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

**EXERCISE FOUR-A** House Information

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

**[](variables2.xlsx)**

**The Impact of Increased Competition From Dollar General**

**and Wal\*Mart on Store Performance**

Anne’s father, the prior owner of *The House*, left a complete set of books for 20 years. Fred was able to enter the annual sales data into his personal computer and graph annual sales over time. What became very clear was that sales increases would almost identically match the general rate of inflation. This suggested that *The House* probably had not experienced any real growth in sales since 1990. During this period the competitive situation has also been quite stable. However, recently the local Dollar General store reconfigured its store layout to devote more space to womenswear. At the same time the local Wal\*Mart has devoted more space to womenswear. As a consequence, more women are shopping locally for clothing at these two stores. Fred and Anne estimate that average shopping frequency could drop to 7.5 or possibly as low as 7.0 times a year.

What would be the impact on store performance?

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 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 FOUR-A**

**QUESTIONS**

1. Why did the drop in average shopping frequency have such a dramatic impact on store performance?
2. Should *The House* attempt to take a counter competitive action? If so what do you recommend?

1. Are the steps *The House* should take in response to Dollar General the same as they should take in response to Wal\*Mart? Why or why not?
2. What are the risks of responding too strongly to the competition? What are the risks of not responding strongly enough?