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

**EXERCISE FIVE-B** House Information

**This exercise should be answered using the Phase 2 Variables Worksheet**

**[](variables2.xlsx)**

**The Impact of New Merchandise Supply Sources**

Recently, while attending a state-wide Chamber of Commerce meeting, Fred met Carolyn Neal, who was the owner of a cut and sew apparel manufacturing facility in a small town in the southeastern part of the state. Carolyn was primarily making apparel for large retailers such as Wal\*Mart, however, she felt she was becoming too dependent on only a few large customers and wanted to diversify her customer base. Fred obtained her business card. When he returned home he called Carolyn and arranged for Anne and himself to have dinner with her to discuss some business possibilities. Carolyn suggested she manufacture a line of private label women's and girl's apparel. If *The House* could guarantee to purchase $30,000 per quarter with a minimum order of $20,000, and pay within 30 days of shipment, then Carolyn would be willing to manufacture private label merchandise for *The House*. Both Fred and Anne believe that their own store apparel label will help enhance the image of *The House* and, consequently, attract more business.

After discussing the possibility for a few weeks, Fred and Anne decided to move forward on contracting for the development of their own store brand of women's and girl's apparel. They negotiated a price that would essentially reduce their storewide product costs to 57.50%, however, with the high minimum order size, their inventory investment would rise by $24,000, and thus they expect total assets to rise a similar amount. To ensure the success of the private label line of apparel, *The House* will increase their advertising expense to 5.0% of expected annual sales.

It is estimated that the new private label will result in penetration increasing to 67% or 68%. What would be the impact on store performance of the private label initiative?

The Variables Worksheet you will need to run this simulation can be reached by clicking the red “2” 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

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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 FIVE-B**

**QUESTIONS**

1. What is the financial impact of developing and marketing the private brand of women's and girl's apparel?
2. What other advantages might accrue to *The House* as a result of developing a private brand? How might these impact other variables in the simulation model?
3. There is usually a significant price savings to the customer when she buys a private brand product. Why is this so?
4. What type of customer will usually shop for private brand products? What type of customer seeks name brand products?