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

**EXERCISE ELEVEN-A** House Information

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

**[](variables5.xlsx)**

**Evaluating the Impact of a New Advertising Campaign**

The advertising and promotion for *The House* consists of a half-page advertisement in the Saturday newspaper, a weekly one-inch advertisement in two church bulletins, a full-page advertisement in the high school yearbook, sponsorship of a float in the Fourth of July parade, and sponsorship of the local high school football and basketball teams. The local newspaper advertising is $400 per week, the advertisements in the church bulletins is $2,000 per year, the ad in the yearbook is $750, the parade float is $3,250, and the team sponsorships are $3,000 each. In addition, there are a variety of other advertising and promotions that vary each year but generally total less than $20,000 annually. Advertising has been approximately 3.2% of sales.

Currently all of the advertising/promotion has a long-run objective of improving store performance by promoting the store image. Anne believes that the advertising expenditures need to have a short-term objective such as attracting new customers and increasing patronage from existing customers. She also believes that *The House* needs to spend a minimum of $2,500 per month with expenditures concentrated during periods of peak demand (March-May and November-December).

Anne has recommended the following advertising expenditures: January and February = $2,500, March = $3,000, April and May = $3,500, June = $3,000, July-September = $2,500, October = $5,000, November - December = $9,000. Furthermore, 40% would be spent on the local AM Radio station and 60% on the local newspaper replacing the current newspaper ads. All advertising will feature items on sale. *The House* will continue its public service sponsorships, and its church bulletins and yearbook ads. As a result, Anne believes that penetration will rise to 68% and the average number of items purchased will rise from 5.0 to 5.2 or 5.3. Since advertising will be directed at the local trade area, she does not expect the trade radius to increase.

When completing the worksheet you should note than Anne’s advertising plan changes advertising from a variable cost to a fixed cost. The worksheet should be changed accordingly.

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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 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 ELEVEN-A**

**QUESTIONS**

1. Should *The House* change the advertising strategy? Explain.
2. Are there any problems in switching the advertising program from the long run objective of store image enhancement to short-term sales objectives? How might these problems be overcome?
3. Given the nature of the business of *The House,* which type of advertising – image enhancement or sales objectives – do you think is most appropriate? Why?
4. What other considerations should be taken into account other than the impact on average number of items purchased due to the increased advertising? What other variables in the simulation may change?