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

**EXERCISE THIRTEEN-A** House Information

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

**[](variables5.xlsx)**

**The Impact of a Store Layout and Design Strategy**

Anne just returned from attending a three-day executive development program on high performance retailing. One of the topics she was especially interested in was how to design a store's environment to enhance the store's image. She was considering a major remodeling of *The House*. Anne envisioned three major changes. First she felt that the orange carpeting was inconsistent with the store's image and usually conflicted with the apparel being displayed. Therefore, she was considering installing new flooring and freshly painting the walls and ceiling. The cost of the flooring and painting would be $14,000. Next, she wanted to install a C.D. sound system which consisted of a six-disc changer, amplifier, and four speakers in each of the four corners of the store. She also wanted to purchase 30 recordings of classical and big band music. The cost of this system would be $3,800. Third, she wanted an entire new set of fixtures and tables upon which to display the merchandise. A local carpenter has given her an estimate to custom build these fixtures. The cost would be $28,000. These improvements would be expected to have a five-year life and, thus, the $45,800 written off over the next five years would add $9,160 depreciation per year.

When Anne told Fred of her planned changes he balked at the $45,800 in additional assets. He couldn't understand how such changes would have any influence on store performance. He was very clear that these changes would not bring more customers into the store. Anne conceded on this point but argued that the impact would be felt through a higher rate of closure. Because people would feel more comfortable in the store and probably browse more, she felt that closure would rise. The instructor in the course she attended mentioned that a remodeling effort, if properly conducted, would increase sales by 20-30%. Nonetheless, Anne was very uncertain on what the impact on closure would be and thus her conservative estimate was that it might only increase to 65%, however, her optimistic estimate was that closure would rise to 70%.

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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 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 THIRTEEN-A**

**QUESTIONS**

1. What is the financial impact of the store layout and design strategy?
2. Do you see any ways that *The House* could reduce the risk of this store layout and design strategy? Please explain.
3. Why do even successful stores perform major changes in store layout and design every few years?
4. Why do store remodelings tend to increase sales? Does this sales increase tend to last or is the increase primarily short-term only?