

## 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 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.

## **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.

### **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       |        |        |        |        |        |        |        |        |        |         |         |         |