

The Institute of Administrative Management
6 Graphite Square
Vauxhall Walk
London SE11 5EE
info@instam.org
Tel: 020 7091 2600
Fax: 020 7091 2619
www.instam.org



Level 5 Adv. Diploma in Administrative Management

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Case study 2 scenario



Dreamfable software

Dreamfable is a public limited company specialising in the development and publishing of role-playing adventure and first-person action video game software in packaged and downloadable formats, for a variety of games platforms including the PC. Games can be purchased in retail outlets, from the company online store or in some cases downloaded from its website. Online gaming is not currently offered by the company.

Employing 120 staff, Dreamfable has been operating in the entertainment and games software industry for the past ten years. Dreamfable is relatively small compared with the big players who have over 80% of the market. The company has grown from its origins as a private limited company established several years ago by Dominic Crozier. At the time, Dreamfable specialised in PC software development and employed less than 20 staff, in its development studio. It has grown into the present company that was established three years ago as a PLC. Dominic took the decision to 'go public' with an initial share capital of £1 million, as a way of raising additional finance to expand the company, and at the same time retained a controlling interest. This enabled him to exploit opportunities within the rapidly expanding games market, both home and abroad. As Executive Chairman of the company's management board, he saw this as providing an opportunity to increase the company's product range for a variety of games platforms. By moving into areas of publication and distribution, Dreamfable avoided some uncertainties of operating as a third party independent development studio, relying on major publishers for project contracts, income and the marketing, distribution and sales of its games.

Around the time Dreamfable operated as a private limited company, a number of independent developers had got into cash-flow difficulties in meeting project milestones on which they relied for staged payments from publishers contracting their games. The company has, in the last three years, experienced sustained and relentless competition in all areas of its product range from competitively priced and innovative developments in games products and the new markets in which they're sold, to the increasing size of firms and their growing share of the market. For instance, the home market has been increasing by over 8% per annum, with sales approaching £2 billion, representing over 25% of the European market and nearly 10% worldwide. One in three games now developed in Europe is produced at home and home sales of games software in the current year already exceed £700 million, with a sales growth of over 40% compared to the same period last year.

Located on a new business estate on the outskirts of a large city, the company owns and occupies modern premises of office accommodation and development studios, with room for expansion beyond the present levels of staffing and games production, to exploit the growing market.

In an industry spread across development, publishing, marketing, manufacturing, distribution and legal services, Dreamfable employs in its software development teams, multi-cultural and multi-lingual games designers, graphic artists, producers, sound engineers and play-testers. However, the actual manufacturing, printing and packaging of the games in their various formats is outsourced to specialist suppliers in the industry.

The company's structure (see Appendix 1) follows an established pattern of organisation, based on hierarchy and a division of labour into functional areas of activity. However, matrix arrangements are used in project development by the software teams, to inject expertise into this side of the business, though anticipated improvements to flexibility, creativity and knowledge transfer have been slower than expected to materialise.

Dominic Crozier has earned a reputation as an entrepreneurial and thrusting employer who has steered Dreamfable through corporate growth and restructuring in a time of intensifying global competition. Eva Larson, the Managing Director, has also been with the company since it was originally established and complements Dominic's vision and action with a steadying hand on the governance of the company and management of its activities. This is reflected in the organisation structure with its present emphasis on predictability, rules, procedures and regularity following the company's growth in recent years.

The remaining executive directors manage their areas of responsibility through managers and their team leaders, each running individual areas of activity such as procurement, inventory, accounting, HR including payroll, IT systems and customer services, etc. Administrative Services is a centralised resource, whilst matrix arrangements are in place for software development projects.

It is noticeable that the existing structure is just about coping with its market share in satisfying product demand, both in sales and technological developments. The company relies heavily on its e-business to generate sales through e-mail and the internet (55% of sales at present). The website maintains customer records on a database and the company uses proprietary software packages for production control, financial and personnel systems.

It is against this background that Dominic called his fellow directors together in a special meeting to review the company's progress to date and consider possible options to enhance its profitability and safeguard its future.

Dominic opened the meeting by reviewing the current business environment and how the company had been performing, tabling financial information to support his arguments (see Appendix 2). "We can continue along present lines, though our competitors are outpacing us on developing new market sectors in sports fitness and brain training software, quite apart from on-line gaming coupled with imaginative marketing and linked to dedicated video gaming machines. We've always tended to emphasise games for the PC in what is now a declining market whilst at the same time developing and publishing for other platforms. Rudi, as Marketing Director, can you give us an overview of the industry for everyone here, so that we can get a feel for what we're facing?"

Rudi confirmed Dominic's view of the market and outlined developments in the United States, where the total annual revenue of about 1000 companies amounts to about \$12 billion. "Successful companies understand the needs of their customers in the wider entertainment industry. They are alert to changing interests and demographics, market effectively and are very quick in getting product developments to market. The companies not only enjoy economies of scale in their manufacturing, marketing and distribution but are often large corporations integrating the production divisions of hardware with software in their business operations."

Jason Channing, the Publications Director, went further, "Let's not just think vertically in terms of our functional responsibilities. All areas of activity are part of a chain adding value to the games which contribute to our profitability and success. Eva, our Managing Director, could lead the other Directors, Jane in HR, Lauren in IT and Sara in Administrative Services, to look at ways to show how our activities, including administration and ICT, could be linked together to reduce costs, improve quality and increase our overall efficiency and effectiveness. At this stage, we don't need a full scale analysis, just a framework or model which relates to the company, that we can then use, to highlight interrelationships as a basis for us contributing our ideas in more detail."

Dominic agreed and added, "New markets are opening up which we really haven't begun to exploit. You all know our current product lines and the markets they're aimed at. We need to think ahead and identify the direction we want to go in. This means having a fuller understanding of what is driving changes in organisations within our industry. These drivers could be the cultural implications of global business, our brand identity and the way we structure our operations. Rudi, I've suggested some new types of games that are coming on the market. What we're now lacking is market research on their possibilities and an analysis of the marketing mix, as a basis for formulating our marketing objectives in these product areas. I'm looking for a better understanding of our competitors and the forces in the wider environment that are determining profitability and success at this stage of our life cycle."

Dominic then turned to Jane Dale, the Human Resources Director, and asked what impact all this was having on the staff, particularly those in software development. Jane replied that the present organisation structure wasn't really as conducive to creative design, sharing knowledge and exchanging ideas as it could be. A different type of working culture was essential for flexibility and innovation, if they were to get the most out of their project team's skills base. Jane was concerned about staff turnover, up to 5% for software development, given that there was a healthy external labour market for software development staff. More systematic planning was necessary, if the company was to move forward with a sound skills base to resource its future development activity. As if this wasn't enough, Jane also commented on the way the company rewarded its staff with the schemes and systems in place to motivate them. "We need to recognise both the individual contribution made by our software designers and the part they play in their project teams. Like our other employees, they are on annualised hours and paid through a graded structure tied to annual salary, with a year end bonus linked to corporate profits. We should be more imaginative and recognise the key contribution of this section of staff. It's about motivating them in the work they do."

At this point Mark Boater, the Finance Director, entered the discussion with his thoughts about corporate finance. "As a public company looking both to consolidate our success and expand our range of products and sales, we have to consider all options on raising additional funds. Financially, we should increase both capital and revenue if we are to continue on a sound financial footing. There are a number of ways that we could seek to raise additional capital and remain a public company."

At this point Dominic felt the meeting shouldn't really be taken further without more information. Drawing the meeting to a close, he said, "We've a lot to think about in how we understand the position of the company and our options for taking it forward. Let's meet again in two weeks with a clearer picture of how the company is performing and some of the actions that are open to us. Meantime, gather whatever information is required, making use of outside sources if you're uncertain or need further details. Then run it past me so that I can pull our thoughts together in time for our next meeting.

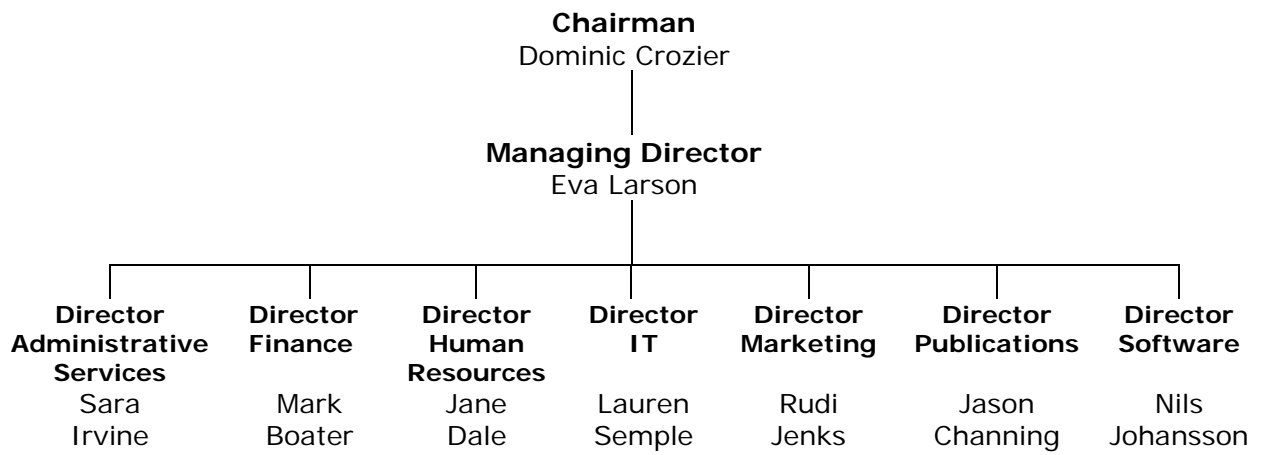
Notes

In dealing with this case you are requested to: -

- (A) Make clear any assumptions you feel necessary

- (B) Make clear any local circumstances that are applicable to the country in which you live, if appropriate to the case study.

Appendix 1



Appendix 2

Dreamfable Summary of Financial Results

Trading Profit and Loss Summary	Year	Year	Year
	2005	2006	2007
Sales Revenue £(000's)	10400	10850	10920
Sales costs £(000's)	4800	5040	5292
Gross Profit £(000's)	5600	5810	5628
Operating Expenses £(000's)	3600	3960	4488
Net profit before tax and dividend	2000	1850	1140

Balance Sheet Items Year End 2007

Share capital (£1 share) – authorised and issued £(000's);	1000
Long term bank loan – 15 years £(000's):	250
Fixed Assets (est. value including depreciation) £(000's):	1500
Current Assets (000's):	£2420
Current Liabilities (000's):	£1952

Other Financial Information

Home Market Share	0.7%	0.6%	0.6%
Shareholder (2007): Share price £2.50, Dividend paid 8%			