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## **Assessing Public Policy Impact on the Sustainable Growth Rate of New Ventures**

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### Abstract

The growth of firms is fundamentally based on self-reinforcing feedback loops, one of the most important of which involves cash flow. When profit margin is positive, sales generate cash, which may then be reinvested to finance the operating cash cycle. We analyze simulations of a sustainable growth model of new ventures to assess the importance of taxes, and regulatory costs in determining growth. The results suggest that new ventures are particularly vulnerable to public policy effects, since their working capital resource levels are minimal, and they have few options to raise external funds necessary to fuel their initial operating cash cycles. Clearly, this has potential consequences in terms of gaining competitive advantage from experience effects, word of mouth, scale economies, etc. The results of this work suggest that system dynamics modeling may provide public policy makers a cost effective means to meet the spirit of the U.S. Regulatory Flexibility Act.

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# **Assessing Public Policy Impact on the Sustainable Growth Rate of New Ventures**

## **Introduction**

The buzz of the stock market bubble of the 1990s has subsided in recent years and many companies are struggling to survive. This paper analyzes the classical growth of the firm and hopes to explain certain important variables in finding a level of long-term sustainable growth for a firm of any size. We use a sustainable growth model utilizing Cash Conversion Cycles, Cash Required, and Profit Margin to instantiate our data.

Although there is substantial research on the economic impact of income taxation on labor and wages, “there is a paucity of comparable information regarding the impact of income taxation on entrepreneurial enterprises” (Holtz-Eakin & Rosen, 2001: 1). The brevity of research on sustainable growth within academia seems to imply that controlling production function variables has long been determined much more important for economic advancement (Matsuyama, 1999). Our study will look at the impacts of public policy in terms of taxation and regulation costs (i.e. infringements on market efficiency).

Historically, success rates for new ventures have been abysmal, as “only 41.4% of new enterprises reach an age greater than five years” (Forrester, 1963: 1). In a more recent study, the success rate has remained about the same as, “66 percent fail within six years” (DeCastro et al. 1999). In recent decades, many improvements in modeling firms’ growth patterns have taken place, with Jay Forrester providing us with the first such model in *Industrial Dynamics* (Forrester, 1961). In this paper, we will analyze simulations of a new venture. Our focus will be to verify or eliminate the importance of

taxes, and regulatory costs in determining growth, through a self-financed, sustainable growth model.

### **Self-Financing Sustainable Growth Model**

A company's sustainable growth rate depends on three factors, the length of time in the firm's Cash Conversion Cycle (CCC), the amount of Cash Required (CR) for each Operating Cash Cycle (OCC), and the magnitude of the Profit Margin (PM), or the amount of cash generated from each dollar of sales (Churchill and Mullins, 2001).

The first self-financing, sustainable growth rate factor, CCC, represents the average total amount of time cash is consumed in the firm's operations; from the purchase of material from suppliers, to carrying inventory, to collection of credit sales. The longer this cycle, the longer cash is tied up, and the slower the rate at which cash may be invested for growth. The maximum length of this cycle is called Operating Cash Cycle (OCC) and is determined by the sum of days required for carrying inventory and the days required for collection of accounts receivable. The calculation of OCC days required may be represented as:

$$\text{Operating Cash Cycle (in days)} = (\text{Accounts Receivable}/(\text{Sales}/365)) + (\text{Inventory}/(\text{Cost of Sales}/365))$$

The average Cash Conversion Cycle (CCC) will be shorter than the OCC by the average days of accounts payable. Thus, the calculation of CCC days required may be represented as:

$$\text{Cash Conversion Cycle (in days)} = \text{OCC} - (\text{Accounts Payable}/(\text{Cost of Sales}/365))$$

The second self-financed, sustainable growth rate factor, Cash Required (CR), represents the average amount of cash required to finance one CCC. Cash required is a function of the magnitude of the firm's costs; cost of sales and operating expenses. As the firm finds ways to reduce costs, per dollar of sales, a lower amount of cash is required to finance each operating cash cycle. The lower the amount of cash required for each cycle, the greater the growth rate for a given level of investment cash available. If it is assumed operating expenses are paid out uniformly throughout the cycle, then the cash required for each operating cash cycle may be represented as:

$$\text{Cash Required (for each OCC)} = ((\text{Cost of Sales}/\text{Sales}) * (\text{CCC}/\text{OCC})) + ((\text{OCC} * .5)/\text{OCC})$$

The third self-financed, sustainable growth rate factor, Profit Margin (PM), represents the cash generated per sales dollar, or the efficiency with which potential reinvestment dollars are generated on each dollar of sales. The greater the earnings per dollar of sales, the greater the reinvestment amount, and the greater the self-financeable growth rate. The profit margin may be calculated as:

$$\text{Profit Margin} = \text{Net profit after tax}/\text{Sales}$$

The Self-Financeable Growth (SFG) rate for one Operating Cash Cycle (OCC) may then be approximated as:

$$\text{SFG rate for each OCC} = \text{PM/CR}$$

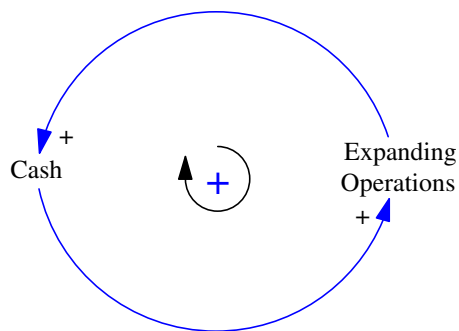
The annual SFG rate is obtained from the product of the SFG rate for each cycle and the number of cycles in the year:

$$\text{Annual SFG rate} = (\text{PM/CR}) * (365/\text{OCC})$$

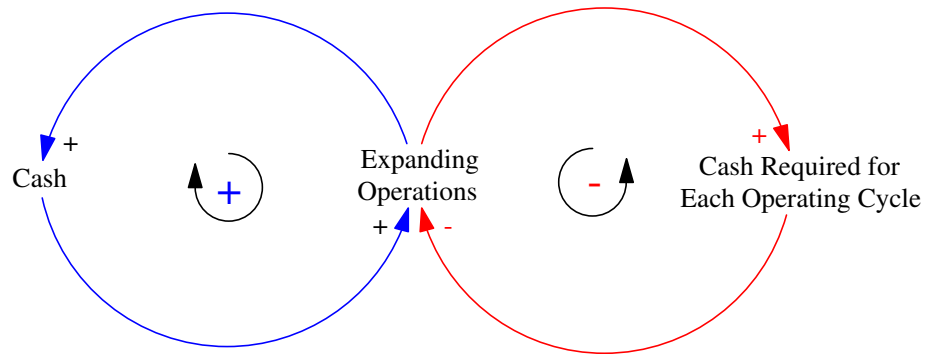
This rate may be compounded to obtain an annual rate:

$$\text{Compounded annual SFG rate} = (1 + (\text{PM/CR}) * (365/\text{OCC})) - 1$$

Basically then, expanding operations generates cash, which may then finance a larger operating cycle, which expands operations; resulting in a self-reinforcing feedback cycle.



However, as operations expand, the cash required to finance the operating cycle grows as well. This creates a balancing feedback effect on growth. Thus the firm will grow only when the cash increases at the same or greater rate than the cash required.



The dominant variable affecting the magnitude of cash generated from operations is the profit margin. Given the dynamics of compounded returns, *ceteris paribus*, small changes in profit margin will invoke large changes in the growth experienced by the firm. The longer the time period observed, the greater the impact of profit margin on growth. It is important to note that the exponential growth pattern is not necessarily due to increasing profit margin as the firm grows (Murphy, Trailer and Hill, 1996), but rather to the self-reinforcing feedback cycle of increasing investment in the operating cash cycle that occurs even when the profit margin is unchanging.

Given the exponential nature of this relationship between profit margin and growth, the short-run impact may be small even though the very-long-run impact will be so strong that the firm will ultimately be blocked by constraints other than cash flow issues. The availability of adequate property, plant and equipment are not typically the dominant limit to growth; rather the availability of management talent (Schumpeter, 1951; Penrose, 1959; Packer, 1963), negative feedback effects of delivery delay (Forrester, 1961; 1978), capacity-acquisition policy (Nord, 1963), and service quality

erosion (Oliva et al. 2003, Sterman, 2000) limit growth. Even when these latter constraints are resolved, the growth rate will ultimately be limited by the market saturation (Smith, 1776, Sterman, 2000). Thus, profit margin may be expected to have a significant impact on potential, maximum, sustainable growth rates. However, actual growth rates should be expected to be lower than potential growth rates when the time period covers many years, or decades.

### **The Self-Financed, Sustainable Growth Model**

In general, it is expected that policy makers are susceptible to problems with decision making when the decisions are embedded in multi-loop nonlinear feedback systems, because the human mind is not structured in a manner that accommodates such complexity (Forrester, 1971). Public policy effects on the growth of new venture firms are especially associated with such complex systems. The growth of firms is fundamentally determined by nonlinear cost and revenue functions, each with their own, multiple, dynamics inputs, many of which include delays in their impact. System dynamic models offer a means of effectively overcoming such problems of complexity (Sterman, 2000). Thus, to more effectively investigate the impacts of public policy on new venture growth, we built a dynamic simulation. The model is a system of nonlinear differential equations describing:

- (i) One competitor that sells in a competitive market; the firm represents only one of many producers and it is assumed that the output of any one firm is not sufficient to alter the market price.



- (ii) The market will purchase as many units as this firm can produce, but will pay only a single (commodity) price.
- (iii) Nonlinear cost structure, reflecting the interaction of fixed and variable costs.
- (iv) A delayed, nonlinear impact on the sustainable growth rate from accounts receivable.
- (v) A delayed, nonlinear impact on the sustainable growth rate from accounts payable.
- (vi) A delayed, nonlinear impact on the sustainable growth rate from cost of sales.
- (vii) A fixed cost impact on the sustainable growth rate from operating expense.
- (viii) A variable expense impact on the sustainable growth rate from sales tax.
- (ix) A fixed expense impact on the sustainable growth rate from federal regulation costs.

### **Model Structure**

The model variables and their interactions are based on existing formulations of self-financable, sustainable growth rates (Churchill and Mullins, 2001).

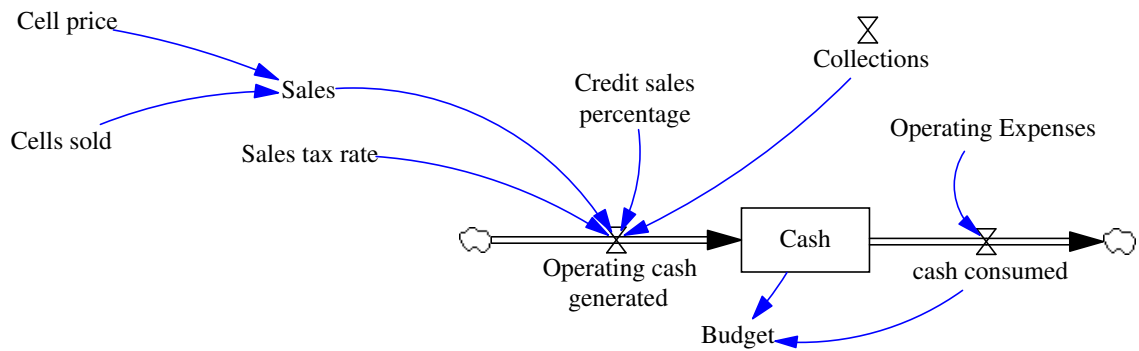
The model is comprised of five sectors:

- Cash
- Accounts Receivable
- Accounts Payable
- Labor

- Inventory

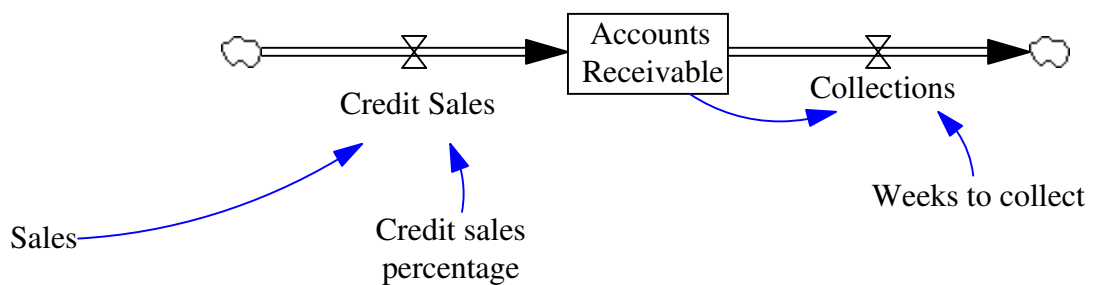
### The Cash Sector

Cash is generated by sales and consumed by operating expenses. Cash from sales is reduced by both sales tax and credit sales. Collections on credit sales generate cash. Any cash accumulated determines the budget for the next weekly order from suppliers.



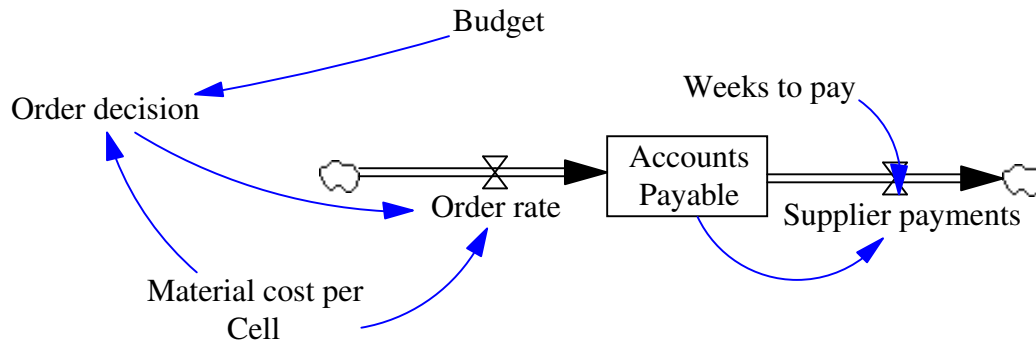
### The Accounts Receivable Sector

Accounts receivable is generated by credit sales and depleted by collections.



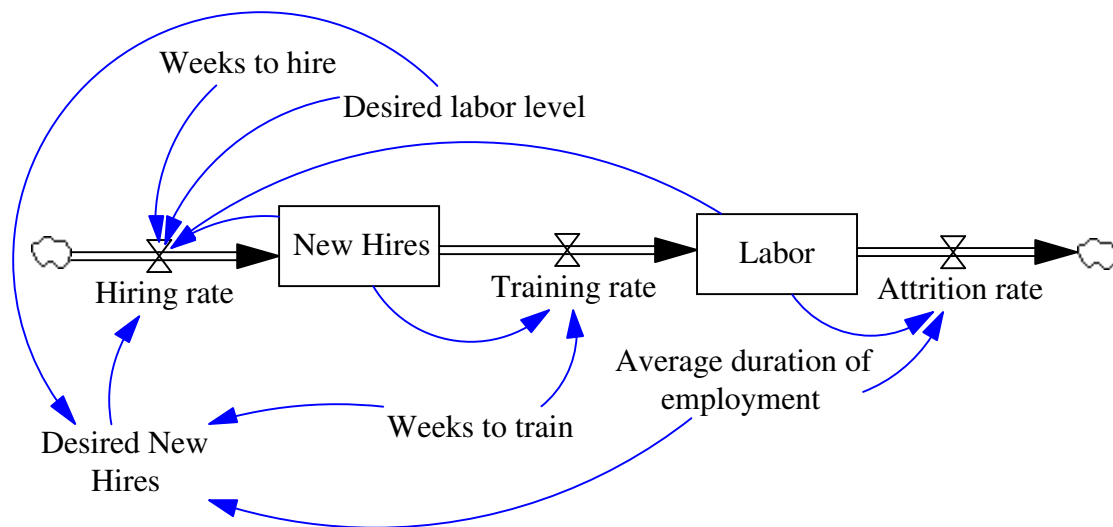
## The Accounts Payable Sector

Accounts payable is generated by orders from suppliers and depleted by payments to suppliers. The order decision, in terms of the size of the order, is determined by the budget relative to the cost of the material.



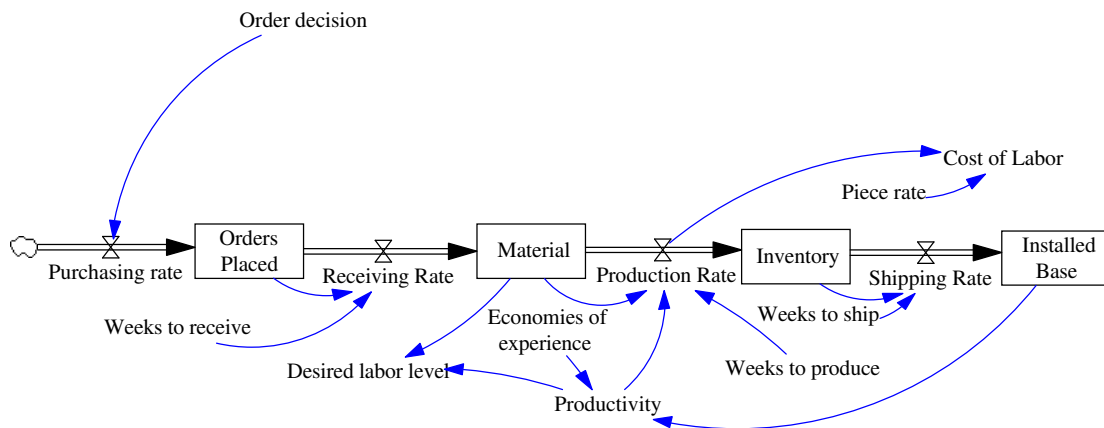
## The Labor Sector

Labor is generated by the rate at which new hires can be recruited and trained, and is depleted via attrition. The hiring rate decision includes both the anticipated attrition rate, as well as the delay to the labor pool resulting from time in training.



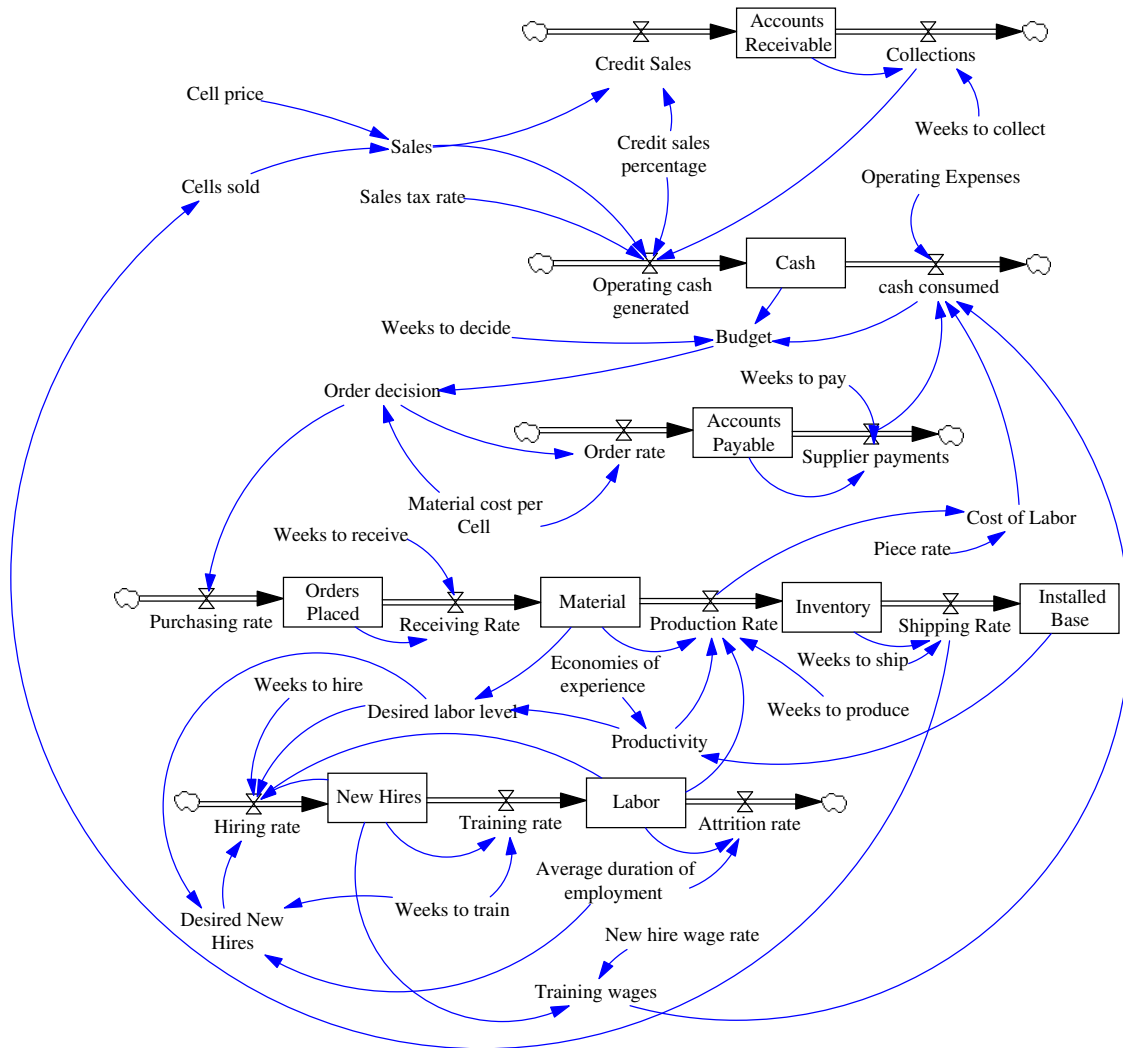
## The Inventory Sector

Inventory is generated by the rate at which new new orders are placed and subsequently received from suppliers, and the production rate. Inventory is depleted by sales. Accumulated sales determine the installed base, which is expected to influence productivity due to economies of experience.



The complete model is illustrated below, showing the linkages between the 5 sectors.

## The Self-financed Sustainable Growth Model



### Growth Dynamics

Our growth dynamics model was used to test whether changes in public policy would have a “substantial” impact on the growth of new firms. In creating the model, the aspects of growth we considered important for public policy, were sales and jobs. Thus, our conclusions will focus primarily on these two variables.

A benefit of system dynamics modeling is that the impact of change in a single variable can be isolated for assessment. In this case, a baseline self-financeable growth (SFG) pattern was generated to serve as a control for isolating the impact of alternative public policies. In this model, it is important to note that the growth of the firm is limited only by internally generated funds. That is, it is assumed that the firm can sell as many units as can be produced, and the physical plant provides sufficient capacity for any production level, over the two year period studied. Also, labor and material are always available, although with a delay. Thus, the model generates a best-case or maximum potential growth of the new venture.

The simulation time was selected to be two years because it is generally the most restricted, for the entrepreneur, in obtaining external funding for growth. Bank managers we interviewed stated that they were reluctant to lend to firms with less than three years of documented operations. Thus, growth for the first couple of years is primarily dependent on the founders' own investment, and internally generated cash.

The public policies we studied were changes in the sales tax rate, and federal regulation costs. In the following sections, data is presented that show how changes in these policies affect the potential growth rate of a new venture.

### **Growth Dynamics: Impact of changes in the sales tax rate.**

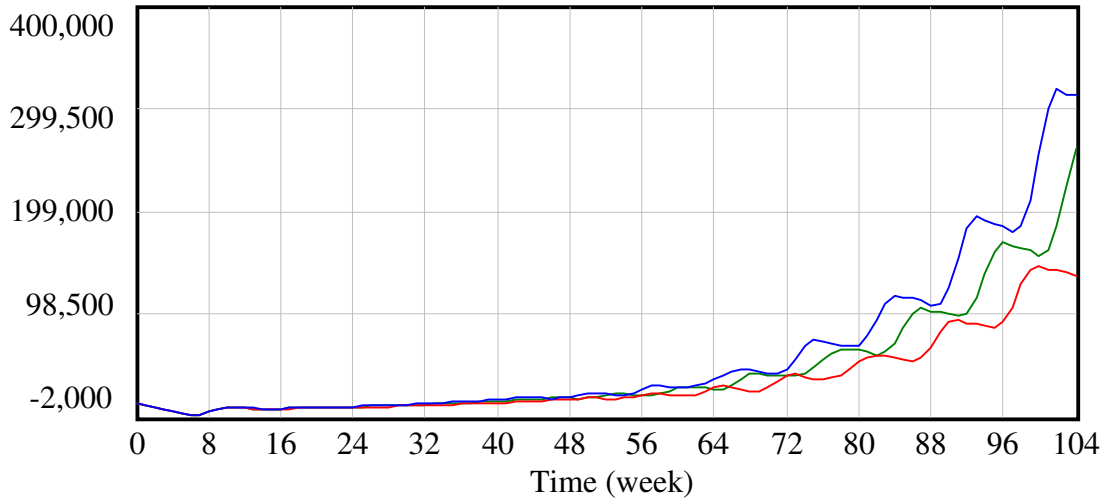
We simulated four sales tax scenarios. Sales tax was 7% in the baseline and we compared it to: a sales tax increase of 1% (total tax of 8%); a decrease of 1% (total tax of 6%); and the elimination of sales tax (total tax of 0%). Because the latter scenario had such a strong impact, the results for that scenario are reported separately, last.

Because sales tax is typically applied only to final sales, the model assumes the product is sold to the end consumer. Additionally, the model assumes the product is of an industry standard and sold internationally, and so the price is set by the market. Accordingly, to be competitive, the firm must pay the sales tax out of the given market price. These assumptions are intended to illustrate the comparative advantage associated with competing counties, states, or nations' sales tax policies.

The accumulating resource variables were selected for presentation in this section to illustrate the general dynamics of new venture growth. To observe the dynamics of the rate variables, the interested reader is referred to the accompanying Vensim model.

*Cash.* The entrepreneur launches their business with \$10,000 in available cash. The cash performance is presented in figure 1. The entrepreneur runs out of cash in weeks six and seven, and accordingly requires a cash infusion of about \$1,000 for week six and \$200 for week seven. We assume the entrepreneur uses a personal revolving credit line, likely a credit card, to prevent insolvency. This seems consistent with the SBA report that about 50% of small businesses use credit card debt. This negative cash flow occurs because there initially are no sales to cover the costs of work-in-process. Eventually, sales occur and cash is available for reinvestment in material and labor. The erratic pattern in cash is entirely due to the firm's own internal structure of delayed feedback effects on the ordering decision.

## Cash



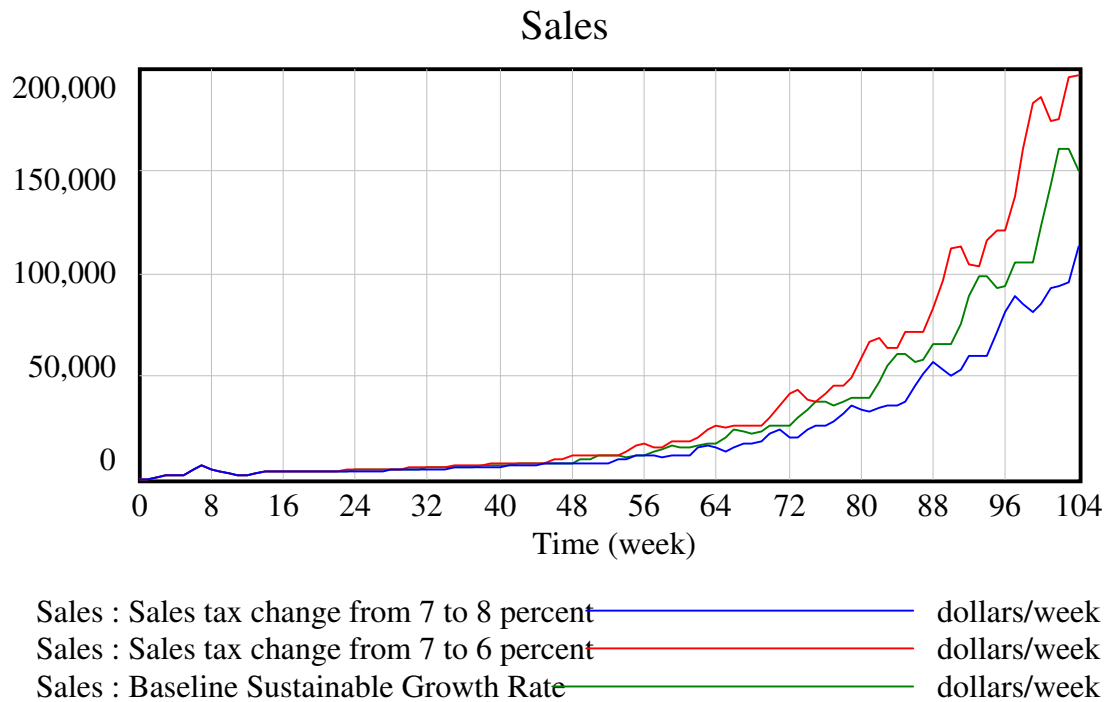
Cash : Sales tax change from 7 to 6 percent ————— dollars  
 Cash : Sales tax change from 7 to 8 percent ————— dollars  
 Cash : Baseline Sustainable Growth Rate ————— dollars

*Sales.* The rate of sales exhibits the nonlinear growth pattern typical in a new product life cycle. The seemingly erratic changes are in fact completely deterministic, not random, effects of the multiple, internal feedback loops. The impact of changes in the sales tax rate are clearly visible in the sales figure: the increase of 1% to 8% reduces the comparative sales per week almost 25%, at the end of the second year of operations, from \$150,335 to \$113,087; the decrease of 1% to 6% increases the sales per week more than 30% at the end of the second year of operations, from \$150,335 to \$196,549.

The implication for the competitiveness of firms is that higher sales tax rates reduce profit margin, which reduces cash available to be reinvested for growth. If competing firms face similar constraints in terms of credit sales, and suppliers' credit terms, new ventures operating in regions with relatively high sales tax will experience normal exponential patterns of growth, but at a slower rate. Ultimately, it has potential consequences in terms of gaining competitive advantage from experience effects, word of

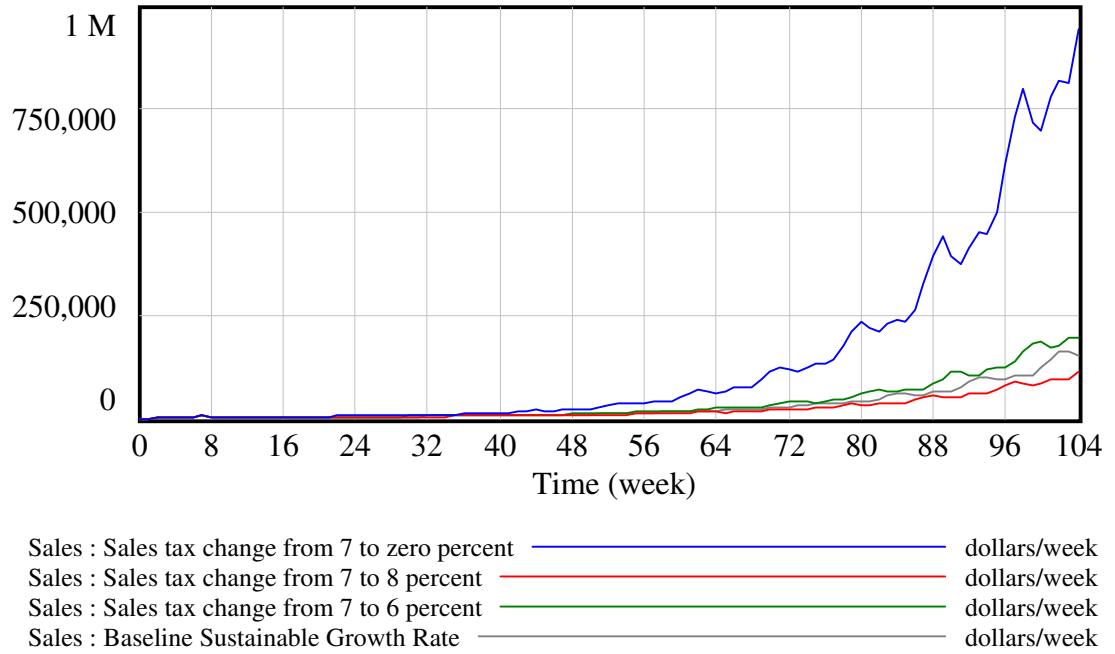


mouth, scale economies, etc. Eventually, when the product market matures, the firms with slower growth rates will be eliminated from the market by their larger counterparts, as the larger firms achieve cost and market power advantages. The slower growth and ultimate elimination of these firms has consequences for the employment rate for the region.



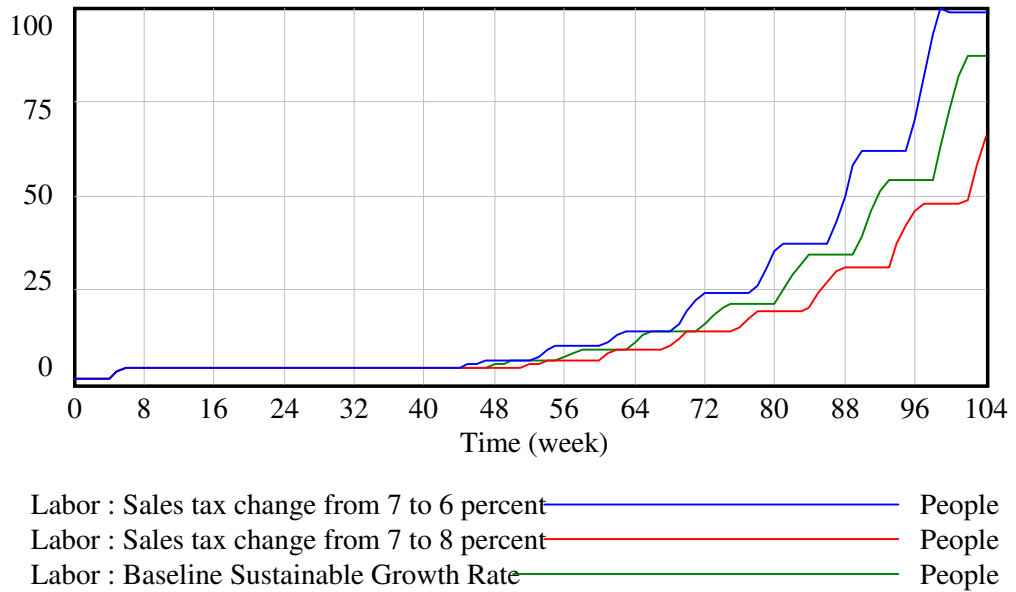
The advantage of operating in a region with no sales tax is illustrated in the figure below. The sales per week at the end of year two is \$943,647 in the region with no sales tax, versus sales of \$150,335 in the baseline SGR. This is a 600% increase in rate of sales.

## Sales



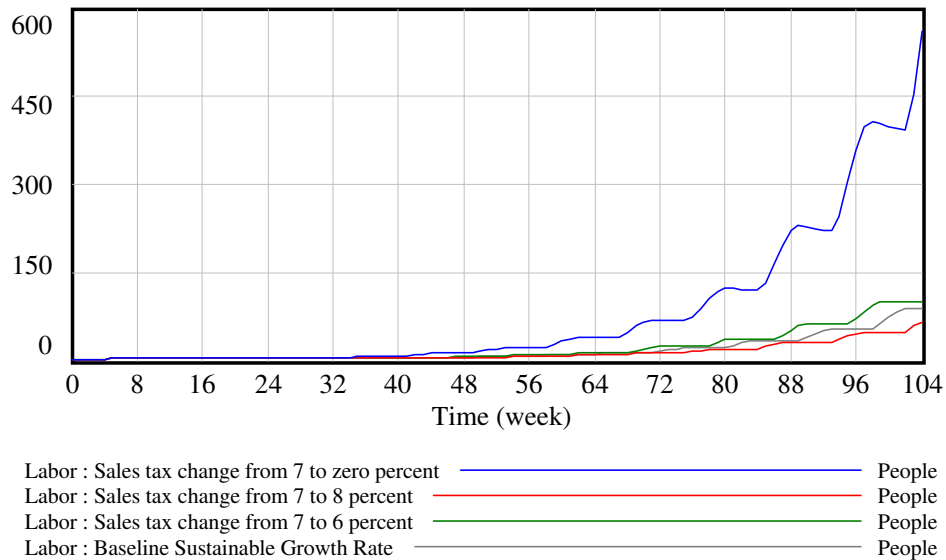
*Labor.* The alternative sales tax policies have very little impact on job growth over the first year of operations. The firm grows from one employee to five under each policy. By the end of the second year, however, the typical nonlinear growth pattern is apparent as small initial differences have large consequences. By the end of the second year the baseline SGR has employed 87 people. Operating under the higher sales tax created only 66 jobs (25% less), and operating under the lower sales tax rate the firm created 99 jobs (14% greater).

### Labor



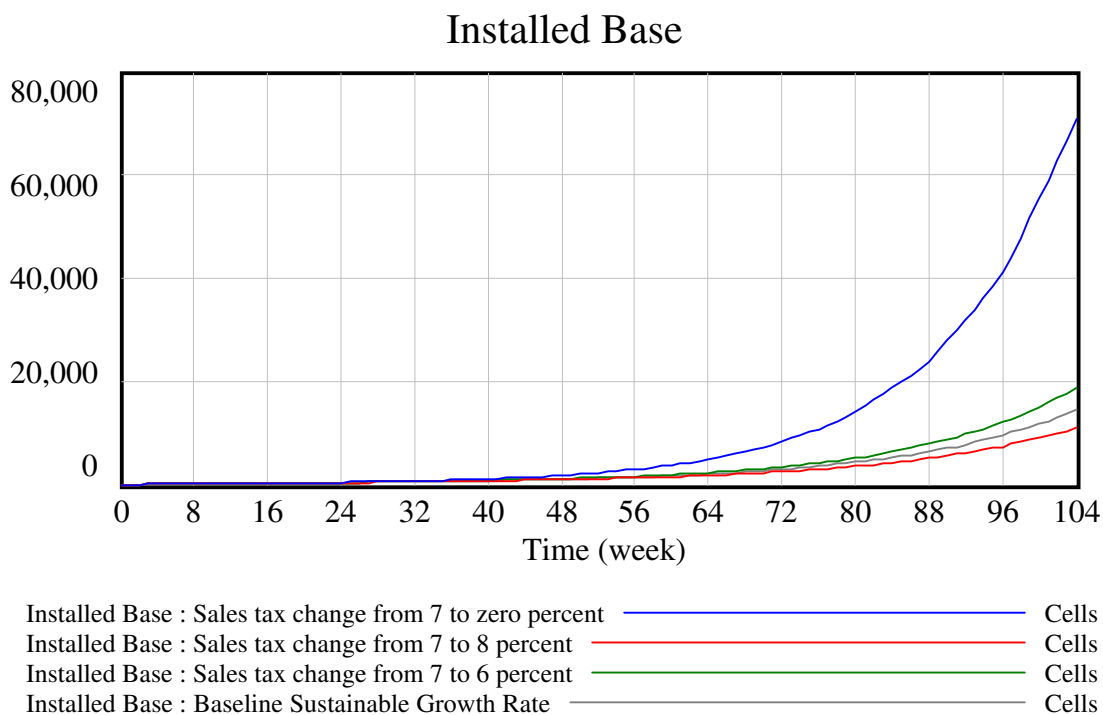
The impact of operating in a region with no sales tax is illustrated in the figure below. The employment at the end of year two is 560 in the region with no sales tax, versus the employment of 87 people in the baseline SGR. This is a more than 649% greater rate of job creation.

### Labor



*Installed Base.* The cumulative sales are reflected in the Installed Base figure.

Under the baseline SGR, cumulative sales by the end of the second year are 14,571 units, versus 10,845 units (25% less) under the higher sales tax, and 18,659 (28% greater) under the lower sales tax, and 70,853 (486% greater) with an absence of sales tax.



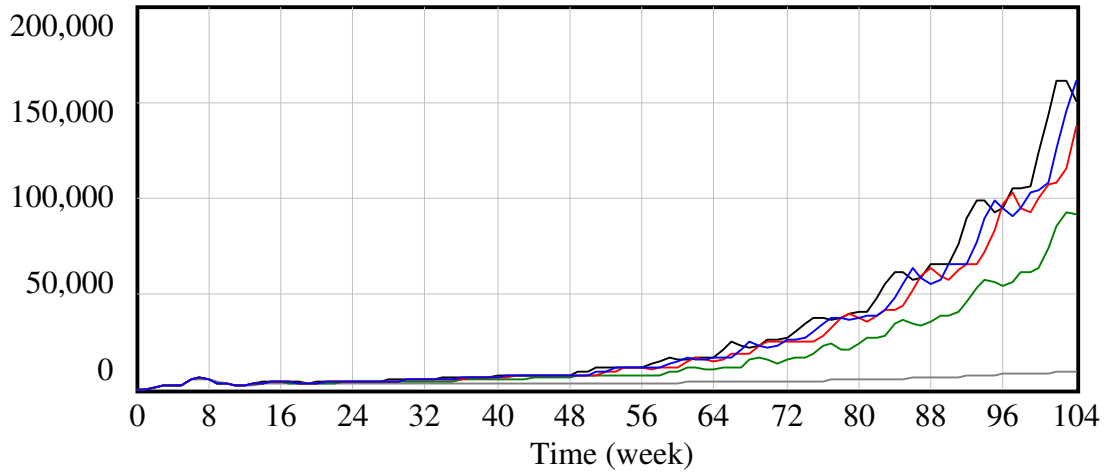
**Growth Dynamics: Impact of changes in the costs of regulation.**

Four regulation scenarios were simulated. Regulation compliance costs were treated as a fixed expense in these scenarios. Regulation costs are not always fixed, however the effect of variable expenses is captured in the preceding section, so the simulations in this section are intended to illustrate the general growth dynamics associated with fixed expense impacts.

In the baseline SGR, there exist no regulation costs, so the SGR is the same as in the previous section. Those alternative regulation compliance scenarios reflect the actual, average cost(s) for firms with less than twenty employees for: environmental costs (\$3,328 annually), tax compliance (\$1,202 annually), workplace (\$829 annually) and all regulation (\$6,975 annually; equals the sum of the previous categories and includes economic costs) compliance costs (Crain and Hopkins, 2001). In the model, regulation expense is assumed to be paid out evenly throughout the year, so the annual cost is divided by 52 weeks and added to weekly operating expenses.

*Sales.* As illustrated in the sales figure below, the impact of regulation expense on sales is potentially significant. The baseline SGR, in sales per week, was \$150,335. The SGR including workplace regulation costs was \$160,783, an improvement of 7%. This positive impact is only an artifact of the cyclic patterns of growth. The overall impact is negative, but only slightly. The SGR including tax compliance costs was \$136,996, an impairment of 9%. The SGR including environmental regulation compliance costs was \$91,211 a 39% decline. The SGR including all regulation costs was \$9,171, a 94% decline. The latter indicates the potential significance of regulation costs on firm growth. In this case, the profit margin is almost entirely eliminated, and so there exists virtually no cash to reinvest into the firm.

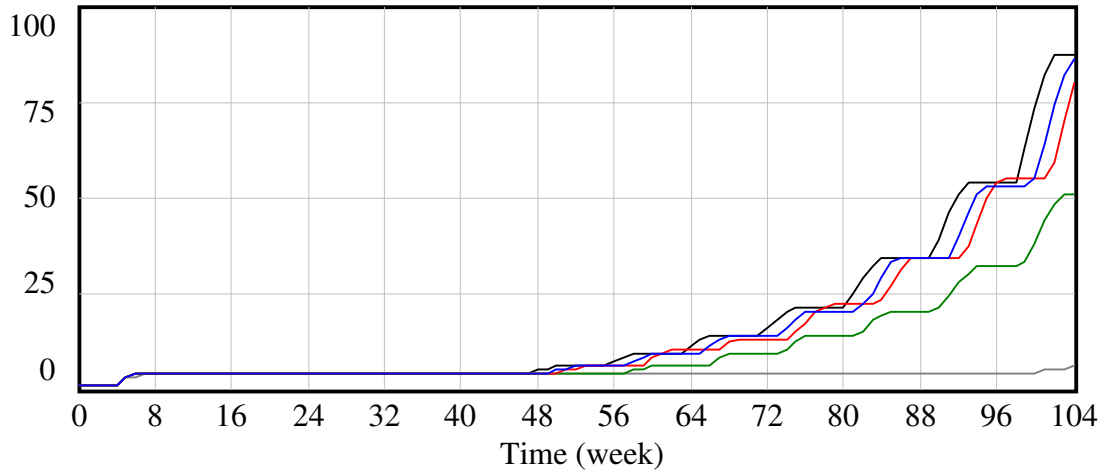
## Sales



Sales : Workplace compliance cost of 829 per year — dollars/week  
 Sales : Tax compliance cost of 1202 per year — dollars/week  
 Sales : Environmental regulation cost of 3328 per yr — dollars/week  
 Sales : Federal regulation cost of 6975 per year — dollars/week  
 Sales : Baseline Sustainable Growth Rate — dollars/week

*Labor.* The Labor figure below, illustrates that the impact of regulation expense on employment is potentially significant, as noted with sales previously. The baseline SGR, in the number of accumulated jobs, was 87. The number of jobs created when including workplace regulation costs was 86, a decrease of only 1%. The number of jobs when including tax compliance costs was 80, an impairment of 8%. The number of jobs when including environmental regulation compliance costs was 51, a 41% decrease. The number of jobs when including all regulation costs was only 6, a 93% decrease. The latter indicates the potential significance of regulation costs on job growth. As mentioned above, in this case, the profit margin is almost entirely eliminated, and so there exists virtually no cash to reinvest into the firm, so production fails to grow.

## Labor



Labor : Workplace compliance cost of 829 per year ————— People  
 Labor : Tax compliance cost of 1202 per year ————— People  
 Labor : Environmental regulation cost of 3328 per yr ————— People  
 Labor : Federal regulation cost of 6975 per year ————— People  
 Labor : Baseline Sustainable Growth Rate ————— People

## Conclusion

The growth of firms is fundamentally based on self-reinforcing feedback loops, one of the most important of which involves cash flow. When profit margin is positive, sales generate cash, and this cash can be reinvested to finance the operating cash cycle. As more cash becomes available, more material and labor may be employed in each cycle, generating more cash, allowing greater investment, etc. Consequently, in the absence of limits to growth, the growth dynamics of the firm are compounded returns, and *ceteris paribus*, small changes in profit margin will invoke large changes in the growth experienced by the firm. The longer the time period observed, the greater the impact of profit margin on growth. The results of these simulations, involving both variable and fixed expense impacts from public policy, illustrate the exponential nature of

the relationship between profit margin and growth; the short-run impact may be small and hardly noticed, but the long-run impact may be quite strong.

Both types of public policy, sales tax and regulation compliance costs, had significant impacts on the sustainable growth rate of the model firm. The results suggest that new ventures are particularly vulnerable to public policy effects, since their working capital resource levels are minimal, and they have few options to raise external funds necessary to fuel their initial operating cash cycles. Clearly, this has significant detrimental consequences in terms of gaining a competitive advantage from experience effects, word of mouth, scale economies, etc. Eventually, when the product market matures, the firms with slower growth rates will be eliminated from the market by their larger counterparts, as the larger firms will have achieved cost and market power advantages. The slower growth and ultimate elimination of these firms has consequences for the employment rate for the region. Thus, the results seem to suggest that, in general, public policies should strive to avoid placing costs on new ventures for the first two to three years of operations. The exponential growth patterns will generate sales and jobs after the first couple of years, which may subsequently offset the initial public revenue lost.

The results of this work suggest that system dynamics modeling may provide public policy makers a cost effective means to meet the spirit of the U.S. Regulatory Flexibility Act. *“The RFA requires agencies to review their regulatory proposals and determine if any new rule is likely to have a “significant economic impact on a substantial number of small entities.” If such impact is likely to occur, the RFA then requires the agencies to prepare and make available for public comment an “initial*



*regulatory flexibility analysis.*” (Whitmore and Walthall, 2001:40). System dynamics modeling isolates single variables for assessment. In this case, a baseline self-financeable growth (SFG) pattern was generated to serve as a control for isolating the impact of alternative public policies. This would seem to be, at least partially, a significant solution to the problem of assessing potential impact.

Compliance with RFA currently seems to be a problem. “*In monitoring agencies’ compliance with the law over the years as RFA mandates, the Office of Advocacy (Advocacy) found that federal agencies, more often than not, failed to conduct the analyses mandated by the RFA.*” (Whitmore and Walthall, 2001:41). Thus, we hope our results may provide a path of opportunity for public policy makers.

*Acknowledgement:* The authors would like to thank Nina Tsoi for her help, and the anonymous reviewers for their thoughtful feedback.

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## Appendix A

### Model Variable Definitions

*Accounts payable*: Calculated as the total accumulation of *Order rate* less *Supplier payments*. The initial value is set at zero dollars. Units in dollars.

*Accounts receivable*: Calculated as the total accumulation of *Credit sales* less *Collections*. The initial value is set to zero. Units in dollars.

*Attrition rate*: Calculated as *Labor* divided by *Average duration of employment*. Units in people/week.

*Average duration of employment*: Constant at 100. Units in weeks.

*Budget*: Calculated as the maximum of  $(\text{Cash} / \text{Weeks to decide}) - \text{cash consumed}$ , or zero. Units in dollars/week.

*Cash*: Calculated as the total accumulation of *Operating cash generated* less *Cash consumed*. The initial value was set to \$10,000.00 dollars. The argument for the initial amount is that the SBA reports that half of all new ventures in the U.S. are started with ten thousand dollars or less. Units in dollars.

*Cash consumed*: Calculated as  $\text{Supplier payments} + \text{Cost of labor} + \text{Operating expenses} + \text{Training wages}$ . This is intended to capture the reduction in cash due to operating expenses and the delayed expenses of cost of sales. Units in dollars/week.

*Cell price*: Constant at \$200.00 per Cell. Units in dollars/cell.

*Cells sold*: Calculated as *Shipping rate* per week. Units in cells/week.

*Collections*: Calculated as *Accounts receivable* divided by *Weeks to collect*. Units in dollars/week.

*Cost of labor:* Calculated as *Piece rate* multiplied by *Production rate*. Units in dollars/week.

*Credit sales:* Calculated as *Sales* \* *Credit sales percentage*. Units in dollars/week.

*Credit sales percentage:* Constant at 20% of *Sales*. Units were dimensionless.

*Desired labor level:* Calculated as INTEGER (*Material* / *Productivity*). Units in people.

*Economies of experience:* Constant at 1. Units in cells.

*Inventory:* Calculated as the total accumulation of *Production rate* less *Shipping rate*.

The initial value was set to zero. Units in cells.

*Hiring rate:* Calculated as the maximum of (*Desired labor level* – *Labor* - *New Hires*) / *Weeks to hire*, or zero. This is intended to prevent a negative hiring rate. Units in people/week.

*Installed base:* Calculated as the accumulated *Shipping rate*. Units in cells.

*Labor:* Calculated as the total accumulation of *Training rate* less *Attrition rate*. Units in people.

*Material:* Calculated as the total accumulation of *Receiving rate* less *Production rate*.

The initial value was set to zero cells. Units in cells.

*Material cost per cell:* Constant at \$90.00. Units in dollars/cell.

*New hires:* Calculated as the total accumulation of *Hiring rate* less *Training rate*. The initial level was set to zero people. Units in people.

*New hire wage rate:* Constant at \$300.00. Units in dollars/ (week\*People).

*Order rate:* Calculated as *Order decision* multiplied by *Material cost per Cell*. Units in dollars/week.

*Operating cash generated:* Calculated as  $Sales * (1 - Credit\ sales\ percentage) + Collections - (Sales * Sales\ tax\ rate)$ . This is intended to capture the reduction in sales-generated cash due to credit sales, and sales tax payments. Units in dollars/week.

*Operating expenses:* Constant at \$400.00 per week. Units in dollars/week.

*Order decision:* Calculated as IF THEN ELSE ( $Budget < \$10,000$ ,  $INTEGER (Budget / Material\ cost\ per\ Cell)/2$ ,  $INTEGER (Budget / Material\ cost\ per\ Cell)$ ). Units in cells/week.

*Orders placed:* Calculated as the total accumulation of *Purchasing rate* less *Receiving rate*. The initial value was set to 20. Units in cells.

*Piece rate:* Constant at \$50.00 per *Cell*. Units in dollars/cell.

*Production rate:* Calculated as the minimum of  $Material / Weeks\ to\ produce$  or  $(Labor * Productivity) / Weeks\ to\ produce$  ). Intended to limit production to the level dictated by the average productivity of labor. Units in cells/week.

*Productivity:* Calculated as  $20 + LN ((Installed\ Base / Economies\ of\ experience) + 1)$ . This is intended to capture a learning curve effect on productivity. Units in cells/people.

*Purchasing rate:* Calculated as the maximum of *Order decision*, or zero. Units in dollars/week.

*Receiving rate:* Calculated as *Orders placed* divided by *Weeks to receive*. Units in cells/week.

*Sales:* Calculated as  $Cell\ price * Cells\ sold$ . A cell is a high technology, dynamic, random access memory chip. These Cells conform to industry standard

specifications, and are typically used by consumers in a wide range of hand-held electronic devices. Units in dollars/week.

*Sales tax rate*: Constant at 7% of *Sales*, unless otherwise specified. Units are dimensionless.

*Shipping rate*: Calculated as *Inventory* divided by *Weeks to ship*. Units in cells/week.

*Supplier payments*: Calculated as *Accounts payable* divided by *Weeks to pay*. Units in dollars/week.

*Training rate*: Calculated as *New hires* divided by *Weeks to train*. Units in people/week.

*Training wages*: Calculated as *New hires* multiplied by *New hire wage rate*. Units in dollars/week.

*Weeks to collect*: Constant at four weeks. Units in weeks.

*Weeks to decide*: Constant at one week. Units in weeks.

*Weeks to hire*: Constant at one week. Units in weeks.

*Weeks to pay*: Constant at three weeks. Units in weeks.

*Weeks to produce*: Constant at three weeks. Units in weeks.

*Weeks to receive*: Constant at two weeks. Units in weeks.

*Weeks to ship*: Constant at one week. Units in weeks.

*Weeks to train*: Constant at two weeks. Units in weeks.