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

**EXERCISE THREE-A** House Information

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

**[](variables2.xlsx)**

**The Impact of Improved Demographics on**

**Store Performance**

Anne and Fred have merchandised *The House* to appeal to a broad spectrum of households. At the local college, enrollments are projected to rise by 600 students next year and 20 additional faculty will be recruited. In the past, Anne and Fred have found that both faculty and college students spend more on clothing and shop often at *The House*. However, students tend to spend mostly on fill-in items, while purchasing their more complete wardrobe needs elsewhere, usually at their permanent home. On the other hand, faculty tend to purchase most of their clothing needs at *The House*.

Based on these improved demographics, Anne and Fred are projecting for 2011 that the market coverage would rise to 8,725 from 8,510. For 2010, the average shopping frequency was 7.8 times per year, average transaction size was $59.44, and closure was 62%. They do not expect a change in these statistics. What would happen to the financial performance of *The House* under this scenario?

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 THREE-A**

**QUESTIONS**

1. Why did a modest increase in market coverage have such a significant influence on store performance?
2. Should *The House* attempt to appeal more to college students and faculty? Why or why not?
3. Do you think the Anne and Fred are correct in their assumption that the increase in the student population will not change shopping frequency, closure and average transaction size? Why?
4. What specific costs will increase if *The House* begins to have more college customers than in the past? Why?