



Cases in Strategic-Systems Auditing

Helen of Troy Limited

The Impact of an Outsourcing Strategy

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Introduction

Helen of Troy (HofT), incorporated in Bermuda, with U.S. operations headquartered in El Paso, Texas, designs, develops and markets personal care products. These products include small electronic appliances, such as hair dryers, curling irons and foot massagers, as well as hairbrushes, combs and hair accessories. They are sold through mass merchandisers, such as Wal-Mart, drug chains, wholesalers, warehouse clubs, grocery stores and beauty supply retailers. The United States accounts for approximately 91 percent of HofT's total sales.

This case is set in the
years 2000-2001

HofT outsources virtually all of its production to third-party contract manufacturers (CMs) in the Far East, primarily in the Peoples' Republic of China (about 85 percent), Thailand, Taiwan, South Korea, Malaysia, the Philippines and India. The company's products are sold under licensed trade names and trademarks, such as Revlon,[®] Dr. Scholl's,[®] Vidal Sassoon, Barbie,[™] Sunbeam[®] and Oster.[®] HofT also owns certain trade names and markets hair and beauty care products to the professional beauty salon industry.

The trend toward outsourcing core processes, such as manufacturing, in the highly competitive, small electronics industry is accelerating as companies recognize that they may reap significant efficiency gains by adopting such an approach. Further, companies that choose to outsource manufacturing can devote their resources to activities in which they have competitive advantage. In an industry for which speed to market and product innovation are critical to sustainable success, HofT views product design and development, inventory management and customer relations as potential foci for adding value.

HofT, however, recognizes that outsourcing a core business process such as manufacturing is not without risk. According to its 05/29/02 10-K filing:

All of our products are manufactured by unaffiliated companies, most of which are in the Far East. Risks associated with such foreign manufacturing include: changing international political relations; changes in laws, including tax laws, regulations, and treaties; changes in labor laws, regulations, and policies; changes in customs duties and other trade barriers; changes in shipping costs; currency exchange fluctuations; local political unrest; and the availability and cost of raw materials and merchandise. To date, these factors have not significantly affected our production in the Far East. However, any change that impairs our ability to obtain products from such manufacturers, or to obtain products at marketable rates, could have a material negative effect on our business, financial condition and results of operations.

As HofT contemplates further expansion and seeks additional opportunities for improving profitability, the company continuously evaluates whether its current business model is optimal, given the current and likely future global political and business climate.

Background

Too young to borrow capital easily at leading lending institutions, HofT's founding President and CEO, Gerald J. Rubin, brought his father into the business to secure critical bank loans. Starting as a wig company, the company adopted a strategy of licensing trademarks after obtaining its first trademark license directly from Vidal Sassoon.¹ When the Rubins (father and son) learned that Vidal Sassoon was leaving the business, they went to his offices and convinced him that their fledgling company could market and sell Vidal Sassoon products successfully. Since that time, nearly three decades ago, HofT

**Table 1:
Portfolio of Brand Names and Related Products**

Brand name	Product categories
Altesse®	brushes and combs, misc.
Barbie™	brushes and combs, hair dryers, gift sets
Caruso™	hairsetters, rollers, liquids
Dazey®	bonnet dryers
DCNL®	hair accessories, hairsetters, rollers
Dr. Scholl's®	bath spas, cushioned massagers, foot baths, foot massagers, misc.
Helen of Troy®	curling irons, diffusers, ^a hair dryers, hairsetters, hot air brushes
Hotspa®	foot baths, massagers, mirrors, misc.
Hot Tools®	bonnet dryers, curling irons, diffusers, hot air brushes, hair dryers, misc., specialty irons
Karina®	implements, ^b mirrors
Kent®	brushes and combs
Nandi™	hair accessories, rollers
Oster®	clippers
Professional Caruso™	hairsetters, specialty irons
Revlon®	beauty and spa, brushes and combs, curling irons, electric mirrors, hair dryers, hairsetters, hot air brushes, mirrors, misc.
Sable®	curling irons, hair dryers, specialty irons
Sunbeam®	clippers, curling irons, hair dryers, misc.
Sweet Things®	hair accessories
Thermacell®	cartridges (for Revlon curling irons) – coming soon
Vidal Sassoon®	curling irons, hair dryers, hairsetters, hot air brushes, specialty irons, steam and style products
Wigo®	curling irons, diffusers, ^a hair dryers, specialty irons

^adiffusers are attachments for hand-held hair dryers
^bimplements include scissors, tweezers, etc.

has added many other prestigious names to its trademark list, including Revlon, Dr. Scholl's, Barbie and Sunbeam. When Ron Perlman, CEO of Revlon, decided to enter the licensing business, he chose HofT, although still a relatively small company, for a significant piece of Revlon's business because of its success with Vidal Sassoon.

¹ A trademark license is an arrangement whereby the trademark holder (licensor) permits another party (licensee) to use its trademark on products sold by the licensee. These arrangements typically are limited to a geographic area for a particular period of time.

Products

The company's products are sold using approximately 3,000 stock keeping units (SKUs) in a variety of product categories under 21 brand names. (See Table 1.) Among the most recognizable brand names are Revlon and Vidal Sassoon, the latter now owned by Procter & Gamble. In addition, HofT uses private-label brands (e.g., hair dryers for Walgreens) and markets some of these products at different quality levels (price points).

HofT also sells products in three different market segments: professional, retail and crossover. A hair dryer for the professional market would be made with a DC (direct current) motor, gold contacts and relatively expensive switches. It would sell for \$70 to \$150. A hair dryer for the retail market would have less expensive components and sell (at retail) for about \$20. For the crossover market, HofT markets curling irons that initially were sold under the Sable brand name. These curling irons originally were marketed to end users. However, the curling irons became so popular that the company began to market them to beauty supply stores catering to salon professionals and they were sold under the brand name of Hot Tools. Table 2

Product	HofT U.S. Market Share (%)	U. S. Retail Market (in 000s)
hair dryers	32	\$351,000
hairsetters	19	n/a
curling irons/brushes	34	\$295,620
lighted mirrors	31	n/a
curling/hot air brushes	31	n/a
hair accessories	6	\$762,700

indicates that the company's sales of hair dryers and curling irons amount to approximately \$213 million at retail, which translates to an estimated \$160 million of sales revenue (assuming a 33 percent markup at the retail level). This amount constitutes approximately 44 percent of HofT's sales for the year ended February 28, 2001.²

Strategy

As previously mentioned, HofT's strength is in design, development and marketing of a wide variety of personal care products. Keeping that strength as its main focus, management decided to outsource

² Sources: "2000 APPLIANCE Statistical Forecast: Personal Care Appliances," *Appliance* (January 2001), p.45, "2000 APPLIANCE Statistical Forecast: Personal Care Appliances 2002-2006," *Appliance* (January 2001), p. 56, "The Share-of-Market Picture for 2000: Part 1," *Appliance* (September 2001); p. 52, "Beauty Aids: Hair accessories," *Chain Drug Review* (January 29, 2001), p. 38.

virtually all of its manufacturing activity but closely monitors that function at the various contracted sites. Significant attention also is placed on customer relationships. In particular, its large retail customers are assured adequate levels of desirable inventory items. Finally, HofT maintains a large portfolio of brand names, the most popular of which it does not own, but licenses from owners.

Macroenvironmental Factors

Political, Economic, Social and Technological

HofT's heavy reliance on overseas contractors for manufacturing introduces critical risks as well as opportunities. Choosing contracting locations is at least partially dependent on understanding the impact of the macrointernational environment on the company's long-term viability. Turmoil arising from the September 11, 2001 terrorist attacks on the United States and its aftermath suggest that various parts of the world are more hazardous than previously perceived. Some of HofT contract manufacturers operate in countries where these risks are a concern, particularly Malaysia, India and Korea. However, a relatively small percentage of the company's products come from these countries. Further, China (where approximately 85 percent of the company's products are manufactured) joined the World Trade Organization (WTO) during November 2001, which serves to lessen risk in that country. In general, political instability often translates into economic instability that, in turn, raises concerns about currency exchange rate fluctuations and financial exposure. As governments try to stabilize their economies during the global recession, there is a risk that new regulations affecting operations might be enacted including measures for maintaining currency value and protecting domestic industries (e.g., by elevating trade barriers).

Seasonality is a factor in the personal care industry and HofT recognizes more than half of its sales in its combined second and third fiscal quarters. A stockout during those periods could be devastating. Additionally, the U.S. economic climate contributes to uncertainty when trying to forecast domestic sales. Changes in consumer demographics, tastes and attitudes are inputs to product design as are advances in technology. Technological advances also impact product decisions as well as processes such as transportation, inventory management and automated manufacturing techniques.

Industry Analysis

The personal care products industry is extremely competitive and price sensitive with low profit margins. HofT's profitability depends not only on the degree of competition but also on the nature of its

relationships with buyers and suppliers³ Suppliers and buyers, especially those who are capable of forward or backward integration, have a great deal of bargaining power and can squeeze profits.⁴ The threat of new entrants and the existence of viable substitute products also limits profits in the industry.

In the personal care products industry, competitive advantage accrues to those companies that are innovative in product design, first movers in new product introductions, successful at keeping costs of supply and inventory down, efficient in operating their distribution centers, effective advertisers and vigilant in controlling the quality of their products from suppliers while maintaining strong relationships with buyers.

Competitors

The company has a number of well-financed, large, fierce competitors, most with recognizable brand names. The two primary competitors are Conair[®] and Remington[®] products. Goody[®] (a division of NewellRubbermaid[®]) and The New L&N Sales and Marketing Corporation are competitors in the hair accessories market. HoMedics[®] is a competitor in the market in which HofT sells products under the Dr. Scholl's trademark.

Competition is based on a number of factors:

- product price
- availability and quality
- brand-name recognition
- innovation in new product design
- replacement models
- marketing and distribution.

³ Porter, M.E., *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (The Free Press, New York, 1980).

⁴ In this context, forward integration would involve HofT selling products directly to consumers (end users). Backward integration would involve the company becoming directly involved in manufacturing, rather than outsourcing this activity. In other words, forward and backward integration represent becoming more involved in activities further up and further back on the value chain.

Conair®

HofT's most direct competitor, Conair (www.conair.com), was established in 1959, went public but was taken private in 1995. As a result, Conair's latest publicly available financial information pertains to the year-ended December 31, 1994. The company, based in Stamford, Connecticut, markets products for personal care, fitness, cooking, consumer electronics and oral care. In particular, Conair directly competes against virtually all of HofT's products—the exceptions are hairbrushes, combs and hair accessories. In addition to the very recognizable Conair brand name, the company markets under the brand names Jheri Redding,® Cuisinart,® Waring,® Interplak,® Rusk,® Forfex,® BaByliss® and Southwestern Bell Freedom Phone.® During 1999, Conair began supplying General Electric (GE) with personal care items exclusively for Wal-Mart. Conair also markets products under the Revlon brand name in Western Europe and the Vidal Sassoon brand name in the Far East.

During fiscal 2000, Conair, which employs 5,000 people, reached \$1 billion in annual sales for the first time according to a November 30, 2000 press release from the company. During fiscal 1994, Conair derived approximately 40 percent of its sales from its personal care products segment. If that proportion has remained constant, Conair's sales of personal care products would be comparable to those of HofT.

Remington®

HofT's other major competitor, Remington products, (purchased by the Rayovac Corporation in September 2003) is headquartered in Bridgeport, Connecticut. Remington dates back to 1816 and is well known for its shavers and other grooming products. It also competes in the hair care and wellness products markets (www.remington-products.com). The company's hair care products include hair dryers, hairsetters, curling irons, hot air brushes and lighted mirrors. The company markets products primarily under its own, very recognizable, brand name. In addition, the company operates more than 100 of its own stores.

Like HofT, Remington outsources virtually all of its manufacturing activity to a small number of third-party contract manufacturers (CMs) primarily in the Far East. During fiscal 2000, more than half of the company's cost-of-sales was attributed to only three suppliers. Remington's U.S. sales are between 65 and 70 percent of total sales, while HofT derives almost 90 percent of its sales from the United States. In fiscal 2000, Remington's total sales of \$365 million were comparable to that of HofT.

Applica[®] Incorporated

While Applica (www.applicainc.com) does not compete with HofT to the same extent as Conair, it is a publicly traded company and therefore represents a source of information for comparison purposes. Similar to HofT, Applica sells products under a number of brand names, including: Black & Decker[®] Household Products, Windmere,[®] Littermaid,[®] SonicWeb,[™] Belson[®] and Jerdon.[®] The latter two brand names are in direct competition with some HofT products. Similar to HofT, Applica sells many of its products under brand names that it licenses (e.g., Black & Decker). However, unlike HofT, Applica does not outsource its manufacturing operations and, as part of its business strategy, provides CM services for other companies.

Customers

HofT and its competitors sell primarily to large retail stores. The end users for the company's products are mostly women, pre-teens and older. Monitoring fashion trends is crucial to the company's ultimate success. Table 2 (on pg. 3) contains the company's market share statistics and the size of selected U.S. markets for 2000.

Significant relationships with a few very large direct customers is a key element of HofT's competitive success. Sales to Wal-Mart Stores, Inc., and one of its affiliates, accounted for approximately 23 percent of the company's net sales in fiscal 2001, 26 percent in fiscal 2000 and 29 percent in fiscal 1999. HofT's top three customers (Wal-Mart, Kmart and Target) accounted for 37 percent of HofT's fiscal 2001 net sales. Although HofT has long-standing relationships with its key customers, those customers are not bound by contract to continue the relationship. Consequently, there is some risk of substantial loss due to the possibility that one or more of these major customers could stop buying products. Generally, *switching costs* in this industry are fairly low. HofT has created stickiness with respect to Wal-Mart by investing in a state-of-the-art inventory management system to more effectively fill Wal-Mart's orders. In addition, while HofT has approximately 1,000 electronic products SKUs, only about 12 or 13 are sold to Wal-Mart. The retailer, therefore, is able to focus on a small number of items that are the most likely to sell, thereby reducing the level of sales returns.

Suppliers—Contract Manufacturers (CMs)

As previously mentioned, using low-cost labor is pivotal to maintaining profit margins in this intensely competitive industry. Virtually all of HofT’s manufacturing, therefore, is contracted to a large number of unaffiliated third-party suppliers in the Far East (with whom it has developed long-term relationships). Benefits to HofT are lower production costs, shorter cycle times and lower capital requirements. The company then can focus on value-added activities such as marketing and sales and product development. Managing and monitoring supplier relationships and product quality, however, is not a cost-free activity. The company also bears the risks associated with excess or obsolescent inventory. Additionally, with a wide network of CMs, currency exchange fluctuations, political turmoil and difficulties with transportation and logistics, are ever-present considerations.

Location of CMs is based primarily on availability of low-cost labor and needed raw materials. Labor must be skilled enough, however, to handle complex and somewhat automated technologies and to attend to product quality concerns. Location decisions also are predicated on the proximity of CMs to the company’s markets and distribution centers. Worldwide product rollouts are facilitated by a global CM presence and shipping costs are reduced when CMs can ship to nearby warehouses. HofT’s sales remain predominantly domestic; however future geographic expansion plans will consider the practicality of CM location decisions. In other words, expanding into additional markets (i.e., Latin America) will be at least partially dependent on the company’s ability to deliver products to that location at a competitive price.

Operations—Core Business Processes

The following are the company’s core business processes (see Figure 1):

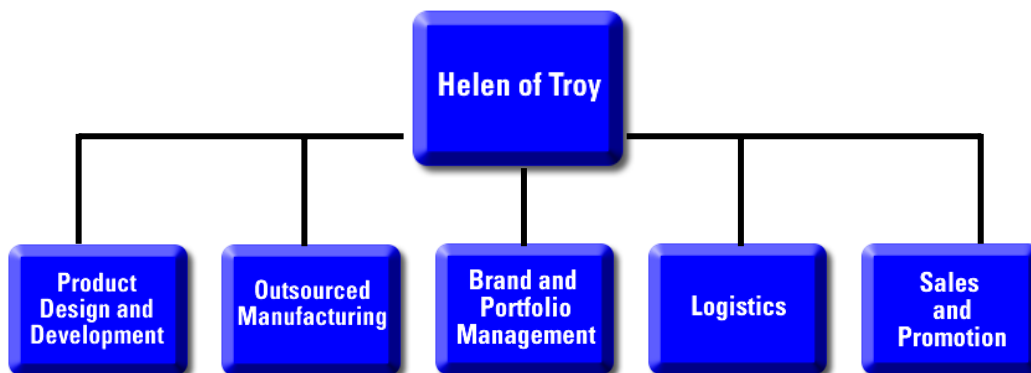


Figure 1
Core Business Processes

Product Design and Development

Designing and developing new products takes about 12 to 18 months. This process begins when market trends are incorporated in designing prototypes. Next, the company contracts with outside design companies to build the prototypes (HofT employs no internal design engineers).

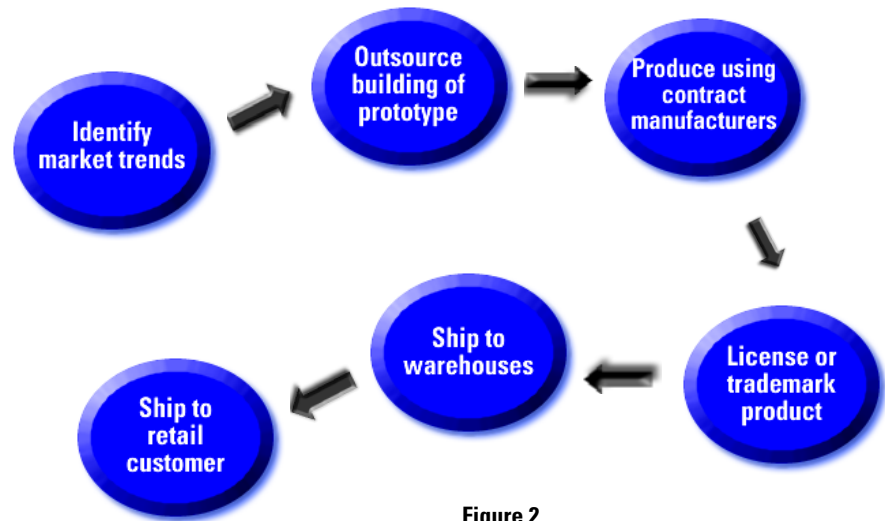


Figure 2
Product Cycle

Prototypes are made out of

various materials according to specifications that include safety requirements (e.g., necessary space for size of various electrical components). Understanding that product innovation is important in a competitive industry, HofT is aggressive about bringing new products to the marketplace. For example, it was the first company to supply hair dryers using halogen-heating technology.

HofT pays close attention to trends in the market for its products and operates a Web site called *Trendsetters* (www.tsetters.com) to aid in marketing certain products to girls in the age range of 11 to 15 years old. The company also monitors fashion trends along the Pacific coast between San Diego and San Francisco, which are leading trends/indicators for the country.

Outsourced Manufacturing

Once a product is designed and developed, the company contracts (outsources) production with various CMs. Outsourcing a core process allows a company to invest resources elsewhere. In HofT's case, the work is let out for bid so that CMs are price competitive. As previously mentioned, approximately 85 percent of HofT's manufacturing is done in Mainland China, with additional manufacturing in Korea, India, Malaysia and the Philippines where, because of their proximity to relatively inexpensive supplies of rubber, elastic products are manufactured. There are 15 to 25 factories in China that produce hair care items, of which, six to eight do the majority of the production. The company migrated its comb and brush production from other parts of Asia to China as well, with about 20-25 factories making these products, of which, eight to ten do the majority of the production. While these factories tend to be highly automated,

much of the work still is performed manually and some of the work is complex. For example, manufacture and assembly of clipper blades requires a high level of skill.

Most of these factories also manufacture products for other companies but not in the same product lines. If product quality or focus on HofT suffers, HofT re-evaluates the relationship. To maintain quality, the company operates a quality control facility in Hong Kong that employs about 100 people in total with about 30 working directly on quality control. These employees visit factories on a daily basis and take product samples directly from the production line. Results from these tests are used to locate problem areas that then are communicated to HofT headquarters and to the CM in question.

Product quality is a direct result of vigilance in managing supplier relations. Relationships with contractors are long-standing, with some factory owners working with HofT since the company's inception. Expectations, therefore, generally are mutually understood. Purchasing managers are challenged with the task of choosing and monitoring CMs and keeping costs competitive.

HofT's Texas location borders Mexico and it has contemplated increasing manufacturing there, given the benefits afforded by the North American Free Trade Agreement (NAFTA). Mexican factories, however, have had higher than average product defect rates. Therefore, despite Mexico's proximity and the resultant decrease in transportation costs for the U.S. market, it still is cheaper to produce in China. The company also is considering exploring opportunities for manufacturing in Eastern Europe to serve the growing European market. The Czech Republic and Hungary are leading candidates and their full participation in the European Union (EU) as of May 1, 2004 renders them even more attractive.

Another possibility is for the company to become more directly involved in manufacturing itself. However, to date, efforts at joint ventures have been unsuccessful. After the Tiananmen Square incident, HofT entered into an international joint venture in Thailand to build a manufacturing plant but eventually ended this arrangement. The accepted wisdom within HofT is that the company's core competence is not manufacturing but rather in the downstream activities of marketing and sales and the upstream knowledge intensive activities of product design and development.

Brand Portfolio Management

A considerable portion of HofT's sales revenue comes from products that are trademarked or licensed from third parties. A significant component of HofT's strategy, discussed next, is continued expansion of its licensed-product portfolio. However, the rights to some trademarks or licenses are not owned in all markets. Consequently, in some markets, HofT might compete with products that it *owns* in other markets

and, in an increasingly global market, incur advertising costs that may benefit a competitor. In some cases, the company has worked out favorable deals with licensors. For example, HofT is the licensee of Revlon and Vidal Sassoon in the United States and Canada and Vidal Sassoon in certain countries in Western Europe and Revlon worldwide (except for Western Europe). In addition, HofT can decide where to market Revlon or Sassoon based on its extensive research. Licenses require an up-front fee and some percentage of sales. The agreements are long-term and renewable (40-50 years). During fiscal 1997 and later, the company added the following brand names: Barbie (owned by Mattel®), Dazey, DCNL, Dr. Scholl's, Karina, Sunbeam (and its Oster brand) and Thermacell (information about the products sold under these brand names is included in Table 1).

Early in fiscal 2001, the company acquired a 55 percent ownership interest in Tactica International, Inc. (Tactica) for \$2,500,000. Tactica designs, develops and sells a variety of personal care appliances, including depilatories and paraffin baths. Under the IGIA trade name, Tactica also produces a line of hair care products that use ion technology, including the IGIA Ion-Aire™ hair dryer. In early 2001, Tactica introduced its line of hair removal products under the Epil-Stop® trade name. These products include a variety of topical products for long lasting, painless hair removal. Tactica makes extensive use of television infomercials and direct response marketing. In fact, during several weeks from March through May of 2001, the Epil-Stop infomercial was the top airing infomercial in the United States. These infomercials created significant demand for the Epil-Stop product and Tactica experienced significant sales volume. In addition, retail sales to the direct chain distribution channel also were significant.

Logistics

Transportation and Distribution. HofT's highly efficient distribution capabilities play an integral role in making it a very desirable partner for the world's most popular retailers. HofT maintains warehouse/distribution facilities in the United States, Canada, the United Kingdom and Hong Kong. It also is currently looking to form a joint venture in a Latin American facility to more efficiently and effectively service that market. Products sold in North America and manufactured in the Far East are shipped to the West Coast of the United States. Then they are shipped by truck or rail service to warehouses in El Paso, Texas, Memphis, Tennessee and Toronto, Canada or directly to customers. Substantially all of HofT's products sold to North American customers are transported from these warehouses by ground services. Products, primarily from manufacturers in the Far East, are shipped directly to customers or to rented warehouses in Veenendaal, The Netherlands and Nottinghamshire, the United Kingdom and then sent to distributors or retailers.

The El Paso location is a new 408,000-square-foot distribution center that uses cutting-edge technology. Fulfillment workers (i.e., pickers) wear small, wireless computer devices on their wrists to display the items in the order being filled. They also wear bar code scanners on their fingers. The warehouse itself is divided into several areas. One of these areas is an inactive bulk storage area for goods not expected to be included in shipments within the near future. Another area is an active picking area for orders currently being filled. The warehouse also includes a set of shipping and receiving docks (21 of each) on opposite sides of the building. Shipments arrive in 20 or 40-foot containers and are loaded onto trailers for truck transport or are piggybacked for transfer to rail.

SPARC Award

In July of 2000, HofT received the SPARC (Supplier Performance Award by Retail Category) Silver Circle Award. This award recognizes the company's service, innovation and overall programs that best serve the mass-market retailing industry. Buyers and merchandise managers for the industry's top 100 retailers vote on a specific set of performance criteria in 41 merchandise categories.

Inventory Mmanagement. In addition to deploying state-of-the-art logistics and information systems in its distribution centers and transportation network, during fiscal 2000, HofT invested approximately \$2 million in an inventory management sub-system devoted entirely to meeting the needs of Wal-Mart. This *carousel* system consists of machines that do a significant amount of handling and also reduces the likelihood of stockouts (and the associated missed sales opportunity) as it allows the company to more effectively keep appropriate levels of inventory. In addition, HofT ships prepackaged orders for individual stores to Wal-Mart distribution centers (DCs). Prepackaging allows cross docking at the DCs for shipment to each of Wal-Mart's approximately 2,500 stores in North America.

Sales and Promotion. U.S. sales, the primary market, were 89 percent of total sales in FY 2001, 88 percent of total sales in FY 2000 and 92 percent in FY 1999. The products are sold primarily through mass merchandisers (e.g., Wal-Mart, Target and K-Mart), drug chains (e.g., Walgreens, Eckerd, Rite Aid and Drug Emporium), warehouse clubs (e.g., Sam's Club and Costco), grocery stores and beauty supply retailers and wholesalers. The mass merchandiser channel has the highest sales followed by drug chains and grocery stores. HofT also sells to U.S. markets using approximately 100 manufacturers' representative organizations, beauty and barber supply representative organizations and its own sales staff. Seasonality—between 55 percent and 60 percent of annual sales occur in the second and third fiscal quarters—affects costs of inventory and promotion and can create fluctuations in working capital needs.

Products sold under the Vidal Sassoon, Revlon and Scholl's trademarks comprise most of HofT's international sales. Vidal Sassoon trademarked products are sold in various countries in Western Europe

and under the Revlon trademark worldwide, except in Western Europe. Certain products are sold internationally under the Scholl's trademark. Wigo professional hair care appliances also are marketed worldwide. HofT is licensed to sell various other products outside the United States through mass merchandisers, chain drug stores, catalogs, grocery stores and beauty supply retailers and wholesalers. Internationally, products are marketed through manufacturers' representative organizations, independent distributors and its own sales staff. Some retail customers prefer exclusivity; therefore, certain products are sold exclusively to specific retail outlets.

HofT manages shelf space inventory for some of its customers. This strategic alliance known as *category management* is mutually advantageous because HofT often is better informed than its customers about specific product issues relevant to the personal care products industry. As part of this service, HofT often provides planograms⁵ (up to 24 ft long) that incorporate up to several hundred products. See sample below.



Advertising. Revlon Consumer Products Corporation engages in extensive national advertising of its beauty care products. The Proctor & Gamble Company (owner of Vidal Sassoon) embarked on a new advertising and marketing plan during HofT's 2001 fiscal year. The Dr. Scholl's trademark also is widely recognized, partially because of advertising and the sale of a variety of products. HofT benefits from the name recognition associated with the Vidal Sassoon, Revlon and Dr. Scholl's trademarks and works through its own advertising and product development efforts to further improve the name recognition and perceived quality of all the trademarks under which it sells products. These products are promoted primarily through print media, including consumer and trade magazines and sales promotions. Although, HofT does cooperative advertising with retail customers (e.g., coupons, catalogs, etc.) it does not do media advertising for retail sales. HofT does, however, produce in-house, glossy brochures for its buyers.

⁵ Depicted planogram is reprinted with permission from HofT.

Epilogue

Since the 2000/2001 time frame during which the case is set, Helen of Troy has continued to grow and thrive. One measure of the company's success is market capitalization. In early 2001 (the end of fiscal year 2001), shares of the company's stock were trading for around \$6.00. Since then, those shares have enjoyed an approximate six-fold increase to approximately \$36.00 in late June 2004. The growth in market capitalization from approximately \$180 million to more than \$1 billion is a function of the company's continuing financial success reflected in an increase in net income from \$17.3 million for fiscal 2001 to \$60.5 million in fiscal 2004, an annualized increase of approximately 52 percent.

In addition to bottom-line success, the company has continued to expand its operations, and perhaps more importantly, its growth opportunities via a series of strategic acquisitions and new licensing agreements.⁶ These include the following:

Date	Company/Brand Name	Type of Deal
June 17, 2004	Sunbeam – Health o meter brand name	Licensing agreement
June 2, 2004	OXO International (kitchenware, etc.)	Acquisition
September 29, 2003	Brut (fragrances, deodorants)	Acquisition
September 26, 2002	Condition 3-in-1, Final Net, Vitalis, Ammens, Sea Breeze, Vitapointe brand names	Acquisition

A number of other significant events occurred during 2002 – 2004. In April 2004, the company divested its interest in Tactica International. During 2003, the company announced its sponsorship of the Vitalis Sun Bowl football game (note that Vitalis was one of the brand names acquired during September 2002). During July 2003 it was announced that Helen of Troy had earned "Supplier Award of Excellence" for the personal care products category from Wal-Mart Stores, Inc. for the first quarter of 2003. In January of 2003, the Company purchased a 619,000 square foot warehousing facility in Southaven, Mississippi. In October of 2002, HofT was named one of the 200 best small companies by Forbes magazine.

⁶ The rights to sell products under the Seabreeze and Vitapointe brand names were assigned by Procter & Gamble to Helen of Troy. These brand names are owned by Shiseido Company Limited and Sara Lee Household and Body Care UK Limited, respectively.

Exhibit 1

Consolidated Statements of Income⁷

(in thousands)

	<u>Year Ended the Last Day of February</u>			
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net sales	\$451,249	361,398	299,513	294,487
Cost of sales	<u>238,859</u>	<u>220,530</u>	<u>185,685</u>	<u>175,293</u>
Gross profit	212,390	140,868	113,828	119,194
S,G&A expenses	<u>170,733</u>	<u>118,306</u>	<u>104,409</u>	<u>82,862</u>
Operating income	41,657	22,562	9,419	36,332
Other income (expense)				
Interest expense	(4,256)	(3,989)	(3,530)	(3,337)
Other income, net	<u>1,146</u>	<u>2,317</u>	<u>7,208</u>	<u>2,418</u>
Total other income (expense)	<u>(3,110)</u>	<u>(1,672)</u>	<u>3,678</u>	<u>(919)</u>
Earnings before income taxes	38,547	20,890	13,097	35,413
Income tax expense (benefit)	<u>9,332</u>	<u>3,558</u>	<u>(14)</u>	<u>7,083</u>
Net earnings	<u>\$29,215</u>	<u>17,332</u>	<u>13,111</u>	<u>28,330</u>

⁷ These financial statements include results from Tactica International, which was divested in April 2004. Financial statements included in SEC filings for periods ending subsequent to this divestiture, including comparative statements of previous periods, exclude the results of Tactica International.

Exhibit 2

Consolidated Balance Sheets

(in thousands)	<u>As of the Last Day of February</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Assets			
Current assets:			
Cash and cash equivalents	\$64,293	25,937	34,265
Marketable securities, at market value	145	1,956	994
Receivables – principally trade, less allowance of \$5,794 in 2002, \$4,081 in 2001, and \$2,514 in 2000	69,943	64,310	52,916
Inventories	100,306	118,544	96,959
Prepaid expenses	3,256	2,516	3,919
Deferred income tax benefits	<u>5,727</u>	<u>7,118</u>	<u>4,970</u>
Total current assets	243,670	220,381	194,023
Property and equipment, at cost less accumulated depreciation of \$11,998 in 2002, \$9,133 in 2001 and \$6,212 in 2000	45,716	47,763	47,439
Goodwill, net of accumulated amortization of \$8,629 in 2002, \$6,594 in 2001 and \$4,569 in 2000	40,767	42,808	40,850
License agreements, at cost less accumulated amortization of \$11,842 in 2002, \$10,676 in 2001 and \$9,384 in 2000	6,678	7,844	5,504
Other assets at cost, net	<u>20,727</u>	<u>18,385</u>	<u>16,136</u>
Total assets	<u>\$357,558</u>	<u>337,181</u>	<u>304,252</u>
Liabilities and Stockholder's Equity			
Current liabilities			
Notes payable to banks	-	10,000	-
Current portion of long-term debt	-	-	450
Accounts payable, principally trade	11,549	21,003	6,295
Accrued expenses:			
Advertising and promotional	5,183	5,101	4,602
Other	15,369	8,343	15,227
Income taxes payable	<u>20,131</u>	<u>18,125</u>	<u>13,054</u>
Total current liabilities	52,232	62,572	39,628
Long-term debt, net of current portion	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>
Total liabilities	<u>107,232</u>	<u>117,572</u>	<u>94,628</u>
Stockholder's equity			
Common stock	2,820	2,806	2,884
Additional paid-in-capital	53,424	52,206	53,494
Retained earnings	195,474	169,503	153,246
Minority interest in deficit of acquired subsidiary	<u>(1,392)</u>	<u>(4,906)</u>	<u>-</u>
Total stockholder's equity	<u>250,326</u>	<u>219,609</u>	<u>209,624</u>
Total liabilities and stockholder's equity	<u>\$357,558</u>	<u>337,181</u>	<u>304,252</u>