



How to control the market...



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0. INTRODUCTION

You have been chosen to manage a dairy products company, whose shareholders have established themselves in the European Union. The company produces milk and/ or yogurt. Your company has to draw up a management plan for the span of one year and this plan takes the explicit shape of a set of decisions. These decisions are processed by the Praxis MMT41® simulator, which calculates the results achieved by each company and then shows the results to the participants. Each company is unaware of the decisions and results of the others, except for the information that can be obtained from market research.

Based on these results, participants must draw up a new management plan for another year that will give rise to new decisions, which will follow the same procedure as described in the previous paragraph.

The simulation Director will stipulate the duration of the simulation, i.e. for how many “years” a new annual management plan must be prepared. The results attained by each company will at the end be compared with the ones from its competitors. The goal of the simulation is to achieve maximum profitability. The role of each company is to apply the knowledge and criteria required in real-world business management decision-making.

1. COMPANIES

Initially, the companies start from the same situation, and therefore have identical Balance Sheets.

Initial Balance Sheet in euros:

Assets		Liabilities and Owners' Equity	
Fixed Assets	29,900,000	Equity	53,900,000
Inventory	--		
Cash and Equivalents	24,000,000		



Fixed assets consist of land, buildings and production facilities.



All numeric data appearing in this document use the convention of separating thousands by a comma and decimals by a point. In decisions where decimals can be applied, the simulator accepts up to two decimal places.



2. THE ENVIRONMENT

There are two markets located in the same number of territories that we will call A and Y. Market A belongs to the European Union and therefore uses the euro. Market Y is an area in a foreign country that can be associated with a U.S. region, whose currency is the dollar. Consequently, before making any decision equivalent to one year of business, the simulation Director will provide the exchange rate at that particular moment between the Dollar and the Euro for those companies that decide to export.

All the competing companies are geographically located in A and are subject to their country's regulations. Therefore, their Income Statement and Balance Sheets are presented in euros.

The demographic and geographical data of the two territories is as follows:

	Population	Surface Area
A	10,500,000	100,000 Km ²
Y	14,000,000	210,000 Km ²



Each market has a different per capita income, subject to change every year. The simulation Director will provide the participants with this information for A and Y before each plan.

Companies in market A have no competition other than themselves. On the other hand, in market Y, besides the possible performance of other participant companies, there are also domestic companies competing with those companies that decide to export. These companies are assumed to act as one in their decision-making strategy.



In market Y, all decisions involving money are to be expressed in euros as the simulator applies the corresponding dollar exchange rate.


3. PRODUCTS

Each company can manufacture two products that we will call L and T. Both are massconsumption products from the food industry, and participants can identify them as UHT (Ultra High Temperature) MiLk and YogurT respectively. In both cases, the sales unit is the Liter.

The model behaves just as real markets would for these two particular products, although the intention is not for it to be absolutely exact. Both are frequently used mass consumption products, and L is a prime necessity.

The approximate per capita consumption for each product at the beginning of the simulation is as follows:

	Market A	Market Y
Product L	75 liters	71 liters
Product T	9 liters	7 liters



Obviously demand will change according to the sales effort undertaken by each company.

The international trend for companies that produce mass-consumption goods (food, cleaning, toiletries, etc.) is for firms not to use the corporate brand name to push their individual product brands. That is, they do not use a family brand to refer to their portfolio of products. The simulator emulates this behavior, and the different products that the companies are able to manufacture and sell have individual brands, perceived as independent by consumers. This trend seems to be the most common, but it is not the only one.



Regarding brand positioning, if a company sells the same product in two markets, it can either use the same positioning strategy for all of them, or use a different one for each market, just like in the real world.

Both dairy products have a long shelf life and what is left as inventory at the end of a period is what is first sold in the next one. In any case, inventories will not deteriorate and are not subject to realization.

4. MARKETS

Consumer attitudes and behaviors are directly related to their wealth, as defined by each market's per capita income.

With regard to the different markets, products L and T behave as follows:

L, at the beginning of its business activity, is an essential product and is at a phase of sustained maturity in the two market-territories, A and Y. This situation will be maintained throughout the rest of the simulation.

T, at the beginning, has already been launched into market A and has considerable growth possibilities. In market Y, at the beginning of the simulation, it is already at the maturity phase achieved by the domestic companies.

In market A there are three distribution channels for each that we will call T, S and G.

In market Y, there is only one type of channel: G.

The number of points of sale for each channel are specified in the following table:

		A	Y
T	Traditional retailers	2,160	
S	Supermarkets	1,620	
G	Hypermarkets	35	200

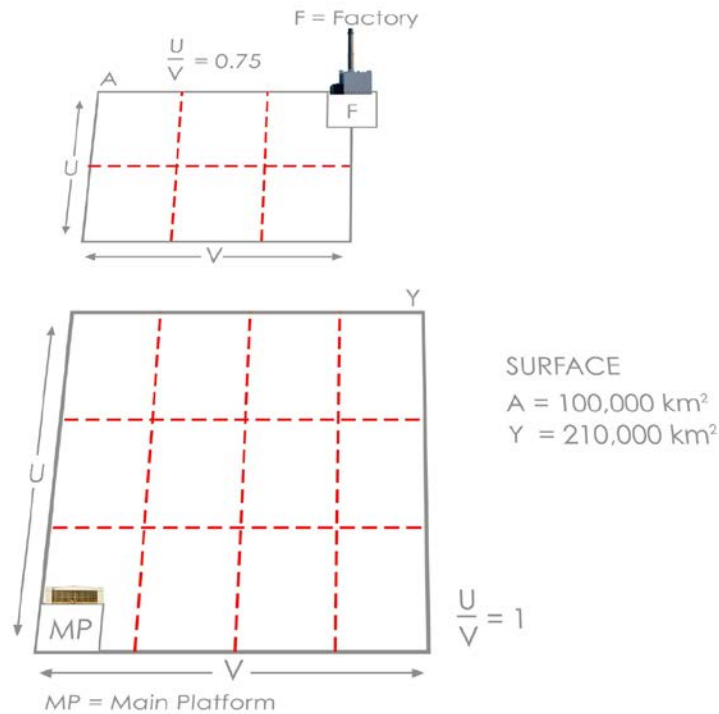


Each territory is structured into areas that require the establishment of sales offices, in such a way that 6 offices are needed for A and 12 offices for Y.

Participants can decide whether these intermediate distribution outlets are to be the company's own sales branches or the property of independent food wholesalers. Of course, a mixed solution is also possible; therefore, for each of the market-territory in which you want to compete, the number of company-owned branch offices and/or wholesalers to establish must be decided.

The territorial structure is homogeneous, so each element (office and retailers) within it is equidistant from its adjacent elements.

The map of territorial structure is as follows:



5. DEMOGRAPHIC PROFILES OF PURCHASERS

Demographic profiles are very similar in all markets. It has been detected that buyers represent the 25% of total population in all markets.

It is also known that out of that 25%, the number of female buyers equals that of male buyers, meaning that 50% corresponds to each sex.

6. BRANCHES

Your company must decide in how many of the sales areas (6 in A and 12 in Y) to establish branches, assuming that independent wholesalers are used at the remaining points. This is the same for the three markets-territories.

Branches are set up on rented premises. Own branch facilities consist of a warehouse, an office and a team of sales representatives (reps) who deal with retailers. These branches have a fixed annual cost of 143,700 euros, not including the remuneration of the above mentioned sales force handling channels S and T. The Branch Manager is in charge of channel G negotiations, and his cost is included in the fixed amount of 143,700 euros.

You must decide the cost for each rep for channels S and T and, at the same time, decide how many people are needed for each of these channels (assuming company sales activities in these channels).

The same happens in country Y, except that the set annual cost of the branch totals 300,000 dollars / year and no sales-force recruitment is necessary, as only channel G exists in Y and, as mentioned above, this is handled by the Branch Manager.

The sales organization, whether handled by independent wholesalers or in-house, is identical for products L and T, and the same reps and agents work with both products.



The number of sales representatives has to be entered per branch office, and is assumed to be identical for each branch established by the company in that same market. Therefore, the total amount of sales reps is reached by multiplying the number of reps for each branch by the total number of branches established by the company.

7. WHOLESALERS

The independent wholesalers used for the areas in each market charge 8% of the retail price for normal items they sell, and 6.5% of the retail price for items sold through promotions.

These percentages are the same for A and Y and, as we will see later on, include the transportation cost from wholesaler to retailer. In the case of market Y, customs duty is also included.

8. SALES MANAGEMENT AND PHYSICAL DISTRIBUTION

Having the product physically available for buyers requires two separate types of actions: one called “sales” and the other called “physical distribution”. Both should be coordinated and correctly planned.

Selling is done by representatives that negotiate with retailers and take orders, in addition to assuring the presence of products in stores. Physical distribution is done through platforms (warehouses). In large areas, these reps (sales force) and physical distribution platforms (warehouses) have to be close enough to retailers; therefore, it is necessary to divide the territory into several zones controlled by a sales office. These offices controlled the platforms.

Offices’ sales, each in their own zone, have to be distributed from platforms (warehouses) that may be owned by the company or not, depending if they are located on zones operated by branches or wholesalers.

The unit cost of door-to-door transport from factory to any transitional warehouse (whether wholesaler or branch office) is 0.01 euros per liter in markets A. The cost to any platform (warehouse) in Y is 0.03 euros per liter, including freight, insurance and customs clearance.

Transport from any platform to a retailer in A is 0.01 euros per liter (if delivered from a branch facility). The respective cost in market Y is 2 cents (dollar) per liter. If transport between the platform and retailer is done from a wholesale warehouse, this cost is charged to the actual wholesaler and is included in its percentage both in A and Y.





The customs duty that authorities in Y charge exporters from A amounts to 2% ad valorem. When the importer is a wholesaler in Y, this tariff is already included in their margin (commission or percentage). On the other hand, when the importer is the actual company working through their branch, the tariff is charged to the company.

In this second case 2% will be calculated on the figure resulting from adding the standard cost to the transport from factory to the warehouse:

$$(\text{Standard cost} + 0.03 \text{ euros}) \times 0.02 = \text{unit cost of customs duty.}$$


The sum of the transport costs and the tariff percentage is the same for products L and T. However, the unit cost of customs duty will not be the same as the standard cost is different for L and T.

9. SALES FORCE

The cost of the sales force employed at the branch offices is included in this category. The Branch Manager's salary is not included, as it is part of each branch's fixed expenses.

The company has to decide on the size of its sales force for channels S and T in each market. The sales force salary policy must also be delineated, and may include both a fixed and a variable component. These decisions may be different in each of the two markets. These two components can vary according to the following range:

Salary	Minimum	Maximum
Fixed portion	21,000 euros/year	42,000 euros/year
Variable portion	0'6 %	1'2 %



The fixed portion of the salary is mandatory, whereas the variable portion is optional. However, if you choose to pay a variable portion, it must be within the percentage range given above. The variable portion of the salary will be determined by the normal units sold to retailers, therefore excluding units sold through promotions. Commissions are calculated based on the price given to the retailer, and not on the retail price. Units sold through wholesalers' sales forces are not subject to any payment of commissions to their reps by your company.

10. PRICES

Each company has to set the prices for each product in every channel and market where it decides to operate.

These prices are always the sales prices to the general public or final consumer (retail price), and therefore each company's sales will equal these prices multiplied by the units sold in each channel and market. Prices can obviously be adjusted each year. Up to two decimal places may be used.



The simulator assumes that companies are operating in a channel with a product if a price has been set for said product. If no price is specified, the simulator will assume that the company is not commercializing

11. ADVERTISING

There are several types of mass media in the markets, used in either a digital or traditional way, whose audience is limited to the territory itself.

Rival companies can use one or several advertising media in each market. The types of advertising outlets with their rates expressed in dollars and euros, by insertion/repetition, are the following in the two markets:

Media		A in €	Y in \$
Display network and Remarketing <i>Banners/ads on websites</i>	DR	10,000	11,000
Press <i>Newspapers/Magazines: Print and online</i>	PR	15,000	16,000
Radio <i>Stations: Conventional and online</i>	RA	14,000	16,000
Social media <i>Closed communication platforms</i>	SM	15,000	15,000
Television <i>Channels: Conventional and online</i>	TV	18,000	20,000

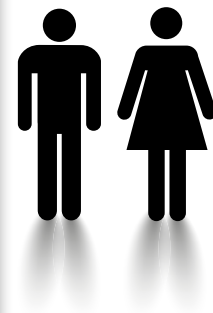


You must specify the total annual ads on the decisions.

12. SCOPE (RATING)

The following table shows the percentage of buyers reached by one insertion/repetition of each advertising media. That is the scope.

Media		A	Y
Display network and Remarketing <i>Banners/ads on websites</i>	DR	28	26
Press <i>Newspapers/Magazines: Print and online</i>	PR	48	31
Radio <i>Stations: Conventional and online</i>	RA	35	40
Social media <i>Closed communication platforms</i>	SM	30	29
Television <i>Channels: Conventional and online</i>	TV	60	61



Knowing how many people will be reached, over the 25% of population which are the buyers, you will have to decide how many times to reach each of them. That is the insertions/repetitions/frequency, the number of times that you want your advertisement to be seen.

All outlets overlap some other outlet. That means buyers, generally, are not only receptors of one single advertising media, but of two or more. The market study on coverage can allow you to know the percentage of buyers that has been reached.

13. MARKET POSITIONING

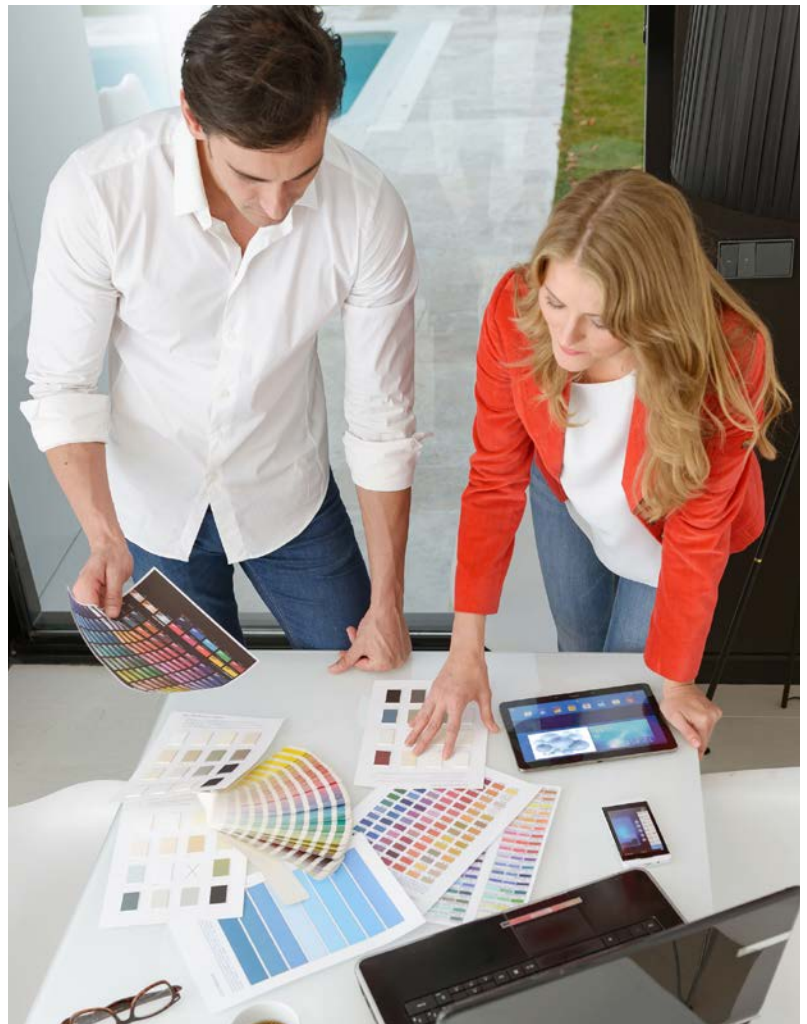
Your advertising agency presents you with different alternatives as described in the Appendix. Each of these ads/campaigns includes the description of a visual scenario and a text, the essence of the message to be conveyed, that can be used for audio-visual and printed media. Your company must choose one of them for each market and product that you wish to sell. The advertising campaign and budget can change each year.

There are three major segments of distinct consumers that are connected to different buying and brand-choosing behaviors. The weight of each is of 40, 40 and 20%. It is up to the companies to locate these consumer segments and reach them according to their strategic plans.

If you request the market research studies that give the positioning maps of the competing brands, you will see two unnamed axes that should be interpreted. They are drawn up using the most advanced statistical techniques -more specifically- the Kyst computer version of the non-metric multi-dimensional scale method, NMMS. The axes represent the attributes or groups of attributes that are valued by consumers, and the interpretation of their meaning must also be done, as would occur in the real world.

The image attributes of a brand usually cannot be changed in the span of one year, but due to the fact that the number of simulated years is reduced, the simulator allows the positioning to be modified each year, so that a good training can be achieved. If it were not the case, the trial and error process would not be possible with this particular feature of brand image. Therefore your company can change its positioning from one year to the next if you wish to do so, without the need to undertake any additional marketing efforts.

There are three major domestic brands in market Y that appear on the positioning map. They are dubbed H, I & J. These brands are located in the three essential strategic spaces of market Y. These spaces correspond to the three biggest consumer segments. With regard to all the other marketing issues, the three domestic brands, along with others with a less significant market share, behave as if they were a single brand. In other words, it is as if these domestic brands were united by a close relationship.



If your company does not enter an advertising campaign, the simulator will give you a not define, neutral positioning.

14. SALES PROMOTIONS

Every year rival companies may carry out specific promotional sales campaigns. To do so, they must decide what products, and in which channels and markets, they want to promote. In each of the cases the number of annual promotions must be decided, bearing in mind that every year a maximum of 4 promotions can be implemented in each channel for each product.

The next decision is the type of promotion that your company prefers. In a given year, you can only select one type of promotion for each channel. For example, if a company decides to do 3 promotions of the 3x2 type in market A, channel S supermarkets, all three promotions will be of that type. Different decisions can be made for other channels.

It is possible and allowed by the simulator that two or more participating companies can have promotions of the same type for a product in the same channel and market, but the simulator prevents these promotions from being carried out simultaneously, just as in real life. In assessing the sales that may result from any promotion, keep in mind that its effect will last two weeks and that the simulation assumes 52 weeks. It should be clear that the promotion may not be accepted or that, on the other hand, it may be so successful that it exceeds all estimates. Experience and market knowledge will provide the necessary information for decision-making.

There are three different types of promotions:

1. *Price reduction*: This consists of a discount on the retail price that the company sets for a certain market, channel and product. The amount discounted must be stated on the decisions, in Euros per unit. If the promotion is in Y, the discount should be specified in Euros and the simulator will convert it to dollars according to the dollar exchange rate at that time.
2. *3x2*: The retailer will give the end consumer three liters of milk or yogurt for the price of two at the time of purchase.
3. *Discount on next purchase*: Upon purchasing one liter of product, the consumer receives a discount coupon that can be used on the next purchase. You must record on the decisions how many Euros will be discounted on the retail price when the coupon is exchanged at the moment of the second purchase.

The simulator (that behaves just like the market) will only accept sufficiently attractive promotions; so, on the Result Sheets, the participating company can see which promotions have been accepted. Any rejected promotions generate no cost whatsoever.



When entering the decisions only those necessary to carry out the selected promotions should be inserted. For example, in the case of a 3x2 promotion it is not necessary to insert anything else. In the case of a discount on next purchase, the amount of Euros to be discounted has to be stated.

15. RETAILERS

The participating company must set the margin given to retailers (its clients). This has to be done for each channel, market and product; that is to say, in all cases where prices have been set.



The margin for each unit sold should be stated on the decisions in euros, and not as a percentage. Although obvious, you should take into account that the difference between the selling price to the final consumer (retail price) and the margin represents the selling price to your clients.



If your company does not specify a retailer's margin on the decisions, it will be assumed that you do not wish to operate in that channel, hence no sales will occur.

16. SHELF SPACE

The participating company should study what shelf space it wishes to occupy with its products, taking into consideration all factors that contribute to achieving a lower or higher figure.



If your company does not specify a percentage of shelf space on the Decision Sheets, it will be assumed that you do not wish to operate in that channel, hence no sales will occur.

These decisions, made for each market, channel and product will be assumed as the company's objectives and shall be subject to negotiation with the managers of the different points-of-sale. Such negotiations are simulated by the program, so that the percentage of shelf space really achieved will possibly be different from that stated by the company as their objective.

At channel T, both for product L and T, arrangements are very varied and the information provided by the retailer to the consumer is not the same as in G and S, where it is done by means of exhibiting the product in shelf space. At channel T, the store's actual sales assistants directly recommend a certain product instead of displaying it. Therefore we do not talk about product location nor shelf space, but instead of degree of retailer acceptance and endorsement of your product.

In this sense the participating company should write down on the decisions, in the same way as for the G and S channels, a percentage for the T channels. But here this percentage will express the degree of collaboration at each point-of-sale. As with the G and S channels, the percentage actually achieved will depend on the sales negotiations and doesn't necessarily have to coincide with stated objective.



The objective should be stated on the decisions as a percentage of shelf space.

Therefore, there are two "shelf spaces": one at the beginning and the one at the end of the year. The one at the beginning is the one your company has set as an objective, and is stated on the decisions. Then the simulator intervenes, emulating the corrections that the retailer makes throughout the year, according to the performance of your product and those of your competitors. After these changes, a shelf space at the end of the year is reached. This final value is the one expressed on a market survey.

It is advisable not to insert illogical shelf space figures on the decisions, as the retailer's reaction would be counterproductive. Set realistic objectives with feasible growth.

17. PRODUCTION FACILITIES

Each company starts with 29,900,000 euros in fixed assets. This amount of fixed assets allows for a production capacity of 200 millions liters per year, that can be distributed between products L and T following the criterium of the participating company. Therefore, regarding production capacity the liters of L are equivalent to the liters of T.

It is not mandatory for the company to reach its maximum production capacity, nor to manufacture both products.

Once they are produced, it is obvious that the liters of L and T are not interchangeable and inventory is separated and differentiated.

The company can increase its production capacity, but that will require a new investment in fixed assets of 6,000,000 euros.

Therefore, it is established that each year new investments in fixed assets can be made in the amount of 6,000,000 euros, or there could be no investment at all. The obtained increase in production capacity as a result of new investments can be used the same year and it is expressed in the following chart:



Fixed assets in Euros	Maximum output in units
29,900,000	200,000,000
35,900,000	280,000,000
41,900,000	360,000,000
47,900,000	440,000,000
53,900,000	520,000,000
59,900,000	680,000,000
65,900,000	800,000,000
71,900,000	1,120,000,000

On the decisions the participating company will “check” the “Investment in fixed assets” box if it wants to increase its production capacity. That could be done if its treasury (Cash & equivalents) is equal or superior to that figure, or if it is not, by requesting a bank loan. If this is the case, it should fill in the “Bank loan requested” box with the right amount.

In the same way, the quantity of liters of L and T to be produced should be stated. The sum of these figures should not exceed the production capacity. If new investments in fixed assets are made, the new capacity obtained can be used in the same year of the investment.

The amount of products put on sale, and therefore sellable, will be the produced units plus the existing inventory, if there is one.

The company has an annual depreciation expense of 10% of the fixed assets.



18. DIRECT PRODUCTION COSTS

These costs are the ones that vary directly with the amount of units produced, and that do not vary when they are expressed per unit. In this simulator they are called “Standard Cost” (SC), and the simulation Director will always give its unit value. They will always be expressed by liter produced and in the case of product T correspond to the pack holding 8 cups.

This can vary from year to year, by decision of the simulation Director, and this assumes that on the Income Statement and Balance Sheet a weighted average of the standard cost of inventory existing for the previous year and a standard cost from the current year will be used.

Stock-out of finished goods produces a reduction in sales. In addition, prestige and loyal customers are lost.

Storage costs and the cost of product loss in the transportation process are understood as being covered by the general overhead account.

19. OVERHEAD COSTS

The company has a fixed overhead cost of 3,000,000 euros/year. The previous figure does not account for commercial expenses of advertising, promotions, point-of-sale advertising, nor for physical distribution, sales reps or customs tariffs, etc., it is only the cost of personnel staff, purchasing and production departments, and commercial management plus the general manager’s office.

The overhead cost mentioned above corresponds to a production capacity of up to 200 million liters/year. When production capacity is increased, the overhead costs suffer variations shown on the following chart although you needn't reach maximum capacity:



Production capacity in liters/year	Overhead cost in euros/year
200,000,000	3,000,000
280,000,000	4,200,000
360,000,000	5,400,000
440,000,000	6,000,000
520,000,000	6,600,000
680,000,000	7,200,000
800,000,000	7,800,000
1,120,000,000	8,400,000

20. PERIODS - FISCAL YEAR

In order to handle the time variable, the fiscal year has been set equal to the calendar year. This is just a convention and is of no further importance except that the majority of companies' management plans also entail one-year periods that coincide with the fiscal year.

One could consider 3 month periods, or one month, or any length of time desired. It is merely a question of choice. The important thing is to experience the 4 steps of business performance (analysis, planning, implementation and control), which is what the simulator is for.

Having established a virtual period of one year, it is assumed that the management plans are presented on January 2nd and the agreements with personnel, customers, suppliers and financial entities are also made on that date. Results are given on December 31st and that is the date of the Balance Sheet and the Income Statement.

Therefore, the plan stated on the decisions goes into the execution phase on January 2nd. The results stated on the Result Sheets go into the control phase on December 31st.

Bank loans amortization and recovery of fixed term deposits are made on January 2nd, that is to say, on the next working day after having received the Balance Sheet. The simulator will have frozen the amounts necessary to cover the outgoing funds for financial operations planned for January 2nd.

In case the company has a cash shortage the simulator will try to prevent an overdraft, since the highest interest rates charged by banks are those for overdrafts (remember this is an “in extremis” loan). In order to do so, it will resort the first place to financial investments. If the company holds any financial investment, this will be canceled



to see whether the overdraft can be covered (this implies an early withdrawal fee). Although obvious, it is necessary to point out that the company is not obliged to carry out the above mentioned financial operations.

Interest rates are annual and internally the simulator uses monthly periods to calculate the interest rates applicable to financial operations. That is to say, each fiscal year is divided into 12 equal months.

Related to the above is the problem of lack of available Cash, which the simulator assumes is detected and suffered by the company in the first month of activity in that fiscal year, just as the relationship between income and expenses becomes apparent. Let us not forget that the months are supposedly equal, as the market is not seasonal. Therefore, if the company made a financial investment, this would have been carried out during the first month of the period.

21. OPERATING CASH NEEDED

The operating cash needed “OCN” is the amount of money the company must have in cash at the beginning of a period in order to be able to implement the plan for the coming period.

The simulator considers your plan and estimates accounts payable and receivable. This valuation can be done a priori by the company by following this rule:

4. 80% of the new investment in fixed assets.
5. 50% of the total of the following expenses:
 - Total Advertising expenses.

- Total of the Branch expenses and Sales Reps fixed salaries.
- Overhead expenses.
- Market research expenses..

6. 5% of the direct production costs.

These percentages can be changed by the Simulation Director and if so, participants will be informed about it.

The total of 1, 2 and 3 must be equal to or less than the available Cash (Treasury account). If such total amount is greater than the Cash, the company has two options:

- Request a loan for the difference.
- Reduce one or several of items 1, 2 and/or 3 or eliminate any or several of them in order to make the total conform to the existing Cash.

The cash amount to be considered is at January 2nd, that is, the one received on December 31st, minus:

- Loan amortizations to be paid on January 2nd. and

adding:

- Financial investments.



If the amount of OCN is higher than the theoretical cash on January 2nd, the simulator will request a loan for the company (since these are the additional funds needed) in an amount equal to the difference. If the amount of OCN is lower, the company can use the Cash Surplus (CS) in financial investments and/or loan prepayment.

22. LOANS AND CASH & EQUIVALENTS

Companies will receive, together with market research results, their Financial Statements (Income Statement and Balance Sheet) for each year.

The Cash and Equivalents account (Treasury) can be negative, in which case it is obligatory to request a Bank loan for that negative amount. This loan is granted in order to zero the account.

Apart from this mandatory loan, the company can decide to request loans at any time, even if the Cash and Equivalents (Treasury) balance is positive. Usually, such loans would be used for investing in fixed assets.

Companies should request loans (if needed) to comply with the OCN. If the company does not make a request, the simulator will do it.

The simulation Director will set the maturity of the bank loans as well as the applicable interest rate.

Loan amortization will always be carried out so that each year, except the year in which the loan is requested (see Balance Sheet and Income Statement), the company returns a proportion of the total amount owed at the beginning of the year. The maturity of the loan and the applicable interest rate are set by the simulation Director. If a new term or rate is set, it is applied to the new loans and to the debt that the companies owe at that moment.

The established amortization is done automatically by the simulator and is not specified on the decisions.

You can settle the debt, in part or in whole, before the set maturity date. Should you wish to do so, you must specify the debt to settle on the field labeled "Advanced settlement of loan". To do this, the company must have Cash Surplus (CS) in the Cash and Equivalents Account. The surplus amount can be used to settle any outstanding loans.



23. FINANCIAL INVESTMENTS

If you have a Cash Surplus (CS), this amount can be used to bankroll fixed term financial investments for a period of one year. The rate of return will depend on the amount invested/deposited and on the applicable interest rate, to be provided by the simulation Director.

The amount invested will appear in the Assets side of the Balance Sheet and can be cashed on the first day of the following year.



If Cash problems arise and liquidity is needed, the simulator will cancel the investment and the bank will charge the corresponding early withdrawal fee for this type of operation.

24. CURRENCY EXCHANGE

On the decisions, amounts will always be expressed in euros. In Y you should proceed in the same way and the amounts handled in dollars should also be expressed in euros, applying the corresponding exchange rate. The simulation Director will inform exporting companies of the exchange rate as needed.

As the participating companies (whether they export or not) are considered to be European, the Income Statement, the Balance Sheet and the Company Results in general will always be expressed in euros. It is therefore necessary to pay special attention when making your estimates and calculations since, for example, the advertising tariffs expressed in dollars do not vary but their value in euros does, according to the exchange rate. The same applies to the cost of branch facilities, internal transportation within Y, etc.

25. INCOME STATEMENT AND BALANCE SHEET

In order to correctly analyze the Income Statement, it is necessary to understand that the invoicing or sales are expressed by considering the retail price (to the end consumer). Expenses, the retailer's margin and that of the wholesaler plus promotional expenses are deducted from this. These sales are the total units sold at retail price.

If your company requests a bank loan you will see on the Balance Sheet that no repayment whatsoever is made that same year. The amount owed will be withdrawn from your Cash and Equivalents the following year, on January 2nd. Pay special attention to this fact when checking your Cash if you have outstanding loans or credits.

Therefore, when you are preparing your management plan for the following year, the simulator has already foreseen and frozen the funds payable on January 2nd.

The company's position regarding its competitors is indicated on the Result Sheets, after the Balance Sheet. This position is determined by the highest accumulated profit and its importance will be decided upon by the simulation Director. The simulation Director could give more importance to other issues, and you are informed accordingly if that is the case.

26. DEMAND

At the end of each fiscal year, Result Sheets are given to the participants. The first two are the results of L and T sales. The last three entries indicate:

- A. Total units sold.
- B. Demand for units of your brand.
- C. Units of finished goods in inventory.



The units sold figure does not necessarily have to match the demand. There are two cases in which they do not: the first is when the company's production is smaller than the demand it has achieved; the second is when the opposite occurs: the company has a stock that will cover unsatisfied demand generated and not supplied by other companies. Therefore, the comparison of the two figures provides information that is of utmost interest to participants.

Market behavior is such that it tries to satisfy the demand generated by companies. Frequently, to achieve this, it will satisfy the demand generated by companies that have run out of stock by turning to those companies having a stock.


It could be that, in an exceptional case, one of the participating companies does not even have sufficient production available to satisfy demands generated by their promotions. In this case the market rejects those promotions that cannot be satisfied and only leaves those that can be supplied.

In addition to the total units sold by the company and the demand obtained by your brand, the amount of finished goods in inventory at the end of the period is given.



27. MACROECONOMIC, FINANCIAL AND PRODUCTION FACTORS

Throughout this document the scenario in which the company will operate has been described. It has also been stated that the simulation Director will provide certain information. These are the figures you will receive and which should be kept in mind:



Per capita income A	€	18,900
Per capita income Y	\$	36,000
Exchange rate, euros per 1 dollar	€	1
Standard cost		
Unit of L	€	0.68
Unit of T	€	1.20
Overdraft interest rate		
Overdraft interest rate	%	20
Loans		
Maturity	Years	4
Interest rate	%	5
Upfront fee	%	1
Prepayment penalty	%	1
Financial investments		
Interest rate	%	2.5
Early withdrawal penalty	%	1



This economic and financial data are provided in the simulation web and are shown in the General Information menu. It is very important to check this information whenever you access the simulation web as it may vary from year to year.

28. MARKET RESEARCH

Companies can carry out market research by commissioning this from a specialized institute. The type of information obtained, and the corresponding cost, expressed in euros, are as follows:

RESEARCH MENU



	Survey	Cost
1	Total sales of L and T by company, market and channel	72,000
2	Promotional sales of L and T by company, market and channel	107,000
3	Positioning by market of L brands	59,900
4	Positioning by market of T brands	59,900
5	Overseas advertising investment for L and T by companies from A expressed in Euros	36,000
6	Coverage of L and T advertising by company and market. Share of the target group with access to advertising, expressed in absolute figures	59,900
7	Number of ads by company for L and T	36,000
8	Advertising investment for L and T in Euros by the domestic companies in Y	36,000
9	Number of branches and sales reps. by company and market	24,000
10	Percentage of shelf space achieved by co. and channel for L and T	72,000
11	Average overseas prices of L and T expressed in Euros	24,000
12	Total overseas sales of L and T by companies from A and Y, expressed in units	36,000
13	Demand for L and T by company and market in normal units not including promotional demand	110,000
14	Companies retail prices in dollars by market and channel for L and T	Free



	Survey	Cost
15	Companies campaigns by market for L and T	Free
16	Type of promotion, for L and T, by company and channel	Free
17	Industry's average production cost	10,000
18	Industry's average salary cost	5,000
19	Industry's Balance Sheets at December 31 st	10,000

Information given in surveys 1,2,12 and 13 is expressed in units.

Co-ordinates of positioning charts of surveys 3 and 4 are obtained using the non-metric multidimensional scale method NMMS.

Survey 15 indicates the advertising campaign by the number assigned in these Instructions.

Information provided in survey 16 indicates the type of promotion by the number assigned in these Instructions.

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29. APPENDIX

ADVERTISING CAMPAIGNS

The following campaigns usually describe a TV commercial. It is understood that, for other media, the message and creativity would be adapted so that the essential part is maintained in other types of mass media.

MILK

Campaign 1

40 calories, 3 grams of protein, 5 grams of carbohydrates, 130 milligrams of calcium and only 1.3 grams of fat makes XXX the most balanced milk on the market. Because everything in XXX is well calculated, so that nothing extra is added or left out and the perfect balance is obtained. XXX milk, taste and health in equal parts.

Campaign 2

A father is about to pour himself a glass of milk for breakfast and he hears to a chorus of voices coming from the milk that welcome him.

“Good morning, good morning, a very good morning to you, have a good day” Surprised, he stops pouring the milk and listens. But when he stops, so do the voices.

He pours once more and the same thing happens:

“Good morning, good morning, a very good morning to you, have a good day” A white-coated technician bursts into the kitchen and tells us:

“Maybe you don’t realize it, but behind each glass of XXX there are veterinarians, biochemists, biologists, farmers, logistics and transport personnel and a vast team of professional experts who work so that you can have a good day”.



Campaign 3

A journalist, holding a mike, is walking up a hillside.

“We are on the slopes of a mountain. We have come here to find out about something fundamental for our health. We all know the importance of milk in our diet and we are going to ask someone who knows so MOOOOOCH about milk.”

- Good morning, Mrs. Cow! Would you mind answering a few questions?

(Use the cow’s head movements and use them as replies; sometimes she seems to agree or disagree, sometimes she mulls it over...)

- In the first place, is milk a complete, balanced food? A short moo, affirmative head movement

- Does the milk from a cow like you, living here, taste the same as that from another cow who hasn’t set foot in a field?

The cow lifts her head; she looks haughtily and turns her face away with scorn.

The interviewer moves the mike over to continue getting a response while she tells us:

- “She is annoyed but we just had to ask her...” Let’s see if we can get a reply...

“Excuse me, excuse me Mrs. Cow, your milk is incomparably better, isn’t it?

The cow flatly agrees. -I won’t bother you any more then. You have been most helpful; you have made it quite clear.

The cow continues to nod in her role as “a true authority” on the subject.

- And lastly, just one more question, do you like the container your milk is kept in?

Approval from the cow.

Campaign 4

XXX Milk. Natural selection. At XXX we are predisposed to natural things. For this reason our milk goes through a selection process similar to real life. Capable of leaving only what should be left and of eliminating everything that is excess. Searching for the perfect balance. Searching for the natural selection. Drink XXX, because nature is wise.

Campaign 5

Image of milk container. It has clock hands. “Rock Around the Clock” starts to play, which will be the audio throughout the duration of the spot.

The images are made up of a very dynamic composition of brief shots showing young people playing sports and using means of transport that require a certain amount of effort: bicycles, skates, skateboards. The characters’ attitude is positive and cheerful.

Product shot: XXX milk container with moving clock hands.

Voice over: XXX milk. Energy round the clock.



Campaign 6

A mountainous, green area with snowy peaks.

Safe, because our milk is treated with the most modern industrial procedures guaranteeing the absence of unwanted bacteria and making it long-life. Flavorful, because our milk maintains absolutely all the pureness of the best milk from grassy mountainous regions. Healthy, because it conserves the same nutritional value of milk from freshly-milked cows. This is how we achieve the balance that makes XXX the milk preferred by consumers. XXX milk, safe, Flavorful and healthy.



Campaign 7

House in a steep highland area with green pastures.

Young married couple with their children who are spending the weekend at a rural hotel in the country.

At breakfast, the father looks out of the window at a typical hilly landscape, (fields/cows) he says to the women serving them:

This is really good. From here, isn't it?

Of course, the lady replies, with a typical highland accent, it's from here but well "looked after" not like some others. You have to be serious with milk. She gets out the carton, adding: We don't use any other brand here.

YOGURT

Campaign 1

A self-sufficient 5 year-old girl is alone preparing a snack for herself and for her teddy bear.

She sits the teddy bear down at the kitchen table and puts his bib on. Then she sits down. She eats her yogurt and pretends to give her teddy bear some although she eats it herself (just like little girls do when they are playing this game). In the meantime, she is talking to him:

Here you are Teddy, it's XXX yogurt. Grandma says it's very good for your bones. The doctor told her.

Patricia, the baby-sitter, eats it because she says it's very healthy. (And she whispers: "and she also says that if she doesn't, she can't go to the bathroom... And that is a very bad thing. Your tummy swells up like this and you can explode").

I'm coming, hold on. Don't be impatient.

You like this, don't you? I love it. Anyway, I want to be a model and to be a model you have to eat yogurt. It's what they all eat, didn't you know that? And I don't know if you're getting a little too fat.



Campaign 2

The different characters chosen start going to the refrigerator and helping themselves to cartons of yogurt and continue with their healthy, happy and lively existence.

Audio voice over:

He wants to be as tall as Daddy. Daddy wants to have the same energy as his son. She wants to be as attractive as Mommy. Mommy wants to be as healthy as her daughter. Grandpa wants to continue being the head of the clan. Grandma wants to keep enjoying life.

XXX yogurt for a healthy, happy and lively existence.



Campaign 3

Camera shot of a female model. Charming, young, wearing a figure-hugging dress, but she's not pretentious.

If you want to take care of your figure
If you want to take care of your health
And if you want to enjoy the taste
Say yes to XXX, the real yogurt.

Campaign 4

Very pretty girl, very bright, the type who looks attractive even when she has just woken up.

She is at her loft-style home; there is a futon and little else. The house is very uncluttered too. Luminous and very “milky.”

She’s wearing her casual “home gear”, just a T-shirt or extra-large sweater and some thick, white, wrinkled socks.

There is a message on the answering machine (a woman’s voice): an appointment for a casting.

“Laura, you have a casting at 11 o’clock on Wednesday. Come looking really natural.” She walks round and round the loft, saying:

Looking natural means... without make-up. She washes her face, splashing the water with her hands. Next she dries herself gently with a white towel and goes on talking.

Natural looking is... She lets down her hair. She starts to brush it a couple of times and it’s perfect, of course. She gives herself an approving once-over in the mirror. She goes to the refrigerator, picks up a yogurt and says:

What’s the natural thing to eat when you are hungry... well, it must be something as good and as natural as XXX yogurt.



Campaign 5

Girl or boy model, better if they are famous. He/she talks to the camera. Do you have any idea what it costs to keep your figure in this business?

You are constantly changing your timetable. Restaurant food doesn’t help and Mommy isn’t waiting for you with dinner ready. That’s why you have to learn how to look after yourself (eating the yogurt.) Protein, calcium, vitamins and delicious too! XXX YOGURT

Campaign 6

At XXX we call things by their name. For that reason, when you eat an XXX yogurt you know it contains no preservatives or colorings. That’s why XXX is the best on the market. XXX is balanced and has a unique flavor. XXX, the correct balance, of course.

Campaign 7

A good-looking young man with a muscular physique is eating a yogurt.

He talks to the camera while eating a yogurt.

It takes me one minute to eat my XXX yogurt and it takes the XX technicians one hour to get this carton to pass the quality control tests.

That could be considered 'fast food', and really well tested.

Fast, but nevertheless, healthy. He picks up his backpack and leaves. And they say that youngsters like us don't know how to eat right.

XXX yogurt, fast, healthy and prepared for you.



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