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

**EXERCISE SEVEN-B** House Information

**This exercise should be answered using the Phase 3 Variables Worksheet**

**[](variables3.xlsx)**

**The Impact of a Second Location on the Existing Location**

Fred and Anne are concerned with how their proposed new store (see exercise 7-A) may impact the performance of their existing store. Both believe their trade area will continue to be a three-mile radius within which the population density is 300.859 households per square mile. However, because their new store will somewhat cannibalize their existing store, they have predicted that their penetration would drop to 62% and average shopping frequency would decline to 7.5 times. On the other hand, they believe that they can partially counteract this cannibalization by working more diligently to improve closure. They believe that closure can rise from 62% to 65% with more selling effort.

What would be the impact of the opening of the new store be on the financial results of the original store if the above changes occur?

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “3” 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 SEVEN-B**

**QUESTIONS**

1. What is the financial impact of the proposed new store on the existing store?
2. Can you think of any other things that might be done to minimize the cannibalization effect of the new store?
3. While the new store location may cause some cannibalization, there are many benefits to the opening of a second store. What are some of these benefits and how will they serve to keep costs down?
4. Why is the new store location near Wal\*Mart, a major competitor, a desirable location?