Decisions Regarding Private-label Production
Explanations — Information on Rules/Procedures — Suggestions and Tips

Participating in the private-label segment of the athletic footwear market has two big appeals:

- The private label segment is projected to grow about 10% annually in Years 11-15 and about 8 percent annually in Years 16-20. This is higher than the projected growth for branded athletic footwear.
- Obtaining private-label contracts to make footwear for chain retailers is an attractive and potentially profitable avenue for keeping your plants running at or near full capacity, thus spreading fixed production costs over more total pairs and helping to drive down overall unit costs.

Chain retailers take bids for their annual private-label requirements at the beginning of each year. Contracts are awarded in the weeks following receipt of bids—in time for contract winners to fulfill their production obligations but not in time for footwear-makers to know whether bids have been won prior to finalizing their decisions and strategy for the full year.

All chain retailers worldwide have the same production specifications for private-label footwear:
1. An S/Q rating that is 1-star below the prior-year's industry average, and
2. 100 models/styles. (However, the number of models is subject to change by your instructor as the game progresses).

**Special Note:** Chain retailers are very conscious of the need to carry only private-label models/styles that are easy and less expensive to produce so they can sell their private-label shoes at attractively lower prices than name brand athletic footwear. As a consequence of their efforts to order only models/styles that are simpler to produce, production run set-up costs for private-label pairs are 75% below those for branded pairs. Thus, production run set-up costs are $250,000 per plant for making 50 models/styles of private-label shoes; $625,000 per plant for 100 models/styles; $1 million per plant for 150 models/styles; $1.5 million per plant for 200 models/styles; $2.0 million for 250 models/styles, and so on. Chain retailers are very conscious of the need to have private-label designs that are easy and less expensive to produce so they can sell their private-label shoes at attractively lower prices than name brand athletic footwear.

So long as the S/Q and model specifications are met, private-label contracts provide that your company has the leeway to produce the footwear as you see fit, using whatever combination of superior-standard materials, expenditures for styling/features, expenditures for TQM/Six Sigma, compensation and best practices, and so on that you and your co-managers decide works best.

If your company has low-cost production capability and adequate plant capacity, you can readily sell more private-label pairs than the industry average (800,000 pairs per company in Year 11 and 880,000 pairs in Year 12) by simply bidding low enough to win contracts to supply a larger-than-average number of pairs—the profitability of such bids, of course, is dependent on your company's production and shipping costs, any tariffs that have to be paid, prevailing exchange rate adjustments, and the other direct costs that are incurred. The projected incremental revenue-cost-profit contribution associated with winning a contract at your bid price is shown in a calculation-rich section near the bottom of this screen. The key number to watch in this section is the “Margin over Direct Costs”—this margin is defined as revenues minus all costs directly attributable to the production of private-label pairs (on a per pair basis, the margin over direct costs on selling a pair of private-label shoes is, in effect, price minus “variable costs”).

**Suggestion:** Consider aggressive pursuit of a low-cost provider strategy if you and your co-managers intend to make private-label contracting a major and ongoing part of your business. Given that chain retailers award private-label production contracts to those footwear-makers with the lowest-price bids, earning good profits on private-label sales requires keeping the delivered cost per private-label pair as low as possible.

The Production Decisions for Private-Label Footwear

If you and your co-managers want to compete for private-label contracts, the following decisions have to be entered for each of the plants in which you propose to make and ship private-label footwear, should your company be awarded contracts:

- **The percentage of superior materials to be used in making-private-label shoes** — There's merit in keeping this percentage as low as possible, subject to achieving the required S/Q rating.
- **Expenditures for enhanced styling/features** — Again, there's merit in minimizing this expense, but enough has to be spent, in tandem with superior materials usage, to achieve the required S/Q rating. It is possible that it will be more
economical to increase spending for TQM/Six Sigma programs (entered on the branded production screen) to help get to the required S/Q rating than to spend more heavily for superior materials or enhanced styling features.

- **The tentative number of private-label pairs to be produced at regular time** — Whatever portion of a plant’s capacity remains after producing branded footwear can be allocated to private-label production.

- **The tentative number of private-label pairs to be produced at overtime** — Once plant capacity is reached, all additional production involves paying workers overtime.

The regular time and overtime production to supply a particular region will not be scheduled (or occur) unless the company wins bids of at least 100,000 pairs in the geographic region where you propose to ship the pairs. Hence, any and all decisions regarding production for private-label footwear are contingent on winning bids of at least 100,000 pairs in the geographic region where, in the section of the screen just below, you propose to ship the pairs.

Every private-label pair produced must be shipped to one of the four warehouses; no newly-produced private-label pairs are ever warehoused at plants.

**The Shipping Decisions for Private-Label Footwear**

Once you and your co-managers decide how many pairs of private-label shoes of schedule for production in the event your company ends up being a winning bidder on any or all of the private-label contracts you sought, then you next have to schedule the shipment of the pairs to the distribution warehouses in the different regions.

The pattern of shipping from which plants to which regions is important because it has a significant effect on your costs of delivering the private-label pairs to the premises of chain retailers—in the same way that your shipping decisions affect the overall production and distribution costs of branded pairs in each distribution warehouse. All private-label footwear is subject to the same tariffs per pair, exchange rate adjustments and plant-to-warehouse shipping fees as are branded pairs. How many private-label pairs are shipped from which plant to which distribution warehouse—and the resulting direct distribution costs due to tariffs per pair, exchange rate adjustments, plant-to-warehouse shipping fees, and warehouse handling and shipping fees. Your company incurs warehouse costs for private-label footwear because, upon their arrival at the distribution center, all private-label pairs have to be unpacked from the cargo bins in which were shipped from the plant, sorted and put in individual shoe boxes denoting the sizes and styles, and then shipped on to the chain retailers.

Decisions of how many of the private-label pairs available for shipment to retailers (after reject rates) to send to each of the four regional warehouses have to be entered in the four shipping boxes for each region. The proposed shipments from a plant to each of the four geographic areas will take place only if you win enough contracts.

Just as in the case with private-label production, any and all of the shipping decisions regarding private-label footwear are contingent on winning sufficient bids in the various geographic region.

Under no circumstances will BSG intervene and reallocate or divert the number of pairs to be shipped from a plant to a different region so as to allow you to win additional private-label contracts in that region since you did not come out a winning bidder in the region where you specified the pairs were to be shipped. This is done to protect you from any risk of having private-label pairs shipped to a region you did not specify and then incurring higher costs and perhaps even large losses because the price bid in that region was too low to cover the unexpectedly higher costs. Hence, the total number of private-label pairs you and your co-managers tentatively plan to ship to a specific distribution warehouse thus becomes the absolute maximum number of private-label pairs you can supply to chain retailers in that region.

Production and shipment of private-label footwear occur only in the event bids are won. But, as just emphasized, the proposed volumes you enter to be produced and then shipped to each geographic area, all plants combined, represent a firm commitment on your company’s part of the number of pairs you are willing to make available to chain retailers in that region at the bid price. While this number of pairs is the maximum number of private-label pairs you can hope to sell in that region, you may end up selling fewer pairs in that region because you were underbid by rival companies.

**The Private-Label Bid Section—Deciding What Price to Bid**

This section of the screen involves entering price bids for each region and using all of the on-screen projections to finalize an appealing private-label strategy for your company. Note that in the first part of this section of the screen there are numbers showing forecasted demand for private-label footwear in each region, how many pairs you have tentatively
opted to offer to chain retailers (given the above shipping decisions), and your company's projected market share of the private-label market in the event all of your bids are accepted.

If you and your co-managers are interested in obtaining private-label contracts, then you must enter a bid price per pair. Down to the penny, for each region in which you want to compete for private-label contracts. The bid price represents what your company is willing to charge to deliver the required private-label pairs to the retailer's premises. Hence, the bid price has to cover all production and shipping-related costs, any tariffs that might apply on pairs coming from a foreign plant, and any exchange rate effects, plus include an allowance for profit.

Bids can be submitted to chain retailers in just selected geographic regions or in all four regions. For reasons of simplicity, all bidders enter only one price bid per region (this limits the number of bid prices to a maximum of four, as opposed to having price bids for dozens of different chain retailers worldwide).

For a company’s price bid to be considered by chain retailers in a given region, it must turn out to be at least $5.00 below the current-year average price for branded footwear in that region. Bids less than $5.00 below the current-year average price are thrown out and not considered. Chain retailers, of course, price their private-label athletic footwear below the retail prices of comparable name brand models/styles. If the wholesale prices chain retailers have to pay for private-label pairs are close to what they can buy branded pairs for, then their incentive to market their private-label brands is weakened because their profit margins as not particularly attractive.

Note: Chain retailers are very price-sensitive; big increases in price bids industry-wide can cause orders from chain retailers to fall short of forecasted private-label demand.

Chain retailers arrange the bids from the lowest to the highest price per pair and award contracts, starting with the lowest bidder in each region and ascending in order of next lowest price in that region until either total chain retailer demand for private-label footwear in the region is satisfied or all qualified bids are accepted, whichever occurs first.

In the case of tie bids on the last price accepted, chain store buyers award the contract to the supplier with the highest prior-year global image rating (which is based on branded S/Q ratings and market share); the second tie-breaker is based on which company's private-label offering contains the highest percentage use of superior materials. The potential for tie bids is a strong argument for odd-number price bids (i.e., $27.93, as opposed to $28.00).

Depending on the amount chain stores are buying, the price bids of rivals, and the various quantities footwear-makers are prepared to supply, any one footwear-maker may sell all of the private-label pairs it is willing to supply to chain retailers in a region, some of the pairs, or nothing. Hence, participating in the private-label segment has risk, particularly if your company banks on winning a lot of private-label business but loses out on some or all of the hoped-for production volume because you are underbid by rival footwear-makers in some or all of the regions. A “bet the company” strategy that makes winning high-volume contracts for private-label footwear is a very questionable and certainly high-risk business model, unless you have a competitive advantage over rivals in producing private-label footwear at meaningfully lower costs than rivals.

TIP: In deciding how much to bid, you want to bid a price low enough to win a contract, but also a price as high as you think you can get away with and still come out a winning bidder. It is seldom necessary to be the lowest price bidder, just a bidder with a low enough price to win a contract to supply the desired amount—being close to the top of the stack of winning bidders is better than being at the bottom of the stack because higher winning prices provide greater room for earning a bigger margin over direct costs. Being the lowest price bidder is necessary only if a footwear-maker’s strategic intent is to capture all the contracts awarded in a region with a low-ball price bid and offer to supply a sufficiently large quantity of pairs to meet the combined private-label demand of many or maybe all chain retailers in the region.

TIP: To enjoy sustained success in the private-label segment, you and your co-managers will have to take actions at your plants to keep the production costs of private-label footwear very low relative to rival companies—only low-cost producers stand to make much money in the private-label segment over the long-term. Achieving lower production costs than rivals in making pairs for the private-label segment usually means:

- Investing in cost-saving plant upgrades.
- Having low labor costs per pair produced relative to rival bidders. Maintaining a low labor cost advantage over rival bidders often requires concentrating private-label production at plants in the Asia-Pacific and in Latin America where compensation payments to workers are far lower. However, the labor cost advantages of such plants can often be surmounted by companies who have plants in Europe-Africa and thus escape paying tariffs on private-label pairs produced at these plants that are sold under contract to chain retailers in Europe-Africa.
Interpreting the Incremental Revenue-Cost-Margin Information on the Screen

Operating plants at full capacity (so as to spread fixed production costs—especially depreciation and production run set-up costs—over a larger number of pairs) this means investing.

Doing a good job of out-managing rivals in operating plants efficiently — via lower reject rates, use of best practices to eliminate waste in materials usage, and so forth.

TIP: Always use the benchmarking information regarding total compensation, productivity, labor costs, and private-label production costs reported on page 6 of each issue of the Footwear Industry Report as yardsticks for gauging whether your company is a high-cost, average-cost, or low-cost provider of private-label footwear.

TIP: Be wary of placing "too much" strategic emphasis on private-label sales as opposed to branded sales. The profits margins on private-label sales are typically razor-thin and a strategy that banks on winning private-label bids to supply a large number of pairs annually carries substantial risk. It is one thing to pursue private label sales to keep plants operating at capacity and boost bottom-line profitability several million dollars by earning a decent margin over direct costs. It is another thing to “bet the company” on outcompeting rivals in private-label bidding and trying to achieve the performance that investors expect with a hefty percentage of the company's business concentrated in private-label sales.

The extent to which companies will be drawn to compete in the private-label segment and to make private-label label sales either a minor or major part of their strategy remains to be seen.

Interpreting the Incremental Revenue-Cost-Margin Information on the Screen

To see all these numbers in all regions, the boxes that say “Assume Bid is Accepted” must all be checked. Checking the boxes has the effect of including all the calculations of revenue-cost-margin over direct cost in your company’s performance calculations for the year. Plus, the boxes should be checked in order to help you decide on price bids. As discussed in the next section below, it is recommended that you uncheck the boxes when all of your decision entries for this screen are “final” and you move on to other screens.

All of the production and distribution-related costs the company incurs in delivering the private-label footwear to the premises of chain retailers are referred to as “direct costs” — the difference between your bid price per pair and the direct cost per pair is called the “margin over direct costs.” This margin, if positive, contributes to covering any of the company's fixed costs not covered in selling branded pairs and to the company's bottom line.

Once these entries are made and price bids entered, you are provided with the projected incremental revenue-cost-profit contributions associated with winning all the bids you have entered (which really is a best-case scenario). The contribution margin over direct costs on private-label sales is not included in the projections of company performance at the bottom of the screen unless you check the boxes and indicate you want them included. The check/uncheck feature allows you to see how any private-label sales will affect bottom-line performance but still not have your company's overall performance be dependent on winning the private-label bids (since there's some reason to be leery of assuming that you will be a winning bidder for the full amount of your bids and to be prepared for a worst-case scenario).

Understanding the On-Screen Incremental Revenue-Cost-Profit Contribution Numbers. The projections of gross and net private-label revenues, production costs, shipping & handling/tariff costs, and margin over direct costs are critical to evaluating what price to bid:

- **Gross Private-Label Revenues** — Gross revenues are equal to the bid price per pair in a region multiplied by the total number of pairs you propose to supply to chain retailers in the region. The numbers in the $/pair column is your company’s proposed bid price in each of the regions.

- **Exchange Rate Adjustment** — When exchange rate shifts result in a weaker US$ and a stronger euro/real/Sing$, then the euros collected on footwear sales in Europe-Africa, the reals collected on footwear sales in Latin America, and/or the Sing$ collected on footwear sales in the Asia-Pacific translate into more US$, thus creating foreign exchange gains that have the effect of enhancing company revenues and profits. In other words, foreign currency gains associated with reporting the company’s operating results in US$ causes a positive exchange rate adjustment to revenues on sales made in those foreign markets where the US$ has grown weaker. When exchange rate shifts result in a stronger US$ and a weaker euro/real/Sing$, then the euros collected on footwear sales in Europe-Africa, the reals collected on footwear sales in Latin America, and/or the Sing$ collected on footwear sales in the Asia-Pacific translate into fewer US$, thus resulting in foreign currency exchange losses that have the effect of reducing company revenues and profits in those foreign markets where the US$ is now stronger. In such cases, the exchange rate adjustment to revenues is negative. No exchange rate adjustments to revenues are ever needed on footwear sales in North America, where all payments are always tied to the US$ to begin with.
Thus the important understanding in interpreting the relevance of this exchange rate adjustment is that:

- A positive number for a region represents a favorable exchange rate adjustment and raises the per pair revenues in US$ from sales of private-label footwear sold in that region (an adjustment that ultimately boosts the margins over direct costs on private-label sales in that region).

- A negative number for a region represents an unfavorable exchange rate change that effectively lowers the per pair revenues in US$ of private-label pairs sold to chain retailers in that region (an adjustment that acts to dampen the profitability of private-label sales in that region).

For more explanation of the revenue adjustment, see the section on Understanding the Exchange Rate Adjustments to Revenues and Costs at the end of this /Help screen.

**Net Private-Label Revenues** — The net revenue numbers in this row are always equal to the gross revenue numbers minus the exchange rate adjustments to gross revenues. They represent the projected amounts the company will actually receive in dollars from private-label sales in each region after converting the euros, reals, and Sing$ to US$. Again, there are no exchange rate adjustments to revenues from private-label sales in North America because all chain retailer payments in North America are in US$.

**Production Costs** — This number is derived directly from the production costs at the plants from which you propose to ship the private-label pairs. If all of the pairs in a particular distribution warehouse are shipped from the same plant, then the production cost per pair shown on this line is the same as the total production cost per pair at the plant from which you propose to produce and ship the pairs. However, if the private-label pairs in a given distribution warehouse are to come from two or more plants, then the per pair production costs are a weighted average of the production costs at each plant (where the weights are the proportion of pairs coming from each of the plants). You can readily see from your proposed shipping entries how many private-label pairs in each region are coming from which plants.

It is important to understand how the projections of production costs are calculated. Production costs for private-label footwear includes (1) the costs of standard and superior materials used to produce the pairs, (2) production-run set-up costs for the required models/styles, (3) styling/features costs, (4) direct labor costs for regular time and overtime production, and (5) other allocated plant costs. The company's accounting system allocates a portion of plant costs for TQM/Six Sigma, best practices training, plant supervision, plant maintenance, and depreciation to private-label production in the event the company wins awards to supply private-label footwear to chain retailers. All these costs are allocated between branded production and private-label production according to their respective percentages of total pairs produced—thus, if 10% of the total pairs produced at a plant are private-label then 10% of plant costs for TQM/Six Sigma, best practices training, plant supervision, plant maintenance, and depreciation are allocated to private-label production. Thus all projections of production costs shown on the screen are based on the assumption that contracts will be won for all the private-label pairs you and your co-managers are proposing to bid for. In the event some or all of the bids for private-label contracts are lost, then the plant costs allocated to private-label pairs that turned out not to be produced and sold will be allocated back to branded production (an accounting procedure that will have the effect of raising production costs for branded footwear).

**Exchange Rate Adjustment** — This second exchange rate adjustment has to do with the impact of shifting exchange rates on footwear produced in one geographic region and shipped to another. A negative exchange rate adjustment in production costs represents a favorable change in the exchange rates that effectively lowered the costs of incoming shipments (and acted to boost the margin over direct costs). A positive exchange rate cost adjustment in production costs represents an unfavorable change in the exchange rates that raised the costs of incoming shipments (and acted to reduce the margin earned over direct costs).

For more explanation of all that this cost adjustment involves, see the section on Understanding the Exchange Rate Adjustments to Revenues and Costs at the end of this /Help screen.

**Shipping & Handling/Tariffs** — There are two shipping costs—the inbound freight costs associated with shipping the pairs from the plants to the distribution centers and the outbound costs of shipping the boxed private-label pairs to chain retailers. The freight costs on private-label pairs shipped from plants to regional distribution centers are a function whether the pairs came from a plant in the same geographic region (in which case the costs are $1 per pair) or from a plant in a different region in which case the costs are $2 per pair. The cost of shipping private-label pairs from the distribution centers to chain retailers is a flat $1 per pair in all regions. (This $1 per pair cost is significantly less than for branded pairs unless the branded pair volume at a particular distribution center exceeds 3 million pairs annually. The packing and shipping costs for branded pairs at each distribution center run $2 per pair on the first 1 million branded pairs shipped out annually; $1.50 per pair on the next 2 million branded pairs shipped out annually, and $1 on each pair in excess of 3 million branded pairs shipped annually.)

The amount of any import tariffs on private-label footwear shipments are a function whether the private-label pairs were produced at a plant inside the region (in case no tariffs are paid) or whether the pairs were imported from a foreign plant. Unless you have been notified of any tariff changes, tariffs per pair are as follows:
- Tariffs on private-label footwear exported from Asia-Pacific plants and Europe-Africa plants to markets in Latin America are $6 per pair.
- Tariffs on private-label footwear exported from Asia-Pacific plants, Latin American plants, and North American plants to markets in Europe-Africa are $4 per pair.
- Tariffs on private-label footwear exported from Europe-Africa plants, Latin American plants, and North American plants to markets in the Asia-Pacific region are $8 per pair.
- Tariffs on private-label footwear exports from North American plants to Latin America are $0 and are also $0 on exports from any Latin American plants to markets in North America (as per the Free Trade Treaty of the Americas, which allows tariff-free movement of footwear between all the countries of North America and Latin America).
- North America has no import tariffs on private-label footwear made in either Europe-Africa or Asia-Pacific (unless your instructor has notified you to the contrary).

- The per pair costs shown for import tariffs will likely be either 0, $4, $6, or $8 (if all the pairs came from a single local or foreign plant) or else a weighted average if incoming shipments from several plants were involved.

**Margin Over Direct Cost of P-L Sales** — These projections are really the key numbers on this screen. The projected sizes of the total dollar margins over direct costs in each region indicate how many dollars will be available from private-label sales in that region to (1) help cover the company's administrative expenses and interest costs and (2) contribute to the company's bottom line — assuming your company wins all of its bids in the region. The per pair numbers in each region represent the projected “profit margin” on each pair sold, again assuming your company wins all of its bids in the region.

### Deciding Whether to Check the Boxes that Assume Private-Label Bids Are Won When You Are ready to Leave This Screen

The check boxes above the Incremental Revenue-Cost-margin block of calculations give you the option to specify whether or not to incorporate the projected results of private-label operations in the 6 companywide projections at the left of the screen. Obviously, there is risk of being out-competed in one or regions by your rivals. Thus, checking all the boxes for regions where you have submitted bids and specifying that the incremental revenues and margins over direct costs be incorporated in the 6 projections at the left of the screen has the considerable disadvantage of overestimating your company's annual performance in the event the bids are lost entirely. If you are counting heavily on the contributions from winning private-label bids to achieve the company performance targets for EPS, ROE, credit rating and so, but then end up as a losing bidder, your company is likely to come up short on meeting investor expectations and be an underperformer.

A strong argument can be made that it is best to check all the boxes to see the upside performance potential if the bids should be won, then uncheck them before you leave the screen. Then, if one or more of the private-label bids is won, the company's performance will turn out better than expected—an outcome that you can certainly live with. Good surprises—a better-than-expected performance—are far better than bad surprises—a worse-than expected performance.

**TIP:** The most conservative way to run the company is for you and your co-managers to strive to reach the targeted levels of performance on just the projected performance of your branded footwear business—with any bottom-line contributions from private-label sales becoming the basis for beating the targeted levels of performance. An exception to this practice might be justified if you and your co-managers have opted to pursue a strategy of making private-label contracts a significant or “core” part of the your company's business and have a strong track record of winning your private-label bids. In such a case, there may be merit in counting on the results of private-label sales to help achieve the company's performance targets.

### Understanding the Exchange Rate Adjustments for Revenues and Costs

All footwear companies are subject to exchange rate adjustments at two different points in their business. The first occurs when footwear is shipped from a plant in one region to distribution warehouses in a different region (where local currencies are different from that in which the footwear was produced). The production costs of footwear made at Asia-Pacific plants are tied to the Singapore dollar (Sing$); the production costs of footwear made at Europe-Africa plants are tied to the euro (€) the production costs of footwear made at Latin American plants are tied to the to the Brazilian real; and the costs of footwear made in North American plants are tied to the U.S. dollar (US$). Thus, the production cost of footwear that is made at an Asia-Pacific plant and then shipped to Latin America is adjusted up or down for any exchange rate changes between the Sing$ and the Brazilian real that occur between the time the goods leave the plant and the time they are sold and shipped from the distribution center in Latin America (a period of 3-6 weeks). Similarly,
the manufacturing costs of footwear shipped between North America and Latin America are adjusted up or down for recent exchange rate changes between the US$ and the Brazilian real; the manufacturing costs on pairs shipped between North America and Europe are adjusted up or down based on recent exchange rate fluctuations between the US$ and the €; the manufacturing costs on pairs shipped between Asia-Pacific and Europe-Africa are adjusted for recent fluctuations between the Sing$ and the €; and so on. This accounting adjustment in your company's private-label operations appears on the line in the Incremental Revenue-Cost-Profits section labeled “Exchange Rate Adjustments” that is just underneath “Production Costs.”

The second exchange rate adjustment occurs when the local currency the company receives in payment from retailers and online buyers over the course of a year in Europe-Africa (where all sales transactions are tied to the €), Latin America (where all sales are tied to the Brazilian real), and the Asia-Pacific (where all sales are tied to the Sing$ dollar) must be converted to the equivalent of US$ for financial reporting purposes—the company's financial statements are always reported in U.S. dollars. This adjustment on your company's private-label operations appears on the line in the Incremental Revenue-Cost-Profits section labeled “Exchange Rate Adjustments” that is underneath “Gross Private-Label Revenues.”

**BSG** is programmed to access all the relevant real-world exchanges rates between decision periods, handle the calculation of both types of exchange rate adjustments, and report the size of each year's percentage adjustments on the Corporate Lobby screen, on the pertinent decision screens, and in the various reports on company operations. While you do not have to wrestle with all the details of how the two types of exchange rate adjustments are calculated, you definitely have to keep a watchful eye on the sizes of the exchange rate adjustments and understand the actions you can take to mitigate the adverse impacts of exchange rate shifts on the profitability of your private-label bids and to adjust private-label shipments to try to capitalize on the favorable impacts of shifting exchange rates.

The percentage sizes of the actual exchange rate shifts each year are always equal to 5 times the actual period-to-period percentage change in the real-world exchange rates for US$, €, Brazilian reals, and Sing$ (multiplying the actual percent change by 5 is done in order to translate actual exchange rate changes over the few days between decision periods into changes that are more representative of a potential full-year change).

Thus if the exchange rate of € per US$ shifts from 0.8010 to 0.8045, the percentage adjustment is calculated as follows:

\[
\frac{(\text{Period 2 Rate} - \text{Period 1 Rate})}{\text{Period 1 Rate}} \times 5
\]

\[
\frac{(0.8035 - 0.8010)}{0.8010} \times 5 = +2.18\%
\]

Because actual exchange rates are occasionally quite volatile over a several day period, the maximum exchange rate adjustment during any one period is capped at ± 20% (even though bigger changes over a 12-month period are fairly common in the real world).

You and your co-managers always have ready access to the percentage sizes of the revenue and cost adjustments on cross-region shipments of newly-produced pairs that stem from the latest shifts in exchange rates—see the Exchange Rates box on your Corporate Lobby screen.

Furthermore, because it matters which direction transactions are occurring, you should note from the listing of all the exchange rate changes in the boxed table in your Corporate Lobby, that there are (1) changes in the € per US$, (2) changes in the € per Sing$, and changes in the Sing$ per €, (3) changes in the Brazilian real per € and changes in the € per Brazilian real, and so on. All the various cross-rates come into play.

Table 1 below summarizes the meaning of all the different exchange rates used in **The Business Strategy Game** and explains how to interpret the shifts in the exchange rate values from Year 1 to Year 2 (all of the exchange rates shown in the table represent actual exchange rate changes over a 24-hour period in February 2004).
<table>
<thead>
<tr>
<th></th>
<th>Exchange Rates</th>
<th>Meaning of the Exchange Rate Numbers</th>
<th>Interpretation of the Exchange Rate Shift</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euros (€) per US$</td>
<td>0.7985</td>
<td>$1.00 equals €0.7985 in Year 1</td>
<td>The US $ has grown weaker because $1.00 is equivalent to a smaller amount of euros in Year 2</td>
</tr>
<tr>
<td>US$ per Euro (€)</td>
<td>1.2523</td>
<td>€1.00 equals $1.2523 in Year 1</td>
<td>The euro has grown stronger because €1.00 is equivalent to more US $ in Year 2</td>
</tr>
<tr>
<td>Reals (R) per US$</td>
<td>2.9603</td>
<td>$1.00 equals R2.9603 in Year 1</td>
<td>The US $ has grown stronger because $1.00 is equivalent to more reals in Year 2</td>
</tr>
<tr>
<td>US$ per Real (R)</td>
<td>0.3378</td>
<td>R1.00 equals $0.3378 in Year 1</td>
<td>The real has grown weaker because R1.00 is equivalent to fewer US $ in Year 2</td>
</tr>
<tr>
<td>Sing$ per US$</td>
<td>1.6949</td>
<td>US$1.00 equals Sing$1.6949 in Year 1</td>
<td>The US $ has grown weaker because $1.00 is equivalent to fewer Sing$ in Year 2</td>
</tr>
<tr>
<td>US$ per Sing$</td>
<td>0.5900</td>
<td>Sing$1.00 equals $0.5900 in Year 1</td>
<td>The Sing$ has grown stronger because Sing$1.00 is equivalent to more US $ in Year 2</td>
</tr>
<tr>
<td>Euro (€) per Sing$</td>
<td>0.4711</td>
<td>Sing$1.00 equals €0.4711 in Year 1</td>
<td>The Sing$ has grown weaker because Sing$1.00 is equivalent to fewer euros in Year 2</td>
</tr>
<tr>
<td>Sing $ per Euro (€)</td>
<td>2.1225</td>
<td>€1.00 equals Sing$2.1225 in Year 1</td>
<td>The euro has grown stronger because €1.00 is equivalent to fewer Sing$ in Year 2</td>
</tr>
<tr>
<td>Euro (€) per Real (R)</td>
<td>0.2697</td>
<td>R1.00 equals €0.2697 in Year 1</td>
<td>The real has grown weaker because R1.00 is equivalent to a smaller amount of euros in Year 2</td>
</tr>
<tr>
<td>Real (R) per Euro (€)</td>
<td>3.7072</td>
<td>€1.00 equals R3.7072 in Year 1</td>
<td>The euro has grown stronger because €1.00 is equivalent to more Brazilian reals in Year 2</td>
</tr>
<tr>
<td>Sing$ per Real (R)</td>
<td>0.5725</td>
<td>R1.00 equals Sing$0.5727 in Year 1</td>
<td>The real has grown weaker because R1.00 is equivalent to a smaller amount of Sing$ in Year 2</td>
</tr>
<tr>
<td>Real (R) per Sing$</td>
<td>1.7466</td>
<td>Sing$1.00 equals R1.7466 in Year 1</td>
<td>The Sing$ has grown stronger because Sing$1.00 is equivalent to more Brazilian reals in Year 2</td>
</tr>
</tbody>
</table>

**Interpreting the Exchange Rate Cost Adjustment to Private-Label Production Costs.**

To better grasp why and how shifting exchange rates entail cost adjustments when footwear produced in one geographic region is exported to distribution centers in a different geographic region, consider the case of a company that has located footwear manufacturing facilities in the Latin America (where the relevant currency is Brazilian reals) and that exports much of the Latin American-made footwear to markets in Europe-Africa (where the relevant currency is euros). To keep the numbers simple, assume that the exchange rate is 4 Brazilian reals for 1 euro and that the footwear
being made in Brazil has a manufacturing cost of 4 Brazilian reals (or 1 euro). Now suppose that during the upcoming year the exchange rate shifts from 4 reals per euro to 5 reals per euro—a change that means the Brazilian real has declined in value (because it now takes 5 reals to purchase a euro) and that the euro has grown stronger in value (because 1 euro will now purchase goods worth 5 reals instead of just 4 reals). Making the footwear in Latin America is now more cost-competitive because branded footwear costing 4 reals per pair to produce and exported to Europe-Africa now carries a cost of only 0.8 euros at the new exchange rate (versus 1 euro at the former exchange rate). A downward adjustment in the cost of the Latin American-made footwear available for sale in the Europe-Africa distribution center is thus in order. On the other hand, if the value of the Brazilian real grows stronger in relation to the euro—resulting in an exchange rate of 3 reals to 1 euro—the same footwear costing 4 reals to produce at the Latin American plant now has a cost of 1.33 euros at the Europe-Africa distribution center, requiring an upward or unfavorable cost adjustment. Clearly, the attraction of manufacturing a footwear in Latin America and selling it in Europe-Africa markets is far greater when the real is weak (an exchange rate of 1 euro for 5 Brazilian reals) than when the real is strong and exchanges for 3 or 4 euros.

From this simple example, it follows that:

- Exchange rate shifts that cause the US$ to be weaker versus the euro/real/Sing$ enhance the cost competitiveness of producing footwear in North American plants and exporting footwear to those foreign markets where the local currency is stronger. In such cases, the exchange rate adjustment to the production costs on all pairs shipped from North America will be negative/favorable, thus reflecting the greater cost competitiveness of North American-made footwear in markets where the currency is now stronger versus the US$.

- Exchange rate shifts that cause the Sing$ to be weaker versus the US $/euro/real enhance the cost competitiveness of producing footwear in Asia-Pacific plants and exporting the footwear to those foreign markets where the local currency is stronger. In such cases, the exchange rate adjustment to the production costs on all pairs shipped from the Asia-Pacific will be negative/favorable, thus reflecting the greater cost competitiveness of Asia-Pacific-made footwear in markets where the currency is now stronger versus the Sing$.

- Exchange rate shifts that cause the Brazilian real to be weaker versus the US $/euro/real enhance the cost competitiveness of producing footwear in Latin American plants and exporting the footwear to those foreign markets where the local currency is stronger. In such cases, the exchange rate adjustment to the production costs on all pairs shipped from Latin America will be negative/favorable, thus reflecting the greater cost competitiveness of Latin American-made footwear in markets where the currency is now stronger versus the Brazilian real.

- Exchange rate shifts that cause the euro to be weaker versus the US $/real/Sing$ enhance the cost competitiveness of producing footwear in Europe-Africa plants and exporting the footwear to those foreign markets where the local currency is stronger. In such cases, the exchange rate adjustment to the production costs on all pairs shipped from Europe-Africa will be negative/favorable, thus reflecting the greater cost competitiveness of Europe-Africa-made footwear in markets where the currency is now stronger versus the euro.

All of this discussion about the exchange rate adjustments to production costs can be summed up in three main points:

- **A higher exchange rate of one currency for another means that the currency with the higher exchange rate number is weaker than before, not stronger.**

- **Whenever exchange rate changes weaken the currency in which one of your plants is located, then it becomes competitively more attractive to export footwear from that plant to buyers in those foreign markets where the currency has grown stronger.** Such a favorable exchange rate change is indicated when the number for the exchange rate cost adjustment is negative because the effect is to lower the per pair costs of incoming shipments. Hence, a negative cost adjustment is “good.”

- **Whenever exchange rates strengthen the value of the currency of the region in which one of your plants is located, then it becomes competitively less attractive to export footwear from that plant to buyers in those foreign markets where the currency has grown weaker.** Such an unfavorable exchange rate change is indicated when the number for the exchange rate cost adjustment is positive. A positive exchange rate cost adjustment in production costs represents an unfavorable change in the exchange rates because the effect is to raise the per pair costs of incoming shipments. Consequently, a positive cost adjustment is “bad.”

The bigger the year-to-year changes in the exchange rates between the four currencies and thus the bigger the positive/negative cost adjustments, the more that your company's margins over direct costs on private-label bids are affected by how many private-label pairs you schedule for export from which plants to which geographic regions.

**Tip:** Any time the sizes of the per pair cost adjustments are large, you should experiment with different cross-region shipping patterns to see if you can minimize the cost effects of unfavorable adjustments and maximize the cost effects of favorable adjustments. Keep your attention focused on what actions, if any, to take in altering the pattern of proposed private-label shipments from your plants to particular distribution centers in order to capitalize on...
the favorable/negative exchange rate cost adjustments and to mitigate the unfavorable/positive exchange rate cost adjustments shown on the decision screen. Watch the changes in “margin over direct costs” to help you search out the “optimal” shipping patterns—of course, higher margins are better than lower margins here.

**While the company bears the risk of exchange rate fluctuations, you and your co-managers can reduce the company’s exposure to adverse exchange rate fluctuations either by:**

1. **Building plants in all of the world’s markets and using whatever plant capacity is unused in making branded footwear to bid for private-label contracts in that same region** (this strategy also has the big advantage of avoiding any tariffs on private-label imports—which can give you a big cost advantage over rivals that do not have plants in the region and have to include the tariff costs in their price bid) or

2. **Putting more emphasis on bidding for private-label contracts in those regions where the current year exchange rate cost adjustment is favorable and less emphasis on winning the bids in regions where the current year exchange rate cost adjustments are unfavorable.**

Table 2 below utilizes actual exchange rate shifts over a 24-hour period in early 2004 to illustrate each cross-rate combination that is used in *The Business Strategy Game* and shows how the size of the corresponding exchange rate adjustment to production costs would be calculated. Even though *BSG* does all the exchange rate cost adjustment calculations for you, you may find that spending a few minutes working your way through part of Table 2 will help you get better command of what is going on with the cost adjustments and why exchange rate shifts can matter in deciding how many pairs to ship from which plants to which distribution centers. It is always up to you and your co-managers to decide what actions to take, once you see the sizes of the cost adjustments in the boxed table on the Corporate Lobby screen and once you see the sizes of the cost adjustments associated with your shipping decisions.

**Table 2: How the Sizes of the Cost Adjustments Due to Shifting Exchange Rates Are Calculated, and the Implications of the Adjustment**

<table>
<thead>
<tr>
<th>Direction of the Shipments of Newly-Produced Pairs</th>
<th>Exchange Rates</th>
<th>Size of the Exchange Rate Cost Adjustment [(Change in the Rates) ÷ Year 1 Rate] x 5</th>
<th>Interpretation and Implications of the Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North America Plants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Latin America (Reals per US$)</td>
<td>2.9603 - 2.9656</td>
<td>(0.0053 ÷ 2.9603) x 5 = 0.90%</td>
<td>Stronger US$ results in unfavorable cost adjustment—makes exports from North American plants to Latin America less attractive</td>
</tr>
<tr>
<td>To Asia-Pacific (Sing$ per US$)</td>
<td>1.6949 - 1.6844</td>
<td>(-0.0105 ÷ 1.6949) x 5 = -4.43%</td>
<td>Weaker US$ results in favorable cost adjustment—makes exports from North American plants to Asia-Pacific more attractive</td>
</tr>
<tr>
<td>To Europe Africa (Euros per US$)</td>
<td>0.7985 - 0.7960</td>
<td>(-0.0025 ÷ 0.7985) x 5 = -1.57%</td>
<td>Weaker US$ results in favorable cost adjustment and makes exports from North American plants to Europe-Africa more attractive</td>
</tr>
<tr>
<td><strong>Asia-Pacific Plants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Latin America (Reals per Sing$)</td>
<td>1.7466 - 1.7606</td>
<td>(0.0140 ÷ 1.7466) x 5 = 4.01%</td>
<td>Stronger Sing$ results in unfavorable upward cost adjustment—makes exports from Asia-Pacific plants to Latin America less attractive</td>
</tr>
<tr>
<td>To North America (US$ per Sing$)</td>
<td>0.5900 - 0.5937</td>
<td>(0.0037 ÷ 0.5900) x 5 = 3.14%</td>
<td>Stronger Sing$ results in unfavorable upward cost adjustment—makes exports from Asia-Pacific plants to North America less attractive</td>
</tr>
<tr>
<td>To Europe-Africa (Euros per Sing$)</td>
<td>0.4711 - 0.4726</td>
<td>(0.0015 ÷ 0.4711) x 5 = 1.59%</td>
<td>Stronger Sing$ results in unfavorable upward cost adjustment—makes exports from Asia-Pacific plants to Europe-Africa less attractive</td>
</tr>
<tr>
<td><strong>Latin American Plants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Asia-Pacific (Sing$)</td>
<td>0.5725 - 0.5680</td>
<td>(-0.0045 ÷ 0.5725) x 5 = -3.93%</td>
<td>Weaker Brazilian real results in favorable downward cost adjustment—</td>
</tr>
</tbody>
</table>
Interpreting the Meaning of the Exchange Rate Adjustments to Gross Private-Label Revenues.

In the incremental revenue-cost-profit projections for private label sales, the exchange rate adjustment to “Gross Private-Label Revenues” reflect foreign currency gains or losses from

1. converting the euros received from private-label sales to chain retailers in Europe-Africa into U.S. dollars (US$), given the annualized change in the euro-to-US$ exchange rate (shown in the boxed table on the Corporate Lobby screen),
2. converting the Brazilian reals received from private-label sales to chain retailers in Latin America into US$, given the annualized change in the real-to-US$ exchange rate, and
3. converting the Singapore dollars (Sing$) received from private-label sales to chain retailers in the Asia-Pacific into US$, given the annualized change in the Sing$-to-US$ exchange rate.

When exchange rate shifts result in a **weaker** US$ and a **stronger** euro/real/Sing$, then the euros collected on footwear sales in Europe-Africa, the reals collected on footwear sales in Latin America, and/or the Sing$ collected on footwear sales in the Asia-Pacific translate into **more** US$, thus creating foreign exchange **gains** that have the effect of enhancing company revenues and profits. In other words, foreign currency gains associated with reporting the company’s operating results in US$ causes a **positive** exchange rate adjustment to revenues on sales made in those foreign markets where the US$ has grown weaker. When exchange rate shifts result in a **stronger** US$ and a **weaker** euro/real/Sing$, then the euros collected on footwear sales in Europe-Africa, the reals collected on footwear sales in Latin America, and/or the Sing$ collected on footwear sales in the Asia-Pacific translate into **fewer** US$, thus resulting in foreign currency exchange **losses** that have the effect of reducing company revenues and profits in those foreign markets where the US$ is now stronger. In such cases, the exchange rate adjustment to revenues is **negative**.

Thus, on this screen:

- A **positive number for a region represents a favorable exchange rate adjustment and raises the per pair revenues in US$ from sales of private-label footwear sold in that region** (which acts to boost profit margins on private-label sales in that region).
A negative number for a region represents an unfavorable exchange rate change that effectively lowers the per pair revenues in US$ of private-label pairs sold to chain retailers in that region (which acts to dampen the profitability of private-label sales in that region).

**Tip:** If the sizes of the projected adjustments to gross private-label revenues are large, you may be able to increase overall company profitability by trimming back the number of private-label pairs offered to chain retailers in regions where the revenue adjustments are highly unfavorable and trying to significantly increase the number of private-label pairs offered to chain retailers in regions where the revenue adjustments are highly favorable.

The upward versus downward revenue adjustments occur because the local currency payments (euros, reals, and Sing$) of private-label sales to chain retailers outside North America have to be converted back into U.S. dollars (since the company reports its financial statements in U.S. dollars). Thus:

- **The net revenues the company receives from any private-label sales to chain retailers in Europe-Africa are adjusted up or down for exchange rate changes between the euro and the US $.** Should the exchange rate of euros per US$ fall from one decision period to the next (signaling a weaker US$ versus the euro), then chain retailer payments in euros equate to more US$ and an upward adjustment in the company’s revenues. Conversely, when the exchange rate of euros per US$ rises (signaling a stronger US$ versus the euro), then the company does not receive as many US$ dollars in payment for private-label pairs sold in euros to chain retailers in Europe-Africa and the revenue adjustment is downward.

- **The net revenues received from sales any private-label sales to chain retailers in the Asia-Pacific are adjusted up or down for exchange rate changes between the Sing$ and the US $.** Should the exchange rate of Sing$ per US$ fall from one decision period to the next (signaling a weaker US$ versus the Sing$), then chain retailer payments in Sing$ equate to more US$ and an upward adjustment in the company’s revenues. Conversely, when the exchange rate of Sing$ per US$ rises (signaling a stronger US$ versus the Sing$), then the company does not receive as many US$ dollars in payment for private-label pairs sold in Sing$ to chain retailers in the Asia-Pacific region and the revenue adjustment is downward.

- **The net revenues received from any private-label sales to chain retailers in Latin America are adjusted up or down for exchange rate changes between the Brazilian real and the US $.** Should the exchange rate of Brazilian real per US$ fall from one decision period to the next (signaling a weaker US$ versus the real), then chain retailer payments in reals equate to more US$ and an upward adjustment in the company’s revenues. Conversely, when the exchange rate of Brazilian reals per US$ rises (signaling a stronger US$ versus the real), then the company does not receive as many US$ dollars in payment for private-label pairs sold in reals to chain retailers in the Asia-Pacific region and the revenue adjustment is downward.

The percentage sizes of the actual exchange rate shifts each year are always equal to 5 times the actual period-to-period percentage change in the real-world exchange rates for U.S dollars, euros, Brazilian reals, and Singapore dollars (multiplying the actual percent change by 5 is done in order to translate actual exchange rate changes over the few days between decision periods into changes that are more representative of a potential full-year change).

Thus if the exchange rate of euros (€) per US$ shifts from 0.8010 to 0.8045, the percentage adjustment is calculated as follows:

\[
\frac{(\text{Period 2 Rate} - \text{Period 1 Rate})}{\text{Period 1 Rate}} \times 5
\]

\[
\frac{(0.8035 - 0.8010)}{0.8010} \times 5 = +2.18\%
\]

Because actual exchange rates are occasionally quite volatile over a several day period, the maximum exchange rate adjustment during any one period is capped at ±20% (even though bigger changes over a 12-month period are fairly common in the real world).

The following table provides representative examples of how the revenue adjustments are calculated and what interpretation should be placed on the direction of the adjustments (all of the exchange rates shown in the table represent actual exchange rate changes over a 24-hour period in February 2004):
Table 3: How the Sizes of the Revenue Adjustments Are Calculated and How to Distinguish Between “Favorable” and “Unfavorable” Adjustments

<table>
<thead>
<tr>
<th>Converting Foreign Currencies to US$</th>
<th>Exchange Rates</th>
<th>Size of the Exchange Rate Adjustment in Revenues (Change in the Rate) + (Year 1 Rate) x 5</th>
<th>Interpretation and Implications of the Adjustment to Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ per Euro (€)</td>
<td>Year 1</td>
<td>Year 2</td>
<td>Weakener dollar/stronger euro results in a positive (or favorable) revenue adjustment on pairs sold in Europe-Africa; increases profit margins on pairs sold in Europe-Africa and improves overall profitability</td>
</tr>
<tr>
<td></td>
<td>1.2523</td>
<td>1.2563</td>
<td>(0.0040 ÷ 1.2523) x 5 = +1.60%</td>
</tr>
<tr>
<td>US$ per Real (R)</td>
<td>0.3378</td>
<td>0.3372</td>
<td>Stronger US$/weaker real results in a negative (or unfavorable) revenue adjustment on pairs sold in Latin America; reduces profit margins of pairs sold in Latin America and weakens overall profitability</td>
</tr>
<tr>
<td></td>
<td>(0.0006 ÷ 0.3378) x 5 = 0.89%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US$ per Sing$</td>
<td>0.5900</td>
<td>0.5937</td>
<td>Weaker US$/stronger Sing$ results in positive (or favorable) revenue impact on pairs sold in Asia-Pacific; increases profit margins on pairs sold in the Asia-Pacific and improves overall profitability</td>
</tr>
<tr>
<td></td>
<td>(0.0037 ÷ 0.5900) x 5 =3.14%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The size of the cost adjustment is always capped at ±20% to limit the impact of shifting exchange rates on company operations. You have the advantage in The Business Strategy Game of knowing the sizes of the impact in advance of each year's decisions; in the real-world, companies have to adjust on the fly to whatever exchange rates occur over the course of the year.

Explanation of the Projections of Companywide Performance at the Left of Each Screen

At the left of every BSG decision screen, there is a box containing projections of the company's overall performance for the upcoming year on six measures:

- **Earnings per share** — defined as net profit divided by the number of shares outstanding at the end of the year. Earnings per share is one of your company's five annual performance targets.

- **ROE (return on average equity)** — defined as net profit divided by the average amount of shareholders' equity investment; the average amount of equity investment is equal to the sum of shareholders’ equity at the beginning of the year and the end of the year divided by 2. An annual ROE of 15% or higher is one of your company's annual performance targets.

- **Credit rating** — Your company's credit rating is established by credit analysts using three measures: debt-assets ratio, interest coverage ratio, and the default-risk ratio. The credit rating shown at the left of the screen is the projected credit rating for next year, given the company's projected performance—it is not the current credit rating (which is reported in each issue of the Footwear Industry Report). Investors expect that your company will achieve a credit rating of B+ each year.

- **Image rating** — Your company's image rating is based on (1) its branded S/Q ratings in each geographic region, (2) its market shares for both branded and private-label footwear in each of the four geographic regions—a total of 12 factors, and (3) your company’s actions to display corporate citizenship and conduct operations in a socially responsible manner over the past 4-5 years. Investors have established a target image rating of 70 or higher for your company to achieve each year.

- **Revenues** — defined as worldwide revenues (after taking into account all exchange rate adjustments) from the combined sales of both branded and private-label footwear in all four geographic regions. Revenues are booked at the time of shipment, not when the company receives the cash payments (25% percent of annual revenues are not received in cash until the first quarter of the following year, since payments on shipments to retailers in the fourth quarter of each year are normally not received until the first quarter of the following year).

- **Net profit** — defined as worldwide profit after all expenses and taxes.

Each time you make a new decision entry, all 6 of these companywide performance projections are recalculated, thereby showing you the incremental impacts of that decision entry. This feature of BSG provides you with powerful what-if-ting capability that makes it much easier to identify what you and your co-managers consider to be an "optimal" or at least "acceptable" decision entry.
Always bear in mind that the 6 projections do not really represent a true indication of your company’s projected performance until you and your co-managers have made a complete set of decisions (covering all decision screens) for the upcoming year.

Why These On-Screen Projections Are So Important and How to Use Them Properly. Each time you make a new decision entry, all 6 of the above companywide performance projections are instantly recalculated, thereby showing you the incremental impacts of that decision entry. It is easy enough then to simply enter a “trial” decision and determine whether the resulting projections look better or worse than before. By entering several different “trial” decisions, you can quickly and readily compare the projected outcomes of “what if we do this” against “what if we do that.” After entering a number of different trial decisions, you’ll be able to identify which decision entry seems “best” or “most acceptable,” given all the different on-screen calculations that are provided. This BSG feature provides you with powerful capability to explore all kinds of “what if” scenarios and make wise numbers-based decisions.

Always bear in mind that the 6 projections do not really represent a “valid” indication of your company’s projected performance until you and your co-managers have made a complete set of decisions (covering all decision screens) for the upcoming year. In other words, while you are working your way through the early decision screens the projections will be updated with each entry, but the numbers shown will only be "a rough approximation" and lack finality because the projections are not yet based on all the decision entries you plan to make for the upcoming year.

Once you have gone through all the decision screens and entered what you think are reasonable decisions for all the boxes, then it is time to really scrutinize these 6 company performance projections and determine whether the projected outcomes of your strategy and decision-making look acceptable. If not, then you need to tour back through the decision screens, make different trial decisions here and there as seem appropriate, and not stop tweaking and fine-tuning until you arrive at a set of company projections that appears to be the best you can come up with. But even then, then projections are still only projections—they do not represent guaranteed outcomes. Why? Because there remain a host of uncertainties about what competitors will actually do (what prices will they charge, how much they will spend on advertising, how many different models and styles they will offer, and so on). These will not be known until the deadline for the decision round arrives, at which time the BSG server will process the decision entries of all companies and determine the actual outcomes of competition in the marketplace for athletic footwear.