<u>Capsim Simulation: The Marketing Module Promotion and Sales Budgets</u>

Marketing products within the Capsim Simulation involve a few simple calculations. This lesson will concentrate on the Promotion and Sales Budgets as described in the Capstone Team Member Guide 2012 page 12. The Capstone Courier's Segment Analysis Report publishes on pages 5 through 9 both Promotional Budgets and Customer Awareness; Sales Budgets and Customer Accessibility. Each company must check the Capstone Courier every round to be aware of other companies' promo and sales budgets.

The Promotion Budget equals the level of Awareness of Customers. Each year one third (33%) of potential customers forget about the product. For example the following is a snapshot of Erie Company's Traditional Product Eat at the end of the second round, during Georgian Court University's Summer Session for the Capsim Simulation. Eat had 66% customer awareness at the end of Round Two. The following formula is used to calculate Round Three's Starting Awareness.

Last Year's Awareness (66%) minus [Lost Awareness (33%) times Last Year's Awareness (66%)] equals Starting Awareness. Thus: [66% - (33%*66%)] = 44.22%.

Erie's Starting Awareness for Traditional Product Eat is 44.22%. Figure 4.2 on page 12 of the Capstone Team Member Guide 2012 shows that a Promotion Budget of $1,500,000 would add 36% Customer Awareness to Traditional Product Eat.

In the Marketing Module, Team Erie would input $1,500 i.e. ($1,500,000) into Eat product's Promo Budget. Thus we have Starting Awareness plus Additional Awareness equals New Awareness. [44.22% + 36% = 80.22%]. The New Awareness for Eat will be 80.22% for Round Three.

Next we have the Sales Budget. Sales Budget equals the level of Segment Accessibility. Accessibility means the percentage of customers that interact with your company through sales people, customer support services and delivery channels. Accessibility applies to a Segment, not just a Product. For instance Erie has product Eat in the Traditional Segment and product Ebb in the Low End Segment. Erie changes the Low End Segment product Ebb in the Research and Development Module and moves Ebb into the Traditional Segment's fine cut criteria. Erie will now have two products in the Traditional Segment; Eat and Ebb. The Sales Budget for each product Eat and Ebb contributes to the Traditional Segment's Accessibility Percentage.

There is no benefit for Company Erie to spend more than $3,000,000 in the Sales Budget, if it has only one product Eat in the Traditional Segment. If Erie has two products in the Traditional Segment: Eat and Ebb; there is no additional benefit for Company Erie to spend more than $4,500,000 in the Sales Budget between the two products.

If Erie's Sales Budget drops to zero, in the Traditional Segment, Erie will lose one third (33%) of Accessibility each year. Figure 4.3 on page 12 displays a graph for the Sales Budget. Students should study Figure 4.3. It is almost impossible for a company to achieve 100% Accessibility. Erie would need both products Eat and Ebb in the Traditional Segment to attain 100% Accessibility.

For example Erie has two products, Eat and Ebb in the fine cut for the Traditional Segment. In the Marketing Module we split the $4,500,000 maximum amount. Erie inputs $2,250 i.e. ($2,250,000) for Eat and inputs $2,250 i.e. ($2, 250,000) for Ebb.

Erie may be able to scale back the Sales Budget in the Traditional Segment to $3,500,000 the next year once 100% Accessibility

A final note: the Promotional Budget is spent on Advertising and Public Relations which increases Customer Awareness. The Sales Budget is spent on Distribution Channels, Order Entry and Customer Service which increases Customer Accessibility. Each company must be aware of how much money competing companies are spending for their Promotional and Sales Budgets.

Figure 4.3 Sales Budget: For budgets above $3,000,000, the dotted red line indicates there are no additional returns for companies that have only one product in a segment and the dashed red line indicates returns for companies with two or more products in a segment. Increases in sales budgets have diminishing returns. The first $2,000,000 buys 22% accessibility. For companies with two or more products in a segment, spending $4,000,000 buysjust under 35%. The second $2,000,000 buys less than 13% additional accessibility.

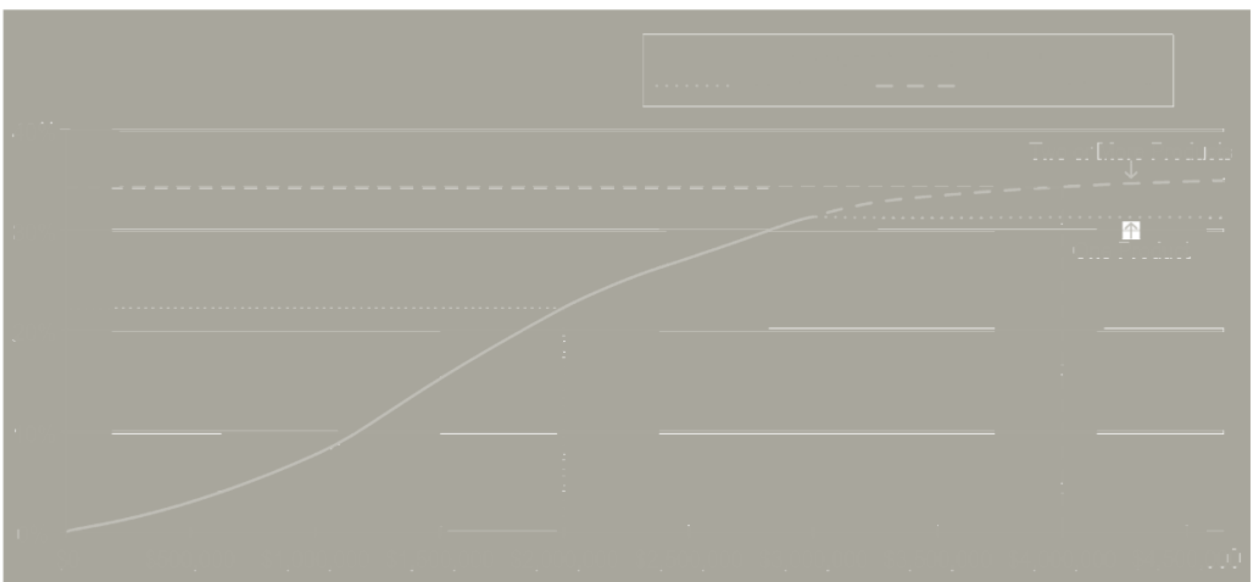

Figure 4.2 Promotion Budget

Figure 4.2 Promotion Budget: Increases in promotion budgets have diminishing returns. The first $1,500,000 buys 36% awareness; spending another $1,500,000 (for a total of $3,000,000) buys just under 50%. The second $1,500,000 buys less than 14% more awareness.

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