
SUITS FOR MEN, INC.

David Shaw and Elizabeth M.A. Grasby revised this case (originally titled "Mel's Clothiers") solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Michael Bakshi was deep in thought when his wife asked, "More coffee?" "Oh, yes, please," Bakshi replied. "Sorry, I was lost in the decision we have to make in the store on whether to drop our tailored suit line and replace it with a new line of medium-priced suits. The decision has been bothering me for a couple of weeks." His wife asked, "Can't you do both — keep the tailor-made suits and add the other suit line as well?" "No," Bakshi answered. "We don't have enough space for both. If we go ahead with the medium-priced suits, we will have to install new racks and an additional change room in the general area where the tailors now work on tailor-made suits. And there is no expansion room in the store. None. We are crowded as it is."

SUITS FOR MEN, INC.

History

Suits for Men, Inc. (Suits) had occupied the same quarters on Granville Street in downtown Vancouver for 40 years. Bakshi's father, Rashna, a tailor who emigrated from India in 1967, opened the store in 1972 as a tailoring shop, making suits for men working in the business district. When Bakshi joined the business in the 1990s, he introduced a line of high-end ready-made suits from Cascade Inc. When Bakshi's father retired in 1998, the ready-made suits were outselling the tailor-made suits by two to one. Bakshi expanded the space of the store after an adjoining shop went out of business.

Store Hours

Suits was open for business Mondays to Thursdays from 10:00 a.m. to 6:00 p.m., Fridays from 10:00 a.m. to 9:00 p.m. and Saturdays from 10:00 a.m. to 4:00 p.m. Many of the store's clients were well known to Bakshi, including some who had been his father's customers.

2012 Operations

In 2012, the high-end ready-made suits were outselling the tailor-made suits by almost nine to one. The ready-made suits sold for an average price of \$400 (ranging from \$375 to \$450) and cost the company an average of \$240. Alterations to the high-end ready-made suits were offered free of charge. On average, alterations required 40 minutes of a tailor's time. Suits that were made to measure by the store's tailors

sold for an average of \$560 per suit, depending in large part on the material selected; the materials cost the store an average of \$140 per suit. Exhibit 1 presents the previous fiscal year's income statement including a breakdown of sales and direct costs by product line and unallocated overhead costs.

Currently, Suits employed three full-time tailors. Two worked the majority of their time on tailor-made suits and helped with alterations to ready-made suits, if necessary, while the third tailor made alterations to ready-made suits. The tailors worked 40-hour weeks, slightly staggered so that there was always a tailor on site. The all-inclusive cost of a tailor was \$18 per hour. This figure included two weeks of vacation pay, as well as 10 paid holidays and various payroll taxes.

Bakshi had already been advised that Indar, one of Suits' tailors, intended to retire by the end of next month. Therefore, if Bakshi maintained his current business, he would have to hire a tailor to replace Indar — and tailors were difficult to find.

MEDIUM-PRICED SUITS LINE OPTION

The medium-priced suits under consideration would sell for an average of \$240 per suit and cost the store an average of \$150 per suit. Bakshi intended to apply the store's existing policy on alterations. A 10 per cent commission on all sales would also apply.

If Bakshi undertook the medium-priced line, he would need to employ only the two remaining tailors, one of whom could work on the floor as a salesperson if the alterations business was slow. The changeover had other implications as well. The cost of adding the change room and display racks would total \$29,500, and materials and supplies worth \$7,500 would become surplus to the business.

Bakshi discussed the potential changeover with Hal Lockwood, the sales representative for Cascade, the high-end ready-made suit supplier. Lockwood said that he thought adding the medium-priced suit line would adversely affect Suits' sales of high-end ready-made suits. He suggested that sales of Cascade's suits would fall by 35 per cent of the number of medium-priced suits sold. Bakshi was not convinced, but he agonized about the decision nevertheless.

Exhibit 1

INCOME STATEMENT
For the year ended December 31, 2011

	<u>High-End</u> <u>Ready-Made</u> <u>Suits</u>	<u>Tailor-Made</u> <u>Suits</u>	<u>Total</u>
Sales:	\$ 1,400,000	\$ 224,000	\$ 1,624,000
Direct Costs			
Cost of name-brand suits	840,000		840,000
Purchase of fabric and supplies		38,230	56,000
Tailoring costs	42,000	70,320	112,320
Sales commissions	<u>140,000</u>	<u>22,400</u>	<u>162,400</u>
	<u>1,022,000</u>	<u>148,720</u>	<u>1,170,720</u>
Contribution margin	378,000	75,280	453,280
Indirect costs			
Salaries			144,000
Rent			56,400
Advertising			64,200
Telephone and utilities			40,720
Website contract (maintenance and development)			8,700
Property taxes			25,600
Cleaning services			12,000
Maintenance			<u>6,000</u>
			<u>357,620</u>
Net profit before taxes			95,660
Provision for income taxes			<u>38,264</u>
Net income			<u>\$ 57,396</u>