SECTION 2

LESSONS AND PROJECTS

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Pricing

LESSON 1

What is Price?

Price is the amount of money a business charges for items it offers for sale. The selling price for merchandise must help the business make a profit and must be reasonable for customers to pay.

Determining Selling Price

When determining a selling price for merchandise, a business owner should consider cost and profit. Cost is the amount of money the store pays to purchase the merchandise from a supplier. There are some key factors that can influence the cost of the merchandise, such as discounts and terms for timely payment. These factors should be considered when determining the price to the customer.

Profit is the total revenue of a business less all expenses over a specific period of time. Each product a business sells should contribute to the business's profit. When a business owner determines the selling price for an item, he or she should consider all of the costs associated with having that item for sale in the store. Those costs include the overhead and operating expenses for the business, such as the cost of electricity, water, and employee salaries. Businesses must make a profit to remain in operation.

Main Idea

Pricing is a vital concern for business owners. It is crucial for merchandise to sell, so the price of an item must project value to the customer. Correct pricing of merchandise is essential for the business to generate a profit, and profit is necessary for every business to remain in operation. In this unit you will learn about the fundamentals of pricing, factors to consider when setting a selling price, some of the legalities of pricing, and mathematics involved in pricing.

After completing this lesson you will be able to:

- Calculate price based on unit cost and desired profit
- Compute margin based on price and unit cost
- Maximize profit by analyzing and adjusting price and margin
- Explain the relationship between price, demand, and profits
- Explain when and how to implement a markdown
- Change product pricing to remain competitive

Key Terms

- Price
- Cost
- Profit
- Margin
- Supply and Demand
- Market Share
- Markdown

Margin

A term that is often associated with price is margin. Margin is the difference between the retail price of an item and the cost of the item to the store. This may also be referred to as markup, which is often represented as a percentage figure. Frequently, stores will set a global percentage markup for the majority of its merchandise. The percentage markup most often used is based on the cost of the merchandise. See the Pricing Math section for how to compute markup based on cost.

Pricing and Competition

Most stores of the same type carry comparable types of merchandise. In most cases, these similar types of merchandise carry similar prices. A storeowner who prices merchandise in this way is said to be pricing to “meet the competition.” In other words, this store’s merchandise sells for about the same price as several other stores. Some storeowners may decide to sell similar merchandise at a price below that of the competition. This type of pricing is usually done with the hope of selling greater quantities of the merchandise and attracting more customers to the store. The storeowner is willing to accept a smaller margin on the item in hopes of selling larger quantities. Other storeowners will decide to sell similar merchandise at a price higher than that of the competition. Pricing in this manner will be successful if customers feel there is extra value or convenience in purchasing at the store with the higher price.

Supply and Demand

Pricing is affected by the principle of supply and demand. Supply and demand describes the amount of product available to sell and the willingness of customers to buy that product.

When a product is readily available the price will reflect that fact. Merchandise that is not readily available or that is in low supply can create higher customer demand and higher prices. The business owner must accurately judge customer demand and set the selling price accordingly.

What Happens When a Price is Too High or Too Low

Today’s customers are well informed and price savvy. Merchandise that is priced significantly higher than what customers expect to pay is likely to remain unsold. Customers will not see enough value for their dollar in the merchandise. Merchandise that is priced significantly lower than what customers expect is also likely to remain unsold since customers may assume that there is something wrong with the product.

Market Share

Every store is located in a trading area, from which it attracts customers. This area usually contains similar stores that compete in the same market. Market share is the percentage that a store has of the total sales in its area. Market share is an important indication of how well the store is doing compared to its competitors. Lower prices can increase market share just as higher prices can decrease it.

Markdowns

Sometimes merchandise does not sell according to projections. When this happens, storeowners will reduce the price of the merchandise, employing what is known as a markdown. Markdowns will decrease the store's margin, but the decreased margin can be counteracted by the increase in sales of the item receiving the markdown. Well-promoted markdowns can also help attract more customers to the store. Markdowns are a normal part of doing business and should be considered when planning pricing for the store.

Pricing Laws

The federal government has passed many laws to combat pricing related fraud. Many state and local governments have also passed laws that deal with pricing. Storeowners should review pricing laws before determining a pricing plan.

Laws regarding pricing protect customers from unfair pricing. The Sherman Antitrust Act was passed in 1890. This law, which makes monopolies illegal, also covers price fixing, an illegal act committed by competitors who get together to set the price of certain merchandise.

The Clayton Antitrust Act of 1914 and the Robinson-Patman Act of 1936 outlawed the practice of price discrimination. Price discrimination is the act of charging different prices to different customers for the same merchandise.

The Consumer Goods Pricing Act of 1975 implemented the practice of manufacturer suggested retail prices. In some cases a manufacturer sets a recommended retail price for the items it produces. The manufacturer will suggest that retailers use this price in their stores. This legislation prevents manufacturers from requiring a set retail price and thus being able to punish storeowners who do not follow the manufacturer's pricing.

In 2007, the United States Supreme Court greatly eased the restrictions on manufacturers setting of minimum retail prices. The ruled, "vertical agreements establishing minimum resale prices can have either procompetitive or anticompetitive effects, depending upon the circumstances in which they are formed." Pricing practices are now to be judged by the "rule of reason." A jury can weigh all of the circumstances of a case in determining whether or not a particular pricing practice imposes a restraint on competition.

Summary

Pricing merchandise correctly in order for it to sell is of vital importance to retailers. In this unit we learned some of the factors to take into consideration when determining pricing: cost, profit, margin, competition, supply and demand, and pricing laws.

Key Math Concepts

PRICE

To compute the price of an item, use this formula:
Price = Cost + Desired Profit

For example, an item has a cost of \$3.50 and a desired profit of \$1.00.
\$3.50 Cost + \$1.00 Profit = \$4.50 (Price)

MARGIN

To compute the margin for an item, use this formula:
Margin = Price - Cost

For example, an item has a price of \$9.00 and a cost of \$4.50.
\$9.00 Price – \$4.50 Cost = \$4.50 (Margin)

MARKUP

To compute the markup of an item from a percentage of cost, use this formula:
Markup Amount = Cost x Markup Percentage

To compute the price of an item based on its markup, use this formula:
Price = Cost + Markup Amount

For example, an item that has a cost of \$7.50 will get a markup of 40%.
\$7.50 Cost x .40 Markup = \$3.00 (Markup)
\$7.50 Cost + \$3.00 Markup = \$10.50 (Price)

MARKDOWN

To compute the markdown of an item, use this formula:
Markdown Amount = Price X Markdown Percentage

To compute the price of an item based on its markdown, use this formula:
Markdown Price = Current Price – Markdown Amount

For example, an item currently sells for \$12.00 and will get a markdown of 30%.
\$12.00 Price x .30 Markdown Percentage = \$3.60 (Markdown Amount)
\$12.00 Current Price – \$3.60 Markdown Amount = \$8.40 (Markdown Price)

Key Terms

Price
The amount of money a business charges for items it offers for sale.

Cost
The amount of money the store pays to purchase the merchandise from a supplier.

Profit
The total revenue of a business less all expenses over a specific period of time.

Margin
The difference between the retail price of an item and the cost of the item to the store.

Supply and Demand
The principle that describes the amount of product available to sell and the willingness of customers to buy that product.

Market Share
The percentage that a store has of the total sales in its trading area.

Markdown
Reduction in price of merchandise to increase sales of a product not selling according to projections.

MATH EXERCISES **LESSON 1**

Pricing

1. Compute the selling price of a sports drink that has a cost of $1.25 per item. The store needs to generate a profit of $0.50 per item.

2. Compute the new selling price for a group of sun visors that are currently selling for $6.00 each and that will receive a markdown of 25%.

3. Compute the selling price of a bottle of laundry detergent that has a cost of $8.75 and a markup percentage of 40%.

WRITTEN EXERCISES **LESSON 1**

Pricing

1 Your store has just received a shipment of a heavily advertised new brand of potato chips. You know that your store is not the only one in your area selling these chips. The cost and profit margin for the chips suggests a selling price of $2.75 per bag. Considering all factors, determine the selling price of the chips for your store and provide the reasons for your decision.

2. Your stock of ceramic coffee mugs is not selling as projected, so you would like to apply a markdown. The current selling price of the mugs is $5.00 each. Recommend a new selling price for the mugs and explain the reasons for your recommendation.

3. Your store has been losing market share in Freezies, a frozen beverage. Create a written outline that lists possible causes for the loss of market share and list some ways that can help your store regain its market share.

4. Make a list of five different products that have recently gone up in price. Record the former selling price and the new selling price next to each item. Then make a notation about whether you have continued to purchase each product, decided to purchase the product in smaller quantities, or stopped purchasing the product.

COMPUTER EXERCISE

Pricing

LESSON 1

GOAL: Your goal is to adjust the prices in your store to improve profits. Specifically, you want to generate a weekly profit greater than $2500.

YOUR SITUATION: In this lesson, you control Pricing. All other actions are controlled for you.

Part A

1. Run the **Pricing**, **Run To**, **Products**, and **Financials** sections of the **Tutorial**.
2. Open the **Pricing** lesson, choose **Sim 1**.
3. Using **Pricing** under the **Actions** menu:
   a. Set **Margin Points** to 50 pts. This will test demand at a very high margin and price.
   b. Click **Options->Run To** and select **Run for Period of Time**. Set the sim to run for 2 weeks. Click the **Go** button and run the simulation until it stops.
   c. Click the **Financials** button and record your revenue and profit for the last week on line 1 of the worksheet below.

QUESTION 1A: Did you make a profit?

4. Repeat step 3, but set your margin to 5 points. This will test demand at a very low margin and price. Record your results on line 2 of the worksheet.

QUESTION 2A: At 5% margin, was your revenue higher or lower? Did you make a profit? Why or why not?

5. Repeat step 3, try several different margins that you think are better and record your results on lines 3-5 of the worksheet. Run the sim forward two weeks each time.

QUESTION 3A: What was the optimal margin you found? Did you make a profit?

WORKSHEET 1

Margin	Revenue (for week 2)	Profit (for week 2)
50 points		
5 points		

Continued

Part B

1. Open the **Pricing** Lesson, choose **Sim 2**.
2. Click **Products**. Uncheck the **Total** box, scroll down the product list and check the box next to coffee, and check **Table** under **Show As**.

QUESTION 1B: What were your sales for coffee for the last week?

3. Check the box next to **COGS: Actual Sales**.

QUESTION 2B: What was your Cost of Goods Sold (COGS) for coffee for the last week? What was your margin *(Sales – Cost of Goods)* for the last week? What was your margin percentage *(Margin÷Sales)* for the last week?

4. Close the **Products** report. Click **Financials**. Click the **More Detail** button.

QUESTION 3B: Looking under **Equipment->Fixtures,** what is your weekly cost to lease the coffee machine? Are you making money on coffee at your current margin?

5. Now adjust your pricing on coffee to try and maximize your margin. Click **Actions->Pricing**. Click the **More** button. Check the box next to coffee to set coffee-specific pricing. Try several different prices for coffee. Run the sim forward for two weeks after making each price change.

QUESTION 4B: What was the best dollar margin you could achieve on coffee? Was this margin enough to pay for the rental of the coffee machine? How did your best margin percentage on coffee compare to the storewide margin percentage set in **Sim 1**?

QUESTION 5B: Discuss why different products in a convenience store might require special pricing.

Purchasing

LESSON 2

Main Idea

Purchasing inventory for a store is an important and complicated job. To be successful, a store must have inventory available for its customers to buy.
That inventory must be what customers want to buy and must be available when customers want to buy it. In this unit you will learn the basics of purchasing store inventory, selecting vendors, and managing store inventory. You will also practice some of the mathematics often used in purchasing.

After completing this lesson you will be able to:

- Explain how purchasing impacts sales and profit
- List qualities of a good buyer
- Describe the lifecycle of inventory through a store – from ordering to sale
- Explain the affect of inventory control on sales
- Calculate stock turnover in terms of items and dollars
- List common problems associated with purchasing and inventory control

Key Terms

- Buyer
- Open-to-buy
- Vendor
- Inventory
- Stock
- Invoice
- Inventory Control
- Just-in-time Inventory Control System
- Physical Inventory System
- Perpetual Inventory System
- Stock Turnover

What a Buyer Does

A buyer is the person who is responsible for purchasing the merchandise for a store. Large stores often hire a person whose only job is that of a buyer. In smaller stores, the owner or the manager often does the buying. Regardless of whose responsibility it is, the buyer must be well acquainted with the store's customers. The buyer must also be knowledgeable about the merchandise available for purchase. The buyer's job includes the tasks of planning, timing, and negotiating.

Planning

The buyer must plan which merchandise to buy. Much of a store's purchasing is done weeks or months before product arrives at the store. It is important to know the store's customers to be able to predict what they will want to buy.

The buyer must also plan to make purchases within the budget available for purchasing at any given time. The amount of money available to a buyer for purchasing items for a store is called open-to-buy. Most businesses use a merchandise plan to allocate money available for new merchandise purchases for a specific time period. When calculating open-to-buy for a specific period of time, one must consider merchandise orders that have been placed for the time period and the merchandise that has already been received for the time period.

Timing

Timing is a critical consideration in purchasing. Merchandise must be available when customers want to purchase it. The buyer must decide when merchandise will arrive at the store. If merchandise arrives before customers are ready to buy, the merchandise will sit on store shelves. If merchandise arrives after customers are ready to buy, they will probably have purchased it elsewhere.

Negotiating

The buyer will need to negotiate the terms and discounts of the orders with the vendors or suppliers. This is important because favorable terms and discounts will have an impact on the store's profit margin.

Selecting Vendors

A vendor is a business from which a buyer purchases merchandise. The buyer generally selects vendors. The reputation and reliability of a vendor is of utmost importance. Vendors are expected to deliver the merchandise when it is scheduled to arrive. The buyer must also make sure that the merchandise delivered by the vendor is the same quality and quantity that was ordered.

Inventory Needs

Inventory is the total amount of goods a business has. Inventory may be in a backroom or on the sales floor. Inventory is sometimes referred to as stock. Achieving a balance of inventory that is available for sale and the timely delivery of new merchandise is vital for a store's success. Empty shelves do not encourage sales or repeat business. On the other hand, too much inventory ties up open-to-buy and prohibits the purchase of new items. A buyer can use sales records to establish customer buying patterns and to make important decisions about the amount of inventory available at any given time.

Stock Handling

Once stock is delivered to the store, the process of stock handling begins. Stock handling includes receiving the stock, checking in the stock, price marking the stock, and transferring the stock to the selling floor.

Receiving and Checking in Stock

Most stores will receive and check in stock at the same time. Receiving stock usually entails matching the items and quantities ordered against the vendor's invoice. The invoice is the vendor's bill for stock purchased. It lists the items and quantities being delivered. Checking in stock is done to ensure that the items and quantities ordered and invoiced are the ones received. Checking in stock is also done to make sure that the stock is in good condition and undamaged. The expiration dates of perishable stock should also be reviewed to make sure that they stay fresh for customer purchase.

Price Marking Stock

Once the receiving and checking in processes have been completed, the stock is ready to be marked with its selling price. The store's order form should indicate the selling price of the stock. The stock can then be marked with a price ticket. Many stores use computer scanners to read the stock information from the bar code on each item of stock. The manufacturer can add the selling price to the bar code information. This is an accurate and time-saving way for the store to price mark its stock.

Transferring Stock to the Selling Floor

The new stock is now ready to be moved to the selling floor. The new stock should be transferred to the selling floor as quickly and as carefully as possible. New stock should be displayed in an area of the store that gets a good amount of customer traffic.

Stock Storage

There will be times when the entire amount of stock purchased cannot be placed on the selling floor. In those cases, the extra stock should be stored according to its type and requirements. For instance, milk products need to be refrigerated. Extra quantities should be placed in a refrigerated case until there is space for them in the refrigerated section of the store. Other stock, such as nonperishable packages of food, can be stored on shelves in a backroom until needed. Each item of stock should be evaluated according to its storage requirements and should be stored accordingly. It is important to keep shelves stocked on the selling floor.

Inventory Control

Inventory control is the management of the merchandise a store has for sale. This includes assuring that the store has sufficient stock to maintain sales goals. This also means avoiding too much stock at any given time. Inventory control also involves managing the stock on the selling floor and in the back room. There are several methods of inventory control, such as the just-in-time inventory control system. This method is usually computerized. A store is linked to suppliers through a computer system that purchases new inventory automatically as sales are made. Just-in-time inventory systems reduce the total amount of inventory a store must carry.

Inventory Systems

It is important to keep track of the merchandise a store has in its inventory. There are two systems that stores use to do this—the physical inventory system and the perpetual inventory system.

Physical Inventory System

The physical inventory system makes use of periodic counts of stock to ascertain stock levels. This inventory system requires that each item of stock be counted and recorded. To save the time and expense of counting all stock items in each inventory count, many storeowners will rotate the items that are counted at any given time.

Perpetual Inventory System

The perpetual inventory system keeps track of stock items on a continual basis. This inventory system can use either manual or computerized methods. The manual method requires keeping track of items received and sold by hand. The computerized method uses a scanner to record items received and sold. The information from the scanner is then sent to the store's computer, where the inventory is updated.

Stock Turnover

Stock turnover is an important tool that tells how well the store's inventory is being managed. Stock turnover measures how often stock is sold during a given time period. Stock turnover can be measured in items of stock or in dollars invested.

Summary

This unit covered the topic of purchasing and the jobs of the buyer. We have learned about the importance of selecting the right vendors. We have also learned about the importance of inventory to a store and how to handle items of inventory as they arrive at the store. Lastly, we have learned about inventory control, inventory systems, and how to compute stock turnover in both items of stock and in dollars invested.

Key Math Concepts

CALCULATING OPEN-TO-BUY

Use the formula below to calculate open-to-buy:
Open-to-buy = Planned Purchases – (Orders Received + Merchandise Ordered)

EXAMPLE
You have planned purchases of $1,000.
You have received orders that total $400 and you have ordered merchandise that totals $200.
Open-to-buy = $1,000 – ($400 + $200)
Open-to-buy = $400

COMPUTING STOCK TURNOVER

To compute stock turnover in items of stock, use this formula:
Stock Turnover in Items = Number of Items Sold ÷ Average Number of Stock Items in Inventory

To compute stock turnover in dollars invested, use this formula:
Stock Turnover in Dollars = Dollar Sales of Inventory Items ÷ Average Dollar Value of Inventory Investment

Key Terms

Buyer
The person who is responsible for purchasing the merchandise for a store.

Open-to-Buy
The amount of money available to a buyer for purchasing items for a store.

Vendor
A business from which a buyer purchases merchandise.

Inventory
The total amount of goods a business has, including goods in the backroom and on the sales floor.

Stock
Another term for inventory.

Invoice
The vendor's bill for stock purchased.

Inventory Control
The management of the merchandise a store has for sale.

Just-in-Time Inventory Control System
A usually computerized method of inventory control that involves linking a store to its suppliers through a computer system that purchases new inventory automatically as sales are made.

Physical Inventory System
An inventory system that makes use of periodic counts of stock to ascertain stock levels.

Perpetual Inventory System
An inventory system that keeps track of stock items on a continual basis.

Stock Turnover
A tool that measures how often stock is sold during a given time period.

MATH EXERCISES **LESSON 2**

Purchasing

1. Compute the open-to-buy for a store with planned purchases of $3,500. Orders received total $975 and merchandise ordered totals $1,200.

2. Compute the stock turnover in items for a product that has sales of 350 units and an average of 70 items in inventory.

3. Compute the stock turnover in dollars for a product that has sales of $6,000 and an average value of inventory investment of $1,500.

4. A store's buyer places an order for three dozen coffee mugs at a cost of $3.75 each, four dozen plastic glasses at a cost of $1.00 each, and two dozen insulated soft drink holders at a cost of $0.50 each. The delivery charge for this order is $7.50. There are no applicable discounts. What is the total cost of the order?

Purchasing

1. You are selecting a vendor for a new product for your store. Vendor A is a new vendor without an established reputation who is willing to offer attractive discounts on the product. Vendor B is an established vendor with an outstanding reputation for reliability and honesty, but this vendor's price on the product is higher than it is at other vendors. Vendor C is an established vendor with a reputation that has recently suffered because of slow or incomplete deliveries. The price for vendor C's product is between the prices of vendors A and B. Choose one of these three vendors and provide the rationale for your decision.

2. You are responsible for receiving and checking in stock orders that have just arrived at the store. The stock that has arrived includes milk, ice cream bars, packaged dog food, canned soup, and hot dogs. Describe the order in which you would receive, check in, and route each item to the sales floor.

3. Explain why a storeowner might choose to use a combination of perpetual and physical inventory systems to keep track of store inventory.

4. The stock turnover rate for your store is calculated on a monthly basis and has been falling for the past three months. Is this a cause for concern? If so, why?

COMPUTER EXERCISE **LESSON 2**

Purchasing

GOAL: Your goal is to find the best purchasing policies for your store. You want to buy enough to satisfy customers, but not so much that products expire. Specifically, you want to generate $35,000 sales with $0 of expired goods.

YOUR SITUATION: In this lesson, you control Purchasing. All other actions are controlled for you.

1. Run the **Purchasing**, **Run To**, **Comment Log**, **Products**, and **Product Aging** sections of the **Tutorial.**
2. Open the **Purchasing** lesson.
3. Using **Purchasing** under the Actions menu,
   a. Set the **Target Inventory Level** to 100 Units. This amount is purposely set too low, so you can see the effect of purchasing too little.
   b. Use **Options->Run To** to run the simulation to January 15. Use the Faster button to speed up time, if desired. Observe the store floor and your message window. Click **Reports->Comment Log**.

QUESTION 1: What problems are you having with inventory?

   c. Click the **Products** button on the main toolbar. Check **Expired Goods** as well as **Sales**. Click **Table** under **Show As.** For the final week shown, enter the level of sales and expired goods on line 1 of **Worksheet 1**.
4. Again using **Purchasing** under the **Actions** menu,
   a) Set the **Target Inventory Level** to 2000 Units. This amount is purposely set too high, so you can see the effect of purchasing too much.
   b) Use **Options->Run To** and run the simulation to January 29. Click **Reports->Product Aging**.

QUESTION 2: What problem do you see with your inventory?

   c) Click the **Products** button on the main toolbar. Check **Expired Goods** as well as **Sales**. Click **Table** under **Show As**. For the final week shown, enter the level of sales and expired goods on line 2 of the worksheet below.
   d) On the **Products** report, uncheck the **Total** and **Sales** boxes and check **Products 1-12**.

QUESTION 3: Which products are expiring?

   e) Uncheck **Products 1-12** and check **Products 13-25**.

Continued

QUESTION 4: Which additional products are expiring?

5. Re-open the lesson and try several different settings for **Target Inventory Level**. Try to keep sales above $35,000 per week and expired goods at zero. You can use the More button on the **Purchasing** screen to set custom policies for the products that you found were expiring. Each time, run the simulation forward at least two weeks. Record your results on lines 3-5 of **Worksheet 1**.

QUESTION 5: What purchasing policy enabled you to meet the above goals?

WORKSHEET 1

Target Inventory Level	Sales	Expired Goods
Global Level: 100 Units		
Global Level: 2000 Units		
Global Level: Product Specific Levels:		
Global Level: Product Specific Levels:		
Global Level: Product Specific Levels:		

Staffing

LESSON 3

Main Idea

Who is going to work in your store? That is a big and important question. The hiring and managing of employees is a crucial part of a store's success. In this unit we will learn how to determine the correct number of employees for your store's needs, characteristics of a good employee, how to evaluate potential employees, how to hire employees, and the laws that apply to employees. We will conclude with mathematics that can be used in staffing.

After completing this lesson you will be able to:

- Explain how staffing decisions are affected by customer satisfaction and wait time
- List common problems associated with under- and over- staffing
- Describe the qualities of a good employee
- Describe laws that protect employees
- Calculate employee wages and take home pay
- Explain ways a store can be staffed for maximum profit

Key Terms

- Staffing
- Staffing Level
- Understaffing
- Overstaffing
- Wages

How Many Employees Do I Need?

The question of how many employees you need to effectively staff a store is one that must be given careful thought. The answer depends on various factors pertaining to a particular store. What is the size of the store? What are the customer traffic patterns in the store? When customer traffic is high, more staff will be necessary to provide an acceptable level of customer service. Conversely, periods of light customer traffic require less staff to service the customers. The hours of operation for a store will help determine the need for employees. A store that is open 24 hours a day needs more staff than one that opens at 5:30 A.M. and closes at 11:00 P.M.

When planning staffing needs you need to consider those factors as they relate to a particular store. Staffing is the assignment of workers to jobs within a business. The staffing level is the number of workers assigned to jobs at a particular time. Establishing a staffing level that is neither too heavy nor too light is the goal of efficient staffing plans. Customer traffic patterns need to be examined to determine when the store is busiest and when it is least busy. This information, together with store hours and store size, will help formulate basic staffing needs.

Understaffing

Understaffing happens when there is not enough staff to handle the customers. One result of understaffing could be a long line at the cash register. A long line indicates that there are not enough employees to provide proper service. The danger exists that customers will grow tired of waiting and leave without making their intended purchase. Many department stores are understaffed, making it difficult for customers to find open cash registers or sales associates to help them with their purchases. Another result of understaffing can be the loss of inventory. An understaffed store can be a target for shoplifters, who understand they are less likely to get caught with less staff watching them. Poor stock maintenance is another result of understaffing. Workers that are kept too busy with customers do not have the time to handle routine maintenance and upkeep of the store's stock.

Overstaffing

Overstaffing happens when there are too many staff members in the store for the customer traffic. Overstaffing is expensive because the business owner is paying for staff that is not needed. Overstaffing is unproductive and can lead to a lack of motivation in employees. Many storeowners or managers hire part-time employees to work only during periods of peak customer traffic in order to help avoid this situation.

What Makes a Good Employee?

As you think about staffing needs, you will likely be considering what types of employees to hire. Regardless of the position you want to fill, there are traits you should always look for in an employee. Some of these traits include:

- Reliability – will the employee perform assigned tasks?
- Attitude – does the employee display a positive outlook and a willingness to work cooperatively with others and accept direction?
- Punctuality – will the employee show up to work on schedule?
- Honesty – does the employee have a reputation or record of integrity and honesty?
- Manners – is the employee polite?
- Appearance – is the employee neat and tidy in his or her attire and personal hygiene?
- Communication skills – can the employee communicate well with and listen to others?
- Work ethic – is the employee hard-working and diligent?

Evaluating Potential Employees

You have determined many of the traits that an ideal employee should possess. Your next task is to begin evaluating candidates for the jobs available. Two means of evaluation that are available are the job application form and the job interview.

A candidate will fill out the job application form with information such as his or her name, address, education, previous work experience, and other information your company may ask for. What can you learn from a job application form besides the information provided? Look for the neatness of the completed form and the completeness of the application. The job interview can reveal much about an applicant's communication skills, appearance, punctuality, manners, and attitude.

Always contact former employers and the references provided by the applicant. Information provided by former employers is an indication of the applicant's past performance.

Hiring Employees

Once applicants have been interviewed for the job openings, you are ready to evaluate and hire one of them. When you decide which applicant to hire, you should be certain that the applicant understands the job description, the tasks the job requires, the responsibilities of the job, the wages, and the number of hours to be worked. You should explain this information clearly and leave no room for misinterpretation. When extending a job offer to an applicant, make sure there is a mutually agreed upon start date for the employee.

Worker Protection Laws

There are many laws that have been enacted to protect employees in the workplace. You need to be aware of these laws and familiar with their provisions. Most of these laws fall into the following categories:

- Equal opportunity employment – these laws protect employees from discrimination because of gender, race, religion, national origin, age, or disability.
- Employee compensation – these laws determine minimum wages, the 40-hour work week, and overtime pay. Child labor laws also fall into this category.
- Employee safety and health – these laws are designed to make sure that employees have a safe place to work and that working conditions will not have a negative impact on their health.

Summary

In this unit we have looked at how to staff a store. We looked at how staffing levels can lead to overstaffing and understaffing. We then studied some of the characteristics of good employees, evaluating potential employees, and hiring employees. We provided an overview of some of the laws that protect employees in the workplace. Lastly, we studied some of the mathematics related to staffing a store.

Key Math Concepts

Mathematics used in staffing deal with the cost of having your employees in the store and the sales they generate. Employee wages are one consideration when computing employee costs. Wages are the payments made to employees for the hours that they work.

COMPUTE WAGES FOR YOUR EMPLOYEES BY WEEK

To compute wages for your employees by week, use the following formula:
Wages Per Week = Hourly Wage X Hours Worked Per Week

COMPUTE THE AVERAGE CUSTOMER WAIT TIME

To compute the average time a customer may have to wait to complete a sales transaction, use the following formula:
Average Customer Wait Time = 90 Seconds X Number of Customers in Line

(Most stores use an average of 90 seconds to complete a sales transaction)

Key Terms

Staffing
The assignment of workers to jobs within a business.

Staffing Level
The number of workers assigned to jobs at a particular time.

Understaffing
When there is not enough staff to handle the customers.

Overstaffing
When there are too many staff members in the store for the customer traffic.

Wages
The payments made to employees for the hours that they work.

Staffing

1. A. Heather makes $6.55 per hour. She worked 25 hours last week. What were her gross weekly wages? B. Heather had payroll deductions of $42.11 for federal, state, and local taxes, and for social security. What was Heather's take home pay?

2. Compute the total wages per week for the following six employees:
- Employee A worked 40 hours per week at a wage of $9.50 per hour.
- Employee B worked 38 hours per week at a wage of $8.25 per hour.
- Employee C worked 39 hours per week at a wage of $7.75 per hour.
- Employee D worked 28 hours per week at a wage of $6.60 per hour.
- Employee E worked 20 hours per week at a wage of $6.65 per hour.
- Employee F worked 15 hours per week at a wage of $6.55 per hour.

3. Your store has an average time of 90 seconds to process a sales transaction. There are three customers in line to check out. How much time will have passed when the last sales transaction is complete?

4. It is a busy lunch hour. Two cashiers are working and there are seven customers in line. The average time to process each sales transaction is 90 seconds. How much time will have passed when the last sales transaction is complete?

WRITTEN EXERCISES **LESSON 3**

Staffing

1. You are determining the staff necessary for a new store. The store is located directly off a commuter route and is less than a mile from a large high school. The store will be open from 5:00 A.M. to 1:00 A.M. daily. You anticipate that the store will experience high customer traffic between 5:30 A.M. and 8:00 A.M. when customers stop in on their way to work, between 12:00 P.M. and 1:30 P.M. for lunchtime, and between 4:30 P.M. and 7:00 P.M. when customers stop in on their way home from work. You anticipate moderate customer traffic between 7:00 A.M. and 7:45 A.M. when students are on their way to school, and between 2:30 P.M. and 3:30 P.M. when students are on their way home from school. The high school has a closed campus policy regarding the lunch hour, so you do not expect student traffic at lunchtime. Discuss some of the other considerations to remember while planning staffing needs.

2. Your store has been suffering from a decline in sales in all categories. Your staffing is the same as it was before the decline in sales and you now have an overstaffing situation. What actions should you take to remedy the overstaffing situation?

3. You have an opening for a new cashier. You have interviewed several applicants and have narrowed the candidates to two. The first applicant has cashier experience but no other work experience. She is available to work any hours that are scheduled, including weekends, but cannot work after 4:00 P.M. on weekdays because of family obligations. The second applicant has no experience as a cashier but has worked in other retail sales positions. He is available to work any hours that are scheduled on weekdays, but would prefer not to work at night. He cannot work at all on weekends. Which candidate would you hire? Explain the reasons for your choice.

4. An employee has been experiencing problems with his or her car. As a result, the employee has been late to work on several occasions and on one occasion did not show up to work at all. Explain to the employee the impact this is having on the store and on the other employees.

COMPUTER EXERCISE

LESSON 3

Staffing

GOAL: Your goal is to calculate and test the proper number of cashiers for your store. You will then try to maximize store profit by controlling staffing for all shifts.

YOUR SITUATION: In this lesson you control Staffing. All other actions are controlled for you.

1. Run the **Staffing**, **Comment Log**, and **Financials** sections of the **Tutorial**.
2. Open the **Staffing** lesson. Run the simulation forward for 9 hours at the second slowest speed or slowest speed. Count the number of customers who come in each hour and fill in **Worksheet 1**. Don't count customers who are already in the store.

WORKSHEET 1

Hour (PM)	3-4	4-5	5-6	6-7	7-8	8-9	9-10	10-11	11-12
Number of Customers									

QUESTION 1: What was the busiest hour?

3. Click **Reports->Comment Log**.

QUESTION 2: How many customers left because the line was too long?

4. Re-open the **Staffing** lesson. Now run the simulation at the slowest speed. Using the simulated time in the lower-left corner of the screen, observe how long a cashier takes to serve one customer.

QUESTION 3: How long does it take to service one customer? **Note:** Due to time compression in the sim, this number will be higher than in the real world.

QUESTION 4: Using the information above, calculate the approximate number of cashiers needed to service the peak hour of the day.

Continued

5. Re-open the **Staffing** lesson. For the shift containing the peak hour and the following shift, use **Staffing** under the **Actions** menu to increase the number of cashiers to the number of cashiers you calculated in Questions 4. Run the simulation forward 9 hours. Click **Reports->Comment Log**.

QUESTION 5: Were all customers served promptly or did some leave because of long lines?

6. Re-open the staffing lesson several times. Each time, try increasing your staff a bit more. Run the simulation foward for 9 hours each time you re-open it.

QUESTION 6: How many cashiers did you need to hire before customers stop leaving? Why do you think you needed more cashiers than the amount calculated in Question 4?

7. Re-open the **Staffing** lesson and use staffing to maximize your store's profit. Your goal is to make a profit of $24,000 or more per week. Use **Actions->Staffing** to set your number of cashiers and stockers for all shifts. Watch your **Comment Log**, under **Reports**, for complaints from customers who wait too long or can't find products on the shelf. Try to minimize customers leaving because the lines are too long or because they can't find the products they want.
8. Fill in **Worksheet 2** to show the level of staffing that allows you to maximize your profit.

WORKSHEET 2

Position	7am-11am	11am-3pm	3pm-7pm	7pm-11pm	11pm-3am	3am-7am
Cashier						
Shelf Stocker						

QUESTION 7: Using **Financials**, what were the weekly wages and profit for your store when staffing was set to allow you to meet the goal in step 7?

Promotion

LESSON 4

What is Promotion?

Promotion is the positive communication a business has with its customers. Promotion can be used to communicate messages about the store's merchandise or to heighten the store's image. Promotion of a store's merchandise is known as product promotion. Promotion meant to heighten a store's image is known as institutional promotion. There are several types of promotion that can be employed.

Types of Promotion

There are four types of promotion that are commonly used by stores. These are personal selling, sales promotion, advertising, and public relations. Each of these types of promotion has qualities that help promote the store.

Personal Selling

Personal selling involves the use of paid sales associates to interact with the store's customers. Personal selling is a form of personal promotion since it relies on person-to-person interaction. Effective personal selling requires that sales associates be friendly, knowledgeable, and helpful so that customers leave with a positive impression of the business. Personal selling is also a form of paid promotion since sales associates are paid for their work.

Main Idea

Promotion is the term that describes the ways in which stores actively communicate with their customers. In this unit we are going to study promotion, its goals, and the types of promotion. We are also going to learn about promotional mix. We will look at promotional budgets, evaluating promotions, and some of the legal aspects of promotion. Lastly, we will review some of the mathematics used in conjunction with promotion.

After completing this lesson you will be able to:

- Compare different promotional strategies and the benefits of a promotional mix
- Discuss the advantages of publicity and public relations
- Calculate a promotional budget based on net sales
- Evaluate promotion results and adjust future promotions
- Explain promotions impact on revenue, margin, and profit
- Analyze financial statements to determine the success or failure of a promotion

Key Terms

- Promotion
- Product Promotion
- Institutional Promotion
- Personal Selling
- Sales Promotion
- Advertising
- Public Relations
- Publicity
- Promotional Mix
- Federal Trade Commission (FTC)
- Cease and Desist Order
- Bait and Switch

Sales Promotion

Sales promotion involves the use of activities that encourage customers to make purchases, such as issuing coupons or product samples, putting up point-of-purchase displays, running contests or sales events, or sending out e-mails. Sales promotions are often used to introduce new products and to encourage customers to try them. The general goal of sales promotions is to increase sales.

Advertising

Advertising is a communication to customers paid for by a business. Advertising is a form of non-personal promotion and is a one-way message. The business creates and sends a message, which is read or viewed by the customer. There is no direct interaction between the business and the customer. Advertising is all around us and it comes in many forms, most often in print and on television.

Public Relations

Public relations involves the use of unpaid references to a business to further a positive impression. The goal of public relations is to showcase the business in a positive manner. Publicity is a form of public relations. Publicity involves calling attention to a newsworthy aspect of the business, such as charitable donations. Publicity is not paid for by the business, and businesses make every effort to generate publicity that is positive and to avoid negative publicity.

The Promotional Mix

The combination of the types of promotion a business uses is called the promotional mix. A business will select the combination of promotional activities that will best help it achieve the goal of a particular promotion. The promotional mix can and often will change from promotion to promotion. The most successful promotions normally include several activities in the promotional mix.

The Goal of Promotion

Before a store decides to begin a promotional campaign, a decision should be made regarding the goals for that promotion. The goal of the promotion or promotional campaign should be specific and clearly stated. Clearly stated goals make it easier to select promotional activities that will help achieve those goals. By stating specific goals, the storeowner will be better able to determine if the promotion was successful in meeting those goals. The steps in planning a promotional campaign are vital for its success: state the goals, outline the details of the planned campaign, determine the costs, implement the promotion, and finally, evaluate the campaign.

The Promotional Budget

Promotional activities are a necessary business expense. Promotional activities should be budgeted for right along with other business expenses. Promotional budgets are normally determined using a percentage of the business's net sales. The percentage is often based on the budget from the previous year's net sales or on competitive ratios in the category. While businesses often increase their promotional budgets as sales go up, it is important for businesses to remember to invest in promotion during slow sales periods as well.

Evaluating Promotions

Once a promotional activity is complete, it is time to evaluate its success. If promotional goals have been stated, it will be easy to determine whether the activity was successful in meeting its goals. For example, a promotional activity for a product had a goal of a three percent sales increase over a two-week time period. Compare the sales records for that product at the beginning of the two weeks to the product's sales records at the end of the two weeks to determine the sales increase. If a promotional activity does not meet its goals, it is necessary to determine why it was not successful. The components of the promotional mix should be examined and the promotional goals should be investigated to determine if they were realistic.

Advertising Laws

Advertising laws are enacted and enforced by the federal government's Federal Trade Commission (FTC). One of the purposes of the FTC is to protect consumers from advertising that is deceptive or false. False advertising happens when a business knowingly makes claims about a product that are not supported by fact. In these cases, the FTC has the legal authority to issue a cease and desist order. A cease and desist order legally forces this business to discontinue the advertising that makes untrue claims. The FTC can also issue a cease and desist order to a business for using bait-and-switch advertising. Bait and switch is the illegal practice of advertising a product at a low price and then stocking little to none of that product, with the intention of selling customers a more expensive item.

Summary

In this unit we have reviewed promotion, types of promotion, and promotional mix. We learned about the goals of promotion, allocating a promotional budget, and evaluating promotions. Lastly, we discussed some of the legal aspects of advertising and some mathematics used in promotion.

Key Math Concepts

COMPUTE NET SALES

To compute net sales, use this formula:

Net Sales = Total Sales — (Returns + Discounts)

COMPUTE A PROMOTIONAL BUDGET

To compute a promotional budget based on a percentage of net sales use this formula:

Promotional Budget = Percentage of Net Sales x Net Sales

Key Terms

Promotion
The positive communication a business has with its customers.

Product Promotion
Promotion of a store's merchandise.

Institutional Promotion
Promotion meant to heighten a store's image.

Personal Selling
A type of promotion that involves the use of paid sales associates to interact with the store's customers.

Sales Promotion
A type of promotion that involves the use of activities meant to encourage customers to make purchases.

Advertising
Communication to customers paid for by a business.

Public Relations
The use of unpaid references to a business to further a positive impression.

Publicity
A form of public relations that involves calling attention to a newsworthy aspect of the business.

Promotional Mix
The combination of the types of promotion a business uses.

Federal Trade Commission (FTC)
An agency of the federal government that enacts and enforces advertising laws that protect consumers.

Cease and Desist Order
An order issued by the FTC that forces advertisers to discontinue false or bait-and-switch advertising.

Bait and Switch
The illegal practice of advertising a product at a low price and then stocking little to none of that product, with the intention of selling customers a more expensive item.

MATH EXERCISES **LESSON 4**

Promotion

1. A drugstore is promoting candy sales for one month. A budget of $300 was allocated to this promotion based on 5% of net candy sales during the same period last year. State the mathematical formula that was used to determine the budget and what the net sales were that led to the $300 budget.

2. Last year, your store's total revenue was $400,000. The store's total discounts were $10,000 and returns totaled $5,000. What were your store's net sales?

3. Your promotional budget for this year is $200 for personal selling, $400 for sales promotion, $1000 for advertising, and $700 for image promotion. What is your total product promotion budget for this year?

4. You have a $1000 public relations budget for the current year. You would like to generate publicity by publishing an article in the local township newspaper about your store's sponsorship of community activities. Calculate how much of the $1000 you would need to place the article in the newspaper.

WRITTEN EXERCISES **LESSON 4**

Promotion

1. Give an example of both a product promotion and an institutional promotion that could be used by your local convenience store and describe how the components of the promotions differ.

2. As manager of a gourmet coffee shop, you are trying to promote additional sales by developing more positive and friendlier customer service. You want to implement the promotion by utilizing your front line sales associates. Outline what you consider to be the key components of this customer service promotional campaign.

3. At your gift shop, you want to develop a sales promotion that offers bubble bath at "buy one get one half price." Outline and explain the planning steps of this promotion and how your promotion will address each step.

4. You have just completed a 30-day promotion for fountain drinks at your family restaurant and sales remain lower than they were during the same period last year. Outline and explain how you would evaluate this promotion.

COMPUTER EXERCISE **LESSON 4**

Promotion

GOAL: Your goal is to get the maximum marketing benefit from billboard advertising. You will then try to get the maximum benefit from radio advertising. Finally, you will see which method of advertising was more effective in this particular case.

YOUR SITUATION: In this lesson, you control Radio Advertising and Billboard Advertising. All other actions are controlled for you.

Part A: No Promotion

1) Run the **Billboards**, **Financials**, **Run To**, and **Radio Advertising** sections of the **Tutorial**.
2) Open the **Promotion** lesson.
3) Using **Options->Run To**, run the simulation forward to January 22. Click the **Financials** button and record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.

Part B: Billboard Promotion

1) Reopen the **Promotion** lesson.
2) Using **Billboard Advertising** under **Promotion** on the **Actions** menu browse around the city noticing that different potential billboard sites have different reach. There are ten billboard locations in the city that have an estimated reach per week of 10,000 or above. Put a billboard on one of these locations.
3) Using **Options->Run To** run the simulation to January 22. Click the **Financials** button and note your revenue, gross margin, promotional spending, and profit for the most recent week.
4) Repeat steps 1-3 trying all ten of these locations for your billboard. Once you find the most profitable location for your billboard record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.
5) Use **Print** on the **File** menu to print the **City** view showing the best billboard location you could find.

QUESTION B1: Looking at your **Financials**, what was the weekly cost for your most profitable billboard? Compared to **Part A** did your revenue increase? Did your profit increase? Was the advertising worth it?

Part C: Radio Promotion

1. Reopen the **Promotion** lesson. Now you will test radio advertising on three different radio stations.

Continued

2. Using **Radio Advertising** under **Promotion** on the **Actions** menu, select and book all four rotations on KEZL. Using **Options->Run To** run the simulation to January 22. Click the **Financials** button and note your revenue, gross margin, promotional spending, and profit for the most recent week.
3. Re-open the lesson and repeat this process for WPOP and KLRK. Once you find the radio station that creates the most profit, click the **Financials** button and record your revenue, gross margin, promotional spending, and profit for the most recent week on **Worksheet 1**.

QUESTION C1: Which radio station created the highest profit? KEZL, WPOP, or KLRK?

QUESTION C2: Looking at your **Financials**, what was the weekly cost for your radio advertising? Compared to **Part A,** did your revenue increase? Did your profit increase? Was the advertising worth it?

QUESTION C3: Compare your profit in **Part B** and **Part C**. Were billboards or radio advertisements more effective in this case?

WORKSHEET 1

	Revenue	Gross Margin	Promotional Spending	Profit
Part A				
Part B				
Part C				

Financing

LESSON 5

Estimating Start-up Costs

It is important to think and plan carefully before starting the process of opening your business. One of the first things to do is estimate the start-up costs for your planned business. Start-up costs are the costs associated with opening and operating a new business for a period of time, usually one year. Start-up costs vary depending on the size and type of business that is being considered. Some examples of start-up costs are the cost of renting a building for a store, purchasing inventory for a store, signage, employee wages, electricity, telephone and Internet installation, and insurance. Some of the start-up costs will be one-time expenses, such as having permanent signs made and obtaining a license. There will also be ongoing costs such as electricity and employee wages. Remember to include your living expenses in your start-up costs. You will still have to pay for rent, food, your car, and other expenses.

Once a list of all the first-year expenses is projected, a monthly estimate of those expenses should be calculated. The total of the estimated monthly expenses will give you the total start-up costs for the first year. You can find start-up cost worksheets on the U.S. Small Business Administration's website, www.sba.gov. The worksheet will provide a step-by-step guide for estimating your start-up costs.

Where to Get Money

Completing the start-up costs estimations will give you a good idea about the amount of money needed to open and operate your business.

Main Idea

Many people want to own their own business. Before opening a business, there are several steps a potential business owner must take to get started. After coming up with an idea for a new business, one must consider financing for it. In this unit, we will look at financing a business. How do you estimate the amount of money you will need to start a new business? Where can you get the money to start the business? At the end of the unit, we will review some of the mathematical calculations.

After completing this lesson you will be able to:

- Compute business start-up costs and ongoing costs
- Compare the different funding options for starting a business
- Complete a personal financial report, including net worth based on assets and liabilities
- Determine loan payments based on principal, interest, and other terms
- Determine the pros and cons of using trade credit

Key Terms

- Start-up Costs
- Sweat Equity
- Personal Financial Report
- Asset
- Liability
- Net Worth
- Income Statement
- Balance Sheet
- Cash Flow Statement
- Principal
- Interest
- Interest Rate

There are several methods for financing a new business. Often a combination of financing methods is used. Some financing methods include:

- Your own money,
- Loans from family or friends,
- A loan from a bank or other lending agency, and
- Money from a venture capitalist company.

Your Own Money

Prospective business owners need to invest some of their own money in their business. Money can come from a savings account, the sale of stock, or other sources. The use of your own money can be looked upon as an investment in your idea and abilities. Another investment that business owners make is in the form of sweat equity. Sweat equity is the unpaid work—both mental and physical—that a business owner puts into a business, increasing its value.

Loans from Family or Friends

Loans from family and friends represent the largest source of funding for a new business. Often, family or friends will offer to help finance your business. Sometimes you might ask them to invest. Regardless, this source of financing is one that will have to be repaid to the person lending you the money. A positive note about this type of loan is that if your business has unforeseen financial problems, family or friends may be more flexible about payment amounts or the schedule for repayment. Before accepting a loan from family or friends, you should think about what would happen if you were unable to repay the loan. This situation can cause hard feelings, resentment, or even the loss of a friendship.

Loan from a Bank or Other Lending Agency

A bank is a logical place to inquire about a loan. Banks have money to lend to qualified applicants. The loan officer at the bank will examine your business plan and other financial documents discussed later in this unit. After careful study of your documents, the bank will determine whether to make the loan. State and federal governments regulate banks; therefore, the bank will want assurance that you have the ability to repay any loans they make.

Money from a Venture Capitalist Company

Venture capitalist companies specialize in investing in new businesses. They typically invest in businesses they feel have large growth potential and invest cash into the business in exchange for equity in the company. Accepting investment money from a venture capitalist company means that you will probably relinquish some of the control of your business. Venture capital represents one of the smallest sources of new business funding.

Borrowing Money

Most new business owners will have to borrow at least some of the money they need to get their business up and running. In addition to preparing an estimate of start-up costs, you will want to prepare a personal financial report. A personal financial report is a statement of your personal financial status. Your personal financial report lists and compares your total assets and liabilities. An asset is any tangible item of value you own, such as a savings account or land. A liability is any debt you have, such as a car loan or money owed on credit cards. Once all of your assets and liabilities are listed, net worth can be determined. Net worth is the difference between total assets and total liabilities. Potential lenders will want to examine these financial documents. Lenders want to know that you have the ability to repay the loans they make to you.

Forecasting Revenue and Expenses

Calculating start-up costs and completing a personal financial report supports the preparation of an income statement, balance sheet, and cash flow statement for the business. Preparing these documents will be worthwhile once the business is in operation, since they can serve as a guide for the timing of making inventory purchases or other business expenses. These documents will also help you to realistically determine the amount of money you will need to borrow. Remember that the projections you make must be realistic in order to be helpful. A more detailed explanation of the following financial documents will be studied in the Financial Statements unit.

Income Statement

An income statement is a report that outlines projected business revenue and projected business expenses for a period of time. That period of time can vary and might be a month, three months, or a year.

Balance Sheet

The balance sheet is a report that summarizes the business's assets and liabilities, and the owner's equity. The purpose of a balance sheet is to show a clear picture of the business's assets and liabilities at a particular point in time.

Cash Flow Statement

The cash flow statement is a report that provides information about when cash comes into the business and when that cash will be spent. The purpose of the cash flow statement is to let the business owner know if there will be enough cash to cover the business's projected expenses.

How Much to Borrow

Once all of these reports have been completed and carefully studied, the business owner can make an accurate projection about the amount of money to borrow from a lender. The bank or other lending source will study these reports as well as your business plan. (Business plans will be discussed in the Business Plan Analysis unit.) The result of the analysis of this information by the lender will determine how much money they will allow you to borrow. The amount of the loan is known as the principal. Interest is the amount of money you pay to the lender for use of the money you borrow. The interest on a loan is usually expressed in terms of an annual percentage rate, or the interest rate. Both principal and interest will be repaid to the lender according to a schedule that is determined at the time the loan is made. This schedule is called a loan agreement. The loan agreement is a contract between you and the lending agency that specifies the amount of the loan, the interest rate, the amount of the monthly payment, when the payments are due, and the length of time of the loan.

Summary

In this unit we have examined some of the steps a prospective business owner should take to start a new business. We reviewed some methods of financing a new business. We continued with an overview of some of the financial reports that are important for securing financing for a new store. A brief discussion of the components of a loan, the principal and interest, followed the overview, and we concluded with some of the basic mathematics used in financing.

Key Math Concepts

COMPUTE YOUR MONTHLY START-UP COST
To compute your monthly start-up cost, add together the amount of each monthly expense.

COMPUTE YOUR YEARLY START-UP COST
To compute your yearly start-up cost, multiply the monthly start-up cost by 12.

COMPUTE NET WORTH
To compute net worth for your personal financial report, use this formula:
Net Worth = Assets – Liabilities

COMPUTE SIMPLE INTEREST
To compute simple interest on a loan, use this formula:
Simple Interest = Principal x Annual Interest Rate x Length of Time of Loan

Key Terms

Start-up Costs
The costs associated with opening and operating a new business for a period of time, usually one year.

Sweat Equity
Unpaid work, mental and physical, that a business owner puts into a business, increasing its value.

Personal Financial Report
Aa statement of an individual's personal financial status.

Asset
Any tangible item of value an individual owns.

Liability
Any debt an individual owes.

Net Worth
The difference between an individual's total assets and total liabilities.

Income Statement
A report that outlines projected business revenue and business expenses for a period of time.

Balance Sheet
A report that summarizes a business's assets and liabilities, and the owner's equity.

Cash Flow Statement
A report that provides information about when cash comes into a business and when that cash will be spent.

Principal
The amount of a loan.

Interest
The amount of money an individual pays to the lender for use of the money borrowed.

Interest Rate
The interest on a loan expressed as an annual percentage.

MATH EXERCISES **LESSON 5**

Financing

1. A partial listing of monthly start-up costs for a store includes $2,800 for rent, $650 for electricity, $285 for telephone and Internet service, $9,550 for employee salaries, $800 for cleaning service, and $300 for supplies. What is the total of these monthly start-up costs?

2. What is the yearly start-up cost for each item listed in problem #1? What is the total yearly start-up cost for all the items in problem #1?

3. Molly has $500 in her savings account. She owes her parents $100 for a new outfit. She also owes her brother $25. What is her current net worth?

4. A business owner has two loans from the local bank. One of the loans is a three-year loan with a principal of $75,000 and an annual interest rate of 5%. The other is a one-year loan with a principal of $21,000 and an annual interest rate of 4.5%. What is the simple interest for each loan? What is the total amount of simple interest for both loans?

WRITTEN EXERCISES **LESSON 5**

Financing

1. You are planning to open your own store in the near future. As part of your preparation, make a list of your personal expenses for a typical month. Assume that you will be paying typical rent for your area and that you will have a car payment. List and total your other personal expenses. Prepare a brief rationale for each expense that identifies each as a necessary or discretionary expense.

2. Based on what you have learned in this unit, make a list of the critical factors you should consider and analyze before investing in a new business, and state your reasons for listing each factor.

3. List and discuss the major differences between banks and venture capitalist companies.

4. You are planning to open a new store in the near future. You estimate that you will have $150,000 in start-up costs. You have $25,000 of your own money to invest. What steps will you follow to secure the remaining financing necessary? List the steps and be prepared to discuss them and your rationale.

COMPUTER EXERCISE

Financing

LESSON 5

GOAL: Your goal is to get your business up and running profitably without running out of cash.

YOUR SITUATION: In this lesson, you control Bank Debt and Trade Credit. All other actions are controlled for you.

1) Run the **Trade Credit** and **Bank Debt** sections of the **Tutorial**.
2) Open the **Financing** lesson.
3) Run the simulation at high speed for several simulated weeks and watch for any messages.

QUESTION 1: What happened to your store? What was the date that it went out of business?

4) Reopen the **Financing** lesson. You will now make it through the start-up phase of your business by getting a bank loan. Click **Actions->Bank Debt->Get Loan**. Get the loan for $25,000. Run the simulation at high speed.

QUESTION 2: What happened to your store? What was the date that it went out of business? Did the business survive longer than without any financing?

5) Reopen the **Financing** lesson. You will now try to make it through the start-up phase of your business simply by using **Trade Credit**, or credit which is extended to you by suppliers. Click **Actions->Trade Credit** and change **Pay In (Days)** to 30 days. Run the simulation at high speed.

QUESTION 3: What happened to your store? What was the date that it went out of business? Did the business survive longer than without any financing?

6) Reopen the **Financing** lesson again. Now use a combination of the bank loans and trade credit (paying suppliers in 30 days) to finance your business. Run the simulation at high speed. Open the Vital Signs screen.

Continued

QUESTION 4: Were you able to get your business through the start-up phase to the point where it was making a consistent profit?

7) Your bank loan interest rate was 18%. If you paid your suppliers 23 days earlier, you could get a 2% discount.

QUESTION 5: Show a calculation of the effective annual interest rate on the loan from suppliers. Compare this interest rate to the rate on the bank loan.

Market Research

LESSON 6

Main Idea

This unit explores the topic of market research. We will define and learn the uses and the process of market research. Focus on exploring the sources of data and types of market research will guide our learning. Then we will review mathematics related to market research.

After completing this lesson you will be able to:

- Outline the five major steps in the market research process
- Describe how surveys can be used to learn about customer behaviors and competition
- Analyze the results from a market research survey, and explain how data may affect your business plan
- Compare and contrast qualitative and quantitative research
- Calculate the percentage of responses to a specific survey question
- Compute the cost associated with a market research survey

Key Terms

- Market Research
- Data
- Primary Data
- Survey
- Observation
- Focus Group
- Sample Size
- Secondary Data
- Qualitative Research
- Quantitative Research

What is Market Research?

Retailers make important business decisions daily. Since these decisions have a lasting impact on their business, they need information that will help them make the best decisions. How do they get their information? Marketing information is obtained through market research. Market research is the process of gathering, recording, analyzing, and reporting information regarding customers or potential customers. Most retailers conduct some type of market research. A portion of this information can be collected through a dialogue with sales associates while other information is gathered through more formal methods.

Uses of Market Research

Retailers have many reasons to use market research. They need information about their customers, their merchandise, and the services they offer. Market research is also used to provide retailers with information about the target market. It helps identify what services customers want, what merchandise to offer, customer satisfaction, sales forecasting, measuring market potential, and product mix information. The application of market research continues to grow and the uses are numerous. Today the growth of the global market adds the element of international competition, which needs to be understood in an already competitive business environment. Market research can provide the information that helps retailers hone their competitive edge in these areas.

Market Research Process

As the definition states, market research is a process. There are five steps in the process: identify the problem, obtain data, analyze data, choose the best solution, and follow up on the results.

1. **Identify the Problem:** In this step the retailer states the problem and the information needed to solve it. The problem must be stated as simply and as clearly as possible so that research questions can be developed to provide the information needed.

2. **Obtain Data:** Data are facts discovered in the market research process. In this step, data related to the problem are collected and studied. There are two main sources of data: primary data and secondary data.

Primary data are facts collected for the first time for the problem under study. Primary data can be obtained through the use of surveys, observation, and focus groups. A survey is a series of questions asked to a select and representative group of people to obtain quantitative data. Observation involves watching people by using other people or by using a camera. Observation gives information about what people do, but not about why they do it. A focus group is a small group of 8–15 people who provide qualitative data through their opinions about a business, its products, or other issues under the direction of a discussion leader.

Market research surveys ask questions of select groups of people. These people are called the sample. The number of people questioned for a survey is called the sample size. The larger the sample size the greater the cost of the survey, but the more accurate the results. Using a small sample size reduces the cost of the survey, but also decreases its accuracy. Retailers who use surveys to obtain marketing information must find a balance between the cost of the survey and the accuracy of the information derived from the survey.

Secondary data are facts that have been collected previously for a purpose other than the problem being studied. Secondary data are less expensive to obtain than primary data. Businesses often pick the secondary data they will use first and then decide which primary data to collect. Secondary data can be gathered from internal or external sources. Internal sources are those from inside the business and include past sales and buying records. External sources are those from outside the business, such as trade associations, trade publications, Internet sources, government sources (federal, state, and local governments), and market research companies.

3. **Analyze Data:** In this step the data are compiled, studied, and interpreted. It is important to note that data should be assessed carefully and objectively since the same data may mean different things to different people.

4. **Choose the Best Solution:** Once the data have been studied and analyzed conclusions can be drawn. There are usually several conclusions that lead to several recommendations for

solutions to the problem studied. In this step the best solution is recommended along with the reasons why it is the best option. Recommendations should be presented in a written report.

5. **Follow up on the Results:** Once the research is complete and the recommendations have been implemented, it is time to evaluate against the marketing results. The business owner will want to know if the actions recommended by the research were successful or not.

Types of Market Research

Market research is broken down into two types: qualitative research and quantitative research. The type used depends on the problem identified. A combination of both types of research is used in most market research.

Qualitative Research

Qualitative research is used to discover consumer information whose validity can then be assessed with quantitative research questions. Questions to gather this type of information generally begin with "how" or "why." This type of research is used to obtain information from smaller numbers of people. Often qualitative research will guide the development of quantitative research for a larger sample.

Quantitative Research

Quantitative research is often used to answer questions about quantities and amounts using a large sample of consumers. Questions used to gather this type of information often begin with "how many" or "how much." This type of research can help assess validity and bring further scrutiny to qualitative data, and is most often used to obtain information from a large number of people.

Summary

This unit has provided information about market research. We began by defining market research and identifying some of its uses. We then reviewed the steps of the market research process and the types of data used in the process. We next studied the types of market research—qualitative and quantitative research. Lastly, we reviewed some mathematics associated with market research.

Key Math Concepts

CONVERTING NUMBERS TO A PERCENTAGE OF RESPONSES

Analyzing the data obtained from research questions requires converting numbers to a percentage of responses to a specific question. Use this formula:

$$\text{Percentage of Responses to a Specific Question} = \text{Number of Responses to Specific Question} \div \text{Total Number of Responses}$$

FINDING THE AVERAGE OR MEAN OF A GROUP OF NUMBERS

To find the average or mean of a group of numbers, add the numbers together and then divide the total by the amount of numbers added.

Key Terms

Market Research
The process of gathering, recording, analyzing, and reporting information regarding customers or potential customers.

Data
Facts discovered in the market research process.

Primary Data
Facts collected for the first time for the problem under study.

Survey
A series of questions asked to a select and representative group of people to obtain quantitative data.

Observation
An information-gathering technique that involves watching people by using other people or by using a camera.

Focus Group
A small group of 8–15 people who provide qualitative data through their opinions about a business, its products, or other issues under the direction of a discussion leader.

Sample Size
The number of people questioned for a survey.

Secondary Data
Facts that have been collected previously for a purpose other than the problem being studied.

Qualitative Research
Research that is used to discover consumer information whose validity can then be assessed with quantitative research questions.

Quantitative Research
Research often used to answer questions about quantities and amounts using a large sample of consumers.

Market Research

1. A bookstore owner is conducting market research to forecast estimated sales for the coming year. The bookstore is open 360 days a year and out of the 1,200 people who pass the store each day, 8% of them enter the store and make a purchase. The average amount of each sale is $18. What is the estimated amount of sales for the coming year?

2. What is the total cost to conduct a market research survey with a $500 base fee plus $3 per question and $1.25 per person surveyed? The survey has 12 questions and will be sent to 300 people.

3. A customer service survey was conducted of 400 customers—200 men and 200 women. The data on one of the questions show that 115 of the men and 165 of the women rate the customer service as excellent. What percentage of the men gave an excellent rating? What percentage of the women gave an excellent rating? What was the total percentage of customers giving an excellent rating?

4. Your business has conducted three market research surveys in the past year. The cost per survey is as follows:

Survey 1	$1,250
Survey 2	$925
Survey 3	$1,075

What is the average cost of the market research surveys?

WRITTEN EXERCISES **LESSON 6**

Market Research

1. Identify the three basic methods for collecting primary data and a type of information that can be gathered from each method.

2. Explain the differences between qualitative and quantitative research. Write a question that might be used to gather each type of information and explain your answer.

3. You have decided to open a beachwear and souvenir shop in a local beach community that draws visitors from an adjacent large metropolitan area. You need to understand what type of stock will appeal to your customer base. Outline how you would structure the market research on a qualitative and quantitative basis to guide buying stock for the store.

4. You have a problem with your retail business. Give an example of how you would use market research to solve the problem.

COMPUTER EXERCISE

Market Research

LESSON 6

GOAL: To use market research to better understand your potential customers.

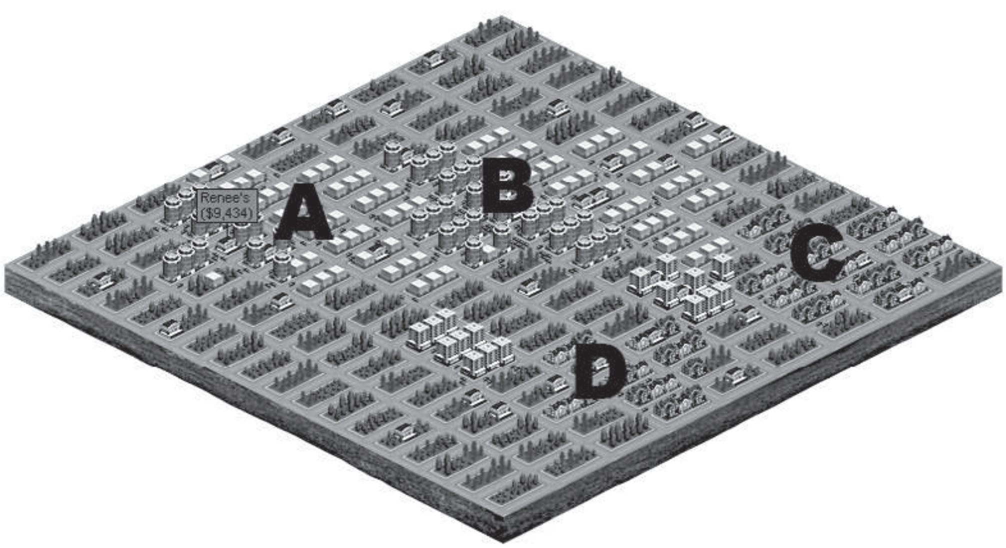
YOUR SITUATION: In this lesson, you control Market Research. All other actions are controlled for you.

1. Run the **Market Research** section of the **Tutorial**.
2. Open the **Market Research** lesson.
3. Using **Actions->Market Research->New Survey,** do a survey asking 300 customers "Where do you live?," "Where do you work?," "What is your occupation?," "Where did you shop this week?," "What product do you need most often?," and "What radio station do you listen to most?"
4. Click **OK**. Change **Question** to "What product do you need most often?".

QUESTION 1: What products do customers need most often? List those that were mentioned by 5% or more of the respondents.

5. Change the **Question** to "Where do you live?". Click **Show Results in City View** and choose **Both (connected)**.

QUESTION 2: Looking at the **City View** and the diagram below, what section of the city has the highest commuting density?



Continued

5. Click **Return to Survey Results.** To answer the remaining questions, you will need to use the Segment button on the **Survey Results** screen. (Here is a step by step guide for answering a similiar question: What products do students need?)
   a. Change **Question** to "What is your occupation?" Click the **Segment** button. Uncheck the boxes next to **Office Professional** and **Retired**. Click **Apply**. You now have the "segment" that is just students. Click **OK**.
   b. Back in the **Survey Results** window, select the question, "What product do you need most often?" The blue bars represent the responses of customers within your segment (students). The answer to the question is all the products for which the blue bars have height greater than 0. This includes milk, detergent, nacho chips, oat cereal, shampoo, bread, and coffee.

QUESTION 3: Using the process illustrated above, answer the following. *(You will have to "Clear" your segment each time you want to look at answers for a different demographic.)*

a. What radio station do most office professionals listen to?

b. Looking at the **City View** and the diagram from the previous page, what section of the city do most customers of Renee's store live in?

c. Do any surveyed customers of Renee's come from dormitory or classroom sections of the city?

Targeted Marketing

LESSON 7

Identifying the Customer

To be successful, retailers must know who their customers are. The market is a group of people who have common merchandise needs and wants and the means to buy the merchandise. Market segmentation is the process used to classify a broad market into smaller groups. This process allows specific customer characteristics to be further defined. Market segmentation is a step retailers take toward determining their target market. A target market is the specific group of people a retailer wants as customers. A retailer directs its marketing efforts toward this group. This target market group shares specific wants and needs that retailers seek to meet. The target market profile is a description of the characteristics shared by the target market. This profile provides necessary information that helps a retailer better understand its customers and drives most of the retailer's decisions. The characteristics described in a target market profile are demographics, geographics, and psychographics. Much of this information can be obtained from the United States Census Bureau or the local chamber of commerce.

Demographics

Demographics is the term used to describe basic characteristics that identify and distinguish the people in a target market. Some of these characteristics include:

Main Idea

In this unit we will learn how to identify a target market and its characteristics. We will discuss the characteristics and their meanings. We will look at how target market information can help retailers refine their merchandise offerings. Lastly, we will review some mathematics associated with targeted marketing.

After completing this lesson you will be able to:

- Design a direct mail campaign based on market segments to gather information about specific customers
- Identify survey segments and their percentage of the total market
- Describe the benefits associated with targeted marketing based on demographics, geographics, and psychographics
- Calculate disposable and discretionary income from gross income & expenses
- Explain how the results of target marketing can impact a store's product mix and merchandising

Key Terms

- Market
- Market Segmentation
- Target Market
- Target Market Profile
- Demographics
- Disposable Income
- Discretionary Income
- Geographics
- Psychographics
- Product Mix

- **Age:** Knowing the age of the people in the target market helps a retailer identify the types of merchandise each age group is likely to buy. The U.S. Census Bureau provides information about population age groups.
- **Gender:** Statistics on gender separate male and female segments who have different purchasing habits.
- **Income:** Data on income tell retailers how much money the target market customer has to spend. Income measurement is broken into two types. Disposable income is the amount of money left to spend after taxes have been taken out. This is the money that people take home in their paychecks. Disposable income is normally used first to pay for necessities like food and housing. Discretionary income is the amount of money left to spend after necessities are paid for. Changes in the disposable and discretionary incomes of target market customers are of great interest to retailers.
- **Marital Status:** These statistics highlight the difference in spending habits between single people and married couples, who are more likely to have children.
- **Ethnic Background:** This information helps indicate specialized interests customers may have based on their ethnic or cultural origins.
- **Education and Occupation:** These data help provide information about the interests customers may have based on their educational level and/or occupation.

Geographics

Geographics is the term used to describe the physical location of customers. These statistics tell retailers where their customers live and work. They also point out similarities between people in a specific geographical area. For instance, people who live in the deep south are not likely to need snow tires. Whether they live in southern Florida or southern Texas, these people share this characteristic. Geographics can be applied globally, nationally, regionally, or locally. Most small retailers will be interested primarily in local information, while a national retailer will be concerned with national information.

Psychographics

Psychographics is the term used to describe the analysis of customer lifestyles and how they spend their time and money. Lifestyle analysis gathers information about customer activities, attitudes, and opinions. This information helps retailers understand what products or services customers are likely to buy.

- **Activities:** This information reflects what people enjoy doing in their free time. Do they play golf or do they prefer woodworking? If a customer does not play golf, he or she is unlikely to buy golf clubs.

- **Attitudes:** This information reveals how people feel about certain topics. Do they like organic foods? If so, this can indicate customer interest in about living a healthier lifestyle.
- **Opinions:** This information shows what people think of the places and things around them. Are they conservative or liberal? These characteristics affect what a customer is interested in buying.

Target Marketing and Product Mix

A study of target market information will give a retailer a good picture of the target customer's needs, wants, and preferences. This information will be of enormous value as the retailer selects the store's product mix. Product mix is the type of merchandise a retailer has for sale. Most retail stores have a variety of merchandise from which customers can make their selections. A sporting goods store will carry equipment for sports like baseball, football, soccer, volleyball, basketball, golf, and tennis. After obtaining local target market information, a sporting goods store with a target market of single 21 to 35 year-olds located near an apartment complex populated by single people would know to carry more tennis and golf equipment than child-sized sports equipment.

Summary

In this unit we have studied the subject of target marketing. We learned about markets and market segmentation. We then learned how to identify a target market and the definition of a target market profile. Next we studied demographics, geographics, and psychographics and their components. We discussed how target market information can help a retailer refine product mix. Lastly, we reviewed mathematics related to target marketing.

Key Math Concepts

COMPUTE A NUMBER FROM A PERCENTAGE

Much of customers' profile information is stated in percentages. To compute a number from a percentage, use this formula:

Number of Customers Sharing a Specific Characteristic = Percentage x Total Number of Customers

FIND THE AVERAGE OR MEAN OF A GROUP OF NUMBERS

To find the average or mean of a group of numbers, add the numbers together and divide the total by the amount of numbers added.

Key Terms

Market
A group of people who have common merchandise needs and the means to buy the merchandise.

Market Segmentation
The process used to classify a broad market into smaller groups.

Target Market
The specific group of people a retailer wants as customers.

Target Market Profile
A description of the characteristics shared by the target market.

Demographics
The term used to describe basic characteristics that identify and distinguish the people in a target market.

Disposable Income
The amount of money left to spend after taxes have been taken out.

Discretionary Income
The amount of money left to spend after necessities are paid for.

Geographics
The term used to describe the physical location of customers.

Psychographics
The term used to describe the analysis of customer lifestyles and how they spend their time and money.

Product Mix
The type of merchandise a retailer has for sale.

MATH EXERCISES **LESSON 7**

Targeted Marketing

1. You are the owner of a home decorating store. You recently conducted a survey of 350 of your customers to determine the types of dwellings in which they live. The results are as follows:

Single Family Homes	55%
Condominiums/Townhouses	30%
Apartments	15%

What number of customers lives in each type of dwelling?

2. When given the following information, how many market segments would you identify and what percentage of the market is each segment?
40 individuals buy only at the lowest price
20 individuals buy where they can obtain good service
50 individuals buy where they can obtain competitive prices and good service
60 individuals buy based solely on convenience

3. Your gross income is $3,000 per month. Your federal tax is 10%, state tax is 5%, city tax is 2%, and you pay 7% to social security. What is your monthly disposable income?

4. Your disposable income is $1,200. After you pay for rent, utilities, groceries, and a car payment, you have $200. What percentage of your disposable income is discretionary?

WRITTEN EXERCISES **LESSON 7**

Targeted Marketing

1. Visit three stores in your local area. Observe the customers and the store merchandise. Using your observations, describe each store's target market in terms of age group and gender.

2. Make a list of at least five of your daily activities. Use that information to list the various market segments in which those activities place you.

3. Select four stores in your local area—two different types in which customers spend disposable income, and two different types in which customers spend discretionary income. Briefly describe the merchandise offered at each store and the reasons for your selections.

4. You are the owner of a grocery store. The demographics in your target area are changing and reflect growing Hispanic and Asian American populations. Will this changing demographic affect your merchandise offerings? If so, why? If not, why not?

COMPUTER EXERCISE **LESSON 7**

Targeted Marketing

GOAL: Your goal is to develop a customer profile of your target customer which lets you select appropriate products to stock and design cost effective marketing programs.

YOUR SITUATION: In this lesson, you control Market Research, Merchandising and Direct Mail. All other actions are controlled for you.

1. Run the **Direct Mail**, **Merchandising**, **Market Research**, **Run To**, and **Financials** sections of the **Tutorial**.
2. Open the **Targeted Marketing** lesson and choose **Sim 1**.
3. Using **Actions->Market Research->New Survey**, ask 300 customers "What is your occupation?" and "What products do you need most often?"

QUESTION 1: What is the most prevalent occupation in the city? *(Use the segment option to isolate just people in the most common occupation.)* What do these people need most often? *(List those products that were mentioned by 5% or more of the respondents.)*

QUESTION 2: Using the **Store View**, observe your store shelves. Are you offering those products?

6. Using **Actions->Merchandising**, re-arrange the store so that you are selling all the products that Office Professionals want. Using **Options->Run To**, run the simulation for two weeks. Open your financials.

QUESTION 3: How much did weekly revenue increase from the first few weeks in January?

7. Reopen the **Targeted Marketing** lesson and choose **Sim 2**. You will now try two marketing campaigns to boost sales further. The first is a broad direct mail campaign. The second is a targeted direct mail campaign. Your merchandising has already been adjusted to include some needs of office professionals.
8. Using **Direct Mail** under **Promotion** on the **Actions** menu.

   a. Set up a mailing to the entire city using **Click & Drag** to select all buildings in the city. Include 35% off coupons for three products: Bolt Cola, Nacho Chips, and Salsa. Check the option to repeat the mailing every 7 days.

   b. Using **Options->Run To,** run the simulation to February 12th.

   c. Click the Financials button and record your revenue and promotional spending on Direct Mail for the last week on line 1 of **Worksheet 1**. Click the More Detail button on the financials window to see spending on Direct Mail.

9. Reopen the **Targeted Marketing** lesson and choose **Sim 2** again. Your store is located in a section of the city with many office buildings. It is your goal to do a more targeted mailing to office professionals offering the discounts only on things they need. To do this:

   a. Conduct a survey asking 500 customers "What is your occupation?"

   b. From the Survey Results window, click the **Segment** button. Select the question, "What is your occupation?" Uncheck the boxes next to Students and Retired. Click **Apply**. You now have the "segment" that is just office professionals. Click the **Buy Mailing List** button and name the list "Professionals." Click **OK**. Click **OK** again and then click **Close**.

   c. Using **Direct Mail** under **Promotion** on the **Actions** menu, select "Professionals" under **Use Existing List**. Include 35% off coupons on eggs, bread and coffee. (These are the products professionals need most. You could determine this through a survey but it is given to you in this lesson for simplicity.) Check the option to repeat the mailing every 7 days.

   e. Using **Options->Run To,** run the simulation to February 12th.

   f. Click the **Financials** button and record your revenue and promotional spending on Direct Mail for the last week on line 2 of Worksheet 1. Click the **More Detail** button on the financials window to see spending on Direct Mail.

QUESTION 4: Which mailing generated more revenue? Which mailing cost less?

QUESTION 5: Discuss why targeted campaigns are often more effective than broad campaigns.

WORKSHEET 1

	Revenue (After 3 wks.)	Promotional Spending (After 3 wks.)
Entire City		
Market Segment		

Merchandising

LESSON 8

Main Idea

In this unit we will explore merchandising and its importance to store sales and profit. We will discuss merchandise plans, types of merchandise, and stock lists. Then we will learn how merchandising affects sales. Lastly, we will review some merchandising math.

After completing this lesson you will be able to:

- Give examples of the four main categories of merchandise
- Explain the importance of stock lists and inventory control on merchandising
- Describe how sales are affected by the strategic placement of merchandise throughout a store - including the store entry, checkout lanes, and back of the store
- Analyze the financial impact of rearranging products
- Calculate projected sales based on past sales data and planned percentage increase

Key Terms

- Merchandising
- Staple Merchandise
- Fashion Merchandise
- Seasonal Merchandise
- Convenience Merchandise
- Stock Lists
- Basic Stock List
- Model Stock List
- Never-out Stock List
- Impulse Purchases
- Point of Purchase (POP) Displays
- Related Merchandise

What Is Merchandising?

Merchandising involves the coordination of buying merchandise that customers want in the proper quantities and then selling that merchandise at a price that customers are willing to pay. It is also worth noting that customers want merchandise where they want to buy it. Often this means that customers want to buy products where it is convenient. Nevertheless, customers will, on occasion, overlook convenience when the product is one they want badly enough. A successful retailer will stock an assortment of merchandise types that appeal to customers' various buying needs.

Types of Merchandise

When planning the merchandise assortment for a store it is important to be aware of and understand the types of merchandise. Merchandise of all sorts can be grouped into four categories, or types. The merchandise types are: staple, fashion, seasonal, and convenience.

Staple Merchandise

Staple merchandise is the basic stock of a store. It is stocked year round and comprises a good portion of store sales. These items are what customers need on an ongoing basis and tend to sell well year after year. Examples of staple merchandise include bread and eggs in a grocery store and socks and shoes in a department store.

Fashion Merchandise

Fashion merchandise consists of items that are stocked for several years and that have solid sales over that time period. An example is women's capri pants. They have been selling well for several seasons and will probably continue to sell well for several more. Eventually women will tire of them and will switch to buying a different style.

Seasonal Merchandise

Seasonal merchandise consists of items that sell well during particular times of the year that are stocked only for that selling period. Once the selling period is over, unsold seasonal merchandise is marked down to encourage quick sales. Examples of seasonal merchandise include windshield wiper fluid in the fall and winter and sunscreen in the spring and summer.

Convenience Merchandise

Convenience merchandise consists of items customers buy without thinking very much about the purchase. This type of merchandise is purchased often or even on a daily basis. Examples of convenience merchandise include a cup of coffee or a can of soda.

Stock Lists

Stock lists are tools that retailers use to help them keep a close eye on the inventory they stock. These lists assist retailers with the task of maintaining correct quantities of the four types of merchandise discussed above. Stock lists are just what the name indicates: itemized and detailed listings of the merchandise a store or department should have for sale. Most retailers categorize their merchandise into three lists—a basic stock list, a model stock list, and a never-out stock list.

Basic Stock List

The basic stock list keeps track of the staple merchandise that the store should always keep in inventory. These items are the ones with regular customer demand. The basic stock list will usually note a minimum quantity that should always be in inventory for each item on the list. This list also notes the number of items to be reordered when needed. Daily study of this list will help ensure that basic items are always in stock and that no sales are lost.

Model Stock List

The model stock list is used to keep track of items of fashion merchandise. Items of fashion merchandise change more often than basic stock list items so the list is not as detailed. Monitoring of the model stock list can give valuable information about best-selling price points, styles, and colors.

Never-out Stock List

The never-out stock list can be used for all four types of merchandise. Typically the never-out stock list is used to keep track of the best-selling merchandise. This list should be monitored frequently to ensure that these popular items are always available in sufficient quantities. This list changes often as newly popular items are added and less popular ones are removed.

Merchandising and Sales

Merchandising can have a decisive effect on sales in a store or department. Most retailers plan sales for their stores based on the sales for the same period in the previous year. The general rule that is often followed in forecasting sales is to plan for a ten percent increase over last year's sales for the same time period. Of course, retailers should consider current business circumstances when planning and should act accordingly.

To meet sales goals there must be merchandise for customers to buy. Moreover, there must be enough merchandise for customers to feel that they are able to make a choice from an adequate selection. Yet, there must not be so much merchandise that customers are overwhelmed or unwilling to sort through very large quantities in order to make their merchandise selections.

Merchandising for Profit

Retail selling space is a valuable commodity that retailers use to maximize store profits. The strategic placement of store merchandise within the selling space is a big factor in helping to generate merchandise sales and subsequent profits.

Staple merchandise is generally placed in a permanent location and does not need to be placed in the heaviest customer traffic areas. Customers will seek out staple items, so placing them in a permanent location makes it easier for customers to locate them when making return visits to the store.

Store Entrance

Space near the store entrance has the greatest customer exposure and the best chance of producing the largest amount of sales. Placing the most appealing merchandise near the front entrance of the store to get customers to come in is a basic merchandising principle.

Impulse Purchases

Impulse purchases are usually small items of merchandise that are purchased with little or no thought on the part of the customer. They are generally placed near the customer entrance, at the checkout area, and in areas of heaviest customer traffic so that customers can easily see them. Candy bars and breath mints are examples of impulse merchandise. They are often placed near the cash registers so customers will easily see and buy them. This placement of impulse items is very common in drugstores, convenience stores, and airport shops.

Point of purchase (POP) displays are sales promotional tools that are designed to encourage impulse purchasing and highlight special offers. Merchandise manufacturers usually supply these displays to retailers to promote the sale of their merchandise. Point of purchase displays are often used at the checkout area so that customers can easily add the item to their purchase.

Related Merchandise

Related merchandise consists of items that are related to each other and that usually sell together. If a customer buys one they will be likely to buy the other. These items should be located near each other; adjacent placement reminds customers of a possible need and makes it convenient for them to just pick up the other item and buy it. Razors and shaving cream are examples of related merchandise.

Summary

In this unit we learned about merchandising and the types of merchandise stores stock. Next we learned about stock lists and how they can assist retailers in maintaining and monitoring stock inventory levels. We then discussed how merchandising affects store sales. Lastly, we reviewed some mathematics associated with merchandising.

Key Math Concepts

COMPUTE PLANNED SALES INCREASE

Merchandising is a tool to help retailers reach their sales goals. Most retailers plan sales goals as a percentage increase of the previous year's sales for the same time period. To compute planned sales increase, use this formula:

Planned Sales Increase = Last Year's Sales x Percentage of Increase Planned

TOTAL PRICE PER ITEM

When placing reorders from the basic stock list, the total price per item is computed using this formula:

Total Price Per Item = Quantity Ordered x Price Per Unit

Key Terms

Merchandising
The coordination of buying merchandise that customers want in the proper quantities and then selling that merchandise at a price that customers are willing to pay.

Staple Merchandise
The basic stock of a store that is stocked year round and comprises a good portion of store sales.

Fashion Merchandise
Items that are stocked for several years and that have solid sales over that time period.

Seasonal Merchandise
Items that sell well during particular times of the year that are stocked only for that selling period.

Convenience Merchandise
Items customers buy without thinking very much about the purchase.

Stock Lists
Merchandise planning tools consisting of itemized and detailed listings of the merchandise a store or department should have for sale.

Basic Stock List
A list of the staple merchandise that the store should always keep in inventory.

Model Stock List
A list used to track of items of fashion merchandise.

Never-out Stock List
A list used to keep track of the best-selling merchandise.

Impulse Purchases
Usually small items of merchandise that are purchased with little or no thought on the part of the customer.

Point of Purchase (POP) Displays
Sales promotional tools that are designed to encourage impulse purchasing and highlight special offers.

Related Merchandise
Items that are related to each other and that usually sell together.

Merchandising

1. Review of the basic stock list for your gift shop indicates that you need to reorder the following items: 12 glass vases @ $8.75 each, 6 silver plated vases @ $12.50 each, 12 glass paperweights @ $9.25 each, 6 glass candy dishes @ $14.25 each, and 18 glass candlesticks @ $7.75 each. What is the total cost for each type of item? What is the total cost for all the items? The vendor offers a 2% discount for payment within 30 days. Assume that you will take advantage of this discount. Shipping is $14.95. What is the total amount of this reorder?

2. You are updating the sales plan for your store for the upcoming holiday season. You usually plan for a 10% increase in sales over the same time period last year. However, this year your area is experiencing an economic downturn. You have determined that a realistic figure to plan for is a 6% sales increase. Using the numbers below, compute the projected 6% sales increase for the first week of the season and total the weekly sales, round to the nearest dollar.

Day	Last Year's Sales	Projected Sales
Monday	$3,145	
Tuesday	$2,867	
Wednesday	$3,028	
Thursday	$3,371	
Friday	$4,645	
Saturday	$5,739	
Sunday	$5,674	
Weekly Sales	$28,469	

3. After reviewing your model stock list you discover a changing sales pattern over the last three months on the most popular style of running shoe. The data note the following sales per month: May–120 units, June–165 units, July–180 units. Your normal stock level for this shoe is 200 units. You have missed a few sales recently due to out-of-stock issues in popular sizes. The vendor for this national brand has just informed you that they are planning a major advertising campaign for this style of running shoe over the next two months. Calculate the average monthly increase in sales over the last two months and, based on these data, determine what your inventory for this shoe should be over the next two months. You will need to explain your rationale to support your projection.

4. You are planning the fall sweater merchandise levels for your clothing store. Last year your sweater sales were down 25% from the previous season. The store had projected sales of 500 sweaters. Calculate the number of units the 25% sales decline represents; then compute the total projected sweater sales with a 17% planned increase over last year.

WRITTEN EXERCISES **LESSON 8**

Merchandising

1. You are the manager of a greeting card and gift shop. You are preparing a basic stock list for the store. List five items that should be included on the list and explain your rationale for each item.

2. A local sporting goods store is located in a metropolitan area where the NFL franchise won the Super Bowl this year. It is now late spring following the win and store management needs to forecast the stock plan for fall sales of the local football merchandise branded with the winning team's logo. Advise them on how they might approach the plan and explain the rationale for your recommendations.

3. There are four merchandise types as noted in this unit. List the four types and give examples that would be relevant for a local organic food store.

4. You have just been appointed manager of a local health club. The owner has asked you to map out a strategy to sell more convenience items that would be purchased on impulse as customers check in and out of the club. Outline a strategy and explain your rationale.

COMPUTER EXERCISE **LESSON 8**

Merchandising

GOAL: Your goal is to use merchadising to raise your store's revenue to $75,000 in weekly revenue for at least one week.

YOUR SITUATION: In this lesson you do not need to worry about carrying slushies, coffee or magazines. You currently have shelf space allocated for all the other products. You control only Merchandising. All other actions are controlled for you.

1. Run the **Merchandising**, **Run To**, **Financials**, and **Products** sections of the **Tutorial**.
2. Open the **Merchandising** lesson.
3. Using **Options->Run To**, run the simulation to January 22nd. Click **Financials** and record the revenue for the most recent week on **Worksheet 1** in row 1.
4. Now you will make some basic merchandising changes and note the results. First, swap the shelf positions of Bread (considered a staple or need item) and Wiper Fluid (considered an impulse item). Using **Options->Run To**, run the simulation to February 12th.

QUESTION 1: Use the **Products** report to answer the following questions. Did sales of Bread go up after the switch? Did sales of Wiper Fluid go down? Were combined sales of the two products, higher or lower after the swap? Explain why this might be.

6. Swap the positions of Detergent and Salsa. This places Salsa right above Nacho Chips. Using **Options->Run To**, run the simulation to February 26th.

QUESTION 2: Using the **Products** report, did Salsa sales go up or down after the swap? Explain why this might be?

7. Now use merchandising to increase weekly sales to $75,000 just by rearranging products on the shelves. Click on the fixtures, rearrange any or all of the products in your store. You cannot change fixture types (refrigerator or regular rack); you can only rearrange products on fixtures. Pay attention to where you place likely "needs" and "impulse items." Pay attention to products that could sell better if placed together.

8. Run the simulation for 3 simulated weeks. Click Financials and record your revenue for the last week on line 2 of **Worksheet 1**.
9. Repeat Step 7 and 8 several times. Each time, enter your weekly revenue on a new line of **Worksheet 1**. Use **Print** on the **File** menu to print out your best performing store layout. Hand in the worksheet and the print-out of your best performing store layout.

WORKSHEET 1

Store Layout	Revenue (After 3 wks.)
1	
2	
3	
4	
5	
6	
7	

QUESTION 3: Which products do you think are primarily impulse items?

QUESTION 4: Which products do you think are primarily staple or need items?

QUESTION 5: Which type of product would you generally place in the back of the store, needs or impulse items?

QUESTION 6: Which type of product would you generally place by the cash register, needs or impulse items?

QUESTION 7: Which products were complementary and benefited from being placed next to related products?

Security

LESSON 9

Main Idea

In this unit we will study the topic of store security. We will begin by examining how theft affects a business and how much businesses lose to theft each year. We will then study the different types of theft. Next we will discuss some methods for loss prevention. Lastly, we will review mathematics associated with store security.

After completing this lesson you will be able to:

- Calculate shrinkage based on merchandise book value and physical inventory counts
- Give examples of internal and external theft
- Explain the importance of conducting a physical inventory in terms of loss prevention
- Explain how rearranging products in a store can lead to a decrease in shoplifting
- Use financial statements to determine expenses related to security and the impact on profit

Key Terms

- Shrinkage
- Physical Inventory
- Book Value
- Shoplifting
- Employee Theft

How Theft Affects a Business

Protecting a store from inventory loss is a major concern for businesses. Theft of inventory causes significant expenses for retailers. The losses caused by theft are referred to as inventory shrinkage. Shrinkage is the term used to describe inventory losses resulting from shoplifting, employee theft, inaccurate paperwork, damaged or misplaced merchandise, and vendor error. While administrative inventory losses are not caused by theft, they do contribute to lost revenue for retailers.

How Much Do Businesses Lose to Theft Annually?

Theft places a considerable financial burden on retailers and, ultimately, on the customers who will pay higher prices to account for retailers' losses. It is estimated that U.S. retailers lose over 41 billion dollars a year due to theft. Losses from theft ultimately erode profits and can mean the difference between profit and loss.

Determining Shrinkage

Shrinkage is calculated by performing a physical inventory. A physical inventory is a count and inspection of all the merchandise in a store. Physical inventories are normally conducted at regular intervals, usually once or twice per year. Once the inventory count is completed, the value of the merchandise counted is computed. The total is then subtracted from the book value of the inventory. Book value is the amount of money the inventory is shown to be worth in the business's records. The difference between the book value of the merchandise and the inventory value is the amount of shrinkage. The normal shrinkage rate for retailers is between one and five percent of sales each year.

Types of Theft

Retail theft generally falls into two categories: external theft (shoplifting) and internal theft (employee theft).

External Theft

Shoplifting is the removal of items from a store with the intention of not paying for them. Some shoplifters are professionals and some are amateurs. Professional shoplifters use sophisticated techniques to accomplish their thefts. Professional shoplifters often enter a store knowing exactly what they plan to steal. They are experts at concealing merchandise or at passing it to an accomplice and leaving a store undetected. Professional shoplifters are difficult to spot and catch. They deliberately dress and act in a manner that will not attract attention.

Amateur shoplifters steal primarily for the excitement or because they are acting on a dare. These shoplifters often arrive in groups and usually do not have a plan to steal a specific item. They are opportunistic and will take merchandise that can be easily hidden as they leave the store.

Internal Theft

Internal theft is also called employee theft. Employee theft involves the unauthorized taking of merchandise by an employee from an employer. An employee may physically take merchandise from the store or he or she may engage in "sweethearting," a term that describes discount abuse. This practice involves an employee giving unauthorized discounts to friends or relatives. Whatever form employee theft might take, the result is the same—a loss of revenue for the retailer.

It should be stressed that most employees are honest and would never steal from their employer. However, there are some dishonest employees who take advantage of the trust placed in them by their employers. Employee theft, the largest cause of shrinkage, accounts for almost half of retailers' inventory shrinkage.

Loss Prevention

Retailers can use several tools to help prevent the loss of merchandise by shoplifting and employee theft. These tools can help detect and prevent both.

Preventing Shoplifting

Shoplifting losses can be reduced through intelligent store layout, employee education, security devices, and other precautions.

- The layout of your store should avoid blind spots in which theft can occur. Entrances and exits should be visible to all employees. The checkout area should have a good view of the store. Fitting room entrances should be easy to see and fitting rooms should be monitored at all times.

- Store employees should be trained in how to spot shoplifters. Training guidelines are available through local law enforcement agencies; search the Internet for other sources of information.
- A variety of security devices can help prevent shoplifting. Many retailers use tags containing ink or an electronic sensor that alerts employees to tags that have not been removed or deactivated. Installing convex mirrors can help employees see large areas of the store. Hiring uniformed security personnel is another effective method of prevention. Some stores use closed circuit television cameras to view the store. This system is expensive to install and has to be monitored in order to be effective. Many retailers prosecute shoplifters as their signs say—to the fullest extent of the law.
- Locked display cases are often used to display small or expensive merchandise in secure conditions. If a customer wants to handle an item, a sales associate is required to open the case.
- Many convenience stores place height markers near the inside of the front door. In the event of a robbery, store employees can observe the height of the thief and report that information to the police.

Preventing Employee Theft

Employee theft can be prevented through the use of pre-employment screening, store policies, and security devices.

- When hiring a new employee, the retailer should check and verify both previous employment and references. Some retailers also require drug testing before an employee can be hired. These two types of pre-employment screening can help reveal potential problem employees before they are hired.
- Retailers can establish store policies that help reduce employee theft. Policies may include having employees enter and exit the store through one designated door or requiring employees to store all bags, packages, and coats in a designated area subject to being checked. Other policies might include having management approve all returns, refunds, and discounts, and routine checks of the back room and trash bins for hidden merchandise.
- The security devices that can help prevent shoplifting can also be useful in preventing employee theft. If employees know that they are being observed, they are less likely to be tempted to be dishonest.

Summary

In this unit we learned about store security, how theft affects businesses, and how much businesses lose due to theft. We then studied external and internal theft and and how to prevent both. Lastly, we reviewed mathematics associated with store security.

Key Math Concepts

COMPUTE SHRINKAGE IN DOLLARS

Shrinkage is an important problem for retailers to recognize and control. Shrinkage can be computed in dollars or as a percentage of sales. To compute shrinkage in dollars, use this formula:

Shrinkage in Dollars = Merchandise Book Value – Physical Inventory Value

For example, if Merchandise Book Value is $845,700 and Physical Inventory Value is $820,500 then: $845,700 – $820,500 = $25,200 (Shrinkage in Dollars)

COMPUTE SHRINKAGE AS A PERCENTAGE OF SALES

To compute shrinkage as a percentage of sales, use this formula:

Shrinkage as a Percentage of Sales = (Merchandise Book Value – Physical Inventory Value) ÷ Sales Between Physical Inventories

For Example if Merchandise Book Value is $845,700, Physical Inventory Value is $820,500, and Sales Between Inventories = $998,740 then:

($845,700 – $820,500) ÷ $998,740 = 2.5%

Shrinkage as a Percentage of Sales = 2.5%

Key Terms

Shrinkage
The term used to describe inventory losses resulting from shoplifting, employee theft, inaccurate paperwork, damaged or misplaced merchandise, and vendor error.

Physical Inventory
A count and inspection of all the merchandise in a store.

Book Value
The amount of money inventory is shown to be worth in the business's records.

Shoplifting
The removal of items from a store with the intention of not paying for them.

Employee Theft
The unauthorized taking of merchandise by an employee from an employer.

Security

1. Your business has three branch stores. The recent physical inventory reports that the merchandise value for each store is: Store A $454,385, Store B $586,855, and Store C $632,525. The merchandise book value for each store is: Store A $495,275, Store B $615,225, and Store C $655,495. What is the dollar amount of shrinkage for each store?

2. A recent physical inventory at a department store reports merchandise values for the following departments: Women's sportswear $875,435, Men's sportswear $947,345, Children $645,895, and Shoes $737,780. The merchandise book value for each department is: Women's sportswear $907,340, Men's sportswear $1,040,280, Children $694,325, and Shoes $795,235. Sales for each department between physical inventories were: Women's sportswear $1,637,270, Men's sportswear $1,988,345, Children $1,984,765, and Shoes $1,629,860. What is the shrinkage as a percentage of sales for each department? Which department has the greatest problem with shrinkage?

3. You are considering the purchase of a closed circuit TV monitoring system for your store. The quarterly physical inventory has shown inventory shrinkage to be 2.5%. Sales for the period were $875,495. The store is open 11 hours a day, 7 days a week. You estimate that you will have to pay an employee $7.50 per hour to monitor the system. Compare the monthly cost of monitoring the closed circuit TV system to monthly shrinkage.

4. You are opening a new store and must project in your business plan the amount of inventory shrinkage. You have forecasted $1,200,000 in sales for the first year. Assuming your shrinkage will be 5%, the high end of the national average, calculate the projected annual shrinkage for your business plan.

WRITTEN EXERCISES **LESSON 9**

Security

1. Think about three stores at which you shop frequently that sell different types of merchandise. Recall the types of security devices designed to prevent shoplifting. List what devices are used at each store and why you think they were installed.

2. Using the same stores as in activity #1, call each store manager and ask what the store policy is regarding shoplifting and how they handle shoplifters. Record your responses.

3. While on the phone with store managers for activity #2, ask if employee theft is a problem and what measures are taken to prevent it.

4. Visit a grocery store, a bookstore, and a clothing store. At each store, make observations regarding the presence of security tags on merchandise, convex mirrors, and security cameras. Record your observations, noting the placement of security tags on merchandise, location of convex mirrors, and whether the security cameras are visible. If they are, where are they located?

COMPUTER EXERCISE **LESSON 9**

Security

GOAL: Your goal is to minimize shoplifting in your store through the use of security cameras and careful product placement.

YOUR SITUATION: In this lesson, you control Physical Inventory, Merchandising and Equipment. All other actions are controlled for you.

1. Run the **Physical Inventory**, **Run To**, **Products**, **Merchandising**, **Equipment**, and **Financials** sections of the **Tutorial**.
2. Open the **Security** lesson.
3. Using **Actions->Physical Inventory**, elect to conduct physical inventories every week.
4. Using **Options->Run To**, run the simulation to January 29th. Open the **Products** report and uncheck the **Sales** button. Check **Stolen Goods** and click **Table** under **Show As.** Record the total amount of stolen goods for the most recent week in the row marked "Original Store Layout" on **Worksheet 1**.
5. With the **Products** window still open, uncheck **Total** and check the **Products 1-12** box. Then check the **Products 13-25** box.

QUESTION 1: What products are being stolen among **Products 1-12**? What products are being stolen among **Products 13-25**?

6. Using **Actions->Equipment**, add security cameras aimed at the aisles where products are being stolen. Using **Options->Run To**, run the simulation to February 12th. Record the amount of stolen goods for the most recent week on **Worksheet 1** below on the line marked "Cameras Only."

QUESTION 2: Use **Financials** to determine how much you spent on security cameras each week. (Use the More Detail button to show the cost of the security cameras.) Was the expense of the security cameras more or less than the reduction in theft?

7. Using **Merchandising** on the **Actions** menu:
   a. Rearrange products in your store to further minimize shoplifting. You must carry all items in your store.
   b. Run the simulation for 4 more weeks.
   c. Check the **Products** window to see if theft is decreasing.
   d. Record the amount of stolen goods in **Worksheet 1**.

8. Repeat Step 7 several times trying different product positioning. When you get stolen goods as low as you can, print-out a copy of your store layout.
9. Hand in the worksheet and the print-out of your best store layout.

WORKSHEET 1

Layout with Physical Inventory	Amount of Stolen Goods (After 4 wks.)
Original Store Layout	
Cameras Only	
1	
2	
3	
4	
5	

Location Selection

LESSON 10

Location is Important

Location is one of the most important decisions a retailer makes. It can make a big difference in the success of a store. There are many factors a retailer must consider before selecting a location, such as the store's target market and the potential location's trading area. A retailer must confirm that the store's target market (the customers the store seeks to attract) shops in the trading area. When studying potential locations, the retailer must consider traffic and convenience as well as the attraction to the target market.

Types of Locations

There are retail store locations in a great many places. Most stores are located at shopping centers, business districts, or freestanding locations. Each of these locations has advantages and disadvantages for different kinds of retail stores.

Shopping Centers

A shopping center is a group of retail businesses that are located together. The shopping center is usually owned by a company that leases retail space to retailers. Malls and strip malls are the two types of shopping centers.

A mall is a containment of stores serving a large area that is usually an enclosed building with an adjacent parking lot. Malls offer the advantage of high traffic flow to a variety of stores with a wide range of merchandise. Many malls feature department stores as well as smaller specialty stores and restaurants. Another advantage of malls is that they are climate controlled.

Main Idea

In this unit we will explore the topic of choosing a location for a retail store. We will look at different types of locations for a store and the elements to consider when selecting a location. We will then discuss the merits of buying, leasing, or building a store. We will also examine the types of leases a retailer might consider. Lastly, we will turn to the advantages of locating near a competing or complementary business, dealing with a changing business environment, and math relating to site selection.

After completing this lesson you will be able to:

- List the elements of a good location
- Explain the pros and cons of locating near a competitor
- Discuss the financial impact of buying, building, or leasing
- Calculate rent payments based on different lease terms
- Compare locations and choose the best site for a business

Key Terms

- Shopping Center
- Mall
- Strip Mall
- Business District
- Freestanding Location
- Trade Area
- Traffic
- Competitive Business
- Complementary Business
- Lease
- Fixed-rate Lease
- Percentage Lease
- Triple Net (NNN) Lease

A strip mall is typically a neighborhood space composed of a group of separate stores that are connected by sidewalks and that have parking lots in front of the stores. An advantage of strip malls is that they are usually located close to residential areas, so they are convenient for customers. They generally contain businesses that customers shop at often like grocery stores, drugstores, dry cleaners, card shops, or shoe repair shops. Another advantage is that leasing a retail space at a strip mall usually costs less than leasing one at a mall.

Business Districts

A business district is an unenclosed shopping area that has evolved without a lot of planning and that features a variety of stores. Parking is usually not provided. The main street of a downtown is a good example of a business district. City governments often renovate downtown buildings in order to attract businesses and customers to the area. The cost of renting a retail space in a business district can vary a great deal depending on the popularity of the area and the other stores there.

Freestanding Locations

A freestanding location is a store that is unattached to other stores. These locations generally have large buildings and abundant parking. For that reason they are usually chosen by large retailers. An advantage of a freestanding location is that it has no direct competition. For this reason, however, the business must be able to draw customers without the help of other stores. Home Depot and Target are examples of retailers that have freestanding locations.

Elements of a Good Location

Retailers evaluate potential store locations by studying several key criteria. A comparison of these factors helps clarify the best location for a particular business. Criteria to consider are as follows:

- **Trade Area**: The trade area is a business's geographic surroundings, which provide most of the customers. This is the most important criterion. You should locate your store in an area that serves your target market. We will discuss target markets in more detail in the Targeted Marketing Unit.
- **Competitive Environment:** Competitive environment describes the proximity of competitive businesses. Nearby competition is often good for a business. Customers feel more comfortable about buying when they can comparison shop. A location that is near a mall or large shopping area can attract customers who are shopping nearby.
- **Traffic:** Traffic is the term used to define the number of people who go by a store location during a given time. The more traffic there is, the greater the number of potential customers entering a store. This is a key advantage of shopping centers.
- **Convenience:** A convenient location is one that is easy for customers to get in and out of. The availability of plentiful and nearby parking is a factor of convenience. Another factor is visibility. Customers need to be able to see the store easily without having to search for it.

- **Additional Factors:** Other factors a retailer might consider are the availability of workers, local zoning laws for the type of business, and the possibilities for expansion of the location.

Competing or Complementing Businesses

A competitive business is one that sells the same or comparable merchandise. We have already noted that nearby competition is beneficial, since customers like to shop around and compare merchandise before buying. Competitors can help attract customers. However, if there is too much competition near a location, there may not be enough customers to keep all the stores in business. A retailer should carefully evaluate the competition in the area before selecting a store location.

A complementary business is one that sells merchandise that is related to, but not the same as, an area business's goods. For example, a furniture store and a home decorating store are complementary businesses. Locating near a complementary business can help attract customers for the mutual benefit of both stores.

Buy, Build, or Lease?

Another decision a retailer must make when considering store location is whether to buy retail space, build a new store, or lease retail space. In most cases, leasing may be the best and only option. Buying space or building a new store requires capital and suitable locations may be difficult to find. This is particularly true if the retailer is considering locating in a strip mall or a mall. Most strip malls and malls are owned by companies that will only make space available through a lease agreement.

Leases

A lease is a contract between a landlord and a tenant for use of a property for a specified amount of time in exchange for a specified amount of rent. Leases have terms that detail exactly what is expected of each party. The terms normally state the amount of rent, the length of the lease, services that the landlord will provide, and provisions for renewing the lease. A retailer should carefully read the lease agreement before signing. It is also a good idea to have a lawyer review the lease agreement.

Types of Leases

There are three main types of leases that are used for most retail situations. These are the fixed-rate lease, the percentage lease, and the triple net lease.

Fixed-Rate Lease

A fixed-rate lease is one that charges the tenant a specific amount of rent each month. This is an advantage for the retailer since the amount of rent does not vary, which makes financial planning much easier. It is worth noting that this type of lease is not widely used.

Percentage Lease

A percentage lease is one that is used often. This type of lease bases the amount of rent on a percentage of the sales generated in the space.

Some percentage leases have a maximum allowable rent while others use a sliding scale. Rent on a sliding scale normally goes down as sales go up; for example, a retailer might pay 4% on sales up to $100,000 and 3% on sales over $100,000. Percentage leases often charge an additional maintenance fee on top of the rent.

Triple Net (NNN) Lease

A triple net (NNN) lease is one that charges the tenant rent plus the three operating costs of the rented property. Those costs are for insurance, maintenance and utilities, and property taxes. The tenant pays rent as either a fixed amount or as a percentage of sales. This type of lease provides the landlord with a net rent because the tenant pays for the property's expenses. This is a popular type of lease.

Changing Business Environments

When selecting a location for your business, it is important to study the business environment. The business environment forecasts whether the location under consideration is likely to experience economic growth or suffer an economic downturn. To study the environment, a retailer should examine the current demographics and employment rates of the area, as well as projections for the future. A good resource for this information is your local chamber of commerce. This information will reveal whether the business's target market and employment rate will remain constant or whether it will change during the time of the projections. A change in target market and employment trends can mean that you will need to adjust merchandise offerings to suit changing customer needs or risk suffering declining sales.

Summary

In this unit we have learned about the importance of store location and the types of store locations. We also studied the elements of a good location. We then looked at competing and complementary businesses, reviewed the three types of business leases, and discussed potential changes in the business environment. Lastly, we reviewed some of the mathematics associated with choosing a store location.

Key Math Concepts

COMPUTE THE AMOUNT OF A PERCENTAGE LEASE

To compute the amount of a percentage lease, change the percent to a decimal and then multiply this number by your sales.

COMPUTE THE ANNUAL AMOUNT OF A FIXED-RATE LEASE

To compute the annual amount of a fixed-rate lease, multiply the amount of monthly rent by 12.

COMPUTE THE AMOUNT FOR THE LENGTH OF THE LEASE

To compute the amount for the length of the lease, multiply the annual rent by the number of years in the lease.

Key Terms

Shopping Center
A group of retail businesses that are located together.

Mall
A containment of stores serving a large area that is usually an enclosed building with an adjacent parking lot.

Strip Mall
Typically a neighborhood space composed of a group of separate stores that are connected by sidewalks and that have parking lots in front of the stores.

Business District
An unenclosed shopping area that has evolved without a lot of planning and that features a variety of stores.

Freestanding Location
A store that is unattached to other stores.

Trade Area
A business's geographic surroundings, which provide most of the customers.

Traffic
The term used to define the number of people who go by a store location during a given time.

Competitive Business
One that sells the same or comparable merchandise.

Complementary Business
One that sells merchandise that is related to, but not the same as, an area business's goods.

Lease
A contract between a landlord and a tenant for use of a property for a specified amount of time in exchange for a specified amount of rent.

Fixed-rate Lease
One that charges the tenant a specific amount of rent each month.

Percentage Lease
One that bases the amount of rent on a percentage of the sales generated in the space.

Triple Net (NNN) Lease
One that charges the tenant rent plus the three operating costs of the rented property.

MATH EXERCISES **LESSON 10**

Location Selection

1. You have the opportunity to lease space for your business with a fixed-rate lease. The property owner has proposed a five-year lease with a rent of $4,000 per month. How much is the rent per year? How much is the rent over the life of the lease?

2. You are considering leasing a store site that has 1,500 square feet. The landlord is asking for a rent of $50 per square foot, per year. How much is the rent per year? How much is the rent per month?

3. The terms of a percentage lease state that rent is 4% of sales up to $100,000 and 2.5% of sales over $100,000. Your business plan projects monthly sales to average $270,000 per month. There is a $250 per month maintenance fee. What do you project as an average monthly rent? What do you project as an average annual rent?

4. You are considering leasing one of two store sites of equal size. The first site features a percentage lease of 4% of sales per month. The second site features a triple net lease with these monthly terms: rent is 3% of sales, insurance is $175, maintenance is $50 and utilities total $345, and property tax is $165. Your business plan estimates your monthly sales to average $85,000. Which lease is better for you financially?

WRITTEN EXERCISES **LESSON 10**

Location Selection

1. Describe the three major types of business locations, and describe three different types of stores that might be in each location. Then list reasons why you think these locations are appropriate for each type of store.

2. Explain the differences between a strip mall and a mall. List the advantages of each location. Then describe an example of each in your area.

3. Choose a retail store you would like to own. Select two potential sites within five miles of your school. Using the elements of a good location, evaluate and rank the potential sites; then defend your selection.

4. Think of your favorite store. Describe the store, its merchandise, its size, and its location. Explain the reasons why you believe the location is good for the store.

COMPUTER EXERCISE

Location Selection

LESSON 10

GOAL: Your goal is to select the best location for you store. You will analyze several location choices and compare them across four attributes.

YOUR SITUATION: In the lesson, you do not control any actions but will analyze several locations.

1. Run the **Open New Store**, **Run To**, and **Population** sections of the **Tutorial**.
2. Fill in **Worksheet 1** for four locations that are labeled A through D. Rate each location as high, medium, or low for each category. For “Cost” use **Actions->Open Store** to check the rent on each location. For “Availability of Signage” observe the number of Apartments, Offices, and Senior Housing around each location. Use the Building Types key to determine which building is which.

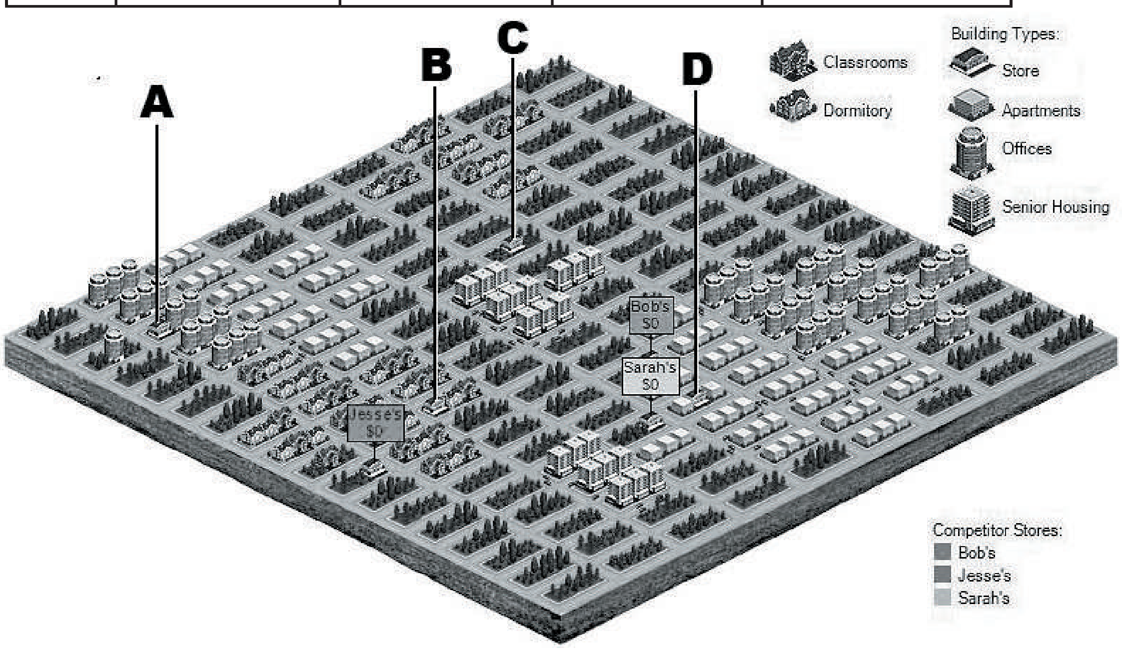
QUESTION 1: Which is the best location and why?

3. Using **Options->Run To**, run the simulation to April 1st and watch the population change. Note: Population change and construction has been accelerated for demonstration purposes.

QUESTION 2: What has changed? Would your choice for a best location be different now? Why?

WORKSHEET 1

Location	Customers/Traffic	Competitors	Cost per Month	Availability of Signage
A				
B				
C				
D				



Advanced Promotion

LESSON 11

Promotional Activities

In the Promotion unit we learned that sales promotion consists of activities that encourage customers to make purchases. The goal of any sales promotion activity is to increase sales. A merchandise promotion is designed around a store's merchandise. The goal of a merchandise promotion is to increase the sales of a specific product or merchandise category. Many sales promotions are also tied to merchandise promotions.

There are many sales and merchandise promotion activities that a storeowner or manager can use to attain the stated goals of a sales promotion. Those promotional activities include the following:

- Sales Events—these involve price reductions on certain products for a limited time.
- Contests—contests and drawings offer prizes for customers who come to the store to enter for a chance to win.
- Coupons—usually printed in newspapers and flyers, these allow customers to obtain a cash discount on a product.
- Premiums—items that are offered for free or for a reduced price as an inducement to buy another specific item.
- Product Samples—a store may give away a portion of a product to customers, such as a sample-sized product.

Main Idea

This unit will build on the concepts we studied in the Promotion unit. We will review some sales promotion activities and advertising basics. We will also address storefront advertising and loss leaders as promotional tools. Then we will look at the importance of adjusting inventory to cover promotions. We will cover some of the laws that deal with promotion and promotional pricing, and we will discuss how to analyze the results of a promotion. Lastly, we will turn to some of the mathematics used in promotion.

After completing this lesson you will be able to:

- Give examples of different kinds of promotional activities
- Compare and contrast the four main types of advertising media
- Design an effective storefront advertising display
- Analyze financial statements to determine promotion results, in terms of original goals and impact on sales
- Explain the benefits of using loss leader product, and calculate the margin lost on that product

Key Terms

- Sales Promotion
- Merchandise Promotion
- Advertising
- Advertising Media
- Print Media
- Broadcast Media
- Online Media
- Specialty Media
- Storefront Advertising

Advertising

In the Promotion unit we learned that advertising is a paid communication by a business to the public. The advertiser prepares and transmits the message and the customer reads or views the message.

There are many types of advertising at various costs. Some types of advertising are priced quite reasonably, while others are costly to develop and present to customers. When planning to advertise it is important to select the advertising medium that will best help you achieve the goals of your promotion.

Types of Advertising Media

Advertising media are the methods used to deliver the advertising message. There are four main advertising media categories we will discuss—print media, broadcast media, online media, and specialty media.

Print Media

Print media include newspapers, magazines, and direct mail. Some newspapers and magazines, such as national publications, can have a huge audience while others, like local market publications, tend to have a small audience. Advertising rates depend on readership or the number of people who will see the advertising. Direct mail is sent directly to a targeted group of customers. Direct mail is normally priced on a cost per thousand.

Broadcast Media

Broadcast media include television and radio. Advertising for both can be targeted at particular customer groups. Radio and television advertising rates vary depending on the time of day the ad runs, the length of the ad, and the size of the audience. These media are usually quite expensive for a small business.

Online Media

Online media include any portal that appears on the Internet. Online advertising can take the form of an e-mail, a banner on a web page, or a pop-up ad. E-mail advertising can be targeted to a store's customer e-mail list or to a purchased list of e-mail addresses. E-mails can often be created and sent for little cost. Retailers must be aware of and comply with the guidelines of the CAN-SPAM Act of 2003, which regulates unsolicited e-mail. Banner and pop-up ads can be placed on Web pages of other companies or on the home pages of Internet providers. The cost of these advertisements depends on the development costs, complexity of the advertisement, and viewership.

Specialty Media

Specialty media include giveaway items, such as pads of paper or pens. The giveaway item is imprinted with your business's name, logo, and/or other message. The cost of specialty advertising depends on the cost of the giveaway item, the length of the message, and the number of units purchased.

Storefront Advertising

Another form of advertising is storefront advertising. Storefront advertising is advertising that is placed in the exterior area of a store. This includes the store identification sign, perimeter signs and those placed between the street and parking lot, and banners or signs placed on the building or in a store window. Advertisements placed in the exterior area should be large enough to be visible from the street or as the customer approaches the store. The message should be kept short and simple so that it can be read quickly. Storefront advertisements can be very effective since customers see it as they enter the store. The design of this type of advertising needs to be compatible with the exterior image of the store and should be neat and attractive in appearance.

Loss Leaders

A loss leader is a product that is priced either at or below cost. A loss leader is a type of sales promotion that encourages customers to come into a store. The theory behind using a loss leader is that once customers are in the store, they will hopefully buy other products. The other products the store sells are priced to make a profit for the store.

Loss leaders should be selected wisely and used sparingly. When using loss leaders, there are four things to remember:

- Choose a product that customers buy often
- Choose a product that is normally stocked in very limited quantities
- Display the product at the back of the store so that customers will have to walk through the store and will be exposed to many other products that they might purchase
- Set limits on the quantity of the product that can be purchased; for instance, limit three items or limit one with a $20 purchase

Adjusting Inventory for Promotions

Planning a promotion and its objective will include defining the goal of the desired increase in sales of the item or items being promoted. For the promotion to be successful the store must have enough inventory of the item or items to cover the projected increase in sales. Once you estimate the amount of extra inventory that will be required, it is important to arrange to have it available for sale. The extra inventory should be in stock, or arrangements should be made for prompt delivery during the promotion as sales dictate. Once the promotion is over, remaining inventory of the promotional item or items that are over and above the quantities indicated by the merchandise plan should be returned to the vendor or supplier. Arrangements for this situation should be made with the vendor in advance and at the time of purchase.

Laws Governing Promotional Pricing

The use of promotion is subject to federal and state laws. The Federal Trade Commission (FTC) was established for the purpose of protecting consumers from advertising that is deceptive or false. Its guidelines state that advertising must be truthful and not deceptive. FTC guidelines apply to information that appears in advertisements, as well as information that does not appear. In addition, if an advertiser makes a claim about a product being advertised, they must have proof to support that claim. These guidelines cover print and broadcast promotion as well as Internet and telephone promotion. The FTC has the legal authority to stop advertisers from making false or deceptive claims through the use of cease and desist orders. For more information about false or deceptive advertising visit the FTC's Web site at www.ftc.gov.

Bait and switch is an illegal practice that involves the advertising of a product for sale at a bargain price. The purpose of this type of advertisement is to lure customers into the store with the supposed bargain (bait) and, once they are in the store, encourage them to purchase a more expensive model (switch). Often the store does not have the advertised product in stock. The advertiser's intention is not to sell the advertised item, but to get customers into the store and convince them to buy a more expensive item. This practice is illegal because the retailer does not plan to sell the product that was advertised.

The CAN-SPAM Act of 2003 (Controlling the Assault of Non-Solicited Pornography and Marketing Act) establishes requirements for commercial e-mail. It gives consumers the right to ask e-mailers to stop spamming them. Commercial e-mail messages must include a notice that the message is an advertisement or solicitation, an opt-out notice, and a valid postal address of the sender. Violators of this act are subject to fines and penalties.

Analyzing Promotion Results

Once the promotion is over, it is critical to assess the success or failure of the activity. In the world of retail, learning from experience is one of the most valuable tools of a promotional activity. What worked and what did not work are the key things to think about. Start by reviewing the main objective of the promotion in light of the results. Then turn to the sales data and margin implications. Sometimes a single promotion may be individually marginal but the impact it may have had on store traffic and other store sales might offset what might otherwise be considered a failure. New customers coming through the store's front door have great potential. If you obtained a sales increase during the promotion, you should note how long the increase lasted after the promotion, ended.

Summary

In this unit we have reviewed promotional activities, advertising, and the types of advertising media. We have studied loss leaders and their uses to storeowners. We have also reviewed the adjusting of inventory levels to meet promotional goals. We then looked at some of the regulations and laws regarding promotion. Lastly, we addressed some of the mathematics used in promotion.

Key Math Concepts

COMPUTE THE PRICE OF A NEWSPAPER ADVERTISEMENT

Newspaper advertising is sold by the column inch. A column inch is a space that is one column wide and one inch long. To compute the price of a newspaper advertisement, use this formula:

Price per Column Inch x Number of Inches x Number of Columns

COMPUTE THE MARGIN FOR AN ITEM

Loss leaders are priced at or below cost. The margin lost on loss leaders must be computed. To compute the margin for an item, use this formula: Margin = Retail Price - Cost

COMPUTE THE NUMBER OF PROMOTIONAL ITEMS TO BE PURCHASED

To compute the number of additional items to be purchased in order to meet promotional goals, use this formula: Number of Items to be Purchased = Percent Increase x Number of Items on Hand

Key Terms

Sales Promotion
Activities that encourage customers to make purchases.

Merchandise Promotion
A promotion designed around a store's merchandise.

Advertising
A paid communication by a business to the public.

Advertising Media
The methods used to deliver the advertising message.

Print Media
Newspapers, magazines, billboards, and direct mail.

Broadcast Media
Television and radio.

Online Media
Any portal that appears on the Internet.

Specialty Media
Giveaway items, such as pads of paper or pens.

Storefront Advertising
Advertising that is placed in the exterior area of a store.

Loss Leader
A product that is priced either at or below cost.

Advanced Promotion

1. You are planning to place an ad in a local newspaper. The size of the ad is 5 inches long by 4 columns wide. The newspaper's rate per column inch is $18. How much will the ad cost?

2. You are planning a promotion that will feature a lunch special. The lunch special will feature a loss leader of a small order of French fries for $0.50 when the customer purchases a hamburger and soda at the same time. The normal retail price of the small French fries is $ 0.99. Your cost for the fries is $0.50. How much margin is being lost if you sell 35 of the lunch specials?

3. You are planning a promotion that will feature breakfast sandwiches. Your store normally sells 75 breakfast sandwiches per week. The promotion is scheduled to last for one week. The stated goal is a sales increase of 20%. How many additional breakfast sandwiches must be sold in order to meet the sales increase goal? How many additional sandwiches must be sold if the promotion is extended to one month?

4. You have selected to place a direct mail piece with a local vendor that will include your message insert along with others. The vendor's mailing will reach 100,000 homes but only 50,000 are in your immediate marketing area. You would like to target only the 50,000 homes closest to your store, but would consider the full 100,000 home reach if it is cost effective. The cost for the production of the insert and mailing is $75 per 10,000 for the 50,000. There is also a $50 charge for using the 50,000 home reach. The cost for production of the insert and mailing is $55 per 10,000 for the 100,000. Calculate the total investment for this direct mail promotion for each option.

WRITTEN EXERCISES **LESSON 11**

Advanced Promotion

1. As the manager of a restaurant, you have observed that your fast food sales need a lift at lunchtime. You have decided to promote this category with a combo offer. Develop a combo offer and outline the promotional tools you will use to tell customers about your offer. Then list the critical checkpoints you will need to address prior to the start of the promotion. Be prepared to explain each checkpoint.

2. You are planning your monthly promotions and are trying to select the key promotional products you will display in the store window. The storefront will only accommodate three signs. What major factors will you consider before selecting products to promote in the window?

3. After observing the competition in your market area, you realize that you need to promote your coffee offering more aggressively. Outline a promotional offer and calculate the margin, promotional costs, and projected profit based on the assumption that your promotion will be successful. Be creative!

4. In this unit we discussed several key terms, three of which were broadcast media, online media, and storefront advertising. We discussed some key characteristics of each term that should guide the selection and use of each one. Identify and be prepared to discuss the key issues associated with each of these types of media.

Advanced Promotion

GOAL: Your goal is to use storefront advertising combined with “loss leaders” to dramatically increase the revenue of your store.

YOUR SITUATION: In this simulation, you control only Storefront Ads. All other actions are controlled for you.

1. Run the **Storefront Ads**, **Financials**, **Pricing**, and **Run To** sections of the **Tutorial**.
2. Open the **Advanced Promotion** lesson.
3. Using **Options->Run To**, run the simulation to January 22nd. Click **Financials** and record the revenue for the most recent week on **Worksheet 1** in the row marked “No Ad.”
4. You have been put in charge of Advertising for your store. You have now been challenged by your boss to increase weekly sales to $35,000 by adding a single sign to your storefront.
5. Create an ad for your storefront window. To do this, mouse over the windows by the doorway to your store. Click on one of the windows to open the **Ad Designer** window.
   a. In the **Ad Designer**, pick a product that you think many people need. Click the **Change Price** button and reduce the margin on the advertised item to 5 Margin Points. This effectively creates a “loss leader”.
   b. Close the **Ad Designer** window. Your ad will appear in the storefront window. Run the simulation for 3 simulated weeks. Click **Financials** and record your revenue for the last week on the “First Ad” line of **Worksheet 1**.
   c. Use Print on the File menu to print-out the storefront of your store. Click your storefront ad and choose **Delete Ad** to delete the ad.
6. Repeat Step 5 several times trying different ads for different products at 5 Margin Points. Each time, enter your weekly revenue on a new line. If it is higher than your previous high, print-out a copy of your storefront ad.
7. Hand in the worksheet and the print-out of your best performing ad.

QUESTION 1: What products did you put on special? Which was the best “loss leader” for drawing in customers and increasing sales?

WORKSHEET 1

Product Advertised	Revenue (After 3 wks.)
No Ad	
First Ad	

Advanced Merchandising

LESSON 12

Why is Store Layout Important?

Store layout is the arrangement of store fixtures, equipment, and merchandise. It has a major influence on sales and is important to the image and appearance of the store. The arrangement of merchandise is a primary consideration when determining store layout. Merchandise must be positioned so that it can be easily seen and examined by customers before they buy it. Another important consideration is the visible and convenient placement of cash registers.

Measuring Productivity

Many retailers use sales per square foot as a measure of store productivity. Store layout has a significant impact on sales per square foot. Grocery stores and similar businesses that display merchandise on long rows of shelves often measure their productivity in terms of sales per linear foot. Regardless of the type of measurement, the goal is to make the selling area as productive as possible.

Creating a Store Layout

A store layout should be created with two objectives in mind:

- Encourage customers to move around the store. Customers who move around a store tend to view more merchandise, which leads

Main Idea

This unit deals with the importance of store layout. We will learn about the factors of store layout that enhance merchandise sales. We will study the types of store layouts and considerations for merchandise placement. Lastly, we will review mathematics used in determining store layout.

After completing this lesson you will be able to:

- Describe the characteristics of good store layout and its impact on sales
- Give real-world examples of the four main types of store layouts – grid, loop, free flow, and spine
- Explain the importance of a well designed store entrance
- Compute sales per square foot of space and linear foot of shelving
- Calculate short- and long-term payments on leased vs. purchased store fixtures
- Evaluate the pros and cons of new equipment, and impact on sales, by analyzing financial statements
- Plan an effective store layout to meet sales goals

Key Terms

- Store Layout
- Grid Layout
- Loop Layout
- Free Flow Layout
- Spine Layout
- Fixtures

to greater sales. Retailers need to balance the flow of customer traffic around the store with their ease of locating merchandise. If customers move around the store without locating the merchandise they seek, they may become frustrated and leave without making a purchase.

- Provide a space that is sufficient for customers to shop in and that is useful for maximum productivity. A selling space that is overcrowded with fixtures and racks can become confusing and overwhelming to customers.

Types of Store Layouts

There are four main types of floor layouts in use in most stores. They are the grid, loop, free flow, and spine pattern layouts. Each layout pattern meets specific merchandising needs.

Grid

The grid layout is characterized by long rows of shelving with aisles between the rows. The shelves are designed to hold a large amount of merchandise. More merchandise can be displayed on the sales floor with the grid layout than with other layout patterns. The grid layout makes it easy for customers to find specific merchandise. This layout is typically used in grocery stores and drugstores.

Loop

The loop layout is designed to lead customers from the front of the store, through the store, and back to the front—or in a loop around the store. The loop layout provides the best opportunity for customers to see the most merchandise. Many department stores use the loop layout as a way of encouraging customers to see several departments during a visit.

Free Flow

The free flow layout features merchandise on fixtures that are arranged in asymmetrical or free flowing patterns on the sales floor. This is a casual layout that encourages customers to browse as they travel through the store. The free flow layout is visually attractive, but can use a great deal of selling space. Many small specialty stores and certain departments of department stores use this layout.

Spine

The spine layout features a center aisle that extends from the front of the store to the back. Merchandise fixtures are arranged on either side of the spine using either the free flow or grid layout. Merchandise is also on both sides of the center aisle. Some drugstores use this layout, using the center aisle or spine to lead customers to the pharmacy at the back of the store.

Fixtures – Purchase or Lease?

Once the layout of the store has been determined it is time to decide the types and quantities of fixtures needed to hold and showcase merchandise. Fixtures are permanent or transportable store furnishings that are used to hold and display merchandise. The types of fixtures depend on the types of merchandise the store carries. Many fixture companies offer purchase, lease, or lease-to-buy options to retailers. Some vendors even offer used fixtures for sale. A storeowner should consider the options carefully against the financials and to determine which option will best help achieve the store's goals.

Purchasing store fixtures means that they become the property of the store. It also means a capital investment will be made for the purchase. The purchase cost of fixtures and displays can be depreciated over several years, providing a tax deduction. Once fixtures and displays are purchased, they lose much of their value, just the way a brand new car does once you drive it off the lot.

Leasing store fixtures means signing a lease agreement that spells out the terms of the lease arrangement. Lease terms vary greatly. Study the terms of the lease to be certain that the lease is a good one for the business. It is a good idea to ask a lawyer to review any lease before you sign it. Lease payments can be deducted as operating expenses for tax purposes. Often the lease tax deduction is larger than depreciation deduction from buying. It is important to compare the cost of leasing with the cost of financing a fixture purchase to determine which is best for your situation.

The Importance of a Good Entrance

The store entrance provides the first view customers have of a store. The entrance is an opportunity to set the tone and to provide the customer with a good first impression of the store. A well-planned, eye-catching entrance will encourage customers to enter your store.

Summary

In this unit we have studied the importance of store layout and the four types of store layout. We discussed leasing or purchasing store fixtures and displays. We then learned about the importance of a good store entrance. Lastly, we reviewed some mathematical formulas related to store layout.

Key Math Concepts

COMPUTE SALES PER SQUARE FOOT OF SELLING SPACE

Retailers often use sales per square foot of selling space as a measure of the productivity of their selling space. To compute sales per square foot of selling space, use this formula:

Total Net Sales ÷ Total Square Feet of Selling Space = Sales per Square Foot of Selling Space

COMPUTE SALES PER LINEAR FOOT OF SHELVING

Another way to measure selling space productivity is in sales per linear foot. This measure is typically used for merchandise that is stocked on shelves. To compute sales per linear foot of shelving, use this formula:

Total Net Sales ÷ Total Linear Feet of Shelving = Sales per Linear Foot

Key Terms

Store Layout
The arrangement of store fixtures, equipment, and merchandise.

Grid Layout
A type of store layout that is characterized by long rows of shelving with aisles between the rows.

Loop Layout
A type of store layout that is designed to lead customers from the front of the store, through the store, and back to the front or in a loop around the store.

Free Flow Layout
A type of store layout that features merchandise on fixtures, arranged in asymmetrical or free flowing patterns on the sales floor.

Spine Layout
A type of store layout that features a center aisle that extends from the front of the store to the back.

Fixtures
Permanent or transportable store furnishings that are used to hold and display merchandise.

MATH EXERCISES **LESSON 12**

Advanced Merchandising

1. Last month, sales in the following categories were: Promotional items ($1401 with returns of $214 and discounts of $159), Staple items ($2306 with returns of $178), All other items ($2298 with returns of $56). The total square footage of the selling space is 5,000 square feet. Compute the sales per square foot of selling space.

2. Last year, total sales for your grocery store were $10,342 with returns of $214 and discounts of $599. The linear feet of shelving in the store totals 575 linear feet. What are the sales per linear foot for the store?

3. You must make a decision about whether to lease or purchase fixtures for your new store. A vendor has made you the following offers.

- Total cost of reconditioned fixtures: $6,500
- Total cost of new fixtures: $12,000
- Monthly cost of leasing fixtures: $200

You do not have any capital to invest in fixtures but your bank will give you a five-year loan at a 9% annual interest rate. What makes the most economic sense over five years and why?

4. Your store has 350 linear feet of shelving and 1,500 square feet of selling space that holds merchandise on racks and other freestanding fixtures. Net sales for the last quarter for each area are as follows.

Month	Total Net Sales for 350 Linear Feet	Total Net Sales for 1500 Square Feet
January	$4,200	$3,360
February	3,300	2,930
March	3,700	3,685

Compute the total net sales per linear foot and total net sales per square foot for each month and the average for each area for the quarter. Round your answers to the nearest dollar.

WRITTEN EXERCISES **LESSON 12**

Advanced Merchandising

1. You are planning the layout of a new sporting goods store. List the major components to consider in your planning and discuss factors you should think about regarding each component. Build your answer by expanding on the basic information given in this unit.

2. List the four types of store layout and their characteristics. Then give examples of each type found in local stores.

3. Discuss reasons why the entrance to a store is such an important aspect of store layout. Describe two store entrances that you think are good examples and explain why.

4. Explain the major considerations regarding purchasing or leasing fixtures for a store.

COMPUTER EXERCISE

Advanced Merchandising

LESSON 12

GOAL: Your goal is to design a store that generates the maximum profits. You have complete control of what type of fixtures you lease, where you locate them, and how you place goods on them.

YOUR SITUATION: In this lesson, you control only Merchandising. All other Actions are controlled for you. Note: Seasonality is turned off; all products sell evenly throughout the year.

Part A

1. Run the **Merchandising**, **Products**, **Run To**, and **Financials** sections of the **Tutorial**.
2. Open the **Advanced Merchandising** lesson.
3. Open the **Products** report. Uncheck **Total** and check the boxes next to **Generic Cola**, **Primo Cola**, and **Bolt Cola.** Click **Table** under **Show As.**

QUESTION 1: Which is your worst selling cola? What are the weekly sales of that cola?

4. You've been visited by a slushy rep. He says you'll increase sales and profits by adding a slushy machine. You agree to give it a 3 week trial.
5. Replace the fixture containing your worst selling soda with a slushy machine. Using **Options->Run To**, run the simulation to February 5th.
6. Use the **Products** and **Financials** reports to fill in **Worksheet 1**, use the date from the most recent week. To find the COGS for slushies open the **Products** report, click **Table** under **Show As**, uncheck **Total** and check **Slushies**, then click **COGS: Actual Sales** under **Data**. To find the cost of the slushy machine open the **Financials** report, click **More Detail**, and look under **Equipment Costs/Fixtures**.

QUESTION 2: Was the slushy machine more profitable than the soda that it replaced? By how much? Should you keep the slushy machine?

Part B

1. Continuing with your simulation, try to layout your store to make a weekly profit of $8,000 or more. The customer base of your store is mostly students, with a few business people and almost no seniors. Consider customer demand, cost of fixtures, and buying patterns in your decision.

2. Print out the store layout that achieves your highest weekly profit.

WORKSHEET 1

Slushy Sales	Slushy COGS: Actual Sales	Slushy Gross Margin	Cost of Slushy Machine	Slushy Contribution to Profit in Dollars

Risks and Surprises

LESSON 13

What is a Business Risk?

There are risks associated with most activities that people engage in, and running a business is no exception. A business risk involves circumstances that can threaten financial loss or failure. It is important to recognize potential risks and to handle them in a way that has the least negative impact on the business.

Risk Management

Business risks cannot be eliminated entirely, but there are actions retailers can take to help decrease risks to a business. Risk management is the process of dealing with risks that minimizes financial loss for a business.

Types of Business Risks

Most business risks fall into one of three categories: economic risks, human risks, and natural risks.

Economic Risks

Economic risks are caused by changes in the business climate. One economic risk can be a downtrend in the national economy. This can make it more difficult to obtain loans. Economic downtrends can also cause customers to cut back on their spending. Retailers must be watchful of changes in customer buying patterns. During these times it may become necessary to fine-tune inventory levels and trim expenses.

Main Idea

The material in this unit deals with the subject of business risks and how to manage them. We will study the types of risks a business faces and review some of the ways a retailer can handle these risks. We will then review some mathematics associated with business risks.

After completing this lesson you will be able to:

- Give examples of the three main types of business risk - economic, human, and natural
- Describe the elements of an effective risk prevention plan
- Explain the different types of insurance and calculate the cost of premiums
- Compute merchandise losses based on book value, inventory value, and sales over time
- Weigh each of the following in terms of financial impact: on-demand repair calls, extended product warranties, and service contracts

Key Terms

- Business Risk
- Risk Management
- Economic Risks
- Human Risks
- Natural Risks
- Insurance
- Property Insurance
- Liability Insurance
- Warranty

Another economic risk retailers should avoid is holding onto merchandise that is outdated or obsolete. Once merchandise is no longer relevant or useful, customers will not want to buy it. Thus retailers must remain knowledgeable about trends and new products in their industry in order to keep their inventory updated and desirable. Other economic risks can include changes in competition, customer demographics, or customer lifestyle, which can have a profound influence on marketing.

Human Risks

Human risks include people who are dishonest, careless, or responsible for human error. These risks can be categorized as security risks or safety risks.

Some security risks are:

- Customer Risks—Theft by customers includes shoplifting merchandise, merchandise return fraud, writing bad checks, and credit card fraud.
- Employee Risks—Employee theft includes stealing merchandise or cash or taking advantage of discounts. Employees also pose risks to businesses through carelessness and error. Errors made while checking in new merchandise, recording inventory records, or improperly recording markdown information are all sources of potential loss for retailers.
- Vendor Risks—Vendor risks include vendor errors in shipments like sending the wrong merchandise or the wrong quantities of merchandise and are another source of potential loss for retailers.
- Computer Risks—Computers are vital to retailers, but can also pose risks. Computer viruses can destroy business records in a very short amount of time. Computer hackers, who breech security to make unauthorized entry into business data, are another risk for retailers.

Safety risks can threaten both customers and employees and can cause accidents. Accidents can result from poor maintenance both inside and outside a store. Merchandise displays should be constructed so that they are stable and unlikely to collapse. If a store sells perishable items, proper care should be taken to ensure their proper handling and storage.

Natural Risks

Natural risks include those caused by acts of nature. Natural risks many businesses often face are earthquakes, fires, floods, hurricanes, landslides, and tornadoes. Events such as these have devastating consequences that affect many people. They can cause a business to be closed for days or weeks and can also ruin a store's entire inventory.

There are other risks classified as natural risks even though they may be caused by people. Some of these include power outages, riots, terrorism, and arson. These events can have some of the same consequences as other natural risks.

Handling Risks

There are steps retailers can take to help protect a business from the various types of business risks. Risk prevention and risk transfer are two ways of handling risk exposure.

Risk Prevention

Business risks can be decreased greatly by pre-employment screening of job applicants and training of employees once they are hired. Pre-employment screening includes checking an applicant's prior employment and references. This screening can also include background checks. Employee training consists of employee orientation and periodic training. These measures are especially effective in helping reduce the risks of shoplifting, employee theft, bookkeeping errors, and errors from vendors.

Computer risks can be reduced by the installation of virus detecting software, the use of passwords, and training employees about the proper use of company computers.

Safety risks can be decreased greatly by providing a safe workplace and by training employees in job safety. Teach your employees about accident prevention and the safe handling of potentially dangerous products or materials. All employees are guaranteed a healthy and safe work environment through the Occupational Safety and Health Administration (OSHA), which is a federal agency that sets the standards for workplace health and safety. OSHA has the authority to enforce its guidelines through worksite inspections and can issue fines to businesses that do not comply with its safety standards.

Risk Transfer

Risk transfer describes the process of giving the responsibility of dealing with certain business risks to another business. This is generally accomplished through the purchase of insurance or warranties.

Insurance is an agreement between an insurance company and a business for coverage of a particular business risk in exchange for a specified amount of money. Businesses usually purchase at minimum property and liability insurance. Property insurance is purchased to protect a business from losses and damage to buildings, equipment, fixtures, and merchandise. The extent of the insurance protection depends on the type of policy purchased. Liability insurance is purchased to protect a business from risk exposure due to injuries or property damage sustained while on business property. Insurance can be purchased for many types of protection. Before purchasing insurance, retailers should comparison shop for different types of coverage and note any exclusions from coverage between policies.

A warranty is a guarantee by a manufacturer that a product will provide certain levels of quality and performance. Manufacturers normally provide warranties for a specific period of time that contain limitations and exclusions. Extended warranties are sometimes available for a small cost at the time of purchase of fixtures or equipment. They should be evaluated considering the cost and likelihood of service calls.

Many retailers purchase service contracts for their equipment. A service contract is an agreement between the retailer and the equipment dealer that covers routine, preventive maintenance and specific repairs to equipment. Some service contracts will also provide coverage for certain replacement parts. Service contracts offer the retailer assurance that store equipment is operating properly. Service contracts are usually a good buy, but the retailer should evaluate the cost by considering the price of routine maintenance, repair costs, and the cost of business lost due to equipment failure.

Summary

In this unit we have learned about business risks and how to manage them. We have also learned about the types of risks faced by businesses—economic, human, and natural. We discussed some of the ways a business can handle risks. Lastly, we reviewed some of the mathematics dealing with business risks.

Key Math Concepts

COMPUTE THE COST OF PREMIUMS PER MONTH

Insurance premiums are generally stated in cost per year.
To compute the cost of premiums per month, use this formula:

Annual Premium ÷ 12 = Monthly Premium

COMPUTE MERCHANDISE LOSSES

Merchandise losses are stated in a percentage of sales. To compute merchandise losses, use this formula:

Merchandise Loss as a Percentage of Sales = (Merchandise Book Value – Physical Inventory Value) ÷ Sales During a Given Time Period

Key Terms

Business Risk
A risk that involves circumstances that can threaten financial loss or failure.

Risk Management
The process of dealing with risks that minimizes financial loss for a business.

Economic Risks
Business risks caused by changes in the business climate.

Human Risks
Business risks that include people who are dishonest, careless, or responsible for human error.

Natural Risks
Business risks that include those caused by acts of nature.

Insurance
An agreement between an insurance company and a business for coverage of a particular business risk in exchange for a specified amount of money.

Property Insurance
Insurance purchased to protect a business from losses and damage to buildings, equipment, fixtures, and merchandise.

Liability Insurance
Insurance purchased to protect a business from risk exposure due to injuries or property damage sustained while on business property.

Warranty
A guarantee by a manufacturer that a product will provide certain levels of quality and performance.

MATH EXERCISES **LESSON 13**

Risks and Surprises

1. A furniture store has the following types of insurance coverage with the annual premiums noted: Inventory – $1,500, Building – $2,500, Auto – $3,000, and Overall Liability – $1,100. What is the total annual premium and the monthly premium for business insurance for the furniture store?

2. You have just purchased a large refrigeration unit for your convenience store at a cost of $25,000. The extended warranty on the unit, payable at the time of installation, is $1,000 for 10 years and covers service calls plus parts and labor. A local service call in your area averages $150. Assume you will need five service calls over the next 10 years. Is the investment in the extended warranty a good use of your money?

3. A local business wants to calculate merchandise loss as a percentage of sales. The business would like your assistance and has sent you the following information: the book value of the merchandise is $315,000 and the physical inventory value is $291,000. Both of these values are stated in terms of what the retailer paid (cost) for the merchandise. The average markup for the store is 42%. Retail sales for this period were $850,991. Compute the merchandise loss as a percentage of sales on the retail basis.

4. A local sporting goods store has calculated shrinkage of $18,000 on $750,000 in sales for the last quarter. An analysis has identified the following losses: inaccurate paperwork – $3,200: damaged or misplaced merchandise – $4,100. Calculate the total amount of shrinkage attributable to shoplifting or employee theft. Then compute shrinkage as a percentage of sales and what percentage of sales each area of loss accounts for.

WRITTEN EXERCISES **LESSON 13**

Risks and Surprises

1. Read the main news and business sections of your local newspaper. Make notes about what you have read that could pose potential business risks to local businesses.

2. New styles and trends forecasted for the future often influence the risk a business may have with its existing inventory. Research a retail category of your choice and identify a new consumer trend. Then identify the source of your information, the potential business risk exposure, and recommendations to affected retailers to minimize the risk.

3. Visit two types of local retail stores and identify potential safety risks both inside and outside each store. Describe your findings and recommendations you would make to each of the local retailers to reduce the safety risks.

4. Select a recent natural disaster that occurred in your local community or on the state or national level. Prepare a brief report that explains how the event affected business owners by placing their businesses at risk. Document your findings and any risk prevention measures that should have been in place to assist business owners in the recovery process.

COMPUTER EXERCISE

LESSON 13

Risks and Surprises

GOAL: Your goal is to learn to deal effectively with the inevitable surprises that occur in business.

YOUR SITUATION: In this lesson, you control all aspects of your store.

Part A

1. Run the **Purchasing**, **Service and Repairs**, and **Financials** sections of the **Tutorial**.
2. Open the **Risks and Surprises** lesson, choose **Sim 1**.
3. Run the simulation forward. Watch your messages. Stop the sim when you get a message.

QUESTION A1: What message did you get?

4. Continue to run the simulation foward.

QUESTION A2: What happened? How might you have been able to capitalize on this event to improve profits?

5. Reopen the simulation, and try different stategies to improve profits. Repeat this process trying to boost your revenue to $50,000 for the week ending January 28th.

QUESTION A3: What did you do to get your revenue up to $50,000?

Part B

1. Reopen the **Risks and Surprises** lesson, choose **Sim 2**.
2. Run the simulation forward. Watch your messages. Stop the sim when you get a message.

QUESTION B1: What major surprise has just occurred in your business? What are the possible consequences?

3. Look for milk in the backroom by mousing-over the products.

QUESTION B2: If milk costs $2.65 per unit, how many dollars of milk inventory are at risk?

4. Using **Actions->Service & Repairs**, have the equipment repaired immediately.

QUESTION B3: What was the cost to repair the equipment immediately?

Reopen the **Service & Repairs** window.

QUESTION B4: What is the weekly and annual cost for a backroom cooling ducts service contract with a four hour response? If the cooling system on average fails once a year, is it more cost effective to have the service contract or call for repairs when needed? What might be another reason to have the service contract in this simulation?

Part C

1. Reopen the **Risks and Surprises** lesson, choose **Sim 3**.
2. Run the simulation forward. Watch your messages. Stop the sim when you get a message.

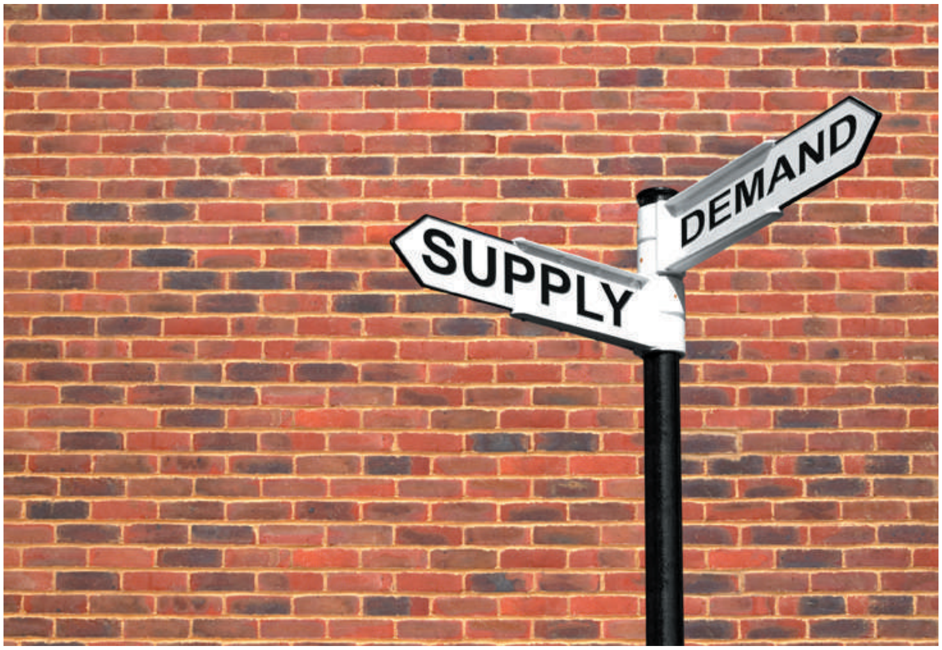
QUESTION C1: What major surprise has just occurred in your business?

3. Run the simulation forward to May 20th. Click **Financials**.

QUESTION C2: What happened to your revenue and profit? Assuming you can eliminate all expenses besides rent, how many weeks will it take for your store to run out of cash? Given that the construction will last 25 weeks, will this strategy work? What other strategy might work.

Supply and Demand

LESSON 14



Supply and Demand

Supply and demand is an economic principle that explains the correlation between the amount of product available to sell and the willingness of customers to buy that product. In our economy, which is a free enterprise economy, the law of supply and demand affects the pricing of goods for sale. A free enterprise economy is one in which people are able to own and operate businesses in a competitive environment with little or no government involvement. In a free enterprise economy, the market determines prices through the interchange of supply and demand.

When you go to a store, you might have in mind a specific item or product you want to buy or you might have only a general idea about what you need. Regardless of what you're looking for, you expect the store you enter to have merchandise from which to make your selections. That merchandise is the supply side of supply and demand. Supply refers to the amount of goods produced by manufacturers and offered for sale in a marketplace.

Demand refers to the amount of goods customers want and are willing to buy. As mentioned above, demand works in conjunction with supply. When supply is limited and customer demand is high, prices are high. When customer demand is limited and supply is high, prices are low. When supply and customer demand are at the same level, prices remain constant. The supply and demand for goods can fall into one of three conditions—surplus, shortage, or equilibrium.

Main Idea

In this unit we will explore the concept of supply and demand. We will look at each term and the effects they have on each other. We will also look at what happens when supply and demand factors are in balance and what happens when they are out of balance. Another topic we will examine is how supply and demand affect the price of items we buy and sell. Lastly, we will practice some of the mathematics dealing with supply and demand.

After completing this lesson you will be able to:

- Give real-world examples of product surplus, shortage, equilibrium, and diminishing marginal utility
- Describe the characteristics of a free enterprise economy
- Explain the role of the consumer in the supply and demand cycle
- Describe what happens when supply exceeds demand
- Create a chart illustrating the supply curve, demand curve, and point of equilibrium
- Forecast future sales based on demand and past sales
- Calculate how many stores an economy can support

Key Terms

- Supply and Demand
- Free Enterprise Economy
- Supply
- Demand
- Surplus
- Shortage
- Equilibrium
- Law of Diminishing Marginal Utility

Surplus

A surplus situation is one in which there are more goods for sale than customers demand or are able to buy. A surplus of goods for sale can happen when the price is too high. In this case, the price is lowered to encourage customers to buy more of the product. A store's supply of snow shovels in the spring is an example of a surplus. The price of the shovels is lowered significantly because customers do not need to buy them. Thus the lower price encourages customers to buy now in anticipation of the next winter.

Shortage

A shortage situation is one in which there are not enough goods for sale to meet customer demand. In a situation of supply shortage, prices are higher. Customers will pay the higher price because the item is harder to find and is something that they want or need. A store's small stock of avocadoes after bad weather in California severely damaged the crop is an example of a shortage. There are fewer avocadoes to meet customer demand, so their price is higher.

Equilibrium

An equilibrium situation is one in which supply and demand for an item are at the same level. In this case, the quantity of items available for sale is equal to customer demand for those items. In a situation of equilibrium, prices tend to remain stable. When a product is at equilibrium, business owners are happy because their stock is selling well and customers are happy because they are getting items they want at a good and fair price.

The Law of Diminishing Marginal Utility

The law of diminishing marginal utility is an economic principle similar to supply and demand. The law of diminishing marginal utility explains the situation in which consumers will only buy a certain amount of a specific product regardless of its low price. Utility describes the satisfaction experienced by a customer through the use or consumption of a product or service. The term marginal refers to a limited amount or degree. Thus, a product or service with diminishing marginal utility has decreasing value. For example, when you buy a pay-per-view movie, you have use of the movie for 24 hours. You may watch the movie once and enjoy it a great deal. After the first viewing, however, your enjoyment of the movie decreases with each additional viewing since you already know the story.

Voting for Products with Your Money

We discussed that the law of supply and demand largely determines the price of products we buy. How, then, do you make your voice heard about products that you like and those that you do not? You can communicate your views by voting with your dollars. We have all heard stories of new products that, despite being promoted as the latest and the best, did not sell because customers did not want, need, or like them—no matter the price. Those products are quickly withdrawn from the market and may disappear forever. A feature of our free enterprise economy is that manufacturers are free to produce any products they choose. Likewise, customers are free to either buy those products at a store of their choice or not buy the products at all. Storeowners and suppliers listen to the customer's voice. Their business will not survive if they do not.

Summary

This unit has discussed the economic principle of supply and demand. We touched on the features of our free enterprise economy. We learned how the supply of and demand for products affects their prices in the marketplace. We discussed supply surpluses and shortages, and supply and demand equilibrium. Next, we learned about the law of diminishing marginal utility. Lastly, we reviewed some of the mathematics associated with the law of supply and demand.

Key Math Concepts

COMPUTE DEMAND

Demand for an item in surplus is often expressed as a percentage of a past sales number. To compute demand in this way, use this formula:

Demand = Past Sales Number – (Percentage x Past Sales Number)

For example, if demand for granola bars is down 10% from last month and 50 units were sold last month, the demand for granola bars is:

Demand = 50 – (0.10 x 50)   Demand = 45

LOCATE THE POINT OF EQUILIBRIUM

To locate the point of equilibrium of supply and demand, create a chart that shows both the supply curve and the demand curve. The point at which the supply and demand curves intersect is the point of equilibrium.

The Supply Curve

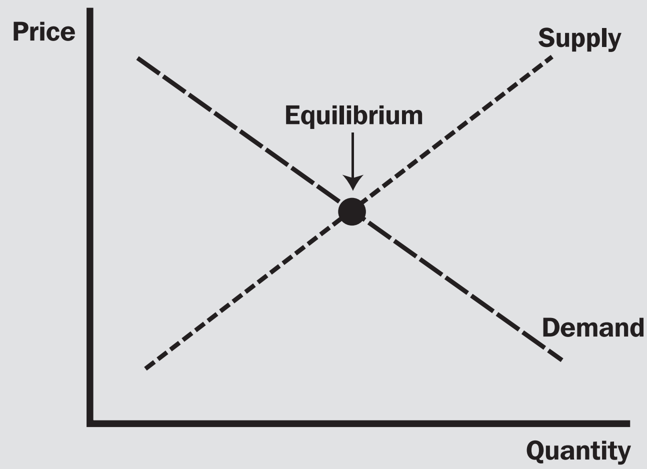
Supply is the quantity of a product that is for sale at different prices. Generally, the supply curve rises from right to left, or the higher the price the more of the product that is available for sale.

The Demand Curve

Demand is the amount of a product that people are willing to buy at different prices. Generally, the demand curve falls from left to right, or the higher the price the less the demand for the product.

Equilibrium Point

Equilibrium is the point at which supply and demand meet.



Key Terms

Supply and Demand
An economic principle that explains the correlation between the amount of product available to sell and the willingness of customers to buy that product.

Free Enterprise Economy
One in which people are able to own and operate businesses in a competitive environment with little or no government involvement.

Supply
The amount of goods produced by manufacturers and offered for sale in a marketplace.

Demand
The amount of goods customers want and are willing to buy.

Surplus
A situation in which there are more goods for sale than customers demand or are able to buy.

Shortage
A situation in which there are not enough goods for sale to meet customer demand.

Equilibrium
A situation in which supply and demand for an item are at the same level.

Law of Diminishing Marginal Utility
An economic principle that explains the situation in which consumers will only buy a certain amount of a specific product regardless of its low price.

Supply and Demand

1. You need a 40% increase on the sale of batteries over last month to reach your sales goal for the quarter. Battery sales for last month totaled 700 units. How many additional batteries do you need to sell this month to achieve your sales goal?

2. Sales of cases of soft drinks are up 20% from last year. You sold 500 cases of soft drinks during September of the previous year. Based on current demand trends, what would the forecast be for total sales of cases of soft drinks for this September?

3. You are trying to forecast coffee sales for the holiday season. You sold 1,500 cups of coffee during the holidays last year, but your overall sales for coffee this year are tracking 20% behind last year. If you have limited promotional dollars, what is a realistic total demand forecast for coffee sales during this holiday season?

4. Using the following information, create a graph that illustrates the demand curve, supply curve, and point of equilibrium for a group of video games.

Price of Game	Number of Games Demanded	Number of Games Supplied
$50	500	2,250
$45	600	2,000
$40	700	1,750
$35	800	1,500
$30	900	1,250
$25	1,000	1,000
$20	1,200	750
$15	1,500	500

WRITTEN EXERCISES **LESSON 14**

Supply and Demand

1. Discuss the three supply and demand conditions goods can fall into and then give an example of each situation as it could occur in a convenience store. Describe the recommended action the store manager should take.

2. Sales in a major category at a local chain of convenience stores are down 20% from this period last year, causing the stores to be overstocked. Explain how this could be happening and make recommendations for how to increase sales.

3. Give an example of a recent product or service in your local area that is struggling or has failed. Then consider the major reason for this failure and how it relates to supply and demand.

4. You have just opened a new gourmet coffee business and sales are 30% below what you forecasted. Immediately after you opened your business, a major gourmet coffee chain with national brand recognition opened two blocks away from your location. You have reduced the price of your product but sales are still flat. Relate how local supply and demand could be playing a role in your 30% sales decline and why the price reduction is not working.

COMPUTER EXERCISE

LESSON 14

Supply and Demand

GOAL: Your goal is to assess the demand in your city and try to determine the supply that will balance it. Specifically, you will compute how many stores are likely to survive given the population and their spending habits, then watch as stores fail until the market comes into equilibrium.

YOUR SITUATION: You control only time. After predicting how many stores will survive, you will run time forward to see where supply and demand equilibrium is reached.

1. Run the **Vital Signs Report** section of the **Tutorial**.
2. Open the **Supply & Demand** lesson.
3. Based on the following information, use the worksheet below to calculate how many of the current 8 stores will eventually survive (become profitable).
   a) About 12,500 convenience store customers shop once a week
   b) The average purchase is about $20.00.
   c) Store gross margins run around 27%.
   d) Store fixed costs (rent, wages, ads) are about $10,000 per week.
4. When you are done, tell your instructor your prediction.
5. Click the **Go** button to start time. As time passes, the stores will fail one by one. Continue until no more stores fail. Hint: Leave the **Vital Signs** window open, and use **View** on the main menu to switch between stores. Watch the **Profit** graph to see if stores become profitable.

QUESTION 1: How accurate was your prediction?

WORKSHEET 1

Total customer purchases per week:

___________ = 12,500 customers x $20 (average purchase per customer)

Total store margin per week:

___________ = Total customer purchases ×27% (margin)

Maximum stores that can survive long-term:

___________ = Total store margin per week ÷ $10,000 (fixed costs)

Financial Statements

LESSON 15

Main Idea

Business owners must have accurate and timely information about the financial status of their business to make the best decisions. Most of this financial information is derived from financial statements. Well-prepared financial statements can provide a guide for getting the business started and for keeping it on a successful path.

After completing this lesson you will be able to:

- Define the components of an income statement
- Identify the line items that make up a balance sheet
- Explain how financial statements can be used to evaluate past business and predict future performance
- Calculate equity based on assets and liabilities
- Compute revenue, net sales, gross margin, and net profit
- Identify different businesses based on financial statements

Key Terms

- Financial Statements
- Income Statement
- Revenue
- Profit
- Gross Sales
- Net Sales
- Cost of Goods Sold
- Gross Margin
- Operating Expenses
- Taxes
- Net Income
- Net Profit or Loss
- Balance Sheet
- Equity

What are Financial Statements?

Financial statements are reports that give a detailed picture of a business's financial status for a given period of time. Financial statements detail changes in a business's financial status. Study of financial statements can tell a business owner whether the business is on a successful path or if there are financial troubles ahead. Two of the most common financial statements are the income statement and the balance sheet.

The Income Statement

An income statement is a report that outlines projected business revenue and projected business expenses for a given period of time. Revenue is the money collected for products sold by a business. The difference between revenue and expenses is the business's profit. This statement, also known as the P and L (profit and loss), is the most frequently used financial statement. It is your main "scorecard" for projecting profit or loss for a specified period of time—a month, three months, or a year. When business owners refer to the "bottom line," they're talking about the bottom line of the income statement: profit. Profit is the money made by a business once costs and expenses have been deducted from the revenue. The information contained in an income statement will tell a business owner how well his or her business is doing. There are many components of an income statement:

Gross sales: this figure for a new business will be an estimate of sales for the time period. For an established business, this is the amount of money made from selling store merchandise.

Net sales: the amount of money in sales after returns and discounts are subtracted.

Cost of goods sold: the amount of money spent to buy the merchandise that is sold.

Gross margin: the amount of money that remains from net sales less the cost of goods sold. This is the amount of money that will be used to pay the business's expenses for the period and then deliver the business's profit or loss.

Operating expenses: all of the expenses associated with running the business.

Income: the amount of money left after subtracting the operating expenses from the gross margin.

Taxes: the amount of money owed to federal, state, and local governments. The estimated amount of taxes is deducted from income.

Net income: the amount of money left after taxes are deducted. Profit means that the business gained money during the time period, while loss means that the business lost money during the time period.

The Balance Sheet

The balance sheet is a report that summarizes the business's assets and liabilities and the owner's equity. We discussed that assets are tangible items of value owned by a business, such as a store's inventory or cash. Liabilities are debts that a business has, such as loans, wages, or taxes owed. The difference between assets and liabilities is called equity. The purpose of a balance sheet is to show a clear picture of the business's assets and liabilities; it provides a snapshot of assets and liabilities for the point in time at which it is prepared.

Analysis of Past Performance

It is important to carefully analyze the information provided in financial statements. Analysis will help to determine patterns or trends. The information can also reveal areas of potential concern before they become major problems. Analysis of past business performance can help with planning for a successful future.

Predicting Future Performance

Financial statements can be effective tools to help plan the future of a business. For instance, if your business records show a pattern of sales that increase significantly during the summer months, you can then arrange to purchase additional inventory for those months. Doing so will ensure that there is enough merchandise on the sales floor for maximum revenue during that prime period.

Financial statements often prepared based on projections or estimates of future events, such as sales or purchases, are referred to as pro forma financial statements. Pro forma is a Latin term that means "according to form." Pro forma financial statements are used in business plans when the business being proposed has not yet been started.

Business Plans and Financial Statements

A business plan is a map or blueprint for starting a new business. As we will learn in the unit on business plans, financial information is a major part of a business plan. A business plan requires financial information that includes projected income and expenses, projected cash flow, and a projected balance sheet for the first business year.

Summary

In this unit we have looked at the purpose and importance of financial statements to both new and established businesses. We specifically examined the information contained in income statements and balance sheets. Additionally, we discussed the importance of analyzing the information provided by financial statements and how that analysis can be useful. Lastly, we reviewed some of the mathematics used in producing financial statements.

Key Math Concepts

COMPUTE REVENUE

To compute revenue, use this formula:

Revenue = Unit Sales x Average Price per Unit

COMPUTE NET SALES

Net sales are a part of the income section of an income statement. To compute net sales, use this formula:

Net Sales = Total Sales – Returns and Discounts

COMPUTE GROSS MARGIN

To compute gross margin from sales, use this formula:

Gross Margin from Sales = Net Sales – Cost of Goods Sold

COMPUTE NET PROFIT

To compute net profit, use this formula:

Net Profit = Total Revenue – Total Expenses

COMPUTE EQUITY ON A BALANCE SHEET

To compute equity on a balance sheet, use this formula:

Equity = Assets – Liabilities

Key Terms

Financial Statements
Reports that give a detailed picture of a business's financial status for a given period of time.

Income Statement
A report that outlines projected business revenue and projected business expenses for a given period of time.

Revenue
Money collected for products sold by a business.

Profit
The money made by a business once costs and expenses have been deducted from the revenue.

Gross Sales
The amount of money made from selling store merchandise.

Net Sales
The amount of money in sales after returns and discounts are subtracted.

Cost of Goods Sold
The amount of money spent to buy the merchandise that is sold.

Gross Margin
The amount of money that remains from net sales less the cost of goods sold.

Operating Expenses
All of the expenses associated with running the business.

Taxes
The amount of money owed to federal, state, and local governments.

Net Income
The amount of money left after taxes are deducted.

Balance Sheet
A report that summarizes the business's assets and liabilities and owner's equity.

Equity
The difference between the assets and liabilities of a business.

MATH EXERCISES **LESSON 15**

Financial Statements

1. A business prices its merchandise in three categories: \$3.99, \$5.99, and \$10.99. The \$3.99 category has 500 units and the two remaining categories have 200 units each. What would be the projected total sales revenue for the combined three categories?

2. On the current balance sheet at the end of the first year, a business has \$50,000 in total assets and \$18,000 in total liabilities. Compute the business equity at the end of the first year.

3. A new business has total net sales of \$5,000 and the cost of goods sold is \$3000. What is the total gross margin from sales?

4. A new business has total sales of \$10,000, applied \$1,000 in merchandise discounts, and had returns of \$100. Calculate the business's total net sales.

WRITTEN EXERCISES **LESSON 15**

Financial Statements

1. A potential business owner needs a loan from a local bank to finance the opening of the business. List the two key financial statements the business owner should prepare and what key information the bank will be looking for from each statement.

2. You are considering opening a business. When you develop the projected income statement, it reflects a loss for the first year. Use the information you have learned about income statements to list options you have that would produce a profit for the first year.

3. Your store has been open for six months. During that time your cash flow has decreased each month. What will you do to improve your cash flow?

4. You are considering buying an existing business. What key information should you obtain from the existing business owner and why?

COMPUTER EXERCISE

Financial Statements

LESSON 15

GOAL: Your goal is to match four stores with their financial statements.

YOUR SITUATION: You can browse all views of all four stores but cannot access the Financials, Products, or Vital Signs reports.

1. Run the **Basics** section of the **Tutorial**.
2. Open the **Financial Statements** lesson.
3. On the next page you will find financials for the four stores in the current city. Look over the financial statements carefully.
4. In the simulation under **View** you will find the name of each store in your city. Click on each individual store and check out all the views of each store.
5. Click **Go** to see some action. Watch the stores in operation. If a lot of time passes, re-open the activity file so that the state of the store matches the printed financials.
6. Match each store to its financial statement. Fill in your answers on **Worksheet 1**. (Hint: One major factor identifies each store.)

WORKSHEET 1

Store	Financials	Major Indentifying Characteristic
Russell's		
Irving's		
Chas's		
Howard's		

	A	B	C	D
Revenue	27,254	51,586	41,016	8,813
COGS	17,373	32,357	26,277	5,496
Actually Sold	17,373	32,357	26,277	5,496
Expired Goods	0	0	0	0
Stolen Goods	0	0	0	0
Early Pay Discounts	0	0	0	0
Gross Margin	9,881	19,230	14,739	3,317
Rent	380	800	840	200
Wages	4,284	4,284	5,712	4,284
Promotion	2,218	2,503	2,218	2,218
Radio	2,218	2,218	2,218	2,218
Direct Mail	0	0	0	0
Billboards	0	285	0	0
Equipment Costs	455	455	455	455
Registers	80	80	80	80
Security Cameras	0	0	0	0
Fixtures	375	375	375	375
Shelf Racks	120	120	120	120
Magazine Racks	50	50	50	50
Donut Stations	30	30	30	30
Refrigeration Units	80	80	80	80
Coffee Stations	45	45	45	45
Slushy Machines	50	50	50	50
Service Contracts	0	0	0	0
Refrigeration Units	0	0	0	0
Coffee Stations	0	0	0	0
Slushy Machines	0	0	0	0
Backroom Cooling Ducts	0	0	0	0
Immediate Repairs	0	0	0	0
Other	0	0	0	0
Surveys	0	0	0	0
Consulting Fees	0	0	0	0
Interest	0	0	0	0
Moving Expenses	0	0	0	0
Profit	2,544	11,188	5,514	-3,840
Assets	250,930	301,737	279,655	199,770
Cash	203,245	280,726	257,957	175,852
Inventory	47,685	21,011	21,698	23,918
Liabilities Plus Equity	250,946	301,768	279,675	199,782
Liabilities	42,579	71,751	62,067	12,118
Accounts Payable	42,579	71,751	62,067	12,118
Debt	0	0	0	0
Equity	208,367	230,018	217,608	187,664
Paid-in Capital	200,000	200,000	200,000	200,000
Retained Earnings	8,367	30,018	17,607	-12,336

Analyzing the Competition

LESSON 16

Who is the Competition?

It is important for retailers to know who their competition is and to understand as much as possible about that competition. We have already learned that the competition is a business that sells the same or comparable merchandise within a given trade area. Trade area describes the geographic neighborhood of a business, which provides most of its customers. The Internet should be considered when analyzing trade area. An online search for businesses selling the same or similar items will reveal many competitors that must be considered. Remember that the Internet has become an important part of the marketplace.

You can identify the competition by driving around a trade area, looking through the phone book, and searching online. Whatever method or combination of methods you use, it is important to identify all the competition.

Direct and Indirect Competition

Competition can be divided into two groups: direct competition and indirect competition. Direct competition is a business that offers the same products as another and so competes for the same customers. An example is a store that sells jeans and shirts located one mile from another store that sells jeans and shirts. Indirect competition is a business that offers products that are not the same, but that are similar enough to satisfy the same customer need. For instance, a barbeque restaurant might compete indirectly with a pizza restaurant. Barbeque and pizza are different types of food, but both satisfy the same customer need of hunger.

Main Idea

In this unit we will focus on competition. We will learn about how to determine who the competition is, competitive analysis, and how competition affects a business. We will then cover information dealing with direct competition, indirect competition, and competition based on location and pricing. We will review how to develop a competitive strategy and, lastly, we will review some mathematics associated with competition.

After completing this lesson you will be able to:

- Determine who the competition is and how they are affecting your business
- Give example of the two types of competition
- Explain the advantages and disadvantages of competitors sharing the same trade area
- Describe the impact competition has on pricing
- Explain factors that can contribute to a store gaining a competitive advantage
- Calculate market share
- Evaluate the competition

Key Terms

- Competition
- Trade Area
- Direct Competition
- Indirect Competition
- Market Share
- Price
- Price Competition
- Pricing to Meet the Competition
- Non-price Competition
- Competitive Advantage

Analyzing Strengths and Weaknesses

To understand the competition retailers begin by analyzing the strengths and weaknesses of each competitor. A visit to competitors can be helpful for identifying their products, their pricing, the appearance of their store, and any other areas you wish to compare. Make a checklist and notes about each of the areas of comparison and honestly assess how each area compares to your store. A competitor might offer extensive product selection. That is a strength. The same competitor's customer service might be mediocre. That is a weakness. Continue through your checklist for each of your business's competitors. Answer this question—what do they do better than you? Once your analysis is complete, you will have a good idea of the strengths and weaknesses of your competition compared to those of your business.

How Competition Affects Your Business

We have mentioned in earlier units that competition is good for business. Customers enjoy comparison shopping; therefore, competition can help attract additional customers. Competition also helps keep retailers sharp and forces them to continually strive for improvement. Retailers use the measure of market share to tell how well their business is doing compared with the competition. Market share is the percentage that a store has of the total sales in its trade area. The higher the percentage of market share a business has, the better it is doing in relation to the competition. A small or declining percentage of market share indicates that there is a problem that needs to be addressed.

Competition and Location

We briefly discussed competition as a factor to consider when selecting a store location. We also stated earlier in this unit that competition can be beneficial to a business. Before selecting a store location, retailers must assess both the direct and the indirect competition in the trade area. Start with learning who the competition is and exactly where they are located. Your proximity to your competitors will have an effect on your business. Too little competition makes it more difficult to attract customers, especially those who want to comparison shop. Too much competition in a trade area makes it difficult for the existing customer base to keep all the stores in business. This can be especially true for a new store locating among more established ones.

Pricing and the Competition

Competition is a consideration when a retailer considers the pricing of merchandise. Price is the amount of money a business charges for items it offers for sale. Price competition happens when multiple stores carry the exact same product at different prices. Price competition is based on the idea that all other factors being equal, customers will buy an item where the price is lowest. In many cases, competing retailers price like merchandise at the same price points. Customers going from store to competing store will see the same items priced at the same prices. This is called pricing to meet the competition.

Sometimes a retailer will price an item below the price being charged by competitors for the same item. The usual reason for doing this is to increase sales of this item or to attract new or additional customers to the store.

Pricing like merchandise above the prices charged by competitors is another option for retailers. For this pricing strategy to be successful, customers must sense an added value from purchasing the item at that store. Convenience is a typical reason why customers might consider purchasing higher priced like merchandise.

Some retailers decide to compete on factors other than the price of the merchandise they sell, such as the quality of merchandise, the size of the merchandise selection, customer service, or other special services valued by customers. This type of competition is called non-price competition. For instance, a customer might be willing to pay more for a washing machine if he or she knows that the store they are buying from offers fast and reliable repair service. Retailers should always be sensitive to laws protecting customers relative to pricing, as discussed in the Pricing unit.

Competitive Advantage

Competitive advantage is the term used to express the advantage that a business can offer over a competitor's business. It is a factor that causes customers to choose to buy at one store over another. Competitive advantage can be based on one factor or on multiple factors. Outstanding customer service, merchandise selection, or any number of other factors can all contribute to a competitive advantage. This advantage must be something that customers perceive as a value that they cannot get elsewhere.

Developing a Competitive Strategy

Most retailers develop a strategy or plan to help their businesses remain relevant in their trade area. The first step is to get to know the competition. The competitive analysis that is part of a business plan is helpful for learning about the competition and about each competitor's activities. A proper competitive strategy includes the frequent updating of information about the competition. New competitors change the business landscape. Changes in the way an established competitor does business can also have significant consequences for a retailer. It is very important to keep informed about the competition.

Developing a competitive advantage will not only build customer loyalty, but it will help the business stand out and will make it unique.

Summary

This unit has provided information about competition. We have learned about direct and indirect competition and how to determine who the competition is. We looked at analyzing the competition's strengths and weaknesses and how competition can affect a business. Next, we reviewed the effects of location and pricing on competition. We looked at the importance of competitive advantage and a competitive strategy, and we discussed mathematics associated with competition.

Key Math Concepts

COMPUTE MARKET SHARE

Market share is an important measure of how a business is doing against its competition.

Market Share Percentage = Sales of a Specific Business ÷ Total Sales in Trade Area

Key Terms

Competition
A business that sells the same or comparable merchandise within a given trade area.

Trade Area
The geographic neighborhood of a business, which provides most of its customers.

Direct Competition
A business that offers the same products as another and so competes for the same customers.

Indirect Competition
A business that offers products that are not the same, but that are similar enough to satisfy the same customer need.

Market Share
The percentage that a store has of the total sales in its trade area.

Price
The amount of money a business charges for items it offers for sale.

Price Competition
A result of multiple stores carrying the exact same product at different prices.

Pricing to Meet the Competition
A term that describes the practice of competing retailers pricing like merchandise at the same price points.

Non-price Competition
Competition based on factors other than the price of the merchandise sold.

Competitive Advantage
The term used to express the advantage that a business can offer over a competitor's business.

MATH EXERCISES **LESSON 16**

Analyzing the Competition

1. You are the owner of a bookstore in a strip mall located one mile from a regional shopping mall. The mall has a branch of a national chain of bookstores. You have followed the policy of pricing bestsellers to meet the competition. The very popular author of several blockbuster bestsellers has just released a new book, and you have learned that the mall bookstore is going to run a promotion for two weeks that will give buyers an extra 10% off the already discounted cover price. The mall bookstore and your store both give a 20% discount on bestsellers, and the cover price of the new book is $26.95. The cost of the book to your store is $13.00. You plan to meet the competitor's promotional price. What is your margin per book at the 20% discount price? At the 30% discount price? If you sell 175 copies over the two-week period, what impact will this pricing have on your margin during the 30% off promotion?

2. Your sales for last month were $140,000. Total sales among all competitors in your trade area were $588,000. What was your market share percentage for last month?

3. There are four stores selling CDs in a trade area. CD sales for last month for each store are as follows:

Store A $12,640 Store B $23,540 Store C $18,725 Store D $21,435

What percentage of the CD market share did each store have last month?

4. Your store is selling a nationally advertised coffee pot at the manufacturer's suggested retail price of $39.95. Your trade area is very price conscious. You have just learned that your closest competitor has lowered the price of this coffee pot to $34.95. You have determined to lower your price to 5% below that of the competitor. What will be your new selling price? What is the total amount of the markdown?

WRITTEN EXERCISES **LESSON 16**

Analyzing the Competition

1. Select a store in your local trade area. Identify the store and describe the merchandise it carries. Then identify the stores within a five-mile radius that are direct competitors and identify stores within the same area that are indirect competitors. Provide your rationale for each selection.

2. Describe the merchandise offerings of two pairs of stores in your area. One store pairing engages in price competition. The other store pairing engages in non-price competition. Explain the reasons for your selections.

3. Explain some ways in which a retailer can gain a competitive advantage and why this is important.

4. What is market share and why is it important?

COMPUTER EXERCISE

Analyzing the Competition

LESSON 16

GOAL: Your goal is to analyze your competition and then devise a strategy to increase your market share.

YOUR SITUATION: In this lesson you control Pricing, Promotion, and Market Research.

1. Run the **Competitive Prices**, **Market Research**, **Financials**, **Market Share**, **Pricing**, **Promotion**, **Direct Mail**, **Billboards**, **Radio Advertising**, and **Storefront Ads** sections of the Tutorial.
2. Open the Analyzing the Competition lesson.
3. Your store is named Yours. Observe your competitors and fill in **Worksheet 1**.
   a. For the Price column, use **Reports->Competitive Prices**.
   b. For Primary Customer Segment Served, use a **Survey** and the **Segment** option.
   c. For Promotional Strategy, use **Reports->Financials** and click the **More Detail** button. To see competitor financial statements use the **View** menu to switch between stores.
   d. For Current Market Share, use **Reports->Market Share**.

QUESTION 1: What is your current market share? Which stores do you think represent your most direct competition?

QUESTION 2: Write down a strategy to use pricing and promotional changes to increase your market share. Your goal is a 10% point increase in market share.

4. Implement your strategy and run the simulation forward 3 weeks.

QUESTION 3: What was your gain in market share? Which competitors lost share and by how much?

5. If you did not increase your share by 10%, revise your strategy and run the simulation forward 3 weeks. Repeat this process until you have achieved a 10% increase in market share.

QUESTION 4: What was the pricing and promotional strategy you used that increased your share by 10%?

WORKSHEET 1

Store	**Price** *(higher, lower, same)*	**Proximity** *(closest, next closest, furthest)*	**Primary Customer Segment** *(students, office pros., retirees)*	**Promotional Strategy** *(radio, direct mail, billboards)*	**Served Current Market Share** *(% of revenue)*
Kathy's					
Malcolm's					
Kenneth's					
Yours					

Business Plan Analysis

LESSON 17

What Is a Business Plan?

A business plan is a document that details a plan for the creation of a business. The business plan covers all aspects of the proposed business. A well-prepared business plan will serve as an invaluable tool to a business owner in the funding and operation of his or her business.

Why Prepare a Business Plan?

The preparation of a business plan requires research, time, and thought. It is a blueprint for all the aspects of a business. The time and effort spent preparing a business plan is a worthwhile investment for business ownership. A business plan should be developed for every type of business, including hotels, clothing stores, restaurants, and convenience stores. Whether you are preparing to open a new business, purchase an existing business, or expand an existing business, you need to develop a business plan. Many business owners prepare and update business plans for their established businesses. It is important to recognize that the business plan is a very helpful tool.

Benefits of preparing a business plan include helping you set and clarify your goals for the business and for yourself. It will also help you determine the steps to accomplish those goals. The business plan will shed light on the amount of money necessary to start and operate the business. If you need to borrow money to finance your business, the bank or other lender will want to examine your business plan.

Main Idea

In this unit we will study business plans and explore the reasons for preparing a business plan. We will also review the sections of a business plan and the information that each section contains. In addition, we will learn some ways to give a business plan a polished and professional appearance.

After completing this lesson you will be able to:

- Explain the importance of preparing a business plan
- Describe the main components of an effective business plan and the information contained in each section
- Explain the purpose of financial reports within a business plan
- Identify characteristics of a professional business plan and resources that may assist you in preparing one
- Compute personal net worth and business equity in terms of assets and liabilities
- Forecast revenue, calculate net sales, and determine net profit using industry averages
- Review a business plan, identify potential problems, and make necessary changes

Key Terms

- Business Plan
- Executive Summary
- Target Market
- Short-term Loans
- Long-term Loans

Developing a Business Plan

As you begin developing your business plan, you should keep some guidelines in mind. The most important one is that the business plan should be realistic. Be honest with yourself about your goals and expectations. You can gather information and figures about costs you will incur from your local chamber of commerce, trade associations, and the U.S. Small Business Administration. You should give yourself a reasonable timeline to develop the business plan and business goals. Be sure to state information clearly.

Elements of a Business Plan

Business plans contain a lot of important information. That information is organized into sections that explain the various aspects of the proposed business. Here is an outline of a complete business plan:

- **Executive Summary:** An executive summary is a one-page summary of the proposal for the business. This summary is an introduction to the body of the business plan. It will introduce your proposed business venture and familiarize the reader with your concept.
- **Description of Business, Product, or Service:** This section explains the proposed business and the products and/or services it will provide.
- **Management Team:** This section explains the business's personnel needs, the qualifications for management, and an organizational chart.
- **Customer Profile:** This section provides analysis of and information about the target market. The target market is the group of consumers a business wants as its customers.
- **Competitive Analysis:** This section details information about direct and indirect competitors, their product and service offerings, and their pricing policies.
- **Marketing Plan:** This section supplies information about how the business will be marketed and promoted, pricing policies, and proposed promotional activities.
- **Operations Plan:** This section details how the business will operate, the type of ownership, and the location of the business.
- **Financial Projections:** This section details the amount of money necessary to start and operate the proposed business. It includes the pro forma financial statements that were discussed in the Financial Statements unit. These pro forma statements specify the types of expenditures that will be necessary and project the anticipated income from the business. The pro forma financial statements also include information about the sources of money for the expenditures. The following information should be part of the financial projections portion of the business plan.

    1) Personal financial report—This is a statement of your personal financial status and includes personal assets and liabilities.

2) Pro forma income statements—These statements provide information about sales, expenses, and profit or loss. The pro forma income statements should be monthly for the first year of operation.

3) Pro forma cash flow statements—These statements provide information about when cash comes into the business and when it will be spent. The pro forma cash flow statements should be monthly for the first year of operation.

4) Pro forma balance sheet—This statement provides a summary of the business's assets, liabilities, and equity. The balance sheet should provide information for the first year of operation.

5) Proposed sources of funding—This section should include both personal and outside sources of funding. It must provide information about both short-term and long-term loans. Short-term loans are those that will be repaid in a year or less. Long-term loans are those that will be repaid within one to five years. A loan repayment schedule should also be included in this section.

Creating a Professional Business Plan

Once you have compiled the information for your business plan, you are ready to create the business plan document. As you write the document, use proper grammar and spelling. Incorrect grammar and misspelled words indicate a lack of attention to detail. Use business terminology when applicable. Apply a standard font, such as Times New Roman, that is easy to read. A clean and simple approach is best in creating a business plan with a professional appearance.

Summary

This unit has provided information about business plans. We discussed reasons why it is helpful to prepare a business plan. We learned about the sections of a business plan and about the information that is contained in each section. We also explained the importance of good grammar and accurate mathematical computations and how to give your business plan a professional appearance. Lastly, we reviewed some of the mathematics used in developing business plans.

Key Math Concepts

The math that you will use to develop your business plan consists primarily of the basic math functions. It is important to make sure that your figures and the computations are accurate. Most of these computations are needed for the Financial Projections section of the business plan.

COMPUTE NET WORTH

To compute net worth for your personal financial report, use this formula:

Net Worth = Assets – Liabilities

FORECAST REVENUE

To forecast revenue for a proposed business, you will normally use a percentage increase or decrease of revenue from industry averages for your area. To forecast revenue as a percentage increase or decrease, use this formula:

Forecasted Revenue = Percentage Increase or Decrease x Industry Average of Revenue

COMPUTE REVENUE

To compute revenue, use this formula:

Revenue = Unit Sales x Price per Unit

COMPUTE NET SALES

Net sales are a part of the income section of an income statement. Use this formula to compute net sales:

Net Sales = Total Sales – Returns and Discounts

COMPUTE NET PROFIT

To compute net profit, use this formula:

Net Profit = Total Revenue - Total Expenses

COMPUTE EQUITY

To compute equity on a balance sheet, use this formula:

Equity = Assets – Liabilities

Key Terms

Business Plan
A document that details a plan for the creation of a business.

Executive Summary
A one-page summary of the proposal for a business.

Target Market
The group of consumers a business wants as its customers.

Short-term Loans
Loans that will be repaid in a year or less.

Long-term Loans
Loans that will be repaid within one to five years.

MATH EXERCISES **LESSON 17**

Business Plan Analysis

1. The income statement of your business plan projects total sales for your first month in business to be $22,585. You project returns of $478 and discounts of $55. What is the net sales amount?

2. What is your net profit for one month if your total revenue is $25,487 and your total expenses are $24,342?

3. What are the total assets of your business if you have liabilities of $175,800 and equity of $65,500?

4. Forecast revenue for the month of June based on a 10% increase over the national average sales.

National Average Sales	
Week 1	$15,350
Week 2	$17,745
Week 3	$16,280
Week 4	$19,830

WRITTEN EXERCISES **LESSON 17**

Business Plan Analysis

1. Identify who will be most interested in examining your business plan when you propose a new business. Then describe what section of the business plan they will want to read first and list the other major sections supporting your proposed business venture that they will want to analyze.

2. You have an idea for opening a new business but do not know how to get started. Discuss key information you will look for and some resources you can turn to for guidance.

3. In the midst of developing your business plan you need a resource to assist in making it look more professional. List a resource and note the major guidance you require.

4. You have just finished writing your business plan and are in the process of proofing it before you go to your local bank to seek financing. Make a checklist to help you proof the document and make sure you have covered the key information.

COMPUTER EXERCISE

Business Plan Analysis

LESSON 17

GOAL: Your goal is to review an entrepreneur's business plan and determine if there are flaws in the plan.

YOUR SITUATION: In this lesson, you control all aspects of your store.

1. Run all sections of the Tutorial under the **Basics**, **Reports**, and **Actions headings**.
2. Open the **Business Plan Analysis** lesson.
3. Read the abbreviated business plan that is included in this assignment. Browse around the city and review the competition. You may do market research as needed to identify customer groups and needs.

QUESTION 1: What problems do you see with the plan?

2. Reopen the lesson. Run the simulation for 8 weeks.

QUESTION 2: Did the business experience the problems you predicted? Were there other problems you didn't foresee?

QUESTION 3: How would you change the plan to avoid the problems encountered?

4. Reopen the lesson. Based on your answer in step 3, make changes to the business. Run the simulation for 8 weeks.

QUESTION 4: Were you able to eliminate the problems? How?

Business Plan for Jan's Convenience Store

DESCRIPTION OF THE BUSINESS
Jan's will be a convenience store primarily serving the student population around a university. The pricing will be fairly low to keep in line with student budgets. The store will stock goods that are popular among students.

COMPETITIVE ANALYSIS
There are two other convenience stores in town. Only one, Jack's, is relatively near the targeted location of Jan's. Jack's does a lot of radio advertising but their radio buys are spread over many stations. Observation of Jan's customers shows that they are mainly businesspeople, who are not our primary target customers.

CUSTOMER PROFILE
The target customer of Jan's store is a student attending the nearby university. We believe that these customers will demand a lot of Primo Soda, TrimQuick, Cold & Flu, Aspirin, Generic Soda, and Nachos.

OPERATIONS PLAN
The store will maintain sufficient inventory (500 units of each product) to ensure that it is never out of products that customers want. The store will not stock any sunscreen during the winter months. The store will be staffed in a lean manner to keep costs down. The store will be open at all times of day to maximize revenue. Prices will be set to yield a margin of 20%. This will keep goods in an affordable range to students.

MARKETING PLAN
The primary means of advertising will be radio. In order to counter the push of the competitor, Jack's, advertising will be bought on a wide range of stations and times. Only "late night time slots" will be skipped to save money. Storefront signs will also be used to promote a special on Primo Soda.

FINANCIAL PROJECTIONS
The business will be capitalized with $25,000 from the owner's savings. The store will not seek a bank loan and will pay suppliers promptly to ensure continued supply and establish goodwill. The business expects to generate $55,000 per week of revenue which will yield $11,000 per week in gross margin. Rent for the location is $1,140 per week. Weekly payroll will be $2,380 and radio ads will cost $6,384 per week. Total expenses will be $9,044 per week resulting in a profit of $1,096 per week.

Turnaround

LESSON 18

Main Idea

This unit explores the topic of business turnaround. We will discuss the meaning of the term turnaround. We will also learn how to assess and diagnose business problems, develop action plans to correct the problems, update the business plan, and address the burn rate for cash. Lastly, we will review some of the mathematical calculations associated with business turnaround.

After completing this lesson you will be able to:

- Identify warning signs that a business is in immediate danger
- Diagnose problems within a business by assessing financial statements, customer behavior, and employee feedback
- Develop an action plan to restore a struggling business to profitability
- Explain the importance of updating your business plan
- Compute cash flow based on total cash generated and total cash spent
- Calculate burn rate and explain its importance in turning a business around

Key Terms

- Turnaround
- Warning Signs
- Honest Assessment
- Cash Flow
- Variable Expenses
- Fixed Expenses
- Burn Rate

What Is Turnaround?

Dealing with problems is a part of doing business. There are various problems that can beset a business. When business problems are allowed to progress unchecked, they can cause a business to falter badly or even fail. Turnaround is the process of determining the problems of a faltering business and rescuing the business by implementing a strategy to stop negative cash flow and return the business to profitability.

Assessing Business Problems

Most business owners do not suddenly discover that the business is in trouble. It is normally a gradual process that occurs over several months or even a year. Business owners must continually assess their business operations to determine if the business is trending in the right direction. If the business is not, there are some common warning signs that can predict danger for the business. Warning signs are serious business concerns that require immediate attention to resolve. Those warning signs include:

- The business cannot pay its expenses (e.g., payroll, vendors, utilities)
- Net profit is shrinking and business expenses are increasing
- Sales are flat or decreasing even in a prospering economy
- A significant number of regular customers are not returning to the store
- Employees are showing unhappiness in their attitudes
- The owner or manager no longer has the confidence of the employees

Use these warning signs as a guide. Remember, it is important to make an honest assessment – one that is objective and includes a review of all the normal warning signs.

Diagnosing the Problems

After the problem assessment comes the diagnosis of the source of business problems. While not strictly necessary, it is advisable to obtain an objective and professional outside point of view of your current business operation. It is important to be as objective as possible when identifying the source of business problems.

Start with the Financials

Your first step should be to determine how to stop or slow the financial bleeding. If you are struggling to make payroll and to pay the business expenses, the financial statements will help you further diagnose the problem. Your accountant is an excellent source for assistance with an objective assessment of the financial statements. Schedule a meeting to analyze your current and prior financial statements of the business. This should provide the financial diagnosis you need to launch the development of a turnaround action plan for the financials.

Take a Candid Look at Your Customers

Customers are the lifeblood of your business. If they start shopping less or stop shopping altogether, you will need a transfusion of new customers. It is much, much easier to retain existing customers than to attract new ones. If you have not been on the sales floor with your customers, then get out there. Get firsthand feedback from your regular customers. Put yourself in the place of the customer and evaluate your service and product offerings. Next, visit your competitors. Ask one of your best employees to join you. Together, diagnose what the competitors are doing better from the consumer's perspective, such as service, value, merchandising, or store appearance.

Talk with Employees

Employees project their attitudes about their work environment. Make a careful observation of employee attitudes, attendance, and appearance along with their customer interaction skills and turnover rate. Then ask your employees for feedback on their impressions of the business. To do this effectively, you must set your personal pride aside and ask employees to evaluate you as a leader. You must set up a safe environment to encourage honest feedback. Be friendly, nonconfrontational, and open to employee input. Probe, but do not argue, and be sure to thank employees for their feedback. These meetings can provide some invaluable input on the business and your management skills. Together, your observations and employee feedback should give you a clear diagnosis of employee status.

Creating an Action Plan

Once the business problems have been determined and confirmed by a professional business advisor, you need to develop an aggressive action plan to address these problems.

Financials

Carefully examine all aspects of the business's financial transactions and records. In most turnaround situations, the business expenses are creating a negative cash flow. Cash flow is the amount of cash a business is taking in at a particular time. A negative cash flow means that there is less cash coming into the business than is needed to pay for expenses. To remedy this situation, you must identify variable and fixed expenses.

Variable expenses are those that change according to the level of sales. Fixed expenses are those that remain the same regardless of sales. Now turn to what you can control—variable costs. Stop the negative cash flow. Be tough-minded and make some hard choices. Once you have eased the cash flow concern, you will have the time to think more logically. Then you can address other challenges.

It is important to keep creditors and vendors informed about your situation and the corrective action you are implementing to restore your business to profitability. Be proactive regarding your communications with vendors and creditors. Face-to-face meetings will enable you to demonstrate your confidence and personal commitment. Once creditors and vendors understand you are on top of the situation and have an action plan to bring about a turnaround, they are much more likely to be willing to work with you.

Customers

Customers need to see you, so be visible and accessible in the store. Appearances of personnel and of the store speak volumes. Outside appearances can signal a failing business or one that is open and ready to fill customer needs. Friendly, well-groomed employees project confidence and high business standards. A well-maintained and adequately stocked retail facility further promotes customer confidence.

Employees

The diagnosis of employees outlined earlier should lead your action plan in this area. After meeting with employees individually, it is important to meet as a group and share the input gathered. Employees need to understand what you plan to do and how they will be affected. You may be forced to lay off some employees if the business is over-staffed. Communicating with employees will help set expectations based on their understanding of the business situation that is driving this effort. One of the most important steps of your action plan should be to recruit the support of your employees and their critical role in the turnaround. Working harder, longer, and smarter will be required by the entire workforce to successfully deliver a turnaround.

Modifying Your Business Plan

The key role of the business plan was explained in the Business Plan Analysis unit. Businesses that keep their plans updated are less likely to fall victim to a turnaround situation. Modification of your business plan must include updating the major sections with the assessments, diagnoses, and action plans resulting from the turnaround strategy. You need to record and document the ongoing business issues, both positive and negative, and set a direction for the future. The revised business plan will then serve as the warehouse of your findings and the implementation guide for the turnaround.

Burn Rate – How Much Time Do You Have Left?

In order to effectively execute a turnaround strategy, you need to answer a key question. Based on the cash flow status, what is the burn rate of your business for a specific period of time? Burn rate is the amount of cash a business spends, usually projected on a monthly basis. For example, the total cash spent during six months is $36,000. To compute the monthly burn rate, divide $36,000 by 6 to get a $6,000 monthly burn rate. The higher the burn rate, the sooner the business will deplete cash reserves and will need an additional cash infusion. Compare your projected burn rate with your cash reserves and the timeline you have established in your business plan to return your operation to profitability. If they do not match, then consider how to obtain additional cash to stay in business during the short term with an outside loan or further reduction of expenses.

Summary

In this unit we have explored returning a business to profitability by implementing a turnaround. We have discussed how to assess and diagnose the problems at hand, create an action plan, update the business plan, and compute the burn rate for cash. Lastly, we reviewed some of the mathematics used in determining a successful turnaround.

Key Math Concepts

COMPUTE CASH FLOW

To compute cash flow, use this formula:

Cash Flow = Total Cash Generated – Total Cash Spent

COMPUTE BURN RATE

To compute burn rate, use this formula:

Burn rate = Total Cash Spent ÷ Specific Period of Time

Key Terms

Turnaround
The process of determining the problems of a faltering business and rescuing the business by implementing a strategy to stop negative cash flow and return the business to profitability.

Warning Signs
Serious business concerns that require immediate attention to resolve.

Honest Assessment
One that is objective and includes a review of all the normal warning signs.

Cash Flow
The amount of cash a business is taking in at a particular time.

Variable Expenses
Those that change according to the level of sales.

Fixed Expenses
Those that remain the same regardless of sales.

Burn Rate
The amount of cash a business spends, usually projected on a monthly basis.

MATH EXERCISES **LESSON 18**

Turnaround

1. Last month your financial statements indicated that your total revenue from the business was $48,000 and you distributed $48,500 to pay monthly expenses and vendors. How would you express your current cash flow? Should this be a cause of concern?

2. Your business is in a turnaround situation. During the last six months, your total expenses were $275,000. Your fixed expenses make up 65% of the total and variable expenses make up the other 35%. What is the dollar amount of the fixed and variable expenses? You need to trim 25% from the variable expenses to maintain a positive cash flow. How much money do you need to trim?

3. During the last year, your total expenses and vendor payments for your new business required a total cash payout of $600,000. What was your average burn rate over the last 12 months?

4. Your business has a cash reserve of $20,000. During the last four months, your total expenses and vendor payments required a total cash payout of $20,000. Your total sales during this same period were $16,000. What was your average monthly burn rate, monthly sales, and cash flow status during this time, and if this pattern continues, how much longer can you sustain the business before you will need additional cash?

Turnaround

1. You opened your business a year and a half ago. Since then, sales have leveled off and expenses are going up. You are struggling to keep enough cash in the checking account to pay expenses. How would you assess if your business needs a turnaround and, if it does, what is the key component of the assessment?

2. You've confirmed that your business is indeed in need of a turnaround. List and discuss the three key areas you should examine to diagnose the problems. What will give this diagnosis credibility?

3. In developing an action plan to execute a successful turnaround, where should you start and why? List examples of some of the actions you might take immediately.

4. How would you use a business plan in a turnaround situation and what steps should you take regarding the business plan you developed when you started your business?

COMPUTER EXERCISE

Turnaround

LESSON 18

GOAL: Your goal is to fix several key things that are wrong with your store and raise the store's weekly profit from a loss to $5,000 per week.

YOUR SITUATION: You control all aspects of your store.

1. Run all sections of the **Tutorial** under the **Reports** and **Actions** headings.
2. Open the **Turnaround** Lesson.
3. Try to identify the problems with Nikki's and solve them.

QUESTION 1: What problems do you see with Nikki's?

4. Try to restore the profitability of the store and raise the stores weekly profit from a loss to $5,000 per week. Unless otherwise notified by your instructor, you have 30 minutes.

QUESTION 2: Were you able to get Nikki's store to make $5,000 in weekly profit? How did you solve the problems you identified with Nikki's store?

COMPUTER EXERCISE

New Store Project

Level 1

In Level 1 you will start a new convenience store from scratch. Your goal is to guide your store to profitability. Specifically, your store must have a cumulative profit greater than $100,000. If you reach that goal, you will move to **Level 2**. In **Level 1** you face a single competitor. Many of the customers in the city would welcome a more "convenient" alternative to this competitor.

GOAL

$100,000 cumulative profit *(Cumulative profit is shown on the **Vital Signs** window.)*

ASSIGNMENT

1) Run the **Market Research** and **Open New Store** sections of the Tutorial.
2) Run **Virtual Business - Retailing 3.0** and choose **New Store Project**. Click **Standard City**. Do some market research. Use the **Business Plan Template** on page 164 to create a business plan for your convenience store before you run the simulation.
3) Once you have completed the business plan, start a store. Review **Level 1 Hints** and the **Pricing**, **Purchasing**, **Staffing**, and **Promotion** sections of the Tutorial to help you get started.
4) Your goal is to make $100,000 cumulative profit. When you have done this, the simulation will tell you that you have moved to **Level 2**. Save your simulation. (NOTE: Save your sim often as you advance. Save each sim under a different name e.g. MySim1, MySim2, and so on. This will give you the possibility of returning to a previous sim state.)

QUESTION 1: Compare your plan from **Level 1** with the actions you actually took to achieve the **Level 1** goal. Use the **Actions Journal** in the simulation to remind yourself of the actions taken.

LEVEL 1 HINTS

– Choose a location for your store using market research to find the best location.

– Set prices to a reasonable level.

– Purchase enough goods to satisfy customers.

– Staff your store appropriately.

– Promote your store so that potential customers become aware of your store.

– Get a loan early.

– Watch the comment log for feedback from customers and employees.

QUESTION 2: What were the major changes you had to make to succeed? How did your financial projections compare to actuals? Did revenue grow faster or slower than expected? Were expenses higher or lower than projected?

Level 2

In Level 2 you will face four new competitors. Your store will need aggressive promotion to draw in customers. The merchandising and other factors will need to be optimized to produce a profit. You will need to move your store. You will also encounter surprises such as snow storms and equipment failure. You may also open a second store at this level. To complete this level and move to the next level, your store or stores must have a cumulative profit greater than $500,000.

LEVEL 2 HINTS

– Try relocating your store.

– Improve your merchandising.

– Use loss leaders, coupons and storefront ads to attract customers to your store.

– Open a second store.

– Capitalize on selling opportunities before big snow storms.

– Consider maintenance contracts to protect against equipment failures.

GOAL

$500,000 cumulative profit

ASSIGNMENT

1) Review the **Targeted Marketing**, **Merchandising**, and **Security** sections of the Tutorial for hints.
2) Reopen your saved simulation. The environment has now changed. You will be getting a lot more competition.
3) Given the new goals and challenges of Level 2, revise your business plan to meet these challenges. Revise your financial projections and predict how many weeks it will take you to reach Level 3. Hand in your revised plan.
4) You may choose to move your store. You may also open a second store.
5) Your goal is to make a cumulative profit greater than $500,000. When you have done this, the simulation will tell you that you have moved to Level 3. Save your simulation.

QUESTION 3: Compare your plan from Level 2 with the actions you actually took to achieve the level 2 goal. Use the Actions Journal in the simulation to remind yourself of the actions taken.

QUESTION 4: What were the major changes you had to make to succeed? How many weeks did it take you to reach Level 3? Was this greater or less than what you predicted?

Level 3

In Level 3 you will experience large swings in the population of your city. First the population will decline during a major economic downturn. Your challenge is to survive the downturn. Eventually the economy will recover, and you will have a chance to open as many stores as you like in an effort to capitalize on the strong business environment. Be careful, long-term road construction could make some locations untenable. There are no specific profit targets at this final level.

GOAL

Survive a serious economic downturn and prosper when things improve.

ASSIGNMENT

1) Reopen your saved simulation. You will now experience the ups and downs of business cycles.
2) Given the new challenges of Level 3, revise your business plan to meet these challenges. Hand in your revised plan.
3) You may open as many stores as you like.
4) Your goal is to survive the downturns and make as much money as possible during growth periods.

LEVEL 3 HINTS

To survive during the downturn:

– Reduce expenses such as staff.

– Close the weaker store if you have two stores.

– Relocate if customers disappear from your neighborhood or construction ruins your location.

To prosper during growth periods:

– Open multiple stores.

– Target store offerings and promotions to the local customer base.

– Stock and staff your stores sufficiently to meet demand.

Business Plan Template

Prepare a business plan for your store using the following template.

Executive Summary (200 words)
This should be a short summary of the entire business plan.

Description of the Business Product or Service (100 words)
Include what products your convenience store will offer.

Management Team (100 words)
Describe the members of your team including school and work experience relevant to this project.

Customer Profile (100 words)
Describe your target customer. What do you think they will need and may buy on impulse. Use Market Research within the simulation to assist you. Discuss your choice of location that will help you serve the target customer. You may include a printout of the city with your chosen location marked.

Competitive Analysis (100 words)
Browse around Lynn's. Identify the store's customer base, pricing strategy, and promotional strategy.

Marketing Plan (200 words)
Discuss your pricing and promotional strategies. Use Market Research within the simulation to assist you.

Operations Plan (200 words)
Describe your staffing plan. Discuss the target inventory levels that you will set for different items. If these differ by item, discuss why.

Financial Projections
Create a spreadsheet to project your weekly income statement for your first 12 weeks in business (see example below). This should show your expected revenue, cost of goods sold, gross margin, all expenses, and profit. Show how revenue, cost of goods sold, and gross margin will ramp up over time and other expenses will stay relatively constant.

EXAMPLE INCOME STATEMENT

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12
Revenue												
COGS												
Gross Margin												
Rent												
Wages												
Promotion												
Equipment												
Other												
Profit												