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

**EXERCISE FOUR-B** House Information

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

**[](variables2.xlsx)**

**The Impact of Increased Competition from**

**Direct Mail Retailers on Store Performance**

Recently the residents of Hamilton have been receiving an increasing number of direct mail catalogs from retailers such as L.L. Bean, Lands End, Eddie Bauer, and J. Peterman. These direct marketers offer good quality apparel for a fair price and provide 2-5 day delivery of merchandise via Federal Express. Fred estimates that this increased competition will have two impacts in 2011: lower average shopper frequency and reduced average transaction size.

If each of these dropped 5%, what would happen to store performance?

If each dropped 10%, what would happen to store performance?

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 FOUR-B**

**QUESTIONS**

1. Which financial ratios are affected by this increased competition? Why?
2. What actions might *The House* take to combat this direct mail competition?
3. Is combating direct mail (or Internet) competition more difficult or less difficult than combating competition from physical stores? Explain.
4. Why do you think the Harriots believe the competition from direct mail retailers will reduce shopping frequency and transaction size?