

VIENNA HAIRGOODS-
MANAGEMENT CONSULTING REPORT

by
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A THESIS

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APPROVED:


Prof. Randy Swangard

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This thesis was conceived as an exercise in bridging the gap between business theory and business reality. In it, the author attempts to culminate five years of undergraduate business studies in creating a consulting report for a small Portland business, Vienna Hairgoods.

Vienna Hairgoods, like many small businesses, was in a predicament: having the technical know-how and desire to expand, but lacking the expertise and man-power to initiate company growth. This author proposes that management consulting can offer a viable, low-cost solution to this problem, by providing the expertise and specialization that are impossible for a small firm owner to attain, due to limitations of time and capital.

The owner was consulted and the operation examined, in order to ascertain organizational weaknesses and to determine company goals. Five areas needing consulting work were identified: Personnel recruiting, selection, training, and management (inclusive of an employee benefits and compensation

policy); Strategic planning (creation of a mission statement, SWOT analysis, and business plan); Establishment of a consumer credit policy; Revision and expansion of the firm's advertising policy; and, Acquisition of sorely needed manufacturing machinery and raw materials.

Within this consulting report, and as a direct result of this author's efforts, the necessary machinery and raw materials were located and acquired, and all targeted areas of concern were extensively and adequately addressed.

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EXECUTIVE SUMMARY

I have analyzed and researched several areas of owner concern, which I have identified as being most relevant and immediately requiring attention, in order to aid the firm in achieving the goals of growth and expansion desired by the owner, with the following results:

1. I have reviewed the Oregon Revised Statutes and other relevant legal legislature to derive a listing of the primary legal considerations and limitations placed on labor policy creation. I have also made several recommendations as to benefits, wage schedules, and working conditions which I feel most ideally suit this particular business. I have provided recommendations to aid in staffing, selection, and recruiting. I have also created a realistic job description of the position currently sought- ventilator.

2. I have created a business plan to aid in the owner's planned expansion of his retail operation, and, possibly, an expansion into wholesaling. The strategic planning section of this report contains: a mission statement; a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis; and, short and long term business strategies, which I hope will facilitate the achievement of the proposed objectives.

3. I have presented a variety of options for a firm credit policy, the establishment of which I enthusiastically recommend. A review of an installment credit policy and acceptance of credit card credit was made. Information on avoiding payment delinquency, collections, and methods commonly utilized to aid in management control over credit accounts were presented. I hope to have accurately presented the advantages of adopting a credit policy to Vienna Hairgoods, have chosen the two most viable alternatives, have presented the advantages and disadvantages of each, and have submitted a recommendation.

4. A section outlining a general advertising strategy and suggesting improvements in current marketing was included. I presented the general characteristics, objectives, and advantages of various promotion plans, made several recommendations about how to improve current advertising, and suggested the utilization of several management techniques that I feel could substantially bolster sales.

5. I have identified a need for an acquisition of several pieces of manufacturing equipment that could significantly improve product quality and increase efficiency, and a necessity to locate a wholesale source of a raw material required in production. After locating manufacturers and retailers of ultrasonic welding machinery and monofilament mesh material, I derived a list of the names and addresses

of relevant national manufacturers and suppliers of this equipment, and sent letters requesting that further information, including prices, product descriptions and uses, etc. be sent to Vienna Hairgoods, in Portland.

A copy of the letter sent to ultrasonic welding equipment manufacturers is provided in Appendix A. Likewise, a copy of the letter sent to monofilament mesh material manufacturers is enclosed in Appendix B.

BUSINESS INFORMATION

GENERAL DATA

Firm Name:	Vienna Hairgoods
Firm Owner/Manager:	Helmut Buscha
Legal Form of Organization:	Sole Proprietorship
Address:	9960 S.W. Walnut Tigard, OR 97223
County of Operation:	Washington
Business Phone:	(503) 639-9517

FIRM HISTORY

Vienna Hairgoods was founded in 1964, in Vienna, Austria. During the first ten years of operation, the firm's interests lay primarily in wholesaling custom made hairpieces produced locally, in Austria, to several retail accounts in the United States.

In 1973, the owner emigrated to the U.S. and transferred the business, in its entirety, to Tigard, Oregon. Originally, Mr. Buscha leased an office in the Colonial Office Campus, but, in 1985, purchased a building not 8 miles from the previous location. When purchasing the present facility, adequate room for expansion was a primary concern. The facility provides ample space for all manufacturing and management needs into the distant foreseeable future, negating the necessity to make further capital investments in plant and facility expansion. This should free reinvested funds for working capital. Moreover, the owner is subcontracting the majority of the labor required in the manufacture of his products from a Hong Kong based firm. Currently, attempts are being made to recruit and train a local labor force, in order to achieve greater quality control and better customer service (timely delivery of orders, etc.).

BUSINESS PLAN/ ACTIVITY

Vienna hairgoods manufactures and retails high quality custom made men's and women's hairpieces, wigs, and wiglets. Occasionally, servicing of hairpieces is done in-house, but in the majority of cases, customers self-service their hairpieces utilizing guidelines and instructions provided by the owner.

The business targets the high-end of the hairpiece/hair replacement market, focusing on affluent, quality conscious, discriminating professionals and alopecia/chemotherapy patients. A high margin, low volume strategy is being currently used. VH competes in terms of superior quality and service, not price.

AREAS OF CONCERN AND INTEREST (OWNER)

In the initial meeting with the client (Mr. Helmut Buscha, owner/operator of VH), it was made clear which activities and areas of research would aid the firm to the greatest degree. The requested activities and areas of owner interest/concern included:

- * 1. Legal considerations/limitations involved in establishing an in-house, domestic work force (primarily ventilators- the bulk of the labor involved in producing a hairpiece (the tying of the hair into a monomesh base))
- * 2. Research into various options of labor contracts and personnel policies
- * 3. Location and acquisition of needed raw materials and machinery
- * 4. Aid in devising an effective recruiting and selection procedure, including formulation of job descriptions, analyses, descriptions, and specifications
- * 5. Creation of a compensation and benefits package most ideally suited to the client's needs
- * 6. Creation of a business plan, mission statement, and short and long term business strategies to guide planned expansion
- * 7. General suggestions for improvement of operation

If time permitted, it was requested that we attempt to address the following, secondary issues:

- * - marketing/advertising strategy and improvement
- * - options and recommendations regarding establishment of a credit policy
 - considerations of establishing a wholesale distribution network
 - preliminary financial analysis, possibly including derivation of a balance sheet, income statement, cash budget (and corresponding pro-forma projections); and a sustainable growth analysis

Since the owner's requests were numerous and multi-faceted in nature, I chose to concentrate my activities and research on the owner's requests, which I believed to be most relevant and useful at the present time, given the owner's objectives and plans. The topics that were omitted were those that I felt I would least effectively be able to accomplish due to limited information and lack of product and industry expertise (i.e. those that the owner himself would be in a better position to accomplish), and those that were so time consumptive that they would have greatly restricted the scope of my analysis, and prohibited adequate coverage of the primary areas of concern (i.e. a complete financial analysis given only crude financial information).

* Those areas of concern or interest which I found to be most relevant, and consequentially chose to address in this consulting report.

STRATEGIC PLANNING

SWOT ANALYSIS

Internal Company Environmental Factors:

1. Strengths- Hair Quality. Vienna Hairgoods is one of the only manufacturer/retailers that uses Caucasian hair in the production of hairpieces for its almost exclusively Caucasian clientele. Naturally, Caucasian hair best blends with Caucasian hair, due to the fact that every hair type (Indian, Asian, Negroid, etc.) has its own texture, body, degree of manageability, stylability, and resilience to matting, fading, and breaking. Different hair types also take and hold dye and color differently. Therefore, the appearance and general quality of VH's product is vastly superior to pieces made for Caucasian clients using non-Caucasian hair.

- The owner's 35 years of experience in the production and innovation of custom-made hairpieces. The owner's background as a make-up artist and maker of media quality hairpieces of all types during his years as head make-up man in the Vienna State Opera, also provided him with the standards of quality, and the experience in customizing hairpieces to the needs and features of various artists,

that gives him the insight and creativity to produce the best possible product for each individual client. The owner's vast experience and knowledge in this field has resulted in several unparalleled and unduplicated manufacturing techniques and innovations that give the firm a clear-cut product quality superiority over the rest of the market.

- An established, loyal client base of repeat customers. Due to the unchallenged quality of the hairpieces produced by VH, most clients become lifetime customers. This client base can provide the firm with financial stability and the necessary capital to fuel expansion and growth. Also, business volume and profits, and the general scope of operations can be planned with a greater degree of accuracy.

- A large stock of Caucasian hair. Since Caucasian hair is far more expensive, and much harder to acquire than Indian or Asian hair, this stock is necessary to fuel expansion and maintain a stable production. It is otherwise feasible that the absence of such a stock of hair could limit growth in retailing substantially and would seriously undermine any move into wholesaling.

- Total understanding of and mastery over all steps and procedures of the manufacturing process- from the initial processing and dying of hair, to the ventilating and sealing of the hairpiece. This knowledge is essential in

controlling quality and being able to provide consistency in this quality. Also, solutions to problems and innovations that improve product quality are far easier to conceptualize.

- Dual role of manufacturer and retailer. Since the firm controls every aspect of its business from production to final retail sale, greater managerial control, larger profits, and a higher degree of efficiency are attained.

- Pricing flexibility. Due to the nature of the product as a cosmetic improvement, and its ability to capitalize on people's vanity and insecurities, a great degree of pricing leverage exists. Due to an undisputable quality advantage, and the insatiable demand of customers for high quality hairpieces that offer as limited a chance of detection as possible, price can be substantially higher than if quality competition existed.

2. Weaknesses: Lack of control over an important aspect of the production process and severe communication problems due to the utilization of contracted labor for the ventilating process, from an independent sub-contractor in Hong Kong. In the Hong Kong production there is little control over individual workers (ventilators). Therefore, many ventilated (hair)pieces are sent to VH, from Hong Kong, with mild to severe imperfections and mistakes which either have to be corrected by the owner, interfering with other duties

and proper management, or which necessitate a complete reworking of the piece. A reworking requires that the base of the hairpiece is re-made and sent to Hong Kong a second time, resulting in the production of the same piece, for the same order, twice. This obviously impairs timely delivery and may have cost the firm several valuable customers in the past.

- The nature of a one man operation. Since Mr. Buscha works with very little domestic labor or managerial help, he bears the burden of the entire operation single handedly. The necessity of his involvement in day to day operations and duties greatly restricts the time available for general management or any kind of strategic planning. Hence, currently, expansion of any sort, requiring research, planning, and implementation, is exceedingly difficult. For nearly twenty years, Mr. Buscha has considered re-entering the wholesale market, but finds himself stuck in a situation which does not allow him to get away from daily operations enough to enable him to take the necessary steps to set-up independent retail outlets, or establish wholesale contracts with established retailers.

- Limited managerial expertise/talent. Since the owner must fill all position simultaneously there is no room for specialization or concentration on certain managerial aspects or goals.

- Limited investment capital. Due to the organization of the firm, refusal to take on debt financing, and limited owner capital, the speed and scope of expansion are, likewise, limited.

- The owner's underestimation of the importance and impact of proper management techniques.

- The owner's age and limited drive and initiative. Due to the age of the owner (57), and his frustration and current perception of stagnation of the business, retirement is anticipated within the next 8-10 years. This situation necessitates the owner's planning for a change in the firm's ownership, and the transfer of the knowledge required to maintain quality and production.

External Environmental Factors:

3. Opportunities: The growing market for hairpieces generated by increasing numbers of alopecia victims and chemotherapy patients. Due to the aging of the population, the trend toward longer life expectancy, increased chances of disease survivability, and a general increase in the incidence of cancer and other degenerative diseases, this segment of the hair-replacement market is expected to continue to grow.

- An expanding market of target customers. Since the population of the U.S. is aging, and there is a general

demographic shift toward a larger percentage of the total population being middle aged and older, the number of target customers (middle-aged, affluent, successful professionals) will also increase.

- The continuing tendency for domestic retailers and wholesalers to rely upon foreign labor sources and Asian hair to reduce costs and increase profit. Due to the reasons previously presented, this trend results in an overall deterioration in product quality, and a loss of control over production. If all or a large portion of total labor is contracted out to foreign manufacturers, domestic manufacturers and retailers will eventually lose the knowledge and ability to control and maintain, or improve, product quality.

- A continuation of the extension of investment incentives to small firms, from the U.S. government, and the existence of a current administration that fosters small business growth and expansion.

- The potential to open an operation or retail office in southern California, in order to infiltrate the American theatrical/media hairpiece market. Consequently, the potential to garner large-volume contracts with film studios.

4. Threats: The growing infiltration of the domestic hairpiece market by cheap, mass-produced, synthetic

hairpieces from the Orient. Due to the deep market penetration (resulting from very low prices), and the cost advantages that these stock (as opposed to custom) pieces enjoy, it may be difficult to create a need or desire for a hairpiece of higher quality, given the firm's limited financial and human resources (for advertising and marketing).

- The existence of intense price competition from these stock hairpiece retailers. Due to their reliance on foreign-produced, stock, Asian-hair products, competing retailers can undercut VH's unit price by up to 500%. This influences the willingness of customers to pay a substantially higher price for a custom made product, when a first-time or initial purchase is contemplated. This price barrier may prove to be a difficult hurdle for expansion and growth, and may result in significant cognitive dissonance for first-time customers. (Cognitive dissonance is, in short, the doubt that consumers feel after they make a large purchase, about the wisdom of their purchase decision (whether or not to buy), and their choice of products among competing varieties (brand, style, etc.)).

- The danger of duplication and process imitation among local and national competitors. The greater the rate of the firm's expansion and the larger its market share, the higher the likelihood that competitors will attempt to duplicate

its manufacturing techniques and use Caucasian hair. Consequently, the deeper the market penetration, the greater the industry interest and concentration on imitation. It is reasonable to assume that if VH moves heavily into wholesaling or expands its retail operations nationally, the pressure on competitors to improve product quality in order to compete (which does not exist now, since custom pieces of high quality are difficult to find and not readily available nationally) will be so great that competent imitation will eventually be achieved, especially by Asian competitors and manufacturers, and VH's current competitive advantage of clearly superior product quality may be lost. This should not discourage expansion, but rather underline the necessity for continued innovation, increased planning for these events, and possibly, greater concentration on other aspects of the total product mix (service, price, etc.).

MISSION STATEMENT

The following is a recommended mission statement for the firm which accurately reflects its current situation and goals for the future. Mr. Buscha may wish to include it in the VH employee manual or within company literature.

A mission statement signifies and clarifies the firm's position and purpose for employees, customers, and the

general public. It provides broad guidelines within which the firm is to operate. It provides focus and direction, and helps management to concentrate on those aspects of operations which constitute the basis and backbone of the business.

Vienna Hairgoods is a manufacturer and retailer of men's and women's hair products and hair-replacements of the highest available quality. We offer complete service to our customers, from initial consultation and evaluation, to hairpiece maintenance/servicing and post-sale customer support (availability of an in-house barber; provision of periodic cleaning, dying, and re-sealing). We strive to cater specifically to the needs of our target customers: the high-end, discerning, quality conscious hair-replacement consumer, consisting of media and political professionals, business managers and salespeople, educators, service professionals (doctors, lawyers), and others whose appearance is of primary importance for their economic and social well-being and success (i.e. professional effectiveness). We also attempt to cater specifically to the needs of alopecia/chemotherapy patients and other individuals suffering from degenerative, swift hair loss disorders.

Vienna Hairgoods is the industry innovator in hairpiece design and improvement.

We are, above all, dedicated to the fulfillment of each of our customer's desires and needs, and have the most comprehensive hairpiece service and

maintenance system in the industry. At Vienna Hairgoods, we attempt to supply each client with a customized solution to his/her individual problem or hair replacement need. We will never attempt to sell a product that is not most ideally suited to a customer's specific situation, environment, and lifestyle. With us, the customer is always right!

We follow and abide by the highest standards of ethical corporate management, and attempt to set an industry standard for social and environmental awareness and responsibility.

DEFINING BUSINESS OBJECTIVES

SHORT TERM OBJECTIVES (goals to be attained in 1-2 yrs.):

- Terminate labor relations with the currently utilized Hong Kong contractor and establish a self-sufficient domestic labor force. Since the most prominent and easily alterable of the identified weaknesses (taking the owner's disposition and attitudes as somewhat of a constant), are the lack of control over the largest step in the production process (ventilating), and the communication difficulties which make quality consistency very difficult to obtain, this seems a logical goal. Due to the fact that the firm owes its competitive position, a virtual monopoly in high-end hair products, to the quality and service it is able to provide, quality consistency and timeliness of delivery, the

two factors most adversely affected by the current reliance on foreign labor, are of paramount consideration. Hence, a rapid change in this situation is necessary. Also, considering the firm's goals of expansion into wholesaling and a general enlargement of the scope of the operation, a reliable, cooperative, manageable labor force that can be personally overseen and communicated with by the owner, is essential.

The cost factor that encourages firms in this industry to contract their labor abroad, from cheap-labor Third World countries, and rules out the added expense of domestic manufacturing, is not a limiting consideration for Vienna Hairgoods. Although contribution margin per piece may decline, the profit loss can be absorbed without incurring financial duress due to the higher than industry average profit margin enjoyed by VH.

Another alternative would be to pass on the increase in costs to the consumer. This price increase can be justified by enabling VH to offer better service in the way of higher quality products, better quality consistency, and more reliable, timely delivery. Since a wide range of price flexibility exists, and the firm deals in the high-end segment of the market, covering additional labor costs should not cripple the profitability of the company. In fact, it may be argued that since, currently, this business

in particular is one of low volume sales, and therefore depends heavily on repeat customers, loss of clients and contracts due to quality aberrations and lack of reliability in delivery scheduling, will be substantially reduced, thereby actually increasing profitability. Also, when considering cost of shipping and correspondence, time invested (and frustration experienced) by the owner, mistakes in manufacturing that require a complete reworking or replacement of a hairpiece by the contractor, and the time and materials spent in correcting the constant minor mistakes made by the Asian laborers, the scales begin to tip heavily in favor of domestic production.

Since very few people have the required skills, the labor force would have to be trained in-house, by the owner. This requires a substantial capital and time expenditure. However, an initial analysis shows that these training costs can be contained, and since unskilled employees are trained, salaries during the training period can be kept at a minimum. Taken from the past experience of the owner, the training period for a ventilator to become at least marginally productive (cover his/her salary) usually varies from between 3-6 days. To become truly proficient at ventilating and be able to perform at a level that allows the employee to complete a hairpiece independently of any or

most supervision, aid, and revision of work, takes approximately 4-8 months.

Obviously then, new employees will have to be adequately trained and will require several days to become marginally productive, and several months to be able to work independently. Hence, supervision and aid will be required during this time. However, there is also a great advantage to such a situation, namely, that ventilators are trained to work exactly in the manner that Mr. Buscha believes to be optimal. They can be taught to do the kind of very high quality work that could never be attained when using contracted labor. An in-house labor force can be taught to utilize the techniques and methods that make VH's hairpieces superior, so that revision and additional work by the owner is no longer necessary. This should result in significant quality improvement, less frustration and manual labor involvement for Mr. Buscha, and more consistent, reliable, and predictable productivity. Moreover, not only can the labor be taught to work exactly in the fashion desired by the owner, but the ability to supervise work and make oneself available to consult and advise workers, will result in fewer errors, quicker learning, swifter evolution toward proficiency in the workers, greater worker involvement and interest in the work, and greater worker satisfaction (workers know that support and help is available when a

problem arises), etc. If one is not able to supervise workers, frustration would become more prevalent and efficiency would decline because questions would go unanswered and workers would not have the opportunity to correct or improve upon mistakes that they know they are making. Thus, they may become frustrated with their work and no longer take pride in it. Consequently, quality would decline. With direct supervision these problems will be avoided.

Another opportunity that exists with in-house labor is the ability of the owner to explain to employees why they are asked to use certain techniques, why these techniques are superior, and how they affect the final product. Also, when mistakes are detected, it can be explained how a mistake affects the piece, why it must be avoided, and how it can be corrected. This ability to communicate and correct errors as they occur, along with the ability to inform employees why they are doing what they do, will most likely improve both productivity and quality, along with worker satisfaction and loyalty.

In short, although domestic labor prices exceed those in underdeveloped nations, offering what appears as a significant cost reduction in labor costs, the advantages to be gained from teaching workers the work techniques and methods that one prefers, along with the ability to

supervise, coach, and aid workers during the production process, probably outweighs the additional wage costs.

Hence, it is the recommendation of this consultant that contracted foreign labor no longer be used, and that a domestic labor force be hired and trained to produce locally. To allow for an easier, less risky transition, it may be wise to train ventilators one at a time, and slowly phase out reliance on the contractor, by reducing the number of work orders sent abroad, and slowly increasing the percentage of work done in-house. Another option would be to train a work force that can do the bulk of the ventilating, and could be kept busy (working the full number of scheduled hours) throughout the year and through fluctuations in demand and sales, reserving the option to send work abroad for periods of heavy demand (using sub-contracted labor as temporary help during peak season).

- Increase marketing efforts to reach the previously identified target customers: affluent, quality-conscious, middle-aged professionals, and alopecia/chemotherapy patients. This can be accomplished in a variety of ways. First, the company image, and Yellow Page advertisement can be reformulated to attract these customers, by catering to their tastes and making the firm's concentration on and specialization in serving them apparent. Also it should be made apparent that VH has years of experience in serving the

special needs and interests of these groups. Basically, this apparent specialization should create a niche and more aptly attract those clients that make up the vast bulk of current customers, without alienating or discouraging those that do not fit these categories.

Second, several direct marketing efforts can be undertaken, especially in increasing sales to alopecia victims, since they are more easily and efficiently reached: they all have the same problem (hair loss), and suffer similar illnesses in which specific treatment centers and physicians specialize. Therefore, the owner should attempt to contact the doctors that specialize in cancer research and treatment and the hospitals/medical centers that perform radiation treatments and specialize in disease treatment by chemotherapy. Brochures or advertising/information sheets can be created that specifically address the needs, considerations, and questions of alopecia victims. These can then be provided (sent) to the targeted physicians and hospitals to administer to their alopecia patients. If the owner can convince the physicians and staffs in question of the benefits to the patient when purchasing a hairpiece, this strategy should be highly successful. Points to include would be: Easier transition and less trouble adapting to rapid balding and a new physical appearance; less ostracization and prejudice from peers, friends and

family; reduction in the psychological stresses of increasing fear experienced by the loved ones of the patient/victim as they observe a rapid physical deterioration; increase in morale and willingness to overcome disease due to decreased depression; and, maintenance of pre-treatment appearance (maintained privacy, anonymity). This last advantage may allow the patient to continue his/her normal pre-treatment lifestyle, i.e. enabling the patient to continue work, leisure and social activities, etc. that increasing feelings of embarrassment and being "different," as well as increased prejudice toward the patient, would otherwise limit.

Reaching the "affluent professional" segment of the target market may prove more difficult due to the fact that these clients come from many different industries and lines of work. However, an attempt can be made to identify industries and professions where physical appearance is an important asset in the way of garnering necessary respect, legitimacy, authority, etc. Professions where these personal assets, or a perception of them, may prove especially poignant are: professors and educators; business executives and managers; sales people; lawyers; politicians; entertainers, and other media professionals. For people (primarily men) to be optimally successful in these areas of employment, they must be as influential and charismatic as

possible. An image of virility, assertiveness, energy, and other qualities of youth and vigor can greatly influence how such professionals are perceived by the people that they address. Legitimacy and influence are qualities paramount to their success. Sociological studies show that these qualities are enhanced by perceptions of greater charisma, general attractiveness, and competence (a good summation and review of these studies is given in The Social Animal by Aronson, in his chapter on attractiveness). Having a full head of hair brings with it all of the previously mentioned, possibly unconsciously perceived, connotations to the people with whom we come in contact. Thus, it should be possible to create an advertisement pointing out these aspects, inclusive of research and psychological study findings, and emphasize the disadvantages to such professionals of being bald. Once an effective brochure addressing the needs of these clients has been created, direct marketing can be done by sending these brochures to: professional organizations, clubs, or guilds; and, firms or organizations that employ these people, whose success and profitability depends on their employee's success and influence (i.e. universities, law firms, television and movie studios, political organizations, and large business firms that employ a large sales force).

LONG TERM OBJECTIVES (3-5 years):

- Enter the hairpiece wholesaling market. Given the fact that the firm's competitive strength focuses around the quality of its product, which is basically unparalleled, VH should be in an ideal position to enter the wholesale market. Also, the owner's prior experience as a wholesaler (during his years of operation in Austria) will prove highly useful and facilitate the process. The owner has experience in establishing retail accounts and contracts. Also, he considers himself an excellent salesperson, and is very confident in his ability to convince retailers to carry his product (which is essential to the operation's success). This is primarily because he feels that he can clearly make the advantages and quality superiority apparent to retailers.

Because VH can offer a product of unequalled quality, and because the production techniques used to manufacture this product are unduplicated, it can attempt to utilize the following strategy when attempting to convince retailers to carry, perhaps exclusively, its line: since product quality is unparalleled, Mr. Buscha can approach a retailer, present his product, explain the advantages and quality superiority to the retailer, and offer the retailer the opportunity to carry his line. He has supreme bargaining leverage because if the retailer refuses, or is unwilling to drop the lines

he currently carries, Mr. Buscha can present the option that if the retailer does not cooperate, he will establish an independent retailer in the same city, who, due to clearly superior product quality, will garner majority market share, and possibly, drive existing retailers out of business. Naturally, coercion is never a wise business tactic since cooperation and good will between wholesalers and retailers must be maintained to provide a profitable, smooth operation. However, because of this bargaining leverage, any retailer will likely see it to his advantage to carry the new line, for fear of a local competitor gaining the advantage. Thus, retail contracts should be fairly easy to establish. Moreover, for the same reasons, Mr. Buscha is also in the position to set the terms of the contract.

It is the recommendation of this consultant that in establishment of a wholesaling distribution network, several guidelines be followed. First, since the product is of a high-margin and low-volume nature, large population centers, preferably with above average disposable income, should be targeted. Although it is true that in the cosmopolitan, urban population centers the stiffest competition is usually found, since VH enjoys a clear competitive advantage, no adverse affects from this increase in the number and intensity of competitors should be felt.

Second, since retailers of hairpieces usually service a relatively large geographical area (since they are dealing in a high priced shopping item), wholesale contracts should be adequately separated from one another to avoid overlap (it probably isn't wise to have more than 2 wholesalers in any given state, with the exception of California, New York, and possibly, Florida).

Third, it would seem appropriate to locate in areas where the average inhabitant is fairly affluent, early middle-aged or older, and has higher than average disposable income. This would include resort areas, retirement areas (the entire state of Florida, and most of southern Cal. for example), and areas with highly cosmopolitan, and progressive social values.

Fourth, once an area, state, or city has been selected, VH should attempt to contact the retailer with the largest local market share. These retail businesses usually are better managed and capitalized. Their large customer base and greater financial resources (for advertising and marketing, etc.) also offer distinct advantages. Last, when using the dominant retailer in an area, VH will be eliminating its primary competitor there.

According to industry statistics, Mr. Buscha's personal professional experience, and initial projections, a realistic sales goal for VH to set would be to sell an

average of 5 hairpieces per month, per retailer. This ratio could likely be achieved. Also, VH could strive to establish 50 retail contracts within the next 5 years.

Several other options or adjuncts include:

Using high-end barbers and beauticians, in economically affluent areas, to retail hairpieces. Due to the nature of the business, these professionals come into contact with a large number of people, and often have long-time established clients. They may be in an optimal position to sell hairpieces to first time users and those who had not previously considered purchasing a hairpiece. If no sale was achieved, at least the seed or idea of utilizing hairpieces as a hair-replacement option, would be planted. Barbers may be in a position to bring up the topic of hair replacement to individuals who are just beginning to bald and who haven't given the issue much thought, or those who hadn't previously considered hair replacement. Such arrangements could not only supplement the activity of primary retailers, but could also turn out to be a highly effective, relatively inexpensive advertising strategy. Such contracts would preferably be established in areas where a primary retailer is located, so that a client can be easily referred. Or, barbers could be utilized as retailers in smaller population centers, or to target specific market segments or neighborhoods, where a full-scale retail

contract may prove unnecessary. Due to the relatively limited income of a barber (their income is limited by the amount of personal labor that they can supply on a daily basis), a retailing arrangement may seem very attractive. This potential attractiveness provides bargaining leverage which may, consequently, reduce the percentage of profit distributed to the barber as retailer income (commission).

Also, the training of individuals in the rudiments of measuring a client's head (for the purpose of constructing a hairpiece base), describing and drawing the hair growth pattern, and collecting a hair sample, has not proven difficult in Mr. Buscha's past experience. To facilitate the process, and avoid mistakes in the above procedures, a series of standard Polaroid photographs may be taken and submitted to VH with an order.

Hence, an expansion into wholesaling by VH seems highly feasible, economically advantageous, and receives an optimistic, confident recommendation.

- Become the national leader in the Theatrical/Media hairpiece retail market. An immediate advantage in this endeavor would be Mr. Buscha's years of experience as a successful make-up artist for the Vienna State Opera. This experience should allow him to better relate to the people in the industry. By being able to perceive their needs and concerns (what they desire and look for in a hairpiece or

wig), Mr. Buscha should have a competitive advantage in the field, and find it reactively simple to garner acceptance and confidence in his products by the media and theater industries.

Since media applications demand the highest available quality, this market would seem ideally suited to VH. If product and brand acceptance can be gained, it may be possible to receive a longer-term contract with a major studio or producer to supply the hairpieces and wigs needed over an extended period of time. Also, since media applications mostly require custom work, VH again seems ideally suited. Financially, it can be assumed that in this specific field or market, profit margins are possibly the highest in the industry. This point, however, deserves further research and investigation.

SUMMATION OF STRATEGY

Using the terminology of strategic management: Vienna Hairgoods should use an overall "concentration strategy", concentrating on several primary growth strategies at the company and business unit levels.

First, VH should attempt to remedy its current weakness in quality control and labor force/management communication by practicing the retrenchment strategy of divestiture of

its contract with the currently utilized labor (ventilating) contractor in Hong Kong, after almost a decade of effort to improve the situation, and countless production difficulties. To replace this operation, a vertical integration growth strategy should be utilized, to establish a domestic self-sufficient labor force, which should improve quality, product consistency, communication, and service (timeliness of delivery, etc.).

Second, VH should use a horizontal integration growth strategy in attempting to enter the wholesaling market, establishing contracts with independent retailers and barbers/beauticians in affluent, large, cosmopolitan population centers, and diversification into the media and theatrical market. Further, concentration on the target market consumers of high-end, affluent, discerning professionals, and alopecia/chemotherapy patients should be undertaken.

Lastly, a stabilization strategy and "defensive warfare" techniques should be utilized in attempting to keep retail prices down and competitive, increasing barriers to entry for new firms by using only the highest quality raw materials and continuing to innovate the manufacturing process, protecting manufacturing techniques, and improving general firm efficiency and management.

By incorporating these various strategies, Vienna Hairgoods should attain an unchallenged national market superiority, while protecting itself from rising competition.

CREDIT POLICY

Among the handful of accepted truths in business, one of them is "if you sell on credit, you will increase sales. Even to the same customers to whom you previously sold for cash only." If sales are seen as the foundation of profits, then anything that can significantly increase sales is worthy of consideration. The above statements are true especially for high priced, shopping goods, such as the products sold by VH.

Once the decision has been made to establish a credit policy, a basic choice has to be made: will the firm sell to its customers on an open account and carry these accounts receivable on their own books until they are paid?, or, will the firm sell only to credit card holders who have been approved for credit by one or more of the many credit card companies?

From my analysis of the nature of VH's product and its customers, I have narrowed the options in applicable types of credit policies down to two choices: establishment of Installment Accounts, or use of Credit Card Credit.

INSTALLMENT ACCOUNTS

Installment accounts were specifically designed to make possible the sale on credit of larger purchases. The customer usually is asked to make a down payment, often as much as 30% of the total purchase price, and the balance is spread out over some variation of a monthly payment plan. Such plans should not spread out payments for longer than 18 months. Carrying or interest charges are customarily added to the amount due each month, of up to 1% of the amount remaining outstanding. This type of credit sale is usually protected by a chattel mortgage on the item being sold, or a conditional sales contract which the client signs, so that the merchant can reposes the item if payments are not made. The customer usually obtains title to the good only after all payments and the full balance have been remitted to the firm.

Since VH is currently utilizing a 50% down-50% on delivery payment schedule, this type of installment account would not present a radical deviation from previous practice. It would however make the financial burden of purchasing a high-end hairpiece far more manageable, and should, consequently, increase sales. The rationale behind the current policy is that since a custom product is being produced, with limited to zero salvage value and resale potential (only fits and blends with the hair of an individual client), a substantial down payment must be

required in order to secure the customer and cover costs. However, my analysis shows that a down payment of as little as 25% would serve this purpose. Also, a number of clients have had to postpone, sometimes for months, pick-up of their new hairpiece due to financial difficulty and inability to cover the large balance payment. This condition shows that although the average customer of VH is fairly affluent and has an above average level of disposable income, the large single payments currently required impose a fairly severe degree of financial hardship. This situation undoubtedly limits total sales and may be responsible for customer losses. The goal of any business should be to facilitate sales and enable the customer to purchase its product with as little difficulty as possible.

In light of the above considerations it is recommended, if the firm decides to extend its own credit and carry its own receivables, that an installment policy be utilized. Terms should be as follows: a down payment in the amount just covering sunk labor and materials costs should be required (the firm should not try to harness profits with this payment). Then, equal bimonthly payments should be required. These can be made by remittance (mail) by the client, or by arranging to have the amount due directly withdrawn from the client's bank account. Experiential evidence shows that an arrangement where the customer does

not actively have to send payments is always superior because it will increase the likelihood of further sale and possibly increase the satisfaction of the client with the product. This is due, I believe, to the psychological hardship of perceiving endless payments for a large purchase, that may result in purchase dissonance, and reduce the clients happiness with and sense of value of the product. As previously mentioned, the payment period should not exceed 18 months. Using a 14 month payment period (or a 7 month period if monthly installments are required) and a 30% down payment, payments would be a low 5% (10%) per month. An interest charge corresponding to the current rate on consumer loans should be utilized, or kept as minimal as possible (fair interest rates add a sense of equity and value to the service provided in the extension of credit). Also the option to pay off the balance in full at any time should be reserved for the customer.

The purpose of charging interest on outstanding balances is to account for the time value of money (the deterioration of the value of financial assets due to inflationary pressures), and to help offset the expenses that a firm incurs when extending consumer credit.

Care must be taken in establishing a credit policy. Since the firm will have a substantial investment in

accounts receivable, and accounts receivable tie up the amount of working capital available to the firm, VH must take care not to overextend itself. The firm must have sufficient cash available, or must establish an outside line of credit, to be able to make all monthly payments and still be able to invest in such accounts receivable. Otherwise, a situation can result where the firm actually "grows broke," in the sense that it sells too much product on credit and is unable to pay its monthly obligations (utilities, taxes, labor, etc.), because more funds have been used in production than have been taken in by receipt of sales.

Whenever a firm makes credit available to its customers, it assumes additional costs, consequently lowering its profit margin. These costs warrant serious consideration before a business owner embarks on a general credit policy. These costs include:

1. Bookkeeping costs to record customer purchases and payments received
2. Preparation and printing of statement forms, envelopes, etc..
3. Postage for mailing statements
4. Possible bank fees for establishing automatic withdrawal accounts
5. Interest on working capital invested in accounts receivable

6. Collection costs for delinquent customers

7. Bad debts never collected

It should be mentioned that since this business is based on low-volume, high-margin sales, these costs are not nearly as prohibitive as in the case of a general merchandise retailer.

The most efficient firms keep bad debt losses below 2 percent of credit sales. However, studies show that small firms that exercise inadequate control over their extensions often suffer losses that exceed 5 percent of credit sales. Again, however, since VH enjoys a high contribution and profit margin, and since firm profits and growth are primarily limited by sales, these costs should not discourage adopting of a credit policy. The increase in volume of sales will more than make up for the additional costs.

However, the full recognition of these costs and the involvement for the firm and owner in establishing a credit policy, may entice VH to utilize credit card sales rather than carrying customer accounts on their own books and absorbing the aforementioned costs.

In managing installment accounts, data from each purchase should be recorded on the firm's books, and the total charges, amount left outstanding, and amount of required payment, should be shown on a statement which is

sent to the customer on a bimonthly or monthly basis. If an arrangement is made where funds are automatically withdrawn from the customer's bank account it may be necessary to only send an itemized record of all payments withdrawn, upon final withdrawal of the remaining balance. Unpaid balances should appear on the balance sheet as accounts receivable.

Each credit customer should be required to fill out a credit application including information on bank references, business credit references, employment info, monthly income, and a listing of the customer's credit cards and their account numbers. This information will enable the firm to take recourse in the event that accounts become delinquent. It will also aid the firm in deciding whether or not to grant credit to a specific customer.

In order to decide whether or not to extend a customer credit, a firm must obtain the aforementioned information from a particular client, along with the client's permission to research his or her credit history. As previously mentioned, both of these objectives are usually met by having a customer fill out a credit application. In practice, to avoid making the client feel threatened, or perceive that the firm is blatantly imposing upon his or her privacy, permission to check the client's credit history is solicited through inclusion of a clause in the "fine print," or textual outline of the credit application. Thus, the

necessary authorization to conduct a credit check is obtained simply by obtaining the client's signature on the application. (Two examples of credit applications are given in Appendixes C and D).

The completed credit application provides a firm with the information necessary to order individual consumer credit reports, in order to judge credit worthiness. Credit reports are obtained from Credit Reporting Agencies (under that sub-heading in the Yellow Pages). The two most commonly utilized consumer credit reports are those produced by TRW and CBI. Both provide a firm with the information that a bank uses to evaluate consumer loan applications. To order these reports, a firm can either contact a local distributor of TRW/CBI reports, or get in touch with TRW or CBI directly. Reports can be ordered either individually, or through one of the many credit reporting programs (packages) offered by reporting agencies. Moreover, a monthly or annual order contract can be entered into with a credit reporting agency, which entitles the firm to substantial savings on each order, due to a higher order volume. Depending on the arrangement and the number of credit reports ordered within a specific time frame, the fee for consumer credit reports of this variety ranges from \$2 to \$9.

In order to better understand the nature and depth of the information provided by a consumer credit report, VH may want to order credit reports for Mr. Buscha or other consenting firm employees- Analyzing one's own personal consumer credit report will substantially increase one's understanding of the degree of accuracy and reliability which can be expected from them.

It is important to note that none of the consumer credit reports available, regardless of cost, are 100% accurate, complete, or current. When utilizing such reports, a firm should expect bad debt and delinquency losses similar to those experienced by banks that extend consumer credit (since they use similar information). However, losses can be minimized if one adopts conservative acceptance criterion. Credit reports only provide information. Evaluation of that information and judgement criterion must be determined by the firm's owner or credit specialist.

After reviewing the application and making an assessment of credit worthiness, the final decision must be discussed with all applicants, and the reasons for the specific decision must be provided, by law, if the customer should inquire. If credit is denied, one may wish to explain to the customer that the firm (VH), and the decision rendered, is protecting them from becoming too heavily

indebted. Customers may be informed of the firm's decision on whether or not to extend credit, and the reasons therefore, via written correspondence.

Care must also be taken to avoid any discrimination as to race, sex, age, color, religion, or minority status in processing credit applications. If discrimination based on the aforementioned personal attributes can be proven by the client, extensive and costly legal penalties can be incurred.

Moreover, a lawyer should be consulted to provide that all legal requirements have been met.

To combat delinquent accounts and maintain an accurate record of the status of credit accounts, an aging of accounts receivable, or a payment record, should be prepared regularly (see Appendix E). In the exhibit, we see that the first two columns show customer name and current balance. In the other columns, that balance is broken down into what portion of it was paid during each of the installment periods (change "number of days on books" to "installment period", noting each 2 month period in a separate column (if using a bimonthly payment schedule). A column showing balances outstanding at the end of the period and their aging should also be added. This process will aid in keeping track of customer payments while noting balances and amounts paid on certain accounts (cash collected per sale).

The longer an account is on the books, the more likely it becomes that it will not be paid in full and that the account will become delinquent. Thus, prompt action⁴ should be taken via an established collection procedure whenever a payment is late or skipped. In choosing a collection procedure, the advice of the firm's attorney should be solicited. Financial institutions (such as the firm's bank and bank representative, or the customer's bank), or financial consultants can also often offer advice in these area.

Another method to aid in control of credit accounts is calculation of accounts receivable turnover, and the number of day's sales in receivables.

The accounts receivable turnover ratio shows whether credit customers are paying on time. Increasing turnover indicates that customers are paying their accounts more quickly. If turnover decreases, customers are missing payments, and unwarranted credit may have been granted. The formula is:

$$\text{Accounts Rec. Turnover} = \frac{\text{credit sales for the year}}{\text{average accounts rec.}}$$

The day's sales in receivables ratio allows the owner to determine how collections are going by showing how many

days worth of credit are outstanding and comparing this to the company installment plan policy. This formula is:

$$\text{Amount of 1 day's credit} = \frac{\text{amount of credit at year end}}{365 \text{ days}}$$

In the case that accounts do become delinquent and customers fail to make scheduled payments, several problems face the firm. If the firm must cut off credit to certain customers it may lose them as future customers, even if their financial position improves. Aging, outstanding balances restrict the amount of working capital available to the firm. Uncollectible accounts often become bad debt expenses. Partial collection by attorneys or collection firms involve further expenses, and the list goes on.

The best course of action to take when delinquency becomes a problem, that keeps costs and losses to a minimum, consists of taking the following steps:

1. Send a second statement one installment period after the delinquent period. This statement should include a note to the effect that "Perhaps our first statement was not received or was mislaid. We realize that you do not want your credit status impaired. Please advise us of any difficulties with our products or services."

2. Telephone the customer or send a telegram 10 days later, asking the reasons for non-payment.

3. Send a third statement 15 days after the last statement was sent. Include a note to the effect that "Your credit status is at stake. We are forced to turn over accounts with payments 45 days overdue to our collection agency or attorney.

4. Send a registered letter in within 5 days of the third statement, including a certified copy of the statement, saying that the account is being referred to the collection agency.

5. Turn the account over to the agency or the firm's attorney for legal action 60 days after the payment came due (10 days after the registered letter was sent).

It should be clear that if at all possible, such formal proceedings, with severe repercussions to the customer's credit rating, should be avoided if a customer is at all valued by the firm. Another reason to avoid formal collections until no other solution is feasible is to preserve the public image of the firm.

Luckily, small firm owners usually have an advantage over the owners of larger firms, since they know their customers better, and in the case of VH, may even have established personal relationships with their clientele (due

to long term customer relations and repeat business, and the fact that volume is low enough that each customer can be fairly well known by the firm and its employees). Thus, more can usually be accomplished through personal contact than by resorting to legal retribution. Also, in this manner it is possible to detect whether or not a genuine customer complaint exists, which offers the opportunity to correct the firm's error, make quality adjustments, avoid the same problem in the future, and possibly even keep the customer. However, the possibility of experiencing delinquency in payments should always be planned for and attempt to be avoided by selecting credit customers wisely in the first place.

CREDIT CARD CREDIT

Use of credit cards is extremely widespread in the United States. In fact, about half of all U.S. households have one or more credit cards. Over 6 million families have nine or more cards. These credit card users owe about \$600 per family. It is estimated that there are more than 85 million Visa cards, 65 million Mastercards, 15 million American Express cards, as well as Discover, Diner's Club, and Carte Blanche cards in the U.S.

If a firm chooses to accept credit cards, it posts a sign on the premises or simply informs customers which cards are to be accepted. When presented with a card, the owner may (and should) choose to confirm the customer's credit account, expiration date, and credit limit, by telephone or automatically through a credit card checking machine installed in the business. Whenever credit cards are accepted, the customer's name and signature should be compared to that on 2-3 other pieces of standard, valid identification. Upon purchase, the owner simply fills out a charge notice, asks the customer to sign, and supplies one of the three copies to the customer as a receipt.

At the end of the month, the business owner totals the credit card sales slips and presents them to the credit card company or the credit card company's bank to receive payment, in full, of the amount charged on that specific card. This is usually done on the fifth of the following month. As mentioned, the business receives payment in full for all of the credit sales made, minus the fee charged by the credit card company (1-6%). This payment in full is usually a big advantage over firm granted credit policies, since payments outstanding can take many months to receive.

The percentage fee charged to a specific firm varies with two basic factors: 1) the total volume of credit sales, and 2) the average dollar sale. Airlines, with average

credit sales of \$5 million per week and average sales of \$200, may receive a charge of 1%. The average charge for a small volume of credit sales and a much lower average sale is 5-6%. For an additional 1% fee surcharge, merchants may cash in slips sooner.

Most firm owners are not aware that the fee charged on credit sales is negotiable. Competition between credit card companies is intense, and small firm owners should always attempt to take advantage of this situation when bargaining for the lowest possible rate from their credit card companies and their corresponding banks.

It is the opinion of this consultant that, since VH's average dollar sale is very high, this should more than offset the low sales volume at the retail level. The rate sought should be somewhere slightly above 4% of sales.

It is important to observe that legislation provides that consumers can legally refuse to pay their credit card balances if they have a complaint about products purchased from independent merchant firms. Credit card companies cannot pursue claims against such customers for their purchases or charge interest on such balances while the claims are being settled. Any legal action that the company may take must be against the merchant firm if the claim is sustained.

This type of consumer protection legislation has greatly contributed to the use of credit cards by consumers and, consequently, the increasing encouragement of credit card sales by small firms. Only large firms can usually absorb the expense of staff experts and the extra bookkeeping necessary to administer credit programs, as well as the expenses involved in making sure that the firm complies with all relevant regulations.

As an adjunct, when moving into the wholesale branch of the industry, VH would be very wise to establish a trade credit policy. In fact, many retailers refuse to establish cash-basis contracts. Sales by manufacturers and wholesalers are almost always made on a credit basis. Furthermore, trade credit almost always offers a sales discount for prompt payment. Terms of 2/10, n/30 are common. This means that 2 percent of the total sales amount may be deducted from the total bill (which the retailer must pay to the wholesaler) if the invoice is paid within 10 days, but in any case, the entire amount (net) is due in 30 days.

In summary, small firms usually are in a position to choose between carrying their own receivables or restricting their credit sales to credit cards. More and more small firms are finding it desirable to accept credit cards, even though the average fee charged is still about 5% of total

credit sales, since it is a tremendous advantage to many firms to be able to collect their credit sales, in full, by the 5th of the following month, and avoid the expenses and losses of an in-house program.

It is the opinion of this consultant that Vienna Hairgoods should embark on a credit program by offering its customers use of credit card credit before establishing an in-house installment policy. Doing so would help the firm determine the increase in sales volume resulting from extending consumer credit. Once the percentage increase in sales volume is determined for offering credit, in general, it can be determined whether or not this increase in sales justifies the complications and administrative efforts involved in establishing an installment program.

If credit sales are substantial, VH may then wish to offer an in-house installment credit policy, due to the savings that may be realized when avoiding the 4-6% of sales payment required by credit card companies. Furthermore, an in-house credit policy should provide the firm with these savings of approximately 4%-6%, because the expenses of administering a company installment policy should be largely offset by the interest charged on outstanding balances (consumer loan rates usually afford the necessary margin over inflation). Obviously, the reason some firms still chose to establish their own credit policies is the

avoidance of credit card company fees, and the ability to recover costs, or even elevate profit margin, by charging the customer interest on the amount of the total sale left outstanding after remittance of a down payment.

In any case, VH should initially offer customers the choice of using credit card credit to pay for their purchases, due to the lack of complication of switching from a cash-only to a cash-or-credit-card based business. The lack of effort necessary to move to credit card sales also increases the likelihood that the above outlined course of action will be followed, and that credit will be extended by the firm at all. This importance of this last point cannot be understated since, in the opinion of this consultant, VH *must* offer consumer credit in order for the firm to experience a substantial increase in retail sales volume.

Information pertaining to establishing a contract with credit card companies, along with the necessary forms and applications can be obtained through trade associations or the firm's bank or bank representative.

**Preceeding information and statistics concerning credit policies, administrative strategies, and credit options, partially derived from Small Business Management Fundamentals (5th ed.).*

GENERAL ADVERTISING STRATEGY/ SUGGESTED IMPROVEMENTS

It is an accepted truth in business that effective personal selling, advertising, and promotion will always increase sales. The funds invested in such activities are more than mere business expenses, utilizable as a tax shield. They are an investment in the future of the business and its potential growth, since they directly affect customer demand, and thus, sales.

Total demand for any product is divided into 1)Established Demand; and, 2)Newly Created Demand (Promoted Demand).

Established demand is the volume of sales generated without any active marketing efforts by the firm. Customers that fall into this category are primarily those that have had positive past experiences with the firm (repeat clientele), those that find the firm conveniently located, or those that are attracted to the firm's appearance. In the case of VH, we are dealing primarily with the first of these categories. Hence, established demand is created when people automatically relate the firm to the product that they wish to acquire.

In contrast, newly created, or, promoted demand results from the firm's active marketing efforts that originally

draw customers to the firm. These promoted customers, if satisfied with the firm's product or service, can later become established, or repeat, customers.

It is certainly not true, as is evident in the case of VH, that small firms cannot operate profitably if they rely primarily on established demand and engage in little or no active promotion. However, research shows that those firms that supplement established with promoted demand attain much higher sales volumes and profits. In nearly all cases, additional advertising and promotion brings in additional sales. The decision and analysis that has to be made is whether or not the expense of additional advertising is justified (covered) by the promoted increase in sales. To make sure that advertising is most effective, it is important to create an advertising strategy that focuses on the target customer, and gets to those people that are most likely to be interested in, and most likely to purchase, the advertised product. Once this is accomplished, the least expensive way to attain this objective must be identified.

However, before any customized advertising or marketing strategy can be formulated, careful analysis of the firm's product or service, and the firm's customers must be completed.

The most important consideration in designing an advertising strategy for a small firm is identifying the

firm's target customer. To accomplish this, the firm must ascertain where the present and potential customer are located, and find out what their needs, tastes, wants, lifestyles, and buying habits are.

Time invested in carefully researching the potential customer market and client characteristics, is time wisely invested, as the better the customer is known, the more effective and economical an advertising strategy can be.

In the case of VH, since the product is truly a shopping item, the most important ingredient in direct promotion of sales, and the ability to close sales, is personal selling. Most customers when purchasing shopping items, view the salesperson or the owner as the business. How they are treated, how their questions are answered, and the kind of service they receive, determines their reaction to the business and whether they will patronize it again.

The most important aspect of successful personal selling is thorough product knowledge. One should be able to discuss advantages, various uses, and the special qualities of the merchandise which differentiate the product from competitors offerings. Discerning, quality conscious, comparative consumers, such as those that patronize VH, look for an owner with the greatest perceived information and expertise. The owner's competence and the ability of the product to deliver on its purported qualities is judged by

this as well. In general, when retailing, the owner should pay attention to such characteristics as maintaining a pleasant personality, good appearance, and conveyance of an interest in finding a product that best fills the expressed need of the customer.

Due to the nature of the product and the clientele, VH should concentrate its direct promotion on personal selling tactics, conjunctive with utilization of an ad campaign that reaches the firm's target customers, and appeals to their specific needs and tastes.

In identifying its target market and localizing the most affluent population group within that target market, VH should consider that the highest average disposable income is available to Caucasian males in the 52-65 year age bracket. This population group can readily be seen as including the majority of VH's customers. Since the firm specializes in Caucasian products, and since males in this age group constitute the majority of balding individuals, and since VH targets the high-end hair replacement consumer, this match seems ideal. To capitalize on this fortunate situation, the advertising undertaken should cater to the needs and tastes of this group of people. Research seems to indicate that the primary needs of the 52-65 year old Caucasian population group include, respectability, stability, competence, vitality, and energy. Tastes are

primarily conservative, serious, and mature. Therefore, advertisements should reflect the above qualities. VH should strive to create a professional, serious, discerning, adult image, not the playboy image that most firms in the industry utilize. The customers that are likely to be in the position to, and are willing to, pay the prices commanded are most likely to be more attracted to advertisements displaying these qualities. It is also important to make sure that the firm's competitive strengths, and the advantage of its product over those of competitors, are readily apparent in its advertisements- namely, exceptional, top-notch, unparalleled product quality.

In contrast, for victims of early hair loss, as is often the case for alopecia victims, qualities and values more likely to be important to this group should be emphasized- maintenance of youthful, vital, vigorous appearance, sustainment of sex appeal, ability to maintain an active lifestyle, etc.

Details concerning more specific strategies and goals that VH should strive toward in its marketing efforts to these two primary groups of target customers, are included in the Strategic Planning section of this report.

ADVERTISING RECOMMENDATIONS

The only advertising and marketing currently undertaken by VH is placement of a one-eighth page Yellow Pages advertisement, in the Portland, OR telephone directory, under "Hair Replacement."

In analysis of this advertisement, several suggestions were accumulated that may make the ad more effective.

1. Reduce or eliminate the border or owner's picture, change the script of the company name, and/or use a horizontal instead of a diagonal alignment for the firm's title, in order to reduce cluttering within the ad. The ad, in the sense of the information and product impression (firm image) it conveys, is very successful. However, the extremely small print may make it very difficult and strenuous to read, especially for older customers without optimal vision.

2. Replace owner's picture with a more flattering, amiable one, or eliminate the photo and replace it with a company logo that can be easily identified (see 3).

3. Change the print style of the company name. As it exists, the name is difficult to read. The V in Vienna looks like a D. Although the type is unique, it is intimidating for a customer to call a business without even

knowing whom he is calling or asking for (what the name of the business is).

4. Create a firm logo that is unique, attractive, eye catching, and fairly unforgettable, that, without being overtly obvious, represents the firm to the customer. To accomplish this, the logo should symbolize qualities that are unique to the firm. The logo should also symbolize or conjure up in the potential customer's mind those qualities which have been identified to be appealing to the firm's target customer- quality, maturity, dedication, perfection, pride in old-world craftsmanship, reliability, stability, and masculinity.

Suggestions for a logo include:

- A Grecian bust, head, or torso (that of a Grecian statue, for instance). This would most aptly symbolize the above identified qualities to most people. The Bosley Medical Group uses an effective logo that can be referred to.

- Profile or bust of a serious, Caucasian, executive's head- a man with sharp, clean, strong features, with well groomed, thick, youthful hair. Basically something that appeals to the professional and business markets.

- A logo symbolizing or denoting Austria or Vienna. This would connect the logo to the firm name, and result in greater product and firm identification and internalization.

- A logo symbolizing hair in some way, shape, or form.

5. Consider changing the firm name. The owner may want to consider using a name without any direct mention of hair or hairgoods. Since privacy and anonymity are primary concerns with the firm's customers, a firm name that connotes the nature of the product may be intimidating, be deemed inappropriate, or feared (due to apprehension of accidental discovery of another person as to the nature of the company), by some customers. The owner's goal should be to make the customer feel as safe and secure in an assurance of complete privacy as possible, due to the sensitive nature of the product. This becomes an even greater consideration if an installment credit policy is adapted, or if active promotion and advertising is done (informational brochures are sent out).

Another reason to consider using a name that does not imply the nature of the product and mention hair, is that most people don't find hair, detached from any head but their own, particularly appealing. There seems to be a cultural aversion, and an unfounded feeling of repugnance toward hair detached from another person's head, as being a filthy, disgusting thing. Moreover, since the idea of wearing a hairpiece consisting of someone else's "dead" hair often repulses uninitiated, potential customers, references to hair and the physical nature of the item should be

deemphasised. Instead, advertisements, and the company name and logo should attempt to denote the advantages and positive effects gained when wearing a hairpiece, the results which the product can bring, or a predetermined positive company image which attempts to make hair replacement more appealing and palatable to people considering purchasing a hairpiece for the first time.

In general, all advertising undertaken by VH, should attempt to convince people that the decision and consideration to buy a hairpiece is a rational, mature, and intelligent one, and is not based on insecurity, self-indulgence, arrogance, conceit, etc. This should break down dissonance and destroy feelings of guilt or shame due to perceptions that wearing a hairpiece is vain and morally wrong. Concentration on the professional benefits should be utilized to accomplish this- the fact that social psychology research shows that a balding appearance and less hair, and the concurrent less competent and able image that it conveys, could hamper career advancement and prevent them from being respected and being taken seriously. Again, the Aronson text listed in the Bibliography of this report may be consulted to review such studies.

SIGN

The business does not currently have a street side sign, due to reasons of concern over perceived customer privacy and anonymity. These goals are being accomplished by the absence of a sign. However, the business may be difficult to locate for first time customers, many of whom are from out of town and are not familiar with the local environment. Currently, the business appears like a residential building (privately owned house) with a paved drive-around parking lot. Since first time customers are likely to be very nervous, embarrassed, and self-conscious at the time of their initial consultation, and probably experience doubts as to whether or not to follow through with their inquiry into hairpieces. A great deal of discomfort may be created if the customer feels unsure whether or not he is even at the right location, as he approaches the door, and considers having to ask if he has reached Vienna Hairgoods.

To minimize difficulty in locating the premises while still maintaining privacy, VH could utilize oversized house numbers located in a highly visible area at the front of the building. Another option would be to add a clearly identifiable marker to the building- a brightly colored mailbox or some other landmark containing the house number.

The owner has considered painting his roof brick red (the house is white with brown trim) to aid in identification. This seems a bit radical and may detract from the professional image that is so necessary in this business.

DIRECT MAIL

As discussed in detail in the section of this report entitled Strategic Planning, several opportunities may exist to reach the identified groups of target customers using direct mail. As already mentioned, total profits and growth in this business are limited by the amount of sales that can be solicited, due to the typically low sales volume. Therefore, to increase the effectiveness of a direct marketing campaign, it may prove advantageous to attempt to locate a mailing list from a marketing/telemarketing service or firm. Once addresses and names of potential customers have been identified, brochures and detailed informational pamphlets describing the firm's product, could be disseminated. The main goal here is to create awareness of this option in hair replacement, and to inform and educate potential customers as to the advantages and disadvantages of choosing this form of hair replacement over another. These brochures should attempt to sell the firm and its product even before an initial consultation is scheduled.

This will vastly reduce the amount of time necessary in consulting the client and closing the sale. Again, the idea of purchasing a hairpiece should be made familiar to the recipient.

Another option would be to send brief introductory letters to all individuals on the mailing list offering to provide more information at the returnee's request. This would serve to pre screen and identify potential customers before they were sent expensive, detailed brochures.

In such an initial contact letter, attempts should be made to get the reader to consider purchasing a hairpiece. This may be achieved by including a list of "ideal times" during which to acquire a hairpiece. These times should be relevant and common to a majority of readers. Suggestions include: vacation, business trip, change of career, job, or even one's department within a large organization, etc., as times when one will be away for several days. When one returns the addition of a hairpiece is much less noticeable than if one would acquire it from one day to the next. With a new wardrobe, haircut, or the addition of a tan, experience shows that most people, although noticing that the client looks different, cannot attribute the change of appearance to the hairpiece, or attribute it to one of the other changes. Such a technique should serve to reinforce the feasibility of purchasing a hairpiece for many clients

(since a primary concern is always the drastic, noticeable change in appearance), break down fear and apprehension, and encourage planning ahead. This process of planning and actually considering a purchase, and seeing a viable opportunity to do so, is essential to the final sale. This planning will tend to increase the likelihood of a decision to buy the product.

IN-HOUSE ADVERTISEMENT

In order to break down cognitive dissonance and make the new customer comfortable with the idea of wearing a hairpiece, VH may choose to create a short video program containing interviews with satisfied customers who relay their positive experiences with the product and the firm, and discount some of the myths, fears, and anxieties that a first-time customer may experience. This video could be shown to a customer during the initial consultation or before meeting with the owner for the first time. This video may also include specials, talk shows, or other television programs which evaluate different forms of hair replacement, accurately cover the issues, and shed a positive light on the use of hairpieces over other forms of hair replacement.

HUMAN RESOURCE MANAGEMENT- STAFFING, SELECTION AND RECRUITING ISSUES

JOB DESCRIPTION

A job description is useful in various ways.

First, a job description allows the employer to precisely define and clarify the expected tasks of an employee's particular job(s). The more clearly defined the responsibilities of a particular job, the more complete is the employer's (as well as the employee's) understanding of how an individual position is important to the business as a whole. Important information to be included in a job description include: specific tasks to be carried out by the employee, the length of trial employment periods, the normal sequence for advancement, supervisors and subordinates, opportunities for advancement, and salary (during training and after placement). Also, a job description allows the employer to precisely determine the qualifications that a successful applicant needs in order to fill a position successfully. It can also be used as a "yardstick" to measure the performance of employees, to gauge how closely they match (or do not match) the employer's ideals. Important position requirements can possibly include education level, employment experience, versatility,

adaptability, and precision. A sample job description for the employment position currently required by VH (ventilator) is provided in Appendix F.

HIRING PROCESS

The various stages in the hiring process are:

- Screening & Selection: skimming through a group of applicants to determine which applicants to hire
- Orientation & Training: accustoming new employees to a specific company, and their particular job duties
- Placement: Assignment of the employee to his or her job position
- Training: Specialization within an employee's position
- Performance Appraisal: Evaluation

Average Hiring Time in Days:

	Large Firm	Small Firm
Resume to Invitation	5	3
Invitation to Interview	6	3
Interview to Offer	4	0-2
Offer to Acceptance	7	2-3
Acceptance to Reporting	21	4-8
TOTAL:	43 days	12-19 days

NOTE: In very small businesses, this entire process can

complete itself in as little as 4 days to one week.

SCREENING AND SELECTION

Examine applications and resumes for the attributes required for the specific position needed, as listed in the corresponding job description. Evaluate them carefully to determine if a candidate meets these requirements satisfactorily.

For those employees meeting the basic requirements, arrange for an extended interview with the applicant in pleasant surroundings. Keep in mind that the interviewer is trying to convince the potential employee to decide to work for the firm, just as the interviewee is trying to convince the interviewer to let her work for the firm. The interviewer should keep the interview focused upon the candidate and how he/she can benefit the company. The objective of a personal interview is to find out as much as possible about the candidate's background, work experience, disposition, character, work ethic, loyalty, stability, etc. However, since these personal characteristics are difficult to judge in the artificial interview environment, the most beneficial thing an employer can attempt to do is to make certain that a future employee fits in well with the already established work force and the general organization (personality matches). Discuss salary requirements (yours

and the candidate's) during the interview, and review all major aspects of employment in order to come to a full mutual understanding of what the proposed labor contract entails, and what responsibilities the potential employee must bear in order to successfully fill a position.

If one decides to hire a candidate, he or she should be informed soon afterward, in order to allow the onset of training within a short time after job acceptance.

ORIENTATION AND TRAINING

Establish a specified trial period for all new employees, and make each employee aware of it. Do not hesitate to terminate a new employee whose work is not acceptable during the trial period.

An effective training program should be interesting, easy to understand, and should personally involving the trainee in the firm's activities, the new job, and the operation in general, as he/she learns about the job and its procedures. It should also be flexible and economical enough to enable the employer to make minor adjustments to the program without suffering a financial burden.

EVALUATION/PERFORMANCE APPRAISAL

A performance appraisal is defined as a systematic

process to assess the extent to which employees are performing their jobs effectively. There are many ways performance appraisals assist employers and employees. They can provide feedback which an employee can apply to improve his or her job proficiency. They can serve as a tool to assist in staffing decisions, such as hiring, firing, and promoting. They can help the employer to decide whether to award a raise or not. They can indicate flaws in the firm's training program, by revealing "chronic" or consistent shortcomings in newly hired employees. Performance appraisals can benefit the company as much as they can help the employee.

To organize a performance appraisal system, one needs to answer the following questions: What information should be collected? Should the employer himself collect it, or is there someone else who can provide a more accurate evaluation of a particular employee? How is performance measured? By the quality of the work provided, or by the quantity of output produced?

There is no way for regulatory bodies to specifically regulate the performance appraisal system of each individual firm in the U.S. The only government requirements affecting performance appraisal are that the firm must make the results of the appraisal known to the employee, and that the evaluation must be based on a valid job analysis. (The job description and requirements are a good measurement device).

COMBATTING TURNOVER

Methods to combat and control employee turnover include:

- Creating an image that the firm is a nice place to work. If an employee enjoys working at a particular firm, he or she will share this information gladly and openly. The word can spread easily, leading to a larger, more positively oriented and productive work force.

- Holding regular meetings with employees to discuss their perceptions of their jobs.

- Keeping salaries competitive.

- Making the employees feel like they are the important part of the business that they are. Every other facet of an operation can be controlled, but if one cannot control one's employees, one can experience increased costs of recruitment and training (due to excessive turnover), and inconsistent product and production quality.

WHAT DO EMPLOYEES WANT FROM THEIR EMPLOYERS?

Fair Wages

Continuous Employment

Reasonable Work Hours

Pleasant, Safe Working Conditions

Feeling of Contribution to the Company

Sense of Increasing Importance to the Company

Respect from Management

Comprehensive, Provisionary Employee Benefits

LEGAL GUIDELINES IN DETERMINING WAGES AND WORKING CONDITIONS

MEAL PERIODS AND REST PERIODS

Oregon Administrative Rule 839-20-050 requires that a period of not less than 30 minutes for rest and meal is to begin within 5 hours and 1 minute after employee reports to work. This does not have to be paid. If any tasks are completed during the period, the period is to be paid.

A rest period of at least 10 minutes every four hours must be granted. This cannot be deducted from the employee's pay.

GENERAL CONDITIONS OF EMPLOYMENT

According to Oregon Administrative Rule 839-20-065, employers are required to supply the following general conditions of employment to their employees:

- A sanitary and safe work area.
- Adequate lighting.
- Adequate ventilation.
- Adequate washrooms and toilet facilities.
- Suitable tables, seats, and work benches.

CONTRACTING AND SUBCONTRACTING (HOME WORK)

Statute: Contracted or sub-contracted labor, employed in the U.S., must be paid at least the Federal minimum wage.

Liability: These employees are to be treated in the same fashion as in-house workers.

If employees who work in their homes produce or manufacture a specific firm's product, they are not, by law, considered to be independent contractors. They are, in effect, employees of that specific firm who do not work on the firm's premises, but rather, at their place of residence.

Oregon Administrative Rule 830-20-70 requires that home workers (cottage industry) will be paid not less than the Federal minimum wage. Oregon Revised Statute 653.025 requires that these employees are subject to the same treatment of overtime worked as in-house labor. It requires that a firm use the same parameters used for in-house workers regarding calculation of hours worked, wages, withholdings, taxes, etc.

To be considered an independent contractor, an individual must have his or her own business, which is independently registered (from the firm for which contracted labor is provided) in the State of Oregon. He or she must have his or her own financial resources, independent

policies of employment, etc.

WORK PROVISION REQUIREMENTS

If an employee is required to show up for work at a scheduled time:

- Adequate work to work at least one-half of the scheduled shift must be provided.

- If adequate work is not available, the employee must still be paid no less than one-half of his or her earnings for the scheduled shift.

- The employer has the right to call the employee via telephone, before he/she leaves for work to cancel his/her scheduled shift. However, the employer must provide at least half of the employee's regularly scheduled hours within any given week.

EXAMPLE: Susan has arrived for her scheduled shift of 8 hours, and work is available to occupy Susan for:

0 hrs: The employer must pay Susan for at least 4 hours.

2 hrs: The employer can work Susan 2 hrs, and pay her for 4 hours.

4 hrs: The employer can work Susan 4 hrs, and send her home.

In any of these cases, the employer has the option to assign the employee with jobs that fall into his or her general job

description, which he or she may not normally be required to perform (i.e. do extra cleaning in a restaurant).

PAYMENT OF WAGES TO EMPLOYEES

Regular pay periods must be established, and maintained consistently by the employer.

Payment must be made no later than 35 days from the beginning of an employee's work period. Pay periods may not exceed 35 days, but may be as frequent as the employer desires (ORS 652.120(2)).

Payment of wages must be denominated in cash or in a negotiable financial instrument payable upon demand at a bank or other place of business. An employee may authorize the employer to automatically deposit wages into the employee's account at a bank, credit union, or savings and loan organization within Oregon (ORS 652.110).

WAGE DISPUTES

An employer's obligation, in the case that a dispute arises over the amount due an employee, is to pay all of the money the employer agrees is due the employee, and to pay that sum without setting any conditions upon the payment. The employee retains the right to claim any balance that he or she alleges is due through established union grievance

procedures (if a company or trade union exists), or by filing an action with the State of Oregon Court, or with the Bureau of Labor and Industries (ORS 652.160).

Any employer who wilfully withholds any portion of an employee's wages is liable for an additional day's wages for each day that the employee remains unpaid (up to a maximum of 30 days). Financial inability to pay wages is a valid defense against the enforcement of penalties (ORS 652.150).

FINAL PAYCHECKS

Whenever an employee quits without notice, all wages that that person has earned are due within 48 hours of resignation, exclusive of weekends or holidays. If an employee has given 48 hours or more notice of resignation, his/her wages are due on the final working day (ORS 652.140(2)).

Whenever an employee is discharged, all wages earned are due immediately. This is also true if the termination occurs by mutual consent (ORS 652.140(1)).

A lay-off is different from a discharge. When laid-off, an employee is kept on the firm's payroll and will be recalled to work at some future, unspecified time. When an individual is laid off, that employee's wages may be paid on the next regular payday. NOTE: When the word "lay-off" is falsely used to describe a discharge, the employee is to be

paid any outstanding wages due, immediately.

If an employee requests his or her final check from the firm to be mailed, the employer is required to mail it to any address that the employee designates. As previously mentioned, an employee's wages may be deposited to a bank, savings and loan, or credit union account if this is mutually agreeable to employer and employee (ORS 652.140(3)).

Upon an employee's death, all wages earned (accrued but unpaid) up to \$3,000, must be paid to the surviving spouse, or to the employee's dependent children.

EMPLOYEE BENEFITS

This section is intended to provide Mr. Buscha with a general overview of the variety of benefits that may be offered employees, as a part of a total compensation plan, and the relevant, basic considerations that must be addressed for each, in order to determine if and how a particular benefit could be implemented by VH.

Possible benefits that can be offered to employees include: - Paid vacation

- Paid holidays
- Paid personal holiday
- Sick leave
- Severance pay
- Disability leave
- Pay while on jury duty
- Pay while at National Guard or military reserve camp
- Leave of absence, unpaid
- Bereavement leave
- Paid leave and/or tuition for attendance of schools, or seminars
- Bonuses
- Retirement or Pension Plans
- Profit sharing

CONDITIONS/FACTORS REGARDING BENEFITS

Each of the following sections: addresses an employee benefit, that an employer may or may not choose to provide for his or her employees; lists a number of important questions that an employer must answer for himself, in order to be enabled to judge the feasibility, costs, and organizational impact of these benefits accurately; and includes, in some cases, a sample calculation of the cost to the employer of providing that particular benefit.

VACATION

- How long must an employee work before earning vacation time?
- How much vacation time is then earned per work day or work week?
- Does vacation time accrue and carry forward each month?
- Is vacation time earned only after reaching a certain level of seniority?
- Can vacation time roll over and accumulate?
- Is there a maximum amount of vacation time which can be accrued, after which the accrued time must be taken or lost?
- Is there a difference in policy for different kinds

of employees (plant/office; temporary/permanent;
part-/full-time)

- Will an unpaid leave of absence result in a reduction of an employee's vacation earnings?
- Must an employee work an established number of hours before earning vacation pay?
- Is there a peak business season during the year that the employer may wish to exclude from potential vacation periods for his or her employees (i.e. Christmas season for retailers)?

EXAMPLE: Full-time and part-time employees are eligible to accumulate vacation time. An employee accumulates 0.02 hours vacation time for every hour he or she has worked (this equals 0.8 vacation hours per week, or 40 hours per year; part-time employees are eligible for 20 vacation hours per year). An employee must work a minimum of 12 months to receive vacation time. Maximum vacation time that can be accumulated is 80 hours (2 years work, full time). This particular example will result in additional costs not exceeding 2% of the firm's total labor cost.

FORMULA: Hrs Worked/yr * Tenure * 0.02 * Pay Rate

$$(40 * 52)\text{hrs} * 1\text{yr} * .02 * \$6.00 = \$249.60$$

$$(20 * 52)\text{hrs} * 2.25\text{yrs} * .02 * \$6.50 = \$304.20$$

$$(23 * 52)\text{hrs} * 55\text{wks}/52 * .02 * \$5.75 = \$145.48$$

PAID HOLIDAYS

- How many paid holidays are offered per year?
- Must the employee work the workday before and the workday after a holiday in order to receive holiday pay?
- How long must the employee work before he/she becomes eligible?
- If the employee is required to work a holiday, will the holiday be paid at the regular base wage rate, or do those who work that day receive overtime compensation at an elevated wage rate (1.5x, 2x, 2.5x)?
- If the holiday should occur during the employee's vacation time will one day of vacation be added to the employee's vacation earnings? (One way to avoid confusion is to establish a policy that a holiday during a paid vacation is not paid for the employee taking the vacation)

SICK LEAVE

- How long must the employee be employed to earn sick leave benefits?
- Is sick leave to be awarded monthly? annually?
If awarded annually, is sick leave paid? Can the

employee accumulate sick leave, or does the employee lose it after a specific time period, if it is not taken?

- How much may accrue?
- At the time of termination, is the employee's unused sick leave paid?

Note: It is my personal feeling that sick leave benefits are designed so that an employee living from paycheck to paycheck may treat his/her illness and not suffer financially while recovering. If not utilized to serve this purpose, such a benefit should be regarded as additional "vacation" pay.

EXAMPLE: Company policy allows 12 days of sick leave, annually, of which 6 days are paid. Hence, the firm will compensate 50% of any sick leave (i.e. 4 days out, 2 days paid; 6 out, 3 paid). If an employee is sick for 1 day, the employer will pay 100% of the regular salary for that day of utilized sick leave time. After December 31, any unutilized sick leave for the previous year is lost, and on January 1 accumulated sick leave begins at 0.

FORMULA: $\text{Hrs/day} * \text{total days sick} * 50\% * \text{Pay rate}$

$(8 \text{ hrs/day}) * 10 \text{ days} * .50 * \$6.50 = \$260.00$

$(6 \text{ hrs/day}) * 4 \text{ days} * .50 * \$5.50 = \$66.00$

$(8 \text{ hrs/day}) * 1 \text{ day} * 1 * \$6.75 = \$54.40$

BEREAVEMENT PAY

- In the case of a death in an employee's immediate family, will paid leave be provided? If so, how many days will be allowed?
- Which family members will be considered a part of an employee's immediate family?
- Will bereavement pay be treated (calculated) like sick leave, or will the firm compensate the employee with 100% of regular wages during the taken leave? Will days taken off for bereavement be subtracted from an employee's yearly paid sick leave allowance?

SEVERANCE PAY

- How long must employees be employed before earning severance pay?
- Under what circumstances will the employee receive severance pay? (When discharged without cause? Or with cause? When an employee quits with notice? Without notice?).

DISABILITY LEAVE

- If an employee is on extended disability leave, will vacation earnings continue to accrue?

- Will the employee's group insurance premium continue to be paid?
- Will the employee retain or continue to accrue any seniority benefits?

JURY DUTY AND MILITARY LEAVE

- Will an employee's wages continue to be paid if he or she is on jury duty? Or at National Guard or military reserve camp?
- Will the difference between the jury duty reimbursement and the employee's wages be paid or partially paid?

LEAVES OF ABSENCE

- Will unpaid leaves of absence be granted?
- How much unpaid leave will be allowed?
- How will a leave of absence affect other benefits such as vacation? Will they stop accumulating, or will they accrue at a decelerated rate?

EXAMPLE: Company policy dictates that vacation time accumulates at 40% of the full-time rate during any extended leave of absence. Joe must take a three-month (13-week) leave of absence for reasons of a personal nature. His

vacation time at the end of the year:

$$39 + (.4 * 13) = 44.2 \text{ weeks earning vacation time}$$

$$(44.2 / 52) = .85 \text{ annual vacation time} * 40 \text{ hrs} =$$

$$35.2 \text{ hours of vacation time earned.}$$

~ vacation time earned for a year of full-time labor

BONUSES

- Is a bonus offered as a part of an employee's compensation?
- If an employee is terminated before the bonus award date, does the employee receive the bonus, or does he or she lose the benefit?
- What is the bonus a reward for? Higher production? Exceptional quality?

A discretionary bonus may be given for reasons other than the employee's performance, and unless there is a promise to continue this practice, it does not have to be repeated. Consequently, a bonus may be given without fear of having to maintain the practice thereafter.

IMPORTANT NOTE: There is no legal requirement to pay an employee for time off when sick, to pay holiday pay, or to pay bonuses related or unrelated to employee performance

(i.e. Christmas bonus). The only legal requirements regarding payment of anything above and beyond the wages contracted for work, are that an employer abide by the policies and practices that he or she decides to implement, and offer to his or her employees. This means that is a firm's compensation policy includes certain benefits that constitute a portion of an employee's total compensation for work rendered, and these benefits were outlined and understood to be included as terms of employment for an individual employee, these benefits may not be withdrawn.

CONCLUDING REMARKS

After completing the requested analysis and research in the areas identified, it is the conclusion of this consultant that Vienna Hairgoods is in an outstanding competitive position and would benefit from the recommended changes submitted in my report. Due to its competitive advantage of clearly superior product quality, this firm and its operations present a variety of highly feasible expansion and growth opportunities. The firm's likelihood of success in the owner's planned endeavors is excellent, and the general viability of the firm is stable, and at this time, unchallenged. The only factor limiting the firm's profitability is the amount of effort that the owner is willing to expend!

CLIENT ACKNOWLEDGEMENT

This is to acknowledge that I have received
this report and have discussed its contents
with Norbert Buscha:

(Client Signature)

(Date)

Branson Ultrasonics Corp.
Eagle Rd.
Danbury, CT 06813-1961

VIENNA HAIRGOODS
9960 Walnut St.
Tigard, OR 97202

Dear Sirs,

I am writing to inquire about the types, uses, technical specifications, and applications of your ultrasonic and/or heat welding equipment.

In short, I need a welding machine that can "weld" monofilament mesh into a permanent shape, so that it can serve as a hairpiece or wig base (into which hair is tied).

In greater detail, I wish to:

1. Take unwelded mono-mesh, such as that provided in exhibit A,
2. Stretch it over an object which resembles the upper portion of a human head (made from a mold of an actual person's head)
3. Expose the mesh, and the object over which it is stretched, to the ultrasonic or heat welding process (causing the individual monofilament fibers to fuse, permanently forming the mesh netting into a shape that exactly duplicates the head-like shape of the object over which it was stretched)
4. Producing a monofilament mesh which maintains its shape permanently, even after being removed from the head-shaped object (block)- Exhibit B offers a sample of welded mono-mesh

Several hairpiece manufacturers are currently welding monofilament mesh for this purpose. One can also buy pre-welded bases from several sources.

I need to determine:

- Whether heat, or ultrasonic welding, will do the job better
- Which type of machine is most suitable for this purpose (i.e. heat or ultrasonic hand-held welding guns; welding ovens, etc.
- What type of material can be used to form the head-shaped object or block over which the mesh will be stretched (i.e. what materials can be cheaply poured into a mold of a person's head, yet not stick to a nylon monofilament mesh during welding, nor be affected by the welding process itself?)

Any information that you can provide concerning the preceding points would be highly appreciated.

Also, please send me:

- Literature describing the ultrasonic and heat welding process (how the machines work)
- Brochures or descriptions of the type of machinery available (different models)
- Prices of the different machines

Thank you very much for your time and effort...it is highly appreciated.

Sincerely,

Norbert Buscha
Vienna Hairgoods

Johnson Filaments, Inc.
Industrial Ave.
Williston, VT 05495

VIENNA HAIRGOODS
9960 Walnut St.
Tigard, OR 97202

Dear Sirs,

I am writing to inquire about the selection and prices of different monofilament mesh materials which you may carry, sell, or actively distribute.

Vienna Hairgoods is a West Coast based manufacturer/retailer of men's and women's hairgoods (wigs and toupees). I need monofilament mesh of the type provided below, in Exhibit A, that can be ultrasonically or heat welded. After welding, which should fuse the overlapping monofilament cross-fibers together permanently, the mono-mesh should attain a fixed shape that will exactly duplicate (and retain) the shape of a man or woman's head - Exhibit B offers an example of welded mono-mesh.

Please send me samples of this type of monofilament mesh, if available through you, along with information on:

- prices
- delivery times
- minimum or maximum purchase (order) quantities
- available dimensions or order sizes of the mesh (different configurations- heights and widths, etc.)

along with any other relevant information.

Also, if your firm does not carry mono-mesh of this precise variety, any information regarding other potential sources for this type of material would be highly appreciated.

Thank you for your time and assistance.

Sincerely,

Norbert Buscha
Vienna Hairgoods

Credit Application Form Suitable for Any Small Business Firm

						HOME PHONE	
				AREA CODE			
PLEASE PRINT ALL INFORMATION REQUESTED							
NAME		FIRST	INITIAL	LAST	DATE OF BIRTH		SOCIAL SECURITY NUMBER
HOME ADDRESS		APT. NO.		CITY	STATE	ZIP CODE	NO OF YRS
LANDLORD OR MORTGAGE HOLDER				ADDRESS		OWN ☐	RENT FURN ☐
						RENT UNFURN ☐	OTHER ☐
PREVIOUS ADDRESS		CITY		STATE	ZIP CODE	NO OF YRS	DEP CHILDREN
PRESENT EMPLOYER (IF SELF-EMPLOYED GIVE NAME AND NATURE OF BUSINESS)				BUSINESS ADDRESS		POSITION	NO OF YRS
							BUSINESS PHONE
PREVIOUS EMPLOYER				BUSINESS ADDRESS		POSITION	NO OF YRS
							DATE LEFT
NAME AND ADDRESS OF NEAREST RELATIVE NOT LIVING WITH YOU						RELATIONSHIP	PHONE
IF CREDIT IS REQUESTED FOR CO-APPLICANT/SPOUSE, FILL OUT THE FOLLOWING.							
NAME		FIRST	INITIAL	LAST	DATE OF BIRTH		SOCIAL SECURITY NUMBER
CO-APPLICANT/SPOUSE'S EMPLOYER		BUSINESS ADDRESS		POSITION		NO OF YRS	BUSINESS PHONE
CREDIT REFERENCES (Banks, Stores, Credit Unions, Finance Co's) and Complete List of All Debts Now Owning. Attach Additional Sheet if Necessary.							
NAME		ADDRESS		CITY	STATE	BAL. (IF ANY)	MO PAYMENT
MAKE-YR OF AUTO		FINANCED BY			MO PAYMENT		APPLICANT'S MONTHLY \$ INCOME
		ADDRESS					
CHECKING ACCT - BANK NAME						OTHER MONTHLY \$ INCOME	
SAVINGS ACCT - BANK NAME							
THE UNDERSIGNED ARE JOINTLY AND SEVERALLY LIABLE FOR ALL CHARGES INCURRED ON ANY ACCOUNT PURSUANT TO THIS APPLICATION						CO-APPLICANT SPOUSE'S MONTHLY \$ INCOME IF CREDIT REQUESTED	
SIGNATURE OF APPLICANT					DATE		TOTAL MONTHLY \$ INCOME
SIGNATURE OF CO-APPLICANT AND/OR SPOUSE IF CREDIT IS REQUESTED					DATE		

This is a common type of credit application used by firms granting credit to individuals.

APPLICATION FOR CREDIT

TO AVOID ANY DELAY IN PROCESSING, COMPLETE IN FULL. ALL INFORMATION TO BE HELD IN CONFIDENCE.

SUBMITTED TO THE OFFICE SUPPLY CO. 706 S.E. 6th, PORTLAND, OR 97214

BILL TO:

SHIP TO:

EXACT NAME _____
 DIVISION or _____
 SUBSIDIARY _____
 ADDRESS _____
 CITY _____
 STATE _____ ZIP _____
 PHONE NO. () _____

NAME _____
 ADDRESS _____
 CITY _____
 STATE _____ ZIP _____
 ATTN: _____
 PHONE NO. () _____

GENERAL BUSINESS INFORMATION

TYPE OF BUSINESS _____

D.B.A. ☐ INDIVIDUAL ☐ PARTNERSHIP ☐ CORPORATION

YEARS IN BUSINESS _____ YEAR OF INC. _____ STATE OF INC. _____

Officer's Name _____

Title _____

ARE YOU SALES and/or USE TAX EXEMPT?

☐ YES-If Yes, please insert your certificate no. below

☐ NO

CERTIFICATE NO. _____

ACCOUNTS PAYABLE CONTACT

NAME _____

PHONE NO. () _____ Ext. _____

BANK REFERENCE

BANK NAME _____ OFFICER HANDLING _____

CITY _____ STATE _____ ZIP _____ PHONE NO. () _____

CHECKING ACCT. NO. _____ SAVINGS ACCT. NO. _____ OTHER _____

BUSINESS CREDIT REFERENCE LIST MINIMUM OF THREE

NAME	ADDRESS, CITY, STATE, ZIP	PHONE NO.
1) _____	_____	() _____
2) _____	_____	() _____
3) _____	_____	() _____
4) _____	_____	() _____

We certify that all the information on this form is correct; and that we fully understand your credit terms and agree to the proper payment in consideration of extended credit.

(signed) _____

Date _____ 19 _____ (title) _____

PLEASE DO NOT WRITE IN THE SPACE BELOW

References checked by _____

Reference results _____

☐ Credit approved by _____

☐ Credit refused by _____

Date _____



Aging of Accounts Receivable
October 1, 19 ____

Customer name	Current balance	Number of days on books				
		0-30	31-60	61-90	91-120	Over 120
M. Jones	\$ 375	\$ 75	\$ 300			
H. Harris	160	60	50	\$ 50		
G. Salzman	50	50				
P. Miller	500	300	100	100		
G. Geipel	50	—	—	—	\$ 50	
B. Thompson	75		75			
H. Strauss	35	10	—	25		
J. Hegner	125	100	—	—	—	\$ 25
T. Nathan	400	100	100	100	100	
A. Cohen	425	25	200	200		
G. Young	75					75
J. Osborg	200				100	100
Totals	\$37,000	\$22,000	\$8,000	\$5,000	\$1,000	\$1,000

APPENDIX F

VIENNA HAIRGOODS
JOB DESCRIPTION

JOB TITLE: Ventilator

RESPONSIBLE TO: Helmut Buscha, Owner

JOB DUTIES:

Part- to full-time, in-shop labor. Designing media quality hairpieces. Tying individual strands of hair into a monomesh base material. Performing repetitious, detailed work for long periods of time.

JOB REQUIREMENTS:

The ideal employee is able to sit for the entire workday in a quiet atmosphere, able to concentrate and focus attention on precision work, and is not easily distracted. The person must be able to work with little or no supervision, yet produce consistent quality in his or her work. A high degree of manual dexterity and excellent vision are necessary, as accuracy is essential. Ideal employees will display consistency, punctuality, and reliability, as these are absolute musts. The individual must be willing to make a long-term commitment.

After the employee has shown sufficient aptitude, he or she may be able to work flexible hours and, if desired, take his or her work home periodically. The employee will reach a level of proficiency (during the first year) where he or she will no longer have to concentrate intently on his or her work.

PERSONAL REQUIREMENTS:

A willingness and desire to do small, precision labor (derived from hobbies such as needlework); The ability to sit still for long periods of time(2-4 hours); The ability to concentrate on precision work for many hours.

Non-smokers are sought, as smoking is prohibited in the workplace.

SALARY RANGE:

\$4.25 to \$10.00 per hour.

Employees are paid minimum wage during training. After training is completed and a certain level of minimum proficiency is reached (approx. 2 weeks), the wage will increase to \$5.65 per hour. The hourly wage will continue to increase as both the seniority and proficiency of the employee increase (a \$0.35 increase every 3 months for the first year, and \$0.50 per year thereafter, plus increases and bonuses awarded for superior workmanship and efficiency).

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