Module Guide

Business Simulation

BBS-6-SIM

School of Business

2016/17

Level 6

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1. MODULE DETAILS

Module Title:	Business Simulation
Module Level:	6
Module Reference Number:	BBS-6-SIM
Credit Value:	10
Student Study Hours:	100
Contact Hours:	16
Private Study Hours:	74
Pre-requisite Learning (If applicable):	none
Co-requisite Modules (If applicable):	none
Course(s):	BA (Hons) Business Administration / Studies
Year and Semester	2016/17, semester 1
Module Coordinator:	Avril Scott
MC Contact Details (Tel, Email, Room)	020 7815 6991, avril.scott@lsbu.ac.uk, LR315
Teaching Team & Contact Details (If applicable):	
Subject Area:	Business Systems
Summary of Assessment Method:	Group coursework
External Examiner appointed for module:	TBC

2. SHORT DESCRIPTION

The module is designed to allow students to experience the reality of business in an uncomplicated and risk-free (simulated) environment.

Students will be starting and running a business, analysing its issues & formulating practical solutions through systems thinking & systems dynamics.

An experiential approach to learning is taken throughout the module. The use of computer based business simulation will be the main focus.

We'll be using 'GLO-BUS' business simulation game published and marketed by McGraw-Hill. GLO-BUS attempts to mirror the real-world character of the digital camera industry, a business that students can readily identify with and understand. This industry makes a good setting for a strategy simulation because students are intimately familiar with and can readily grasp the workings of the industry. The market displays the characteristics of many globally competitive industries; fast growth, competition among companies from several continents, competitive approaches and business strategies.

At the end of each simulated year, scores and performance are published which are then used to help with subsequent years' strategies by the teams.

The module also includes some related topics and sustainability within a business.

3. AIMS OF THE MODULE

To enable the student to:

Gain strategic decision making experience in production operations and employee compensation, pricing and marketing, corporate social responsibility & citizenship and financing using a sophisticated business simulation on a computer. Students will use their knowledge and expertise obtained from modules they have so far studied in particular, Business Skills (level 5) and Strategic Management (Level 6).

4. LEARNING OUTCOMES

4.1 Knowledge and Understanding

- Knowledge and understanding of a business through a computer business simulation
- Understand the complexity of running a multinational and multimillion business industry
- Issues that relate to product quality, pricing, marketing and finance within a large company
- The importance of employee compensation and corporate social responsibility
- Gaining hands-on experience of strategic decision making within a large business

4.2 Intellectual Skills

- Through teamwork, learn to work with and relating to others
- Communication
- Decision making process

4.3 Practical Skills

- Ability to analyse data for better decision making

4.4 Transferable Skills

The skills gained in this module are transferable within the Business degree and beyond.

- Thinking critically
- Decision making
- Communication
- Working with others.

5. ASSESSMENT OF THE MODULE

The assessment is incorporated in the simulation. An end-of-simulation Learning Assurance Report (LAR) provides data concerning how well students perform. The report measures a number of areas of student proficiency, business know-how and decision-making skills.

Students work within teams; each team will consist of 3 /4 members (known as co-managers) and will be running their business over a number of simulated years. All students will be participating in two quizzes and all teams will be running their business in a competitive environment over a number of simulated years.
The simulation will also require teams to make a 3 year strategic plan. To ensure that all team members put equal effort into running their business, peer evaluation is embedded into the business simulation which would contribute to final mark.
Components of the assessment are carried out at various points with in the semester and are graded accordingly.

Assessment	**weighting**
Quiz 1:	**10%**
Quiz 2:	**15%**
3 year strategic plan:	**20%**
Overall performance within specified number of simulated years:	**35%**
Peer Evaluation:	**20%**
	Total: 100%

6. FEEDBACK

The business simulation software provides feedback quickly to enable students to do well in their next task through regular weekly reports.

Feedback will normally be given to students 15 working days after the final submission of an assignment or as advised by their module leader.

General feedback, applying to all students, will also be placed on the module VLE site within 15 working days.

7. INTRODUCTION TO STUDYING THE MODULE

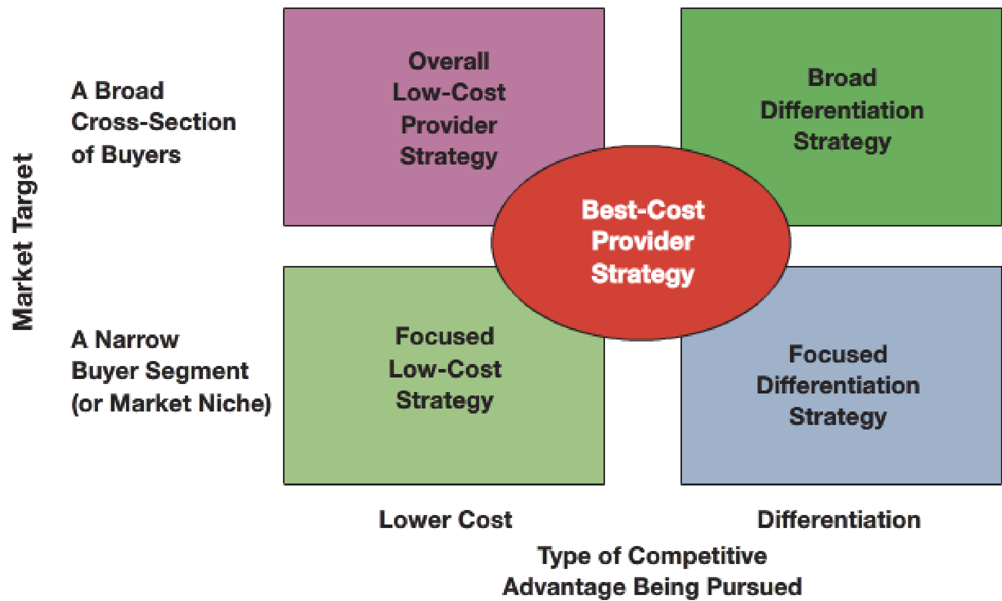
7.1 Overview of the Main Content

- Using GLO-BUS business simulation, all companies start out on the same footing—with equal sales volume, global market share, revenues, profits, costs, product quality and so on.
- Each decision period in GLO-BUS represents a year (although there may be opportunities for update a portion of decisions).
- The company students will be running began operations 5 years ago and the first set of decisions team members (co-managers) will make is for Year 6.
- The product- The Company is selling close to 800,000 entry-level cameras and 200,000 multi-featured cameras annually. Prior-year revenues were $202 million and net earnings were $20 million, equal to $2.00 per share of common stock.
- The company is in sound financial condition, is performing well, and its products are well-regarded by digital camera users.
- Team members will make decisions during each period relating to
- R&D (Return On Equity) , camera components and features and camera quality performance (up to 10 decisions)
- Production operations and worker compensation (up to 15 decisions)
- Pricing and marketing (up to 16 decisions)
- Corporate social responsibility and citizenship (as many as 6 decisions)
- Financing of company operations (as many as 4 decisions).

GLO-BUS simulation website includes some good and elaborated help in the form of text and basic videos. The topics that are incorporated into its business simulation include;

- Competitive strategy
- Charting company's long term direction/vision
- Evaluating a company's external environment
- Evaluating a company's resources
- Strategies for competing globally
- Diversification strategies
- Ethics and social responsibility
- Managing internal operations
- Corporate culture and leadership
- The five basic competitive strategy options

The five competitive strategy options



Source: This is an author-expanded version of a three-strategy classification discussed in Michael E. Porter, *Competitive Strategy* (New York: Free Press, 1980), pp. 35–40.

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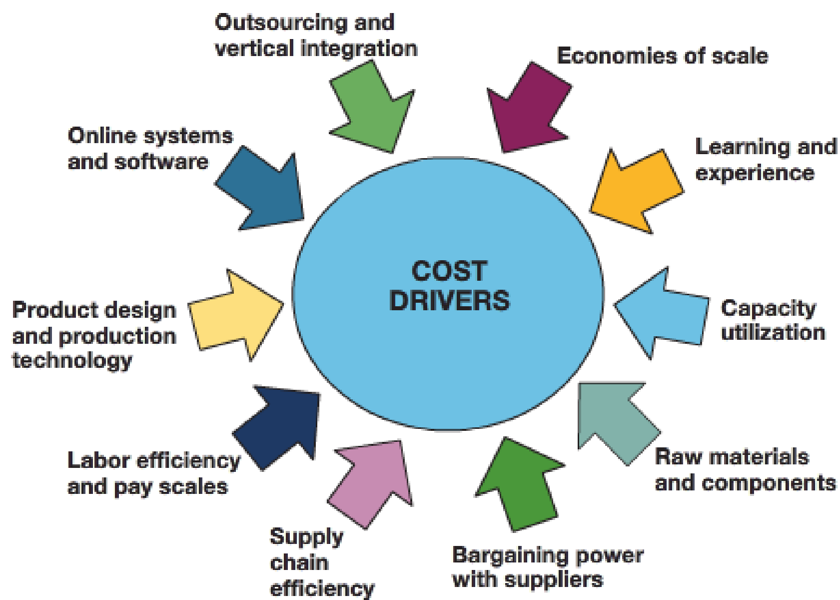
The types of Cost Drivers – Keys to Driving down Costs:



7.2 Overview of Types of Classes

The teaching method will include some lectures but mainly the use of GLO-BUS business simulation software in a computer lab.

Lecture & practical seminar: Two hours per week

Due to the practical nature of this module, regular weekly attendance is crucial for the successful completion of the module.

7.3 Importance of Student Self-Managed Learning Time

Student responsibility in the learning and development process will be emphasised. Students are required to undertake directed self-study and prepare solutions/discussions to questions relative to various topic areas. Students will be encouraged to identify for themselves particular problems of difficulty and to use seminar discussions, where appropriate, for the resolution of these. Students must regularly access the Moodle site for this module. They should download the class/lecture material from the Moodle site, and do the recommended reading, before each lecture/class.
Where appropriate, students are also expected to download the relevant seminar questions and study them in advance of each seminar, in order to derive maximum benefit from seminar time. The programme of teaching, learning and assessment gives guidance on the textbook reading required for each week, the purpose of which is to encourage further reading both on and around the topic.

7.4 Employability

On completion of this module, students will be able to:

Successfully contribute in teamwork and with those from different backgrounds.

Through business simulation, students can appreciate the complexity of running a multinational and multimillion industries including the issues on strategic decision making, employee compensation, corporate social responsibility, product quality, pricing, marketing and finance.

8. THE PROGRAMME OF TEACHING, LEARNING AND ASSESSMENT

The Weekly Programme-

Once students are given their GLO-BUS account details, the weekly programme is then driven mainly by the software. A schedule of tasks to be completed during the simulation run will be published.

For LSBU Academic Calendar, please visit 'My LSBU';
https://my.lsbu.ac.uk

9. STUDENT EVALUATION

The preious cohort had a 100% success rate on this module. More time will be given to the development of the 3 year strategic plan as a results of student feedback.

10. LEARNING RESOURCES

Reading List

Link to the reading list online.
https://lsbu.rl.talis.com/lists/6C693A3D-CC54-9E3C-852F-FF346316B117.html

Student need to visit;

www.glo-bus.com
(for the simulation software and related material)

Appendix A

Taken from the Glo-Bus website.

Financial Ratios Used In *GLO-BUS*

Profitability Ratios **(as reported on pages 2 and 6 of the *GLO-BUS* Statistical Review)**

- **Earnings per share (EPS)** is defined as net income divided by the number of shares of stock issued to stockholders. Higher EPS values indicate the company is earning more net income per share of stock outstanding. Because EPS is one of the five performance measures on which your company is graded (see p. 2 of the GSR) and because your company has a higher EPS target each year, you should monitor EPS regularly and take actions to boost EPS. One way to boost EPS is to pursue actions that will raise net income (the numerator in the formula for calculating EPS). A second means of boosting EPS is to repurchase shares of stock, which has the effect of reducing the number of shares in the possession of shareholders.
- **Return on equity (ROE)** is defined as net income (or net profit) divided by total shareholders' equity investment in the business. Higher ratios indicate the company is earning more profit per dollar of equity capital provided by shareholders. Because ROE is one of the five performance measures on which your company is graded (see p. 2 of the GSR), and because your company's target ROE is 15%, you should monitor ROE regularly and take actions to boost ROE. One way to boost ROE is to pursue actions that will raise net profits (the numerator in the formula for calculating ROE). A second means of boosting ROE is to repurchase shares of stock, which has the effect of reducing shareholders' equity investment in the company (the denominator in the ROE calculation).
- **Operating profit margin** is defined as operating profits divided by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). A higher operating profit margin (shown on p. 6 of the GSR) is a sign of competitive strength and cost competitiveness. The bigger the percentage of operating profit to net revenues, the bigger the margin for covering interest payments and taxes and moving dollars to the bottom-line. A bolded number for the operating profit margin shown in the bottom section of page 6 of the GSR signifies the company has the best operating profit margin of any company in the industry. Numbers that are shaded designate companies with sub-par margins, thus signaling a need for management to work on improving profitability.
- **Net profit margin** is defined as net income (or net profit, which means the same thing) divided by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). The bigger a company's net profit margin (its ratio of net income to net revenues), the better the company's profitability in the sense that a bigger percentage of the dollars it collects from camera sales flow to the bottom-line. *The net profit margin represents the percentage of revenues that end up on the bottom line.* A bolded number for the net profit margin shown in the bottom section of page 6 of the GSR signifies the company has the best net profit margin of any company in the industry. Numbers that are shaded designate companies with sub-par margins, thus signaling a need for management to work on improving profitability.

Operating Ratios **(as reported on the Comparative Financial Performances page of the *GLO-BUS* Statistical Review)**

The ratios relating to costs and profit as a percentage of net revenues that are at the bottom of page 6 of the GSR are of particular interest because they indicate which companies are most cost efficient:

• **The percentage of total production costs to net sales revenues.** This ratio is calculated by dividing total production costs of cameras by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). Low percentages are generally preferable to higher percentages because they signal that a bigger percentage of the sales price for each camera is available to cover delivery, marketing, administrative, and interest costs, with any remainder representing pre-tax profit. Companies having the highest ratios of production costs to net revenues are likely to be caught in a profit squeeze, with margins too small to cover delivery, marketing, and administrative costs and interest costs and still have a comfortable margin for profit. Production costs at such companies are usually too high relative to the price they are charging (their strategic options for boosting profitability are to cut costs, raise prices, or try to make up for thin margins by somehow selling additional units).
• **The percentage of delivery costs for cameras to net sales revenues.** This ratio is calculated by dividing total delivery costs by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). A low percentage of delivery costs to net revenues is preferable to a higher percentage, indicating that a smaller proportion of revenues is required to cover delivery costs (which leaves more room for covering other costs and earning a bigger profit on each unit sold).
• **The percentage of total marketing costs for cameras to net sales revenues.** This ratio is calculated by dividing total marketing costs by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). A low percentage of marketing costs to net revenues relative to other companies signals good efficiency of marketing expenditures (more bang for the buck), *provided unit sales volumes are attractively high*. However, a low percentage of marketing costs, if coupled with low unit sales volumes, generally signals that a company is spending *too little* on marketing. The optimal condition, therefore, is a low marketing cost percentage coupled with high sales, high revenues, and above-average market share (all sure signs that a company has a cost-effective marketing strategy and is getting a nice bang for the marketing dollars it is spending).
• **The percentage of total administrative costs for cameras to net sales revenues.** This ratio is calculated by dividing administrative costs by net revenues (where net revenues represent the dollars received from camera sales, after exchange rate adjustments and any promotional discounts). A low ratio of administrative costs to net revenues signals that a company is spreading its fixed administrative costs out over a bigger volume of sales. Companies with a high percentage of administrative costs to net revenues generally need to pursue additional sales or market share or risk squeezing profit margins and being at a cost disadvantage to bigger-volume rivals (although a higher administrative cost ratio can sometimes be offset with lower costs/ratios elsewhere).
Bolded numbers in any of the cost ratio columns on page 6 of the GSR signify companies with industry-best ratios. Ratios that are shaded designate companies with sub-par ratios and generally indicate that management needs to work on improving that measure of cost competitiveness.

Liquidity Ratio **(as reported on the Comparative Financial Performances page of the *GLO-BUS* Statistical Review)**

• The **current ratio** is defined as current assets divided by current liabilities. It measures the company's ability to generate sufficient cash to pay its current liabilities as they become due. At the least, your company's current ratio should be greater than 1.0; a current ratio in the 1.5 to 2.5 range provides a much healthier cushion for meeting current liabilities. Ratios in the 5.0 to 10.0 range are far better yet. A bolded number in the current ratio column designates the company with the best/highest current ratio; companies with shaded current ratios need to work on

improving their liquidity if the number is below 1.5.

Dividend Ratios **(as reported on the Comparative Financial Performances page of the GLO-BUS Statistical Review)**

• The **dividend yield** is defined as the dividend per share divided by the company's current stock price. It shows what return (in the form of a dividend) a shareholder will receive on their investment in the company if they purchase shares at the current stock price. A dividend yield below 2% is considered "low" unless a company is rewarding shareholders with nice gains in the company's stock price price. A dividend yield greater than 5% is "considered "high" by real world standards and is attractive to investors looking for a stock that will generate sizable dividend income. In GLO-BUS, you should *consider* the merits of keeping your company's dividend payments high enough to produce an attractive yield compared to other companies. A rising dividend has a positive impact on your company's stock price (especially if the dividend is increased regularly, rather than sporadically), but the increases need to be at least $0.05 per share to have much impact on the stock price. However, as explained below, you do not want to boost your dividend so high (just for the sake of maintaining a record of dependable dividend increases) that your dividend payout ratio becomes excessive. Dividend increases should be justified by increases in earnings per share and by the company's ability to afford paying a higher dividend.

• The **dividend payout ratio** is defined as the dividend per share divided by earnings per share (or total dividend payments divided by net profits—both calculations yield the same result). The dividend payout ratio thus represents the percentage of earnings after taxes paid out to shareholders in the form of dividends. Generally speaking, a company's dividend payout ratio should be less than 75% of EPS, unless the company has paid off most of its loans outstanding and has a comfortable amount of cash on hand to fund growth and contingencies. If your company's dividend payout exceeds 100% for several quarters and certainly for more than a year or two, then you should consider a dividend cut until earnings improve. Dividends in excess of EPS are unsustainable and thus are viewed with considerable skepticism by investors—as a consequence, dividend payouts in excess of 100% have a negative impact on the company's stock price.

Credit Rating Ratios **(as reported on the Comparative Financial Performances page of the GLO-BUS Statistical Review)**

Below are descriptions of each of the four factors determining your company's credit rating:

• The **debt-equity ratio** (defined as long-term debt divided by total shareholders' equity) indicates the extent to which the company's long-term capital has been supplied by creditors or by shareholders. A debt-equity ratio of .33 is considered "good". As a rule of thumb, it will take a 4-quarter average debt-equity ratio close to 0.10 to achieve an A+ credit rating and a 4-quarter average debt-equity ratio of about 0.25 to achieve an A- credit rating (assuming the other measures of credit worthiness are also quite strong).

• The **times-interest-earned ratio** (defined here as operating profit for the last four quarters divided by net interest for the last 4 quarters) is a measure of the safety margin that creditors have in assuring that company profits from operations are sufficiently high to cover annual interest payments. A times-interest-earned ratio of 2.0 is considered "rock-bottom minimum" by credit analysts. A times-interestearned ratio of 5.0 to 10.0 is considered much more satisfactory for companies in the digital camera industry because of quarter-to-quarter earnings volatility over each year, intense competitive pressures which can produce sudden downturns in a company's profitability, and the relatively unproven management expertise at each company.

• The **debt payback capability** is a measure of the number of years it will take to pay off the company's outstanding loans based on the most recent year's ***free cash flow*** (where free cash flow is defined as net income *plus* depreciation *minus* total dividend payments). Net income is reported on a company's Income Statement, companywide depreciation costs are reported on the Production Cost Report, and annual dividend payments are shown on the Cash Flow Statement portion of a company's Finance Report. The number of years to pay off the debt equals the amount of long-term debt shown on the Balance Sheet divided by free cash flow. A short debt payback period (less than 3 years) is a much stronger sign of creditworthiness and cash flow strength than a long payback period (8 to 10 years or more). If your company's number for debt payback is bolded, then your company has the shortest payback period in the industry; if your company's number has a shaded background, then your debt-payback period is high relative to rivals and you need to work on improving profitability and free cash flows in order to reduce the debt payback period.

• A company is considered more creditworthy when its **line of credit usage** is small (say 5% to 15% of the total credit available) because it has less debt outstanding and greater access to additional credit should the need arise. A company's creditworthiness is called into serious question when it has used 80% or more of its credit line, especially if it also has a long debt payback period, a relatively high debtequity ratio, and/or a relatively low times-interest earned ratio. Generally speaking, credit analysts like to see companies using only a relatively small portion of their credit lines over the course of a year (there's no problem of borrowing more heavily to finance the typically double production levels of the third quarter so long as most of these borrowings are repaid in the fourth quarter when the cash from high thirdquarter sales is received). What troubles credit analysts most is a company that calls upon 50% or more of its credit line quarter-after-quarter, year-after-year and seems constantly on the verge of struggling to pay its debt outstanding. Companies that utilize only a small percentage of their credit lines are viewed as good credit risks, able to pay off their debt in a timely manner without financially straining their business.

The four credit rating measures are of roughly equal importance in determining a company's credit rating. However, weakness on just one of the four can be sufficient to knock a company's credit rating down a notch. Weakness on two (or more) can reduce the rating by several notches. *If any of the credit rating measures for your company have a shaded or highlighted background, then you and you co-managers need to take calculated action to get those ratios up as rapidly as possible.* Bolded numbers on the credit rating measures indicate credit rating strength relative to rival companies. *Companies placed on credit watch need to pay special attention to improving their creditworthiness and financial performance.* This nearly always means considering strategy changes and boosting your company's competitiveness in the marketplace so as to greatly improve your company's overall profitability and ROI