Spring 2013 MAR 4804 (T) Dr. Bruce Seaton

Take Home Exam Name: ______________

Answer any two (2) of the three (3) questions (Note that Q3 is "Either/ OR"). They are of equal value (50 points each). The optional extra credit question is worth 4 points. The exam is to be submitted by 11:59PM, Wednesday, April 10th, 2013. The exam is open book, open note and may be attempted on an individual basis or in cooperation with one other fellow student. In the latter circumstance equal contribution is assumed. While you may consult written materials you are not to discuss your answers with anyone other than your collaborator, if there is one. If you quote substantially from a source it should be cited! Submission of your exam attests to your acceptance of these conditions. Best of luck!

1. **BatesManor Furniture**:

a) Given that

i) the **average** Bates.Manor sales in a retail store that carries their furniture is $75,000 at **manufacturer's prices**

ii) the typical retail furniture store has a gross margin of 60%

Calculate the **BatesManor** dollar sales at **retail prices** in their average store. Explain your reasoning and state any assumptions you make.

b) As noted above, the **gross margin** of a furniture retailer is approximately 60%. In contrast the **overall gross margin** in a typical supermarket is 26%, with the category **GM**'s ranging from 18% for "Meat, poultry and seafood" to 50% for "Bakery/Deli". **Why are these Gross Margins so different in magnitude?** Suggest reasons and discuss your conclusions.

c) Assume that **BatesManor** has just hired a new consultant. The consultant has noted the more furniture that people buy (i.e. "the bigger the pie") the better the sales prospects for **BatesManor**. She has recommended that **BatesManor** greatly increase their advertising budget and focus their efforts on increasing the primary demand (i.e. the "size of the pie") for furniture. Carefully and critically review this proposed strategy and advise Mr. Bates. Explain your reasoning.

2. Parvaderm

a) Given the **revised** figures in the Payoff Table below complete the calculations for the five (5) EMV's. Show your logic and calculations.

CALCULATION OF EXPECTED MONETARY VALUE
AND THE VALUE OF PERFECT INFORMATION

Payoff Table

Aerosol Container	Low Estimate P = .3	High Estimate P =.7
5 ½ Ounce Package	$59,000	$130,000
10- Ounce Package	-$35,000	$175,000

EMV 5 ½ oz package =

EMV 10 oz package =

Value of Perfect Information

EMV Certainty =

EMV Best Alternative =

EMV Perfect Information =

Given the above analyses is the test market (total cost of $40,000) economically justified? Explain carefully. Explicitly identify your assumptions.

b) Write two 200-word (or less) memos to Ms. Phoebe Masters making the **respective** cases for

(i) the 5 ½oz package

(ii) the 10 oz. package.

i.e. you are to incorporate the analysis presented in (a) above to support **each package size** in the **separate** memos. Incorporate the notions of **risk preference** (from Ms. Masters' point of view) into each memo.

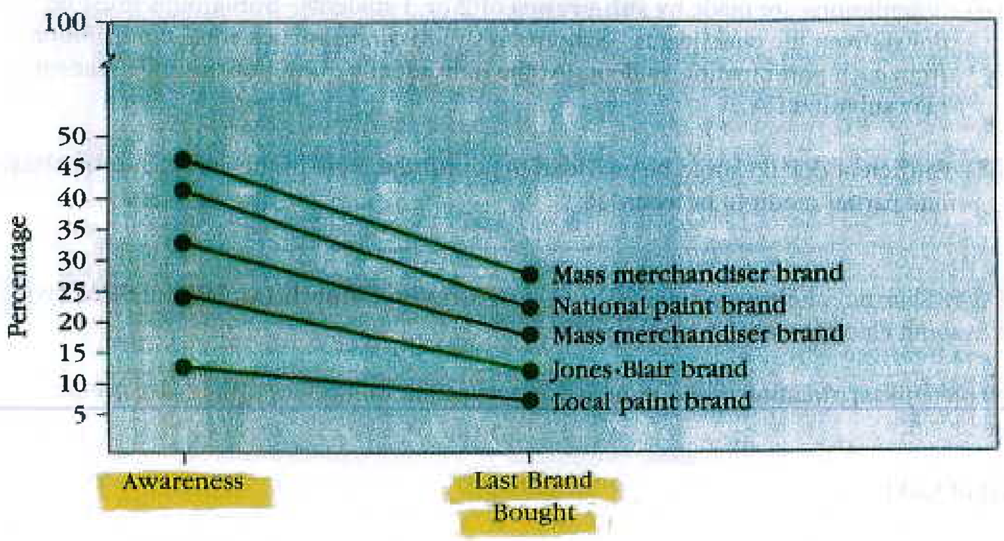
EITHER

3 (a) This question is based on the Jones.Blair case. The analysis below is derived from personal interviews conducted by a Market Research firm.

Your task is to critically examine the degree to which Exhibit 5 of the Jones.Blair case, reproduced below, supports the proposal to increase consumer (household or do-it-yourself) advertising to increase J.B's market share in the Urban DIY segment of the market. The correlation between "Awareness" and "Last Brand Bought" is 0.99, which is significant at the p=.001 level. Carefully apply the "Principles of Causation" to this research finding and prepare a report to J.B management which recommends that advertising is either supported or not supported. In either outcome you are NOT required to investigate the financial implications of such advertising.

EXHIBIT 5

Percentage of DFW Population That Was Aware of Paint Brands and Purchased Paint in the Last 12 Months



Awareness Question: "What brands come to mind when you think of paint?"
Last Brand Bought: "What paint brand did you purchase the last time you bought paint?"

	Awarenes	LBB
1	13.00	7.00
2	24.00	13.00
3	33.00	18.00
4	41.00	23.00
5	47.00	27.00

Pearson correlation (α) = 0.99
p = .001

OR

3(b) Discuss how the Principles of Causation have aided you to successfully compete in the Marketplace simulation. Use the framework reproduced below. You do not need to provide much detail, just show that you understand the process and give **at least two specific examples**.

Causation (Goal Oriented Activity)

Basic requirements

1. **Association between cause (C) and effect (E);**
2. **Time order of occurrence (C precedes E);**
3. **a) Elimination of alternative explanations**
   b) Model the causal process.

Complicating issues:

i) Uncontrollable factors
-natural variation
-competitive response

ii) Interaction effects (e.g. nature of a "sale")

iii) Lagged (delayed) effects

iv) Non-linear response patterns

v) Multiple effects

vi) Impact of nature of target market or context

Extra Credit (4 points).

President Obama has proposed an increase in the national minimum wage from the current level of $7.25 to $9.00. Apply the **principles of causation** to evaluate this proposal from the differing perspectives of

1) a current minimum wage worker;
2) an employer of minimum wage workers;
3) a Union executive.
4) An investor in Macdonald's Corp.

Explain your reasoning.