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Departamento de Economía Administración y Mercadología

MAESTRÍA EN ADMINISTRACIÓN

STRATEGIES IN GLOBAL ENVIRONMENT
FINAL PERFORMANCE REPORT

Tesis profesional para obtener el grado de

MAESTRO EN ADMINISTRACIÓN

Presenta: Luis Alfonso Guerrero Montaño

Asesor: Prof. Darwin Naccarato

Guadalajara, Jalisco. Diciembre de 2013

Agradecimientos

Antes que nada quiero agradecer a mi familia, sin el constante apoyo y soporte de mi esposa Luz y la paciencia de mis hijos Luis y Alejandra no hubiera sido posible para mí el terminar esta etapa de mi vida, por lo cual los considero participes de este éxito.

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A lo largo de estos dos años y medio que duro mi maestría he recibido el apoyo y ayuda de muchos compañeros y maestros a los cuales agradezco su guía y compañerismo.

Y por último pero por sobre todos los anteriores a Dios que me dio, salud, fuerza y sabiduría para obtener mi grado con éxito.

Luis Alfonso Guerrero Montaño
Diciembre, 2013

FINAL PERFORMANCE REPORT

Luis Guerrero

Regis University

Strategies in Global Environment

Prof. Darwin Naccarato

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SUMMARY

After four years of simulation in the Mercury´s journey, many decisions were taken by me and my teammates with the objective to take the company to accomplish its goals, although not all were adequate they gave us the opportunity to take them; and experience their effects.

At the beginning of the course the simulator, its tutorials and its introduction material made me believe that we would work on a predictable software which by adjusting and updating some data will result on an easy success. At first sight it looks to me that by applying some of our learned (during the MBA) formulas our success was guaranteed.

In the following pages I will demonstrate how wrong I was with my expectation of this course, and how our wrong decisions and one big mistake took Mercury, to an incredible bad situation and regardless of all our efforts and changes we failed a couple of rounds.

In summary in this paper I will describe my journey on one of the best classes of my MBA.

STRATEGY

How did your choice of strategic alternatives at the start of the SIM affect the decisions you made during the 5 rounds?

I believe we took two main strategic decisions at the beginning of the SIM: 1. Product leadership as our main strategy and 2. Use operational excellence as the tool to increase the Mercury's earning and improve its performance.

When we decided the use of this strategy we believed that a new product introduction and by develop of lines as Boost Branded would lead the company to our projected levels. Our product leadership strategy confused us and let us to overestimate the demand of our new product "Mercury Max", for three rounds we forecasted our demand at levels that exceed the 10% monthly increase and we totally ignore the actual products and its demand and sales tendency on the first two rounds.

We basically misunderstood the objective of product leadership; I believe we have been taking a review of each product and its historical behavior to understand the position in the market and how it will create a benefit for the company. We realized this until our third round.

On the operational excellence we decided to increase our factory utilization rates by increasing or production levels on the first two rounds of the simulation, by the round three we overestimate the needs of new production lines and we bought 17 new production lines across the regions resulting in a worst factory utilization rate, the error was again to overestimate the demand of our new product and a miscalculation in our capacity. By the

end of the third round we detect and begin to fix our capacity issue to try to accomplish again our strategy.

What were the main challenges facing Mercury Shoes at the start of the SIM?

Mercury had poor revenue growth also the situation on the European region was decreasing also our expectations of sales. We also detect that the Booster Insoles and the Sweatless Apparel products were losing money.

In the services we also found that the earning in the Mercury clinics was of 0 dollars in the historical reports.

Mercury also had very poor numbers in factory utilization and its production capacity we felt it was short based in our revenue growth expectations.

With these issues Mercury was not in a good position to achieve our revenue expectations and of course it was far away to have the enough capacity to gain market share.

What were the strategic choices made by your team as the SIM's rounds emerged? Did these strategic options change? Was your team effective in addressing the problems faced by the company during the SIM?

At the beginning of the SIM (in our first two rounds) we based our strategies in develop our new product, discontinue one of the services, increase our capacity and increase our expense in marketing and advertising. With the coming of the new round and as well with the results we evolve our strategy in each round.

On the third and fourth rounds our strategy was to keep our forecasted demand on our new product, fix our production capacity, WIP and inventory issues (I will detailed these later on this paper), increase our margins and discontinue the Sweatless Apparel line, these effort were focused in increase our revenue and earnings and in stop losing money in some products lines. On the fourth round we also develop an "emergency strategy" to capture the demand of the new China's demand.

Finally in our last round our strategy was to obtain a more realistic demand of our Mercury Max product, reduce our inventory levels and give enough space to our production sites to fulfill our requirements.

As it can be seen our strategies were evolving and changing across the rounds.

I believe we were effective in solve the issues gradually, on the second and third rounds we failed to solve our production issues, but in the fourth and fifth we were effective. In terms of our demand we were effective to understand the trends and behavior of the products only until we analyze the situation of each individually on the third round.

In conclusion we became more effective in forecast our demand and plan the Mercury's capacity as the round were advancing.

Why do you think your team achieved the performance levels Mercury Shoes reached during the 4 years of the SIM? How could your performance have been improved?

I think the key point of our success was our team work and the union of our capabilities to find better ways to apply each one's knowledge on every situation. At the beginning of the simulation we took roles: Mike was the finance guy, Kiana the marketing

leader and me the supply chain man, Nduka was out at that time. And we began to work separately in each aspect of the company, and we just joined to complete the task by adding each one's information. But after the first result we found that the strategy of separate tasks was unsuccessful, so we decided to increase our meeting and we start to question each other work for have a better understanding and to review and backup all the job of the team. By the third round Nduka becomes an important part of the team because he has not any tag attached (finance, marketing or operations), he questioned and inquiry everybody's job, that give us a different perspective and a second hand review that result in our success by the end of the SIM.

I believe that our success began when we start to understand all the parts of the company, and by working as a team. If we were started as a team working together to tie and match all the different areas of the company our success may have been much better.

MISSION AND VALUES

How did your team balance margins and mission while moving through the SIM's 5 rounds?

The strategy and our tactics across the simulation were created to accomplish the Mercury's mission; we worked to reach the objectives and goals of the company. During our conferences, after the third round, we reviewed each other work and also make a sanity check of how our decision on each year was affecting our mission and goals.

How did your team integrate values into your decision process?

We always act with respect, we do not took any decision with arrive to an agreement and in the occasions we cannot reach one we vote to at least took the decision based on the majority. Even when we took conference for more than 3 hours we always respect this agreement rule.

We also never try to cheat or to find ways to alter the SIM in order to gain points, so we always try to act under the tools and rules the system provide us.

What recommendations might you make to Mercury Shoes to assist the company in improving its commitment to mission and values oriented conduct of the business?

The mission publication is a good way to star but the company needs also to teach by the example of its manager, they should be act according to its mission and values.

The integration of a train and review department will help the company to have an entity which ensures the accomplishment and the follow of the company mission and values. In some cases these department also can act as a consultant when an employee or

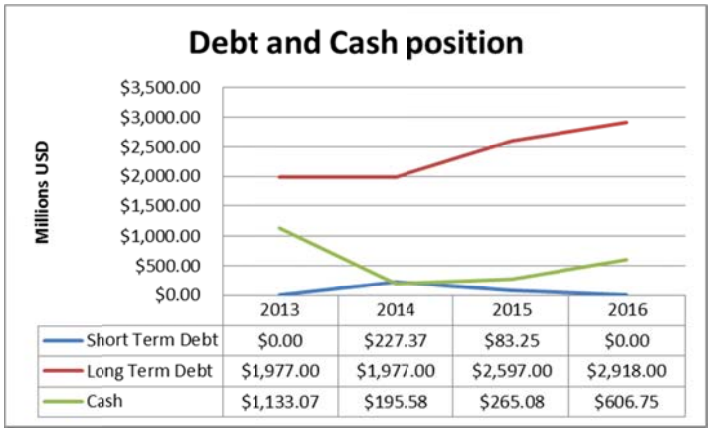
manager wants to figure out if a decision or action will affect the company's mission, this will help to avoid noncompliance behaviors or acts.

PERFORMANCE

What areas of Mercury Shoes did your team manage effectively?

The finance and marketing areas were effectively managed since the SIM beginning.

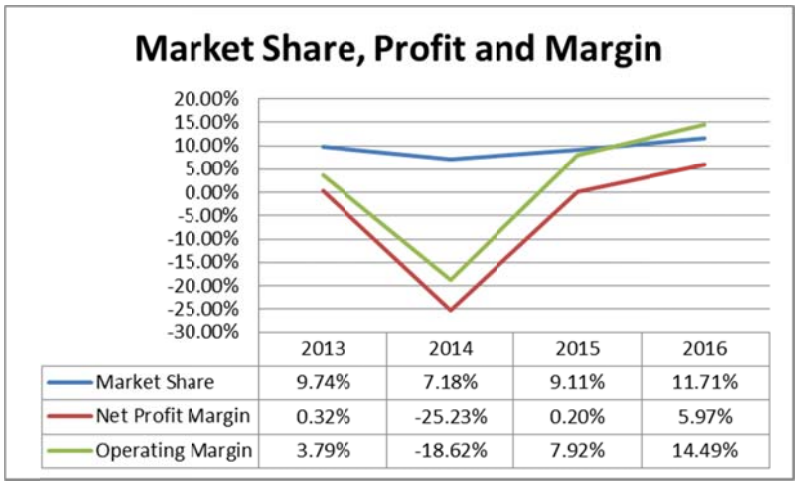
On the finance side I believed we did it very well in order to recover our cash position even when we have to acquire a short term debt we changed it to long term debt in order to reduce our financial cost and to obtain more cash. As you can see in the Graph 1 even when our cash struggle in 2014 we figure out the way (by LTD and more revenue) to pay the short term debt and begin recover our cash our initial cash position.



	2013	2014	2015	2016
Short Term Debt	$0.00	$227.37	$83.25	$0.00
Long Term Debt	$1,977.00	$1,977.00	$2,597.00	$2,918.00
Cash	$1,133.07	$195.58	$265.08	$606.75

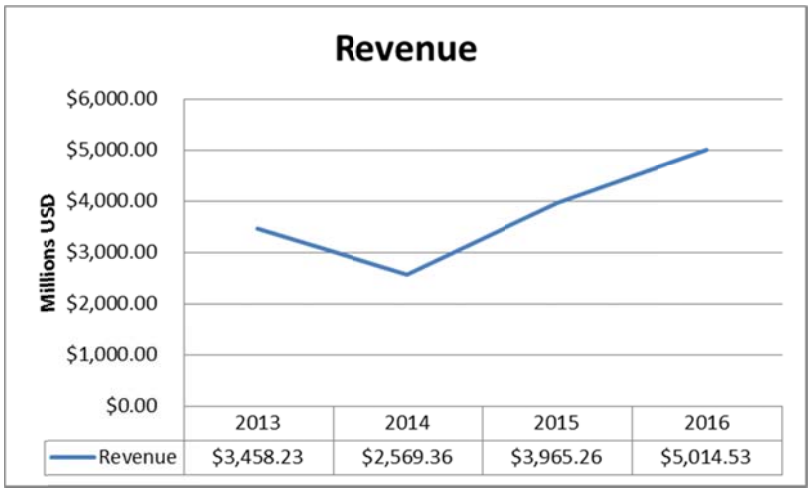
Graph 1

Also in terms of market share, net profit and operating margin we finished above our historical results, even when we have a terrible 2014 (see the detail in the next question); we recovered on the last two years as you can see in the Graph 2. Also the revenue was a huge success we finished 2016 with $5,014.53 Million a 45% increased against 2013, as you can see in the Graph 3.



	2013	2014	2015	2016
Market Share	9.74%	7.18%	9.11%	11.71%
Net Profit Margin	0.32%	-25.23%	0.20%	5.97%
Operating Margin	3.79%	-18.62%	7.92%	14.49%

Graph 2



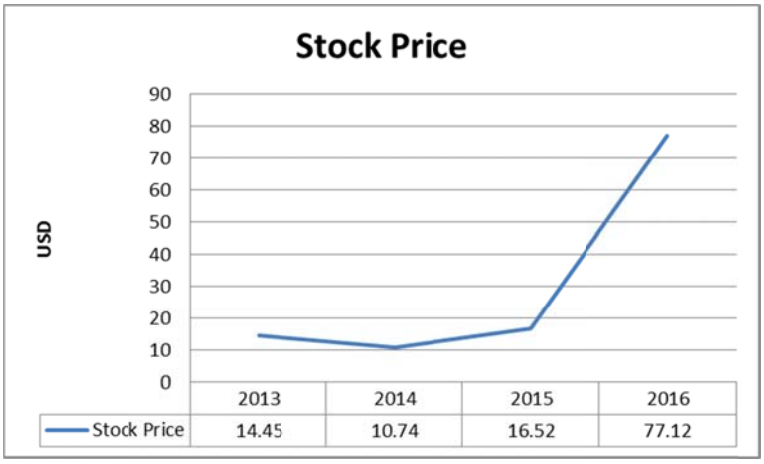
	2013	2014	2015	2016
Revenue	$3,458.23	$2,569.36	$3,965.26	$5,014.53

Graph 3

The market share, operations and revenue result are of course ties to the marketing efforts during the round we adjust the prices of our products down in order to gain more market share and revenue, and up to increase our margins. We also discontinue the product and the service with the worst margins (Swetless apparel & Mercury Clinics respectively).

So we made good progress overall in our financial and marketing areas we were good in calculate our margins and forecast our earnings each round, and this joined with a good financial policy to keep only long term debt took Mercury's at its good position at the end of the last year.

Our efforts on these matters also improve the stock price from 14.45 in 2013 to 77.12 in 2016 a 434% increase, as you can see in the Graph 4.



Graph 4

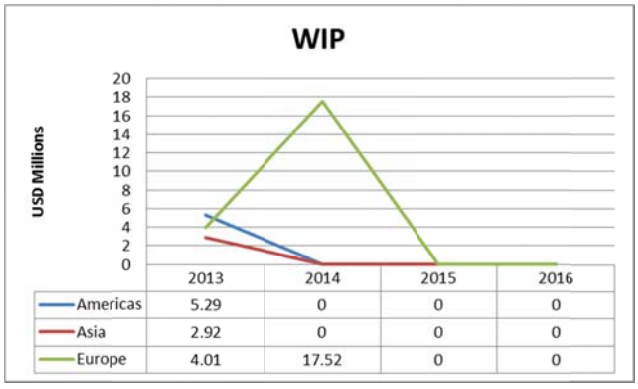
This impressive increase was resulting also of our well took decision to take advantage on the Asia's new demand and the capacity utilization of the last two years, by adjusting our staff and having better production schedule we achieve this goal.

Also in the last year we created a realistic demand that gave us the opportunity to better schedule our resources and have a better fulfillment rate, we finished with an average of 98% consolidated.

With what areas of Mercury Shoes did your team struggle?

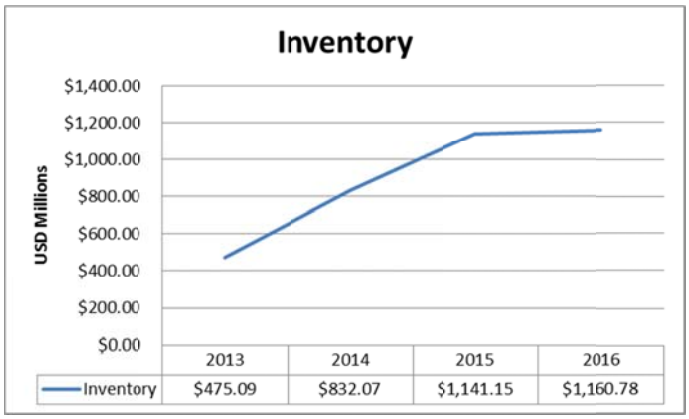
Definitely I would say Supply Chain, I was in charge of this matter and was not nice to find out how wrong we made until the first two rounds, I used a different approach to calculate our capacity factors based on the physical capacity only and without apply any cushion so we was projecting a 100% capacity use. In the first round we did not see a huge effect, we just generate some WIP, but we wrong forecasted the need of 17 new production lines, so at the second round we exceed our capacity.

On the third round we begin to use the capacity based in the people productivity (units/people/qtr) and taking in account the efficiency of each plant (cushion), this also help us to calculate how much people we will need in the Supply Chain around the Regions, by doing this we eliminated the WIP in the Americas and Asia increasing our fulfillment rates and having a better coverage of our demand. The issue was in Europe, I was in charge to load the Supply Chain staff quantities and the other areas staff in that round, but I made a mistake instead to load our calculated staff for the Supply Chain I copied the marketing staff on that line. The result was catastrophic we do not load enough capacity causing us a huge amount of WIP in Europe and huge lost in sales, as you can see in the Graph 5.

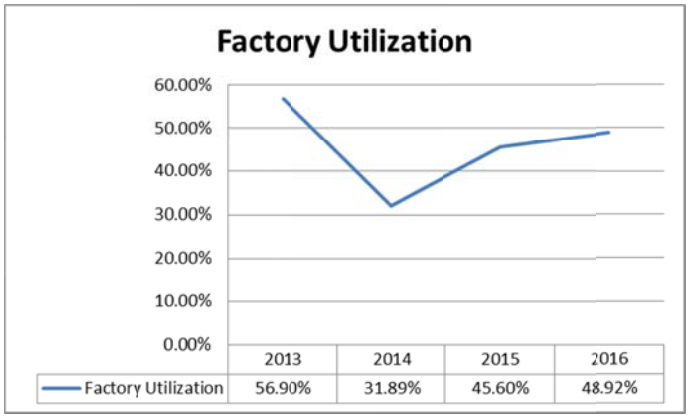


Graph 5

On the last two rounds we can solve the issue and overcome the result to eliminate the WIP and hired only the staff required by our demand; however our overestimated production lines, and demand in the Mercury Max took us to finish the SIM with an increase in the inventory and a poor number in factory utilization rates, as you can see in the Graphs 6 and 7.



Graph 6

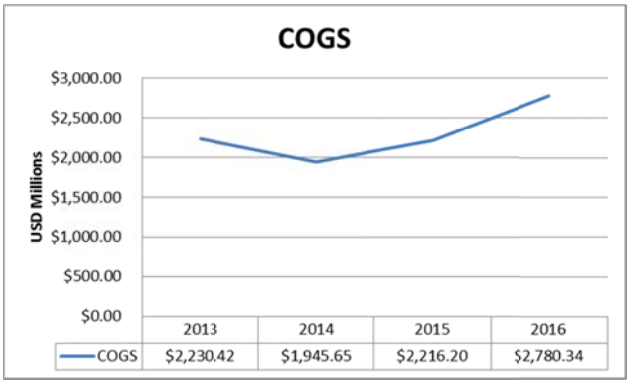


Graph 7

As a result of this increase in inventories and our exceeded capacity we obtain an increase in our Cost Of Goods Sold (COGS), as you can see in the graph 8.

The only good part of the wrong calculation in the production lines was that when the new demand in Asia arrives we already have enough capacity installed that permit us to

achieve a good revenue number without to have to delayed our earning due a lack of capacity.



Graph 8

Discuss the process of decision-making used by your team. Was it effective? How might the process used have been improved?

As I mentioned before we used a single task assignment and one meeting to join our numbers at the beginning of the simulation, but as we advance we discovered that we must work as a team and level our opinions and decisions in order to obtain better results. We improve our effectiveness by increasing our conferences to three or four times per round and by reviewing and questioning each other work. After my mistake in the staffing we also developed a sanity check revision by other member of the team before we closed the books.

We always try to obtain a consensus but in the times we not arrive to one we vote to take the final decision, I believe the system was effective because we took the decision on time, sometimes wrong and sometimes fine, but I never fell stalled by lack of decision.

How did your team choose to measure success in managing the company over the 5 rounds of the SIM? Did your team achieve those objectives?

We basically measure our result against our forecast file; this file includes our revenue margin and production expectations. To be honest I must say that in 4 of the five rounds we do not achieve the objectives.

With our production calculation issues and above all our overestimation in the Mercury Max demand we always were far away in our forecast than in our real numbers at the end of each round. It was not until the last round when we decided to be realistic with our new product demand and we apply it in our forecast that we were close enough to our objectives, I mean we achieve our objectives only until the last round.

What influence did the organizational structure your team selected for the company have on your decisions and the results you achieved?

As I mentioned before we took the traditional structure seriously and we develop our numbers alone in the first two rounds, this obviously affect our initial numbers and made our success slower.

EXTERNALITIES

What factor did international economic issues and business practices have in your team's management of Mercury Shoes? How might you have improved application of these concepts?

The economic situation in Europe was the first factor, the exchange rates was another one and lastly the political news about the salaries, demand or inversions.

The economic situation and the political issues are always different but I believe that by reading the news and the experts advisory we should have a better perspective of the implications.

In terms of the demand increases the marketing reports and analysis can give me a better perspective of how can we prepare the increase or decrease in our shipments.

And finally the exchange rates, I need to obtain more sources of information in order to analyze trends and historical data that allow me to take better decision on forecasting exchange rates.

What effect did the competition have on your decisions and performance of the company during the SIM?

To be honest we do not find a practical or tangible report that seize us against the competition, we always talked about the competition in a subjective way, like how can we avoid the competitors to gain our market share? Or how the competitors will react if we increase the price? So we basically took our experience in other industries and applied to our forecasted reports and primary in our prices adjustments.

What impact or influences did political issues have on your team's decisions in managing Mercury Shoes?

I already mention it in the first externalities question, but I want to add that we only took decisions based in our experience, I mean we should live with the political decision sometimes will benefit you and sometimes will struggle you, but the companies should be prepared to take advantage on the good times and to resist in the bad times. For example we increase our prices in some of our Asia products as soon as we now the salary increase in India, but we reduce them when we have an increase of demand in China.

CONCLUSIONS

What did your experience as part of the Mercury Shoes management team tell you about your skills in managing an international company of this size and complexity?

I believed that practice and experience is what we need to accumulate in order to be better on managing these companies, also we need to be updated and prepared by reading the news, books and government announces.

I remember a good article of McKinsey which talked about work under uncertainty (see reference); I believe it describes a good framework of how to work on these kinds of situations. Also the teamwork is a key tool for these endeavors.

How might these skills benefit you as you translate them into real world situations?

They are very important, these skill allow me to see a big picture of how the companies are managed, and also open my eyes of how important is the teamwork on the companies, the decision should be always backed up by data or by a group or a team of experts that help the company to see a decision on many perspectives before to act.

I always hate the audit and review processes; I feel that they were only part of the bureaucratic activities in a company, now after my mistake and its impact I understand how an un-reviewed or an un-questioned action or decision can affect the result of a company.

This course exceeded my expectations, it shows me how important is the teamwork, how the wrong decision could affect a company's performance, it help me to better understand the way a company should be managed at a high level and finally it teach me humility and know to recognize my errors.

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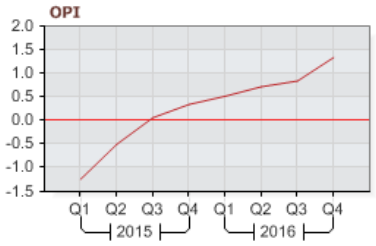
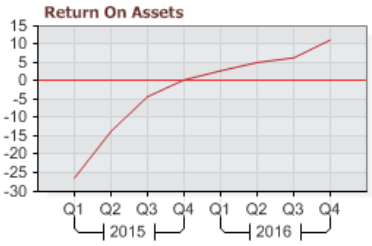
Finished Dashboard

Consolidated Income Statement | Consolidated Assets | Consolidated Liabilities

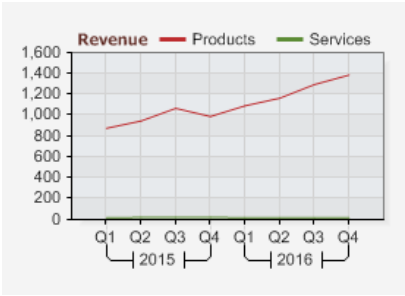


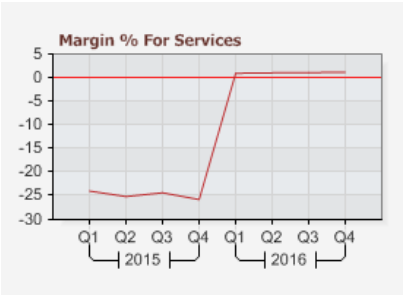


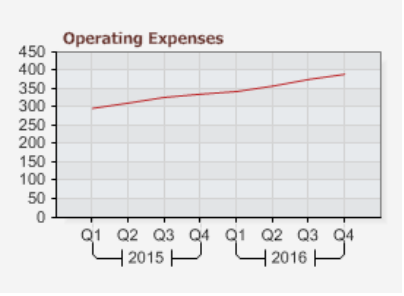
Reports For Region

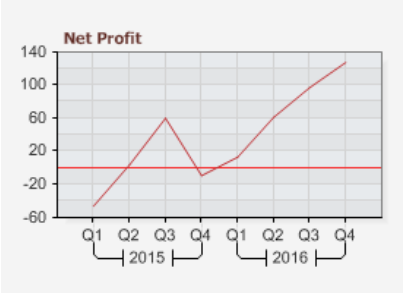
Consolidated

Consolidated Income Statement

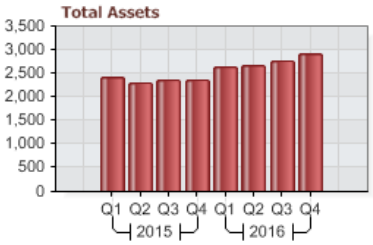


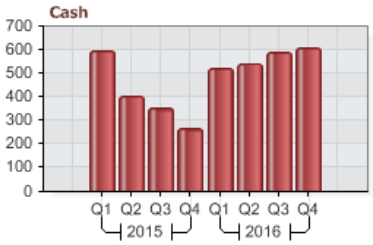


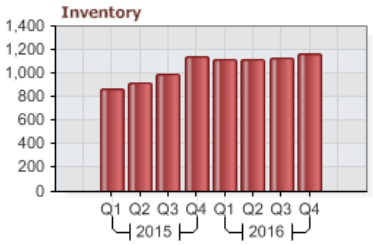


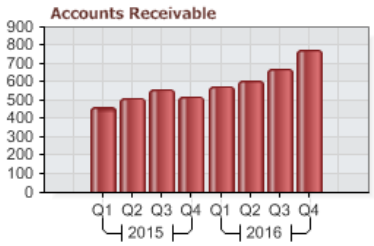


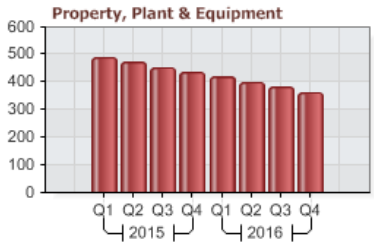
Consolidated Assets



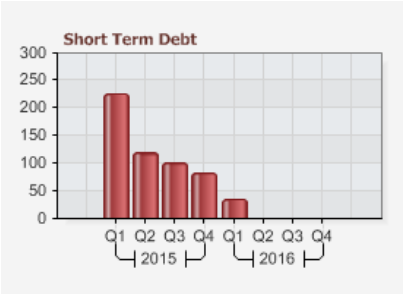


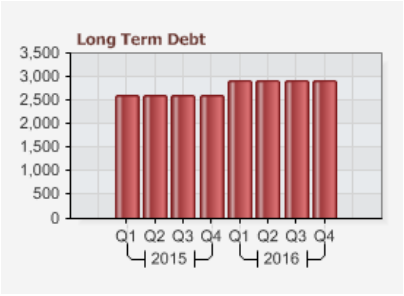


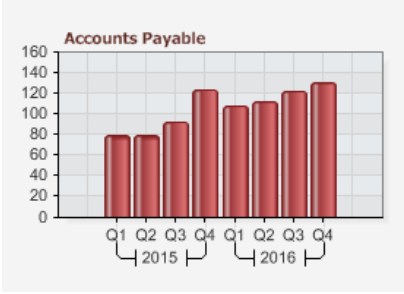




Consolidated Liabilities







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