EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání

MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

Marketing and Sales Simulation in the FMCG Retailing Context

MARKETING DEPARTMENT - Company A

The Marketing Simulation Game that you are going to play imitates the real-life decision-making process within a company and the company's communications and negotiations with its retailers.

The class will be divided to six teams:

1. Company A Sales Department	3. Company B
2. Company A Marketing Department	4. Company B
5. Retailer C	6. Retailer D

The teams must be consisted of at least 3 members each. Therefore, the Game can be played in classes that have a minimum of 18 students.

The Game will have 3 rounds corresponding to 3 seasons.

INTRODUCTION

- The Game will have two winners: one manufacturer (including both the company's marketing and sales teams) and one retailer. That is, Company A competes against Company B and Retailer C competes against Retailer D.
- The Sales and the Marketing teams should cooperate to reach decisions after discussion.
- To avoid the "cartel case" the two retailers are not allowed to communicate. They are rivals and any form of cooperation is not acceptable.
- Each company sells two brands, Premium and Normal.
- In the potato chips market, there are quality seekers buying the premium potato chips and normal consumers that buy the normal brand.
- Quality Seekers are focused on the quality and for them a relatively high price is not relevant. Some of the quality seekers are loyal to a brand while some of them are brand switchers.
- Investments in advertising cause brand switching and it is the way to increase company's market share.
- Normal consumers are price sensitive and advertising to attract them is not so effective.
- If a manufacturer (Company A or Company B) produces more units than it can sell, the profit margins are diminished.
- Marketing department executives that manage to achieve higher profit margins will receive a higher bonus.

- Marketing department decides about quantities of Normal/Premium products produced and recommends price to sales. Moreover, it decides the advertising investments.

INSTRUCTIONS FOR ROUNDS 1, 2 AND 3

You work for Company A's Marketing department. You have to market the Premium and Normal Chips units to the two biggest retailers of your market, Retailer C and Retailer D.

- The demand for Company A's Normal potato chips bags sold by Retailer C is:
- $\hat{q}_{AC}^{N} = 50{,}000 - 45{,}000p_{AC}^{N} + 25{,}000\, p_{BC}^{N} + 2{,}000p_{AD}^{N} + 1{,}000p_{BD}^{N}$
- The demand for Company A's Normal potato chips bags sold by Retailer D is:
- $\hat{q}_{AD}^{N} = 50{,}000 - 45{,}000p_{AD}^{N} + 25{,}000\, p_{BD}^{N} + 2{,}000p_{AC}^{N} + 1{,}000p_{BC}^{N}$
- The demand for Company A's Premium potato chips sold by Retailer C is:
- $\hat{q}_{AC}^{P} = 20{,}000 - 1{,}000p_{AC}^{P} + 100\, p_{BC}^{P} + 10p_{AD}^{P} + p_{BD}^{P} + (I_A^P - I_B^P)$
- The demand for Company A's Premium potato chips sold by Retailer D is:
- $\hat{q}_{AD}^{P} = 12{,}000 - 1{,}000p_{AD}^{P} + 100\, p_{BD}^{P} + 10p_{AC}^{P} + p_{BC}^{P} + (I_A^P - I_B^P)$
- Variables

$\hat{q}_{AC}^{N}$	Quantity demanded of Company A's Normal chips sold by Retailer C
$\hat{q}_{AD}^{N}$	Quantity demanded of Company A's Normal chips sold by Retailer D
$\hat{q}_{AC}^{P}$	Quantity demanded of Company A's Premium chips sold by Retailer C
$\hat{q}_{AD}^{P}$	Quantity demanded of Company A's Normal chips sold by Retailer D
p_{AC}^{N}	Price of Company A's Normal chips sold by Retailer C
p_{BC}^{N}	Price of Company B's Normal chips sold by Retailer C
p_{AD}^{N}	Price of Company A's Normal chips sold by Retailer D
p_{BD}^{N}	Price of Company B's Normal chips sold by Retailer D
p_{AC}^{P}	Price of Company A's Premium chips sold by Retailer C

p^P_{BC}	Price of Company B's Premium chips sold by Retailer C
p^P_{AD}	Price of Company A's Premium chips sold by Retailer D
p^P_{BD}	Price of Company B's Premium chips sold by Retailer D
I^P_A	Company A's investments in advertising of Premium chips
I^P_B	Company B's investments in advertising of Premium chips

- The production cost for Normal Chips is 0.5€ and 0.85€ for Premium Chips.
- Your Company A and your rival, Company B, cover 100% of the market demand.
- Your colleagues from the sales department will negotiate the final prices for both products with the retailers. Subsequently, and based partially on the final product prices they will reach an agreement about the overall quantities that the retailers want to buy from your company.
- Since you (The Marketing Department) decide for the products that should be produced you have to discuss with your sales department about the best possible retailer negotiation.
- You decide for the amounts of the production both for Normal and Premium potato chip bags.
- If your company produces more product units than the market demand, this will result in lower profitability.
- To indirectly persuade the retailers to prefer your product, you can decide to invest in of your chips up to 6,000€.
- The represents a fixed cost.
- The affects only the Premium product category and for the consumers that can be characterized as quality seekers.
- The effectivity of this advertising depends on how much your competitor spends on advertising.
- Your bonuses are based on the overall company profitability at the end of the year.

Now you have to discuss with your colleagues from the sales department about your decisions regarding investments in product advertising and production per product category.

Take into consideration the price and the quantity per product that your Sales Department colleagues have in mind to reach agreements with the two retailers.

Assist them to better negotiate with the retailers, giving them hints and making suggestions to reach the best agreement possible for your company.