

EXPERIENCE BUSINESS USING A SIMPLE BUSINESS SIMULATION

David A. Jordan
Geneva College
dave@bussim-ed.com

This simulation teaches the relationships between five simple Business Decision variables in a typical manufacturing business environment. It simulates 20 quarters of business operation. Accrual accounting methods are used. Each period an Integrated Financial Statement report is provided.

The simulation begins in Quarter 1 with production of 15,000 units of product. Each unit currently sells for \$30. Price may be changed to reflect new business strategies. The Budget expenditures (Marketing, Quality, Technology and Incentives) are represented as a percent of revenue. These decisions may be changed from their initial values by pressing the up/down arrows in each decision block. How each of these variables affects the simulation is described below.

Decision Variables

- Price -- Affects product demand and sales.
- Marketing -- Affects product sales.
- Quality -- Affects product sales.
- Technology -- Affects product cost of production.
- Incentives -- Affects actual production and cost to produce.

The model in this simulation compares demand (desired units) to supply (available units) and determines the units sold, revenue, expenses and resulting profit for each quarter's operation. Each quarter's earnings are converted to cash as collections (current and receivables) are received. *Inventory can be a big user of cash.* If cash goes below zero, a loan will automatically be made to bring cash to zero. Stock Value changes as a result of earnings and dividends paid during each quarter. Stock Value is the performance metric used to measure success in this simple model.

This simulation can be played with one player or many players. They play against the computer, not each other. The simulation can be played in 5 minutes, but is meant to be played several times while evaluating improvement. An hour session is sufficient to begin seeing the relationships between the decision variables.

This game is played on a Flash Player in a Web Browser in local or Internet mode so the player will need a laptop with Web Browser and Flash Player installed. This game can currently be played at www.bussim-ed.com/mini3.htm.