The following appeared in a memorandum from the owner of Movies Galore, a chain of movie-rental stores.

"In order to reverse the recent decline in our profits, we must reduce operating expenses at Movies Galore's ten movie-rental stores. Since we are famous for our special bargains, raising our rental prices is not a viable way to improve profits. Last month our store in downtown Marston significantly decreased its operating expenses by closing at 6:00 p.m. rather than 9:00 p.m. and by reducing its stock by eliminating all movies released more than five years ago. Therefore, in order to increase profits without jeopardizing our reputation for offering great movies at low prices, we recommend implementing similar changes in our other nine Movies Galore stores."

Write a response in which you discuss what questions would need to be answered in order to decide whether the recommendation and the argument on which it is based are reasonable. Be sure to explain how the answers to these questions would help to evaluate the recommendation.

Essay Response:

The owner reaches the conclusion that the operating expenses for all Movies Galore stores must be reduced in order to reverse the recent decline in their profits. This conclusion is based on the premises that the store is famous for its bargains, and that closing stores earlier and reducing stocks of older movies helped in reducing their expenses. However, the owner fails to address three important questions, the answers to which could dramatically affect the veracity of the argument’s logic.

First, has Movies Galore attempted to raise its rental prices before, or is such a move provably bad for the establishment? The owner says that the store’s reputation of having ‘special bargains’ would be tarnished via this move, but fails to produce any evidence that proves the link that they have made. It is possible that the rental prices have stayed the same for the past 20 years, and that inflation has caused the earnings to be worth less than before. It may also be the case that there are studies of other, similar shops, where increasing the prices of rentals caused a sharp increase in earnings, since buyers understand that the costs would naturally increase due to inflation, and can still afford it. The argument must answer this question with solid evidence, and explain exactly why this avenue for revenue has been written off.

Second, did Movies Galore make more profits by closing the stores 3 hours earlier, or by discarding older movies? The argument only specifies that these measures reduced operating expenses, but anyone with a knowledge of basic economics would know that ‘Profit = Revenue – Expenses.’ The argument naively assumes that the decrease in expenses would increase profits, but it would only increase the proportion of revenue that translates to profits. In simpler terms, it is possible that taking these measures led to lower sales – Customers who would visit the shop after 7 P.M. to watch a late-night movie would now not be able to do so, and people who watch older movies now would not contribute to the store’s revenue. It may even be the case that revenue from older movies forms a large part of the store’s earnings. In this case, the store is effectively jeopardizing its own profits. Hence, by taking such measures, all this revenue has been ceded in favour of reducing expenses. There is no evidence to suggest that the profits were still high, and the answer to this question would require exactly this.

Finally, even if answers to the above questions all worked out in the argument’s favour, is the Downtown Marston store representative of all other Movies Galore stores? It is possible that, at other locations, almost the entirety of the customer base comes to the shop after 7 P.M., or that a disproportionate percentage of buyers rent older movies. It may be the case that these measures simply would not work in other areas. The demographics of the customers at different locations must be considered, along with the hours at which they generally walk in to rent movies. While the operating expenses may, indeed, be lower when the timings are reduced by three hours, proper planning and surveying must be done to determine when such a move could be possible, if required. It may even be possible that other stores do not have the low sales figures or losses that the mentioned store has; it is possible that only a few stores are responsible for the decline in profits. In this case, measures should be taken on a case-by-case basis, since taking the recommended measures may lead to failure of the stores that are currently doing well. Therefore, the argument must also answer this question comprehensively.

In conclusion, the argument, as it stands now, is considerably flawed. By failing to answer the above questions, the current form of the argument fails to address the multiple unstated assumptions and logic gaps that it makes. Execution of the argument’s recommendation could jeopardize profits, or in the best-case scenario, simply be illogical.