

Overview

In this scenario the company is well established after a year of trading. The product is well designed and backed up by a sales and marketing campaign that will sustain a reasonable amount of orders for around 9 months. The business is strong but needs careful financial management in the short-term. When the first month of the scenario is run suppliers warn that they may withdraw credit and if subsequent months are run without any action the situation will continue to deteriorate.

The business owner employs a member of staff and has an ambitious 'strategic plan' to take the business through its next phase of development. The plan, however, is over ambitious and if implemented would cause financial meltdown for the business. The students work within the Finance element of the simulation to model the financial implications of the 'strategic plan' before considering how it could be amended to make it more feasible.

If time permits the students can implement their strategies within the simulation, giving them the opportunity to monitor their projected and actual costs, modifying their forecasts and making tactical adjustments as appropriate.

The students will need to

- find the costs for each action on the plan from within the simulation
- enter costs into the *Detailed Profit & Loss Forecast* spreadsheet
- identify the cost of *Raising Money* and add these into their projections
- use the forecasting spreadsheet within SimVenture to model alternative proposals

Teacher Guidance

Raising Money – SimVenture gives the user a range of options for raising money. The students will be able to see the costs involved in borrowing through a Bank Loan, Overdraft or from Friends & Family immediately (although they will need to run the month to gain approval from the bank). In order to sell equity they will need to run subsequent months to appoint an agent to find potential investors and then to accept or decline the terms offered. (For the purposes of this scenario it is probably easier for the students to avoid the Selling Equity option).

Forecasting - The *Detailed Profit & Loss Forecast* allows the students to input figures in order to make financial predictions. They can see the previous 3 months' actual figures and can use the spreadsheet facility to project expected income and expenditure for up to 12 months.

Accounts – This sub-menu provides access to *Profit & Loss* and *Cashflow* reports as well as the company's *Balance Sheet* and further information to measure business performance and value.

Credit Control – This element of the simulation allows users to apply strategies to encourage debtors to pay their bills. The level of debtors within this scenario is significant enough to have an impact on cashflow and as such needs attending to as part of the financial strategy of the business.

Suggested format/organisation

Although it is possible to use this scenario as an introduction to SimVenture, we would suggest that it be used with students who have had previous experience of the software. This scenario gives an example of how SimVenture can be used to provide a context for activities which do not require students to run months during the activity. Once they have loaded the software they can access the information they need to complete the tasks without running the month at all.

The session takes the following format.

- 1 Teacher led introduction/demonstration.
- 2 Paired work to gather information, create a profit forecast and assess the feasibility of the 'strategic plan'.
- 3 Paired work to identify the costs involved in raising finance.
- 4 Paired work to consider and model alternative actions.
- 5 Teacher led discussion at intervals to review learning and progress.

You also have the option to ask the students to run their forecasts to see how their predictions play out in the simulation.

1 Introduction

Display the scenario on a projected screen explaining its context using the information on page 1. Remind the students of the session's focus within the Finance area of the simulation. (A written briefing is also provided for the students on page 4)

Access the *Profit Forecast* page and display the *Detailed Profit & Loss Forecast*. Draw the students' attention to the structure of the spreadsheet and explain that they will be using it to make financial predictions for their company. Click on the 'Copy previous month values to forecast' button to show them how current income and expenditure can be projected. Focus on the projected cumulative profit figure for June (£19582).

The strategic plan suggests a pay rise for the business owner which will raise the wage costs to £5125/month. Alter the Wages entry for January before clicking the Copy first forecast month values button. The wages figure is then projected through each of the forecast months. Now draw the students' attention to the new cumulative profit figure for June (£7582).

Provide the students with a copy of the student brief (page 4) and the 'Strategic Plan' (Resource 3a). Explain that the actions on the plan all have costs and their first task is to predict the financial impact of these actions on the business.

2 The students identify costs for the specified actions on the 'Strategic Plan' inputting the figures into the *Detailed Profit & Loss Forecast*.

- **Option 1** - This activity could be completed on paper first or in small teams.
- **Option 2** - Give the students the fully costed plan and ask them to enter the figures on the P&L Forecast.

Review the costs with the students as a whole group to identify any anomalies. (display/copy Resource 3a-Completed)

- Their results should be identical and will show that the plan will take the business into financial difficulty.

- Focus again on the cumulative profit figure for June as the target for reaching at least break even point.

3 Ask the students to explore how the money could be raised to finance the plan, using the options in the *Raising Money* sub-menu.

- Ask them to find out how much it would cost to raise £30k and discuss the merits of each option.
- How would this impact on the figures for June? Is more finance needed? Is it affordable?

4 Students use the spreadsheet to create some projections and develop an alternative approach.

- Could they raise finance to support the existing plan? How much would this cost?
- Do they need to set higher sales targets? What are the implications of this decision?
- Are there any elements of the plan which could be reviewed?

Discuss the various proposals perhaps asking the students to approve one of the revised plans

- This activity could be used to look at presentation skills, with the students choosing the best proposal

If time permits ask the students to implement their strategies within the simulation, monitoring their progress month-by-month to see who can make the target figure for cumulative profit in 6 months.

- Did they stick to their plan or did they need to amend it in the light of the actual figures?
- Why are there differences between the projected and actual figures?

5 Conclusion

Review the exercise with the students establishing what they have learned. Discuss how they might use the Finance element of SimVenture to support them when running a virtual business.

- Financial planning is essential to managing business survival and growth.
- Raising finance is often crucial in providing the working capital to support growth.
- Financial monitoring allows plans to be adapted in response to fluctuating financial outcomes.
- Forecasts are informed approximations, actual figures are very likely to vary from predictions.

Overview

This scenario is designed to allow students to make projections - running months within the simulation is not a core element of the work. Students who have some previous experience of SimVenture will be able to gather the information quite easily. However, for those with no prior experience, the process of working through the menu structure will give them the opportunity to become more accustomed to the range of decisions that need to be attended to in running a business. Applying their strategies within the simulation is a powerful way to demonstrate to students why projections are never 100% accurate and that changes in circumstances are typically beyond the control of the business.

Whilst it is not possible to cover every eventuality, listed below are the issues & problems most commonly encountered within this scenario.

Issues & Problems	Consequences	Solutions
<i>Suppliers threaten to withdraw credit. (This will happen if the students run month 1)</i>	<i>Orders are not met leading to loss of income which exacerbates the problem of paying suppliers.</i>	<i>Raise money, increase overdraft facilities, or if possible find suppliers with better credit terms.</i>
<i>Customers do not always pay their bills on time!</i>	<i>Income for the month may be different from the predicted figure.</i>	<i>Improve your Credit Control strategy to 'encourage' timely payment.</i>

In order to find all the figures necessary for this scenario the students will need to be confident in navigating the menus of SimVenture and managing the dialogue boxes. The following list will help you to guide them to the appropriate page for each action on the plan.

Action	Cost	Location within SimVenture
<i>Give yourself a pay rise to £42000 (include Amy @ £19500)</i>	£3500/mnth + £1625/mnth	Organisation/People/Management
<i>Build premium web-site (Employ web-designer/web agency)</i>	£1000 + £45/mnth	Sales & Marketing/Marketing Strategy/Marketing Promotions/Website
<i>Advertise in the local media to recruit a new member of staff.</i>	£200	Organisation/People/Recruitment
<i>Employ new member of staff £19,200k/p.a.</i>	£1,600/month	Gross figures are used so divide by 12 for monthly costs.
<i>Include rental for new premises taken in December.</i>	£2,083/month (Months 1-3)	Organisation/Premises/Location
<i>Expand premises to 1500sq.ft in a Retail Unit (Month 4)</i>	£3125/mnth + £23958*	Organisation/Premises/Location
<i>Large TV/Radio Ad prepared by a Consultant repeated for 6 months</i>	£29100	Sales & Marketing/Marketing Strategy/Marketing Promotions/Advertising
<i>Training budget - 2 Training Centre courses per month for each member of staff</i>	@ £300/course (£9,600k in total)	Organisation/People/Training
<i>Customer research by a consultant in months 3 & 6</i>	@ £300/report (£600 in total)	Sales & Marketing/Research/Customer Research

Resource Doc 3b shows how the Detailed Profit & Loss Forecast should look when completed.

Students may forget to consider the existing miscellaneous costs, which relate to maintenance, cleaning etc (detailed in Organisation/Premises/Other costs and jobs), when making their projections.

*Amount to pay off the existing lease in January. The actual figure for April will be less, reflecting the reduction in the remainder of the term.

The Scenario

Times are good. You've begun to turn over some decent monthly profit figures (click on the *Profit/Loss* section of the status bar to have a look), your bank balance is healthy and you have a plan to assault a new market segment which you just know will be successful. You've ordered your new car as a reward for all your hard work in getting the business this far and you have big plans for the future. But will you be able to afford them? You have just moved to a larger retail premises, hoping to draw in more passing sales. In a few months' time you hope to be able to expand the size of the premises (You might be surprised by the hidden cost!). Having set out your plan you now need to crunch the numbers to see if the proposals are viable.



The Challenge

Access the *Detailed Profit & Loss Forecast* and focus on the Cumulative profit figure (the bottom row) for June. The target is to be at least at break even point (around zero) at this stage.

Steady - You might need to cut back on some (not the essential!) elements of the plan but you can show that in 6 months' time you won't be running at a loss overall.

Improving - With some changes to the plan you can see a profit of around £5k by month 6.

Top notch - You haven't slashed the budget for Sales & Marketing and you expect to have at least £10k profit to invest in the next phase of development.

What to do now

Load the scenario and click on the Menu button in the top left-hand corner of the screen.

You will be working in the Finance section of SimVenture shown in red on the menu layout screen.

Within the sub-menus you will find most of the activities you need to succeed in this scenario.

- Look through the menu structure of the simulation to find out how much each action on the strategic plan will cost. Put the figures into the *Detailed Profit & Loss Forecast* spreadsheet within SimVenture. Once you've achieved this you will be able to see how the plan affects your finances for the next 6 months.
- Next consider whether or not you might be able to raise some money to finance your plans. How much would you need? Look at the *Raising Money* sub-menu to see how much it would cost, add these figures to your projections and review your plans.
- Finally, make some proposals on how the plan might be changed. Enter the figures to match your new plan to show how it will affect your finances over the next 6 months.

Tip! Keep an eye on whether your customers are paying on time! Look at the Credit Control page to see how much you are owed and decide what to do if payments are late.

Tip! Consider what are essential items on the plan to help you make savings. Could some actions be delayed to manage cash flow more effectively?