

2013-12

Strategies in a global environment: Sim Mercury Shoes

Rivera-Villalobos, Pedro

Rivera-Villalobos, P. (2013). Strategies in global environment: Sim Mercury Shoes. Trabajo de obtención de grado, Maestría en Administración. Tlaquepaque, Jalisco: ITESO.

Enlace directo al documento: <http://hdl.handle.net/11117/3667>

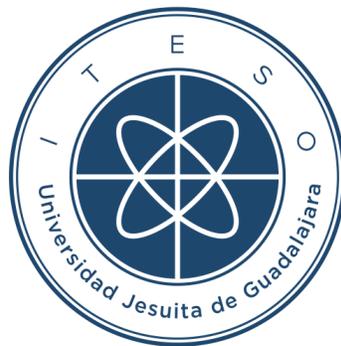
Este documento obtenido del Repositorio Institucional del Instituto Tecnológico y de Estudios Superiores de Occidente se pone a disposición general bajo los términos y condiciones de la siguiente licencia:
<http://quijote.biblio.iteso.mx/licencias/CC-BY-NC-ND-2.5-MX.pdf>

(El documento empieza en la siguiente página)

ITESO, UNIVERSIDAD JESUITA DE GUADALAJARA

Reconocimiento de validez oficial por acuerdo secretarial número 15018 publicado en el Diario Oficial de la Federación el 29 de noviembre de 1976.

Departamento de Economía Administración y Mercadología
MAESTRÍA EN ADMINISTRACIÓN



STRATEGIES IN A GLOBAL ENVIRONMENT: SIM MERCURY SHOES

Tesis profesional para obtener el grado de
MAESTRO EN ADMINISTRACIÓN

Presenta: Pedro Rivera Villalobos
Asesor: Jerome Thorson

Guadalajara, Jalisco. Diciembre de 2013

INDEX

Abstract	4
Strategy	5
Mission and Values	8
Performance	9
Externalities	11
Conclusions	12
References	13
Appendix	14

Abstract

The intent of this report is to reflect my team's successes and failures in managing Mercury Shoes during the four years and five rounds of the SIM, and evaluates my abilities to successfully do so. This assessment includes some discussion of the areas such as strategy, mission and values, performance, and externalities. It also includes comments on ways/areas where my team and I might have been more effective in addressing each area.

The SIM employs a business computer simulation in which I form part of a consulting team to the top management of a major manufacturer, Mercury Shoes. In this SIM, the Board of Directors noted that the price of Mercury common stock has decreased from an annual high in 1Q2008 of \$42.36 to a value of \$29.45 in 4Q2009. The Mercury Board envisions the company to be the number one manufacturer. In order to achieve this vision, Mercury must first become number three. To become number three Mercury must double its top line revenue (\$1.3 billion) per quarter. The Board wants to achieve the number three position within the next four years. In order to realize the vision the Mercury board instructed my executive team to target a 10% - 15% annual growth in top line revenue, EBITDA and stock price over the next four years (Mercury Shoes, *Situation*).

Mercury Shoes is a global company of 4,800 employees that designs and markets sports and fitness products, including footwear, apparel and accessories. It designs, markets and sells three primary product lines: Boost, TrailStep, and Sweatless Apparel, all under the Mercury brand (Mercury Shoes, *Overview*). The company operates in Asia, Americas and Europe regions under a supply chain model based on the principle that merchandise manufactured in one region is sold in that region.

Strategy

At the beginning of the SIM, prior to choosing a strategy, my team and I analyzed and evaluated Mercury's situation from many perspectives including financial, operational, marketing, human resources and strategic areas, and identified the key issues the company was facing. The Boards' objectives and the key issues were essentially the guide that helped the team recognize where the focus needed to be for Mercury. After careful consideration our team chose to follow an operational excellence strategy and drafted a mission statement for the company: "Deliver creative and innovative products to our customers and consumers that generate excitement for healthy lifestyle and recreation."

At the start of the SIM, our choice of one of the strategic alternatives affected the decisions we made during the 5 rounds in that we had to keep the tactics aligned to our selected strategy. Despite this selected strategy, our team decided to implement tactics –at round 3- that were not completely aligned to the initial selected strategy. That is, these new tactics were at some extent related to product leadership strategy by introducing a new specialized product, the Skyfall.

The main challenge facing Mercury Shoes at the start of the SIM was to use its marketing, financial and operating assets efficiently. In particular, comparative performance was poor in the areas of capacity utilization, profit margins, cost of goods sold, debt, and inventory management. Based on the "patterns in a stream of decisions" definition established by Mintzberg (1978), our team made different strategic choices as the SIM's rounds emerged. The most relevant strategic choices were to add new production lines, decrease prices, introduce a new specialized product, invest in staffing, and the discontinuation of two products that helped achieve positive financial indicators.

One of these strategic options –invest in staffing- changed over time due to a failure in forecasting the needed headcount to meet products demand.

In general terms, our team was effective in addressing the problems faced by the company during the SIM in that the annualized revenue, EBITDA and worldwide market share had a positive trend through each round, and the stock price at final round was \$34.99 in 2016, which was above the historic \$29.45 from 4Q2009 (Table 1). Our team achieved the performance levels Mercury Shoes reached during the 4 years of the SIM due to the decisions made during this process, that is, our team invested in marketing and advertising to increase demand, added new production lines, adjusted staffing levels to increase production capacity, discontinued the Booster Insoles and Sweatless products in Europe and Americas, and launched a new specialized product. 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. In fact, the company fosters a strong ethical culture to gain trust and confidence of its shareholders, employees, customers and other stakeholders. To do so, the Mercury Shoes uses Childers' ethical principles in that "to build and sustain an ethical culture, organizations need a comprehensive framework that encompasses communication or behavior expectations, training on ethics and compliance issues, stakeholder input, resolution of reported matters, and analysis of the entire ethics program."

Our performance could have improved if we had done the following: 1) balanced marketing and production planning to meet demand, 2) balanced marketing expenses, 3) discontinued Booster Insoles and Sewatless products at second round of the SIM, 4)

projected cash flow accurately to avoid short term debt, and 5) balanced supply chain staffing to meet all demand in Asia that resulted in stock outs, lost profits and WIP.

Mission and Values

Our team defined this mission for Mercury Shoes: “Deliver creative and innovative products to our customers and consumers that generate excitement for healthy lifestyle and recreation.” While moving through the SIM’s 5 rounds, our team balanced margins and mission by improving the existing products, launching a new specialized product in Americas and Europe and discontinuing the Booster Insoles and Sweatless products. Our team integrated values into the decision process by emphasizing the importance of caring for employees and society based on the Ethics of Care Theory (Velazquez, M.G. 2012) “to improve them towards the use and development of their full capacities, within the context of their self-defined needs and aspirations.” To assist Mercury Shoes in improving its commitment to mission and values-oriented conduct of the business, I recommend investing more aggressive amounts of money in R&D activities to truly deliver creative and innovative products, and investing in business-conduct training to gain full engagement from employees towards the company.

Performance

Our team managed the Production and Finance areas of Mercury Shoes effectively. In general terms, Mercury achieved production needed to satisfy the forecasted demand and overall WIP remained at very low levels during rounds of the SIM. Financially, our team was effective by maintaining short-term debt at low levels, while we used the long-term debt to build new product lines in all three regions, to respond emergency events (fire in Indonesia's plant) and to introduce a new specialized product in Europe and Americas. Our team struggled with Marketing and Human Resources areas since the forecasted demand was not as accurate as expected, and this resulted in an unbalanced staffing that caused either higher staffing costs of unmet demand at some point during the four years SIM.

The process of decision-making used by my team was effective in that we used the rounds results to redefine the tactics for next rounds. To do so, we had a weekly call to analyze previous round's results and to define new tactics to implemented for next round. However, the process might have been improved if we had discussed both the numbers of demand and staffing forecasts in 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 looking back at 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. After each round, our team reviewed the results and reestablished the strategic objectives for next round according to the presented conditions. Unfortunately, our team did not achieve those objectives.

By following Fouraker and Stopford (1968) principle that “organizations that have a single or a few related product lines and a high degree of vertical integration tend to be capital intensive, and to be organized in a centralized, functionally-departmentalized structure”, our team decided that Mercury Shoes should be organized in a functionally-departmentalized structure (Figure 1) which had a great influence on our decisions and the results we achieved. This organizational structure led to a higher operational efficiency as well as allocating cash flows to allow high yield uses, and allowed the Chief Operating Officer to fill the key roles in the organization in that he/she oversaw all manufacturing and supply chain aspects.

Externalities

The factors that international economic issues and business practices had in my team's management of Mercury Shoes were: 1) exchange rates volatility, 2) inflation in Europe, 3) the steadily risen of Euro against the dollar that hurt European businesses that depended on US sales, 4) labor standards in Asia that lobby for international minimum wage legislation, and 5) the agreement of China to abide an additional \$1 billion worth of apparel into the country. 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 had an effect on our decisions and performance of the company during the SIM. That is, we entered into a price war practice when trying to gain market share, and faced a continuous competitive environment to develop innovative products. The political issues that influenced our team's decisions was the high costs of customs duty to transfer products among regions and the increase of minimum wages in the Philippines.

Conclusions

As part of the Mercury Shoes management team, my experience tells me that I have skills in managing an international company of this size and complexity. I made decisions based on the detailed analysis and synthesis of all available information. However, these skills should be improved by gaining more business acumen through my professional career, especially in the finance and marketing areas. These skills benefit me as I translate into real world situations. That is, since I have worked 10+ years for international firms in a global environment, I can use these skills to gain a deeper understanding of global businesses and to improve my overall performance to higher levels that will allow me –at some point in time- to occupy executive positions to define a company’s strategy and to make decisions that will impact the overall firm.

References

Mercury Shoes, *Overview*, retrieved on June 25th, 2013 from
<http://mercury2010.rlslearn.com/Sites/579/Round.aspx?r=1>

Mercury Shoes, *Overview*, retrieved on June 25th, 2013 from
<http://mercury2010.rlslearn.com/Sites/500/Overview.aspx>

Mintzberg, H. 1978, "Patterns in a Strategy Formation", *Management Science*, Vol. 24, No. 9.

Childers, D. (2005). Ethics as a strategy: Governance perspectives. *International Auditor*, 8 (2), October 2005, pp. 34-38

Velasquez, M.G. (2012). *Business Ethics: Concepts and Cases* (7th ed.). Upper Saddle River, NJ: Pearson/Prentice Hall, p. 368-389, 446-448.

Fouraker, L. E. Stopford, J. M. Organizational Structure and the Multinational Strategy. *Administrative Science Quarterly*. June 1968, Vol. 13, Issue 1, p47-64.

Appendix

Table 1. Mercury SIM Round Results

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 2 SIM 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 Round 3: Books Open	Not Displayed	-1.4	\$2,206.20	\$9.19	(\$286.22)	4.49%	(\$6.92)	-29.70%	\$161.13	(\$60.93)	\$62.91	(\$13.73)	\$222.96	(\$62.82)
TEAM AVENGERS Round 3: Books Open	Not Displayed	0.08	\$3,591.94	\$15.00	\$66.51	9.60%	(\$1.27)	-4.73%	\$384.82	(\$10.36)	\$72.72	\$3.93	\$463.81	\$8.80
MERCURIO Round 3: Books Open	Not Displayed	0.48	\$3,399.34	\$14.08	\$189.08	9.79%	\$0.63	2.51%	\$380.52	\$7.41	\$73.24	(\$4.38)	\$463.07	\$8.72

ROUND 4 SIM 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 Round 5: Books Open	Not Displayed	-0.58	\$4,031.50	\$16.69	\$38.45	10.27%	(\$5.93)	-15.88%	\$384.03	(\$77.41)	\$232.71	\$44.83	\$579.34	(\$18.46)
TEAM AVENGERS Round 5: Books Open	Not Displayed	0.34	\$3,758.16	\$15.72	\$221.07	10.00%	\$0.17	0.61%	\$401.24	\$1.90	\$183.24	\$39.12	\$517.92	\$17.32
MERCURIO Round 5: Books Open	Not Displayed	-0.18	\$3,662.46	\$15.16	\$48.81	9.62%	(\$2.61)	-10.02%	\$383.20	(\$9.12)	\$157.27	\$25.72	\$502.27	\$6.56

ROUND 5 SIM 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

Figure 1. Mercury Shoes Organizational Structure

