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

**EXERCISE ELEVEN-B** House Information

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

**[](variables5.xlsx)**

**Using Advertising to Expand the Trade Area**

There are five smaller towns that surround the community of Hamilton where *The House* is located. Generally people in these towns travel regularly to Hamilton to shop at Wal\*Mart. These towns are within a 15-mile radius and range in size from 520 to 1650 households. However, five miles to the east is a town of 640 households and five miles to the west is a town of 703 households. Fred believes that *The House* should begin an advertising program in each of these towns. Each town has a small weekly newspaper which could be used to reach these geographic markets. With this expanded trade area of five miles, the total households of the trade area would be 9,853 (8,510 + 640 + 703). The density of households in this five-mile circular trade area is 125.402 households per square mile.

The annual cost of advertising twice a month in these two weekly newspapers would be $9,600. With this advertising expenditure, Fred estimates that penetration would decline to 62% and average shopping frequency would drop to 7.5 times. This would occur because of the larger size of the trade area and the inherent increased travel time for the typical customer. However, with the larger number of households to serve, he believes that such an advertising strategy would be profitable. Anne also believes that such an approach would be valuable but wonders if they shouldn't consider what would happen if average shopping frequency declined to 7.2 times.

When completing the worksheet you should consider the additional advertising as a fixed cost. The original advertising included as a variable cost should remain unchanged.

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

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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 ELEVEN-B**

Q**UESTIONS**

1. What is the financial impact of the proposed advertising strategy?
2. How might other promotional efforts be tied into this advertising strategy
3. The additional advertising is seeking customers from a further distance to make *The House* a destination for shopping. How could *The House* join with other stores on the town square to increase the penetration level?
4. What additional steps could *The House* take in its advertising in the weekly newspapers to increase the shopping frequency of the customers from the expanded trade area?  *OUseHH*