

THE L'ORÉAL E-STRAT

PARTICIPANT PRE-READING MANUAL

THE ULTIMATE BUSINESS GAME

L'ORÉAL
eSTRAT 8
CHALLENGE

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The graphic features three individuals in a futuristic, blue-toned digital environment. A woman in the center is seated at a desk with a laptop displaying the word 'Strategy'. Two men stand on either side of her, one holding a glowing blue cube. The background is filled with stylized skyscrapers, a plane, and various business-related icons like 'Sustainable performance' and 'Production'. Logos for AACSB, EFMD CEL, L'Oréal, Google, BusinessWeek, and STRATX are visible.

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PARTICIPANT PRE-READING MANUAL

Version 8.0

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STRATX

L'Oréal e-Strat is a computer simulation designed for the

L'ORÉAL E-STRAT CHALLENGE

It was designed and developed by StratX
under the direction of Rémi Triolet
for the

International Recruitment Department of L'Oréal.

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All figures in this manual are from a sample file obtained during a past run of the e-Strat simulation. They are included to provide examples of charts, tables, graphs or input screens.

Please note that the market situation used for these examples is different from the one which you will face.

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WHY IT IS IMPORTANT TO READ THIS MANUAL

Welcome to the eighth edition of the L'Oréal e-Strat Challenge. During the Challenge, you and your team will be given a company and product portfolio to manage in a dynamic and interactive environment. No previous computer experience is required but it is important to prepare by reading this manual prior to beginning the Challenge.

If you do not read it carefully, you will run the risk of putting your team at a competitive disadvantage !

We have done our best to make this manual as clear and complete as possible. But the e-Strat simulation is fairly complex and we know by experience that some topics will require additional explanation. If you have questions regarding this manual or on the e-Strat simulation we suggest that you follow the steps below.

1. **Check the *Frequently Asked Questions (FAQs)*** available in the Downloads section of the L'Oréal e-Strat Challenge web site: <http://www.e-Strat.loreal.com>. Other students may have already asked a similar question, and a response may be available in the FAQs. Save time by checking the site first.
2. **If you are competing in the Academic Challenge** and do not find the response to your question in the FAQs, ask your Professor! Your professor has received a specific training to the e-Strat business game, and will be able to answer any question you may have.
3. **If you are competing in the Open Challenge** and do not find the response to your question in the FAQs, send a short email to the Hotline using the "*Contact us*" section on www.e-Strat.loreal.com. Please note, the support team will **not** respond to you directly, but post the answer in the FAQs, for two main reasons:
 - **Information broadcast** – your question is probably of interest for many teams, so posting the response in the FAQs will benefit the entire e-Strat community
 - **Transparency** – all teams will have access to exactly the same information.

We will not respond to all types of questions. Obviously, questions regarding a specific team situation will be discarded as we do not want to give an advantage to one of the competitors nor do we want to disclose confidential data. Similarly, we will not give any advice or hints on strategy, management, marketing, finances or any other topic. You should only count on your brains (or those of your team mates ...) and your experience.

Here are some examples of questions already addressed in the FAQs:

- I plan to launch a new brand in period 3. Do I need to build a new capacity for this brand?
- What do you mean by "Deviation from budget"?
- Can I copy a chart into Excel or Powerpoint?
- The retail prices of my brands as given in the Newsletter are far below the prices that I set in the decision form. Why?
- I cannot access the "Positioning" decisions. Why?
- Who decides which segments are targeted by the advertising campaigns?

Here are some examples of questions we will discard:

- We are team LIONS from Green Forest University. Our brand POET has lost 10% market share in period 3. Can you tell us how to fix the situation?
- What is the best strategy to target the High Earners segment?
- I am designing a new web site targeted at high-end segments. Should I give more emphasis on Performance or CRM?

ABOUT STRATX

StratX is a unique consulting and management development group that brings together disciplines from leading business schools, management consultants and learning design specialists. Founded by INSEAD Marketing Professor, Jean-Claude Larréché, StratX' aim is to help leading international corporations achieve profitable and sustainable growth along three dimensions: Marketing Excellence, Customer Focus and Value Innovation.

Moreover, StratX's approach mobilizes a group of individuals behind a common goal with a common language to achieve results. StratX offers training solutions that include advanced business simulations, interactive concept discussions, team project work and a host of other traditional and online learning opportunities. Over the past twenty years, StratX's R&D team has designed and developed a portfolio of world-class business simulations, including Markstrat Online and Markops Online.

Over five hundred universities and business schools offer courses using Markstrat around the globe. This year, 27 of the Top 30 Worldwide Business Schools are continuing their long-term Markstrat partnership with StratX. The success of Markstrat is largely due to word-of-mouth and the simulation has become a standard in business education in both the academic and corporate setting. StratX is now working in close cooperation with Professors Kim and Mauborgne, from INSEAD, to develop the Blue Ocean Strategy Simulation, a leading-edge business simulation aimed at illustrating the key concepts & tools developed in their international best selling book Blue Ocean Strategy, Harvard Business School Press.

With a network in Europe, North America and Japan, StratX consultants work with clients such as L'Oréal, General Electric, Pfizer, Siemens, ABN AMRO, General Motors and Boeing.

Please visit <http://www.stratx.com/> or <http://www.stratxsimulations.com/> for more information.

ABOUT L'ORÉAL

Founded nearly a century ago by French chemist Eugène Schueller, L'Oréal is the world leader in beauty products, and concentrates its activities on five core businesses with strong technological added value: hair colour, hair-care, skin-care, make-up and perfume.

Developed in New York, Paris and Tokyo, our prestigious leading brands reflect different lifestyles around the world. L'Oréal Paris, Garnier, Maybelline, Soft Sheen - Carson, L'Oréal Professionnel, Kérastase, Redken, Matrix, Lancôme, Helena Rubinstein, Biotherm, Ralph Lauren, Giorgio Armani, Cacharel, Shu Uemura, Kiehl's, Vichy, La Roche-Posay, Sanoflore, and The Body Shop, all of our brands stem from cutting-edge research. We are present in all distribution channels: mass market, personal care stores, hairdressing salons, pharmacies and para-pharmacies, department stores, perfumeries, travel retail, mail order and e-commerce.

Cosmetics sales reached over 15,8 billion euros in 2006 (including The Body Shop) and the Group's operating profit increased by 11,9% compared to 2005. Present in more than 130 countries, the Group employs over 60,851 people.

Research and innovation are at the core of L'Oréal's strategy. The Group has highly advanced research capabilities which have enabled it to develop more than 120 new molecules over a period of 40 years. L'Oréal's growth model is built on strong and lasting growth in sales, which enables vital investments in research and ensures the global reach of the Group's brands. It is accompanied by a determined policy of improving industrial productivity, keeping down purchasing costs, and limiting non-productive costs. This strategy, implemented on a continuous basis, led to L'Oréal's operating profit reaching double-digit growth in 2006.

By integrating new brands, through our acquisition strategy, we aim to prepare L'Oréal for the future by providing new areas for expansion, both geographically and in new lines of development.

For more information, please visit <http://www.loreal.com>

INTRODUCTION

The e-Strat business game simulates a fictitious world where five companies are in competition to market a portfolio of cosmetic brands to several groups of customers. The simulated market is complex enough to illustrate different marketing situations, i.e. various segments of customers (based on family income, marital status, occupation, ...), several customer value combinations (high-end brands versus low-end ones), varying price sensitivities, different communication and promotional tools, traditional distribution channels (from mass merchandisers to department stores) as well as new e-enabled channels (from e-grocers to brand-specific online boutiques), etc.

You and your team will manage *Prima*, one of these companies, during six periods of six months, i.e. three years in total. The simulation model will run the other companies automatically, challenging you with innovative decisions, but also responding to your moves. You will make numerous decisions at the corporate and divisional levels. You need to strike a balance between traditional activities (HR, R&D, Brand and Channel Management, ...), internet-based activities (design and operations of web-sites) and long term sustainable performance development. While building and managing web sites may generate more excitement within the group, it would be unwise to spend too much time in this area, since more than 95% of your business is generated by traditional activities.

Your cyber competitors will make similar decisions, based on the same information available to you, with no specific competitive advantage.

The other *human* teams registered in the competition will manage the same company *Prima*, but in other simulated worlds, totally separate from your own world. Consequently, the decisions of the other teams will have no impact on your own results. Your ultimate objective is to maximize shareholder value as reflected by the *Share Price Index* of *Prima*. However, there are two ways to measure your results:

- *Your team against the cyber competitors.* Your share price index at the end of the exercise will be compared to the ones of your direct cyber competitors. You may, for instance, have increased the market value of your company by 300% while your best competitor will only have achieved a result of 250%.
- *Your team against the other human teams.* Your final share price index will also be compared to the ones achieved by the other human teams, who have run the same exercise with the exact same starting situation and the exact same competitors. Your absolute performance of 300% may be reevaluated as fairly poor if another team achieved a result of 500%!

As far as the L'Oréal e-Strat Challenge is concerned, only the second measure will be taken into account.

The ultimate winner of the competition will be the team which has achieved the highest *Share Price Index* for its own *Prima* company.

Good luck!

The L'Oréal and StratX Teams

OVERVIEW OF THE E-STRAT WORLD

Your Role

You and the other members of your team have just been recruited by Prima, a large corporation, to manage one of its divisions. Coming from a different industry, the new team has no experience of the e-Strat world. In the upcoming years, you will compete with several other firms to market cosmetic products to consumers. During this exercise, you will be responsible for formulating and implementing the long-term marketing strategy of your division. You and your team members will have to:

- Target selected segments and position your products in the market place;
- Develop new products from formulas discovered by your R&D department;
- Prepare the launch of new products; improve or maintain existing ones;
- Interface with the Production department to specify capacity and production planning;
- Make marketing mix decisions, such as pricing and advertising budget, for each brand in your portfolio;
- Decide on how to distribute your brands and allocate your resources across distribution channels;
- Design, implement and manage multi-brand or brand specific web sites;
- Order market studies that provide up-to-date information for decision making;
- Implement a number of Sustainable Performance initiatives.

Overview of the e-Strat Industry

The E-STRAT world is a fictitious industrialized country with approximately 80 million inhabitants whose monetary unit is the e-Strat Dollar (\$). In this country inflation is practically zero and is therefore ignored. GNP growth is fairly stable, and no major political, social or economic events are anticipated in the near future. The e-Strat world does not intend to represent any particular country, market or industrial sector. However, it roughly behaves like most markets, and the general management and marketing knowledge that you have acquired through business experience or formal education applies to this new world.

In the e-Strat world, there are a handful of companies which manufacture and market cosmetic products. Besides your own firm Prima, your competitors are called Diva, Bella, Vista and mirror.com. The first four are traditional brick-and-mortar firms that operate according to a traditional business model. They mainly distribute their products through established distribution channels, although a few of them have initiated a transition into the Internet world. Mirror.com is a subsidiary of a large foreign group not yet present in the e-Strat world. It is focused entirely on the Internet world and operates along a radically different business model.

These firms sell cosmetics such as beauty creams, sun-care or skin care lotions. Initially each firm starts with one, two or three products, with different product specifications, target customer groups, brand awareness levels, market share, distribution coverage, profitability, R&D expertise, etc. Consequently, the marketing strategy of each firm should be adapted to its particular situation within the industry.

Nevertheless, no firm has a relative advantage over the others and initially many characteristics are common to all firms. Each firm in e-Strat will have the opportunity to discover new formulas, introduce new products and upgrade existing ones. Similarly, all firms may access any distribution channel.

Product Profiles

At the beginning of the simulation, the rival firms market several brands each. These products are widely accepted by the various segments of consumers, and the market as a whole is expected to grow in the coming years. The cosmetic brands marketed by the various firms in this market are differentiated by their physical attributes, i.e. tangible product characteristics, which are rated on a scale of 0 (poor) – 100 (excellent). The most important attributes are the following:

- **Efficacy:** This refers to the ability of the product to deliver the benefit intended. For instance, the rating is a measure of the product's sun protection, anti-wrinkle effect, color coverage, micro-emulsion, etc.;
- **Safety:** This attribute measures the degree to which the product produces few or many side effects. A high rating is an indicator of harmlessness, absence of allergic reactions, purity, medical approval, etc.;
- **Convenience:** A measure which indicates ease of use, time to dry, type of packaging etc.;
- **Pleasure:** This is a somewhat subjective attribute, but it is a measure of how pleasing a product is to use, over and above its efficacy or convenience. Here it refers to texture, scent, etc.

Figure 1 shows an example of ratings for existing products along these four dimensions. As all other figures in this manual, Figure 1 was obtained during a past run of the e-Strat simulation. *Please note that your own market situation may be very different.*

| Firm | Brand | Introduced or upgraded | Physical attributes (0-100) | | | | Avg. Retail Price (\$) | Est. Unit Cost (\$) |
|------------|---------|------------------------|-----------------------------|--------|---------|----------|------------------------|---------------------|
| | | | Efficacy | Safety | Conven. | Pleasure | | |
| Prima | PANTHER | Improved | 20 | 30 | 40 | 30 | 6.65 | 1.60 |
| | PEACE | Improved | 90 | 87 | 88 | 90 | 30.75 | 6.85 |
| Diva | DAPHNE | Improved | 50 | 66 | 67 | 64 | 19.25 | 3.95 |
| | DESIGN | Maintained | 17 | 22 | 28 | 26 | 7.55 | 1.35 |
| Bella | BANYAN | Maintained | 31 | 42 | 43 | 31 | 13.80 | 2.25 |
| | BELLE | Maintained | 61 | 52 | 58 | 46 | 18.60 | 3.70 |
| | BUBLE | New | 38 | 40 | 60 | 32 | 7.00 | 2.15 |
| Vista | VANILLA | Improved | 63 | 87 | 84 | 68 | 26.15 | 5.20 |
| | VENETI | Maintained | 91 | 82 | 83 | 76 | 29.85 | 6.55 |
| Mirror.com | MAGIC | Improved | 80 | 82 | 92 | 98 | 29.95 | 6.70 |
| | MELBA | Maintained | 36 | 37 | 48 | 31 | 13.05 | 2.35 |

Figure 1 – Attributes of marketed brands

As new formulations come on the market, improvements will take place in certain products' attributes. Bear in mind that an improvement in one dimension might entail a deterioration in another. Take the example of a skin cream which has improved its formulation and is now more efficacious in combating dryness. However, the new formulation is oilier and less pleasing to the touch.

Depending on the particular combination of attributes, each product will have a certain initial *unit production cost*, i.e. the cost charged by your production department to manufacture the product. As cumulative production experience increases, this cost will decline in accordance with a specific schedule corresponding to four production batches, each one of which has a cost 15% lower than the previous one, as shown in Figure 2.

| Millions of Units Produced (cumulative) | Production Cost Applied |
|---|-----------------------------|
| < 10 | C : Initial Production Cost |
| 10 to 20 | C x 0.85 |
| 20 to 40 | C x 0.85 x 0.85 |
| > 40 | C x 0.85 x 0.85 x 0.85 |

Figure 2 – Reduction of production cost as a function of cumulative production

Naming Conventions

All brands marketed in a given period will be listed in the Newsletter, in a table similar to Figure 1. In the e-Strat world, the first letter of a brand name is the same as that of the name of the firm (P, D, B, V, or M). When introducing a new brand, a name will be suggested to you by the trademark department. However, this name has no influence on the market response to the brand.

Consumers

The consumers who purchase the cosmetic products made by the companies in the e-Strat world are of varying ages, occupations, and family status. They are all adults, over 18 years of age, generally women, who purchase the products for personal use. Market studies show that these consumers can be divided into five major groups, or segments, having similar needs and purchasing behavior.

1. **High earners** – They are women over 25 years of age, either single or married without kids, with a high income level. They usually buy expensive products, which they can afford, and their purchases are partially motivated by social status. They are heavy users, and can sometimes be price insensitive to the point of disregarding cheap brands.
2. **Affluent Families** – Women in this segment are aged 25 – 45, and are either married with kids or single parents. Their high income levels lead them to be frequent buyers and users of cosmetics. They can afford expensive products and often view price as an indication of quality.
3. **Medium Income Families** – These consumers have less disposable income than the Affluent Families, and are thus more price sensitive. This segment also includes some sub-groups who do not fit with the other segments. Although this segment is the largest in value and is composed of several sub-groups, most customers have similar needs. They are looking for relatively inexpensive products with average physical attributes.
4. **Low Income Families** – Individuals in this segment have a similar family situation and age range as the Affluent Income families. This segment is the largest in volume. Their lower income levels, however, causes their budgets to be strained, and leads to them being less frequent buyers and users of cosmetics, and to be very price sensitive.
5. **Singles** – They are generally between 18 and 35 years of age, live alone, and can be students or employees. They are relatively heavy users and tend to be rather price sensitive.

Each segment has specific needs in terms of physical attributes and price, and these needs will most probably evolve over time. The semantic scales market studies reflect the relative importance of the different product attributes and of price for each consumer segment, as well as consumer perceptions of each of the marketed brands as regards their physical attributes and price. Awareness levels and purchase intentions vary significantly for existing products from one group to the other. In addition, market forecast studies show that the size and growth rates of the five segments are quite different. This is explained in part by the development stage of each

segment, by the varying product offerings, and by the intensity of marketing efforts targeted at each segment.

Traditional Distribution Channels – Retailers

Cosmetics consumers tend to shop in the following three distribution channels.

- **Mass Merchandisers & Discounters** (e.g.: Carrefour, Wal-Mart, Aldi) – These stores typically sell a wide variety of goods, including food items, housewares, and personal care products. They strive to operate on a low-price, high-volume basis and to minimize overheads. As a consequence, the level of service offered is lower than that of the two other channels. Mass merchandisers are usually large stores offering a very wide variety of product categories, while discounters are much smaller in size and carry only a limited number of categories. In both types of stores, the depth of each product line is usually restricted to few units. Mass merchandisers and discounters often distribute the cheaper, lower-quality products. There are 15 chains of such stores, for a total of 12,500 outlets.
- **Specialized Retailers** (e.g.: Sephora, Boots, Duane Reade) – These stores are usually smaller and also belong to organized chains. They are geographically close to their customers (in shopping centers or downtown areas) and can provide a high level of customer service. As they do not distribute many different product categories, cosmetics account for a large proportion of their sales. These stores usually carry a broad product line for each category, including the most expensive and/or high-performance products. Twenty-five chains exist in this category, representing 2,000 stores.
- **Department Stores** (e.g.: Macy's, Sogo) – Department stores are characterized by the wide product assortment they offer. They usually have a significant amount of space displaying cosmetics, often with a specific counter dedicated to each major manufacturer. They also provide extensive customer service. Department stores are often organized in chains that have a degree of power in negotiating margins with manufacturers. Eight such chains with a total of 6,000 stores are identified in the e-Strat world.

The arrival of hard discounters in the e-Strat world is a recent phenomenon. Although the numbers of mass merchandisers, specialized retailers and department stores are likely to remain stable in the next few years, the number of discounters is expected to grow significantly during the same period. Indeed, this type of stores has been growing very rapidly over the past two years, in part because of their small size which facilitates their creation. The percentage of total sales going through hard discounters depends on the product category. Almost 30% of the food market is being sold in discounters, but this number falls down to only 5% for cosmetics, mostly because of the absence of private labels in this category. However, it is expected to grow significantly in the coming years, and the consequences for cosmetics firms are twofold.

- **Pressure on prices.** Discounters follow a simple strategy: reducing costs to the minimum so as to offer the lowest possible prices. Discounters have taken the retail formula down to the most basic elements: very narrow product assortment, no fancy product displays, no customer services, etc. This allows them to offer large discounts to their customers; recently, Big land farmers blamed them for a ruinous 15% plunge in milk prices in the past two years.
- **Pressure on margins.** The recent success of discounters has increased their bargaining power. As a consequence, they are not likely to accept a decline of their margins, in absolute terms. This means that, should further discounts be offered to consumers, they will have to be taken out of manufacturer revenues.

Internet Distribution Channels – e-Tailers

In addition to the traditional distribution channels described above, you also need to consider the marketing opportunities offered by the Internet.

- **e-Grocers, including Mass Merchandisers' web sites** (e.g.: peapod.com, ooshop.com, walmart.com) – These sites offer cosmetics lines along with food and other merchandise sold in the site owners' establishments. The e-Strat world starts with approximately eight of these merchandisers in period 0.
- **Beauty Specialist Portals, including the websites of Specialized Mass Retailers and Department Stores** (e.g. macys.com, sephora.com) – These are dedicated to highlighting the range of beauty products found in the owners' stores. There are six specialized web sites in period 0.
- **Brand-Dedicated or Multi-Brand Web Sites** (e.g. valse.com, mezzo.com) – You can decide to set up your own web site if you feel it will contribute in a cost effective way to increasing sales by improving awareness or direct sales. e-Commerce enabled web sites are also called *online boutiques*.

All these various portals and sites have different characteristics in terms of image, awareness levels, financial strength, range of products offered, price ranges, the selling mechanisms applied (up-selling, cross-selling, automated replenishment, ability to purchase online), the customer base (proportion of each segment likely to visit the site), etc.

Shopping Experience

All distribution channels, whether traditional or online, are evaluated on the basis of the *shopping experience* they provide to customers using them. Market studies show that a number of dimensions are driving the experience of shoppers.

- **Information & Content.** This aspect measures the degree to which the outlet or site provides items such as product brochures and reviews, tips, fashion magazines, samples, point of sales materials, product sampling displays, etc...
- **Comfort.** This is an indication of how convenient or pleasant the customer finds using the store (product selection, well-displayed products, lighting, open hours...) or web site (product selection, navigation, colors, capacity, server speed...)
- **Customer Relationship Management.** These are the various means put into place to initiate and maintain a good relationship with your consumers. They contribute to retaining customers' loyalty. CRM tools are built around databases with personal information to provide individualized service at stores or online, frequent user cards, etc.
- **Performance.** This dimension measures the ability of the site to sell as promised and thus does not apply to sites without e-commerce ability. Included such elements such as product availability, on-time delivery, automated replenishment, credit card security, money-back guarantees, payment options, pre-addressed return packages, etc.

Margins and Discounts

When deciding on which channels are the most appropriate to distribute your brands, you will have to take into account *margins* and *discounts*. The margin is the portion of the price paid by the consumer that is retained by the store. Differences between margins obtained by the stores in each of the three channels are mainly due to differences in the level of service and volume sold. The discount is the percentage of reduction that a store will offer to its clients. Although discounts vary over time, most stores comply with the general guidelines established by the chains.

Figure 3 summarizes margins and discounts in the e-Strat world, and gives an example for a \$10 product. As explained later, you have the ability to modify the margin by plus or minus 10% if you feel this would be a useful marketing tool.

| | Mass Merchandisers, Discounters & e-Grocers Portals | Specialized Mass & e-Beauty Portals | Department Stores |
|----------------------------------|--|--|--------------------------|
| Average Margin | 35 % | 40 % | 50 % |
| Average Discount | 10 % | 5 % | None |
| Example | | | |
| Recommended Retail Price | \$ 10.00 | \$ 10.00 | \$ 10.00 |
| Price Paid by Consumers | \$ 9.00 | \$ 9.50 | \$ 10.00 |
| Margin | \$ 3.15 | \$ 3.80 | \$ 5.00 |
| Firm Revenue in \$ | \$ 5.85 | \$ 5.70 | \$ 5.00 |
| <i>In % of Rec. Retail Price</i> | 58.5 % | 57.0 % | 50.0 % |

Figure 3 – Summary of distribution channels' margins and discounts

MANAGING YOUR FIRM

Your team is responsible for the design and implementation of the marketing strategy of your firm. Your team is also responsible for a number of Corporate decisions funded out of PRIMA's Cosmetics Division budget. Thus, you will have to decide the overall orientation of the company regarding:

- *Sustainable Performance Initiatives* – which employee benefits, environmental, and diversity & equity initiatives the company is going to support;
- the *product portfolio strategy* – which brands the company is going to develop and market;
- the *segmentation and positioning strategy* – which market segments will be targeted and how products will be positioned;
- the *marketing mix strategy* – day-to-day operational marketing decisions such as pricing, production, communication and distribution.

You will manage your area as a profit center, and your performance will be measured by the following indicators: EBIT generated, brand market shares, your ability to grow the firm's revenues, quality of R&D projects successfully developed, your sustainability index (*SI*), number of consumers registered in your Clubs, etc. Finally, the best measure of your company's success will be its *stock price index (SPI)*, a measure that takes all of the above indicators into account.

This chapter describes the decisions you will have to make each period. Before making dramatic changes, you should try to get a feel for the behavior of the market. Do not jump hastily to conclusions and bear in mind that obvious solutions may be based upon an incomplete analysis. To reach more robust decisions, use the information from market studies to analyze your situation and past competitive behavior.

Discovery of Active Ingredients

A key aspect of running your firm will be the creation of new brands or the improvement of existing ones, using new active ingredients such as "Vitamin A", "Retinol", etc. New ingredients are discovered by your R&D department at a rate of one or two per year. They are submitted for your consideration in a chart such as the one of Figure 4. Note that you do not have to make any specific decision in order to discover new ingredients. The active ingredients discovered over time are referred to by development code names such as "PB-Ini" or "PD-Ini", defined as follows:

| | | | |
|-------------------------------|---|---|--|
| P ↓ "P" as Prima | B ↓ Code of Active Ingredient | - | Ini ↓ Initial Project Based on "B" |
|-------------------------------|---|---|--|

Figure 4 shows the list of active ingredients discovered during the sample run. This table gives the ratings of the ingredients in terms of physical attributes (Efficacy, Safety, Convenience and Pleasure) as well as estimates of unit manufacturing costs.

| Active Ingredient | Discovered In period | Physical attributes (0-100) | | | | Estimated Unit Cost (\$) | |
|-------------------|----------------------|-----------------------------|--------|---------|----------|--------------------------|---------|
| | | Efficacy | Safety | Conven. | Pleasure | Initial | Minimal |
| PA-Ini | -3 | 15 | 25 | 30 | 25 | 1.30 | 0.80 |
| PB-Ini | -3 | 35 | 35 | 45 | 30 | 2.25 | 1.35 |
| PC-Ini | 1 | 80 | 85 | 75 | 85 | 6.40 | 3.85 |
| PD-Ini | 2 | 65 | 75 | 60 | 70 | 4.95 | 2.95 |
| PE-Ini | 1 | 60 | 50 | 55 | 45 | 3.65 | 2.20 |

Figure 4 – R&D Report: Discovered active ingredients

Formula Development

As R&D discovers and submits new active ingredients to your department, you may adopt them if you feel they would make a useful addition to your portfolio. If you choose to use a particular ingredient, it must be developed into a formula. The developed formula can then be used to upgrade an existing brand or to launch a new one.

This development phase lasts one period. Thus, if you request the development of a formula, it will not be on the market before the following period. However, the decision to use this formula to launch a new brand or upgrade an existing one can be made at the same time that the development is requested.

Developed formulas are named with codes such as PA-4 or PB-3, as shown in Figure 7. The first two letters have the same meaning as explained before and the final digit indicates how many different projects have been developed with the same active ingredient.

The Main screen to enter Formula Development and Brand Portfolio decisions is shown in Figure 5. The first decision is whether or not you choose to develop any formula in this period. Due to resource constraints in the R&D department, *you may only develop a maximum of two formulas per period.*

| Formula | Based on | Efficacy | Safety | Conven. | Pleasure | Unit cost (\$) | Development (K\$) |
|---------|----------|----------|--------|---------|----------|----------------|-------------------|
| PA-4 | PA-1 | 19 | 27 | 33 | 26 | 1.45 | 300 |
| PB-3 | PB-1 | 81 | 87 | 88 | 81 | 6.47 | 300 |

Figure 5 – Formula development & Brand portfolio decision screen

Click on *New...* to initiate a new formula development or on *Modify...* to change the characteristics of a formula development already initiated. The input screen of Figure 6 allows you to specify the attributes of the developed formula. Indeed, the development stage gives you the opportunity to slightly adjust the ratings of the developed formula, and thus, of the finished product. For instance, if the active ingredient is rated 45 in Efficacy, you may request the development of a formula rated 55 on the same attribute. Similarly, the development stage allows you to reduce the unit production cost of the developed formula. These adjustments are implemented by R&D by using different raw materials, manufacturing process rationalization, packaging types, etc.

Several constraints apply to the specifications you request in Figure 6.

- First, the overall range of the formula depends on the base active ingredient: A, B, C, etc. For instance, if the active ingredient is rated 30 in Pleasure, you will not be able to request the development of a formula rated 80 on the same attribute because 80 is too far from the original value 30.
- Second, improvements to the original ingredient obtainable with a single development project are limited in scope. To reach the total potential of the ingredient in all attributes, you may have to launch two or even three successive development projects. For instance,

you may first develop the formula PD-1 to improve PD-Ini on Efficacy, Convenience and Pleasure, and then develop the formula PD-2 to improve PD-1 on Safety.

- Finally, the unit production cost must remain within limits set by R&D. You will be given an indication of what are the *normal* and *minimum* production costs of the specified formula. Developing the formula at a cost lower than the normal one will be more expensive and you will thus have to determine the pay-back that you might expect from this additional investment.

| | | Efficacy | Safety | Conven. | Pleasure |
|----------------------|--------|--------------------------|--------|---------|----------|
| Development based on | PD-Ini | 45 | 35 | 40 | 30 |
| Developed formula | PD-1 | 55 | 35 | 45 | 40 |
| Normal cost (\$) | 3.60 | Development budget (K\$) | | 2 100 | |
| Minimum cost (\$) | 2.52 | | | | |
| Requested cost (\$) | 3.50 | | | | |

Figure 6 – Specifying the characteristics of a new formula

Let's examine the screen of Figure 6 in further details.

- First, you must select the active ingredient that you want to develop into a formula. You must start from one of the initial projects submitted by R&D, for instance PD-Ini, or, in later periods, from one of the formula you developed on the ingredient.
- Once you have selected an ingredient or a formula in the choice box *Development based on*, its characteristics are shown in the top row and the name of the new formula is generated automatically. In Figure 6, we have selected the ingredient *PD-Ini* and we are developing the new formula *PD-1*.
- The next step is to specify the rankings of the new formula along the four attributes: Efficacy, Safety, Convenience and Pleasure. Your choice here will most probably be based on the key needs of your target segment. In our example, we have decided to improve all Efficacy, from 45 to 55, Convenience, from 40 to 45 and Pleasure, from 30 to 40. The level in Safety will remain the same as in PD-Ini, i.e. 35. As explained above, there are a number of constraints as to how much you can improve on the properties of a given active ingredient. You will be alerted by the software if your specifications are incorrect.
- The last step is to decide on an acceptable unit production cost for this new formula. The chosen cost must be somewhere between the minimum and normal costs.
- Once the formula is fully specified, the budget required to complete the development in one period is calculated and shown at the bottom of the screen.

Figure 7 shows the formulas that were developed during past periods of the sample run. As one can see in the second column, some of these formulas are being used as the basis of a marketed brand; for instance *POET* based on *PA-2*.

| Formula Name | Basis of brand | Physical attributes (0-100) | | | | Estimated unit cost in \$ (1) | | | |
|--------------|----------------|-----------------------------|--------|---------|----------|-------------------------------|-------|-------|------|
| | | Efficacy | Safety | Conven. | Pleasure | 0-10 | 10-20 | 20-40 | 40+ |
| PA-1 | Not marketed | 16 | 27 | 33 | 26 | 1.40 | 1.20 | 1.00 | 0.85 |
| PB-1 | PASSION | 36 | 37 | 48 | 31 | 2.35 | 2.00 | 1.70 | 1.40 |
| PA-2 | POET | 20 | 27 | 35 | 26 | 1.50 | 1.25 | 1.05 | 0.90 |
| PC-1 | Not marketed | 80 | 85 | 75 | 85 | 6.40 | 5.40 | 4.60 | 3.85 |
| PE-1 | Not marketed | 60 | 50 | 55 | 45 | 3.65 | 3.10 | 2.60 | 2.20 |

Figure 7 – R&D Report : Developed formulas

Brand Portfolio

You may decide to launch a new brand or to upgrade an existing one with one of the formulas already developed, or with the new formula you just decided to develop. The Main screen to enter Formula Development and Brand Portfolio decisions is shown in Figure 5. If you click on *Introduce*, a second screen will allow you to make decisions concerning your new brand, to be launched in the following period. This screen is shown in Figure 8.

A name for your new brand will be suggested by the trademark department of your company. You must select the formula you want to use for this new brand, and you must establish an initial plant capacity level for the brand.

Capacity refers to the maximum amount of the product which can theoretically be produced by your factory during one period. This is related to the size of the factory, the equipment level, speed of lines, etc. You must decide on a level of initial capacity for any new brand, which will be available one period later, upon launch. In the same way, any requested capacity increase for existing brands will take one period to become available. Once built, capacity cannot be destroyed.

If instead of developing a new brand, you choose to upgrade an existing one, do so by selecting the brand in the list of Figure 5, for instance *PEARL*, and then click on the *Upgrade* button. The same screen as the one in Figure 8 pops-up to let you select the correct formula in the drop-down menu.

Figure 8 – Brand launch or upgrade decision screen

Whenever you make these decisions, the screen of Figure 5 lists the brand portfolio elements in the current period, and the next one, based on the changes you have just decided.

Keep an eye on inventory levels or stock build-up. If too much inventory has built-up, it is obvious that production levels should be decreased as a consequence. If a product is modified by means of an improved or cost-reduced formula, all inventory of the old formula is disposed of as it is considered obsolete. This implies 1) a disposal loss, calculated at 125% of current base cost; and 2) that any improved product begins with zero inventory, although the pre-existing capacity levels remain unchanged.

Timing is a critical issue in making formula development and brand portfolio decisions. It is important to note that both decisions take one period to be effective, but that they can be done in parallel. The table below shows two concrete examples.

| | IMPROVEMENT OF POET | INTRODUCTION OF PEARL |
|-----------------|---|--|
| Period 0 | <ul style="list-style-type: none"> Brand <i>POET</i> is based on formula <i>PA-1</i> | |
| Period 1 | <ul style="list-style-type: none"> Decision to develop <i>PA-2</i>, an improved version of <i>PA-1</i>, is made. Development takes place during Period 1 and is completed at the end of this period. Decision to upgrade <i>POET</i> based on <i>PA-2</i> is made. The upgrade is prepared during Period 1 (change in manufacturing processes, marketing materials...) but it is not effective before Period 2. | <ul style="list-style-type: none"> The new active ingredient <i>PE-Ini</i> is discovered by R&D |
| Period 2 | <ul style="list-style-type: none"> All inventories of brand <i>POET</i> at the end of Period 1 are disposed of because they are based on the old formula <i>PA-1</i>. Brand <i>POET</i> is marketed based on formula <i>PA-2</i>, with improved features. Special attention should be paid to production plan as all inventories have been disposed of. | <ul style="list-style-type: none"> Decision to develop <i>PE-1</i> is made. Development takes place during Period 2 and is completed at the end of this period. Decision to introduce <i>PEARL</i> based on <i>PE-1</i> is made. Decision to build a new factory of 3,000 units for <i>PEARL</i> is made. The introduction is prepared during Period 2 (construction of the new plant, marketing materials...) but it is not effective before Period 3. |
| Period 3 | | <ul style="list-style-type: none"> Brand <i>PEARL</i> is launched based on formula <i>PE-1</i>. |

Brand Management

Your team must make a number of decisions each period concerning the management of the brands in the portfolio. The Brand Management screen shown in Figure 9 contains the fields needed to enter these decisions.

Management time. You need to indicate, for each brand, the management time you wish to devote to it. Management time decisions are given in number of person-months. For instance, allocating 120 person-months to brand *POET* is equivalent to having a team of 20 managers working full-time for the 6-month period.

Allocating management time to a brand, a channel or a web site is necessary to implement large scale projects such as introducing/improving a brand or revamping a web site, but also for the day-to-day management activities. Increasing the size of your task force will have a positive impact on how your other resources are used: advertising budgets, trade marketing budget, etc.

Price. Based on your analysis of the market conditions and competitive offerings, you can set the retail price of your brand for the coming year. The recommended retail price does not take into account discounts which can be offered to consumers by distributors. Also, when setting your recommended retail price, remember to take into account the margins paid to distributors, as explained in Figure 3.

| | POET | PASSION | PEARL |
|--------------------------------|----------|----------|----------|
| Based on formula | PA-2 | PB-1 | PE-1 |
| Management time (Person-month) | 120 | 192 | 12 |
| Recommended retail price (\$) | 7.50 | 12.50 | 15 |
| Production (KU) | | | |
| Capacity available in period 3 | 16 000 | 11 500 | 3 000 |
| Capacity built in period 3 | 0 | 0 | 0 |
| Capacity available in period 4 | 16 000 | 11 500 | 3 000 |
| Production level in period 3 | 11 400 | 8 900 | 3 000 |
| Advertising | | | |
| Advertising media | 4 125 | 4 125 | 6 000 |
| Advertising creation | 725 | 725 | 1 500 |
| Positioning | | | |
| Dimension 1 | Efficacy | Efficacy | Pleasure |
| Position 1 | 5.5 | 5.5 | 5 |
| Dimension 2 | Price | Safety | Conven. |
| Position 2 | 3 | 6.5 | 7 |

Figure 9 – Brand management decision screen

Capacity. In this area you are reminded of your capacity level for each brand in the current period and given the option to build additional capacity. Remember that building new capacity will take one period, so you have to plan capacity increases in advance.

Production. In this field you indicate how many units of the product you actually want the plant to manufacture. This number can be any level up to the current capacity. It may be that capacity requested last period turns out to be not needed, as the market has become more sluggish. In such a case, you may need less production than capacity.

Your factory will adjust production levels to allow you a margin of plus or minus 20%, depending on your actual level of sales. For example, if you ordered 10,000 units of production, but only were able to sell 7,000, the factory will scale down production to 8,000 (-20%), leaving you with inventory of only 1,000 units. On the other hand, if there is a demand of 14,000 units for your brand, production will stretch to 12,000 (+20%), resulting in lost sales of only 2,000.

Advertising. You must make two advertising decisions each period. Firstly, you should determine the advertising media budget allocated to each brand. This budget will be used to purchase media space and time. Your advertising agency will select automatically the most appropriate media that targets the most relevant segments for the brand.

Secondly, you must specify the budget allocated to advertising research and creation. This finances the creative work, media selection, and other activities conducted by advertising agencies which improve the quality of your message. In past years, companies have devoted on average 7% of their total communication expenditures to advertising creation. Advertising creation will usually make your advertising more effective, and is especially important when you introduce a new brand or when you look to reposition an existing one. In these last two instances, higher percentages are recommended (in the range of 15 to 20%).

Positioning. An essential part of your marketing effort will involve delivering the appropriate messages to the various segments, in line with what they expect, and considering what your brand

has to offer. Using the *Semantic scales* study and the relevant *Brand maps* (see Market Studies section for more information on Semantic Scales), you can decide on the content of your advertising, along two of five dimensions: *Pleasure, Efficacy, Safety, Convenience* or *Price*.

Making positioning decisions is fairly easy. You should first choose one or two dimensions amongst the ones that are most relevant to the targeted segments. The *Semantic scales* study will give you the relative importance of each dimension for a specific segment. For instance, team Sample decided to use *Safety* and *efficacy* for brand *PASSION*. Then, you must determine where you would like to be positioned on the corresponding *Brand Map*. An example of such a map is given in Figure 27. As you can see, team SAMPLE decided to position brand *PASSION* at position (4.9) on the Safety attribute and (5.5) on the Efficacy attribute, close to brand *DING*, probably because this brand is successful with *PASSION*'s target segments.

There are limits to how far you can position or reposition a brand. These limits depend on the intrinsic attributes of your brand, on its price and on the advertising media and creative budgets you allocate to it.

Channel Management

Decisions are required, as well, on how you will manage your relationships with traditional as well as online channels. These are captured on the screen in Figure 10. Here you can indicate the management time (in person-months) to be dedicated to each channel, as well as several aspects of trade marketing.

| | Traditional channels | | | On-line channels | |
|--------------------------------|----------------------|--------|----------|------------------|----------|
| | Mass/Disc. | Spec. | Dept. S. | e-Grocers | e-Beauty |
| Management time (Person-month) | 335 | 327 | 345 | 20 | 44 |
| Trade marketing | | | | | |
| Trade marketing budget (K\$) | 10 268 | 10 321 | 8 049 | 711 | 1 413 |
| Promotion budget (K\$) | 6 162 | 4 969 | 6 586 | 237 | 681 |
| Margin (%) | 34 | 41 | 47 | 34 | 41 |
| Brand priority (%) | | | | | |
| POET | 63 | 23 | 0 | 42 | 6 |
| PASSION | 12 | 37 | 39 | 26 | 48 |
| PEARL | 0 | 24 | 50 | 0 | 37 |
| PLATIN | 25 | 16 | 11 | 32 | 9 |
| N/A | - | - | - | - | - |
| Total | 100 | 100 | 100 | 100 | 100 |

Figure 10 – Channel management decision screen

Trade Marketing. This includes the referencing budgets plus additional features such as beauty advisors, show-window and in-store location display materials, product sampling displays, etc. These features are used to provide to outlets the means to enhance sales. Thus, you should obtain a better push from distributors if you increase the trade marketing budgets. Note that cutting this budget to 0 means: “do not distribute our brands in this channel”.

Promotion. This includes all the traditional promotional tools such as free gifts, 2 for 1 offers, samples, and coupons. Your staff will automatically select the tools that are most appropriate for the target segments. Increasing promotion will push consumers to try your products. However,

beware of increasing promotion too much as this may have a negative impact on the products' image.

Margins. Each channel type is typically given a certain margin of the retail price, set at 50% for Department Stores, 40% for Specialized Mass, and 35% for Mass Merchandisers and Discounters (see Figure 3). You have the option to provide more or less than these guidelines, within a range of plus or minus 10%. Thus you can propose a 48% margin to Specialized Mass if you feel they will make an extra effort as a result, which will translate in higher sales for you.

Brand Priority. You must decide, for each channel, the proportion of effort that will be dedicated to each brand.

Web Site Portfolio

At the outset of the simulation, Prima only sells via traditional channels and online channels as described above. Using the *Web Site Portfolio* screens of Figure 11 and Figure 12, you will have the opportunity to create new web sites of your own, by clicking on *Create*, or to renovate existing ones, by selecting the web site to be renovated and clicking on *Renovate*.

| Web site | Action | Type | Featured brand(s) | Design |
|-----------|----------|-----------------|----------------------|---|
| prima.com | Upgraded | Corporate | POET, PASSION, PEARL | Inf.: 42, Comf.: 55, CRM: 0, Perf.: 0 |
| pearl.com | New | Brand dedicated | PEARL | Inf.: 10, Comf.: 10, CRM: 50, Perf.: 60 |
| | | | | |
| | | | | |

Figure 11 – Web site portfolio screen

Creating and maintaining quality web sites can accomplish several things. You can create brand awareness, generate in-store sales, and retain consumers by offering added services. More importantly, it allows your firm to register consumers into company-wide or brand-specific *Clubs* in order to create a personalized data-base.

Creating or renovating a web site is done in the first few weeks of the following period, so you will benefit immediately from the new or renovated web site. However, in order to achieve this responsiveness level, you must keep your projects at a reasonable complexity level. You will notice that the higher the complexity of your request the higher the budget. In some cases, it is preferable to do large scale projects over several periods.

A web site can be dedicated to a single brand, in which case it will take the same name as the brand: *poet.com*, *pearl.com*, etc. Alternatively, it could be a multi-brand site, in which case you can choose to have it include any or all of the brands you own. In such a case, the name of the web site is chosen from a list proposed by the trademark department.

In designing your web site, as shown in Figure 12, you must set the level of various service dimensions you intend to offer that will define the *shopping experience* at the site. Service levels are set on a scale of 0 – 100, with a minimum level indicated in the screen.

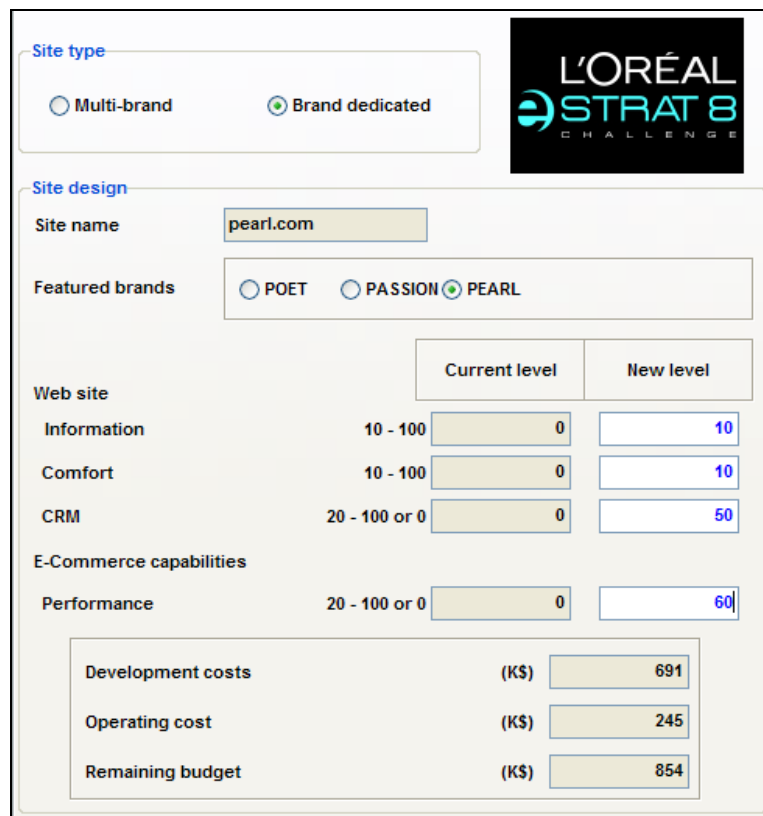
Information. This relates to the content of the site and would indicate the amount of product information provided by the site: product reviews / comparisons, beauty tips, fashion magazines, online-diagnostics, virtual makeovers, chat rooms, *meet-the-expert* sessions, etc. A high level in this dimension will have a direct impact on the site traffic as new and existing customers will come to your site to access high quality, reliable and up-to-date information.

Comfort. This is a measure of the user-friendliness, navigation, easy-to-find products, colors, lights, web server speed and throughput, etc.

Customer Relationship Management (CRM). This relates to the tools you will put in place to initiate and maintain a long-term relationship with your consumers. The core of your CRM activities is the database of registered consumers or *Club Members* where you will input personal information, preferred brands, shopping habits, and that you will then use to provide individualized service at stores or online. This feature is rated either 0 (no CRM at all) or from 20 to 100, 20 being the minimum accepted level of CRM if you do any at all.

Performance. You can decide to include an online boutique by making your site e-commerce enabled. This is done by setting the *Performance* level to either 0 (no e-commerce) or to a value between 20 and 100. The performance level measures the ability of the site to sell as promised, and includes such elements as product availability, on-time delivery, automated replenishment, credit card security, money-back guarantees, payment options, pre-addressed return packages. The higher the level, the higher the selling expertise. Ultimately, your site may include sophisticated tools such as up-selling and cross-selling engines, order tracking, delivery choices, automated replenishment, etc.

You will incur two costs for your web site. One is at the time of creation or renovation, the other a per-period operating cost. The actual costs you incur will depend on the level of characteristics you have chosen.



The screenshot shows the 'Web site design screen' for the L'ORÉAL STRAT 8 CHALLENGE. It features several input fields and a summary table.

Site type: Multi-brand (radio button), Brand dedicated (radio button, selected).

Site design: Site name: pearl.com. Featured brands: POET (radio button), PASSION (radio button), PEARL (radio button, selected).

| | | Current level | New level |
|-------------------------|---------------|---------------|-----------|
| Web site | | | |
| Information | 10 - 100 | 0 | 10 |
| Comfort | 10 - 100 | 0 | 10 |
| CRM | 20 - 100 or 0 | 0 | 50 |
| E-Commerce capabilities | | | |
| Performance | 20 - 100 or 0 | 0 | 60 |

| | | |
|-------------------|-------|-----|
| Development costs | (K\$) | 691 |
| Operating cost | (K\$) | 245 |
| Remaining budget | (K\$) | 854 |

Figure 12 – Web site design screen

Web Site Management

Each period, you will be able to take a number of decisions to manage each of your web sites.

| | prima.com | pearl.com | No site | No site | No site |
|--------------------------------|-----------|-----------|---------|---------|---------|
| Management time (Person-month) | 20 | 20 | - | - | - |
| Price discount (%) | N/A | 5 | - | - | - |
| Promotion (K\$) | 51 | 60 | - | - | - |
| Partnerships (K\$) | 280 | 200 | - | - | - |
| Offline advertising (K\$) | 244 | 300 | - | - | - |
| Online advertising | | | | | |
| Display advertising (K\$) | 204 | 305 | - | - | - |
| Search marketing (K\$) | 91 | 150 | - | - | - |

Figure 13 – Web site management screen

Management time. This will be the effort allotted to supervise the site, interface with the web agency, negotiate partnerships, monitor traffic, respond to inquiries, research new features, etc. It is given in person months, for each web site. Allocating 6 person-months to site *prima.com* is equivalent to having one manager working full-time during the period.

Price discount. For those sites enabled as e-boutiques, it could make sense to offer products at a price lower than in stores, as you do not bear the distributor margins. However, keep in mind that a too low price could lead to conflict with distributors, who will hardly appreciate this 'unfair' competition. In addition, big price cuts could lead to image deterioration for high-end brands.

Promotion. This would be funds allocated to provide free gifts, 2 for 1 offers, samples, etc.

Offline advertising. This involves classic promotional methods such as print ads, TV ads, billboards. These are useful to raise the site awareness and possibly to generate visits from non-Internet users. The danger is that interest could be generated in competitors' web sites as well.

Online advertising will allow you to create awareness and visibility for your website, and generate online and offline sales. You will be able to split your online advertising budget between display advertising and search marketing:

Display advertising. The purpose is to create visibility for the site to people already surfing on the Internet and to increase traffic. Such ads typically appear for a few days or weeks on the edge of the surfers' screens. Nowadays, companies create banners, skyscrapers, videos etc to display their ads. There is no limit to creativity in this field.

Search marketing. You may allocate some budget in Search Marketing to reach "those who actively search what you offer" on search engines and portals. Your budget will be used to purchase 'key words' that will trigger specifically targeted ads on a search engines results pages, the so-called "sponsored links". For example, Google displays sponsored links on the right-hand side column of a results page, and their relevance to the query allows a company to capture the user's attention.

On average, successful e-commerce websites in e-Strat devote 25% to 30% of their online advertising budgets to search marketing.

Partnerships. These have a similar purpose as display ads, but involve longer term commitments with high-traffic Internet sites such as portals, communities, etc. In such a case, your site would

get a display ad and a direct link from the partner's site. Such arrangements are made for 1 year at a time, i.e. two periods in the simulation. You can for example, create a partnership for \$500K per period, and another one in the following period for \$250K. Thus the two will run concurrently for one period, as illustrated below.

| PERIOD N | PERIOD N+1 | PERIOD N+2 |
|--|--|--|
| Deal #1 is signed \$500K per period | Deal #1 continues \$500K per period | |
| | Deal #2 is signed \$250K per period | Deal #2 continues \$250K per period |
| Total "Partnerships" budget \$500K | Total "Partnerships" budget \$750K | Total "Partnerships" budget \$250K |

Ordering Market Studies

One of your decisions will be to order market studies. All studies are ordered at the beginning of a period and are conducted by a specialized research firm during that period. The results are delivered with your annual report at the end of the period.

All studies you purchase will be made available on paper and/or on screen. The information provided is relevant to the market situation during the analyzed period, with the exception of the market-forecast study.

The list of available studies is given in Figure 14. All studies are detailed further later in this document. To order a study, simply check the box "Purchase next period" next to the study title. Remember that studies ordered in Period N will be available in your Period N+1 report.

| Study - Description | Purchase next period | Cost (K\$) |
|---|-------------------------------------|--------------|
| Consumer panel | <input checked="" type="checkbox"/> | 210 |
| Consumer survey | <input checked="" type="checkbox"/> | 290 |
| Distribution panel | <input checked="" type="checkbox"/> | 210 |
| e-Distribution survey | <input checked="" type="checkbox"/> | 290 |
| Semantic scales | <input checked="" type="checkbox"/> | 445 |
| Competitive intelligence | <input checked="" type="checkbox"/> | 370 |
| Benchmarking | <input checked="" type="checkbox"/> | 290 |
| Market forecast | <input checked="" type="checkbox"/> | 210 |
| Total cost of selected market research studies (K\$) | | 2 315 |
| Remaining budget (K\$) | | 31 |

Figure 14 – Ordering market research studies

Sustainable Performance Initiatives

On top of your marketing decisions, your Division can also participate to a number of Sustainable Performance initiatives aimed at protecting the environment, developing the best possible working conditions, and acting towards diversity & equity within your PRIMA Corporation.

Over the course of the L'Oréal e-Strat Challenge, you will have the opportunity to implement up to 28 Sustainable Performance initiatives, including 8 Employee Benefits, 8 Environmental and up to 12 Diversity & Equity initiatives. The content of those initiatives is detailed below.

Employee Benefits Initiatives

Career Development Program. To ensure that the needs and aspirations of individual employees are taken into account, you may develop a formalized appraisal system that ensures transparency & objectivity and includes, for example, a reference guide covering managerial skills and job-specific skills. It is important that an organization defines how they recognize talented employees in order to encourage Talent. Recognizing it in an equitable manner means removing all the parameters that can be contradictory with the organization's Diversity & Equity policy.

Continuous Learning. Providing quality training is an essential part of developing and enhancing an organization's core competencies. Training initiatives include for example setting-up a Corporate Continuing Education Department, adapting training and development initiatives to individual needs or providing a better access to training for all.

Worldwide Profit Sharing scheme (WPS). This initiative consists in the introduction of a variable and collective share of remuneration, which allows strengthening the sense of belonging to the group and increasing employee's motivation. This variable share of remuneration may represent up to 4 weeks of salary in the coming years.

Work Life Balance Initiatives. Work-life balance is a person's control over the conditions in their work place, and is accomplished when an individual feels dually satisfied about their personal life and their paid occupation. It mutually benefits the individual, business and society when a person's personal life is balanced with his or her own job. The work-life balance strategy offers a variety of means to reduce stress levels and increase job satisfaction in the employee while enhancing business benefits for the employer. For instance, flexible working hours, child care structure at offices, etc.

Communal facilities revamping. Creating the best possible working conditions is of the utmost importance in an organization. This initiative includes the creation and maintenance of common spaces for living and working, paying attention to interior features such as plants and lighting, creating special facilities to provide access for those who are disabled, etc.

Employee health program. Keeping employees healthy is a permanent priority for a large corporation. Launching this initiative includes carrying out job and design ergonomics studies, providing personalized medical care, disseminating best practices, etc.

Safety & Health compliant plants. This includes initiatives such as the removing of biomechanical causes by the phasing out of packing lines that involve a lot of manual handling, but also increasing awareness and training initiatives for employees and management.

Employee Benefits audit & report. This initiative includes in-house and/or external audits, in particular for industrial sites, and aims at giving a systematic assessment of the progress of the sites in terms of Safety and Health management.

Environmental Initiatives

Use of renewable raw materials. Launching this initiative consists in actively promoting and developing the use of raw materials from natural, renewable sources. For example, in 2005, around 40% of raw materials used were sourced from plants. Ethanol can be obtained from beetroot, and coconut can be used to produce fats and surfactants. Using renewable raw materials helps limiting the impact of industrial activities on the environment.

Energy consumption reduction. Although the cosmetics industry consumes little energy compared to other areas of activity, you have the opportunity of pursuing an active policy of limiting your energy consumption, for both environmental and financial reasons, by launching an energy consumption reduction initiative.

Water consumption reduction. You may launch several types of initiatives to reduce water consumption. For example, the cooling water for machines and products can be recycled and reused, in order to reduce effluents. Also, during demineralization of the water needed to manufacture products, factories can recycle the mineral-concentrated water and use it for cleaning purposes. Additionally, the pipes transporting the products at production sites can be cleaned at the end of each cycle by a special cleaning system, which not only reduces the amount of water consumed in the cleaning process, but also leads to less product loss, less waste and less residue in the effluent.

Transport packaging reuse. You may launch several initiatives to develop the reuse of transport packaging, for example by returning raw material containers to the supplier for reuse, or by reusing thermoformed plastic trays used for delivering glass bottles up to 25 times. Other initiatives include returning large plastic bags used by suppliers to deliver plastic bottles to the manufacturing sites when empty, or reusing boxes for plastic bottles up to 10 times.

Plastic and cardboard reduction at source. Numerous developments can be introduced to reduce the environmental impact of the packaging used by cosmetics companies, such as refills and reusable pump systems and the elimination of heavy metals from plastic dyes and printing inks. Other initiatives include discarding information leaflets in favor of information printed on the back of the box, saving 4 tons of paper to Vichy Laboratoires each year, or improving the design of shampoo bottles: Fructis 250ml shampoo bottle has currently a weight of 20g compared to 24g nine years ago when L'Oréal launched it, with the same shape. In addition to this reduction, the indirect effects on transport and recycling are also minimized.

Natural gas boiler. In order to reduce atmospheric emissions, you may launch an initiative aimed at developing the use of natural gas to fuel the group's heaters whenever possible. This will limit SO₂ emissions related to the use of oil for heating.

Road / Rail transport. Motor vehicles are a major source of CO₂ emissions. Adopting combined road / rail transport methods or using electric vehicles for certain urban sites are the types of initiatives which allow develop less polluting transport solutions.

Environmental audit & report. This initiative includes in-house and/or external audits, in particular for industrial sites, and aims at giving a systematic assessment of the progress of the sites as regards respect for the environment.

Diversity and Equity Initiatives

Formulating and executing a successful Diversity & Equity strategy requires thorough internal and external research, and a strong commitment from a corporation's board.

To start with, you will only be proposed a choice of three Diversity & Equity initiatives. You will be able to implement more initiatives in subsequent rounds, after you conduct an Audit on Diversity & Equity.

Board Commitment on Diversity and Equity. This initiative aims at gaining a formal commitment from the Management Board as to their will to encourage Diversity & Equity initiatives. As a result, the Board will formulate and communicate a clear set of objectives and strategy.

Code of Ethics. This initiative includes creating a Code of Ethics, communicating it to every employee and obtaining a formal commitment from them. This type of commitment is key in making sure the Diversity and Equity strategy is properly executed.

Audit on Diversity & Equity. This audit, conducted by an external consulting group, focuses on the Diversity and Equity situation within the organization and advises on initiatives to implement to meet the Board’s objectives. It takes one period to order the Audit Report on Diversity & Equity. If you order it in Period P, you will obtain the full report in PDF format in period P+1. It will become available directly in the simulation under the *Reports* menu.

Suggested initiatives in the Audit Report will also become available in your decision screens in Period P+1.

Making your Sustainable Performance (SP) decisions:

Figure 15 shows the input screen for making SP decisions.

Making your SP decisions includes the following elements:

- Allocating an overall budget for employee benefits, environmental, and diversity & equity initiatives. This budget will cover your SP investments, and will come out of your global budget;
- Choosing the employee benefits, environmental, and diversity & equity initiatives you want to implement, by ticking the “Start” box in your SP initiatives decision screen; You will be limited in the number of initiatives which you can launch each period;
- Allocating a specific budget to each initiative, by filling in the “Period P” investments decision cell associated with each initiative;
- Investing consistently over time, since Sustainable Performance initiatives are, by nature, long-term initiatives.

| Initiatives | Status | Start? | Investments in K\$ | | | | % Change |
|--|--------------|--------------------------|--------------------|------------|----------------|----------|----------|
| | | | Period 2 | Cumulative | For completion | Period 3 | |
| Renewable Raw Materials | Not launched | <input type="checkbox"/> | 0 | 0 | 600 | 0 | - |
| Energy Reduction | Not launched | <input type="checkbox"/> | 0 | 0 | 3 000 | 0 | - |
| Water Reduction | Not launched | <input type="checkbox"/> | 0 | 0 | 1 500 | 0 | - |
| Reusable Transport Packaging | Not launched | <input type="checkbox"/> | 0 | 0 | 250 | 0 | - |
| Plastic & Cardboard Reduction | Not launched | <input type="checkbox"/> | 0 | 0 | 500 | 0 | - |
| Natural Gas Boiler | Not launched | <input type="checkbox"/> | 0 | 0 | 1 050 | 0 | - |
| Road / Rail Transport | Not launched | <input type="checkbox"/> | 0 | 0 | 1 500 | 0 | - |
| Audit & Report | Not launched | <input type="checkbox"/> | 0 | 0 | 500 | 0 | - |
| Total environmental initiatives | - | - | 0 | 0 | 8 900 | 0 | - |

Figure 15 – SP initiative decisions

To simplify the first round of decisions, we have limited the scope of SP decisions, so you may only select a maximum of three initiatives in your first round of decisions. After round 1, you will be able make a maximum of four SP decisions per round.

Each initiative requires a specific investment, which is the overall cost necessary to complete the initiative over a given number of Periods. Whenever you decide to start an initiative, you will have a minimum investment to allocate to this initiative at each period, which will ensure that the initiative is completed in a reasonable amount of time. Some initiatives, such as the Employee Health program for example, tend to be heavy to implement and need a longer implementation timeframe; therefore, a maximum investment per period may also apply. In case of budget constraints, you may freeze an initiative by keying in “0” in your Period P investment cell, and resume it at a later stage.

In addition to the investment required to complete an initiative, each initiative may generate an operational cost or an operational profit. Figure 16 gives you an idea of the levels of operational costs/profits associated with each initiative. The exact operational costs and profits of each initiative will appear in your SP initiatives progress report as soon as you start a given initiative.

Please note that in the table below, a Low operational cost may actually sometimes result in an operational profit.

| | Initiatives | Set-up cost (K\$) | Operational Cost | Min Set-up budget per period | Max Set-up budget per period |
|---|-------------------------------------|-------------------|------------------|------------------------------|------------------------------|
| Employee Benefits Initiatives | | | | | |
| 1 | Career Development Program | 1 500 | Medium | 500 | 1500 |
| 2 | Continuous Learning | 1 050 | Medium | 525 | 1050 |
| 3 | WW Profit Sharing | 1 500 | High | 1 500 | 1500 |
| 4 | Work Life Balance | 1 500 | High | 500 | 750 |
| 5 | Communal Facilities revamping | 2 100 | Low | 350 | 1050 |
| 6 | Employee Health Programme | 1 500 | Medium | 500 | 750 |
| 7 | S&H Compliant Plants | 1 050 | Low | 350 | 1050 |
| 8 | Employee Benefits Audit & Report | 500 | Low | 500 | 500 |
| Environmental Initiatives | | | | | |
| 1 | Use of Renewable Raw Materials | 600 | Low | 200 | 300 |
| 2 | Energy Consumption Reduction | 3 000 | Low | 500 | 1500 |
| 3 | Water Consumption Reduction | 1 500 | Low | 250 | 750 |
| 4 | Transport Packaging Reuse | 250 | Low | 250 | 250 |
| 5 | Plastic & Cardboard Reduction at se | 500 | Low | 125 | 250 |
| 6 | Natural Gas Boiler | 1 050 | Low | 350 | 1050 |
| 7 | Road / Rail Transport | 1 500 | Medium | 500 | 1500 |
| 8 | Environment Audit & Report | 500 | Low | 500 | 500 |
| Diversity & Equity Initiatives | | | | | |
| 1 | Board Commitment | 250 | low | 250 | 250 |
| 2 | Code of Ethics | 250 | low | 125 | 250 |
| 3 | Diversity & Equity Audit & Report | 750 | low | 750 | 750 |

Figure 16 – SP initiative key parameters

The impact of your Sustainable Performance decisions is measured by the Sustainability Index. Some of your SP initiatives will have an immediate effect on your *Sustainability Index*, while some others will have a longer term effect. The index starts at a value of 1000 at the end of Period 0, and will evolve throughout the simulation depending on your decisions. The index, together with your economic performance, is assessed by investors when evaluating your market capitalization, which ultimately affects your Share Price Index (*SPI*). You can follow the evolution of this index in the Newsletter, as indicated in Figure 18.

Budget

Each period, your division will be given a total budget amount to spend. The budget is split into two parts as explained below.

Part 1 – Performance-based Budget

You will be allocated a performance based budget equal to 40% of the revenue you have earned from the last period. This performance based budget can be allocated freely across the brands. For example if your brand PASSION generates \$106 million in revenues and thus contributes to \$42 million in your performance-based budget, you may decide to allocate those \$42 million across your brands as you wish. For example, you are free to spend only \$20 million on PASSION and reallocate the extra \$22 million to brands POET, PEARL or PLATIN.

There is a minimum level of budget so even if you have not performed well in the last period you will still be able to function with a reasonable level of activity. There is also a maximum level of budget, as available resources are allocated to other divisions in the case of a very successful period. For more information on the minimum and maximum budgets, please look at the Newsletter.

Part 2 – Exceptional Launch Budget

The Board will exceptionally grant a launch budget for each of your new brands and for each of your one-period-old brands. For more information on the amount of these budgets, please check the Newsletter.

Exceptional launch budgets are always granted to a specific brand, and can only be used to cover the expenditures of that brand. For example if you have been allocated \$20 million to launch PLATIN, you CANNOT spend \$15 million on PLATIN and reallocate the extra \$5 million to PASSION, POET or PEARL. If you indeed decide to spend only \$15 million on PLATIN, your launch budget for PLATIN will be reduced to \$15 million.

Let's now suppose that you decide to spend \$30 million to launch PLATIN. In this case you would use the full exceptional launch budget for PLATIN of \$20 million and \$10 million from your performance-based budget.

The budget screen of Figure 17 shows a summary of what has been spent via decisions made in all the previous screens. It also compares your total costs to the available budget and indicates the positive or negative deviation.

Note that you will not be authorized to submit your decisions for a run of the simulation model if you exceed your budget. Additional screens are available which provide budget details by brand and by channel.

| | | Period 3 |
|--|-----|----------|
| CORPORATE COSTS | | |
| Development of new formulas | K\$ | 0 |
| Ordering market research studies | K\$ | 2 315 |
| Sustainable performance initiatives | K\$ | 0 |
| Management time (excluding hiring and training costs) | K\$ | 4 135 |
| BRAND COSTS | | |
| Advertising media | K\$ | 8 250 |
| Advertising creation | K\$ | 1 450 |
| CHANNEL COSTS | | |
| Trade marketing | K\$ | 15 033 |
| Promotion | K\$ | 7 453 |
| WEB SITE COSTS | | |
| Creation & Renovation of web sites | K\$ | 791 |
| Offline & Online Advertising, Partnerships | K\$ | 1 774 |
| Promotions (on site) | K\$ | 111 |
| TOTAL COSTS | K\$ | 41 312 |
| PERFORMANCE-BASED BUDGET | K\$ | 40 000 |
| EXCEPTIONAL NEW BRAND LAUNCH BUDGET | | |
| Granted by the Board | K\$ | 20 000 |
| Currently used (based on your decisions) | K\$ | 2 166 |
| DEVIATION FROM BUDGET (1) | K\$ | 854 |
| (1) "Deviation from budget" = "Performance-based budget" + "Used exceptional launch budget" - "Total costs" | | |

Figure 17 – Comparing expenses with available budget

Decision Highlights

Upon request, the e-Strat software will make a quick analysis of your decisions and check a number of points. The report of this analysis can be obtained by selecting *Decision highlights* in the *Decisions* menu. It includes three sections.

- **Errors.** These are the very important points which you **cannot** ignore; otherwise you will not be able to submit your decisions. Typical errors include: decisions not yet made; being over-budget; marketing a brand with no manufacturing capacity; etc.
- **Warnings.** These are the points that may have been done on purpose but could also be potential errors. Typical warnings include: dramatic price increase or decrease; developing a formula but not using it to introduce or upgrade a brand; etc.
- **Highlights.** These are the most important points of your decisions. They are listed to make sure that the corresponding decisions were made on purpose. Typical highlights include: introducing a new brand; upgrading an existing one; developing a formula; etc.

Make sure to check the screen *Decision highlights* at regular intervals as you do not want to be stuck with 15 or 20 errors 10 minutes before the deadline ...

Past Decisions

At any time during the course of the Challenge, you will be able to browse through your past decisions by selecting *Past Decisions* in your *Decisions* menu.

YOUR ANNUAL REPORT

You will have access to your annual report at the beginning of each decision round. The annual report provides you with the results of the period that has just ended. For instance, you will be making decisions for period 4 based on the annual report of period 3. The annual report is composed of three separate sections: the *Company Report*, the *Newsletter* and the *Market Studies*. Shots of the most important screens are included in this chapter.

Newsletter

The Newsletter provides general and financial data on the industry, on the competing firms and on marketed brands. The Newsletter consists of the following charts.

Company Key Performance Indicators – The screen shown in Figure 18 provides comparative charts with various financial and marketing performance indicators such as: market shares, retail sales in the various types of channels, number of members in the consumer database, current and cumulative EBIT, stock price indices and return on investment ratios. All numbers are given in absolute values or as percentages.

| | | Prima | Diva | Bella | Vista | Mirror.com |
|---------------------------------------|-----------|---------|---------|---------|---------|------------|
| TOTAL MARKET SHARE | | | | | | |
| Based on unit sales | %U | 31.8% | 16.4% | 31.7% | 18.8% | 1.3% |
| Based on \$ sales | %\$ | 19.9% | 27.8% | 19.5% | 31.1% | 1.7% |
| RETAIL SALES | | | | | | |
| Total retail sales | K\$ | 188 363 | 263 521 | 185 180 | 294 847 | 16 120 |
| Through traditional retailers | %Total | 97.8% | 93.9% | 97.0% | 97.9% | 0.0% |
| Through E-Tailers | %Total | 2.2% | 4.6% | 3.0% | 0.0% | 30.6% |
| Through On-line boutiques | %Total | 0.0% | 1.5% | 0.0% | 2.1% | 69.4% |
| Number of Members registered in Clubs | U | 0 | 34 640 | 0 | 184 483 | 627 525 |
| CONTRIBUTION | | | | | | |
| Before marketing | K\$ | 82 890 | 95 623 | 80 189 | 103 174 | 10 392 |
| After marketing | K\$ | 40 305 | 50 625 | 41 265 | 59 247 | 4 049 |
| EBIT | K\$ | 23 534 | 31 412 | 25 022 | 37 399 | 1 923 |
| Cumulative EBIT | K\$ | 23 534 | 31 412 | 25 022 | 37 399 | 1 923 |
| STAKEHOLDER VALUE INDICATORS | | | | | | |
| Stock price index | Base 1000 | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 |
| Total sustainability index | Base 1000 | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 |
| Market capitalization | M\$ | 889.1 | 1 189.4 | 872.7 | 1 344.4 | 65.1 |
| Current ROI | % | +55.3% | +69.8% | +64.3% | +85.1% | +30.3% |
| Cumulative ROI | % | +55.3% | +69.8% | +64.3% | +85.1% | +30.3% |

Figure 18 – Newsletter : Company Key Performance Indicators

The *financial* and *marketing* indicators are well-known and do not need additional explanation. The *shareholder value* indicators are described below in more details.

- **Market Capitalization.** This is the *value* of the company, calculated by multiplying the stock price by the number of outstanding shares. For simplification reasons, you can assume that there will be no change in the capital structure of the companies, e.g. no issuance of additional stock. Thus, the variation in the Market capitalization is a good representation of how companies are valued by investors.

Although it is not always easy to understand the variations of stock price, the main drivers of market capitalization are revenues and profits. The best way to increase your stock price is to grow revenues and profits with no fluctuations. More recently, with the advance of new technologies and CRM techniques, financial analysts have paid more attention to consumer

databases, and especially to the databases of *Registered Club Members*, as it may drive a lot of business in the future.

- **Stock Price Index (SPI)**. This is a simple measure used to monitor the variation of your stock price and to compare it with those of your competitors.

$$\text{SPI at period P} = 1000 \times \frac{\text{Market Capitalization at period P}}{\text{Market Capitalization at period 0}}$$

All competitors have a SPI of 1000 in Period 0. Then, if the SPI increases, it means that the company has created shareholder value. If the SPI decreases, some value was destroyed.

- **Current Return On Investment (ROI)**. The current ROI is defined in e-Strat as

$$\text{Current ROI} = \frac{\text{EBIT}}{\text{Marketing Expenditures}} = \frac{\text{EBIT}}{\text{CBM} - \text{CAM}}$$

where CBM is the Contribution Before Marketing and CAM is the Contribution After Marketing.

- **Cumulative Return On Investment (ROI)**. The cumulative ROI is derived from the current ROI. It is defined as:

$$\text{Cumulative ROI} = \frac{\text{Cumulative EBIT}}{\text{Cumulative Marketing Expenditures}}$$

Attributes of Marketed Brands – This section details the physical attributes, price, and unit cost of all marketed brands, and it indicates which brands have been recently improved or introduced.

Brand Sales and Market Shares – Here you will find market shares, in units and in dollar value, the volume sold and the retail sales of all brands. Volumes and retail sales are given in absolute values and in percentage change from the previous period.

Cost of Market Research Studies – This chart gives the list of available market research studies and the corresponding costs. Note that you must order studies each period in order to get up-to-date information.

Financial Data – The evolution of economic variables are highlighted in this part of the Newsletter. Various costs relative to production, management time, budget and general & administrative overhead are also provided.

Company Report

The Company Report provides confidential information regarding the results of your company. This information will allow you to assess the impact of decisions made and review the level of success or lack of success of the strategies put into place. The company report includes the following charts:

Firm Results – This section describes your firm's financial performance, in the form of a simplified P & L Statement. All numbers are given in absolute values for the current period and the previous one, and in percentage change from the previous one as well. The screen is depicted in Figure 19 and is detailed below.

- *Retail sales*: total sales paid by consumers.
- *Revenues*: retail sales minus distributors' margins.
- *Cost of goods sold*: number of units sold x Average unit cost.
- *Inventory holding cost*: units in inventory x unit transfer cost x inventory holding cost in %, as given in the Newsletter.
- *Contribution before marketing (CBM)*: Revenues – Cost of goods sold – Inventory cost

- *Contribution after marketing (CAM):* CBM – (Advertising + Promotion + Trade marketing + Web site costs).
- *Production fixed costs:* Production capacity x Fixed cost in \$/Unit as given in the Newsletter.
- *Management time costs:* Sum of managers' operating, hiring or firing costs. Managers costs are indicated in the Newsletter.
- *Exceptional costs or profits:* Include exceptional items such as brand withdrawal costs. These exceptional items are fully explained with messages from the simulation when they occur.
- *Brand contribution:* CAM – Other costs.
- *Corporate costs:* Here are included R&D costs (discoveries and developments), Market studies, General and Administrative costs and Sustainable Performance (SP) initiatives costs. G&A costs are overhead costs calculated as a percentage of revenues plus a fixed amount per brand, per channel used and per web site, as indicated in the Newsletter. SP initiatives include SP investments and operational costs and profits. Note that a negative number in the SP budget line means an operational profit.
- *EBIT (Earnings before Interests and Taxes) :* Brand Contribution – Corporate Costs
- *Next period budget :* (i) *Performance Based Budget* (calculated as 40% of the previous period's revenues, with a minimum and a maximum, as explained in the Newsletter) AND (ii) *Exceptional Launch Budget* (granted for each new brand and each one-period-old brand, can only be spent on these specific brands, check the amount in the Newsletter)

| FIRM | | PERIOD 1 | PERIOD 2 | %Change |
|-------------------------------------|------------|----------------|---------------|---------------|
| SALES | | | | |
| Retail sales | K\$ | 183 827 | 160 139 | -12.9% |
| Revenues | K\$ | 111 799 | 97 252 | -13.0% |
| PRODUCTION | | | | |
| Cost of goods sold | K\$ | 26 672 | 23 219 | -12.9% |
| Inventory holding cost | K\$ | 89 | 218 | +145.4% |
| Contribution before marketing | K\$ | 85 038 | 73 814 | -13.2% |
| MARKETING | | | | |
| Advertising | K\$ | 11 550 | 11 550 | +0.0% |
| Trade marketing | K\$ | 15 373 | 15 373 | +0.0% |
| Promotion | K\$ | 9 419 | 9 419 | +0.0% |
| Web site costs | K\$ | 988 | 964 | -2.4% |
| Contribution after marketing | K\$ | 47 708 | 36 508 | -23.5% |
| OTHER COSTS | | | | |
| Production fixed costs | K\$ | 5 617 | 5 617 | +0.0% |
| Management time | K\$ | 4 853 | 4 805 | -1.0% |
| Exceptional costs & profits | K\$ | 0 | 0 | - |
| BRAND CONTRIBUTION | K\$ | 37 238 | 26 086 | -29.9% |
| CORPORATE COSTS | | | | |
| Research & Development | K\$ | 4 250 | 2 050 | -51.8% |
| Market research studies | K\$ | 1 780 | 1 795 | +0.8% |
| Sustainable performance initiatives | K\$ | 2 200 | 150 | -93.2% |
| General & Administration | K\$ | 5 895 | 5 531 | -6.2% |
| EBIT | K\$ | 23 113 | 16 560 | -28.4% |
| % Revenues | %\$ | +20.7% | +17.0% | |
| NEXT PERIOD BUDGET | K\$ | 44 750 | 40 000 | -10.6% |

Refer to the L'Oréal e-Strat manual for a detailed description of this chart.

Figure 19 – Company Report : Firm Results

Brand Results. This chart shows essentially the same information as the Firm Results chart, for the current period only, but broken down for each brand in the portfolio. Additional information is provided on units sold, average unit retail and selling price, and total number of units produced.

Brand Web Sites and Online Boutiques. The chart on Figure 20 gives you information about the current status of your web sites as well as their activity levels in the last period.

- *Design*: Here you can see a summary of the features provided on your web sites in terms of information content, comfort, customer retention management, and performance.
- *Member Traffic*: this shows you how many consumers have signed up as members of your site, giving you that very important database potential, as well as the number of transactions (on e-commerce enabled sites) made during the period.
- *Total Traffic*: this area provides you more information about the activity of your site, for members and non-members, including: the total number of pages viewed, total visits, total transactions and most importantly, the average \$ value of transactions for each site.
- *Sales*: here you have the total sales generated by selling through your web sites.

| WEB SITES | | TOTAL | prima.com | pearl.com |
|---|------------|------------|------------|------------|
| DESIGN | | | | |
| Information | 0-100 | | 42 | 10 |
| Comfort | 0-100 | | 55 | 10 |
| CRM | 0-100 | | N/A | 50 |
| Performance | 0-100 | | N/A | 60 |
| MEMBER TRAFFIC | | | | |
| Club members | | 12 282 | N/A | 12 282 |
| Transactions made | | 267 | N/A | 267 |
| TOTAL TRAFFIC | | | | |
| Pages viewed | | 12 435 140 | 11 427 719 | 1 007 421 |
| Unique visitors | | 1 893 449 | 1 465 751 | 427 698 |
| Transactions made | | 7 504 | N/A | 7 504 |
| Average sales per transaction | \$ | | N/A | 38.19 |
| SALES | | | | |
| POET | K\$ | 0 | N/A | N/F |
| PASSION | K\$ | 0 | N/A | N/F |
| PEARL | K\$ | 287 | N/A | 287 |
| TOTAL | K\$ | 287 | N/A | 287 |
| N/A : Not Applicable. This web site offers no e-Commerce and/or CRM facilities. | | | | |
| N/F : Not Featured. This brand is not featured on this site. | | | | |
| Refer to the L'Oréal e-Strat manual for a detailed description of this chart. | | | | |

Figure 20 – Company Report : Web Sites Results

Market Shares & Distribution Coverage. This screen provides information on the way in which each of your brands is represented in the various distribution channels. It indicates each brand's total market share in units and in value, as well as the percentage of each type of distributor which carries your brand.

Discovered Active Ingredients. This chart, depicted in Figure 4, is a listing of the active ingredients that have been discovered by your R&D department but have not yet been developed for use as brands. For each one, you can see its physical attributes, initial base cost as well as the minimal base cost which can be achieved when 40 million units will have been produced. Also given is the cost to develop the formula, if you so choose.

Keep in mind that R&D will continue discovering several ingredients per period. Based on your analysis of the data in this chart, you need to decide which, if any, you wish to develop in the current period.

Developed Formulas. This is simply a summary of those formulas you have already developed for use as brands in your portfolio. See an example of this chart in Figure 7.

Messages. Finally, this screen contains messages from the simulation regarding events which have taken place, such as new formula discoveries or developments, and reminders of essential steps which need to be taken.

| MESSAGES |
|--|
| Your R&D department has discovered new active ingredients : PC-Ini, PE-Ini. Check your R&D report for additional information on these ingredients, including estimates of physical attributes, unit costs and development budgets. |
| The development of formula PA-2 was successful. Check its properties in your R&D report. |
| The development cost was K\$ 450, as indicated in your financial results. |
| Additional production capacity of 1 000.0 thousands units was built for brand POET. |
| An exceptional cost of K\$ 35 has been charged to cover various related costs. |
| The Stock Market is concerned by the low investment made by PRIMA's cosmetics division in developing new formulas over past periods. |

Figure 21 – Company Report: Messages from the simulation

Market Studies

You may purchase up to 8 studies each period. The list below provides a brief summary of the information provided by each study.

Consumer Panel – This study, depicted in Figure 22 provides the total unit sales for each segment; the relative size of each segment; and the market shares, based on units sold, for each brand in each segment.

| Firm | Product | Higs | Aff. F. | Med. F. | Low F. | Singles | Average |
|--------------------|---------|--------|---------|---------|--------|---------|---------|
| Prima | POET | 0.2% | 0.2% | 1.4% | 32.4% | 5.2% | 13.2% |
| | PASSION | 0.8% | 1.0% | 7.0% | 8.4% | 21.0% | 8.7% |
| | PEARL | 0.4% | 0.6% | 4.4% | 1.2% | 5.0% | 2.6% |
| Diva | DAWN | 22.6% | 6.8% | 0.9% | 0.2% | 0.7% | 3.1% |
| | DING | 12.9% | 28.5% | 6.8% | 1.1% | 2.7% | 7.0% |
| Bella | BANJO | 0.3% | 0.3% | 1.6% | 36.3% | 8.3% | 15.2% |
| | BIJOU | 0.8% | 0.7% | 6.0% | 6.4% | 17.6% | 7.1% |
| | BODY | 0.7% | 0.9% | 6.3% | 8.4% | 18.7% | 8.1% |
| | BEAUTY | 8.3% | 3.7% | 0.4% | 0.1% | 0.3% | 1.3% |
| Vista | VELVET | 35.5% | 17.8% | 2.6% | 0.6% | 1.9% | 6.3% |
| | VIVID | 11.9% | 28.3% | 27.8% | 2.3% | 8.4% | 13.8% |
| | VIRGIN | 3.3% | 9.5% | 31.7% | 1.9% | 7.3% | 11.8% |
| Mirror.com | MILKY | 1.9% | 1.2% | 0.2% | 0.1% | 0.3% | 0.4% |
| | MELODY | 0.3% | 0.6% | 2.9% | 0.6% | 2.4% | 1.5% |
| Total shares (%U) | | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Total sales (KU) | | 6 158 | 7 852 | 19 107 | 26 198 | 11 949 | 71 265 |
| Relative size (%U) | | 8.6% | 11.0% | 26.8% | 36.8% | 16.8% | 100.0% |

Figure 22 – Consumer panel: Market shares

Consumer Survey – The consumer survey provides information on:

- the level of *brand awareness*: percentage of potential consumers in each segment who spontaneously recall a given brand name;
- *shopping habits*: percentage of potential consumers in each segment who prefer to shop and buy in a given distribution channel; see an example in Figure 23;
- *brand purchase intentions*: percentage of potential consumers in each segment who intended to buy a given brand.

Distribution panel – The distribution panel gives information, for each brand in each channel, on the total sales and market shares, in units and value. It also provides information on the share of shelf-space allocated to each brand in each channel. This information is provided both for the share of regular shelf space allocated to a brand within a given distribution channel, and for the share of gondola head shelf space within each channel.

| | Highs | Aff. F. | Med. F. | Low F. | Singles | Total |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| TRADITIONAL CHANNELS | | | | | | |
| Mass and Discount | 5.7% | 11.3% | 38.8% | 63.2% | 37.2% | 41.6% |
| Spec. Mass | 29.1% | 36.6% | 34.3% | 28.4% | 43.0% | 33.4% |
| Dept. Stores | 56.8% | 44.3% | 20.7% | 4.2% | 12.8% | 19.0% |
| Total | 91.6% | 92.2% | 93.7% | 95.9% | 93.0% | 94.1% |
| INTERNET CHANNELS | | | | | | |
| e-Grocers | 0.0% | 0.1% | 1.1% | 2.8% | 1.3% | 1.5% |
| e-Beauty | 2.2% | 2.2% | 1.7% | 0.6% | 2.2% | 1.5% |
| Total | 2.2% | 2.3% | 2.8% | 3.4% | 3.5% | 3.0% |
| WEB SITES AND ONLINE BOUTIQUES | | | | | | |
| | 6.2% | 5.5% | 3.5% | 0.7% | 3.5% | 2.9% |
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Figure 23 – Consumer Survey: Shopping habits

| | | Retail sales | | Market shares | | Share of shelf-space | |
|-------------------|---------|---------------|----------------|---------------|---------------|----------------------|---------------|
| | | KU | K\$ | %U | \$\$ | Regular | Gondola head |
| Prima | POET | 6 697 | 43 700 | 22.6% | 13.8% | 21.3% | 26.9% |
| | PASSION | 2 853 | 31 028 | 9.6% | 9.8% | 11.1% | 9.1% |
| | PEARL | 816 | 10 642 | 2.7% | 3.4% | 4.8% | 3.8% |
| Diva | DAWN | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% |
| | DING | 819 | 17 589 | 2.8% | 5.6% | 2.9% | 2.4% |
| Bella | BANJO | 7 207 | 47 767 | 24.3% | 15.1% | 22.1% | 26.0% |
| | BIJOU | 2 331 | 26 449 | 7.9% | 8.4% | 9.8% | 8.2% |
| | BODY | 2 769 | 30 114 | 9.3% | 9.5% | 11.5% | 10.2% |
| | BEAUTY | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% |
| Vista | VELVET | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% |
| | VIVID | 2 712 | 51 685 | 9.1% | 16.4% | 7.4% | 6.2% |
| | VIRGIN | 3 463 | 57 103 | 11.7% | 18.1% | 9.1% | 7.2% |
| Mirror.com | MILKY | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% |
| | MELODY | 0 | 0 | 0.0% | 0.0% | 0.0% | 0.0% |
| Total | | 29 666 | 316 078 | 100.0% | 100.0% | 100.0% | 100.0% |

Figure 24 – Distribution Panel

e-Distribution Survey – This survey provides extensive data on web sites currently active in each type of channel. The first chart provides a comparison of shopping experiences at the sites, i.e. how the sites are perceived along the four dimensions: *Information, Comfort, CRM* and *Performance*. The second chart, depicted in Figure 25, and the third one provide traffic and sales figures. These figures include crucial elements such as: estimates of competitive communication budgets; number of unique visitors during the period (i.e. a user visiting the site several times in one month is counted as a single unique visitor); number of pages viewed; number of commercial transactions made; conversion rates (% of unique visitors who actually purchased at the site); average \$ sales per transaction; estimates to total sales at the site; etc.

For your information, *Club Members* are the consumers who entered their personal information in the database (name, email, skin type, favorite colors, preferred products,...) and who accepted to receive information such as special offers, newsletters, tips, etc. Consumers who purchase at the site but did not provide personal data are not included.

| | Advertising Budgets in K\$ | | | | Total | Unique Visitors | Club Members | Pages Viewed |
|---------------------|----------------------------|---------|--------|--------------|-------|-----------------|--------------|--------------|
| | Offline | Display | Search | Partnerships | | | | |
| WEB SITES | | | | | | | | |
| e-Grocers (6 sites) | 890 | 660 | 870 | 1 070 | 3 490 | 4 229 373 | 181 387 | 18 766 227 |
| e-Beauty (5 sites) | 890 | 650 | 910 | 1 080 | 3 530 | 4 409 434 | 204 702 | 34 822 989 |
| WEB SITES | | | | | | | | |
| prima.com | 250 | 210 | 90 | 270 | 820 | 1 489 810 | 0 | 11 244 000 |
| pearl.com | 290 | 310 | 150 | 190 | 940 | 445 400 | 12 070 | 1 011 090 |
| diva.com | 240 | 190 | 110 | 370 | 910 | 771 540 | 0 | 8 192 260 |
| dawn.com | 710 | 550 | 330 | 900 | 2 490 | 2 538 980 | 142 570 | 31 897 530 |
| ding.com | 690 | 600 | 250 | 780 | 2 320 | 4 440 350 | 193 550 | 51 674 860 |
| bella.com | 240 | 200 | 120 | 400 | 960 | 2 472 290 | 0 | 30 490 950 |
| beauty.com | 670 | 580 | 240 | 740 | 2 230 | 1 623 920 | 36 290 | 12 743 680 |
| vista.com | 260 | 230 | 130 | 420 | 1 040 | 1 677 640 | 0 | 17 422 770 |
| velvet.com | 720 | 610 | 340 | 1 080 | 2 750 | 4 404 900 | 361 620 | 59 880 848 |
| vivid.com | 750 | 590 | 390 | 960 | 2 690 | 9 315 800 | 646 160 | 124 332 864 |
| milky.com | 450 | 720 | 440 | 2 830 | 4 440 | 4 684 980 | 510 340 | 45 294 220 |
| melody.com | 460 | 770 | 440 | 2 630 | 4 300 | 12 445 300 | 1 167 850 | 147 641 152 |

In the case of internet channels, the numbers given in this chart are averages over all sites in the channel.

Figure 25 – e-Distribution Survey: Key Traffic Figures

Semantic scales – Semantic scales describe how consumers perceive the marketed brands. Respondents are asked to rate each brand along each physical attribute plus price on a scale from 1 (low) to 7 (high) according to the way they perceive the brand. For instance, a brand rated 2.3 on the *Convenience* scale is perceived as being less convenient than a brand rating 5.5 on the same scale. For price, a lower score on the semantic scale means that the brand is perceived as being cheaper, and a higher score means that the brand is perceived as being more expensive. Semantic scale scores are not related to how much a particular segment values the brand. Consumers are also asked to evaluate the importance of each attribute, in other words, the weight each attribute takes in the buying decision. A sample chart of the Semantic Scale study is depicted in Figure 26.

| Firm | Brand | Efficacy | Safety | Conven. | Pleasure | Price |
|------------|---------|----------|--------|---------|----------|-------|
| Prima | POET | 2.2 | 2.4 | 2.8 | 2.3 | 2.0 |
| | PASSION | 3.0 | 3.1 | 3.8 | 2.8 | 2.9 |
| | PEARL | 4.5 | 3.9 | 4.5 | 3.4 | 3.3 |
| Diva | DAWN | 6.0 | 6.0 | 6.3 | 6.8 | 6.6 |
| | DING | 4.8 | 6.0 | 5.7 | 4.9 | 5.1 |
| Bella | BANJO | 2.9 | 2.4 | 2.9 | 2.7 | 2.0 |
| | BIJOU | 2.6 | 3.4 | 2.7 | 3.5 | 3.0 |
| | BODY | 3.0 | 3.1 | 3.6 | 2.6 | 2.9 |
| | BEAUTY | 6.5 | 6.3 | 6.7 | 6.1 | 5.8 |
| Vista | VELVET | 6.7 | 6.3 | 6.2 | 5.9 | 5.8 |
| | VIVID | 4.9 | 5.4 | 5.5 | 4.4 | 4.5 |
| | VIRGIN | 4.1 | 5.0 | 4.9 | 4.6 | 4.0 |
| Mirror.com | MILKY | 6.2 | 6.7 | 6.6 | 6.3 | 5.7 |
| | MELODY | 3.7 | 4.5 | 4.3 | 4.5 | 3.9 |

Figure 26 – Semantic Scales: Brand Perceptions

Additional charts and graphs are available online. For instance, one can obtain a graph, or *Brand Map*, showing the relative position of each brand on a graph whose axes can be set for any of the physical attributes. This map, depicted in Figure 27 will allow you to see the differences in how brands are perceived and help you determine what needs to be done to correct their positioning (i.e. more or better communication, or improving the product; or both). Two brands close to one another on the map are perceived as being similar. Inversely, two brands located in different quadrants are perceived as being significantly different; for instance, one may be perceived as less *convenient* or as more *effective*.

These maps will also allow you to determine the content of your advertising, as mentioned previously. If your brand is perceived as 4.1 in *Safety*, and you feel it could be perceived higher,

you can enter a '4.5' on that dimension in the *Brand Management* screen of Figure 9. This will direct your ad agency to create messages that emphasize the appropriate level of safety.

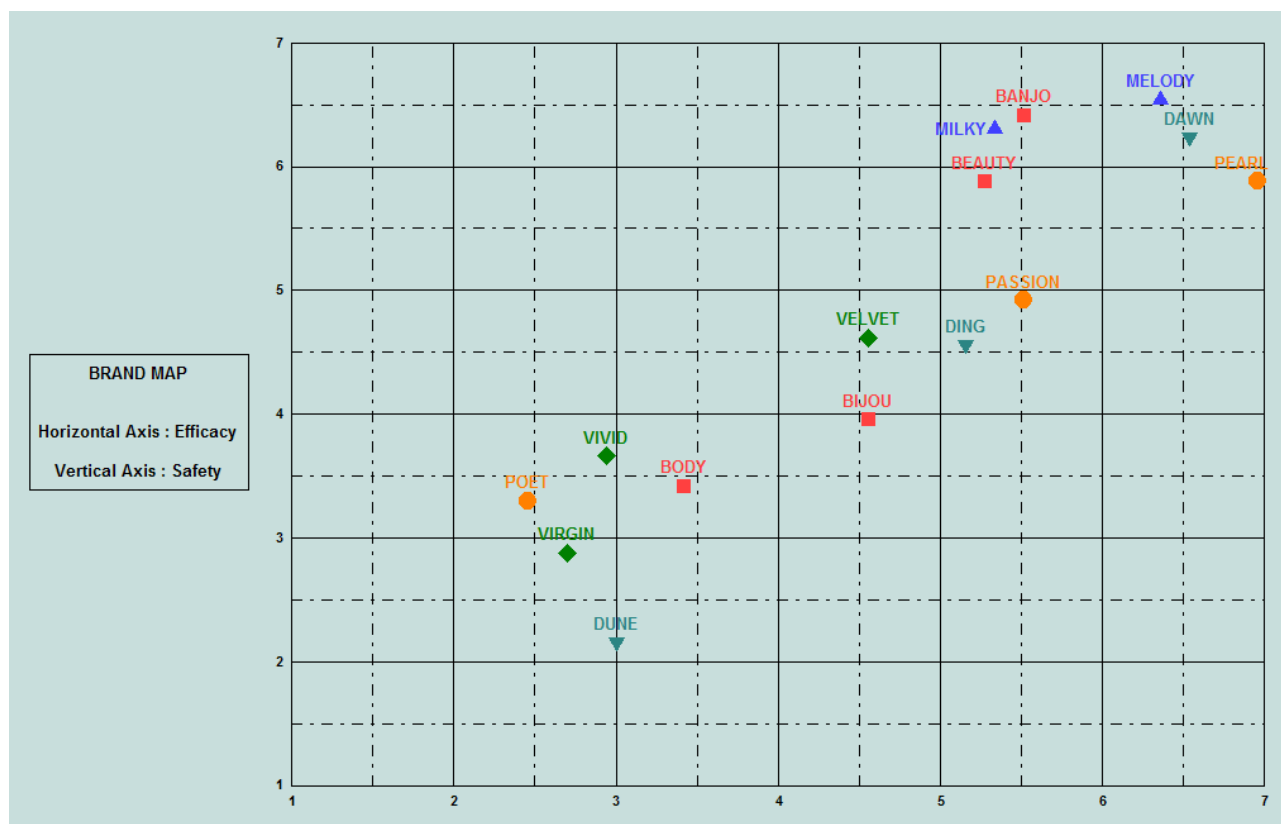


Figure 27 – Semantic Scales : Brand Map

Competitive Intelligence – This study estimates total advertising expenditures for each competitive brand by segment. It also provides the average advertising spending by brand and by firm, in total and for each segment. Further charts give estimates on how much was spent for each brand in Trade Marketing and Promotion, for each traditional and online channel.

A sample chart is shown in Figure 28. This data will be essential in explaining past performance or to determine suitable spending levels for the current period.

The Competitive Intelligence study also estimates the size of the management task forces of your competitors. This will give you a pretty good indication of how much you should spend in this field.

Benchmarking – In this section you will find a comparison of key figures and financial results for the various companies in the e-Strat world. The available data is fairly comprehensive and is presented in the same format as the *Firm Results* chart, given in Figure 19.

| Firm | Brand | Advertising | | Trade Marketing | | Promotion | |
|------------|---------|-------------|----------|-----------------|----------|-------------|----------|
| | | Traditional | Internet | Traditional | Internet | Traditional | Internet |
| Prima | POET | 4 931 | 192 | 7 450 | 70 | 3 674 | 35 |
| | PASSION | 4 911 | 192 | 8 134 | 467 | 2 927 | 215 |
| | PEARL | 7 281 | 847 | 6 290 | 0 | 2 474 | 0 |
| Diva | DAWN | 5 095 | 2 130 | 5 913 | 548 | 4 127 | 262 |
| | DING | 5 100 | 1 949 | 6 155 | 522 | 3 801 | 227 |
| Bella | BANJO | 3 806 | 238 | 5 677 | 279 | 3 069 | 107 |
| | BIJOU | 3 806 | 238 | 5 700 | 441 | 3 405 | 205 |
| | BODY | 3 725 | 0 | 5 919 | 459 | 3 424 | 204 |
| | BEAUTY | 6 694 | 1 761 | 3 731 | 363 | 2 630 | 163 |
| Vista | VELVET | 7 070 | 2 332 | 8 471 | 878 | 5 814 | 395 |
| | VIVID | 7 139 | 2 193 | 9 536 | 587 | 5 875 | 290 |
| | VIRGIN | 7 988 | 259 | 7 834 | 214 | 4 660 | 99 |
| Mirror.com | MILKY | 1 017 | 3 942 | 0 | 1 243 | 0 | 592 |
| | MELODY | 950 | 3 942 | 0 | 1 057 | 0 | 432 |

Figure 28 – Competitive Intelligence: Summary

Market Forecast – This research study estimates the expected size in units and the growth rate of each segment for the next three periods. Similarly, estimates are given for the expected growth of the channel sizes over the next three periods, as shown in Figure 29. These estimates are based on the current market situation and assume that no substantial changes such as brand introductions, or significant price increases or decreases will take place in the future. Consequently, depending on what actions are actually taken by your firm and your competitors, the resulting market size will either be higher or lower.

| Channel | Actual Size | Actual Growth | Forecasted Size | | | Forecasted Growth Rates in % | | |
|-----------------------------|---------------|---------------|-----------------|---------------|---------------|------------------------------|---------------|---------------|
| | Period 3 | Period 3 | Period 4 | Period 5 | Period 6 | Period 4 | Period 5 | Period 6 |
| TRADITIONAL CHANNELS | | | | | | | | |
| Mass and Discount | 29 666 | +3.4% | 30 981 | 32 486 | 34 082 | +4.4% | +4.9% | +4.9% |
| Spec. Mass | 23 801 | +5.4% | 25 141 | 26 724 | 28 451 | +5.6% | +6.3% | +6.5% |
| Dept. Stores | 13 559 | +6.3% | 14 330 | 15 246 | 16 229 | +5.7% | +6.4% | +6.4% |
| TOTAL | 67 026 | +4.7% | 70 452 | 74 457 | 78 762 | +5.1% | +5.7% | +5.8% |
| INTERNET CHANNELS | | | | | | | | |
| e-Grocers | 1 102 | +8.2% | 1 253 | 1 428 | 1 623 | +13.7% | +13.9% | +13.7% |
| e-Beauty | 1 065 | +12.1% | 1 232 | 1 430 | 1 655 | +15.7% | +16.0% | +15.7% |
| TOTAL | 2 167 | +10.1% | 2 486 | 2 858 | 3 278 | +14.7% | +15.0% | +14.7% |
| TOTAL | 69 193 | +4.9% | 72 938 | 77 315 | 82 040 | +5.4% | +6.0% | +6.1% |

Figure 29 – Market Forecast: Channel sizes and growth rates

Finally, this study also provides the new brand launches that we expect your competitors to launch in the upcoming periods. See Figure 30 for an example.

| Firm | Period | Target | Physical attributes | | | | Estimated Price in \$ |
|-------|--------|---------|---------------------|--------|---------|----------|-----------------------|
| | | Segment | Efficacy | Safety | Conven. | Pleasure | |
| Bella | 3 | Highs | 85 | 80 | 90 | 75 | 27.50 |
| Vista | 2 | Med. F. | 50 | 55 | 45 | 60 | 19.25 |

Figure 30 – Market Forecast: Expected new brand launches by competitors

DOWNLOADING AND INSTALLING THE E-STRAT SOFTWARE

There are a number of administrative tasks that you need to complete before and during the Challenge. The technical expertise required to complete these tasks is very limited. In addition, the *Frequently Asked Questions* posted in the Downloads section of the e-Strat site (<http://www.e-Strat.loreal.com>) will respond to all the questions you may have.

The steps which you will have to go through **before** the beginning of the Challenge are listed below:

- Downloading, printing and, of course, reading the e-Strat manual;
- Downloading and installing the e-Strat software;
- Testing your HTTP connection using the e-Strat software Tools menu.

Each of these steps is explained in details in the following sections.

Downloading the e-Strat Software and Manual

If you are reading these lines, it probably means that you have successfully downloaded the e-Strat manual and the e-Strat setup file. If this is not the case, please follow the steps below.

- Create a folder named “*My e-Strat Downloads*” on your hard drive.
- Visit the e-Strat web site at <http://www.e-Strat.loreal.com> and go in the *Tools for the game / Software & Tips* menu. You will find on the page a series of hyperlinks to the manual, to the setup file and to the FAQs.
- Click one of these links to initiate the file transfer. Your browser may ask you whether you want to execute the file directly from the site or download it. Select the download option and save the file in the folder “*My e-Strat Downloads*” you have just created.

Computer Requirements & Settings

The minimum computer configuration required to operate the e-Strat Software is the following:

- e-Strat operates on PCs only, (no Macs)
- Pentium-based processor with 16 megabytes of memory
- Hard disk with at least 20 megabytes of available storage
- Windows 9X, Millenium, 2000, NT4, XP, Vista, 2003 or above
- Internet connection (only during authentication and file transfers)

Regional settings:

e-Strat will not behave properly if the decimal point ‘.’ is used as the thousand separator in the “Regional settings” of the “Control panel”. The two best combinations are:

Decimal point = ‘.’ Thousand separator = space or ‘,’
Decimal point = ‘,’ Thousand separator = space

If you use Asian characters on your PC, please also make sure that the Settings for Non-Unicode Programmes are set to English.

Installing the e-Strat Software

After having downloaded the L'Oréal e-Strat software from the L'Oréal e-Strat Challenge web site, you should have on your hard drive a self-installable file named *e-Strat-Team-Setup-V8-XX.exe*. Double-click on this file to start the setup procedure, and click on *NEXT* in the window which pops up straight away.

The dialog box shown in Figure 31 pops up allowing you to specify in which folder L'Oréal e-Strat should be installed. The default folder is: "C:\Program Files\STRATX\ e-Strat-Team\". We strongly advise you to use this default folder as it will make your life easier and reduce the risk of errors. For instance, reading the FAQs will be simplified as we will always refer to the default installation folder. If you need to install L'Oréal e-Strat software in another folder, click on the *Change ...* button. The actual installation starts when you click on the **Next >** button. L'Oréal e-Strat files are copied into the folder which you specified. Two of these files are registered automatically in the Windows registry. The setup utility creates a shortcut called **The L'Oreal e-Strat – Team** on your desktop. Double-click on this shortcut to launch e-Strat.

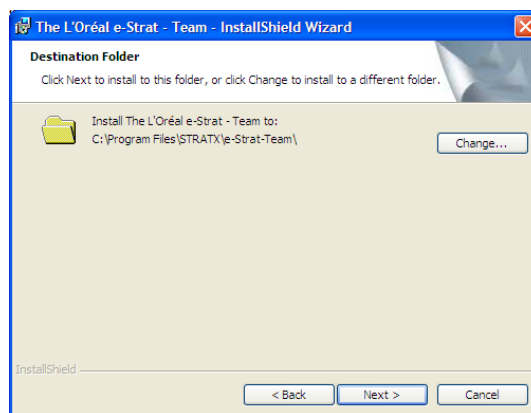


Figure 31 - Installing the L'Oréal e-Strat software

Using the Tools menu to test your installation

Testing your connection

Clicking on *Tools/Test your connection* will initiate the authentication process on the e-Strat server and test if your Internet connection works properly and if you can connect to the e-Strat database.

Checking your installation folders

Clicking on *Tools/Installation Folder* will launch a dialog box letting you know:

- In which folder your team file is located (by default, it is in the "C:\My Documents\My e-Strat Files" folder)
- In which folder the L'Oréal e-Strat software is located (by default, it is in the "C:\Program Files\STRATX\ e-Strat-Team" folder)

Checking your Challenge and Team status on the e-Strat server

At any time, you can use the *Tools/Check Status on e-Strat server* function of the e-Strat software to provide you with your latest Challenge and Team status. The e-Strat software will connect to the server and collect information on your team file, such as:

- Number of successful uploads performed during the current decision round.
- Date and time (Paris time) of the latest successful upload, if any.
- Status of your decisions: finished & error-free, partial or with errors.
- Etc.

Modifying your Proxy Settings

If you connect to the Internet via a Proxy server, you can use the function *Tools/Proxy Settings* to modify your Proxy settings.

By default, this form is pre-filled in with the settings used by Internet Explorer. Please contact your University's IT department should you need to modify your Proxy settings.

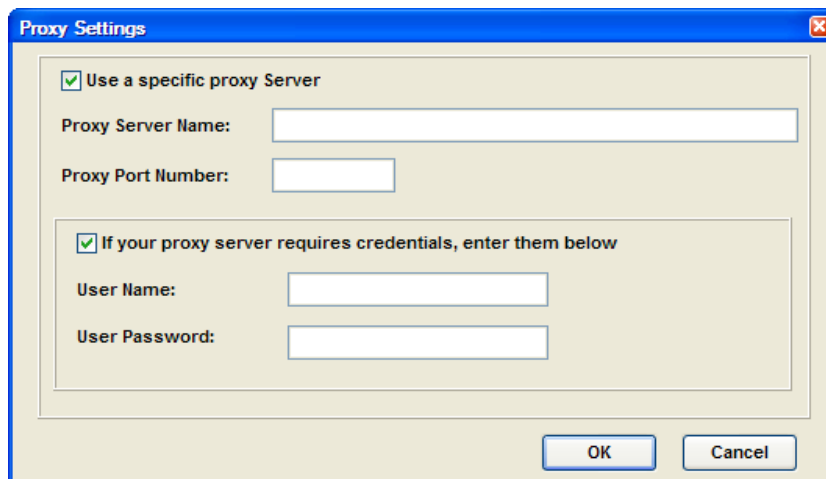


Figure 32– Modifying your Proxy Settings

THE E-STRAT DECISION ROUND PROCESS

There are a number of steps which you will have to go through **several times** during the Challenge, which are called *Decision Rounds*. These are listed below:

1. **Downloading and Opening** your initial Team File (for the first round only) or your previous period results from the e-Strat server, once a round is started
2. **Analysing** your results for Period P and making your decisions for Period P+1. You can read and print out your latest annual report and begin the process of analyzing the current situation.
3. This analysis will lead to a series of **decisions**, which will be input into the decision screens provided
4. **Saving** your final and error-free decisions on the e-Strat server
5. **Submitting** your decisions for a run of the simulation.
6. Waiting anxiously for the start of the next round... and **checking your results** and those of the other teams on the e-Strat web site.
7. Drinking a glass of Champagne... or a glass of Coke... or a glass of water with two aspirins ...depending on your rank in the team list!!
8. **Returning to step 1 and repeating these operations.**

Each of these steps is explained in details in the following sections.

Overview

You and your team will have to make up to six rounds of decisions during the L'Oréal e-Strat Challenge, or three simulated years. For your decisions to be processed by the simulation model, data need to be exchanged over the Internet through a database server called the e-Strat server.

The data to be exchanged are your decisions and the simulation results. All data is located in a file called *Team File*, named MYTEAM.XST, where MYTEAM stands for your team name which will be associated to your team throughout the whole Challenge. There is only one file per team as all members of the same team share the same results and the same decisions. However, you will see that the team file can be duplicated on several computers if two or more team-members want to work in parallel.

For the first round of decisions, your team file contains information on the initial situation, i.e. market data, consumer segments, brands, channels, firms, as well as a copy of the decisions that were made by the previous management team. For subsequent rounds, the file contains the latest simulation data, obtained after the simulation run, and a set of decisions –called default decisions– that are just a copy of your decisions from the previous period. The objective of these default decisions is to prevent you from starting each time from scratch when making decisions, with zeros in all input screens. If you use these default decisions during the L'Oréal e-Strat Challenge, your results may suffer dramatically as they are far from being optimal.

Each decision round will be opened and closed at specific dates.

- For those teams competing in the **Open Challenge**: the dates of each decision round are available on the e-Strat web site (click on *Displayed Version* of calendar on the homepage).

- For those teams competing in the **Academic Challenge**: the dates of each decision round will be communicated to you by your Professor.

Authenticating, using your Team name and Password

This step is required each time you connect to the e-Strat server, for example to download your updated team file at the beginning of a decision round, or to save your decisions on the e-Strat server. Enter the team name and password that you chose upon registration and click on **OK**. The software connects to the e-Strat server and checks your identification. Please, note that you must be connected to the Internet to authenticate. The e-Strat software does not initiate an Internet connection.

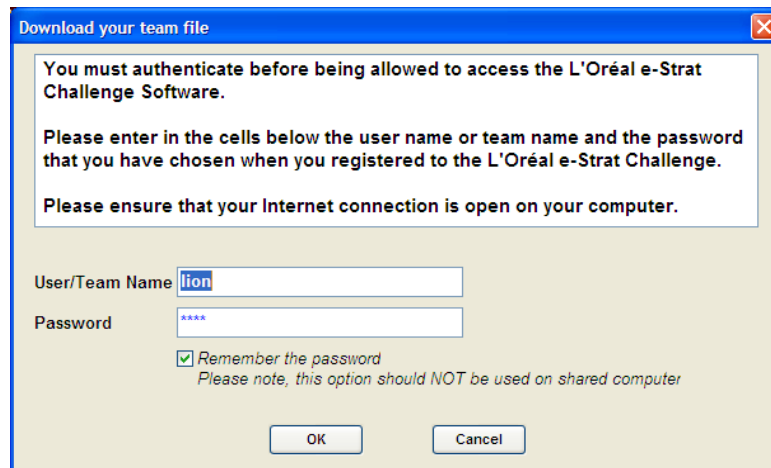


Figure 33 – Authenticating

If you are working on your own computer, you can tick the option *Remember the password*. Your password will be stored locally and will automatically reappear each time you authenticate. Please Note; **this option should not be used on shared computers**.

Downloading your Team File from the e-Strat server

At the beginning of each decision round, you must download your team file from the e-Strat server to access the latest simulation results. To download your team file, click on *Open/From e-Strat server...* in the *File* menu. The download is completed upon authentication, and the team file opens automatically.

Organizing an e-Strat working session

Once you have downloaded your team file from the e-Strat server, you are able to read and print out your latest annual report and begin the process of analyzing the current situation. This analysis will lead to a series of decisions, which will be input into the decision screens provided. Details on the annual report and decision screens are provided in previous sections of this manual.

If you have started a working session, and need to close it to resume it later, just click on *Close* in the *File* menu. Your decisions will be saved automatically on your computer's hard drive. At any time, you can also save a copy of your team file on the e-Strat server, as explained in the following sections.

To open your team file from your local computer at a later stage, you must use the *File/Open/Local Copy* menu and then select your team name and enter your team password in the screen shown

in Figure 34. If you have only saved your decisions locally, **DO NOT** open your decisions from the e-Strat server, otherwise you will lose the decisions saved on your local computer.



Figure 34 – Opening your team file

Saving your team file on the e-Strat server

Within each Decision Round, you and your team may choose to organize several working sessions with the e-Strat software. You can make a detailed analysis of your results on day 1, make R&D and brand portfolio decisions on day 2, make marketing mix decisions on day 3 and finalize everything on day 4. You may make decisions all together or choose to work remotely from different computers. The e-Strat software includes several features to help you with these different situations.

If you and your team decide to assign responsibilities (R&D, Production, Finances,...) to team members and to work remotely from different computers connected to the Internet, we strongly advise that you use the e-Strat server as a central location to save your team file.

To do this, use the *File/Save* function of the e-Strat software after you have taken your decisions. You will be required to authenticate, using your team name and password, then the window shown in Figure 35 will pop up. Click on "Upload" to store a copy of your team file on the e-Strat server. You will receive a confirmation message upon completion. Then, the other members of your team will be able to download your team file from the e-Strat server and input their own decisions into this file, which will contain the first set of decisions which you have already taken.

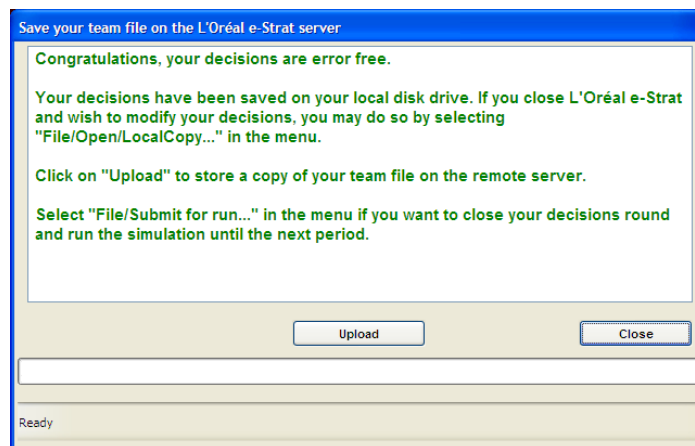


Figure 35 – Saving your team file on the e-Strat server

Please note that if you choose to work in this way, you should work in a sequential manner and not in parallel, otherwise you risk losing decisions which have already been taken. For example, we recommend the process described in Table 1.

| WHO | WHEN | WHAT |
|---------------|-------|--|
| Team Member 1 | Day 1 | 1. Open team file from e-Strat server 2. Work and input decisions 3. Save updated team file to e-Strat server |
| Team Member 2 | Day 2 | 4. Open latest team file from e-Strat server 5. Work and input decisions 6. Save updated team file to e-Strat server |
| Team Member 3 | Day 3 | 7. Open latest team file from e-Strat server 8. Work and input decisions 9. Save updated team file to e-Strat server |

Table 1- Making decisions in a sequential manner

If Team Members 2 and 3 do not coordinate and decide to download the file from the e-Strat server on Day 2 and work on this file in parallel, then the file which will be saved on the server at the end of Day 2 will only contain the decisions taken by Team Member 1 and the ones taken by Team Member 2 OR Team Member 3, depending on which one has saved its file last. In any case, this file will **NOT** contain all of your decisions.

Therefore, make sure that you coordinate your teamwork to avoid losing decisions and wasting a precious time.

Even if you and your team decide to always work together, the *Save Team File to e-Strat server* function allows you to always keep a back-up of your team file.

Working in an environment with limited access to Internet

If you are working from a computer without a permanent Internet connection, you can save your team file locally on your computer when you close an e-Strat session and re-open it later to continue your work on e-Strat. To do so:

1. Select *File/Close* to finish the session.
2. If you have not yet submitted your decisions for a run of the simulation, the software will ask you to confirm that you really want to close your working session without submitting your decisions. Just click on *OK*, and your team file will be saved locally on your PC.
3. If you want to work from another computer afterwards, you can save your team file on a diskette, USB drive, zip drive or any other removable storage, and load it on another computer. Your team file, named *MYTEAM.XST*, is by default located in the "*C:\My Documents\My e-Strat Files*" folder of your computer.

Go to this folder using Windows Explorer, copy the *MYTEAM.XST* file on a removable storage, and then paste this file in the "*My e-Strat Files*" folder of the other computer which you would like to use. Obviously, you should have installed the e-Strat software on the other computer before performing this operation.

You can then open your team file from the other computer, using the *File/Open/Local Copy* function of e-Strat.

Submitting your Decisions for Run

Your team decisions will be due on specific dates, as explained in previous sections of this manual.

YOU CAN ONLY SUBMIT YOUR DECISIONS FOR RUN WHEN THEY ARE COMPLETE AND ERROR FREE.

If the *Submit for Run* function in the *File* menu is grayed out, it means that your decisions are either not complete or not error-free. You will need to complete and correct your errors.

Make sure to check the screen *Decision highlights* at regular intervals as you do not want to find yourself with 15 or 20 errors, 10 minutes before the closing deadline ...

TO SUBMIT YOUR FINAL AND ERROR-FREE DECISIONS FOR RUN, YOU MUST:

1. Save your decisions to the e-Strat server, using *File/Save*
2. AND THEN select *File/Submit for Run*. You will need to authenticate to perform this operation. Upon authentication, the dialog box of Figure 36 will pop up.

PLEASE MAKE SURE THAT THE DECISIONS YOU ARE ABOUT TO SUBMIT FOR RUN ARE THE LATEST ONES BEFORE YOU CLICK ON “YES.” ONCE YOU HAVE SUBMITTED YOUR DECISIONS FOR RUN, YOU WILL NOT BE ABLE TO MAKE ANY FURTHER MODIFICATIONS TO YOUR DECISIONS UNTIL THE BEGINNING OF THE NEXT DECISION ROUND.

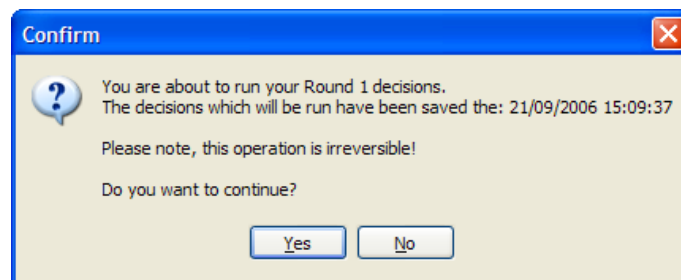


Figure 36 – Submitting your decisions for run

Checking your Challenge and Team status on the e-Strat server

At any time, you can use the *Tools/Check Status on e-Strat server* function of the e-Strat software to provide you with your latest Challenge and Team status. The e-Strat software will connect to the server and collect information on your team file, such as:

- Number of successful uploads performed during the current decision round.
- Date and time (Paris time) of the latest successful upload, if any.
- Status of your decisions: finished & error-free, partial or with errors, etc

Accessing your Team Rankings and Starting your next Decision Round

Open Challenge teams will be able to find their results listed along with those of the other teams involved in the competition on the L'Oréal e-Strat Challenge web site, as per the schedule available in the Calendar section of the e-Strat web site.

Academic Challenge teams will be informed by their Professor of the dates at which their results will be available.

In both cases, as soon as results are posted, you will be able to download a new team file and begin the next round.

FINAL RECOMMENDATIONS

It is important that you carefully read and understand the information in this manual before the beginning of the L'Oréal e-Strat Challenge. In previous simulation-based seminars or competitions, we have found that you will benefit by paying particular attention to the following advice.

- *Emphasis on strategic issues.* Concentrate your efforts on strategic issues and long-term planning.
- *Importance of analysis.* Before making decisions, be sure that you understand the behavior of the market. Do not jump to the first explanation, or conclusion, that you may have reached when faced with a problem: it may be incomplete. The detailed analysis of Market Research Studies, of your own situation and of past competitive behavior should help you reach more robust decisions.
- *Group time allocation.* Make sure that you allocate your discussion time sensibly between problem areas. You will be under pressure to submit your decisions by the given deadline, and you should avoid making decisions hastily in the last minutes available. Do not waste time on discussing a \$100,000 expenditure if it will force you to rush through other decisions where millions are at stake.
- *Decision input errors.* Your team will have to bear the consequences of errors made in entering your decisions using the e-Strat software. These errors cannot be corrected retroactively. Be particularly careful to specify your decisions in the correct units and to submit your decisions on time.
- *Role of the instructor.* The e-Strat instructor cannot manipulate the simulation parameters during the course of the simulated periods. The simulation has been designed to automatically generate environmental changes. The markets will evolve mainly according to the actions taken by the competing firms. There will, thus, be no interference by the instructor in favor of or against any team, and you should feel entirely responsible for your firm's performance.

In the final analysis, you will soon realize that, even though you have access to extensive marketing information, your judgment has to play an important part in making your decisions. As in most real business situations, there is no single specific solution to any of the problems that you will encounter. There are, however, alternatives that will clearly appear inferior after good analysis of the situation. There are other alternatives that will appear satisfactory but for which the relative merits depend mainly on the uncertainties of competitive actions. In this case, you will have to anticipate likely competitive behavior and to make choices under uncertainty. Over a series of decisions, sound analysis and good judgment will inevitably bear fruit.

We hope that participating in the L'Oréal e-Strat Challenge will give you a better understanding of marketing strategy concepts, and that you will enjoy this learning experience!

The L'Oréal and StratX Teams