This report was prepared by team Safari Lovers from Wroclaw University of Economics.
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1. Introduction

Toy industry is a highly competitive business with only a few major players like Mattel, Hasbro and LEGO and lots of smaller companies trying to find their place in the market. One of those smaller firms is Jot, a Europe based toy producer that sells high quality educational toys targeted at 3-8 year olds. Jot outsources manufacturing to China while sells its products to retailers and distributors mostly in Europe and the USA. Company was founded in 1998 and has been growing ever since, reaching €9,866,000 in sales revenue in 2011. Since numbers for 2012 are expected to be even better Jot is thinking about taking the business to the next level and expanding to markets like Russia and Asia. In the realm of smartphone app boom new lines of products and older target groups are being considered as well. However there are a few issues that the company needs to deal with first in order to secure that such expansion is viable.

2. Identification and Prioritization of issues

We have identified two major problems and two proposals. Analysis that was conducted in appendix 3 made it clear that the most urgent and impactful problem that Jot is facing at the moment is the faulty spaceship toy. Secondly company should resolve issues regarding late delivery of toys that should hit the shelves for Christmas. Next, as more long term and strategic proposals, firm should consider near-shoring in Voldania and launching new range of products for 9-11 year olds.
3. Discussion of issues and proposals

3.1. Fault in new flying spaceship toy

Impact of the problem

Firstly, defective flying spaceship is a problem that requires both short-term and long-term actions. Fault might be dangerous to our customers' health, and there is a possibility that it might cause fire. Jot is legally responsible for all the damage or harm its products. For that selling flawed toys on the discount market is forbidden. It turned out lately that flying spaceship toy, designed by Indy Kapila, which generated exceptional sales, was defective. However, Michael Werner was responsible for this omission as well. Many companies had faced similar problems in the past. For example Mattel in 2004 released Batmobile toy with a sharp and dangerous wing [1]. Firm had to recall over 310,000 units which caused a loss both in revenue and brand name reputation.

Secondly, the cost of last order was €140,000, but we cannot forget about expenses incurred for design and development that already have been spent. Jot must remember, that retailers possess 1600 spaceships, that have not been sold yet. Whatever will come next, retailers sure cannot keep selling defective toys, so all actions must be taken as fast as possible. What is more, nowadays, when Internet and social media are very common, and unite millions of users, information about our fault or what is worst, a damage that it might cause, will reach people all over the world. That will cause huge reputation loss, that Jot has built up for years.

Potential solutions

First thing that is absolutely obligatory is to stop distribution of defective spaceships and recall them from retailers. We also have to inform customers about the consequences of charging spaceship for more than 2 hours. At this point we can take two courses of action.

First solution is to stop distribution of flying spaceships. In that case Jot would avoid
publicity, but reputation could potentially suffer. That way Jot's losses will depend on the number of customers demanding refunds, and will oscillate between € 115,200 and € 144,000.

Other solution requires new expenses incurred for fixing toys from last order that have not been sold yet. Jot should release official press note, about the malfunction, and confess that it might be harmful. Note also should include an explanation that there is no danger if used properly. Since Jot takes care of its customers, every one might get brand-new, fixed toy. This way Jot appears as a responsible company, that is not afraid to admit their fault. Cost of fixing the toys according to Michael Werner is € 48,000, but if all inventory will be sold for price € 40, lost will be covered. After that Jot will be able to continue selling flaying spaceship toys.

**Recommendation**

In our opinion the best decision is admit to the fault and release press note, including information about defect and assurance that every model would be exchanged with no extra costs. Note should also highlight a high sales of this product. Information must be sent as fast as possible. Jot should also inform retailers about defective toys, and get all of it from them, to fix all spaceships. A lot of production companies meet this kind of problems, and therefore, there comes a new trend in marketing, called “flawsome”, that turns a flaw into success [2].
3.2. Late delivery of Christmas product

**Impact of the problem**

Reputation and finance are key factors in the business. Jot brand is associated with quality and innovation. Moreover, the highest sales in the toy industry occur in the current period of the year, that is why Jot has to act quickly. The late delivery issue constitutes of the delay in realizing Gull's order and arranging shipment of the product to customers.

Jot’s sales are strongly dependent on large retailers which are powerful (see appendix 1). On the other side, according to CSR, smaller clients like independent toyshops are also important and Jot should not treat them worse. Toys market is competitive and Jot cannot allow to lose any clients. Customers make their main orders in May or June, sometimes even earlier in the year. There is a strong correlation between placing orders and estimated level of sales. It is crucial for Jot to guarantee a sufficient supply of products and holding appropriate level of inventory.

**Potential solutions**

- Delay in realizing the Gull's order

   Firstly, Jot may consider contacting with other manufacturers to ask if they are able to manufacture and deliver an order of 600 units within 3 days. It is unlikely that they make and deliver the order, but definitely worth trying.

   Moreover, Jot should request the fee for delay from Gull. It is not Jot’s fault that Gull would not be able to meet its obligation. If Gull treated Jot irresponsibly once, Jot cannot be sure that it will not happen again in the future. Unit prices claimed by various outsourced manufacturers are very close to each other therefore Jot should pay more attention to supplier’s ability to deliver the required order just in time, and to quality of service when choosing manufacturer next time (which is also in Boris Hepp interest).

   What is more, contracts between Jot and suppliers should include i.a. delivery schedules and penalties for breaches of them (e.g. fees for every day of delay).
- Arranging the shipment

First feasible solution of solving the problem mentioned above is sending 75%/25% of the order to Jot’s main customers on 4.11 and to the rest on 15.12 respectively.

The other solution is sharing the product proportionally to all its customers with 2 shipments – on 4.11 and on 15.12.

When choosing the best solution Jot has to bear in mind that the ‘peak sales’ occur in the last week before Christmas or even in the last 3 days, including Christmas Eve [3,4]. Company should call customers as fast as possible - according to the statement that ‘honesty is the best policy’. In fact nobody should suffer on delayed delivery financially [5].

Besides, Jot should apologize their customers and consider offering a discount to them as a compensation for the production and delivery issues.

The other thing company should do is ask Gull to deliver delayed part of order directly to Jot’s customers as it will help to save some time.

**Recommendation**

Jot should share product proportionally to all customers. Company has to inform their clients about the delay in the part of dispatch, truly apologize them and thank them for the trust they put in the company. Jot must also ask Gull to deliver delayed part of the order directly to the customers on 15th of December and request the fee for breaching agreed timescales. It is relevant to offer a discount to Jot’s clients.
3.3. Near-shoring proposal in Voldania

**Background to the proposal**

Near-shoring is the action of moving production, research and business processes to countries that are quite cheap and very close rather than very cheap and far away. Moving manufacturing away from China is an ongoing activity recently. In a survey of American manufacturing companies by the Boston Consulting Group in April 2012, 37% of those with annual sales above $1 billion said they were planning or actively considering shifting production facilities from China to America. The main reasons are: rising transportation, delivery and labour costs and other such as suffering innovation and pursuit of good reputation [6]. Jot’s aim is to reduce manufacturing costs, mainly by reducing the time that toys spend at sea traveling and also by reducing labour costs which are soaring in China.

**Discussion of the proposal**

While analyzing this issue the most important concern is the financial side. According to accurate calculations we’ve made (see appendix 9) we can present a few conclusions. Total cost of production per unit will be lower in Voldania in year 2 (by 4%) and so on, and by the year 5 the difference will by significant (lower than in China by almost 16%). This makes serious difference especially because Jot is rising production volume considerably. In order to reduce transportation costs Jot has to avoid long distance transport. When the distance is smaller incurred the risk of late delivery is smaller as well. Summarizing - manufacturers should be close to retailers. As far as Jot is dependent from European and American retailers (see appendix 1), and majority of Jot’s toys are sold there, therefore Jot has to manufacture toys in Europe (Voldania) and in America (or somewhere close). During our research we discovered Mexico to be a place worth manufacturing in. Average pay for Mexican manufacturing workers is now only slightly higher than for Chinese ones. Mexico labour costs for blue-collar during last few years rose only by 1% per year [7], comparing to 12% rise in China.
Jot’s co-operation with Chinese manufacturers is defined as correct. China’s supply chain is sophisticated and supple. There is a probability that Jot’s co-operation with Voldanian manufacturers might not be that good. Eastern European countries are considered as countries with low political stability. The best example of it is a bribe that Tani Grun was asked for. Facing that kind of situations may cause problems for Jot, especially for Jot’s reputation and Jot might not be considered as a company which follows CSR guidelines.

Recommendations

This proposal should be analyzed from a broader perspective. It’s connected with the fact that Jot is planning to expand to new markets (Russia and Asia). The proposal of gradual switch of production is reasonable and we accept it. Urgent action is not necessary, but actions should be taken soon if Jot wants to establish proper relations with new manufacturers. That’s why we highly recommend gradual shift of production (see appendix 9).

Our idea is to manufacture goods, store them in a warehouse and send to retailers in the same area. Therefore we recommend manufacturing in Voldania, Mexico and China; and lease warehouses in Europe, America and China. Toys manufactured by outsourced companies should be then transferred to the nearest warehouse. The target relation between manufacturers in year 5 should be around 50%-25%-25% (Voldania-Mexico-China). For more details check appendix 9.
3.4. Launch of new range of toys for 9-11 age group

Suitability

According to research toys that are most appealing to kids aged 9-11 are building sets, figures (especially the ones from movies, cartoons and video games) and kits of various kinds. They tend to enjoy doing things on their own, playing sports or games with their peers and collecting things.

Some of the most popular toys in 2011

Ultra Stomp Rocket

Snap circuit 300 in 1

Angry Birds Action Game

Monster High playing set
However, the type of toys that increase in sales are tablet-like simple to use educational toys as well as smartphone applications designed for children. According to data popularity of smartphones grows steadily.

![Population of Smartphone users in the USA](image1)

Nevertheless the fraction of people willing to pay for apps is very small.

![Paid vs Free Smartphone Apps](image2)
Acceptability

With more than 1 million applications it is extremely difficult for developers to be successful.

Percentage of App developers in a certain revenue segment

For an app to get noticed it is valid to provide the best possible service to the customers and spend money on marketing. Developing and marketing a good smartphone application depending on its features costs from $50,000-$500,000 [8]. Obviously you could save money if you choose to design, program or market your product on your own but in this business it is crucial to stand out. For instance initial investment in one of the most successful apps of all times Angry birds was €100,000 [9]. Moreover the most common Angry Birds application as well as the updates of it are free. Rovio, the company that created the game, makes money on special editions, Play Station Angry Birds game, movies featuring game characters, real life action games and apparel. Obviously Rovio's business model is not the only one that exists. Apps are being sold everyday however the prices are not very steep. According to data (appendix 4) majority of apps cost $0.99 and 90% of them do not even reach 12,000 downloads.

Feasibility

Number of companies that devote their time solely to program, develop and update apps increases steadily. They use pricy marketing, yet as we have pointed out, most of them fail. For that reason competing against app developers seems risky to say the least. To succeed Jot would have to redesign its business conduct i.e. hire programmers, developers and marketers. As shown in appendix 4 such venture is costly, risky and the app would have to be an absolute hit to make it worthwhile for Jot.

Recommendation

For reasons given in the previous sections we recommend that Jot does not enter the smartphone app market. What is more, according to Jot's bank getting any sort of additional long-term financing would not be viable. That is why we feel it would be best to postpone any plans of substantial growth for the time being (at least 14 months from now). Nevertheless since more and more children live and breathe virtual world we advise Jot to capitalize on that fact in an alternative way. As analysed in appendix 5 we suggest entering the market of producing toys and games based on the characters featured in the most famous apps and video games. Costs of licences should be lower due to mutually beneficial nature of such deal. For app developers going real-world with their characters could bring a huge boost to the sales hopefully creating Angry Birds like succes. For Jot it could provide a new devoted customer group willing to stay with their favourite characters for years. We suggest entering this segment in January 2015 which leaves Jot with a lot of time for preparation.
4. Ethical issues

Profit is not the only force that drives Jot’s business. Moreover Jot affects others while running. If Jot wants to be competitive on todays market they need to behave ethically. Behaving ethically means behaving responsibly and being aware that Jot is after all creating the world we all live in. By adhering to the ethical code Jot will be able to improve its reputation among stakeholders, clients, manufacturers, employees and banks.

4.1. Personal donation for Voldanian official

Bribery is against all moral and ethical standards. Corruption is destroying the business by making it unfair and dishonest. Bribery is hard to defeat by authorities, so it is Jot’s place to fight it. Combating corruption and promoting integrity policy and encouraging fair competition and improving the integrity of transactions shapes more equitable social and economic environment. Honesty gives all organizations a level playing field, contributes to innovation and long-term cost reduction. We recommend to refuse giving a bribe to Voldanian official. Instead it would be very appropriate to explain gently how important are the benefits Jot will provide to Voldanian economy by giving jobs to hundreds of Voldanian citizens. Trying to explain that Jot’s investment is a boost to the economy that will affect all Voldanian people which is priceless. Shall that not work, the ultimate course of action would be informing Transparency International which is a non-governmental organisation that examines and fights corruption.

4.2. Faulty flying spaceship

Releasing a defective toy that might be harmful is not only a business issue, but a moral problem. Bad insulation may cause fire and danger to health or even life. Jot should be aware that leaving the charging toy unattended is common activity, and that in turn could be very dangerous. Informing Jot’s customers about the flying toy malfunction is their duty. Jot must be responsible for its customers. Regardless
of financials and reputation, Jot should release press note as soon as possible with information that charging this model of toy for more than 2 hours might be dangerous.

According to CSR guidelines it is crucial to maintain healthy relations among employees. Indy Kaplia cannot be blamed for all the damage. After all, Micheal Werner was supposed to detect the fault. Criticizing employees could have a negative effect on their motivation which in turn could hinder Jot's efficiency. Kaplia designed well received toy and she is essential to Jot's growth.
5. Strategic objectives and long term recommendations

5.1. Strengthening Jot’s position versus large retailers

Large retailers do not regulate their trade payables in time. Days Sales Outstanding was about 150 days in 2011 (shown in appendix 7), whereas Jot’s terms of sale suggest a payment within 30 days of invoice. Average DSO in toy industry is about 76 days. When we talk about major players like Mattel or Hasbro we can notice 70 and 91 days of average collecting period. Very long average collecting period may also take effect in delays in paying back company’s trade payables and in decreasing liquidity.

Jot has little influence over large retailers and cannot act too aggressively while collecting receivables. Therefore Jot’s strategic aim should be gradually strengthening its position versus large retailers (see appendix 6).

5.2. Publish Jot’s CSR achievements and targets

Corporate social responsibility promotes vision of business accountability to a wide range of stakeholders. Key areas of concern are environmental protection and the well-being of employees, the community and civil society in general, both now and in the future.

The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from the society.

Jot should adapt a CSR strategy in the following steps:
- analyse the scope of current CSR initiatives,
- identify key stakeholders connected with CSR strategy development,
- arrange trainings for management,
- create strategic document= that includes a plan of action an a timeframe for every main area fo CSR,
- implement cyclical monitoring and auditing of Jot’s actions.
6. Appendices

6.1. Appendix 1 Porter's Five Forces Analysis

- **Supplier Power**
  - A lot of manufacturers available
  - Very easy to switch between outsourced manufacturers
  - Virtually the same costs of outsourced production across the industry
  - **Very Low**

- **Buyer Power**
  - JOT has seven large retailers that set the terms of business conduct
  - Retailers have lots of toy producers to choose from
  - Retailers do want to do business with our company
  - **High**

- **Competitive Rivalry**
  - Large number of companies that sell toys globally
  - JOT's ability to differentiate its products and place itself in a market niche
  - **Medium**

- **Threat of Substitution**
  - Company sells quite innovative products
  - New designers are introduced each year
  - JOT owns IPRs or licenses for each of its products
  - Risk of others replicating JOT's toys
  - **Medium**

- **Threat of New Entry**
  - Large capital needed to develop, produce and market toys
  - Growing smart phone app and video games industry are decreasing profitability of the toy business
  - **Low**
6.2. Appendix 2 SWOT analysis

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established retailers</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Reputation among retailers and customers</td>
<td>Section’s seasonality</td>
</tr>
<tr>
<td>Innovation</td>
<td>Receivables policy</td>
</tr>
<tr>
<td>Stable market position</td>
<td>Low net profit margin</td>
</tr>
<tr>
<td>Strong position towards manufacturers</td>
<td>Recall of spaceship</td>
</tr>
<tr>
<td></td>
<td>Heavy reliance on giant retailers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>New markets to conquer (Russia, Asia)</td>
<td>Soaring costs of manufacturing in China</td>
</tr>
<tr>
<td>New age group to conquer (9-11)</td>
<td>Losing liquidity</td>
</tr>
<tr>
<td>Growing toy market</td>
<td>Time children stay with toys is decreasing</td>
</tr>
<tr>
<td>Licensed toys</td>
<td>Traditional toys are losing popularity</td>
</tr>
<tr>
<td>Internet as a popular distribution channel</td>
<td>Relasing next dangerous toy</td>
</tr>
<tr>
<td>Implementation of CSR guidelines</td>
<td></td>
</tr>
<tr>
<td>Near-shoring</td>
<td></td>
</tr>
</tbody>
</table>

**Strengths**

Since 1998 Jot has created a brand of educational and high quality toys. 15 years on the market is the best proof of good reputation among retailers and customers. Next strenght is innovation. New designers are introduced constantly. That is why jot remains innovative and provides its customers with new types of toys.

**Weakness**

Jot has 3 credits and overdrafted account and that is why Jot cannot finance new investments this way.

Recall of flying spaceship is also a weakness, it might cause both financial
repercussions and reputation decrease.
Company has 7 big retailers, and big amount of distributors. If Jot should lose one of
the retailers, sales might decrease by nearly 10%.

Opportunities

Toy market is growing year by year, and reaching new markets is a great opportunity,
especially since Russia and Asia are growing immensely.
Cost of transportation might be smaller when manufacturers and warehouses will be
closer to our retailers. Near-shoring is the solution to this problem.
Today, a lot of big companies want their business to be associated with CSR
policies. Social responsibility will improve our reputation and brand awareness.

Threats

Prices of production in china might increase in a few years.
Despite of liquidity ratios, if Jot will not change its receivables policy, company might
lose liquidity. Its very dangerous, because due to that Jot might even go bankrupt.
6.3. Appendix 3 Prioritisation of Problems and Proposals

<table>
<thead>
<tr>
<th>Issue</th>
<th>Reputation</th>
<th>Weight</th>
<th>Financial</th>
<th>Weight</th>
<th>Urgency</th>
<th>Weight</th>
<th>Score</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Near-shoring proposal in Voldania</td>
<td>2</td>
<td>0,4</td>
<td>4</td>
<td>0,4</td>
<td>2</td>
<td>0,2</td>
<td>2,8</td>
<td>3</td>
</tr>
<tr>
<td>2) Fault in new flying spaceship toy</td>
<td>5</td>
<td>0,4</td>
<td>4</td>
<td>0,4</td>
<td>5</td>
<td>0,2</td>
<td>4,6</td>
<td>1</td>
</tr>
<tr>
<td>3) Launch of new range of toys for 9-11 age group</td>
<td>1</td>
<td>0,4</td>
<td>2</td>
<td>0,4</td>
<td>2</td>
<td>0,2</td>
<td>1,6</td>
<td>4</td>
</tr>
<tr>
<td>4) Late delivery of Christmas product</td>
<td>4</td>
<td>0,4</td>
<td>3</td>
<td>0,4</td>
<td>5</td>
<td>0,2</td>
<td>3,8</td>
<td>2</td>
</tr>
</tbody>
</table>

Prioritization was carried out by weighing the financial and reputational impact as well as the urgency of the issue. Adhering to Jots policy we have put the most emphasis on firms reputation and financials. Reputation is crucial in all businesses that deal with children since parents will always want what is best for their kids. Once lost cannot easily be regained and for that should be kept as a priority for every company in the toy industry. Nevertheless, a company needs to keep their balance sheet in check to survive, and because of that we have decided to weigh reputation and financials on an equal footing. Urgency, while still of high importance, we have decided to consider secondary due to the impact of other factors.

Financials

In regard with Jot financial situation three factors were considered the most important: profitability, liquidity and risk. We have arrived at the conclusion that dealing with late delivery problem is highly profitable. It could have an immediate effect on Jots dealings with clients and hence its bottom line. Moving production to Voldania could have a huge influence on firms future but since there is risk involved we have decided that grading it a little lower is sufficient. Faulty toys could cause financial problems but because it is only one type of a toy the impact if such
problems should arise is not that big. Finally we have graded the entering into a new market segment. Obviously there is a lot of risk involved when launching new type of product line but the effect it could have on company's profitability could be huge as well. That is why our grade for this issue is moderate.

Reputation

Issue that could potentially harm Jots reputation immensely is the faulty toy problem. It is absolutely crucial to have it resolved. Secondly, due to the fact that the problem with late delivery could affect our relations with customers its high grade is mandatory. Both proposals most likely would not change that much reputation wise and for that the grades are low.

Urgency

The most urgent issue is, undoubtedly, the problem with a faulty spaceship toy. Actions must be taken swiftly to ensure safety of Jot's customers. Equal grade was given to the late delivery problem since there is no time to waste with this one as well. It is valid for retailers to put products on their shelves before the Christmass shopping spree begins. That is why Jot needs to provide their customers with a plan as soon as possible. Other issues regard more long term planning and were graded quite low.
6.4. Appendix 4 Smartphone Application market analysis

Iphone App Sales TechCrunch.com survey conducted in 2010 gathered the data from 124 developers [10]. The most important numbers are shown below.

<table>
<thead>
<tr>
<th>Range of Prices</th>
<th>$0.99 – $79.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average price</td>
<td>$5.49</td>
</tr>
<tr>
<td>Mode of price</td>
<td>$0.99</td>
</tr>
<tr>
<td>Average of the total number of units sold</td>
<td>101,024 units</td>
</tr>
<tr>
<td>Average of the total number of units sold for the <strong>bottom 90%</strong> of the applications</td>
<td>11,625 units</td>
</tr>
<tr>
<td>Total number of units sold for the <strong>bottom 56%</strong> of the applications</td>
<td>&lt;10,000 units</td>
</tr>
<tr>
<td>Total number of units sold for the <strong>bottom 23%</strong> of the applications</td>
<td>&lt;1,000 units</td>
</tr>
</tbody>
</table>

Data are highly skewed due to the fact that a few very successful apps generate huge sales. Those top 10% of the applications set the image of high profitability of this market. It is important to realize that while aiming for brilliance is great, expecting decent results is smarter.

Assuming **realistic scenario** and the fact that Jot's developing team is capable of producing an application, company could expect to be deep in the red with this endeavor as shown below.

<table>
<thead>
<tr>
<th>Price of the application</th>
<th>$0.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units sold</td>
<td>25000</td>
</tr>
<tr>
<td>Programing, Developing and Marketing costs</td>
<td>$65 000,00</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$24 750,00</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>-$40 250,00</td>
</tr>
</tbody>
</table>
Even more **optimistic scenarios**, where Jot is able to cut the costs using its own developers and reach exceptionally high sales, do not guarantee big profits.

To make it worthwhile Jot's application would have to either be in the top 10% of the most successful apps or would have to sell well at a higher price. Since not many smartphone users are willing to pay for the apps at all, expecting them to pay top dollar would not be realistic. Most companies that reach high sales release numerous updates of their apps. That means more developing time invested and hence more costs while future gains are nowhere in sight.

<table>
<thead>
<tr>
<th>Price of the application</th>
<th>$0.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units sold</td>
<td>50000</td>
</tr>
<tr>
<td>Programing, Developing and Marketing costs</td>
<td>$45 000.00</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$49 500.00</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>$4 500.00</td>
</tr>
</tbody>
</table>
6.5. Appendix 5 Toys based on App characters

Astonishing success of Angry Birds created some sort of a trend. Kids play Angry Birds on their iPhones, wear Angry Birds clothes, and play Angry Birds real-life versions of the game. Similar trend could be seen with Hello Kitty character as well as immortal Mickey Mouse. Huge popularity of online and smartphone games made their characters very well recognized. However, apart from Rovio’s Angry Birds, not many firms go real. According to our research, some of the most wanted applications for kids on the market are:

- **Cut the rope**
- **GazziliScience**
- **Club Penguin**
- **Toca hair Salon**
Jot should not abandon what does best i.e. high quality educational toys but rather bring more modern versions of them to the kids. Producing simple games and educational science kits featuring popular app world characters could not be anything but a hit. Remember kids this age enjoy building and creating things on their own. They would like it even more when something that they already know and like is guiding them through it. Jot should not try to attract older children to the real world toys but rather bring the virtual world to them.
6.6. Appendix 6 Stakeholders Analysis

According to Mendelow's Power-Interest Grid, all stakeholders are not created equal. They differ in terms of their power and interest.

Different stakeholders have not only very different but often contradictory objectives. Organisation needs to identify all their stakeholders, rank them in order of importance to the organisation and balance the interests of these conflicting groups. For stakeholders within the same square the priority is given to stakeholders in the top right of the square.

Depending on their interest in the organisation and their power over the organisation, stakeholders can be ranked as mentioned above. For example suppliers have low power and high interest therefore Jot needs to give medium importance to suppliers.
Groups of stakeholders:

Internal stakeholders:
- Key personnel,
- Managers,
- Employees,

Connected stakeholders:
- Customers: large retailers and other distributors,
- Suppliers,
- Financial institutions,

External stakeholders:
- Government,
- Local community,
- Owners of the IPR’s for the licensed products that Jot uses.

<table>
<thead>
<tr>
<th>High Power &amp; High Interest</th>
<th>Treatment: Key Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Power &amp; Low Interest</td>
<td>Treatment: Keep Satisfied</td>
</tr>
<tr>
<td>Low Power &amp; High Interest</td>
<td>Treatment: Keep informed</td>
</tr>
<tr>
<td>Low Power &amp; Low Interest</td>
<td>Treatment: Minimal effort</td>
</tr>
</tbody>
</table>
### 6.7. Appendix 7 Financial Analysis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity Ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1,74</td>
<td>1,63</td>
<td>2,30</td>
</tr>
<tr>
<td>Quick Asset Ratio</td>
<td>1,52</td>
<td>1,44</td>
<td>2,00</td>
</tr>
<tr>
<td><strong>Activity Ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>17,81</td>
<td>18,20</td>
<td>6,10</td>
</tr>
<tr>
<td>Inventory Turnover in Days</td>
<td>20,49</td>
<td>20,05</td>
<td>59,01</td>
</tr>
<tr>
<td>Receivable Turnover Ratio</td>
<td>2,64</td>
<td>2,43</td>
<td>5,20</td>
</tr>
<tr>
<td>Days Sales Outstanding</td>
<td>138,35</td>
<td>150,39</td>
<td>70,19</td>
</tr>
<tr>
<td>Average Payment Period</td>
<td>80,48</td>
<td>96,75</td>
<td></td>
</tr>
<tr>
<td>Total Asset Turnover</td>
<td>1,91</td>
<td>1,83</td>
<td>1,10</td>
</tr>
<tr>
<td><strong>Financial Leverage Ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>5,40</td>
<td>4,77</td>
<td>2,30</td>
</tr>
<tr>
<td>TIE</td>
<td>2,25</td>
<td>2,59</td>
<td>11,20</td>
</tr>
<tr>
<td><strong>Profitability Ratios</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>32,92%</td>
<td>31,90%</td>
<td>54,01%</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>2,21%</td>
<td>2,49%</td>
<td>10,69%</td>
</tr>
<tr>
<td>ROA</td>
<td>4,21%</td>
<td>4,57%</td>
<td>11,20%</td>
</tr>
<tr>
<td>ROE</td>
<td>26,97%</td>
<td>26,36%</td>
<td>25,11%</td>
</tr>
</tbody>
</table>

According to results of financial analysis, it is definitely worth to pay attention to:

- The Debt Ratio, which is considerably higher than average in the toy industry,
- The TIE ratio, which is only 2,59 with average of 11,2 in a toy industry. There are no standards for any ratios, but typically, it is a warning sign when interest coverage falls below 2,5x,
- The DSO and Receivable Turnover Ratios; These ratios inform us that Jot is giving a credit to its customers for too long period of time. Long payback period may take effect in payment backlogs or formation of bad debt. Average Collection Period of 150 days informs also about lax receivables policy,
- Relatively low Profitability Ratios; However, Jot’s condition should rally through expected growth of sales in the nearest years and cutting down the expenses for example by switching production gradually,
- Increasing Inventory Turnover Ratio, which informs us that inventory lasts for less and less days of sales. It also increase the risk of not fulfilling customer’s expectations in time. The necessity of frequently restoring an inventory is also connected with higher transport costs.
6.8. Appendix 8 PEST Analysis

PEST

Political
- European Union requires CE approved toys,
- Voldania as a european country well known for low stability.

Economic
- There are several growing markets, where people are gaining wealth fast, and also their total fertility rate is significant,
- UK, and other highly developed countries encourage people to invest by lowering interest rate, which makes bank loans cheaper.

Social
- Kids play with toys in almost every country on the planet,
- In highly developed countries there is a moving tendency into smartphone applications,
- Total fertility rate for european countries is low.

Technology
- Launching electronic toys is connected with employing specialised programmers,
- Technology is growing, and kids use smartphones more commonly,
- Technology is more and more important while manufacturing, which reduce labour costs.
### 6.9. Appendix 9 Near-shoring cost calculations

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total labour time to manufacture whole in China and Mexico (in hours)</td>
<td>30000</td>
<td>60000</td>
<td>84000</td>
<td>106000</td>
<td>132000</td>
</tr>
<tr>
<td>Total labour time to manufacture whole in Voldania (in hours)</td>
<td>27000</td>
<td>45000</td>
<td>63000</td>
<td>81000</td>
<td>99000</td>
</tr>
<tr>
<td>Total labour cost China</td>
<td>63 000 000 €</td>
<td>117 800 000 €</td>
<td>181 396 800 €</td>
<td>264 831 392 €</td>
<td>363 482 972 €</td>
</tr>
<tr>
<td>Total labour cost Voldania</td>
<td>135 000 000 €</td>
<td>229 500 000 €</td>
<td>327 726 000 €</td>
<td>429 798 240 €</td>
<td>535 803 919 €</td>
</tr>
<tr>
<td>Total labour cost Mexico</td>
<td>72 000 000 €</td>
<td>121 200 000 €</td>
<td>171 376 800 €</td>
<td>223 546 018 €</td>
<td>274 719 459 €</td>
</tr>
<tr>
<td>Total machining costs China and Mexico</td>
<td>84 000 000 €</td>
<td>140 000 000 €</td>
<td>195 000 000 €</td>
<td>262 000 000 €</td>
<td>308 000 000 €</td>
</tr>
<tr>
<td>Total machining costs Voldania</td>
<td>117 500 000 €</td>
<td>196 000 000 €</td>
<td>274 400 000 €</td>
<td>352 800 000 €</td>
<td>431 200 000 €</td>
</tr>
<tr>
<td>Distribution costs China per unit</td>
<td>3,000 €</td>
<td>3,180 €</td>
<td>3,370 €</td>
<td>3,570 €</td>
<td>3,780 €</td>
</tr>
<tr>
<td>Total distribution costs China/Mexico</td>
<td>180 000 000 €</td>
<td>318 000 000 €</td>
<td>471 912 000 €</td>
<td>643 146 840 €</td>
<td>833 234 794 €</td>
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<tr>
<td>Total distribution costs Voldania</td>
<td>72 000 000 €</td>
<td>127 200 000 €</td>
<td>183 754 600 €</td>
<td>267 256 456 €</td>
<td>333 253 917 €</td>
</tr>
<tr>
<td>Total cost of production:</td>
<td>327 000 000 €</td>
<td>575 800 000 €</td>
<td>862 308 800 €</td>
<td>1 160 680 632 €</td>
<td>1 560 717 766 €</td>
</tr>
<tr>
<td>China</td>
<td>330 000 000 €</td>
<td>573 200 000 €</td>
<td>839 238 800 €</td>
<td>1 117 000 660 €</td>
<td>1 415 954 252 €</td>
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<tr>
<td>Mexico</td>
<td>349 800 000 €</td>
<td>652 700 000 €</td>
<td>790 880 800 €</td>
<td>1 039 848 698 €</td>
<td>1 300 297 837 €</td>
</tr>
<tr>
<td>Total cost of production per unit:</td>
<td>5,450 €</td>
<td>5,756 €</td>
<td>6,088 €</td>
<td>6,448 €</td>
<td>6,840 €</td>
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<tr>
<td>China</td>
<td>5,500 €</td>
<td>5,792 €</td>
<td>5,995 €</td>
<td>6,209 €</td>
<td>6,456 €</td>
</tr>
<tr>
<td>Mexico</td>
<td>5,827 €</td>
<td>5,527 €</td>
<td>5,649 €</td>
<td>5,777 €</td>
<td>5,910 €</td>
</tr>
</tbody>
</table>

### Schedule of the gradual shift of production:

<table>
<thead>
<tr>
<th>Year</th>
<th>Voldania</th>
<th>China</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10%</td>
<td>85%</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>20%</td>
<td>70%</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>30%</td>
<td>55%</td>
<td>15%</td>
</tr>
<tr>
<td>4</td>
<td>40%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>5</td>
<td>50%</td>
<td>25%</td>
<td>25%</td>
</tr>
</tbody>
</table>
6.10. Appendix 10 Sources

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