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

**EXERCISE FOURTEEN-A** House Information

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

**[](variables5.xlsx)**

**The Impact of a Change in Compensation Method**

*The House* employs several clerks that work full or part-time while either Anne or Fred are in the store. Neither Fred, Anne, nor the clerks attempt to do any selling. If someone needs help, they are there to assist but otherwise no type of selling occurs. Fred recently read an article in a trade publication that emphasized the role of order getters vs. order takers. Fred initially thought that given the low average item price in the store that any selling effort would not be worth the effort or would be ineffective. However, Anne pointed out that there were a number of higher priced items in the store and, in addition, a number of customers consistently make multiple purchases that total significantly more than the average sale of $59.44. Anne and Fred decided that they would like to provide extra service to those customers who made large purchases both because the higher priced goods carry a higher gross margin and also to ensure these big spenders enjoy their shopping experience at *The House*.

To change the approach the clerks take towards customers Anne and Fred purchased an on-line sales training program for all the clerks to take. This training will cost $3,000 every year. To provide an incentive to the clerks to provide personal service to these big spenders, Anne and Fred are considering providing a 6% sales commission to the clerks on all sales greater than $100. Anne and Fred believe about 20% of all sales (in dollars) are at this level. Consider the sales commission as an “other variable cost”.

Because of the increased attention that will be given to these sales Anne and Fred expect the average item price to increase by $0.20 causing the average transaction to increase by $1.00 to $60.44. Because of the improved salesmanship they expect closure to increase to 64% or possibly 66%.

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

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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.

**EXERCISE FOURTEEN-A**

**QUESTIONS**

1. What is the financial impact of the change in compensation policy?

1. Might any other variables change with the change in compensation policy.
2. Are there any risks that are incurred by changing the compensation policy? Explain.
3. Will *The House* find it easier or harder to retain employees under the new policy? Explain.