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

**EXERCISE THREE-B** House Information

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

**[](variables2.xlsx)**

**The Impact of Altering the Target Market**

**on Store Performance**

Anne and Fred have noted that many of their customers are middle age households in the community. These are good loyal customers; however, *The House* could do a better job of attracting college students and encouraging them to purchase their entire, or most, of their college wardrobe needs at *The House*. Fred decided to invite to lunch five college males who were active in fraternities. Similarly, Anne invited to lunch five coeds who were active in their sorority. At the lunch both Fred and Anne asked them why they don't purchase more of their wardrobe needs at *The House*. Both groups felt *The House* was a good choice for fill in and staple purchases such as underwear and hose and an occasional sport shirt or casual dress. However, the students (both male and female) believed that *The House* had a very poor selection of casual clothing for college students. In addition, they did not like shopping at a store that catered to all family members.

That evening Anne and Fred brainstormed while they had dinner. They decided that one possible way to serve the college market would be to develop a special area within their store called the *College Shop*. In this shop within the store they would feature cotton twill slacks and dresses, polo style sport shirts, belts, and moderately priced tweed and navy blazers for men, white oxford dress shirts, and a selection of ties.

To help promote the *College Shop* they would also appoint a fashion advisory board of three college males and three college females, meet with them monthly, and pay them $60 each per meeting. In addition, they would commit to advertising weekly in the college newspaper, but this cost would be reallocated from their existing advertising budget. Finally, it was estimated that a total inventory investment of $95,000 would be needed for the *College Shop*, however, $35,000 of this amount could be reallocated from current merchandise lines that would be phased out. The additional $60,000 inventory investment would be financed with existing cash balances and trade payables. Anne and Fred expected that penetration among college students would rise to 55%, thus increasing the market penetration to 70% from 65%. To be conservative

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in their estimates they assumed that closure and average transaction size would be unaffected but that average shopping frequency would rise to eight times per year.

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 THREE-B**

**QUESTIONS**

1. What is the impact of the *College Shop* strategy on traffic and transactions? Why is traffic so important in retailing?

1. Why does the net profit margin improve so dramatically?
2. Do you think the initiation of a *College Shop* will have any impact on the other areas of *The House*? Why?
3. What else can Anne and Fred do to ensure that the *College Shop* is a success?