

Mastering Markstrat

by Georges Camy

So you've got to play Markstrat and you haven't got a clue what a Vodite is? Well, you have come to the right place. When I played Markstrat during my Master studies at the French ESCP-EAP business school in 2004, I couldn't find any useful information on the Internet. That's why I decided to create this little guide. But be aware: having won the challenge doesn't make me an expert though. You should follow your own intuition too.

About Markstrat

Markstrat is a computer simulation where different student groups play against each other under realistic market conditions in an artificial world. Players can develop their existing products and launch new ones in 2 different markets in this turn based game. Usually the game runs for 7-12 turns and the winner is the team who has had the best performance. End-game strategies that would endanger the company's future after the final round (like not investing anymore in market research or advertising) to artificially increase the capital or stock price are prohibited.

The game features two markets: one for an established product type, with precisely defined consumer groups (blue collar, professional, etc...) and another market which will be available later in the game and concerns a new product type which has to be developed first. In the latter market the consumer groups are the innovators, early adopters, early majority, and so on.

Challenges

In Markstrat you're going to face 3 major challenges:

1. Information overflow

There is just too much information. You will be drowned in a sea of information and the game tends to get extremely complex over time.

2. Limited resources

Your resources are utterly sparse. You cannot launch every product you'd like, considering you have barely enough money to pay for your existing products.

3. Team organization

Too many cooks spoil the broth. Getting your team to work together as a unit is tough. Sometimes several options are equally good, and your different team members have different opinions. Internal personal conflicts will make your company crash quicker than you can image.

Timeline

Round 0: Form your strategy

"A beginning is a time for taking the most delicate care that the balances are correct".

- Princess Irulan, *Manual of Muad'Dib*

Before the game starts, take as much time as possible to analyze your situation, and the situation of the other teams. When you think you have a good understanding of the initial game state, try to define

your company's goal. You should come up with something easy like "become the leader in the luxury segment of market 1". (Remember to make it SMART: Specific, Measurable, Attainable, Relevant, Trackable). Having a goal helps you allocate your resources more efficiently and keep track of your progress. The game will quickly become very complex and your vision of the market will become blurred should you chose criteria that are difficult to handle, like for example the accumulated wealth of the different teams or the price of the stock.

Whatever strategy you choose, do not stop revising it until you are completely sure that it's going to work. On that basis take your first decisions.

Round 1-2: Checkup

In this period you should verify if everything went as planned. Can you stick to your strategy? This is your last chance to change it. Changing your global strategy during later stages of the game can be very dramatic. Therefore rethink your strategy. And then begin to sketch out a Marketing Plan and think about team organization.

Round 3-till end

Your company's running. You have a plan. Stick to it. However do your corrections, adapt your Marketing Mix and apply tactics.

The Marketing Plan

Get numbers on your strategy. Evaluate the first two rounds and write down a Marketing Plan, complete with previsions and objectives. When are you going to do big R&D projects? When will you release new products? What is the size of the loan? etc... Be realistic. Do not believe that you can have a tremendous growth rate far beyond that of the actual market. And above all do not underestimate the competition! They are likely to hinder your growth. The Marketing plan will help you to see if you are on track. At the beginning of each round fill in your results and compare them with your previsions.

Loan

You probably will want to borrow some money at the beginning. Try to make a good prevision about how much money you will need to borrow for the whole game, so that you know how much you will have to pay back per round. If you need to borrow money again, chances are that you will screw up your budget. Try to think realistic and make your calculations, and then stick to the result, even if it's a huge sum of money.

Accounting

Unfortunately you will have to do a bit of accounting. Below is a sample sheet at its bare minimum. You will need to keep track of at least these values. Unless you're a discounter, the rule of thumb is: the higher the gross margin percentage, the more profitable is your company.

Gross Margin

| Round | 1 | 2 | 3 | 4 | 5 | 6 | 7 | total |
|-----------------------------|---|---|---|---|---|---|---|-------|
| Turnover (revenue) | | | | | | | | |
| Total | | | | | | | | |
| Market 1 | | | | | | | | |
| Market 2 | | | | | | | | |
| Gross Margin ¹ | | | | | | | | |
| Gross Margin % ² | | | | | | | | |

Operating Expenses

| Round | 1 | 2 | 3 | 4 | 5 | 6 | 7 | total |
|-----------------|---|---|---|---|---|---|---|-------|
| Advertising | | | | | | | | |
| Sales force | | | | | | | | |
| R&D | | | | | | | | |
| Market research | | | | | | | | |
| Total | | | | | | | | |

Loan

| Round | 1 | 2 | 3 | 4 | 5 | 6 | 7 | total |
|--------------------|---|---|---|---|---|---|---|-------|
| Installment amount | | | | | | | | |

If you have the time and want to write down a complete income statement, refer to [Monychimp.com](http://www.moneychimp.com) for a sample sheet. (<http://www.moneychimp.com/articles/financials/income.htm>)

¹ *Total sales revenue - cost of goods sold*
 This dollar amount represents the amount of money the company generated over the cost of producing its goods or services. This amount can then be used to pay fixed expenses such as leasehold payments and administrative expenses. (<http://www.investopedia.com/terms/g/grossmargin.asp>)

² *((Total sales revenue - cost of goods sold) / total sales revenue) * 100*
 This number represents the proportion of each dollar of revenue that the company banks as gross profit. For example, if a company's gross margin for the most recent quarter was 35%, it would retain \$0.35 from each dollar of revenue generated, to be put towards paying off general and administrative expenses and ultimately banked as net income. (<http://www.investopedia.com/terms/g/grossmargin.asp>)

Team Organization

To overcome the “so much information, so less time” problem, you probably want to organize your team. There are many ways to organize your team. I recommend having a classic setup with product managers, a resource manager and a competitor analyzer. Obviously if you don’t have enough team mates, some people will have to take over several roles.

Product managers

There simply is too much information for one person to have a good view of the whole game situation. As a rule of thumb: each product should have one and only one Product Manager. This is necessary unless you are having enough time to let two or more people analyze the same data. Product managers should focus on the 4 P (Product, Place, Promotion, Price) and ask themselves the following questions: Whom do I want to sell my product? Who buys my product? How can I improve my product to make it sell better? Is the price adapted to my customers? Is it too low? Too high? Is there still potential to sell more? Is the amount of advertising right? Shall more effort be put on sales?

Product Managers should do the same analysis for the competitors of their product. When they have a really good view about their product, the market for their product and the competitors, they should make up decisions. The objective is to explain the situation to their team mates in an as concise as possible manner and to justify the decisions and the budget that will be needed.

Some dashboards product managers might want to consider:

- Market share in units for their product
- Ideal consumer values for their product
- Market potential for their product

Resource manager (Top management)

One person should analyze the firm. Is it sticking to the plan? What products are cash cows, which ones are poor dogs? Which product should get more budget? How profitable is our company (compared to the competitors)? Can we afford to launch a new product or shall we focus on the existing ones? Shall a product be abandoned? All these questions need to be answered. The resource manager needs to work closely together with the competitor analyzer.

Some dashboards the resource manager might want to consider:

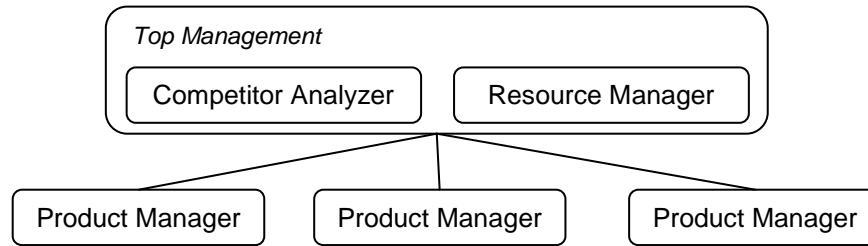
- BCG Matrix for his company
- Total market share in value
- Gross margin per product
- Market potential per consumer group
- Budget per product allocation table

Competitor analyzer (Top management)

One person should analyze the other teams. What are their goals? Where are they heading too? What will be their next moves? Where are they spending money on? Are they doing research and want to launch a new product? What are their cash cows? Where are their weaknesses, their strengths? The task is similar to that of the resource manager, but because there is less information available, the competitor analyzer cannot make such a deep analysis of each team as the resource manager does for your team.

Some dashboards the competitor analyzer might want to consider:

- BCG Matrix for every company
- Market share in units per product
- Market share in value per consumer group
- SWOTs and financial reports for each competitor



Decision Meeting

To finalize your decisions you will want to have a team meeting at the end of each round. The top management should present the current situation to their team members. Then each product manager should present his product and his decisions. A presentation should be done in the most concise manner possible. If needed you might want to enforce this by imposing a maximum time length for a presentation. The top management will then have to allocate the budget to the different product managers and decide about the launch or abandoning of products. Of course, these decisions could also be voted by the whole team, but it might be that your team members have very different opinions on what shall be done. Therefore it would be best in that case the top management has the last word in case of a tie so that decisions can be taken quickly. Remember, time is money and you don't have much time. Hopefully, if everything goes according to your marketing plan, there will be no major decisions here. Don't worry if that does not happen to be the case; after all life is full of surprises.

General tactics and tips

- Invest in market research. You will want to have all information that's available.
- Think about your strategy for the second market. You don't know how fast it will get mature and what its potential will be. Maybe it is good to wait until your competitors launched their products on it and you have enough data to launch the right product. Maybe it is best to be amongst the pioneers of that market. You will have to be flexible. But in any case you wouldn't want to ignore that market, even if you achieved absolute supremacy over the first market.
- Don't care about your stock price. In this game stock price doesn't have any influence whatsoever. You want a healthy growing company, you don't need to please anyone.
- Stars need more advertising then cash cows.
- Question marks need even more advertising then stars. So think carefully about them.
- It is better not to sell all your products then to have a shortage. (Massive overproduction is unhealthy of course)
- One product for one consumer group is easier to hold and to improve then one product that gets sold to several consumer groups.
- Watch your competitors actions. Chances are that they will repeat their successful strategies, thus making them foreseeable. If you have the means to, encourage them by your actions to make them repeat their mistakes, invest more in their doomed products and neglect their cash cows. But don't forget that your priority should always be the healthy growth of your company. Crushing your opponents is a bonus.
- It is a game. There will be no hidden investors or new competitors. If you know the financial situation of your competitors and you have enough resources left to cripple them, do so. In end-game the financial differences might be big enough for you to allow you to launch a new product (even at a loss) just to drain the income of your competitors. The weaker they get, the less of a threat they are.