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

**EXERCISE TWELVE-A** House Information

**This exercise should be answered using the Phase 5 Variables Worksheet**

**[](variables5.xlsx)**

**Evaluating the Impact of a Personal Shopping Service**

Several years before Bill Henderson sold *The House* to Anne and Fred he started maintaining a database on regular customers. This database revealed that about 60% of the business is from a core of 900 households. Many of these households are two income households where both husband and wife work full time. These individuals are always pressed for time and put off shopping until the last moment, however, when they purchase, their average transaction size is $207. Fred and Anne both believe that these customers would be very supportive of a personal shopping service.

Fred and Anne believe that as part of their database they could record the birth dates, anniversaries, and other significant dates for all family members, relatives, and significant friends. They could then offer to customers a personal shopping service where gifts for friends could be purchased and the apparel needs of the household could be handled.

Fred and Anne are quite uncertain about the impact of this personal shopping service. They believe that it might increase total transactions by 1,000 to 1,600 per year and that the average transaction size for these transactions will be $85 (excluding delivery charges). To do a promotional mailing to the 900 target households with an enclosed questionnaire and participation form would cost $2,700. They anticipate sending out this questionnaire annually so customers can provide information to update the database. Furthermore, they plan to spend $7,000 annually promoting this new shopping service.

Note that many changes must be made to the baseline amounts to reach the adjusted amounts as described above. You should prepare the simulation as if the personal shopping service is a stand-alone operation (similar to the procedures followed in Exercise 7-A for the proposed new store).

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “5” 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

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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 TWELVE-A**

**QUESTIONS**

1. Should *The House* institute a personal shopping service?
2. Do you have any suggestions on how the personal shopping service might become more profitable?
3. What impact might the personal shopping service have on the regular business of *The House*? Why?
4. Does *The House* incur any risk in implementing the personal shopping service?