Team E Cameras: GloBus Strategy

MGT 4150: Business Strategy
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I. Team E Cameras’ Strategic Vision

The main objective of our business was to make all of our stakeholders including shareholders, employees and our final customers happy. We planned to achieve this by developing a vision to continuously meet customers’ camera needs by selling high quality basic and advanced cameras with varying features. Our formal statement was:

“Team E Cameras strives for excellence in producing affordable best cost cameras to meet consumers everyday needs while also developing state of the art cameras for photographers and higher end users. By appealing to a broad target market with two product lines, we seek to differentiate our company from competitors and gain a majority of market share in the camera industry within the next five years.”

Each year it was very important to increase revenues while simultaneously improving production techniques to lower costs and ultimately the price. This would allow us to be the ‘Best Cost’ option in the camera industry. After the first few decisions rounds, we achieved our goal of increasing market share. We reevaluated our vision statement and set more specific goals for the remaining years:

“Team E Cameras seeks to continue growing our market share by providing high value cameras at affordable prices. We are determined to provide products for everyday and higher end use to meet a variety of customers’ needs. Team E Cameras is determined to exceed consumer and investor expectations through excellent customer service, maintaining an A credit rating, and by continuously increasing Earning per Share and Return on Equity.”

Fortunately, we achieved each element of our vision statement, which will be explained and proven further in the following sections.

II. Performance Targets

Based on past results it appears that our company will succeed in the upcoming years. The financials for our company have increased considerably over the past 10 years and should continue to increase. Earnings Per Share (EPS) is a financial performance calculation that should continue to increase in the upcoming years. We project that for Year 16 the EPS will be 16.6 and around 17.0 in the following year. A similar performance measure is Return on Equity (ROE). In Year 15 ROE hit 35.4% for our company and was the highest it has hit in the past 10 years. Since Year 15 was such a remarkable year for our company we do not expect the ROE to increase in Year 16. For Year 16 we project that our company’s ROE will be 34.0 and 34.5 the next year.

In the past ten years the stock price for our company has grown from $21.72 per share to $243.76 per share. We expect only a minor improvement in stock price rather than a massive difference between Year 14 and Year 15. In Year 16 the stock price will probably hover around $255.00 and raise a little bit more in Year 17 to $280.00. With the company growing as quickly as it has, it is hard to accurately predict the numbers that will be produced in the future. Other the other hand, it is easy to set performance targets for credit and image rating. Our company has had a perfect A+ credit rating for the past 5 years. We do not expect that to change in Year 16 or 17. The company is also proud to have had a perfect image rating the past 4 years. We are committed to maintaining this for the foreseeable future.
Trends in our company’s financials and ratings are right where we want them. Almost all are near the industry leaders. These trends show the health of the company and give a positive outlook for the future. Revenues for our company, shown in Figure 1, grew over 400% from Year 5 to Year 15. After a rough start in Year 6, our company turned itself around to be one of the leading camera producers in the industry. There is no immediate reason to tell us that revenues should go anywhere but up in the near future. In Year 6 our company’s EPS, refer to Figure 2, was almost nonexistent. However, we rebounded to get our EPS to just under $16 per share, which put us near the top of the industry. For the next couple of years it should not change too much from the $16 range.

Just like for EPS, our ROE, refer to Figure 3, was very small in Year 6 and we rebounded to be one of the leaders in the industry. Year 15 was our most successful year where we hit an ROE of 35.40%. We expect that our ROE will hover around the 30-35% range in the near future. In Year 6 we fell below our investor expectation for our credit rating, refer to Figure 4. Since then we have been committed to changing that. In Year 11 we hit a credit rating of A+ and have maintained it. We expect that it will remain there, barring any unforeseen problems. Our company has been a great stock for investors as shown in Figure 5. Over the past ten years it has grown over 1200% while giving out above industry average dividends. The trend is positive and should remain that way over time. Just like with credit rating, image rating fell below investor expectations in Year 6; refer to Figure 6. Since then we have dedicated our resources to giving our company the best image possible. In Year 12 we hit a perfect score on image rating and do not plan on going back below that anytime soon.

III. Strategy for Entry Level Cameras

We implemented a Best Cost strategy for our Entry Level cameras in all four regions. Prior to the first decision round in Year 5, our company was selling three models of these cameras for $160 each and offered one weeklong promotion for a 10% discount. The warranty period was 90 days and our products were rated 2.5 stars. Market share and demand were highest in North American and lowest in Latin America. During the Year 6 decision round, we made many mistakes that did not support our strategy. For example, to maintain a 4 star rating, we set the price too high at $400. We also tried to limit our presence in Latin America because it had the lowest demand and market share. We thought it would allow us to have more money to invest in the other regions. However, because there was a demand that could have been met profitably and we closed stores, the demand, market share, revenues, and other performance measures decreased tremendously.

The following year we made significant changes that ensured our decisions for following rounds were in line with our strategy. We lowered our price to $200, increased marketing through an added week of promotions, reestablished our presence in Latin America by opening all stores that were there previously, and we decided to sell two models to improve production efficiency. This combination of decisions allowed us to received a 3 star PQ rating and improve demand and market share in all four regions enough to sell out of our product in some stores.
Following Year 7, we strived to meet our growing demand by selling our products through any available channels. We strived for superior customer service by offering longer warranty periods between six months and one year. We eventually increased our promotion discount from 10% to 12% to please our customers. We increased it by only two percent because we wanted to ensure that we would still be profitable and not devalue our brand by offering too high of a discount. By Year 9, we felt that our company was capable of creating and producing a third model. After introducing the third model, demand increased as well as our PQ Rating; it reached 3.5 stars in Year 15.

At the conclusion of this simulation, we achieved our goals set in the vision statement. We managed to recover from Year 6 mistakes and become the Best Cost camera provider by decreasing production costs per unit from $115.42 in Year 7 to a projected value of $91.50 for Year 16; refer to Figure 7. As costs decreased, we were able to decrease the price as well. As Figure 8 shows, the price decreased from $200 in Year 7 to $155 in Year 15. The Retailer Support, Advertising and Administrative Expenses all decreased too. As a result, the Image & PQ ratings, Market Share, and Demand, increased and we were able to provide above average Image Resolution, LCD Display and Lens Quality for all models at a great value. Because of this, demand and market share tripled; refer to Figure 9.

IV. Strategy for Multi-Featured Cameras

Our team utilized a Best Cost strategy for the Multi-Featured cameras in each region. In Year 5, before the simulation began, our company was selling three models of these cameras for $370. Similar to the entry-level cameras, one weeklong promotion for 10% was offered, the warranty period was 90 days and the cameras were rated 2.5 stars. Demand and market share were highest in North America and lowest in Latin America. In Year 6 we deviated from our strategy and set the price at $850 to maintain a 4 star rating. By doing this and pulling out of Latin America, our market share, demand, revenues and all other performance measures decreased.

Year 7 was the period we made significant improvements to our Multi-Featured camera strategy. We lowered the price to $632, reestablished our presence in Latin America, added a second promotion week to market us to consumers in every region, and decided to sell two models for increased production efficiency. Our PQ Rating reached 3 stars and demand and market share improved across the board. Over time, we were able to increase promotions from 10% to 12% as well as add a third model in Year 9. This allowed us to receive a 4.5 star rating in Year 13.

Our other strategic achievements include lowering the total cost per unit from $405.72 in Year 7 to a projected value of $282.49 for Year 16; refer to Figure 10. The price of the cameras then decreased from $632 in Year 7 to $510 in Year 15; refer to Figure 11. We also lowered Retailer Support, Advertising, and Administrative Expenses. Consequently, Image and PQ Ratings consistently increased and we were able to produce and sell cameras with above average Image Resolution, Lens Quality and average LCD Display Screens. This prompted major growth in our demand and market share everywhere; refer to Figure 12.
V. Production Strategy

At the start of Year 6, our company made the mistake of budgeting far too much money in our production costs. This resulted in low profit margins because of the high costs that we sunk into our production. As a result, we severely cut back on our production budget, while still maintaining a strategy of budgeting a little more than the industry average. For the entry-level cameras, our costs were slightly higher than the industry average, usually rising no higher than twenty dollars above the average. For our multi-featured cameras, we budgeted our production a good deal higher than the industry average. These higher averages were a result of our company having higher quality cameras in both fields that required higher production costs to satisfy customers.

Overtime – In order to minimize costs, we only offered overtime for employees during quarter three of each year. This not only helped us meet our high demand for quarter four, but it also reduced our costs over the year because we focused our overtime budget solely on one quarter of operation.

Outsourcing – Similar to our strategy with overtime, we only outsourced our production during the third quarter of each year. Our company decided that this was the only time necessary to outsource our production to prepare for the extreme demand in each year of quarter four. Since demand was normal in the other three quarters of the year, we decided that it was smarter to save money and not outsource during any other quarter.

Employee Training – At first, our company did not budget a lot of money into training for employees so that our costs would be reduced and we could earn a higher profit. Each year, as we remained profitable, we gradually raised our training budget, until staying constant after Year 14. This had a positive effect, as it made employees more competent and increased their productivity, which resulted in more units being available for sale.

VI. Finance Strategy

Our company’s financial strategy manifested itself during our rebuilding periods after our downfall in Year 6. Year 6 was an extremely difficult year for our company as we struggled financially in ways we didn’t anticipate. We had the lowest Net Sales Revenue in the entire industry. We also had the lowest industry figures in Return on Equity percentage, Stock Price, and our debt payoff capability was greater than 20 years, which was the highest in the industry. Due to our inadequate industry start, our focus on long-term financial goals had to be redirected to short-term figure improvement. The only long term financial strategy we instilled was to remain as unlevered as we possibly could in relation to our debt load. Because of our debt payoff capability figure being the highest in the industry by a wide margin, we decided to obtain our capital through equity rather than taking on any more debt. We began with our one time issuance of common stock in Year 6 to obtain equity funding for our firm; Years 7-15 we never again issued any common stock to investors. After changing certain product designs and allocating our funds properly we were able to significantly reduce our debt to payoff capability to 2.7 years down from our previous figure of 20 or more. By acquiring our necessary capital from equity rather than debt, we were able to focus on our debt payoff capability figure.
and also increase and maintain a high credit rating. Since we were not borrowing any more funds but instead only working to pay off debt, our credit rating increased from a “B” to an “A-” from Years 6 to 7. This strategy also allowed us to retain a credit rating ranging from an “A” to “A+” from Years 7 to 15. The next short-term figure our company was determined to increase was our Earnings per Share (EPS).

In Year 6 our company started with the lowest EPS in the industry with a figure of 0.05. Our goal as a firm was to maximize shareholder wealth. With our improvements in our product design and fund allocation, we were able to devise a strategy to drive our stock price up and increase our EPS. To increase our EPS our company began a series of stock repurchases beginning in Year 9 and continued in Years 12, 13, and 14. During these years we were producing enough stable earnings and simultaneously remaining significantly unlevered thus stock repurchases were the best use of our capital at the time to accomplish our goals of maximizing shareholder wealth and increasing our EPS as a byproduct.

After decreasing our Debt payoff capability and increasing our EPS, along with proper product design and fund allocation, our company was finally boasting impressive financial statements. We were maintaining a top 5-industry performance from Years 8 to 15 and were successfully reaching all of our short-term financial goals. Because our company was producing stable earnings and remained as unlevered as possible, we were able to produce steady dividend payouts throughout the Years 8 to 15. Our company had a dividend increase of 0.20 per year and was also reporting above average in our dividend payouts. The reasoning for this dividend policy was to increase our image rating. Steady increases in dividends showed positive expectations for future growth, which increased attractiveness of our company’s stock, increased our image rating each year, and improved our stock price. Because of this successful dividend policy and our increased EPS figure, our company would boast estimated dividend increases of $0.20 or more over the next two upcoming years.

VII. Analysis of Rivals

North America, Latin America, Europe-Africa, and Asia-Pacific yielded relatively similar results upon analysis of industry competitors and their segmented market share over the last two years. The most direct competitor in the Entry-Level Segment was Company C. Company C occupied at least a portion of our competitive position in respect to price and retail coverage at all times in the last two years. An extremely close second competitor in the Entry-Level Segment is Company B. Just as noted before about Company C, at all times during the last two years Company B has occupied a cut of both Company C’s and our competitive position. Another close competitor of ours was Company A. This business had substantial market share in North America, Europe-Africa, and Asia-Pacific over the past two years. Company C’s Entry-Level camera is geared towards customers that are similar to ones we targeted, but we obtained a better retail coverage to secure our competitive positioning.

This trend of competitors also loosely applies to the Multi-Feature Segment of the camera industry. Company C was always our most direct competitor in the Multi-Feature Segment. This direct competition is because they always possessed a portion of the competitive position that we held in regards to price quality rating and reach of retail
coverage. The other two close competitors in the Multi-Feature Segment, Company A and Company B are pretty much tied for second, however they each occupy a relatively small share in the market. That has made us much less concerned with them and more concerned with Company C in the last two years.

VIII. How To Out-Compete Rivals

Going forward, we can out-compete Companies C, B, and A in all regions with the same strategy. We plan to lower the price of our cameras, more so in the Multi-Feature models than the Entry-Level ones, while maintaining the current PQ Rating and the same retail coverage. We have already started to implement this strategy, showing a decline in the cost of our Multi-Feature models in each of the last three years. Our goal with this strategy is to gain a larger share in the market, which Company C seems to always occupy. Companies A and B are much closer competition in the Entry-Level Segment of the industry where they have substantial market share. All in all, the strategy set forward to out-compete our most direct competitor, Company C, will also manage to out-compete Companies A and B as a positive side effect.

IX. Lessons Learned

There are a few lessons we learned through this Glo-Bus camera industry simulation. First, it is critical to ensure your target customers can readily access your product. That is why our cameras are available in more chain stores, online sites, and local shops than our competitors, and we are still increasing. Second, companies must do whatever they can manage to do feasibly and efficiently to meet existing demand, so long as it increases profitability. We learned this through our shortage of product in the Latin American and Asian-Pacific regions in the sixth year. We corrected this mistake by expanding our retail coverage in these areas by utilizing any available channels. We also made sure to never underestimate the market potential of any region because by Year 15, the Asian-Pacific region had the highest demand and corresponding market share.

The fourth lesson we learned was that PQ Rating and Price have a tremendous impact on Image Rating which then influences customer demand. Fortunately for our company, these measures increased every year after Year 6. The last, and most important lesson we learned through this process was that the maximization of shareholder wealth is the advantageous choice for both investors and the business. We maintained a central focus on keeping our business running and generating revenue; but we also devoted a generous amount of resources to our shareholders when there were funds to spare. We gave back to our investors through dividends, our employees through stable jobs with above average wages, and the community around us through socially responsible programs and operations initiatives.
X. Appendix

Figure 1: Net Revenues

Figure 2: Earnings Per Share

Figure 3: Return on Equity

Figure 4: Credit Rating
Figure 5: Stock Price

Figure 6: Image Rating

Figure 7: Cost Per Unit of Entry Level Cameras

Figure 8: Price of Entry-Level Cameras From Year 7 to Year 15
Figure 9: Demand and Market Share for Entry-Level Cameras

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<th>Latin America</th>
<th>Europe-Africa</th>
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<td>148 14.9%</td>
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Figure 10: Cost per Unit of Multi-Featured Cameras

Figure 11: Price of Multi-Featured Cameras from Year 7 to Year 15

Figure 12: Market Share and Demand for Multi-Featured Cameras

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<th>Latin America</th>
<th>Europe - Africa</th>
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