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

**EXERCISE TWO-A** House Information

**This exercise should be answered using the Phase 1 input sheet**

**[](variables1.xlsx)**

**The Impact of Different Marketing and Financial**

**Strategies on Store Performance**

Anne and Fred Harriot have decided that in 2011 they will pursue a new marketing and financial strategy in which their goal will be a higher market share. They have noted that many households have been shopping for apparel out of town, especially in Troy, which has a 400,000 square foot covered mall that includes two department stores and 18 specialty stores. Anne and Fred have developed two alternative strategies:

(a) They would increase store hours by being open seven days a week. This would require the hiring of an additional supervisor at a salary of $2,400 per month. She would get fringe benefits at 25% of her salary. In addition fixed utilities, maintenance, and insurance would each increase by $150 per month. However, they expect a 15% sales increase and no increase in variable cost percentages.

(b) They would keep store hours the same but would introduce a mail order catalog to be mailed four times a year to all households in town and to the five outlying towns. Under this alternative there would be added fixed operating costs of $4,550 per month. Because of the additional work to handle the catalog orders, hourly wages would increase to 7.20%, hourly fringe benefits to 0.70% and supplies cost to 0.80% of sales. Sales would be projected to increase 24%.

Under either strategy they do not expect a rise in total assets. With the increased store hours Fred and Anne Harriot have no need to invest in additional inventory, store fixtures, or other assets. In the case of the direct mail program the production and mailing of the catalog will be contracted out, therefore no additional investment in assets will be required.

Which alternative should they pursue?

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The Variables Worksheet you will need to run this simulation can be reached by clicking the red “1” 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 TWO-A**

**QUESTIONS**

1. Should *The House* change its financial and marketing strategy? Why?

1. What are some of the reasons that the projections made for either the expanded store hours scenario or the direct mail catalog scenario may not materialize as projected? Is one option more risky?
2. How does the expansion of the store hours or the development of a direct mail catalog change the nature of the retailing business for the Harriots?
3. What disadvantages do you foresee if the Harriots implement either of these two scenarios? Why?