L'ORÉAL e-STRAT 8 CHALLENGE

E-STRAT FREQUENTLY ASKED QUESTIONS

Version 8.0
September 27th, 2007

New FAQs are signalled with the following sign: ***!!!NEWFAQ!!!***

We have made a number of assumptions when writing these FAQs:

- You are using a US version of Windows.
- You have installed e-Strat in the recommended folder: "C:\Program Files\STRATX\e-Strat-Team". In these FAQs, we refer to this folder as the "e-Strat folder".
- Your team file is located in the default folder "My documents\My e-Strat Files"
- Your team name is "MYTEAM".
- Your team file name is "MYTEAM.xst", where MYTEAM stands for your team name.
- You have just received your annual report for period P, and you are thus making decisions for Period P+1.

TABLE OF CONTENT

1 E-STRAT MANUAL

1.1 When I download the manual, some figures are black

You need Acrobat Reader Version 4.0 minimum to display or print the e-Strat manual. The captures of the software charts and graphs will not show up with Acrobat Reader 3.0. Check the site http://www.adobe.com to download the latest version of Acrobat Reader.

Please, note that you do not need to download the manual a second time after you have installed Acrobat Reader 4.0.

2 INSTALLATION & SETUP

2.1 Am I allowed to install e-Strat on several computers?

Yes. You can install e-Strat on several computers: university computer, home computer, laptop, etc.

2.2 Do I need to restart Windows at the end of the e-Strat set-up?

No. You can launch e-Strat immediately after the end of the set-up process.

2.3 I downloaded the e-Strat set-up file but I cannot retrieve it on my hard drive. Where is it located?

The location of downloaded files depends on the configuration of your Internet browser. The easiest solution is to look for a file named “e-Strat-Team-Setup-V8-XX.exe” on your hard drive. To do that:

- With Windows Explorer, select “Tools/Find/Files or Folders…”.
- In the cell “Named”, type < e-Strat-Team-Setup-V8-XX.exe >.
- In the cell “Look in”, select “Local hard drives”.
- Check the box “Include subfolders”;
- Click “Find Now”.

If you find the file, double-click on it to initiate the set-up process and then refer to your manual. Otherwise, download it again from our web site and make sure to remember where you store the file.

2.4 I installed e-Strat on my hard drive, but I don’t know how to launch it.

Close or minimize all applications until you can see the Windows Desktop. There should be an icon named “The L'Oréal e-Strat - Team” represented by a burgundy triangle. Double-click this icon to launch e-Strat.

2.5 I installed e-Strat and I launched it, but I cannot open my team file.

You first have to download your team file from the e-Strat web server, using the *File/Open from e-Strat Server* function of the e-Strat software, as explained in the Team Manual. To complete this operation, you will have to use the Team ID and Password that you chose upon registration on the L’Oréal e-Strat Challenge web site.

2.6 How can I check if e-Strat is correctly installed and configured?

The best solution is to launch the e-Strat application as explained in the manual. If the installation is correct, the application will start and a page entitled “The L’Oréal e-Strat Challenge” will appear.

2.7 The bottom of the e-Strat screen is hidden by the Windows task bar. What can I do?

We advise you to set the “Auto hide” property of the task bar. To do that: click on the task bar with the right button of the mouse; select “Properties” in the menu; and check the “Auto hide” box.

2.8 How can I find out where I installed e-Strat?

You may easily do so by using the *Tools/Installation Folder* function of the e-Strat software.

2.9 Do I need to have Excel or another third-party software on my PC?

No. e-Strat is a stand-alone software that does not require any additional software or library.

2.10 Is there any possibility to get a version of e-Strat for Apple computers?

No. Only one version of e-Strat has been developed so far, for Pentium-based computers.

2.11 Is there a dead-line to download the software?

No. The Download section of the L'Oréal e-Strat Challenge web site will remain opened to participants until the end of the Challenge.

2.12 How do you change the team password?

You cannot change the team password. The password will remain the one which you selected upon registration, until the end of the Challenge.

2.13 The error "CLASS NOT REGISTERED" pops up when I run the "SAMPLE" file.

There are two OCX files that must be registered in the Windows registry at installation time. This is normally done automatically by the Setup procedure.

1/ The first option is to restart the PC and try to re-install e-Strat.

2/ If the error is still there, then click the "Start" button and select "Run" in the Windows menu. Type "regsvr32 c:\program files\stratx\e-Strat-Team\ttf16.ocx" in the input cell and click "OK". You should get the message: "DllRegisterServer in c:\program files\stratx\e-Strat-Team\ttf16.ocx succeeded". Repeat the same procedure with "regsvr32 c:\program files\stratx\e-Strat-Team\ttfi6.ocx".

3/ If your problem is not solved, then you may not be allowed to register new OCX files in the Windows registry. This may be the case at some Universities. You will have to contact your system administrator.

2.14 It is not possible to see the whole screen. Why?

You must have a SVGA screen (minimum 1024 x 768) and to use small fonts in order to view e-Strat screens correctly.

2.15 When I run the software, a message pops up: "invalid formula syntax". Why?

As explained in the Team Manual, e-Strat will not behave properly if the decimal point '.' is used as the thousand separator in the "Regional settings" of the "Control panel". The two best combinations are :

Decimal point = '.'   Thousand separator = space or ','
Decimal point = ','   Thousand separator = space

If you use Asian characters on your PC, please also make sure that the Settings for Non-Unicode Programmes are set to English.

2.16 I downloaded my team file from the remote server successfully, however I keep on getting the following error message from the e-Strat application: "Access violation at address 0040437E in module 'estrat .exe ',Read of address 72617473".

This error message means that the installation of the simulation on your computer was not 100% successful. If you are still able to use the simulation with this message, you can ignore it and keep on using the software the way it is, and you should not have any problem.

Should you wish to get rid of this message, the best way to do so is to delete the software and install it again.

To do so:

- Delete the e-Strat software from your computer, using the Parameters /Configuration Panel / Add & Delete Software menu of Windows.
- Make sure you also delete the entire e-Strat directory (C:\Program Files\STRATX\e-Strat-Team), as it may be that your problem is caused by some old temporary files which are still in this directory.
- Then install the simulation again using the e-Strat set-up exe file available on the e-Strat web site.

2.17 I have a problem to install e-Strat. When I double-click the e-Strat setup file, the self extracting EXE can not create the directory installing procedure. I get the following message: "Could not create the directoryC:\DOCUME~1\...<garbled phrases" What can I do?

1) Check if your computer has a TEMP folder created properly.

- Right click on “My Computer”
- Select “Properties” and click on the Advanced tab,
- Click on “Environment Variable”
- Select TEMP or TMP, click on the “Modify” button, and select a folder where you have writing rights

2) Empty the TEMP folder before starting the installation.

- Use the “Disk CleanUp” utility (usually available in the “Start/System Tools” menu)
- Select your hard drive
- Select ‘Temporary Files’ and click on OK.

3) Check that you have administrator rights necessary to install the e-Strat Team software.

- If you are working on a university computer, check that you have these privileges with your University IT administrator

4) Make sure that no background processes are running during installation including the Antivirus.

- Right click on your Task Bar
- Select Task Manager
- Click on the Applications Tab
- Select the applications processes running and click on “End Task”

5) Make sure that there is enough space on your computer for the software to install. The e-Strat Team software requires 10 Mb disk space.

BEWARE: IF YOU ARE ENCOUTERING THIS PROBLEM USING AN ASIAN COMPUTER:

Change your admin name into alphabet, as it is not recognized in Asian Characters.

Windows XP reflects the administrator’s name to the system folder’s name. The installation set-up software is not compliant with Asian characters, therefore computers which use Asian characters for their admin name can't install the software.

3 OPENING, CLOSING AND SAVING DECISION FILES

3.1 I can not download my Team file.

Try and do the following things:

- Close the e-Strat simulation.

- Go to the directory where you installed the simulation. By default it should be C:\Program Files\STRATX\e-Strat-Team unless you specified otherwise.
- You will see a file named MYTEAM.XST, where MYTEAM stands for your team name. Delete this file.
- Once deleted, try to download your team file again. It should now work. If it doesn't work the first time, try and download the file 4 times as the software will try to connect to different servers.

3.2 I opened my team file from the e-Strat server. Then I tried to open the file, I get the following error message: "An error occurred when reading the 'DEC' file"

It looks like your team file appears as a "read-only" file on your computer. Please try and do the following things:

- Check that you have access rights to the directory where the simulation is installed (Right-click on the directory icon and check its properties. It should not be "read only".)
- Check that you have access rights to the *MYTEAM.XST* file which you have downloaded.

If this is not enough:

- Open e-Strat
- Try to open your team file
- Go in the directory where you have installed the simulation (which by default should be C:\Program Files\STRATX\e-Strat-Team unless you specified otherwise)
- There you will see 2 files named *MYTEAM*.dec and *MYTEAM*.res. Check that you have access rights to those 2 files.

3.3 When I try to open my team file I am asked to choose my ID from a list but the list is empty! When I click "OK" I get this message: "Cannot find "@FILE". Please copy this file in the folder "My documents\My e-Strat Files \" and try again". What is happening?!

The "cannot find @File" message means that the software cannot find the team file which you are trying to open.

You probably haven't downloaded your team file successfully. Please try to download it again. If it doesn't work the first time, please try to download it again 4 times in a raw, as the software will try to connect to a different server after 3 tries.

What you can do if you still can't download the file successfully is to copy one of your team mate's file (MYTEAM.XST) in his/her "My documents\My e-Strat Files" directory and paste it into your computer's "My documents\My e-Strat Files" directory. You will then be able to select the file in the ID list.

3.4 I cannot save my decisions on the e-Strat server. I get the following message: "Your team file on the e-Strat server is newer than the one you are trying to upload". What can I do?

The system automatically checks that the file which you are trying to upload is the latest version. Please make sure the date and time settings of your computer are correct.

Also make sure that the decisions you are trying to submit correspond to the current Round of the e-Strat Challenge. If you are not trying to upload the right file for the right period, the system will not accept it.

3.5 Can I have an e-mail confirmation that my decisions have been successfully submitted for run?

*****No!*****

Due to the high number of participants, it is impossible for us to confirm individually by e-mail that your decisions have been uploaded. However, when you submit your decisions, you will receive a confirmation message from the e-Strat simulation.

You may also check the status, date and time of your latest file transfer by clicking on *Tools/Check status on e-Strat server*. Note that you will need to be connected to the Internet and authenticated to perform this operation.

3.6 I tried to download the NEW file for the next round, but unfortunately the system only downloads a file which seems to be the file for the last round. When I try to OPEN the file I always get an alert message saying that the decisions are for the preceding round and that I should be careful in opening the file.

Close the simulation, get rid of the old MYTEAM.XST team file in your My documents\My e-Strat Files folder, and download the new team file again.

If this does not work, a quick fix can also be to copy the new .xst team file from your team mates' My documents\My e-Strat Files folder and to copy it in your e-Strat folder, provided your team mates can download the new file successfully.

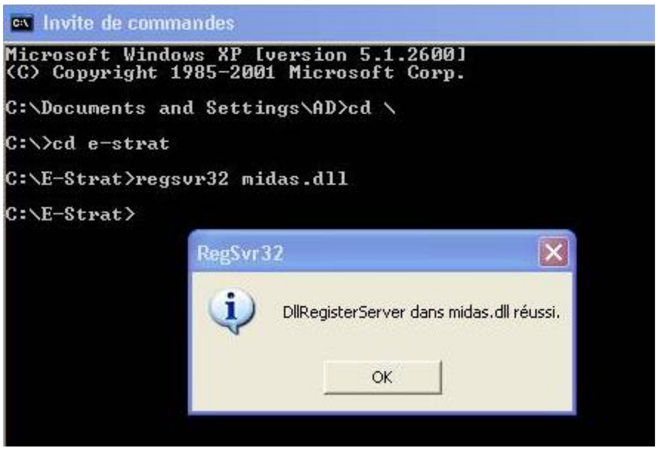
3.7 I clicked on Download and although I was "connecting to the database for authentication", nothing happened and it came back to "ready".

When you install e-Strat (in the default C:\Program Files\STRATX\e-Strat-Team), a DLL file called midas.dll is normally automatically installed in the e-Strat directory and in the windows registry. This file is very important as it allows you to establish a network connection with the server application. It may not register properly in the windows registry.

1. Check if you have a midas.dll file in C:\Program Files\STRATX\e-Strat-Team
    1.a. If you cannot find this file, check in the following directories:
    c:\windows
    c:\windows\system
    c:\windows\system32
    If you find it in one of those directories, please copy it and paste it in C:\e-strat

    1.b. If you do have a midas.dll file in C:\Program Files\STRATX\e-Strat-Team, you need to un-install the e-Strat simulation and re-install it.

2. If it still does not work after you have re-installed the e-Strat simulation, go to Start/Tools/Programs/Accessories/Command Invite and type the commands copied in the screenshot below:



3.8 When I try to download my Team file for Round 1, I am asked to enter a Course ID, although I registered for the Open Challenge. What is this Course ID?

If you successfully registered for the Open Challenge, you should be able to download and open your team file without a Course ID. The software will only ask you for a Course ID if:

a. you registered for the Academic Challenge, or

b. your registration form is not complete.

In that case, go back to the registration page of www.e-strat.loreal.com and make sure you have completed all the compulsory fields in your registration form. Once this is done, you will receive an e-mail confirming that your registration is complete and that you can download your team file. You will no longer be asked to enter a course ID.

4 DECISION ROUND PROCESS

4.1 What do you mean by “Decision Round”?

This is the process you will have to go through 6 times during the competition.

1. Opening your initial file (for the first round only) or your previous period results from the e-Strat server.
2. Analysing your results for Period P and making your decisions for Period P+1.
3. Saving your finalized decisions on the e-Strat server, using the File/Save function.
4. Submitting your decisions for a run of the simulation, using the *File/Submit for Run* function.
5. Waiting anxiously for a few hours or days … and then checking your results and those of the other teams on the e-Strat web site.
6. Drinking a glass of Champagne… or a glass of Coke… or a glass of water with two aspirins …depending on your rank in the team list !!
7. Returning to step 1 and repeating these operations.

Each of these steps is explained in details in the e-Strat Manual.

4.2 Which software should I use to open the XST file?

The format of the MYTEAM.XST file is a STRATX proprietary binary format that can only be opened through the e-Strat software. Please follow carefully the instructions given in the last chapter of the e-Strat manual.

4.3 Can I stop in the middle of making decisions and finish later?

Yes. All you have to do is quit e-Strat, launch it again later and reopen your file “from local copy”. Decisions are saved automatically on your hard drive upon exiting e-Strat, so you do not have to worry about losing decisions made so far.

You may also decide to save your work on the e-Strat Server before closing the application, using the menu “File/Save...”.

4.4 Can I begin the decision-making process on one computer and complete it using another computer?

Yes, you can. You have two options:

Option 1: If you do have an Internet connection from both computers, we recommend you go through the following steps:

1. Save your first set of decisions taken from Computer 1 on the e-Strat server: use the *File/Save* function of the e-Strat simulation, then click on Upload on the pop-up window. To do so you have to be connected to the Internet and authenticated.
2. Close the simulation.
3. Connect to the Internet from Computer 2

4. Open the e-Strat software
5. Click on *File/Open from remote server*
6. Authenticate by keying in your Team Name and Password in the pop-up window
7. If you already have a previous period's Team file saved locally on your Computer 2, confirm that you want to replace it with the new one.
8. You can then resume your work from Computer 2

Option 2: If one of the two computers does not have an Internet connection, you can save your team file from Computer 1 on a diskette, USB drive, zip drive, etc. and load it on Computer 2.

Your team file is a file named MYTEAM.XST, which is by default located in the "My documents\My e-Strat Files" folder of your computer.

1. Go to the "My documents\My e-Strat Files" folder on Computer 1, using Windows Explorer
2. Copy the *MYTEAM.XST* file on a removable storage device
3. Paste this file in the ""My documents\My e-Strat Files" folder of Computer 2
4. You can then open your team file from Computer 2 by using the File/Open/Local Copy function of the e-Strat simulation. Obviously, you should have installed the e-Strat software on the other computer before performing this operation.

Decisions are saved automatically upon exiting e-Strat, so you do not have to worry about losing decisions made so far.

4.5 Should all team members make decisions and submit them for a run of the simulation?

*****No!*****

Only one of you should submit the decisions.

4.6 I have made half of the decisions on my computer, and my team-mate made the other half on his/her computer. How do we merge these two sets of decisions before submitting them for run?

You cannot merge two decision sets. One of you will have to re-enter his or her decision set on his/her other team-mate's computer.

4.7 I made my decisions on my home computer but I only have access to Internet from the University

That's easy! Copy your MYTEAM.XST file from your home computer onto your University computer as described in the Option 2 of FAQ 4.4. Then submit your decisions from your University computer.

4.8 I cannot Submit my decisions for Run. The Submit for Run menu is greyed out!

You can only submit decisions for run when the decisions which you have saved on the e-Strat remote server are final and error-free. Check potential errors and warnings by selecting "Decision highlights" in the "Decisions" menu, make sure you save your final, error-free team decisions file on the e-Strat server, and then you will be able to submit your decisions for run.

4.9 Can I submit my decisions for run several times during a decision round?

*****No!*****

You can save your decisions on the e-Strat server as many times as you wish during a Decision Round. However, **you can only submit your decisions for run once** during each decision round. This operation is irreversible. It is your team's responsibility to make sure the decisions you submit are final.

4.10 What happens if we do not submit our decisions on time?

You are fired! Teams that do not submit their decisions on due time are disqualified from the Challenge. Check the e-Strat website to get the exact schedule of round deadlines.

4.11 My work is not saved. Why?

Here are the steps to follow when you want to stop in the middle of your decisions and continue later from the same computer:

1. Download your new team file from the e-Strat server using the *File/Open from e-Strat server* function of the e-Strat application. **Do that only the first time of each decision round**.
2. Authenticate by entering your Team ID and your Password.
3. Analyse the results of the last simulated Period (initially, Period 0) and make your decisions for the next Period (initially, Period 1).
4. If you are not finished but you have to stop temporarily, simply close the e-Strat application. Your work is saved automatically on your computer's local hard drive. You can check that your work is saved by looking at the date/time of the "MYTEAM.XST" file in your "My documents\My e-Strat Files" folder. It should have the same date/time as when you stopped working.
5. When you are ready, launch the e-Strat application and select *File/Open/Local Copy*. **Do not open your team file from the e-Strat server, it will not include your last set of decisions!**
6. When you are finished, save your decisions on the e-Strat server
7. Check that your decisions have been uploaded successfully, using the *Tools/Check status on e-Strat server* function of the e-Strat software. It will let you know the time and date of your latest successful file transfer.
8. You may then submit your decisions for run.

5 NEWSLETTER CHARTS

5.1 Should we expect dramatic variations in the "Financial Data" chart from one period to the next?

No. The e-Strat world is industrialized and fairly stable. No major political, social or economic events are anticipated in the near future. You should not expect high inflation rates, stock market disruption, bankruptcies, etc…

5.2 What do K$ and KU mean?

K$ means "thousand of $" and KU means "thousand of units". For instance:

K$ 2,585 = $ 2,585,000

KU 1,250 = 1,250,000 units

5.3 What is the exceptional cost for new capacity?

The exceptional cost for new capacity is a variable cost which is incurred as an exceptional cost when you build new production capacity. It appears in your Firm Results as in the "exceptional costs and profits" section.

6 COMPANY REPORT CHARTS

6.1 Who sends the messages we receive in our "Company Report"?

These messages come from different sources. The various departments of your division may send messages when something special happens, such as the discovery of a new active ingredients, the development of new formula, the availability of a new manufacturing plant, etc… The Board of Directors may also use messages to inform you that the decisions you have made or plan to make are not satisfactory. Finally, various administrations may send you messages to inform you on regulation changes, etc…

6.2 In the "Discovered Active Ingredient" chart, what is the meaning of "Initial" and "Minimal Estimated Cost"?

The production cost of a brand decreases over time, as cumulative production increases. This is explained in the manual. The initial unit cost is the cost of the first 10 million units produced. The minimal unit cost will be reached when 40 million units in total have been produced.

6.3 Why is there a difference between the unit cost in the Company report and the one in the Newsletter?

The first one is the actual unit cost that takes into account the reduction for cumulative production (see the manual). The other one is the estimated unit cost given by the R&D department.

6.4 How can we know the production fixed cost for each brand?

It is directly proportional to the manufacturing capacity for this brand. The fixed manufacturing cost per unit is given in the Newsletter.

6.5 Do fixed costs increase when we increase the production capacity? Is there any other cost if we decide to increase capacity?

As mentioned in the Manual, the production fixed costs are a function of production capacity. Therefore, they do increase with production capacity.

There is also an exceptional cost for building new capacity, as mentioned in the financial data chart available in the Newsletter.

6.6 Where can I find the decisions we made in previous periods?

You can browse through your past decisions by clicking on "Past Decisions" in your decisions menu.

6.7 Can you define Unit Transfer Cost?

The unit transfer cost is the unit production cost charged by the factory to the business units.

6.8 My R&D costs in my Company Report/ Firm Results do not match what I invested in R&D. How come?

The R&D costs in your Firm Results include two different costs:

1. Development costs specific to individual brands, which came out of your marketing budget.
2. Corporate R&D costs, which are not input specifically to one brand, and do not come out of your marketing budget. Those are fundamental research cost. They allow for example your R&D department to finance innovation projects and come up with new active ingredients.

7 MARKET RESEARCH STUDIES

7.1 When do I get the market studies I ordered?

All studies are ordered at the beginning of a period, say Period P, and are conducted by a specialized research firm during that period. The results are delivered with your annual report at the end of the period, i.e. when you are about to make decisions for Period P+1.

7.2 Can I use market studies ordered in Period 4 to make Period 4 decisions?

No, because studies ordered in Period 4 will be available in Period 5, as explained in FAQ 7.1. The information provided is relevant to the market situation during the analysed period, i.e. Period 4 in your case, with the exception of the market forecast study.

To make Period 4 decisions, you should use the studies ordered during Period 3.

7.3 In Period 4, can I consult study results from Periods 1, 2 and 3?

Yes. The e-Strat software provides an easy access to past results, including reports, studies and graphs.

7.4 There are no ideal spots published where customers might expect the products. Isn't it unrealistic to have no clue about what the potential customer expects?

You have plenty of information in the Market Research Studies to help you understand the need of the customers. The ideal spot for all customers is the top-right corner of the brand map, at an affordable price!! You will have to determine the best trade-off Quality/Price/Cost to offer to each segment.

7.5 What is exactly mirror.com's presence on e-grocers and e-beauty?

As you have probably guessed, mirror.com is using Internet intensively. This company has decided to distribute its brands through the on-line distribution channels as well as directly to consumers, with its own web sites. You can do the same, with the exception that you will be allowed to design your own web sites starting in Period 2.

7.6 In the Market Forecast study, what unit does the channel size have?

Channel sizes are given in thousand of units. It is actually indicated in the sub-title of the chart.

7.7 The predictions of the Market Forecast study are wrong!

The Market Forecast study provides fairly accurate estimates of futures market sizes and growth rates if the market conditions remain stable. However, the actions of the competitive firms may have unpredictable implications. For instance, the following actions may have an impact on market size: price increase or decrease, variation in advertising spending, change in distribution strategies, brand repositioning, new brand introduction, etc.

7.8 What is the definition of "Brand Awareness" ?

This is the percentage of potential consumers in each segment who spontaneously recall a given brand name.

7.9 What is a definition of "Brand Perception" ?

Semantic scales describe how consumers perceive the marketed brands. Respondents are asked to rate each brand along each physical attribute on a scale from 1 to 7 according to the way they perceive the brand. For instance, a brand rated 2.3 on the "Pleasure" scale is perceived as giving less pleasure than a brand rating 5.5 on the same scale.

7.10 How to interpret the semantic scale study in the case of Price?

Semantic scales describe how consumers perceive the marketed brands. Respondents are asked to rate each brand along each physical attributes plus price on a scale from 1 to 7 according to the way they perceive the brand. For instance, a brand rated 2.3 on the Convenience scale is perceived as being less convenient than a brand rating 5.5 on the same scale. For price, a lower score on the semantic scale means that the brand is perceived as being cheaper, and a higher score means that the brand is perceived as being more expensive. Semantic scale scores are not related to how much a particular segment values the brand. Consumers are also asked to evaluate the importance of each attribute, in other words, the weight each attribute takes in the buying decision.

7.11 How does the number of club members contribute to the SPI ?

It is one of the many elements taken into account by analysts to calculate the SPI. Others are revenue growth, market share, profitability, SI... The number of Club members is among the least important ones.

7.12 Are two identical formulas perceived differently?

No. For instance, you could have two formulas PA-2 and PA-3 with the exact same attributes (i.e. the same efficacy, pleasure, safety and convenience attributes) but different unit production costs (PA-3 being a cost-reduced version of PA-2). In this case, if you launch a product with PA-2 and then upgrade it to PA-3, the consumer perceptions will not change, assuming that you do not change the price.

7.13 What are the factors influencing market growth?

Market growth is influenced by external factors that do not depend on firms' actions or decisions. This is the "intrinsic" market growth. In addition, segment growth is influenced by the introduction of new brands, the upgrade of existing ones, the increase in advertising and promotion expenditures, the price changes, etc.

7.14 In the e-Strat world, are there consumers who wish to buy the cheapest product but cannot afford it?

The size of the consumer segments represent the number of people who purchase the cosmetic products made by the companies present in the e-Strat world. If your products are significantly more expensive than your competitors', you can expect some consumers not be able to purchase your products. However, overall, the segments are made of consumers who can purchase reasonably-priced products.

7.15 If, in the CONSUMER SURVEY shopping habits, the data for Low Income Families in Dept. Stores is 22.3%, does it mean that those 22.3% of Low Inc. Families buy cosmetics only in Dept. Stores? Or can these consumers also buy cosmetics in other channels, such as Mass. Merch, Discounters and Spec. Mass?

This figure actually means that 22.3% of the low income families **prefer** to shop and buy in Department Stores. For simplification reasons, you can assume that about 22.3% actually buy on Department Stores (as you know, market studies are never 100% accurate, and assumptions often need to be done in the business world). It may be that these consumers sometimes buy in other channels, but you do not have access to those figures.

7.16 Can you please explain the meaning of the "importance of attributes and services" in the semantic scale? Does a value of 53.2% for Price in the Low Income Families segment mean that 53.2% of consumers belonging to this segment will buy the cheapest product?

It means that for 53.2% of consumers, price will be the first thing they look at when making their purchasing decision.

7.17 How to read the Distribution Panel study?

The survey includes one specific chart for each distribution channel, which you may access by using the drop-down list in the upper right-hand side of the distribution panel survey main screen.

For each channel, information is available on retail sales by channel (in volume and value), market shares by channel (in volume and value), and share of shelf space by channel – a measure which represents the percentage of the linear surface of a given channel dedicated to each brand.

Two types of measures of the share of shelf space are available:

- The "Regular" share of shelf space represents the percentage of "regular" linear space allocated to each brand; for example it would measure the percentage of shelf space dedicated to L'Oréal's face creams vs. competitive face creams in the face creams section of a Department Store.
- The "Gondola Head" share of shelf space represents the percentage dedicated to each brand in the most visible places of the store, i.e. at the front of the traditional shelves for example. Gondola heads can be used for temporary events (product launch, special promotion, seasonality offer, combined offer…) with the objective of maximising visibility. They are often located in strategic spots in the stores, such as the beginning of the aisles facing the entrance/cashiers, or at the very end of a shelf when the product on the gondola head is of the same category as the products on the shelf. Brands available in gondola heads are usually more visible to consumers, and may generate impulsive types of purchases. Also, product rotation on the GH is usually more frequent.

7.18 When I add up Market Shares in Units in each channel in the Distribution Panel, I get a different result to the total Market Shares in Units in the Consumer Panel. Why?

The market shares in the Distribution Panel represent the market share of a given brand in a given channel. For example, if brand PANTHER has a 14.8% unit market share in the Specialized Mass channel, it means that among all of the brands sold **in that specific channel**, PANTHER represents 14.8% of the sales. The market shares in the Consumer Panel represent the overall market share of a given brand, across all channels. It takes into account the relative size of each channel.

7.19 Advertising budgets are different in charts 1 and 2 of Competitive Intelligence. Why?

The two studies "competitive intelligence - summary" and "competitive intelligence - advertising budgets" come from different market research agencies and are processed using different market research techniques.

The advertising budget specified in screen "competitive intelligence- summary" is the total advertising budget allocated to the brand; this figure is usually pretty accurate. It is calculated by summing up all publications, billboards and other advertising media where a specific brand is mentioned.

The advertising budgets specified in screen "competitive intelligence - advertising budgets" are the best estimates of budgets allocated to consumer segments. These figures are estimated by looking at the type of publications, TV programmes, billboard locations etc, and by trying to evaluate which segments will most likely view these ads.

By definition, the accuracy of this study is much lower.

8 DECISIONS – GENERAL

8.1 At the beginning of each decision round, decisions are already in. Where do these decisions come from?

Each new round replicates decisions made in the previous round. The purpose of these default decisions is to prevent you from having to start a new round from scratch, with 0's in all input screens.

During the first decision round (when you are making decisions for Period 1), the default decisions are copied from the Period 0 decisions, made by the previous management team, who managed PRIMA until you took over from them.

Obviously, some of your past decisions will not be copied since making them twice would not make sense: formula development, brand modification or introduction, website creation, etc.

8.2 How do I save my decisions?

Decisions are automatically saved each time you close a decision input screen, except if you close it by clicking "Cancel".

8.3 Can we use the e-Strat software as long as we want?

Yes. There is no time limit or any other usage limitation built-in the software. You can spend 20 hours in the week working on e-Strat … but we recommend that you do not spend more than 3 or 4 hours per decision round.

8.4 If I have some budget left over this period, is it carried over to next period?

No. Your budget is allocated for the current period. If you do not spend it entirely, the part left over is not carried forward.

8.5 Will there be any restriction for decision making for the last round?

No. There will be no restrictions for the last round. You will have to make the same decisions as for the other rounds.

8.6 Should we assume that the game finishes after round 6?

No. You are strongly advised to manage your business as if the game was continuing after round 6. Making drastic price increases or cutting costs dramatically will not be beneficial for your share price index. Financial analysts are looking at the ability of your company to generate good return long-term and not short-term.

8.7 The numbers in my file are not the same as in the manual. Is it normal?

All charts, graphs and data given in the manual are extracted from a SAMPLE file that is not based on the same market and competitive situations as your own file. You should only refer to your own company report when making decisions.

8.8 How can we find out our previous decisions parameters such as units to produce, retail price, etc., which are not shown when using the "Period selection" counter?

You can browse through your past decisions by clicking on "Past Decisions" in your decisions menu.

9 FORMULA DEVELOPMENT DECISIONS

9.1 Can we develop several formulas for a given period?

Yes. However, due to resource constraints in the R&D department, *you may only develop a maximum of two formulas per period*. You will have to determine which ones represent the best choices for your company. This of course will depend on the current situation, but also on your long-term strategy.

9.2 What happens to the active ingredients that are discovered but not developed?

Your R&D department will shelve all the projects you decide not to develop. Thus, you can decide to develop these ingredients at a later stage.

9.3 What is the relationship between the unit transfer cost and the estimated unit cost? Are they totally different concepts?

No, these two figures are related. The R&D department provides you with estimates of what will be the minimum and maximum unit costs of new formulas, while the production department gives you the exact figures, based on the number of units produced.

9.4 Can we increase our budget for R&D in order for them to create better projects?

No. The development will cost whatever is indicated in the R&D report.

9.5 Why can we not act like R&D department and have to wait for them to develop active ingredients?

R&D has been partially automated to limit the complexity of the Challenge. There are already many decisions to be made.

9.6 Do we lose cost reduction developed in the previous rounds when we further improve a brand?

No, all cost reduction projects developed in the past have an impact on the production cost of new formulas. However, the cost of an improved formula will tend to be higher than that of the previous one.

9.7 What are the constraints when developing a formula?

There are three different constraints.

First, the overall scope of the formula depends on the base active ingredient: A, B, C, etc. For instance, if the active ingredient is rated 60 in Pleasure, you will not be able to request the development of a formula rated 90 in the same attribute because 90 is too far from the original value 60.

Second, the improvements on the original ingredient obtained with a single development project are limited in scope. To reach the total potential of the ingredient in all attributes, you may have to launch two or even three successive development projects. For instance, you may first develop the formula PA-1 to improve PA-Ini on Efficacy, Convenience and Pleasure, and then develop the formula PA-2 to improve PA-1 on Safety.

Finally, the unit production cost must remain with limits set by R&D. You will be given an indication of what are the normal and minimum production costs of the specified formula. Developing the formula at a cost lower than the normal one will be more expensive and you will thus have to determine the pay-back that you might expect from this additional investment.

9.8 If we improve/upgrade a brand how does this affect our cumulative production per unit discount?

Brand improvements/upgrades do not affect the cumulative production per unit discount. For example, if you produce 9 Mio units of PACIFIC in Period 1, upgrade it in the next period and then produce another 8 Mio units of the upgraded PACIFIC, you will have a 15% decrease in your production cost, since your overall cumulated production (17 Mio units) will be in the [10-20] Mio units production bracket.

9.9 Can I launch two different products based on the same base-ingredient - e.g. PA-Ini?

Yes, you can launch 2 products based on the same base ingredient. However you will need to develop one specific formula for each product.

9.10 Can I launch two different products based on the same formula, e.g. PA-1?

No, one formula corresponds to one and only one product. Should you really wish to have 2 different products with similar attributes, you would need to develop two different formulas with similar attributes, and use each of those formulas for each of your products.

9.11 Could we have information regarding the formula used by the simulation for computing development cost of formulas (e.g. exact factors for increase in development per % increase in each characteristic, and in the expected normal cost)?

In your brand portfolio decision screen, within your formula decisions, you can try different combinations of attributes for a given formula. The software will automatically indicate the corresponding development cost and expected unit cost.

9.12 If I request a 1,50$ cost for a new or improved formula in my Formula Development decisions, does it mean that the cost in next period is going to be 1,50$ for sure or just close to 1,50$?

The costs provided by the R&D department are estimated costs, so there may be a tiny difference with the actual production cost. Also remember that you will benefit from economies of scale and experience effect as your production volume increases.

9.13 If I implement a cost reduction on a formula without changing the actual specifications of the formula, will the existing inventory be disposed of? If so, why, since the formula itself did not change?

To implement a cost reduction there are a number of elements which the R&D department needs to change in formula itself, which is why the new formula is considered as different enough from the first one to make the old inventory obsolete. This is the way in which R&D & production is actually managed at L'Oréal.

9.14 If we upgrade a product with a new formula based on a DIFFERENT ingredient, do we lose a cost-reduction effect developed in previous rounds?

No! Even if you switch to a new formula, you will still benefit from the economies of scale gained previously. The cost reduction effect is linked to a specific brand, not to a specific formula.

9.15 I am very confused by the meaning of the sentence 'Developing the formula at a cost lower than the normal one will be more expensive ". Does that mean the cost of each formula will actually be greater than the normal cost because I have to give additional investment?

In the e-Strat world you have the possibility to develop a formula at a reduced unit production cost, i.e. a unit production cost which is lower than the "normal" unit production cost. To do that, the R&D and Production departments of PRIMA will need to invest, upfront, for example in new production methods which are more cost-efficient than the traditional ones, or will need to look for new ingredients which have the same attributes as the previous ones, but are cheaper. This of course requires time and effort, and has a cost, which is called the "development budget" of the cost-reduced formula.

Therefore, if you decide to implement a cost-reduced formula, your unit cost will decrease, but your development budget will increase.

10 BRAND PORTFOLIO DECISIONS

10.1 I am about to launch a new brand. How do I set a new capacity for this brand?

Open the “Brand Portfolio” decision screen, select the new brand in the list and key in a number in the cell “Capacity Built in Period P”.

Building new or additional capacity takes one period, as does the launch of a new brand. Thus, if you build the new capacity during the same period you initiate the new brand launch, the new capacity will be available right on time, when the brand is ready to go on the market.

10.2 What is the usual timing for a new brand launch?

Launching a new brand takes one period to be completed. The usual timing is given below.

Period P: Decision is made to develop a new formula (e.g. "PD-2") and to launch a new brand (e.g. "PUNCHY") based on this new formula. A new manufacturing capacity must be built for "PUNCHY". Brand "PUNCHY" is not marketed during Period P.

Period P+1: The new formula is developed and the new manufacturing capacity is available. The brand is actually put on the market and the first sales are made.

10.3 I introduced a new brand but I changed my mind. Can I cancel the launch?

As in FAQ 10.2, the new brand launch can be cancelled during Period P, but not during Period P+1. Once the formula is developed and the new plant is built, it is too late to backtrack …

To cancel a new brand launch, simply select it in the "Brand Portfolio" decision screen, and click "Undo…".

10.4 What is the usual timing for a brand improvement or cost-reduction?

Improving or cost-reducing an existing brand takes one period to be completed. The usual timing is given below.

Period P: Decision is made to develop a new formula (e.g. "PB-2") and to improve an existing brand (e.g. "POP") based on this new formula. You may want to increase the manufacturing capacity of "POP" if you believe that the improvement will generate additional sales. Brand "POP" is marketed during Period P based on its original base formula: "PB-1".

Period P+1: The new formula is developed and the additional manufacturing capacity is available. The upgraded brand is actually put on the market and the first upgraded product sales are made.

10.5 I upgraded a brand but I changed my mind. Can I cancel the improvement?

As in FAQ 10.4, the brand improvement can be cancelled during Period P, but not during Period P+1. To cancel a brand improvement or cost-reduction, simply select it in the "Brand Portfolio" decision screen, and click "Undo …".

10.6 The board of directors makes it impossible to introduce two products at one time.

There many reasons to this constraint. First, we have put several constraints to make the market situation not too complex so that most teams have a chance to understand the game, make good decisions and finish the Challenge. Second, we want to force teams to make difficult choices, based on a solid financial, marketing and competitive analysis; this is actually much more difficult than launching new brands all over the place. Finally, most companies have similar constraints as resources are limited; there are very often opportunities that cannot be followed by lack of cash, human resources and any other valuable resources.

10.7 If you upgrade a product in period 3, it is not effective until period 4. When should you start spending the higher advertising spend? In period 3 or 4?

In this example, the work done during Period 3 is aimed at preparing the upgrade: change in manufacturing processes, design of new marketing materials, financial planning, etc… Clearly, these activities are not "visible" by consumers. Thus, you should start advertising on the upgraded product during Period 4, with new positioning messages, change in distribution channels, possibly new target groups, etc…

10.8 Does a change in the formula of a certain product affect the brand awareness or the purchase intention of the product?

Upgrading a brand with a new formula will not change brand awareness. However, it will probably affect purchase intentions as the product attributes change. Of course, this is not true if the new formula is a cost-reduction version of the previous one.

10.9 What are the costs of production capacity when developing a new formula?

If the new formula is used to upgrade an existing brand, then the existing capacity will be available for the “upgraded” brand. No additional costs are generated in this case.

For a new brand, your must build a new production capacity. In this case, you will have to bear exceptional costs, as indicated in the manual. A message will inform you of the costs as well.

10.10 How are Fixed Manufacturing Costs (FMC) calculated?

<u>Fixed Manufacturing Costs</u> = C x UC x K

C = the capacity available during the period

UC = the unit cost of the developed formula as shown in the R&D report. Beware: reduction In base unit cost due to experience effect is NOT taken into account in the formula above.

K = a parameter available in the Newsletter; for example it was 10% in the 7^{TH} edition of the L'Oréal e-Strat Challenge

10.11 Is there a cost to increase capacity? If so, what is this cost? Are there costs for maintaining the capacity when it becomes available?

Yes, there is a cost for building new capacity, which is indicated in your Newsletter financial information. For simplification reasons, there is no specific maintenance cost in the simulation.

10.12 Is there a limit to the number of brands we may have in our portfolio?

Yes. The maximum number is 5.

10.13 Increasing production capacity has no impact on our budget. Why?

To simplify the e-Strat financial statements, you will not deal with cash flows, amortization, raising debt, etc. Increasing production capacity will have an impact on your results, only when the capacity is available, as the production fixed costs will increase.

10.14 Is it possible to upgrade a brand with a different active ingredient?

Yes, it is possible. The physical attributes of the brand will change, to reflect the ones of the new formula. However, even if the new attributes are very different from the current ones, consumers' perceptions will not change immediately. It may take a few periods before all consumers understand the new positioning of your brand.

10.15 Can we withdraw a brand from the market?

You are not allowed to withdraw a brand from your portfolio. However, you can decide to reduce the resources allocated to it.

10.16 Can we market two brands targeted at two really different segments without the risk of damaging our image?

A company can market two brands, one targeted at High Earners and one targeted at Low Income Families with no risk of damaging its corporate image. The simulation behaves as if the two products were marketed under two different brand names, like "LOREAL PARIS", GARNIER or LANCOME.

10.17 I want to launch a new brand. The “Based on formula” chart just shows "PB-1", I am sure I have more developed formulas. Where are they?

If for example you want to introduce a brand based on PE-Ini:
- go to the brand portfolio decision screen

- develop a new formula based on PE-Ini
- then click on the “introduce” button in the bottom part of the decision screen
- PE-1, based on PE-Ini, will appear as a possible formula in the drop down menu

If you have already used another formula to upgrade another brand, it will not appear as a possible choice in the brand introduction drop down menu. You will need to develop a new formula, based on the previous one, and use the new one to launch your new brand.

10.18 Is it possible to reduce production capacity in order to lower fixed costs?

No. Once capacity is built, it cannot be decreased. Production capacity is made of fixed assets such as machines, factories, etc. these assets cannot be disposed of in e-Strat. This would be like destroying a factory, and would actually cost you much more money!

11 BRAND MANAGEMENT DECISIONS

11.1 I cannot access the positioning input cells in the Brand Management screen, in Period 1

These decisions are not available during Period 1 for two reasons. The first reason is that we have limited the scope of the initial decision round so that you are not overwhelmed by too many difficulties. The second reason is that, as the previous management team did not order the “Semantic Scales” study, you could not make sound positioning decisions during Period 1.

11.2 The retail prices of my brands as given in the Newsletter are far below the prices that I set in the decision form. Why?

The pricing decision you make in the “Brand Management” decision screen is the “Recommended Retail Price” in $.

The “Retail Price” given in the Newsletter is calculated by dividing the total retail sales by the number of units sold. So, this price includes the discounts that are made by distributors, especially “Discounters”, “Mass Merchandisers” and “e-Grocers”.

11.3 The estimated cost is set for some ranges like 0-10 or 10-20. Does this mean that producing 1 unit or 9,999,000 units will not differ in terms of unit cost?

Yes. The first 10 million units of a given brand will be produced at the same cost. The next 10 million units will be produced at 15% reduction, etc… Above 40 million units, the unit cost remains stable.

11.4 What is the difference between management time in channel management and brand management?

Brand managers are working at headquarters and other various locations. They are in charge of many functions such as Communication, Finances, Manufacturing, etc.

Channel managers are in charge of the relationships with distribution channels. They manage the sales forces, beauty advisors and other at the point of sale.

11.5 What is the relationship between sales and management time?

Managers are working at headquarters and are in charge of many functions such as Communication, Finances, Manufacturing, Sales, etc. There is no direct (i.e. linear) relationship between the amount of management time allocated to a brand and the unit sales of that brand. However, allocating more time to a brand, channel or website will have a positive impact on sales as you can expect a better management of your activities.

11.6 I cannot enter decimals in the “Recommended Retail Price”! Why?

Please set the Regional Settings given in FAQ 2.15

11.7 What is the difference between production capacity and production level?

Production capacity refers to the maximum amount of the product which can theoretically be produced by your factory during one period. This is related to the size of the factory, the equipment level, speed of lines, etc. You must decide on a level of initial capacity for any new brand, which will be in place one period later, upon launch. In the same way, any requested capacity increase for existing brands will take one period to become effective. Once built, capacity cannot be destroyed.

Production level indicates how many units of the product you actually want the plant to manufacture. This number can be any level up to the current capacity. It may be that capacity requested last period turns out to be not needed, as the market has become more sluggish. In such a case, you may need less production than capacity.

11.8 Can we use the production capacity in excess on one brand to produce more units of another brand?

No. Each brand has its own production capacity.

11.9 Are capacity increases for specific formulas or for specific brands?

Specific brands. Thus, if you upgrade a brand with a new formula, the existing capacity remains available for the “upgraded” brand.

11.10 Will the +20% automatic adjustment of production level allow us to exceed manufacturing capacity?

No. Production capacity is a maximum limit that cannot be exceeded. For instance, with a production capacity of 10,000,000 units and a production level of 9,000,000 units, your production can vary between 7,200,000 and 10,000,000 units.

11.11 How do we know if we underestimated the level of production and missed out on sales because we ran out of stock?

As long as your production level remains between 10,000x(1-20%) and 10,000x(1 + 20%) it means that you sold exactly the amount produced, since there is an automatic adjustment of the production level by +/- 20%.

In addition, if you run out of stock you'll receive a message from the simulation, including an estimate of lost sales.

11.12 What does a high perceived price mean for a brand?

It means that the brand is perceived to have a high price, which is not favourable for the price-sensitive segments such as “Singles” or “Low income families”. It does not mean that this brand is well perceived by the customers.

11.13 Is experience effect reset to 0 when a brand is upgraded or cost-reduced?

What is taken into account to calculate the "Experience" effect on cost is the cumulative production of a brand, even if this brand has been upgraded or cost reduced. As a consequence, experience effect is NOT reset to 0 each time you upgrade or cost-reduce a brand with a new formula.

11.14 Even if one of our brands still has inventory while it is upgraded, there will be no disposal cost as long as it is all sold by next period. Is this correct?

Yes, this is correct. The inventory disposal cost will only be incurred in the following period, if you do not manage to get rid of your inventory during the current period.

11.15 How can we sell the units we have in inventory?

Your inventory units are automatically taken into account into your sales of the next period. Therefore, you need to take your inventory into account when you make your decision on production level.

11.16 How should a product be positioned using the decision panel?

You need to highlight and put forward the most important attributes for your targeted segment. You can try to modify the perceived value, but with reasonable limits, which should be compatible to your actual product values, like 1 or 2 units maximum on the brand map.

11.17 Do I incur firing/hiring costs if I decrease/increase management time for one brand or channel and reallocate it to another brand or channel?

No, you will not incur firing costs if you reallocate management time differently across your organisation. You will only incur firing costs if your overall management time decreases.

The same applies to hiring costs.

11.18 What are the pros and cons of increasing or decreasing the manager person/month fields?

Allocating management time to a brand, a channel or a web site is necessary to implement large scale projects such as introducing/improving a brand or revamping a web site, but also for the day-to-day management activities. Increasing the size of your task force will have a positive impact on how your other resources are used: advertising budgets, trade marketing budget, etc. Of course increasing management time has a cost, so as part of your decisions, you need to find the right balance to optimize your human resources.

11.19 What are the consequences of making changes in management time?

There are financial consequences when making changes to management hours. Please refer to Financial Data screens of the simulation or to the e-Strat manual for detailed information. There are also of course sales consequences, as managers manage the brands, the distribution channels, the websites etc...

11.20 Do we have to pay any firing cots if we reduce the number of our employees?

Yes, indeed. Firing costs are indicated in Newsletter/Financial data.

11.21 How can we find out the overall number of our employees at the beginning of period 1 and at the time being?

Go in Decisions/Management time and go back to previous periods with the “Period” button.

11.22 How do you calculate the exceptional cost for building new capacity?

The exceptional cost for additional capacity is calculated at 2.5% of the new capacity cost. It is incurred in the period when additional capacity is built. It is not deducted from your budget.

11.23 How to influence the distribution of advertising budget across segments?

The advertising budget is used to purchase media space and time. The advertising agency selects automatically the most appropriate media that targets the most relevant segments for the brand, based on purchase intentions. You can influence the distribution across segment by designing brands that are more focused toward a specific segment.

11.24 In the positioning decisions, 1 means the highest or 7?

Semantic scales describe how consumers perceive the marketed brands. Respondents are asked to rate each brand along each physical characteristic plus price on a scale from 1 (low) to 7 (high) according to the way they perceive the brand. For instance, a brand rated 2.3 on the Convenience scale is perceived as being less convenient than a brand rating 5.5 on the same scale. For price, a lower score on the semantic scale means that the brand is perceived as being cheaper, and a higher score means that the brand is perceived as being more expensive. Semantic scale scores are not related to how much a particular segment values the brand.

11.25 Do product attributes have any correlation with the numbers used for brand positioning?

Product attributes rate actual product attributes on a scale from 1(low) to 100(high). For example, a brand which is rated 80 in convenience is more convenient than a brand which is rated 20 on the same attribute.

Brand positioning numbers relate to the perception which customers have of your brands. Positioning numbers are rated on a scale from 1 (low perceived value) to 7(high perceived value).

Brand positioning decisions allow you to modify the perception which customers have of your brands. You can try to modify the perceived value of your brand, but with reasonable limits, which should be compatible with your current perceived value and your actual product attributes.

11.26 Is a high price considered as a good thing for those consumer segments who are nor price sensitive?

For each segment, there is a given price-point above which your brand will be considered as too expensive. This price point is higher for some segments than for others.

Those segments which are not price-sensitive will tolerate a higher price than those segments who are price-sensitive.

Part of your decisions is to figure out which price is the right one for each segment.

11.27 What do Communication Expenditures in the Manual include?

Communication Expenditures include advertising media and creation.

12 CHANNEL MANAGEMENT DECISIONS

12.1 Can I withdraw all my brands from a specific distribution channel?

Yes. All you have to do is set the “Trade marketing budget” to 0 for this channel. This means you do not want to use this distribution channel at all.

12.2 Can I withdraw one particular brand from a specific distribution channel?

Yes. All you have to do is set the “Brand priority” to 0 for this brand in this channel. This means you do not want to use this distribution channel for this specific brand.

12.3 What is included in the trade marketing budget? What are the effects of increasing or decreasing it?

Trade Marketing includes the referencing budgets plus additional features such as beauty advisors, show-window and in-store location display materials, product sampling displays, etc. These features are used to provide to outlets the means to enhance sales. Thus, you should obtain a better push from distributors if you increase the trade marketing budgets.

12.4 It seems that we can only modify the margins and that the discounts are fixed somehow. Can we play around with the discount percentages?

You have no control over discounts offered by distribution channels to their consumers. You can only adjust the “standard” margin by plus or minus 10%.

However, you can offer a discount to the consumers who buy directly on one of your e-commerce enabled web site.

12.5 How is it possible to change the distributors' margins?

This is one of the “Channel management” decisions.

12.6 Does a brand incur ill-will from frustrated customers who were not able to buy the desired brand when looking for it?

No. This would probably be true for high-end brands in the real world, but the "simplified" e-Strat world does not include this effect.

12.7 Is there a relationship between margins offered towards the various channels and the volume of sales generated in them? How strong is it and is there a way to measure it and use it during decision making?

The higher the margins you offer to distribution channels, the more they will tend to push your products to consumers. However, the volume of sales generated will also depend on other factors such as Promotion budget, Trade Marketing budget, management time dedicated to channel management, etc. Therefore you cannot measure individually the relationship between distribution margins and sales.

12.8 I wish to make use of e-grocers to distribute one of my brands. On the channel management panel all alternatives apart from 'trade marketing budget' have been greyed out. Why is this and how do I use the e-grocer outlet?

If the value of your trade marketing budget is equal to 0, it means that your products are not distributed in this channel. This is why you can not fill-in any other cell. Start by entering a Trade Marketing budget for the e-grocers channel, and then you will be able to enter values in the other cells.

12.9 Is it true that Advertising is the factor that directly contributes to increasing market share? What is the effect of Promotions and Trade Marketing?

It is the combination of all your marketing decisions which ultimately affects your final market share. They are all linked together. All your channel management decisions will have a strong impact on your coverage, which will ultimately affect your market share. Advertising activities will have a strong impact on indicators such as awareness and purchase intentions, which, in turn, will affect your market share.

You need both "push" and "pull" marketing activities to increase your market share up to a satisfying level.

12.10 For Channel management, does the Management time allocated increase Trade marketing or Promotion or both?

Increasing management time in channel management activities will improve the quality of your channel management activities, including trade marketing and promotions.

13 WEB SITE PORTFOLIO DECISIONS

13.1 Can I develop several web sites within a given period?

No. Your IT department does not have sufficient resources to handle several projects in parallel. This may change at later periods, depending on your performances.

13.2 Can I develop a top- quality web site within a single period?

Probably not. Building top-quality web sites requires time and experience. You will have to concentrate on the dimensions that seem to be most important for your target segment.

13.3 Why do we get an error message when the Performance level of prima.com is not equal to 0?

The Board of Directors believes that prima.com should remain an information-only site, and so does not allow you to enable e-commerce activities.

14 WEB SITE MANAGEMENT DECISIONS

14.1 What are the differences between "Display advertising" and "Partnerships"?

The purpose of "Display advertising" is to create visibility for the site to people already surfing on the Internet and to increase traffic. Such an ad typically appears for a few days or weeks on the edge of surfers' screens.

"Partnerships" share a similar purpose, but involve longer-term commitments with major Internet entities, such as portals, communities, etc. In such a case, your site would get a display ad and a direct link from the partner's site. Such arrangements are made for 1 year at a time (two periods). You can, for example, create a partnership for $500K during Period P, and another one during the following period for $250K. Thus the two will run concurrently for one period, and your total "Partnerships" budget would be: $500K for Period P, $750K for Period P+1 and $250K for Period P+2.

14.2 What does the discount in web management decisions apply to?

Discounts apply to the Recommended Retail Price that you set in the brand management decisions.

14.3 In the case of a multi-brand site, is the discount the same for each brand?

Yes.

14.4 Can we add new products to our multi-brand website in future periods?

Yes. As soon as these new brands are introduced on the market.

15 MARKET RESEARCH STUDIES DECISIONS

15.1 Who decides which segments to target with advertising?

The "Media buying" budget allocated to a brand is used to purchase media space and time. Your advertising agency automatically selects the most appropriate media so as to target the most relevant segments for the brand. The agency uses the "Purchase Intentions" study to decide which segments to target, but your positioning decisions may also have an influence on targeting.

15.2 Do all product attributes have the same weight in the purchasing decision?

No. In the "Semantic Scales" study, consumers are asked to evaluate the importance of each product attribute, in other words, the weight each attribute takes in the buying decision. These weights are reported by consumer group.

15.3 Is the "estimated price in $" on the market forecast report the suggested retail price, or the estimated average retail price?

The estimated price in the market forecast is an estimate of the suggested retail price. Estimates about brands that have not yet been launched are based on data which are not necessarily 100% accurate.

16 Sustainable Performance Initiatives

16.1 What does SP stand for?

SP stands for Sustainable Performance. Looking beyond a purely financial model, it is L'Oréal's conviction that growth should be both sustainable and responsible. To reflect this conviction, the

L'Oréal e-Strat business game now includes a new set of Sustainable Performance decisions. As the managers of PRIMA's Cosmetics division, you will have the opportunity to:

- make "growth" an element of your Employee Benefits and Diversity & Equity policies, and your Employee Benefits and Diversity & Equity policies an element of growth;
- demonstrate respect for the environment by limiting the impact of your activities on the environment.

Please refer to the manual for more details on the types of initiatives you will be able to launch.

16.2 How many SP Decisions can I make?

To simplify the first round of decisions, we have limited the scope of SP decisions. Therefore you may only select a maximum of three initiatives in your first decision round.

After round 1, you can make a maximum of 4 SP initiatives per round.

16.3 Should I invest in SP at every round?

Most Sustainable Performance initiatives are, by nature, long-term initiatives. We recommend you invest consistently over time to maximize the impact of your initiatives.

Also, it is important to balance your investments between Employee Benefits, Environmental and Diversity & Equity initiatives to optimize the long-term sustainability of you company over time.

17 BUDGET

17.1 How is my budget calculated?

Each period, your division will be given a total budget amount to spend. The budget is split into two parts as explained below.

Part 1 – Performance-based Budget

You will be allocated a performance based budget equal to 40% of the revenue you have earned from the last period. This performance based budget can be allocated freely across the brands. For example if your brand PACIFIC generates $106 million in revenues and thus contributes to $42 million in your performance-based budget, you may decide to allocate those $42 million across your brands as you wish. For example, you are free to spend only $20 million on POP and reallocate the extra $22 million to brands PEARL or PURITY.

There is a minimum level of budget so even if you have not performed well in the last period you will still be able to function with a reasonable level of activity. There is also a maximum level of budget, as available resources are allocated to other divisions in the case of a very successful period. For more information on the minimum and maximum budgets, please look at the Newsletter.

Part 2 – Exceptional Launch Budget

The Board will exceptionally grant a launch budget for each of your new brands and for each of your one-period-old brands. For more information on the amount of these budgets, please check the Newsletter.

Exceptional launch budgets are always granted to a specific brand, and can only be used to cover the expenditures of that brand. For example if you have been allocated $20 million to launch PEARL, you CANNOT spend $15 million on PEARL and reallocate the extra $5 million to PACIFIC or POP. If you indeed decide to spend only $15 million on PEARL, your launch budget for PEARL will be reduced to $15 million.

Let's now suppose that you decide to spend $30 million to launch PEARL. In this case you would use the full exceptional launch budget for PEARL of $20 million and $10 million from your performance-based budget.

17.2 What is "Deviation from budget"?

This is the difference between your overall budget and your expenses. The budget was allocated to you at the end of Period P, and is split in two parts: a performance-based budget, and an exceptional launch budget (see FAQ 17.1). The expenses are calculated from your decisions on management time, advertising, trade marketing, etc…

If the deviation is positive, it means that you have some budget left over and that you can increase some of your expenditures.

If the deviation is negative, it means that you exceed your budget. In this case, you must reduce your expenditures. You can lower advertising or trade marketing budgets, postpone a web site creation, etc…

17.3 What happens with the budget dollars that you don't use?

The budget that you do not spend will go in your contribution since you do not spend these dollars. However, you may be able to generate more contribution by spending this budget in appropriate marketing expenses that will generate a return greater than 1.

Left-over budget <u>cannot be</u> forwarded to the next period, as it is the case in most companies.

17.4 Just by purchasing all market studies this period we exceeded our budget. Is it correct?

As explained in FAQ 8.1, during the first decision round, the default decisions are copied from the Period 0 decisions, made by the previous management team, who managed PRIMA until you took over from them. The purpose is to prevent you from having to start from scratch, with 0's in all input screens.

Your budget is therefore already allocated, so as you increase your spending in one area (Market Studies for instance), you may exceed your available budget. You must thus reduce your expenditures in some other areas.

17.5 My performance-based budget is not equal to 40% of my previous period revenues. How come?

Your performance-based budget is equal to 40% of your previous period's revenues, as specified in the "Financial Data" simulation chart in the Newsletter. In addition, there is a minimum and a maximum performance-based budget. The minimum and maximum levels are provided in the Newsletter.

18 OPEN CHALLENGE AND ACADEMIC CHALLENGE

18.1 What is the L'Oréal e-Strat Academic Challenge?

The complete learning and professional experience offered by e-Strat has motivated several professors and students to request that it be incorporated into their classes as an elective. Therefore, Professors who wish to have the opportunity to allow their students to play the game in a classroom environment, with a flexible calendar, will be able to participate in the L'Oréal e-Strat Academic Challenge.

18.2 Are there two distinct L'Oréal e-Strat Challenges this year?

No, there is only one L'Oréal e-Strat Challenge! Semi-Finals will include the best teams from both the Open and the Academic Challenge.

18.3 Can I participate to both the Open Challenge and the Academic Challenge?

No, you can only compete in one category: Open Challenge or Academic Challenge.

18.4 *I would like to participate to the Academic Challenge but I do not know if my Professor is planning on incorporating it into his/her class. What can I do?*

Talk to your Professor! There may still be a number of seats available for the Academic Challenge.

19 INTERNET CONNEXION PROBLEMS

19.1 *Will e-Strat establish the Internet connection?*

***** No!! *****

e-Strat will always use the current Internet connection. So you must first establish the connection and then attempt to submit your decisions.

19.2 *Do I need to be connected to Internet all the time when making decisions?*

Fortunately, no!!! Otherwise, your Internet and/or telephone bills might increase dramatically!! You only need to be connected to Internet when downloading your team file and submitting your decisions. This should take one minute maximum with a 9,6K-band rate connection, and a few seconds with a more rapid modem.

19.3 *I have no clue about how to establish an Internet connection?*

If you are using a university computer, you probably have access to a permanent Internet connection. In this case, downloading your team file and submitting your decisions will be a piece of cake!

If you are using your own computer, you need to be registered to an Internet Services Provider. Refer to this provider to learn how to connect to Internet through “Dial-up networking”.

19.4 *How long will submitting decisions take?*

Submitting decisions will take around one minute with a 9,6K band rate connection, and a few seconds with a 56K recent modem.

19.5 *Is it possible to upload and submit our decisions manually?*

No. You must use the e-Strat application to access the HTTP server and upload and submit your decisions.

20 MISCELLANEOUS

20.1 *Can I browse at past results?*

Yes. Use the “Period” up and down buttons, located below the menu bar, to browse through past results, from Period 0 to Period P.

20.2 *Can I print my annual report?*

Yes. Click “Print”, located below the menu bar. A dialog box pops up. You have the choice to print the currently displayed screen (chart or graph) or the entire report.

20.3 *I cannot access the “Graphs” menu. Why?*

Graphs will not be available before Period 3. Graphs with only one or two data points are not quite useful.

20.4 *Can I change one of my team members?*

You can change the members of your Team until the end of the registration period on November 27th 2007, 9:00 a.m. Paris time, and as long as you have not yet submitted your Round 1 decisions for a run. After that, you will no longer be able to modify the members of your team.

20.5 Can I change my team name?

Sorry, but your team name can not be changed.

20.6 Can I change my password?

Sorry, but your password can not be changed.

20.7 Can I contact the e-Strat Hotline if I play the Academic Challenge?

If you play the Academic Challenge, you should ask your Professor if you have any question regarding the e-Strat Business Game or the Academic Challenge.

If you have a technical issue, i.e. preventing you to install e-Strat or submit your decisions, please do not hesitate to contact the e-Strat Hotline as long as you still inform your professor.

Finally, if your Academic Team is selected to compete in the Semi-Finals, the e-Strat hotline will be open for all semi-finalists and will answer any questions you will have.