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Question 1:

DAILY FINANCIAL TIMES

AcmeGame: is their game over?

Four years ago, AcmeGame launched the pathbreaking mathematical mind game, Virtual, in download form. For an annual fee you get access to a fresh problem every day. To everyone's astonishment it was a runaway success and enrolled 100 000 users. The secret that made it difficult to imitate was the underlying mathematical algorithms that created fresh mind games. Then two years ago MegaCorp cracked the problem and came out with WorkOut, which was cheaper than Virtual and had the added attraction of having different difficulty levels. This was partly due to the fact that MegaCorp had poached some of AcmeGame's key development employees. Workout increased the market and took away about a quarter of AcmeGame's customers immediately and now has half the market. AcmeGame has slashed the price of Virtual and put the contract on a monthly basis, but neither game has attracted new customers in the past year.

MegaCorp took a chance at the same time as launching WorkOut in bringing QuizNight to market, which provided downloadable general knowledge quizzes. It was an even bigger success and last year AcmeGame followed with a copycat version called WhoKnows. The quiz market is booming and while WhoKnows is selling in large numbers, it has made a relatively small impression in terms of market share. That is probably because it is really no different from QuizNight and MegaCorp immediately matched WhoKnow's lower price.

AcmeGame claims to be a profitable company, but it is not generating much cash at the moment. It is also investing heavily in the new product, Thinker, which it refuses to describe in detail but is undoubtedly a risky project. The inevitable conclusion is that AcmeGame has lost its competitive edge and is heading for disaster.

AcmeGame Plc

Operating Account at end year: Production cost, and revenue ($000)

		SALES REVENUE	31 850
COST OF GOODS SOLD	23 008		
		GROSS PROFIT	8 842

Operating Account at end year: Overheads and Operating Surplus ($000)

Corporate	1 500		
Facility overhead	500		
Hiring & redundancy cost	900		
Development expenditure	3 000		
TOTAL OVERHEAD	5 900		
		OPERATING SURPLUS	2 942

Cash Flow for year ($000)

OUTLAY		INCOME	
Equipment purchase	1 000		
Material purchase	1 800		
Loan interest	1 260	Interest on assets	280
Wage cost	9 000		
Support cost	3 250		
Equipment cost	2 055		
Product development	2 626		
Product marketing	5 063		
Total overhead	5 900	Sales revenue	31 850
Total outlay	3 1954	Total income	32 130
		Net Cash Flow	176

Balance Sheet at end year ($000)

FIXED ASSETS			
Buildings	14 000		
Equipment	8 000		
TOTAL FIXED ASSETS		22 000	
CURRENT ASSETS			
Raw materials	1 000		
Cash	4 000		
TOTAL CURRENT ASSETS		5 000	
TOTAL ASSETS			27 000
OWNERS EQUITY		13 000	
DEBT			
Long-term loan	14 000		
TOTAL DEBT		14 000	
TOTAL LIABILITIES			27 000

Report on Products for last year

	Virtual	**WhoKnows**	**Virtual**	**WhoKnows**
Market share (%)	50	25		
Orders (units)	75 000	20 000		
Price ($/unit)	350	280		
Competing price ($/unit)	380	280		
Account at end year				
Wage cost ($000)	7 000	2 000		
Telephone support cost ($000)	2 250	1 000		
Equipment cost ($000)	1 680	375		
Cost of material used ($000)	750	267		

Product development ($000)	1 125	1 501			
Product marketing ($000)	3 938	1 125	Sales revenue ($000)	26 250	5 600
TOTAL COST ($000)	16 743	6 268	Cost of goods sold ($000)	16 743	6 268
Unit cost ($/unit)	223	313	**GROSS PROFIT ($000)**	9 508	–668

Report on Development of Thinker

	Estimate	*Error %*
Time to launch (years)	1	*10*
Estimated peak market size	100 000	*20*
Launch date estimates:		
Competing price ($/unit)	325	*10*
Production cost ($/unit)	250	*20*
Market share (%) 10	70	*10*
Development expenditure:		
Spending this year ($000)	2 000	
Total to date ($000) (Inc this year)	3 000	
Predicted total ($000)	5 000	*15*

Where an Error is reported it means that expected outcomes within + or – the percentage shown are equally likely, i.e. the figure shown is simply the midpoint of the range of what are considered feasible outcomes.

Do you agree with the conclusion of the article?

Use strategy models to analyse AcmeGame’s current situation and prospects for the short and long term.