

## Preparatory Exercise: Dynamic Strategic Planning

### Introduction

---

The class project for this course is the development of a strategic business plan for a new business of your choice. The course will cover the theory and application of analytical methods for the development and evaluation of potential business strategies. However, the specific business for analysis is your responsibility.

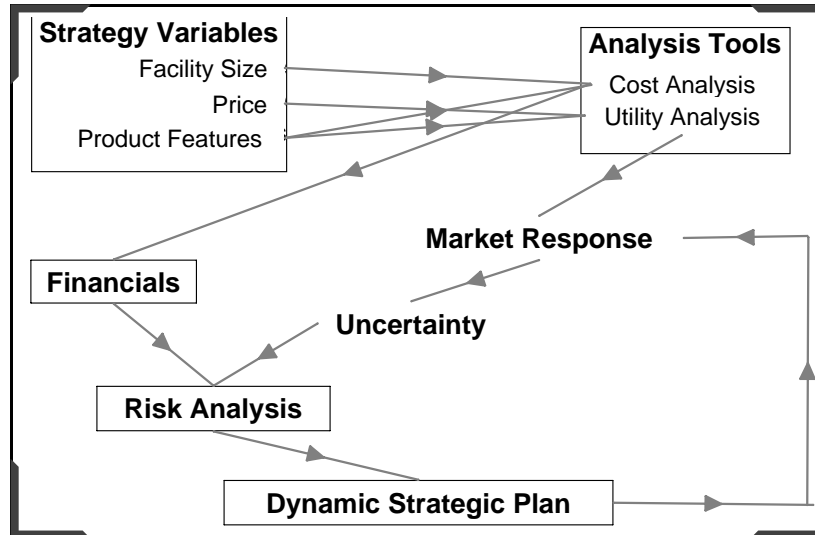
There are three key blocks of information that will be required in order to undertake the case problem. The purpose of this assignment is to give you an opportunity to get a "leg up" on the case so that you will not face a huge data collection problem in the midst of learning the analytical methods that will be presented in class.

The basic problem for the case is outlined in the following figure:



Essentially, you will be deploying a business that delivers a product into a market whose size and price sensitivity is uncertain -- it may seem like the greatest idea in the world to you, but the fact of the matter is that, until you actually begin selling the product/service, you have no idea how the market will respond. Compounding this uncertainty is the fact that you must expend resources in order to conduct your business. Depending upon the technology you choose to employ, there resources will introduce varying levels of risk - for example, a capital intensive technology will make your operating costs volatile with respect to actual production while a variable cost intensive technology will make your operating costs volatile with respect to the costs of factors.

Management of this risk, and the development of strategies to do so, is the focus of this course. The following figure outlines how the course methods will propose that this effort will be undertaken.



However, before developing these methods, we want to make sure that you will arrive in the first class with a clear picture of (1) the way in which the operating costs of your proposed business vary according to the risk factors and (2) identifying the range over which these risk factors may change. This means that you will need to be able to characterize (1) the "technology" (broadly speaking) of production and (2) the nature of the marketplace into which you propose to sell your product/services.

### **Preparatory Assignment**

You will be expected to arrive for the first class with three classes of information:

1. the nature of the business that you will be making the focus of your class project;
2. the cost structure underlying the business that you expect to treat; and
3. the market potential of the business.

#### ***Nature of the Business***

This should be a description of what you will be selling; the actual product, be it a device, a part, or a service. You will be expected to be able to characterize it in terms of units of production. For example, calling the business "running a circus" will not be acceptable. Rather, it will have to be "providing entertainment services" - the distinction being that, in the latter case, there is an implied scale of production (size of audience) that will define both how "big" a circus you plan to run as well as an implied measure of success (actual attendees).

#### ***Cost Structure***

You will have to be able to characterize the cost of the factors that you will employ in this business undertaking, as a function of the desired "scale of production." Returning to our "running a circus" example; this means that you should be able to state, as a function of the size of your maximum audience, the tents, land, staff, animals, performers, insurance, electricity, etc. needed to be able to satisfy that maximum audience. You should also be able to characterize the revenue possibilities (i.e., the prices at which you will supply the service - tickets, concessions, souvenirs, etc.)

Note that these values may depend upon key assumptions - that is perfectly acceptable. BUT, you should be prepared to state those assumptions wherever relevant.

NOTE: This may require a LOT of detail - please do not skimp, but include as much information as possible. It is always easier to choose to neglect certain information that it is to dig it up during the course of the week. You may wish to study some of the Cost Modeling information on the WWW for guidelines about the kind of information required - see the information on COSTSKEL.XLS.

Essentially, you need to be able to fill out this table (suitably modified), for your business (if at all possible, you should have this table completed and typed into COSTSKEL.XLS on the first day of class):

		Level of effort (processing capacity)			
		units	Low	Medium	High
Max possible return/result of effort	pieces/yr	100,000	200,000	500,000	
(also known as capacity)		1	2	3	
Variable Costs (cost per result)					
Materials	\$/piece	1.00	1.00	1.00	
Energy	\$/piece	1.00	1.00	1.00	
VC3	\$/piece				
VC4	\$/piece				
VC5	\$/piece				
Subtotal - Cost per unit result	\$/piece	2.00	2.00	2.00	
Annual costs (total cost/year)					
Employee salaries	\$/yr	20,000.00	40,000.00	50,000.00	
AC2	\$/yr				
AC3	\$/yr				
AC4	\$/yr				
Subtotal - Annual Costs	\$/yr	20,000.00	40,000.00	50,000.00	
Fixed Costs (investment)					
Factory	\$	1,000,000	2,000,000	2,500,000	
Land	\$	150,000	20,000	22,000	
Machinery	\$	350,000	450,000	555,000	
FC2	\$				
FC3	\$				
FC4	\$				
Subtotal - Investment Costs	\$	1,500,000	2,470,000	3,077,000	

**Please Note:** The analytical tools that we will be supplying you to develop your case are based upon a number of assumptions. You MUST make sure that the cost structure of your business is consistent with these assumptions if you want to use the tools. You may, of course, choose to work with a business whose cost structure is different, but it will be up to you to adapt the tools (or create new ones!). The assumptions are:

1. Your product can be conceptualized as being delivered/consumed in units;
2. Your product can be delivered at varying rates of intensity, depending upon the amount of capital invested and resources delivered; and
3. You can express the costs of operation on a per-unit basis.

Examples of products/businesses meeting these assumptions

- Pizza making

- Accounting services
- Automobile manufacturing

Example of products/businesses more difficult to fit into these assumptions

- Movie making
- Bridge or tunnel building (although a toll structure might help)
- Dam construction

### ***Market Potential***

Finally, you should be prepared to state the potential size of your market, and to recognize that there may be varying levels of market penetration for your particular business. How many total customers are there that your business might be able to serve, in total? For a startup business, how large a market can you reasonably expect to reach in the first year? The tenth? How might price influence that market share? (See the WWW information on DANAL5.XLS to see how you might wish to structure your information)