

## BEAU TIES LTD. OF VERMONT

In August 1996, Bill Kenerson, founder and president of Beau Ties Limited of Vermont, was viewing his newest bow-tie offerings and trying to develop appropriate names for them. His company served a niche market of bow-tie users, and Kenerson tried to generate interest in his product by linking the distinguishing features of each bow tie to a representative city. This decision, however, was not Kenerson's only concern. His three-year-old company was fast approaching a decision on whether and if so, how to consolidate the present system of using a subcontractor to handle all stages of production and shipping into an in-house production facility with full-time employees.

Beau Ties was a rapidly growing concern: revenues had increased by 79% in 1995 and were on track for a 41% increase in 1996. At this rate, Kenerson would reach his intermediate revenue target of \$810,000 by the end of 1997. This target would require Beau Ties to double its 1995 production volume. After Kenerson's latest tour of Vivian's Sewing Shop, which was Beau Ties' production facility, he wondered if the present space, equipment, and personnel could produce the required volume. An alternative facility would involve initial capital outlays and increased exposure to market fluctuations. In addition, Kenerson needed to decide whether to continue with his current provider of toll-free customer-service operations: he could purchase or rent new telephone-answering equipment and end his existing contract with AIDC, which was Kenerson's outsourcing partner for telephone-order entry.

### The Product: Bow Ties<sup>1</sup>

Bow ties have been around for more than 300 years, their origin traceable, as one story goes, to the court of Louis XIV of France in the 1600s. The king noticed a company of Croatian soldiers who wore white-silk kerchiefs around their necks. The king apparently loved the look, and appeared at court shortly thereafter with the white kerchief plus some lace and embroidery to heighten the effect, along with a small bow in front to finish it off.

---

<sup>1</sup> This section is taken verbatim from John D. Spooner, "Personal File: Bow Ties—Some Rules of Thumb for the Neck," *Atlantic Monthly* (November 1995): 46–49.

Originally, the Croats had wrapped their necks as a charm to guard the area against sword swipes. “Cravat” comes from the French *cravates*, which referred to the Croatian soldiers. Cravats had grown larger and more elaborate by the 18th century. Necks were swathed in material that came as high as, and sometimes even obscured, the chin and part of the mouth. Stocks—starched-fabric cylinders like neck braces—were fitted around the necks of fashionable gentlemen of those times. These were surrounded in turn by silk or linen cravats, held in place by white or black bows. Like women’s hemlines, the bows went up and down according to current fashion, tied sometimes near the chin, sometimes below the Adam’s apple. Abraham Lincoln wore black bow ties with his collars turned down; English dandies wore smaller bow ties with stiff winged collars pointed up. But bows really flourished in the last decades of the 19th century. Women in the shirtwaist period, earlier in that century, wore smaller, neater bows tied perfectly like shoelaces with ends symmetrical. At various stages after the 1930s bow ties have been so small that they seemed fashioned for dolls or so outrageously large (during the 1960s) that they seemed grotesque. Alan Flusser, an authority on men’s clothing, wrote in 1985, “The general rule of thumb states that bow ties should never be broader than the widest part of the neck and should never extend beyond the outside of the points of the collar.” Those rules, like those for almost everything else in life, were made to be broken.

## Company History

Beau Ties Limited, a mail order firm, was founded in November 1992 by Bill Kenerson and his wife, Deborah Venman. Kenerson had been a bow-tie wearer for many years, and was finding it extremely difficult to maintain his personal collection of varied ties. He was approaching retirement from his position as commissioner of Economic Development for the state of Vermont and wanted to manage a small business. He studied the U.S. tie market and all styles of ties, and he discovered that consumers purchased 100 million ties per year and that 2% of those ties were bow ties (including tuxedo bow ties). Based on his experience, Kenerson believed that sufficient room existed for his niche product, and he decided to begin selling bow ties.

Using start-up capital of \$25,000, Kenerson and Venman acquired the rights to a mailing list from a defunct bow-tie company in California. They then hired a local sewing facility, Vivian’s Sewing Shop, as a subcontractor, and began making their first products. Kenerson purchased the material used in the first bow ties from New York fabric suppliers in varied-lot sizes of 20 to 100 yards. These varied-lot sizes led to the development of an important feature of Beau Ties’ products. Kenerson would offer for sale a unique bow tie named after a specific city until he depleted all of the material stock for that particular tie; he would then retire that tie. This procedure served two purposes: it created an artificial demand for the product as it was clearly available only in limited quantities, and it ensured that the relatively small number of bow-tie wearers in the United States became repeat customers with a constant supply of new products from which to choose.

In April 1993, Beau Ties produced its first catalog—a single-page mailer with eight tie selections, which it sent to the 17,500 names on its purchased mailing list. The initial response was strong, and Kenerson realized that he needed to have a phone service that would provide a toll-free number and respond to customers’ orders. He then hired a phone-service company (AIDC) on an hourly and volume basis.

The mailing list grew to its present size of 35,185 customers, with an order rate of 3% per catalog and an average order of three bow ties. Kenerson had an intermediate target of 50,000 customers and a long-term target of 92,592 customers. The intermediate target would produce \$810,000 in revenue, and the long-term target would produce \$1.5 million in revenue and require the sale of 50,000 ties a year.

Beau Ties produced five catalogs a year and mailed them on six different occasions: The winter catalog was mailed in early January, the spring catalog at the beginning of April, the summer catalog at the beginning of June, the fall catalog in early August, and the holiday catalog in the beginning of October and again in mid-November. These catalogs had an average production cost of \$0.20 each and an average shipping cost of \$0.17 each. A page from the 1996 holiday catalog is reproduced in **Exhibit 1**. **Exhibit 2** contains the bow-tie tying instruction sheet that Beau Ties included with each order. The company also sold a video that depicted the steps involved in tying a bow tie.

Beau Ties had recently expanded its product line to include related products for both the bow-tie and nonbow-tie wearer: men's belts, cummerbunds, vests, tie cases, tie holders, women's scarves, and four-in-hand ties. **Exhibit 3** contains a complete product list. The bow tie was still the mainstay of the business, and the most recent catalog contained over 100 different bow ties. The goal was for each catalog to offer 10 new ties to replace 10 old ties, depending on how much of the original material remained. Usually, more than 10 new ties were added to each new catalog, which partially explains why the 1996 holiday season catalog had 32 pages.

### **Production Process**

The production process began when Kenerson selected the fabrics for the new bow ties. Fabrics were purchased in yard lots, and the company's various products consumed different quantities of fabric per yard. The average cost of fabric was \$17.00 a yard, and normal purchase orders were made in 40-yard lots. For each yard of fabric, Beau Ties could make seven bow ties, six cummerbunds, or one and one-third vests.

With a staff of nine, Vivian's Sewing Shop could produce 300 ties a week for 50 weeks a year without overtime. A bow tie took about 50 minutes to make in a 21-step process that began with cutting the four faces of the tie and ended with pressing the finished product. Ties were produced in varied lot sizes without any consideration for setup time (about two minutes for each batch of fabric). The average employee's salary was \$5.75 an hour, and Vivian's Sewing Shop charged Kenerson \$6.50 a tie.

Specialty products were made-to-order and consisted of cummerbunds, vests, specialty bow ties, and pocket squares. The customer provided specific measurements for cummerbunds and vests. Cummerbunds took two-and-one-half hours to produce, while vests took six hours. Kenerson's labor costs were \$17.00 per cummerbund and \$42.00 per vest.

Specialty bow ties consisted of two products: over- or undersized ties that the customer ordered, and ties made from material the customer sent to Beau Ties. Specialty bow ties required 55 minutes to produce and cost Kenerson \$7.50 each.

### **Order Processing**

AIDC had originally processed all orders, including selecting, packing, and mailing. In September 1995, Beau Ties took over the invoice processing and selecting, packing, and shipping, leaving AIDC with only the phone order-taking responsibilities. Each morning, the previous day's phone orders were downloaded from AIDC via modem to Beau Ties' main computer. Kenerson's executive assistant reviewed the downloaded phone orders for accuracy and also entered mail and fax orders from the previous day.

Selecting and packing were performed at Vivian's Sewing Shop (at \$10.00 an hour) as the tie inventory was maintained on its premises. The average time to pack each order was five to six minutes. Because this was part-time work, the packers also performed other duties in the production process. Clip-on ties and custom ties were packaged at the Beau Ties office, together with all of the other nontie products. All catalog and video requests were also handled at the Beau Ties office.

Kenerson and Venman or Kenerson's executive assistant inspected and counted each tie into inventory. At the end of each day, the invoices were printed and then picked up by one of Vivian's employees, who also dropped off packed orders. Postage was affixed, and the packages were picked up by the U.S. Postal Service.

### **Inventory Control**

Beau Ties had no formal inventory system. Sales were seasonal, with 45% of sales occurring in October, November, and December. Kenerson made inventory decisions by estimating the sales during this holiday period, while attempting to minimize production costs, which required holding a supply of finished goods because Vivian's Sewing Shop's maximum production limit, including overtime, was 400 bow ties per week. Overtime ties cost Beau Ties \$7.50 each.

The other main concern was that customers wanted their products when they ordered them. Because Beau Ties regularly changed its product selections, no track record existed on sales for each style of tie. Thus, Kenerson had to estimate his production of each style of tie based on the present number in stock, the length of time that the tie had been available, and any anticipated conflicts due to the production schedule of the other ties.

### **Telephone-Ordering Service**

Kenerson was also concerned about Beau Ties' phone costs and service provider. Currently, he subcontracted the phone ordering service to AIDC. **Exhibit 4** presents the budgeted AIDC costs for 1996. He wondered if bringing this service into his consolidated operation would be cheaper than using AIDC and would enable Beau Ties to provide better service overall. **Exhibit 5** shows hourly telephone order volume for March and April 1995. **Exhibit 6** is a listing from AIDC of the call information for December 1995. AIDC charged Beau Ties a flat fee of \$0.72 for each minute a customer was on the line, including both hold time and service time. Kenerson estimated that the average time needed to take a customer's order was three minutes plus the time spent on hold waiting for the next available customer service representative. His service target was to have phone customers wait no more than three minutes.

Installation of a phone system would be necessary if Beau Ties were to receive orders directly. Kenerson had received an estimate (covering two options) from the local phone service provider. The new service would consist of 4 lines and 12 stations (for customers on hold), which meant that they could handle a maximum of 4 customers at any given time. The maximum number of people in the system would be fixed at 16. If only 2 servers are scheduled, then a maximum of 14 people could be placed on hold. The first option was to purchase the equipment at a cost of approximately \$33,000 and a monthly service premium of \$281. The second option was to lease the equipment at \$1,270 a month for 36 months. Kenerson estimated that each operator's wages would be \$6.00 an hour.

### **Proposal for a Consolidated Facility**

Kenerson knew that Beau Ties would eventually exceed the production capacity of Vivian's Sewing Shop if the company reached its targeted goals, which required consolidating the entire operation. Location was the most expensive concern. Kenerson figured that he would need 2,000 square feet, which he could rent for \$5.50 to \$6.50 per square foot per year. He would also need renovation funds of approximately \$2,000. A facility of 6,000 square feet, conveniently located in town, was priced at \$375,000.

Renting or buying a new facility aside, bringing the production process in-house would require the purchase of sewing machines. Kenerson priced the machines at between \$900 and \$1,200 each, and figured he would need 15 machines to produce his target of 50,000 ties a year. Miscellaneous production equipment (sewing thread and needles) would cost \$1,000 initially and \$250 a month thereafter.

## **Conclusion**

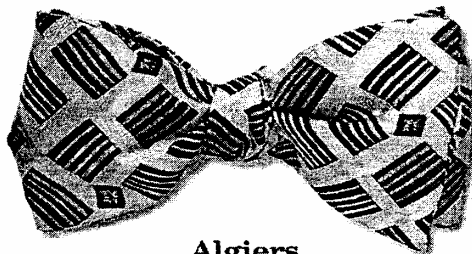
Kenerson was pleased with the growth of his bow-tie business, but he knew that Beau Ties was about to enter a new phase. The marketing decision regarding the names for his new fabrics paled in comparison to the operational decisions regarding the company's manufacturing capabilities and its telephone ordering service.

Exhibit 1

**BEAU TIES LTD. OF VERMONT**

Page from 1996 Holiday Catalog

***LIGHTER, BRIGHTER MOODS***



**Algiers**

Barred rectangles of Navy, wine & black in random array on champagne jacquard. Intriguing, unique. \$30

**ALGI 1720**



**Malibu**

Imagine summer sun, golden sand & white surf on Navy jacquard. California dreamin'. \$30

**MALI 1623**



**Cleveland**

Echoes of a Great Lake metropolis. Midnight blue, rare wine, touches of gold on beige. \$30

**CLEV 1209**

"A bow tie worn during the workday is a fail-safe way to set oneself apart. It clearly intimates that the wearer is a free spirited, non-conformist, and is especially favored by intellectuals and creative professionals."

Francois Chaille (The Book of Ties)



**Oberlin**

Sensuous piano shapes in deepest jewel tones. Ellington playing "Sophisticated Lady." \$30

**OBER 1309**



**Nice**

New color combo for a classic. Rich royal blue, burgundy & taupe on silky cream crepe. \$35

**NICE 1624**

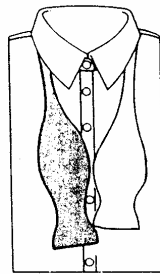
**For Faster Service**  
Call daily between 7:00 a.m. and 11:00 p.m. ET  
**800-488-TIES**  
(800-488-8437)  
**Fax 802-388-7808**  
24 hours a day with credit card information.  
**Our Quantity Discount:** When ordering three bow ties or more, deduct \$3 from the price of each. Applies to bow ties only.

Exhibit 2

**BEAU TIES LTD. OF VERMONT**

Instructions for Tying a Bow Tie

For I.D. purposes, one end of bow is shaded (SE)



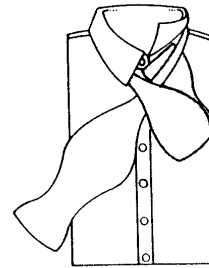
**1.**

At rest, SE should be approx. 1" lower than the unshaded end (UN).



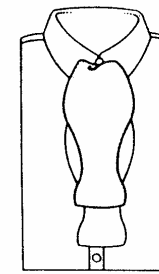
**2.**

Cross SE over UN.



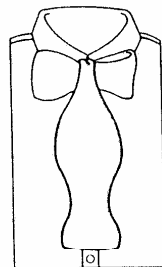
**3.**

Push SE with thumb under UN.



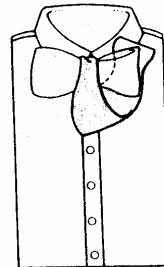
**4.**

Pull SE over UN.



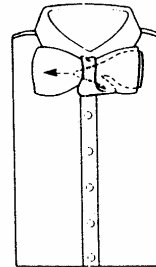
**5.**

Letting SE rest, form a bow with UN, using thumbs and forefingers of both hands.



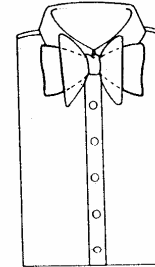
**6.**

Pull SE up behind UN.



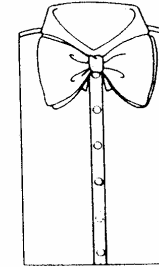
**7.**

Still holding firm the UN bow, push the SE behind it through the knot.



**8.**

Pull the looped end with forefingers of both hands to lengthen the bow & tighten the knot.



**9.**

**HERE IT IS!**  
If after 6 tries you can't make it, take a pit stop...



Exhibit 3

**BEAU TIES LTD. OF VERMONT**

Product Information

<b>Product</b>	<b>Introduction Dates</b>	<b>Sale Prices</b>
Bow ties	April 1993	\$30.00
Tie cases	August 1995	\$50.00
Tie holder	August 1995	\$23.50
Women's scarves	August 1995	\$60.00
Vests	April 1996	\$80.00
Cummerbunds	April 1994	\$50.00
Four-in-hand ties	June 1996	\$70.00
Men's belts	June 1996	\$60.00

Exhibit 4

**BEAU TIES LTD. OF VERMONT**

Estimated AIDC Costs and Beau Ties' Revenues for 1996

<b>Month</b>	<b>Estimated AIDC Costs</b>	<b>Estimated Revenues</b>
January	\$2,000	\$25,282
February	\$2,600	\$35,939
March	\$2,000	\$26,900
April	\$3,400	\$44,820
May	\$3,000	\$42,030
June	\$3,600	\$45,720
July	\$2,500	\$38,000
August	\$4,000	\$59,500
September	\$3,000	\$41,000
October	\$4,200	\$60,000
November	\$5,500	\$82,500
December	\$5,700	\$90,000
Total	\$41,500	\$591,691

Exhibit 5

**BEAU TIES LTD. OF VERMONT**

Hourly Telephone-Order Volume for March and April 1995

<u>Time Period</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednes.</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>	<u>%ofTotal</u>
7-8	18	75	19	38	13	0	2	165	9.42
8-9	24	13	10	22	27	1	2	99	5.65
9-10	25	27	22	24	24	3	2	127	7.25
10-11	28	39	34	24	36	5	1	167	9.54
11-12	30	47	36	43	37	4	4	201	11.48
12-1	55	28	42	22	49	11	5	212	12.11
1-2	40	61	37	25	31	7	0	201	11.48
2-3	24	18	32	23	21	6	8	132	7.54
3-4	19	24	23	26	8	5	1	106	6.05
4-5	29	15	17	43	13	7	5	129	7.37
5-6	32	14	12	18	7	3	6	92	5.25
6-7	9	2	4	8	1	5	2	31	1.77
7-8	9	4	5	3	5	5	0	31	1.77
8-9	3	5	3	5	1	2	0	19	1.09
9-10	2	2	4	2	6	0	1	17	0.97
10-11	<u>1</u>	<u>3</u>	<u>5</u>	<u>4</u>	<u>2</u>	<u>2</u>	<u>5</u>	<u>22</u>	<u>1.26</u>
Total	348	377	305	330	281	66	44	1751	100.00
% of Total	19.87	21.53	17.42	18.85	16.05	3.77	2.51	100.00	

## Exhibit 6

**BEAU TIES LTD. OF VERMONT**

Call Information for December 1995

<u>Day</u>	<u>Calls Received</u>	<u>Less Abandoned</u>	<u>Net Calls</u>	<u>Average Talk/Hold</u> (sec.)	<u>Total Talk/Hold</u> (sec.)
1	86	0	86	246	21,156
2	28	0	28	292	8,176
3	33	3	30	281	8,430
4	105	0	105	244	25,620
5	85	1	84	298	25,032
6	76	1	75	217	16,275
7	67	0	67	241	16,147
8	58	0	58	233	13,514
9	54	0	54	276	14,904
10	30	0	30	319	9,570
11	80	0	80	241	19,280
12	78	2	76	224	17,024
13	88	1	87	290	25,230
14	76	0	76	270	20,520
15	69	0	69	244	16,836
16	45	0	45	345	15,525
17	31	1	30	193	5,790
18	60	0	60	218	13,080
19	63	1	62	190	11,780
20	34	1	33	320	10,560
21	34	1	33	167	5,511
22	20	0	20	219	4,380
23	8	0	8	238	1,904
24	7	6	1	242	242
25	1	1	0	0	0
26	36	0	36	219	7,884
27	32	0	32	196	6,272
28	41	0	41	180	7,380
29	25	0	25	137	3,425
30	9	0	9	202	1,818
31	<u>7</u>	<u>0</u>	<u>7</u>	<u>225</u>	<u>1,575</u>
Total	1,466	19	1,447	7,207	354,840