Coastal Uniforms

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Introduction

Andrew Vilas was thinking about his next moves at Coastal Uniforms (Coastal). It was April 3, 2002 and Vilas was concerned about the way the company was being managed. On a cool day in Boston, Massachusetts, Vilas reviewed the sequence of events that had led to the degradation of ethics at his company.

Coastal Uniforms

Boston-based Coastal Uniforms was a publicly traded U.S. company, with $200 million in sales and 2,000 employees. Until 1999, Coastal had achieved steady growth for the past 22 straight years. During this period, its sales had grown at a compound rate of 21 per cent and its profit had grown at a rate of 25 per cent. On several occasions, it was named one of Massachusetts's best employers by leading local business magazines. While working at the company, many of its shareholding employees had become quite wealthy through share price increases.

Coastal had a dozen locations in Massachusetts, New Hampshire and Rhode Island. It provided work uniforms and uniform cleaning services to manufacturing and services industries. Many of its clients were sheet metal fabrication plants, automobile repair shops, and tool and die firms. It recently launched new

initiatives, including a Flame-Resistant Clothing Division, a First Aid Supplies Division and the Custom Uniform Apparel Division, to cater to high-end hotels and casinos.

1999: Signs of Trouble

Coastal's issues started in 1999 when several small competitors, through skillful negotiation, wrested a handful of key contracts from Coastal. These companies, previously dismissed by Coastal management as being serious competitors, because they were perceived as being unorganized and somewhat incompetent, surprised Coastal with their renewed sense of purpose. Coastal management soon found out that a new crop of leaders was at the helm of these enterprises and were driving sales at a furious pace.

In 1999, for the first time in Coastal's history, sales and profit were flat versus 1998; and even then, preventing a decline from occurring required a huge effort from Coastal's sales and operations teams.

Coastal had been focused on hitting pre-established profit and growth levels at each location. Its management had ingrained a concept termed "Rule 35," which stipulated that profit and revenue growth increases had to add up to 35. For example, if revenue grew by 20 per cent, profit had to grow by 15 per cent; if revenue grew by five per cent, profit had to grow by 30 per cent. General managers of each location were heavily rewarded to achieve these levels, even forming discussion groups to share revenue- and profit-growth ideas with each other. It was no surprise that 1999's zero-profit growth and zero-revenue growth was of huge concern—none of the general managers received any bonus for that year. Typically, a bonus constituted up to 40 per cent of a general manager's total compensation.

Management was not looking forward to 2000, as they knew that they would have to redouble their efforts. Amidst this chaos, several key managers left the company to start ventures in unrelated businesses.

2000: The Beginning of the Decline

During the first nationwide sales representatives meeting, the 12 general managers collectively pressured the sales representatives to beat their previously established sales targets by 20 per cent. Despite outward signs of discontent, not one salesperson objected. After the meeting, two general managers tacked on new tasks for their delivery personnel: Instead of just delivering cleaned uniforms and new uniform sales to customers, delivery personnel in these two locations would have to sell catalog items to the customers on their route. Although the target was small ($300 a week in sales), delivery reps that did not meet this target would be dismissed.

Products were re-examined for cost savings. In addition to ordering lower quality cotton and polyester uniforms (while keeping the price to customers the same), Coastal management decided to reduce what they believed to be unnecessary features on uniforms, in order to save costs. Extra buttons were taken off; coveralls were ordered without snaps on the cuffs, name patches were sewn on with wider stitches. In addition, during a gasoline price increase in 2000, the company added a "delivery surcharge," about $15 on top of a $300 weekly contract, to the bottom of the invoice. Only a dozen out of 300 customers called to complain, at which point the surcharge was removed for those that called. When gasoline prices dropped in late 2000, the surcharge remained unchanged.

As a result of these initiatives, profit and revenue growth resumed, with the former growing 10 per cent and the latter growing 10 per cent. Once again, the general managers did not receive their bonus.

2001: More Initiatives Are Put in Place

At the start of 2001, the sales quotas for delivery personnel were increased from $300 a week to $800 a week. In addition, the other 10 locations adopted this "best practice" after the two general managers who instituted it shared the idea with

their colleagues midway through the fiscal year. Sales quotas for salespeople remained very aggressive, and turnover in sales staff increased to 20 per cent. Fortunately, due to the amount of goodwill the company had built up in its community, recruiting efforts more than made up for the attrition; overall company employee strength increased by 10 per cent. An unexpected gain for the general managers was the fact that these new sales recruits eagerly accepted the aggressive sales targets—they appeared eager to please. In addition, the new recruits were half the cost of experienced sales people.

During the first quarter of 2001, an environmental charge was added to invoices. In an explanation to customers, the environmental fee contributed to the cost of cleaning the garments in an environmentally friendly fashion. In reality, no change to the cleaning process was made.

Again, only a small subset of customers, about six to 10 out of every 300, would complain. Dutifully, the complaints were noted, and the charges were dropped for those customers.

In mid-2001, a Hazardous Analysis Critical Control Points (HACCP) charge was added to all invoices going to customers in the food industry. HACCP was a set of regulations in the food-processing industry that required industry participants to adhere to certain sanitation standards. Although Coastal Uniforms had no special method of washing food-processing garments (generally, soiled garments from the food industry were washed along with the rest of the soiled garments), an HACCP charge of $30 per $300 weekly invoice was added. Few customers complained. For several customers, this additional charge amounted to $500 a week for essentially the same service.

These initiatives, implemented by the general managers, were communicated to the rest of the company to be "steering mechanisms" to guide locations to their "correct" profit and revenue growth targets.

For the first time since 1999, the company hit its "35" target. This target was reached despite the slowdown in the industry that occurred in late 2001 as a result of the terrorist attacks in the United States. After much celebration, most employees breathed a sigh of relief, thinking that 2002 would be an easier year.

Unfortunately for Coastal, the start of 2002 was heralded by the departure of another five key customers, who had suddenly discovered an extra thousand dollars a week of extra charges on their invoices. Furious and unwilling to accept an "apology" from Coastal, these customers had voiced their complaints in public forums—at the Better Business Bureau office, at City Council business meetings and to any journalist willing to listen. All of a sudden, an easy 2002 seemed impossible.

2002: More Efforts to Drive Revenue and Profits

The general managers assured anxious Coastal employees that these clients were mistaken and that their company was, as always, doing the right thing. During the national sales meeting, sales targets were set, and an additional challenge was put to sales reps: Lose any customer you signed and you lose your entire bonus for the year. To delivery reps, sales targets were increased, yet again, to $1,200 a week.

The number of customers calling to complain that deliveries were late, product was missing, improper sizes were delivered, etc. was increasing. Up to 25 per cent of customers were "dissatisfied" or "somewhat dissatisfied" with Coastal's service.

Many delivery reps confided to their sales counterparts that, in order to meet their weekly targets, they had resorted to leaving product at the client's location (without the client's knowledge) and charging them for it. So far, this indiscretion had gone unnoticed.

Andrew Vilas's Decisions

Vilas was one of the sales reps in whom the delivery reps confided. He was not surprised to hear of their practices. After all, many of these reps were

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in their mid-stage of life and had families to take care of. None could risk losing a job at this stage of their career. Vilas was feeling tremendous pressure too. He had been able to hit 50 per cent of his targets during the past few years. He noticed himself beginning to get visibly angry with prospective clients (if they were too slow to sign up for contracts). Due to the publicity Coastal's practices had received, old customers were calling Vilas to cancel contracts signed just months before. Although Vilas was owed a bonus of $20,000 for 2001, he had not received it. His general manager had even expressed surprise that a bonus was owed to Vilas. Vilas suspected that this reaction was a ploy to either delay or cancel the bonus owed to him.

Vilas considered legal action but wondered about the effects it would have on his career in the uniform business. If he were labeled a pariah, he would never find work. He wondered about quitting his job, but with the purchase of a new house and car, he was stretched to the limits with regard to finances. He really had been counting on that bonus.

To make matters worse, a recession was hitting Massachusetts, and the effects were amplified in Boston, where many of the factories saw huge drops in customer orders. Companies large and small were laying off workers, and economic recovery was not thought to be around the corner, at least not in the next 12 months.

Vilas wondered what he should do.