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**PHASE TWO SPREADSHEET MODEL:**

**BASIC CONCEPTS**

The problems you will work in phase two relate to Part Two--"The Retailing Environment" of *Retailing* (2011) by Dunne, Lusch and Carver.

The baseline financial information can be found by clicking on the child’s pajamas

[CLECH010](baseline%20phase%202.xlsx)

For Phase Two of *The House* you need to understand concepts related to the retailing environment. These concepts deal with the customer, competition, channel, and the legal environment. The following concepts are important to understand:

1. **market coverage** is the number of households residing in the trade area of the retail store; this is also often called the number of prospects.
2. **penetration level** is the percent of households residing in the trade area of the retail store who visit the store within a year.
3. **average shopping frequency** is the average number of times a year that a household visits the store.
4. **traffic** is the total number of household visits to the store annually.
5. **closure** is the percentage of visits to the store that end with a purchase being made by the customer.
6. **transactions** are the annual number purchases made by the store’s customers.
7. **average transaction size** is the average dollar value of a transaction

You also need to understand the following relationships between the preceding concepts:

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1. **traffic** = (market coverage) \* (penetration level) \* (average shopping frequency)
2. **transactions** = (traffic) \* (closure)
3. **net sales** = (transactions) \* (average transaction size)

For example, if a retailer has a market coverage of 20,000 households, has a penetration level of 60%, and the typical household visits the store six times annually, then the traffic will be (20,000)\*(60%)\*(6) or 72,000. In brief, the store has 72,000 household visits a year.

Now consider that the closure on these visits is 50% then the number of transactions on an annual basis is (72,000)\*(50%) or 36,000.

Finally, if the average transaction size is $10 then the annual net sales would be (36,000)\*($10) or $360,000.

The baseline financial information can be found by clicking on the child’s pajamas

[CLECH010](baseline%20phase%202.xlsx)

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