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**PHASE TWO [NEW00142.GIF](INTRODUCTION.docx)**

**EXERCISE FIVE-A** House Information

**This exercise should be answered using the Phase 2 Variables Worksheet**

**[](variables2.xlsx)**

**Evaluating Alternative Distribution Channels**

Anne and Fred have been traveling twice a year to the Apparel Market in New York City. Recently they learned of an apparel wholesaler who sells primarily via an electronic catalog. Customers of this wholesaler can use their personal computer and their telephone to access this catalog and receive color pictures of all merchandise. All orders can be placed and paid electronically. To purchase the proper modem and software will cost $700 and telephone charges would be $60 monthly. This $700 for software and modem should be treated as an increased cost vs. an asset since it is likely that regular software updates and new modems that are faster will be purchased annually. The wholesaler sells apparel at slightly higher prices as could be obtained by purchasing direct from manufacturers so that product cost of merchandise is expected to increase by 1.5% of sales.

However, this wholesaler pays all freight charges on orders over $5,500. Currently Fred and Anne are paying all freight charges; therefore they expect to save 1.0% of sales on the reduced freight cost of merchandise. Since Anne and Fred will only need to take one trip a year to New York City to observe apparel trends, they will also save $2,925 per year in travel costs.

What would be the impact on store performance of switching to this wholesaler?

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “2” above. You will need to enter the changes on the Input Form one at a time. The financial statements and ratios will automatically be updated and shown on the bottom of the input form. You must then copy the revised income statement and ratios to the scenario columns on the Answer Sheet. This process will have to be repeated if there is more than one scenario described in the exercise. Instructions for use of the Variables Worksheet can be reached by clicking on the “Help” button at the top right of the worksheet. Be sure to save your work and print a copy once you are satisfied with its correctness. After you complete your simulation there are questions you need to answer. These can be answered by typing your responses below the questions, saving your work, printing a copy, and handing it in to the instructor if required.

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**EXERCISE FIVE-A**

**QUESTIONS**

1. What is the financial impact of switching to the new wholesaler?

1. What other advantages might accrue to *The House* as a result of dealing with this wholesaler? How might these impact other variables in the simulation model?
2. Why is the question “who will pay the freight?” so important to a retailer?
3. What type of retailer is able to deal directly with a manufacturer? What type of retailer is more likely to deal with a wholesaler? Why?