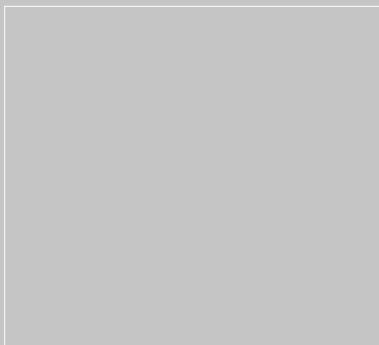
If you do not have sufficient capacity (hired and/or own fleet) to deliver all of your products, then your Delivery Manager will deliver the balance using emergency delivery.

You should plan to avoid this. Emergency delivery is expensive, and is not a good use of your corporate funds.

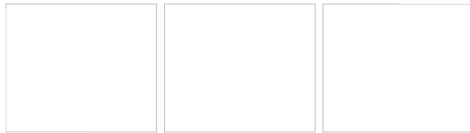
The ECN will specify the emergency delivery costs.

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SECTION 6: STORAGE OVERVIEW



- 6.1 Storage Overview
- 6.2 Storage Report
- 6.3 Warehousing and Storage Decisions
- 6.4 Stock Value
- 6.5 Cost of Goods Sold

SECTION 6: STORAGE OVERVIEW

6.1 STORAGE OVERVIEW

Warehouses

Products which you have manufactured (or bought in ready made) and which are not sold at the end of each period must be stored in a warehouse.

You may buy and sell warehouses, and you may hire space on a period-by-period basis. If you have not made enough provision for storing all of your products, you will be provided with emergency space. Emergency space is very expensive.

Warehouse Location

You may own one warehouse in each of the home zones.

Check the start position to see what the situation is. You may already own a warehouse in your home zone. Or you may not own any warehouses.

On the decision form wherever you own a warehouse, the Check Box will offer you the chance to sell it. If you do not own a warehouse in some or all of the home zones, the check box will offer you a chance to buy one.

Hired Space Location

Any hired or emergency space will be located in your home zone.

Storage and Space Hire Charges

Warehouses which you own will incur a fixed cost and a depreciation charge each period, regardless of whether they are needed or not.

Each and every item stored will also incur a storage charge each period.

Hired warehouse space simply extends your available capacity only for that one period. Your hire contract is not refundable, even if it is not needed.

Warehousing and Storage Report

Warehousing and Storage Costs are itemised in the Warehousing and Storage Report, and can be viewed in the corresponding "view" dialog. The total charge is carried across to the Profit and Loss Account.

6.2 STORAGE REPORT

Opening Stock

The top section of the storage report shows the total amount of stock at the start of the current period.

Any stock remaining from proceeding periods will always be sold first.

Stock Movements

The next few lines show how your stock has changed this period.

Your stock will have increased by the volume of production plus any items bought-in ready made.

Your stock will have decreased by the amount of sales and contracts actually delivered, plus any stock written off.

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Closing Stock

This section shows the total stock at the end of the period.

Costs and Capacities

The remaining section of this report itemises your warehousing costs and capacities for the current period.

6.3 WAREHOUSE AND STORAGE DECISIONS

Hire Extra Space

Any whole positive number. Hire space is allocated by purchasing multiples of \$1,000 units.

The ECN will specify the amount of extra space which can be purchased for each \$1000 dollars of expenditure.

How to Buy or Sell Warehouses

Check boxes are shown on your decision form. They will appear either as "Sell" or "Buy" boxes, depending on whether you already own a warehouse in that zone. You can only have one warehouse in each of your home zones, ie maximum of five warehouses.

Check the appropriate box.

Your budget will be updated whenever you change the settings in these check boxes.

6.4 STOCK VALUE

Stock is an Asset

At the end of each period, you will probably have some unsold products.

These are assets, and must be included in your balance sheet, under the 'Stock' section.

Stock Valuation

The balance sheet is about financial values. We cannot just state the quantity of items in stock. We must value the stock, and enter the financial valuation in the balance sheet.

Your accounts department will have been keeping records about the Unit Production Cost of your manufactured products in each of the preceding periods, and this is used to calculate the value of stock.

The stock value is calculated separately for each period using the formula:

$$\text{period value} = \frac{(\text{quantity of stock from that period})}{\times \text{Unit production cost for that period}}$$

The total value is the aggregate of the value from each period.

6.5 COST OF GOODS SOLD

Production Goes Into Stock

It is usual to manufacture products and place them in stock, ready for sale.

Therefore, stock is an asset. We have not yet delivered the goods to anybody outside our company.

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When we place goods in stock, we need to keep a note of the cost of manufacturing each item. This is called the unit cost of production, and is used in two places:

1. To calculate the value of goods in stock
2. To calculate the cost of manufacturing the goods actually sold. This is to be charged to the P&L in the period when the sale was made.

Cost of Goods Sold

When an item is sold, it was delivered from stock, and may have been manufactured up to three periods prior to the current period.

The unit cost of production would have been different in each of those periods, so we have been maintaining corporate records showing the stock held from each of the previous three periods, and the corresponding unit production cost.

When an item is sold, we credit the income to the P&L Account. We also charge the cost of making that item to cost of goods sold in the expenditure section of the P&L.

This is how we bring the goods out of stock (an asset) and into the revenue stream.

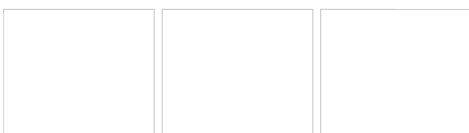
At the same time as we do this, we reduce the stock count, and reduce the stock value by the same amount as we charged to the Cost of Goods Sold.

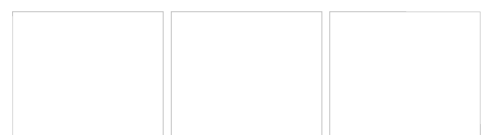
An Analogy

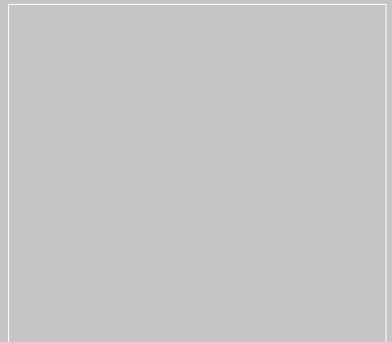
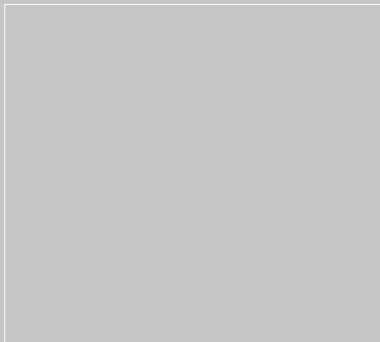
Whilst this is normal accounting practice, it might seem a little hard to grasp.

Imagine that you are stocking up a lolly stall in the local charity fair. You will buy your lollies wholesale, and sell them retail. That is how you will make a profit.

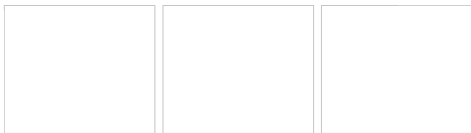
At the start of the fair, you have an asset, being the box of lollies. You paid cash for this asset, so you know how much each lolly has cost you. You sell some at the fair. Unfortunately, you do not sell all of them. At the end of the fair, you have an asset, being the lollies left over. The profit is the revenue taken from the sale of lollies, less the cost of each lolly when you bought the box. The P&L account relates to the lolly stall. It buys the goods from stock, and sells them at retail, to make the profit.







SECTION 7: PERCEPTION OVERVIEW



- 7.1 Product Perception Overview
- 7.2 Perception Report
- 7.3 Perception Decisions
- 7.4 Product Characteristic Overview
- 7.5 Product Characteristic Decisions

SECTION 7: PERCEPTION OVERVIEW

7.1 PRODUCT PERCEPTION OVERVIEW

Market Expectation

The market has an expectation as to the nature of the product that it wants to buy, ranging from "0" to "100" on a continuous scale.

"0" means a simple product, with no options or variety. This is called a commodity product.

"100" means a complex product, with lots of options, much variety and totally customisable for the client.

Match To Your Product

Your product has a characteristic also in the same range.

If you can match your characteristic to the market's needs closer than your competitors, there will be an improvement in your market share. The closer your characteristics to the markets expectations, the more sales you will make.

You may achieve this match by moving the market expectations, or by changing your product, or both.

7.2 PERCEPTION REPORT

Compares Perception with Characteristic

The Perception Report compares your product characteristic with the market place perceived expectation for the current and previous periods.

All other things being equal, your market share will be increased if you can get your product characteristic closer to the market place expectation than that of your competitors.

7.3 PERCEPTION DECISIONS

Values

Any positive value up to \$999,000.

Enter the amount you want to allocate in \$,000 to change the market perception of your products to either the SIMPLER (Commodity) end or COMPLEX (Customised) end of the scale.

Consequences

Your expenditure is aggregated with that from other teams, and a total of approx \$30,000 is required to move the perception one point in either direction.

Opposing expenditure will simply cancel each other out.

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7.4 PRODUCT CHARACTERISTIC OVERVIEW

Commodity or Customise

Your product has a characteristic, ranging from "0" to "100" on a continuous scale.

"0" means a simple product, with no options or variety. This is called a commodity product.

"100" means a complex product, with lots of options, much variety and totally customisable for the client.

7.5 PRODUCT CHARACTERISTIC DECISIONS

Enter your data in the "Simpler" box to move your product nearer towards the commodity end of the scale.

Enter your data in the "More Customised" box to move your product nearer towards the customised end of the scale.

There is NO point in entering data in both boxes.

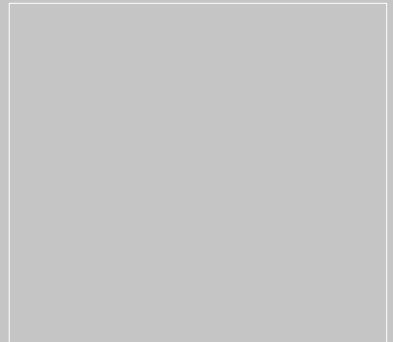
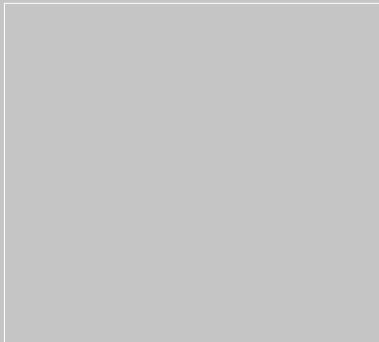
Values

Any positive value. There is no limit, except that set by the constraints of your overall budget.

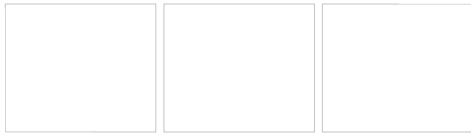
Consequences

Your production department will use this expenditure to alter the characteristic of your product. The point of doing this is to move your product closer to what the market is wanting. Having a characteristic matching the market's perception closer than your competitors will bring a significantly improved market share.

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SECTION 8: FINANCE REPORT OVERVIEW



- 8.1 Finance Report
- 8.2 Investments
- 8.3 Loans
- 8.4 Creditors
- 8.5 Cash Reconciliation
- 8.6 Finance Decisions
- 8.7 Tax
- 8.8 GST Report

SECTION 8: FINANCE REPORT OVERVIEW

8.1 FINANCE REPORT

Purpose

To provide information about investments, loans and interest rates for the current and following period.

Exchange Rates

The exchange rates for Export-1 and Export-2. To convert revenue from export countries to Home Country Currency, divide the export revenue by the exchange rate.

Interest Rate

The interest rates applied this period, along with the forecast of interest rates for the next period.

- Term:

is the term deposit interest rate, and has been applied to all term deposits this period. The interest has been received as cash in the bank, and is a taxable income in the P&L Account.
- Deposit:

is the on-call interest rate and has been applied to all on call deposits this period. The interest has been received as cash in the bank, and is a taxable income in the P&L Account.
- Loans:

is the loan interest rate being charged. The interest has been added to your loan account, and is a claimable expense in the P&L Account.

Credit Sales

You are able to move the percentage of credit sales received in any one period by 20% from the default level. A lower value will give you more cash and less sales, a higher value will give less cash and more sales. (Definition section 8.4). Note: If you set the level outside the 20% limit it will resort back to the default level.

Borrowing Capacity

This shows your borrowing limit, and the current level of your loan account as at the end of last period.

You will either be offered a further loan available, or, if your current loan exceeds your limit, you will be asked to repay at least the excess over your limit.

Repayment of loans exceeding your limit is mandatory.

8.2 INVESTMENTS

On-Call Deposit

You may place funds in a deposit account, and you will receive interest each period.

These deposits are on call, and may be redeemed in any period. Use this option if you have some surplus cash, but are not prepared to commit to a longer term of investment.

If you do not explicitly redeem part or all of your On-Call Investment in any period, then the investment remains in place and is carried forward to the next period.

The ECN will specify the On-Call interest rate in this game.

Term Deposit

Term Investments are for two periods.

They attract higher interest rates than On-Call Deposits, but once invested, the cash cannot be redeemed until the investment term is completed.

Redeeming Term Investments is automatic. The funds are deposited to your bank account at the end of the period on which they mature. For example, if you take a Term Investment for 2 periods in period 2 (i.e at the start of period 2), the deposit will mature at the end of period 3, and the cash will be returned to your bank account in the balance sheet at the end of that period.

The ECN will specify the interest rate of these investments.

Finance Report

The total investment of each team is shown as an asset in the balance sheet, so you can see what other teams are doing.

A breakdown of your own investments appears in the Finance Section of the Management Report.

Consequences

You will receive interest each period on your investments. Interest rates are declared in the ECN, and may be modified via a period newsletter.

Interest is taxable. It appears in your P&L, and contributes to the total taxable income for the period in which it is received.

Increasing or redeeming investments is merely a funds transfer, and these capital movements do not affect the profit and loss account. They do affect the values in the balance sheet at the end of period in which the transfers took place.

8.3 LOANS

Borrowing Limit

Your company has a loan facility.

There is a maximum amount, rather like a credit limit, up to which you may borrow. This is your borrowing limit.

Your borrowing limit is stated in the Finance Report. It will increase if you purchase assets and/or make good profits. It will decrease if your overall asset value decreases and/or you make losses.

Apply for Loans

You may apply for a loan in each period, and provided that it is within your borrowing limit, it will automatically be granted. Simply request the amount you want in the "increase loan" box on the decision form.

Repay

You may repay all or part of your loan at any time. You cannot repay more than your current outstanding loan.

Recall

If your loan exceeds your limit, perhaps because the limit has been reduced, you will be asked to repay at least a minimum payment which will bring your loan down to within your limit.

A loan recall is mandatory.

Interest

Loans attract interest each period. The interest is added to your loan account. Interest is an allowable expense in the P&L.

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8.4 CREDITORS

In this game, the following items are bought on credit:

- Delivery Contract
- 20% Production Costs
- 50% Marketing
- 50% Consultants
- Variable Costs of Warehousing
- Emergency Costs of Warehousing
- Extra Storage Space

The creditors figure in the balance sheet is made up from the previous periods creditors, plus the above credit purchases, less any payments made to the creditors.

8.5 CASH RECONCILIATION

How to reconcile the cash in the Balance Sheet. This can be done from one balance sheet to the next as follows: Cash at the start of the period PLUS Cash Received during the Period LESS Cash Paid during the Period EQUALS Cash at the End of the Period.

This is not an easy calculation, because some purchases are made on credit, and therefore no corresponding immediate cash payment is made. Also some sales are made on credit, so although all sales are accounted in the P&L, there is no corresponding immediate cash receipt for those sales made on credit.

Cash Received in Each Period

The cash received will be from some or all of the following items:

- Interest Received from Investments
- On-call Investment Redeemed
- Term Investment Redeemed (Automatic)
- Additional Loan Received
- Cash from Sale of Plant
- Cash from Sale of Vehicles
- Cash from Sale of Warehouses
- Contract Sales Income
- Cash Proportion of Normal Sales Actually Delivered
- Cash Proportion of Back Orders Actually Delivered
- GST Refund (if eligible)
- The proportion of Debtors who settle this period
- GST charged by you on Assets sold this period
- GST charged by you on all Home Zone Deliveries this period.

Cash Paid Out Each Period

Cash will be paid out as a result of the following expenditure:

- | | |
|--|-------------------|
| Tax Paid (if this is a tax period) | Vehicles Bought |
| GST Paid (if this is a GST period) | Warehouses Bought |
| 80% of Production Cost (20% was on credit) | Admin Costs |
| 50% of Consultant Costs | Loan Repaid |

continues on next page...

(5 consultants, PR & Mkt Perception)
 Variable Cost of Delivery
 Emergency Cost of Delivery
 Own Vehicle Fixed Costs
 Warehousing Fixed Costs
 Plant Bought

Overdraft Interest Paid
 Cash Allocated to Creditors
 Cash Allocated to Shareholder Dividend
 GST paid by you on all purchases
 Contract Penalties Paid

8.6 FINANCE DECISIONS

Investment

State the amount of funds you wish to invest as either On Call Deposit or Term Investment. Any positive value is allowed, subject to the limitations imposed by your budget.

State the amount of funds you wish to redeem from On Call Deposit. You may redeem any amount up to, but not exceeding, Redeeming Term Investments is automatic.

Loan

State the amount by which you want to either increase or repay your loan account.

You cannot increase your loan above your Loan Limit.

You may repay some or all of your loan. You cannot repay more than the value of your loan account.

Other Financial Allocations

Allocate funds to pay creditors. If you do not do this, you will quickly acquire a reputation as a bad payer, and your market share will suffer badly.

These funds will reduce your Cash at Bank, and also reduce the Creditors entry in the balance sheet.

Allocate funds to Shareholder Dividend. These funds will reduce your Cash at Bank, and also **reduce the amount of Retained Profits in the Balance Sheet.**

NOTE: some contests do not use Shareholder dividend.

8.7 TAX

Taxable Income

All revenue generated by the company's trading activity is subject to Corporate Tax.

The Tax department allows approved expenditure to be deducted from the revenue, before the taxable income is assessed.

Taxable income is:

Total Income *Less* Allowable Expenses

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Tax Losses From Previous Periods

If your company made a loss in previous periods, this loss may be carried forward and deducted from taxable income.

So we should update the formula to be as follows...

Taxable income is:

Total income generated this period
Less
Allowable Expenses
Less
Tax Losses brought forward

Tax to Pay

Tax is calculated on the Taxable Income each period according to the published tax rate.

Losses This Period

Losses are not taxed. The amount of the loss is added to any tax losses brought forward from previous periods, and this accumulated tax loss is carried forward to be set against profits in future periods.

When Tax Is To Be Paid

Tax from each period is not paid to the Tax Department immediately. It is transferred to the balance sheet, under the Liabilities Section called "Provision for Tax". This records the fact that you have incurred a liability to pay tax to the Government at some time in the future.

The amount of tax 'waiting' in this section of the balance sheet is paid to the Government when tax is due. Tax payment periods are notified in the Economic Conditions Notice. Tax payments when made will reduce this account to zero.

NOTE: Losses never directly alter the provision for tax.

8.8 GST REPORT

Purpose

This report shows the GST input and output taxes to be accounted for in the current period, and states your current liability in terms of tax due to be paid or refunded to/from the Government Tax Department.

GST Explained

GST is the Tax Regime used by the Government.

It works in two ways:

- GST is applied to everything sold by the company. This includes products, and disposal of assets. The tax is collected by the seller (you) and forwarded to the Government Tax Department on defined intervals.
- GST is charged on goods bought by the company. This includes raw materials, services and assets. This tax is paid by the purchaser (you) at the time of the purchase. You may reclaim this tax from the Government Tax Department at the same time as you pay the Tax collected.

In the course of normal trading, the GST collected by you will be more than the GST paid by you, so the balance is paid to the Government.

However, if you buy lots of assets in any period, it is possible that the balance might be in your favour, in which case you can claim a refund.

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Output Tax

You are required by law to charge GST on all goods sold in the home country, and all assets which you sell.

GST is not charged on goods exported.

This tax which is levied by you on behalf of the Government is call output tax, and you must pass this tax to the Government on an agreed payment schedule.

Input Tax

You pay GST when you purchase Assets, Goods and Services from your suppliers.

Since you are a registered GST corporate body, you are entitled to reclaim this GST from the Government.

This section specifies the elements in this game which are considered to be external purchases and for which you will have paid GST in addition to the cost of the goods.

The GST you have paid is called your input tax.

GST Reconciliation

Each period, your Output Tax and Input are totalled, and your liability with the tax department calculated.

If your Output Tax exceeds your input tax, you will be required to pay the difference to the Government.

If your Input tax exceeds your Output Tax, you may reclaim the difference from the Government.

If you have paid or reclaimed any GST to/from Government this period, then your reconciliation will also show this.

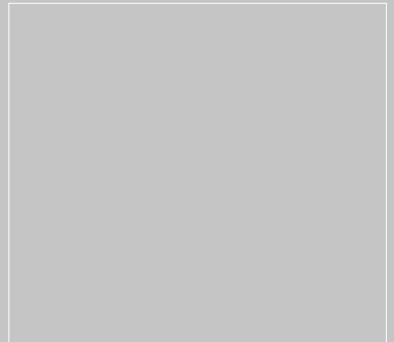
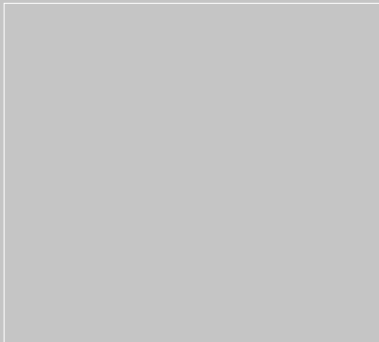
The closing balance represents your current liability in respect of GST. A negative balance indicates you are in credit, and this can be reclaimed on the next scheduled GST payment period.

If the closing balance is positive, this is the amount that you owe to the Government and must be paid at the next scheduled GST payment period.

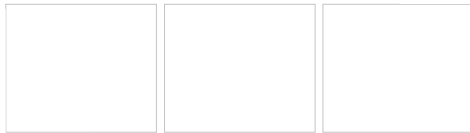
GST Decisions

Since GST is legally mandatory, you have no discretion over these payments. Therefore, in this contest, GST decisions are automatic. Your budget will show refunds/tax to pay in the appropriate periods.

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SECTION 9: USING THE WEB



- 9.1 Web Access
- 9.2 Viewing the Web Pages
- 9.3 Entering Decisions
- 9.4 Downloading the Management Summary Report Pack

SECTION 9: USING THE WEB

9.1 WEB ACCESS

URL

The simulation is run in a dedicated website with access via its own Business Challenge website:

www.businesschallenge.co.nz

To access your teams information, you will need to log in by specifying your TEAMCODE and PASSWORD, as supplied to you by the Business Challenge Administrator.

Teamcodes cannot be changed.

9.2 VIEWING THE WEB PAGES

After logging in, you will be given a page which outlines your current situation.

From the drop-down menu's at the top of the page you will have access to the various pages of management data needed for your decision-making.

Your browser will only display these reports 'one page at a time'. If you want to see more than one page at any time, you may log in again with another copy of your browser.

9.3 ENTERING DECISIONS

From the "Decisions" drop-down menu, click the menu-button "Decision Form".

This will display the decision form for the next period. The current period is indicated by the number buttons at the top of each page.

Entering Data

Click on the field in which you wish to enter data and key your information as required. The game has a substantial validation sequence on each field, and this is triggered when the cursor leaves that field.

You will not be allowed to save a decision which violates any of the decision rules.

Budget

Whenever you enter a financial allocation (eg marketing expenditure), your budget is automatically updated.

You will not be allowed to save a decision in which you are spending more than you are able to make available.

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9.4 DOWNLOADING THE MANAGEMENT SUMMARY REPORT PACK

Click on the drop-down menu labelled "Reports", and click on the button labelled "Summary Report".

You will be given a page from which you can download a detailed concise report pack in Microsoft Word format.

There is one file for each period, and only those files for periods processed to date will be offered to you.

These files are generated by the simulator, so if there is a re-run, your copy of any files already downloaded may be out-of-date.

9.5 ECONOMIC CONDITIONS NOTICE

Click on the drop-down menu labelled "Reports", and click on the button labelled "Economic Notice".

This brings up a summary page of all relevant and current economic data which may impact on your decision making, but is not available from your standard financial reports. The data has been collated from your various suppliers and banks, and summarised in this report.

The report contains details on price for purchasing or using suppliers equipment and the various current interest and tax rates.

9.6 BUSINESS NEWS

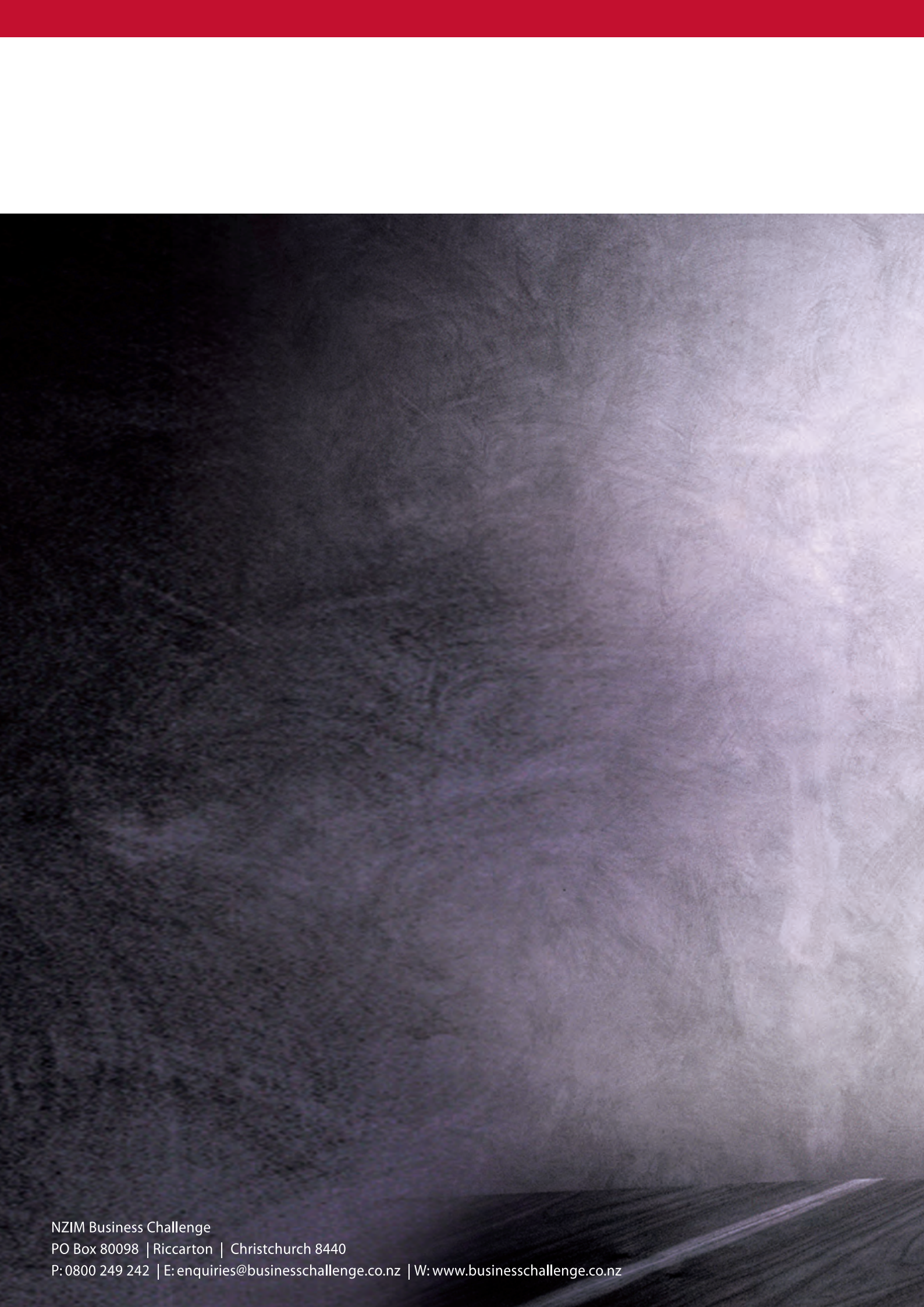
Click on the drop-down menu labelled "Reports", and click on the button labelled "Business News".

The business news is a report compiled by the contest administrator and summarises what has happened across the contest, in general terms. This does not mean that all details have necessarily happened in your game, as each teams decisions can override the economic parameters to some degree.

The report will outline what has happened and also provide an insight into what might happen over the coming periods. Pay particular attention to this information.

There may also be changes to Economic Conditions outlined in the Newsletter.





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