Capstone Competitive Strategic Decisions

**Overall…**
What market(s) do you want to serve? High tech, low tech, or both
What do the customers in that market want? Position? Price? Age? Reliability?
- **Check:** last year’s Capstone Courier and the Team Member Guide Section 2

**Step 0. Improve the competitiveness of the company you “inherited” if needed**
- **Check:** What are your plant utilization rates (p. 4 Capstone Courier)? With 2 shifts available could you do more with less?
- **Check:** The old management generally let the company’s technology “slide” – how efficient are your manufacturing processes? What’s the competition doing in this area?

**Step 1. Compete with the products & company you have right now,…**

**R&D**
- Do you want to make changes in existing products? (performance – size – reliability)
  - **Check:** When will the revised product come out? Did this revision change Perceived Age? Or material cost? (see the table at the end of this handout, esp. row 2)

**Marketing**
- Price: Do you want to change your price(s)?
- Promotion: Do you want to increase your promotional budget? (Is more always better? How efficiently am I using communications dollars?)
- Sales budget: Do you want to increase your sales budget? (Again, is more always better? How efficiently am I using sales dollars?)
  - **Check:** What is current awareness and accessibility (Capstone Courier)? How does this compare with similarly positioned, higher/lower spending competitors (or for those spending similar amounts, how do small differences in the five positioning variables generate different sales results?)
- What impact will this have on your sales forecast?
  - Sales forecast: Put your best estimate into “Your sales forecast”
  - **Check:** How many did you sell last year? What kind of adjustment should you make? Is your product more or less attractive than competitors’ products? How much bigger is your market? Beware of the computer’s “unit Sales forecast” – it’s not truthful at all!

**Production**
Production schedule: How many are you going to produce?
- **Check:** Be sure to look at current inventory levels and A/P adjustment. Also, identify inventory target levels (a good goal is to have not more than 50-60 days left - Production schedule times (10/12)) is how many you have to sell.

**Step 2. What kind of company do you want to be next year?**

**R&D**
New products: Do you need to add a new product to serve your customers?
What performance, size, and reliability does your target market want?

**Production**
New product: Be sure you invest in capacity and automation in this year.

The order (priority) that customer preferences are expressed on the Capstone Courier’s segment detail pages IS NOT the same order you would use to make its decisions. See the table on the next page for the sequence to use.
Existing products: Do you want to increase your capacity and/or automation level?
- **Check**: Proforma Income Statement. Look at Gross Margin (Contribution Margin minus Depreciation percentage). How much does it have to be raised so that it’s >30%?

**Step 3. The Resources (where are you going to get the needed money?)**
- **Finance**: Check your cash position as of Dec. 31- next year (bottom of the column)
- **Marketing**: In “Your Sales forecast” put in your worst case scenario.

  - **Finance**: Check your cash position as of Dec. 31- next year (bottom of column), if it is negative (red), you have to raise enough money to make it positive (black).
  - Use long term financing (issuing stocks, bonds) to finance your “best case” short fall
  - Use short term financing (borrow from Current Debt) to finance the rest.

**Step 4. Check some performance measures.** These steps depend on an accurate forecast of sales – not guesswork or pleasant dreams.
- **Net income should be >0** - if not, go back to Steps 0 and 1.
- **Gross margin should be >30%** - if not, go to Step 2 and be sure it will be for the next round
- **Inventory.** Multiply Production Schedule by .833 (that’s 10/12 or leaving 2/12ths or 60 days as a “pad”). You have to sell at least that many. If you can’t, reduce your production (step 1-production)
- **Emergency Loan.** Is your cash position as of Dec. 31 positive under the worst case scenario? If not, go to step 3.
- **Stock price.** If you make a profit, you can edge towards slightly more borrowing rather than evenly issuing stock and selling bonds for changes to PP&E; when feasible, pay a dividend when there is too much cash left over, your stock price can rise as a result.

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Getting the decision sequence right as you create competitive products
*(This example is for Traditional Segment, from the Capstone Courier p. 5 - round 0)*

<table>
<thead>
<tr>
<th>Capstone Courier segment preferences</th>
<th>The order a team would make decisions in...</th>
<th>Why</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Age: Ideal Age = 2.0 (47%)</td>
<td>0. Set MTBF once (for the segment the product sells to) and never revisit it (hence, the number is “zero”).</td>
<td>MTBF preferences don’t ever change, with one exception. That exception is if you decide to “migrate” a product from High End to Traditional, you may want to use R&amp;D to adjust its MTBF downward to lower material costs and match the segment’s preference.</td>
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<tr>
<td>2. Price: $20.00 - 30.00 (23%)</td>
<td>1. Ideal Position – teams should ask, “Should we revise this product’s characteristics?” If size and performance aren’t highly important, don’t! If they are, consider it.</td>
<td>It affects sales in SOME segments dramatically, in others, the next variable – a lower age resulting from revising a product’s position – hurts sales after revision</td>
</tr>
<tr>
<td>3. Ideal Position: Pfmm 5.0 Size15.0 (21%)</td>
<td>2. Age - Once you’ve made choice #1 above (as in, you’ve decided to revise the product), the age is set for you</td>
<td>You can’t MAKE this choice directly</td>
</tr>
<tr>
<td>4. Reliability: MTBF 14000-19000 (9%)</td>
<td>3. Price</td>
<td>Once you’ve assessed how attractive your product will be to customers AND how it stacks up against competitors’ products, THEN you set price.</td>
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