



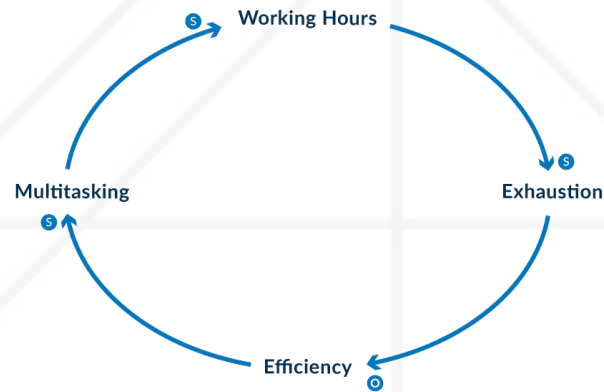
Confidential Memo

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FROM: Wade Westwood
SUBJECT: Advice and Counsel on EU Design
DATE: 12 December 2023

Introduction

EU Design is a success story. Due to their steady growth and market penetration in the last decade, it is time for EU Design to transition from a small business to a medium business. To weather the first growth crisis of the company, causal loop diagrams were developed and analyzed on the following pages to map the systemic underpinnings of EU Design's business model, identify leverage points that can be used to drive change throughout the system and be the basis for identifying recommendations so that the company can better position itself for growth and scalability even in harsh economic conditions.

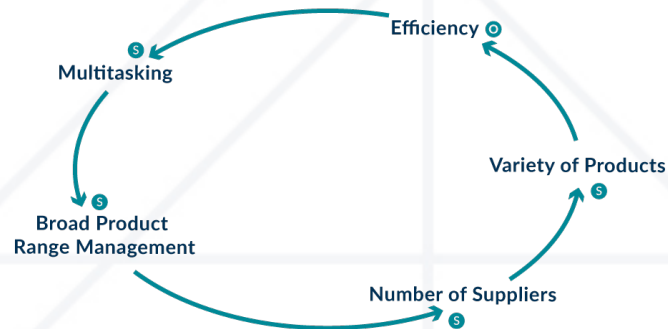
Blue Loop



Blue Loop Analysis:

This loop is balancing.
As Working Hours increase, Exhaustion increases.
As Exhaustion increases, Efficiency decreases.
As Efficiency decreases, Multitasking decreases.
As Multitasking decreases, Working Hours decrease.

Green Loop



Green Loop Analysis

This loop is balancing.

As Efficiency increases, Multitasking increases.

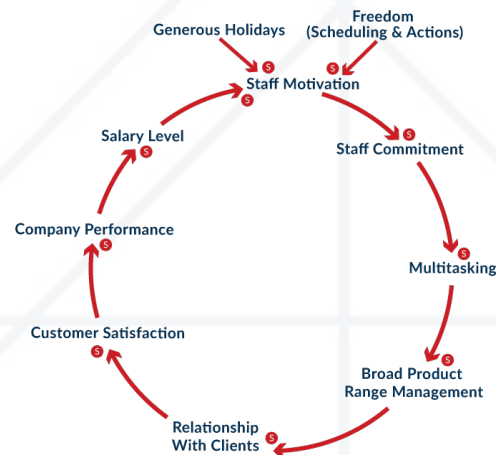
As Multitasking increases, Broad Product Range Management increases.

As Broad Product Range Management increases, Number of Suppliers increases.

As Number of Suppliers increases, Variety of Products increases.

As Variety of Products increases, Efficiency decreases.

Red Loop



Red Loop Analysis

This loop is reinforcing.

Generous Holidays and Freedom (Scheduling & Actions) increase Staff Motivation.

As Staff Motivation increases, Staff Commitment increases.

As Staff Commitment increases, Multitasking increases.

As Multitasking increases, Broad Product Range Management increases.

As Broad Product Range Management increases, Relationship With Clients increases.

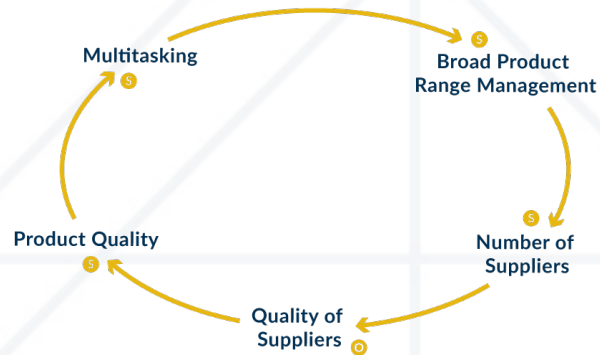
As Relationship With Clients increases, Customer Satisfaction increases.

As Customer Satisfaction increases, Company Performance increases.

As Company Performance increases, Salary Level increases.

As Salary Level increases, Staff Motivation increases.

Yellow Loop



Yellow Loop Analysis

This loop is balancing.

As Broad Product Range Management increases, Number of Suppliers increases.

As Number of Suppliers increases, Quality of Suppliers decreases.

As Quality of Suppliers decreases, Product Quality decreases.

As Product Quality decreases, multitasking decreases.

As Multitasking decreases, Broad Product Range Management decreases.

UE Design Systems Model



EU Design System Loop Analysis

This system loop is balancing.

When the Red, Blue, Yellow and Green loops are shown together, they represent EU Design's current system. The intersections of the loops are points of leverage that can effect multiple loops in the system. Multitasking, Broad Product Range Management, Number of Suppliers, Efficiency and Customer Satisfaction are all points of leverage within the system.

Recommendations

The EU Design System causal loop diagram illustrates that multi-tasking and broad product range management is contributing to an increase in exhaustion and a decrease in efficiency. There are a number of changes that EU Design should consider to help their transition from a small to mid-size company. However, due to the constraints caused by the economic climate, the order in which change is implemented is important. Therefore, efforts and resources should be concentrated on reducing both multi-tasking and broad product range management and increasing efficiency.

EU Designs will get the most return for the least investment by making organizational structure changes, and this is where implementation efforts should immediately be focused.

After organizational structure changes have been implemented and when economic conditions allow, EU Design leadership can consider other changes, like adding a dedicated sales department. However, it should be noted that the cost and benefit of adding a department

should be evaluated when broader economic conditions recover, and therefore will not be explored further in this memorandum.

Currently, EU Design refers to its account managers in New York and Hong Kong offices as separate divisions, totaling 6, but practically speaking they are divisions in name only. EU Design has increased revenue by 500% in five years, and it would be beneficial for Mr. Berardi and his direct reports to position themselves within the company structure to manage the larger organization and future scaling efforts.

Due to the current structure, Mr. Berardi has direct responsibility for 65% of the company's turnover, and also has the most experienced account manager in Hong Kong, generating 10% of EU Design's revenue, reporting directly to him.

Additionally, the Hong Kong office is responsible for growth that is unparalleled by the New York office, putting the offices on more even footing in 2009 than they previously were. Production has grown by 40% to 75%, there are now three more employees in Hong Kong (10) than New York (7), and the first in-house product design and development center is in Hong Kong.

I recommend:

- EU Design move to formally establish 2 divisions - one in Hong Kong and one in New York. Each division should have a dedicated leader, and the leaders should report directly to Mr. Berardi.
- Due to economic conditions, it may make sense to have a capable senior account manager take on the division lead role. However, it has been noted via employee surveys that a lack of attention to cost and efficiency has been detrimental to multi-tasking and efficiency, so it may be a net benefit to the business to hire a business manager.
- Formal performance reviews and incentive structures should be implemented. Metrics for account managers should focus solely on sales, and the Hong Kong and New York business managers should be measured relative to division efficiency and cost.
- Both divisions should maintain a dedicated accountant, as differences in accepted accounting practices are likely different enough in Hong Kong and New York that little to no efficiency will be gained by merging the departments, and regulatory risks would likely increase.
- Mr. Berardi should increase the time that he spends in Hong Kong to better reflect the business impact that the Hong Kong office generates through production, sales and design.

Conclusion

Mr. Berardi is under the impression that landing one or more big clients will protect EU Design from the financial pressures brought on by the 2009 global economies. While this may be true, due to large companies' demonstrated loyalty to suppliers, it would be best for EU Design to first focus resources entirely within the company's control to better weather the economic crisis and position itself for further scaling. A reduction in multi-tasking and broad product range management, as well as an increase in efficiency should all be realized through organizational restructuring and metric alignment within roles.