

Made-to-measure in New York

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BACKGROUND

It's 10:00AM on a Sunday and Christopher Demos boards the N-train at Ditmars Boulevard on his way to work. He unbuttons his suit jacket, takes a seat, and unfolds Friday's edition of the Wall Street Journal, which he hasn't yet had time to read. He begins scanning an article about the debate over the federal minimum wage (Morath, 2015) but is soon lost in his own thoughts. Demos is about to celebrate his 55th birthday and has big decisions to make about the future.

For the last three decades, Christopher's store in Midtown Manhattan has sold made-to-measure dress shirts, primarily to local businessmen. Customers visit the store and select a fabric. Christopher takes their measurements and sends the order to a factory in Queens ("the factory") where the shirts are made.

Christopher has established a reputation for quality among his wealthy customers. He generally sells shirts for about \$100 each (prices vary depending on the fabric selected and other considerations). Last year was typical for Christopher's business. He sold 6,500 shirts, paid \$100,000 in rent, \$60,000 for salaries and wages and \$50,000 in other expenses. Christopher's store is organized as a C corporation, and its income tax rate is 30%.

The factory charges Christopher \$52 for each shirt he makes, sometimes a little more or less depending on the fabric. Christopher knows that the factory is struggling and doesn't believe it could offer a better price. The factory takes three weeks to complete an order, at which time the customer returns to Christopher's store to pick up perfectly fitted shirts.

THE FACTORY

The factory is owned by Miguel Coser, who is 30 years old. The factory was built from the ground up by Miguel's mother, Minerva. Minerva and Christopher were close childhood friends and enjoyed a long and successful business relationship. When Minerva passed away several years ago, Miguel took over the business.

Christopher has known Miguel to be reliable, and Christopher and Miguel get along fine. However, their relationship isn't warm. Christopher also knows many of the factory workers and considers them highly skilled craftspeople. His relationship with some of the workers extends more than twenty years, and occasionally Christopher and the long timers go out for lunch together and have nostalgic discussions about how much everything's changed since they were young. Recently they met in a crowded bar to watch a soccer match.

INCREASING COMPETITION

Christopher's business has come under increasing pressure from new stores that have opened nearby. Christopher is concerned about a place a few blocks away that sells made-to-measure shirts for as little as \$64. There's also an online website that sells a similar product for \$56. Christopher doesn't believe he's lost business to the internet because his customers like visiting the store and receiving the personal touch. But he worries about the future, especially if others are selling product similar to his for less.

THE OFFER

A few days ago, Christopher was approached by Lirong Wu, a businesswoman representing a manufacturer in Southeast Asia. Lirong claims that her craftspeople can make shirts “as good as he currently sells” for \$47 each, including shipping. It would take approximately six weeks from the time the order was placed until delivery.

Christopher remembers reading a newspaper article that described labor conditions in Southeast Asian factories as very bad (Ng, 2014). He’s concerned about this for two reasons. First, he has a deeply held ethical belief that it’s wrong to mistreat workers. Second, he’s worried that if it ever came to light that the shirts were made in a sweatshop, the reputation of the store might suffer and he could lose business.

Christopher doesn’t always trust what he reads in the newspaper, and ideally he’d fly to Southeast Asia to see for himself. Unfortunately such a trip is impractical because Christopher is busy running the business and travel is expensive.

Christopher isn’t Miguel’s only customer, but he’s concerned about how the loss of his business would affect the factory in Queens and the people who work there.

CHALLENGE QUESTION

Christopher has just hired you as his advisor. What do you recommend he do?

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