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Strategies in global environment: Sim Mercury Shoes

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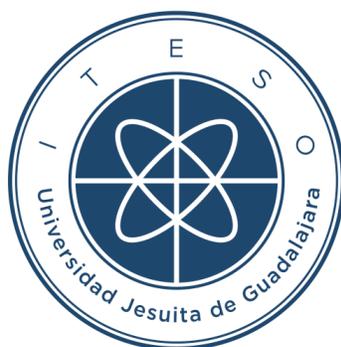
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Departamento de Economía Administración y Mercadología
MAESTRÍA EN ADMINISTRACIÓN



STRATEGIES IN GLOBAL ENVIRONMENT: SIM MERCURY SHOES

Tesis profesional para obtener el grado de
MAESTRO EN ADMINISTRACIÓN

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Abstract

The intent of this paper is to reflect my team's successes and failures in managing Mercury Shoes during the SIM's four years and five rounds and evaluate my abilities to successfully do so. This assessment includes some discussion of the strategy, mission and values, externalities and conclusion. In this simulation I form a part of a team management consulting to support Mercury shoes to achieve specific goals such as increasing stock performance, revenue, and EBITDA by 10 - 15% and doubling top line revenue.

Introduction

Mercury International Ltd. is a global company that designs and markets sports and fitness products, including footwear, apparel and accessories. It sells three primary product lines: Boost, Trail Step, and Sweat less Apparel, all under the Mercury brand. Mercury's products include footwear in a wide variety of sports and fitness categories, as well as lifestyle footwear and sports and fitness apparel and accessories. Mercury shoes are the fourth largest seller of athletic footwear and apparel in the world, measured by market share. The principal methods of competition in the industry include product design, product performance, quality, price, brand image, marketing and promotion, customer support and service, and ability to meet delivery commitments to retailers. Mercury Shoes operates under a supply chain model based on the principle that merchandise manufactured in one region (Asia, The Americas and Europe) is sold in that region. The Board of Directors has noted that Mercury's main competitors have become more profitable and the Mercury Board envisions the company to be the number one manufacturer. The Board wants to achieve the number three position within the next four years.

Strategy

Strategic thinking of how a business is successful and how it must change to continue being successful is the bottom line for strategic management. In order to choose right strategic alternatives, team Avenger analyzed and evaluated Mercury's situation from many perspectives including administration, marketing, HR and R&D. We used SWOT as strategy analysis technique to formulate strategy alternatives and identify the key issues the company was facing. SWOT matrix gave us the opportunities to identify Threats-Opportunities-Weaknesses-Strengths to determine the business strategy. Team determined its business strategy would be based on the product leadership model. A product leader strives to provide the market with leading edge products with useful new applications of existing products or services. The product leadership model offers products that push performance boundaries, while maintaining competitive prices and adequate service. (Treacy M. & Wiersema, F., 1997, p. 1). Product leadership fits perfectly with Mercury's mission statement. The discipline of product leadership is developing products leaders and prepares markets and educates potential customers to accept products that never before existed. We implemented tactics –at round 3- that were completely aligned to the initial selected strategy by introducing a new specialized product. Our new product allowed team avenger to gain market share and continue growing in all regions as a result of our investment into production, and R & D. The company improved EBITDA by \$102M in this round and we were able to forecast a steady growth of 5% to 10% in unit sales each quarter for each product.

-The main challenge facing Mercury Shoes was to create a realistic demand and sales forecast. To achieve a sensible forecast, we had to analyze in detail the demand and sales trends over the past two years to get an idea as to what drove sales and what percentage increase each quarter experienced. In analyzing these trends we noted that there was a steady growth in demand quarter over quarter which formed the basis of our demand forecast using those some variables. We also noted seasonality trends in the beginning of the year. Main seasonality factors included the summer and winter time where we noted that certain products demand increased more than others in certain periods.

- The strategic choices applied by my team were based on the forecasted demand. We had established it helped us to plan the production lines required and we noted that in some regions, production lines needed to be added in order to improve plant capacity ratios as well as fulfillment ratios. Headcount was also impacted by the demand forecasted as we had to ensure that there were adequate levels of labor available to meet the production and other staffing requirements. Utilization increased up to 66% and we balanced out stock with planned production by adding a new production line. The introduction of new specialized product allowed a strong growth in market share. Margins in all areas have improved as well as supply chain overhead has decreased which helped increase gross margins. Once these factors were established we were able to fine tune our pro forma profit and loss to ensure the results met our strategic objectives. Information from the pro forma profit and loss was then plugged into a cash flow model we created to help us make decisions on cash flow requirements by each region. Our team was effective in addressing the problems faced by the company during the SIM in that we met the annualized revenue

and EBITDA. The worldwide market share had a positive trend in the last rounds, it was 10.80 % in 2016, and the stock price at final round was \$60.43 in 2016, which was above the historic. (Table 1).

- One of the main difficulties at Mercury Shoes, as shown by the SWOT analysis as well, is that the company has flat earnings, market share and stock price, and the company had no growth. Our team achieved the performance level Mercury Shoes reached during the 4 years of the SIM due to investment made in marketing and advertising to increase demand, the addition of new production lines, and due to adjustment made to staffing levels to increase production capacity. We improved EBITDA significantly by \$321M in 2016 which is the Company's best performance in the last four years. Key decisions that have directly impacted the 2016 result were precise forecasting and production planning including supply chain labor that helped the company to reduce its cost of sales. The continued growth in the Asia Market coupled with a precise production plan helped the company to increase its EBITDA and annual profit to \$235M. We were also very careful with cash flow planning and purposely timed the reduction of inventory and made no repayment of debt and no repurchase of stock. In the last round team avenger achieved an OPI of : 1.19. (Table 1)

- Our performance could have improved if our team projected cash flow accurately to avoid short term debt, develop and prepare a good sales forecast to keep demand and supply in balance, align volume and integrate operational plans and financial plans. We had some inventory issues due to demand was increased in the Asia region due to the opening up of the China market for the second year in 2016. As a result, production of

13.74 M units was planned accordingly in which case only 12.78 M units were demanded which caused an increase in inventory at the end of Q4 2016. To solve this issue, production planning should improve the inventory control. Actually one of the biggest issues was a stock out in Q3 and Q4 for the Snow Step due to the increase demand we did not expect. Another main factor contributing to the increase market share will be to keep a sustained marketing effort during 2015 and 2016 and an increase in R&D resources.

Mission and values

Our team mission : “Produce and distribute Mercury brand around the world, satisfying the needs and expectations of our market, providing high quality and innovative products at the lowest delivered cost while creating shareholder value through profits and growth, self-sustainability in the marketplace, enhancing customer value, increasing market share lasting and sustainable beneficial relationships with customers, employees, shareholders and suppliers, and fulfilling our responsibility to the community”. Our team fits perfectly with Mercury’s mission statement keeping their costs down and their ability to develop new ideas quickly to the market while supporting the encouragement of innovation through new technology launching a new specialized product.

- Our team integrated values into the decision process by enhancing sustainable relationships with customers, employees, shareholders and suppliers, and fulfilling our responsibility to the community. Besides, Mercury Shoes made ethical and socially responsible decisions by immediately reacting to the fire in Indonesia’s plant that improved the company’s overall good reputation.

- I recommend complying with all laws, rules and regulations applicable to it or the conduct of its business. This commitment and standard of conduct governs our relationships with customers, suppliers, shareholders, competitors, the communities in which we operate, and with each other as Employees at every organizational level. The Company's success depends on building productive relationships with one another based on honesty, integrity, ethical behavior and mutual trust. Every employee should endeavor to deal fairly with each of customers, suppliers, competitors and other employees.

Performance

Our team managed effectively production, marketing and finance areas, and margins in all areas were improved as well as supply chain which helped to increase gross margins. We also had great results in investing more marketing funds in the seasons each product has more demand. We had great success in the Asian market with the Snow Step brand. In 2010, demand was at 17.4% and in 2016 it is 41.06%. The improvement in cash flow is attributed to better production, inventory and sales planning in 2015. Another main factor contributing to the increase market share was a sustained marketing effort during 2015 and an increase in R&D resources.

- Our team struggled with Human Resources area, based on the forecasted demand and the production lines required. Staffing had to be adjusted and, the headcount in all departments was difficult to adjust in all the three regions in order to improve plant capacity ratios, reduce labor costs and to reduce overall cost of sales by 1% as well as fulfillment ratios to ensure that there were adequate levels of labor available to meet the production and other staffing requirements. (Figure 1).

- The process of decision-making used by my team was effective. Each round we assign tasks to each team member according to their specialization area, each round the members of my team shared the positives and negatives alternatives of each option. After considering all the alternatives, we discussed the information as a team and shared different opinion to determine which option was the best for that particular situation. We used e-mail communications to define roles, responsibilities and strategies. However, the process might have been improved if we had discussed demand, forecast and staffing detail via conference call instead of email communication.

- Our team chose to measure success in managing the company over the 5 rounds of the SIM by the Board's goals of doubling Mercury's top line revenue (\$1.3 billion) per quarter and targeting a 10% - 15% annual growth in top line revenue, EBITDA and stock price over the next four years as well as achieve the number three position within the next four years, mainly analyzing all the historical data, this allowed us to measure success. Our team achieved some of those objectives.

- Our team decided that Mercury Shoes should be organized in a functionally-departmentalized structure. This allowed us to achieve good results. The influence in each of the four functional areas of Mercury Shoes was: 1) Supply chain: to engage supply chain partners in achieving a sustainable competitive advantage. It means there must be a focus on the end-use customer. Developing this relationship will be successful as global partners compared to their competitors. 2) Marketing: when creating a promotional plan, it should include what kind of promotions and offers will be adequate to prevent the variation in demand, but at the same time having a positive impact on the market, allowing us to

meet our strategic goals. 3) Administration: corporate strategy, leadership, enhanced communication and a strategic marketing orientation will guarantee improvement to the supply chain. 4) New Product Development: focus on the core processes of invention, product development, and market exploitation is essential for new market development.

Externalities

The international economic issues and business practices in our team's management of Mercury Shoes had the following factors: 1) Production lost in our facility in Indonesia due to the fires in SE Asia that destroyed our manufacturing facility reduced our production capacity in Asia by 30-35%. 2) The country has also interrupted transportation infrastructures, making it impossible to move raw materials or finished goods for at least 6 months. 3) The international news media reports about the families who were unemployed and homeless. 4) The stock prices of Mercury Shoes Corporation dropped due to apparently violation in the federal securities laws, Sections 10 and 20 of the Securities Exchange Act of 1934 and Rule 10b-5, including the inflation of the market price. 5) The wage legislations by the Philippine Congress. 6) Exchange rates volatility and inflations. We might have improved application of these concepts by increasing the investment in market/data analysis through the use of analytics computer based tools.

- The competition effect on our decisions and performance of the company during the SIM was when trying to gain market share we had cutting costs and spend more resources for marketing and advertising to promoting growth. About develop innovative products we create the best structure for channeling resources towards innovation to make and execute one of our key decisions better and faster than competitors.

- The political issues that influenced our team's decisions were the increase of minimum wages in the Philippines and the high costs of customs duty to transfer products among regions.

Conclusion

Understanding and predicting customer demand is vital to manufacturers and distributors to avoid stock-outs and maintain adequate inventory levels. One of the key factors that can lead to a good forecast is the understanding of the target customers. I learned that trend analysis and a good understanding of the target customer can help significantly to forecast sales which in turn, help to forecast the elements that will help make the sales a reality such as production. On the other hand, strategy innovation create customer value to meet newly emerging customer needs, add additional value, and create new markets and new customer groups for the sponsoring company. Business needs to spend enough resources for research and development. Process innovation increase bottom-line profitability, reduce cost, raise productivity and increase employee job satisfaction, the process of bringing a new product or service is to solve the customer's problems and give benefits.

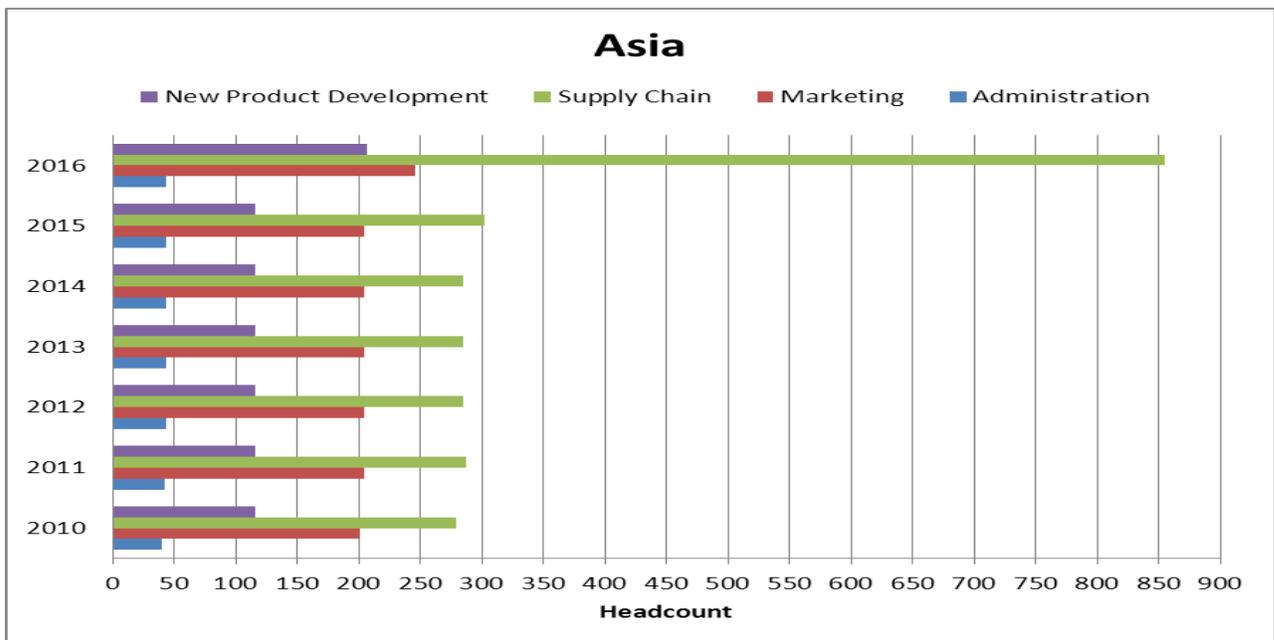
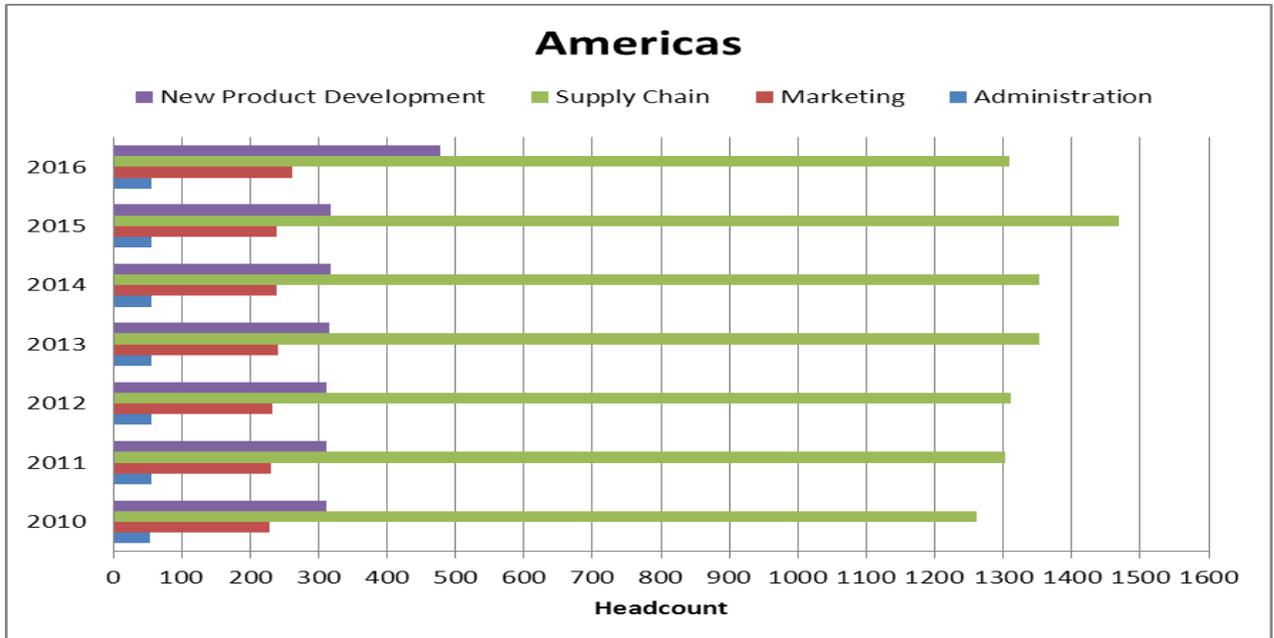
- Setting patterns in a stream of decisions, setting realistic objectives, and prioritization of tasks in a complex environment is the key for successful business. A corporation's structure will produce better performance if it improves the organization's ability to make and execute key decisions better and faster than competitor. Many organizations begin with a SWOT analysis to define: What are our organization's strengths, weaknesses, opportunities, and threats? What are our resources and capabilities? What risks do we

face? The idea is to determine if the company has everything it needs to support its strategy. But the risk is that we'll end up with an organization that's misaligned with your strategy, all because we have ignored decisions. The first step is to identify the key decisions we need to make and execute, given our strategy to create maximum value for our shareholders.

I have experienced that innovations could accelerate growth, however an organization struggling to innovate may try to gather more and more creative input and end up getting too many people involved, thereby slowing the pace of decision making and stifling innovation.

Appendix

Figure 1 (Staffing level all round)



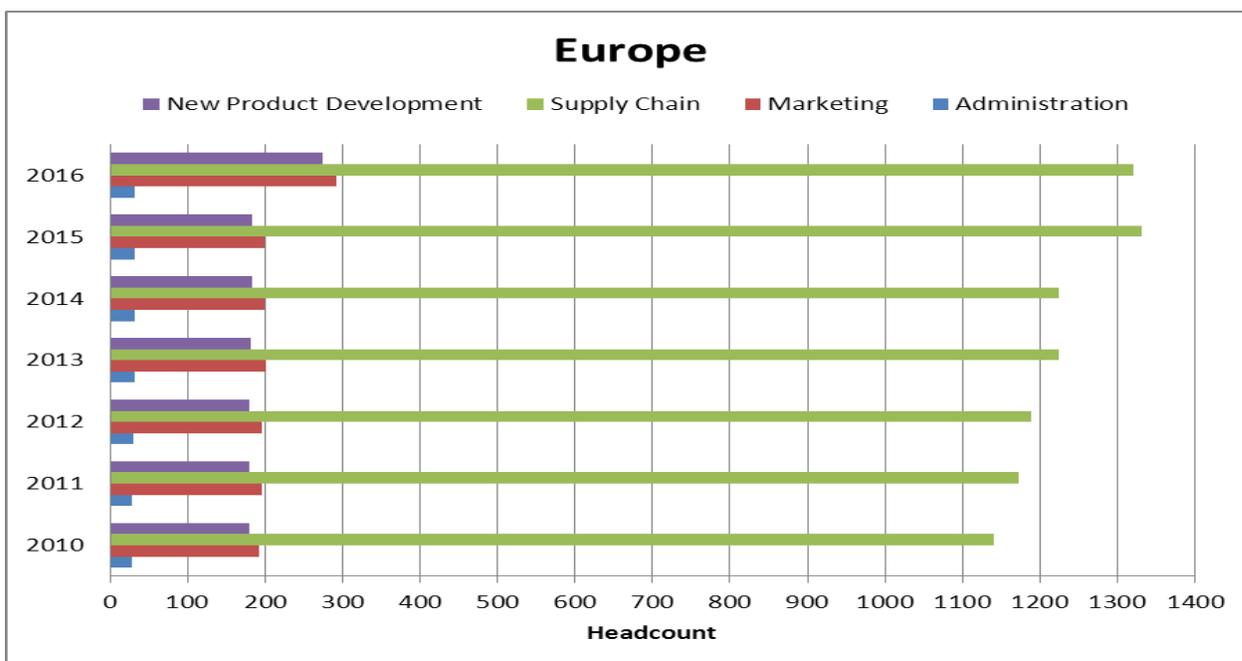


Table 1

Round 1 SIM (Results)

Company/Team	Feedback OPI	Annualized Revenue	Stock Price	Annualized EBITDA	Worldwide Market Share	Annualized EPS	ROA	Revenue Americas	Net Earnings Americas	Revenue Asia	Net Earnings Asia	Revenue Europe	Net Earnings Europe	
SKYBOARD CONSULTING Round 2: Books Open	Not Displayed	0.15	\$3,172.54	\$11.86	\$116.84	6.30%	(\$0.72)	-2.94%	\$239.15	(\$57.28)	\$75.29	\$6.30	\$272.86	(\$74.88)
TEAM AVENGERS Round 2: Books Open	Not Displayed	0.46	\$3,496.64	\$14.52	\$185.57	9.21%	\$0.41	1.63%	\$363.57	(\$10.52)	\$75.37	\$5.89	\$408.07	(\$39.01)
MERCURIO Round 2: Books Open	Not Displayed	0.76	\$3,325.88	\$21.25	\$251.87	8.37%	\$1.49	6.13%	\$346.72	\$1.86	\$73.55	\$4.05	\$347.85	(\$11.95)

Round 5 SIM (Final Results)

Performance Indexes														
Company/Team	Feedback OPI	Annualized Revenue	Stock Price	Annualized EBITDA	Worldwide Market Share	Annualized EPS	ROA	Revenue Americas	Net Earnings Americas	Revenue Asia	Net Earnings Asia	Revenue Europe	Net Earnings Europe	
SKYBOARD CONSULTING Finished	Not Displayed	-0.42	\$4,481.42	\$18.55	\$133.05	12.77%	(\$5.60)	-13.86%	\$353.52	(\$124.28)	\$246.56	\$23.56	\$624.54	\$6.88
TEAM AVENGERS Finished	Not Displayed	1.19	\$4,620.25	\$60.43	\$542.40	10.80%	\$3.95	13.52%	\$433.79	(\$9.95)	\$211.86	\$46.32	\$639.02	\$51.18
MERCURIO Finished	Not Displayed	0.77	\$3,781.57	\$34.99	\$410.17	11.51%	\$2.52	8.09%	\$341.14	(\$19.79)	\$156.45	\$21.37	\$538.52	\$43.11

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