In this single-player simulation, students act as a member of the Capital Committee of the New Heritage Doll Company and select projects to fund across the company’s three divisions.

Over a five-year period, students review a variety of proposals ranging from small, tactical projects to major, strategic initiatives including an acquisition opportunity. Each project includes a brief description, financial projections, project performance metrics, and a risk profile. Annual budget constraints limit spending, requiring students to use financial metrics to assess trade-offs and choose which projects to fund each year. Ultimately, students must develop a multiyear capital budgeting strategy that creates the most value for the firm.

Finance Simulation: Capital Budgeting

Students explore how capital budgeting decisions over a five-year period affect profitability and performance.

Evaluating Project Proposals

New Heritage Doll Company is a privately held firm with three divisions: a production division that manufactures dolls and doll accessories; a retail division that sells the company’s products through retail stores; and a licensing division that sells the rights to the company’s branded doll characters.

Projects have a wide variety of characteristics for students to analyze and consider. For example, some projects introduce new product lines while others expand existing ones. Some projects are only available for a limited time while others remain available every year. Some are mutually exclusive while others are interdependent in either their costs or their potential payoffs. In addition, some current investment decisions affect future investment opportunities.
Each project description includes information about the project’s objective, a general risk assessment, and estimated cost for both the current year and future years as some projects have multi-year spending requirements. The firm has estimated its corporate cost of capital but students may decide, project by project, to adjust the discount rate before examining investment metrics such as NPV (net present value).

Students evaluate detailed project descriptions and analyze financial metrics to make decisions.

Measuring Performance
The simulation provides updates for each project selected in the previous year. Projects selected for funding are added to the portfolio for each sponsoring division. The yearly performances are reflected in consolidated financial statements for the firm as well as the statements for each sponsoring division.

Students can assess their performance using two primary financial metrics: the company’s APV (adjusted present value) at the end of the simulation and cumulative operating cash flows generated during the five years. In addition, students can review other financial and operating metrics, including sales, EBITDA (earnings before interest, taxes, depreciation, and amortization), net income, and total assets. Administration tools allow faculty to lead a debrief session comparing students’ decisions and outcomes.
Administration Options and Tools
A comprehensive Facilitator’s Guide covers key learning objectives, including:
- Exploring corporate resource allocation in a budget-constrained, multi-year setting
- Analyzing the impact of capital rationing on capital investment choices
- Understanding and interpreting core approaches in analysis: NPV, IRR, Payback Period, and Profitability Index
- Understanding risk-adjusted discount rates
- Connecting capital budgeting to company performance and market position

Budget Constraints
Faculty can customize the simulation’s budget constraint to tailor the experience to course learning objectives. The budget can be defined as a fixed amount, a variable amount based on the prior year’s EBITDA, or a combination of both. The same budget constraint can be assigned to the entire class or different scenarios can be assigned to selected groups of students running the simulation at the same time. Assigning different scenarios allows for comparative analysis of the effects of different budget constraints on investment decisions and outcomes.

Web-based results are available to instructors for immediate debrief. Faculty can review class summary results and rank them by key performance metrics including EBITDA, APV, and net income.

FREE TRIAL ACCESS
A Free Trial allows full access to the entire simulation and is available to registered Educators on our website.

Educator registration is a free service for faculty at degree-granting institutions and allows access to Educator Copies, Teaching Notes, Free Trials, course planning tools, and special student pricing.

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