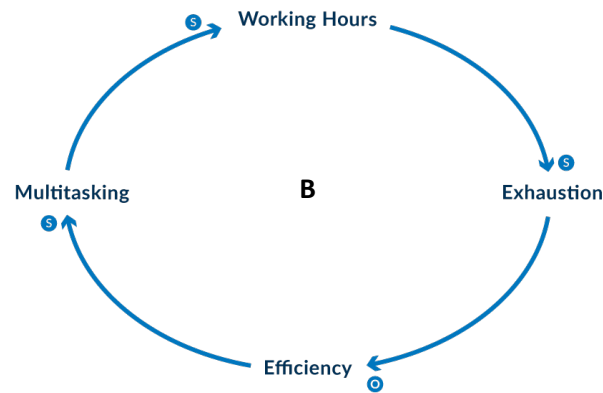


Confidential Memo

TO: Mr. Roberto Berardi
FROM: Ms. Shanon Radford
SUBJECT: Advice and Counsel on EU Design
DATE: May 11, 2023

As requested, I have reviewed EU Design's current structures and practices in the context of your desire to grow the company from a small to a mid-sized trim firm. The following pages contain a brief analysis of key functions in the company, followed by specific recommendations. You will see that I started and ended with EU's most important assets: Your people.

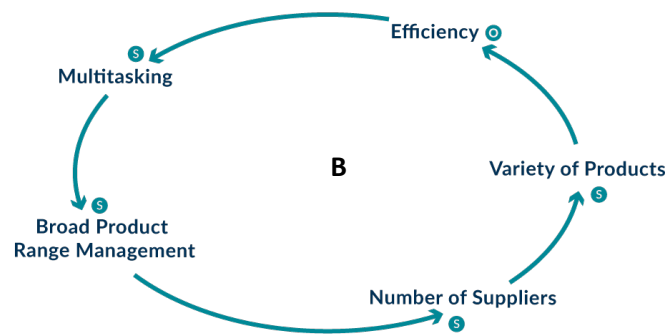
Links between multitasking and employee performance



This diagram demonstrates the impact of excessive multitasking on employee performance. As you can see, multitasking leads to longer working hours, which in turn leads to increased exhaustion and decreased efficiency. Decreased efficiency can manifest in mistakes, work left undone, or work done inconsistently between days, projects, or clients, all of which further exacerbate the need for more multitask. This cycle will eventually impact overall employee performance and engagement.

For example, in the Hong Kong office, there is no office manager to perform such tasks as ordering office supplies, overseeing repairs if something breaks in the office, managing sick calls, reviewing and communicating EU company communications (such as policy changes), and dozens of other tasks an office manager would perform. These tasks must be 1) distributed amongst the merchandisers, junior merchandisers, and accountant; 2) added on to a single person's responsibilities; or 3) left undone. I suspect there is a combination of the three happening. Employees hired to perform quality control or manage client accounts also have to attend to the details of running an office. From your employees' responses to the survey, this is a dissatisfier that is causing employees to feel overwhelmed and under-supported.

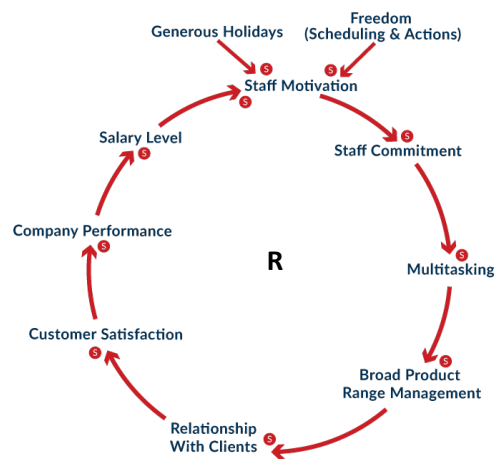
The links between product variety and efficiency



In this diagram you can see how offering a large variety of products is impacting efficiency. Here again is a process requiring a great deal of multitasking. The broader your product range, the more suppliers you need to work with in order to offer that variety of products. Your practice of monitoring manufacturers personally and closely has helped with quality control, but it is also time-consuming for your merchandising staff. The more suppliers they have to negotiate with and monitor, the greater the risk of mistakes or oversights brought on by divided attention.

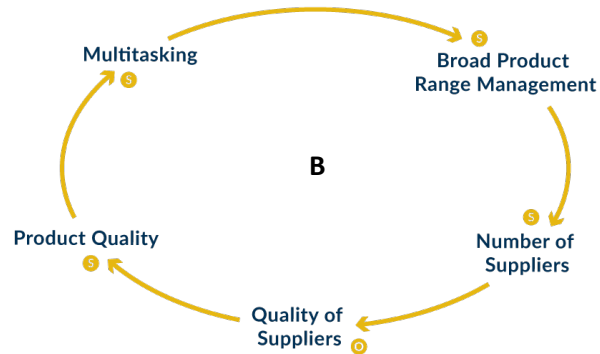
Again, using Hong Kong as an example: Three junior merchandisers are monitoring product quality for all of your accounts in Asia, Canada, and California. The more suppliers they have to monitor—particularly if there is variation in expectations between EU and individual suppliers—the greater the chance for mistake or oversight that could reach the client.

Link between employee satisfaction and EU performance



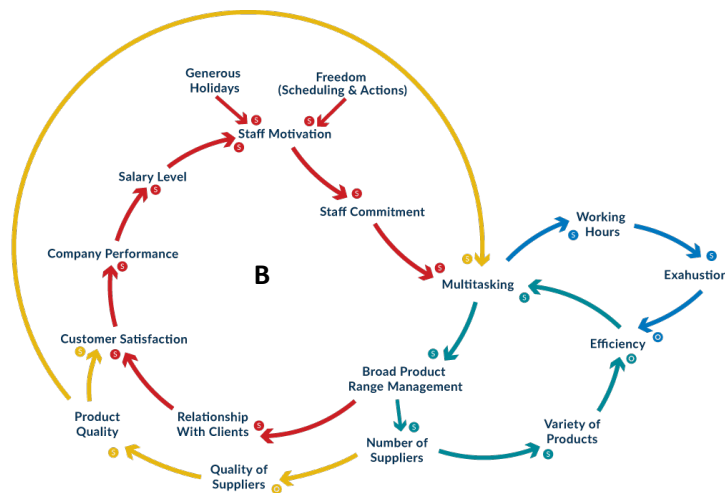
EU has been generous with its staff, and that shows in this diagram. Though the previous two diagrams demonstrated some of the potential downsides of excessive multitasking, this diagram illustrates how staff commitment to ensure clients' desires and needs are met directly boosts company performance, which is rewarded through salary levels and perks. This is a visual representation of the reinforcing nature of committed staff and company performance.

Link between product variety and quality



In this diagram, you can see how the more products offered, the more suppliers required. The more suppliers you work with, the more risk that one or more of them will have quality issues that will require intervention on the part of the merchandising team. If supplier quality is subpar and you drop one, this may reduce the workload, but it also would reduce the range of products offered. Conversely, the fewer products offered, the fewer suppliers needed, which lessens the workload.

UE Design Systems Model



This final diagram links the previous four and shows how dependent EU is on employees being able to multitask. Unfortunately, we also see the impact that multitasking has on efficiency and its eventual impact on product quality and company performance. Your staff are motivated and committed to getting the job done, but at the expense of their own ability to do everything well. I believe what this diagram illustrates is where to start as you plan your next phase of growth, and that is with your people and how the work is structured and divided.

Recommendations:

Overall, my recommendation is to start with your people—alignment, structure, job expectations, and compensation. Through this process, you will be able to address many communication issues, but the strategy is to get the structure in place before EU grows significantly. This may mean lower margins for a few years, but ultimately will place EU in a stronger position to manage new business without losing existing clients. Below are my recommendations, to be adopted in the order presented.

1. **Alignment:** Develop a vision statement and share with both employees and clients.
 - a. Engage employees to help develop the vision and enroll others.
 - i. Choose a core group of 3-5 employees, people from both Hong Kong and New York, to help you develop a vision statement that resonates, then follow-up with personal visits to both offices.
 - ii. Take members of your core team with you on those trips so employees from Hong Kong and New York have the opportunity to meet each other and gain mutual understanding of how the vision will be implemented in the two offices.
 - b. Reassure established clients that EU's growth will not mean diminished service or losing that personal touch for which EU is known.
2. **Structure and Expectations**
 - a. Human Resources

- i. Hire an HR Director to develop job descriptions, performance expectations, and to manage HR needs. You should work closely with this person but begin to disengage from day-to-day staff management and annual performance evaluations.
 - ii. In addition, the HR director can do a deeper analysis of the needs of the Hong Kong office and determine if there is enough work for a full-time office manager, or if there is another way to approach managing that office.
- b. Sales
 - i. Hire a Sales Director to standardize practices, expectations, and targets for the sales team.
 - ii. In addition, the Sales Director can develop an internal sales development program directed at developing sales acumen in all levels of the company.

3. Incentives and compensation

a. Leverage incentives to support company-wide goals

- i. Set annual goals in several different areas, for example: sales, turnover, margin, quality control, office supply usage
- ii. Reorganize the bonus structure based on meeting *company-wide* goals.

Determine a set amount or percentage of company profit that will be given in bonuses, then award bonuses to *everyone* when goals are met.
- iii. Not all goals have to be met to award bonuses—it can be done on a percentage.

For example, you set five goals at the beginning of the year, each worth \$1,000 to every staff member. At the end of the year, only four goals are met, so each staff member receives a \$4,000.00 bonus.

- iv. This type of structure encourages collaboration instead of competition for shared resources, as meeting company goals benefits everyone.

b. Use compensation packages to reward individual performance

- i. Excellent individual performance can be rewarded in salary, commissions, profit sharing, stock options, or partnership offers.

4. Communication

Some of your communication issues should be eased or solved by restructuring your incentive and compensation structure, as everyone will benefit—individually and collectively—from sharing information, techniques, and resources to meet company goals. However, you have some specific challenges due to the time and cultural differences between offices, as well as the type of client served by each office. Therefore, specific recommendations include:

- a. Purchase and require use of a Customer Relationship Management (CRM) product to manage client accounts.
- b. Leverage technology for communication (email, real-time chat programs like AOL) and set standards for communication—frequency, tone, and timing.

Conclusion

EU has had a wonderfully relaxed but personalized culture, and there is no need to adopt an overly-formal corporate structure not in keeping with the norms of the fashion industry. However, EU's growth has outstripped your current structure and it is starting to impact your employees and will soon impact your product quality and, therefore, your clients and continued growth if not addressed. By developing a vision, creating an HR and sales structure, developing incentives that support the vision and goals of EU, and updating your communications tools and standards, I have no doubt EU's next phase will be successful.

Thank you for the opportunity to get to know EU designs, and best of luck in your next steps.