



THE
DUKE MBA
CONSULTING CLUB

Case #8

Company: Accenture (Round 2)

Topic: Market Entry

Industry: Professional Car Racing

About the Case

This is a market entry case with an interesting choice of industry – professional car racing. The case hinges on a revenue-cost framework and introduces the candidate to the unique aspects of the industry's revenue model, namely sponsorship, merchandising, licensing rights etc. While the scope of the case may be defined by the revenue-cost analysis, the candidate has ample opportunity to explore various other aspects of market entry decision-making that come into play.

Defining the Problem

Your client is the owner of UPS #88, a racecar on the NASCAR tour. It races in the Nextel Cup, a points-based championship where the season winner has accumulated the most points over the course of the racing season. There are 36 races in total, running from February to November. Dale Jarrett, a well-known celebrity driver, races for the team. Dale helped win the Nextel Cup three years ago, and so far this year is eighth in a field of 43 drivers.

A close friend who is the VP of marketing at Home Depot recently contacted the client. She inquired about sponsoring a second racing team with the client. She recognizes that NASCAR is the fastest growing segment among males ages 18-45. She also has talked to a successful driver from a regional drag racing circuit to try out as the driver of the team.

Evaluate the potential of this opportunity.

Prompt 1: Revenue and cost structure – *The candidate should present an overview of his approach to the case and develop a framework. A profitability analysis should follow, with the candidate requesting revenue and cost information. Interviewer should probe candidate on the sources of revenue in this market before providing the following information. This question is designed to evaluate candidate's approach to analyzing an unfamiliar industry; interviewer should be aware that some/all of his answers may not match the following information*

*Information to be given if asked: **Exhibit 1***

Prompt 2: Cost structure – *The candidate should continue within the profitability analysis, now looking at costs. Allow the candidate to breakdown the costs into relevant cost categories before providing the below-mentioned information.*

Information to be given if asked:

- Total Costs - \$20 million
- **Exhibit 2**

Prompt 3: Marginal Cost of New Team – *The candidate should naturally progress into inquiring about the incremental costs associated with adding another team to the fold. If interviewer observes that the candidate needs direction, prompt him/her by asking: "What is the minimum amount of money that the client should ask for from Home Depot?" The candidate should take this as a cue to discuss the costs of the new team.*

Information to be given if asked:

- The costs affected w.r.t. addition of a new team are Salaries, Equipment, and Travel. The other two cost components are associated with the engine shop.
- Specifically,
 - Race-Facing costs will double
 - Equipment costs will double
 - Travel costs will double

Author's Commentary/Notes: *This information has been provided for the candidate to compute the sponsorship fees that the client should charge Home Depot for the deal.*

Answer: \$10 million (\$4 million + \$5 million + \$1 million) assuming that the entire marginal cost of new team is borne by Home Depot

Prompt 4: Potential for charging premium – *The interviewer should ask candidate to evaluate the possibility of charging a premium to Home Depot for the sponsorship. Note that there is no right/wrong answer here; rather interviewer should evaluate response basis candidates' rationale. Multiple answers are acceptable here. This answer key is not exhaustive.*

Answers:

Option 1: Yes, we should charge a premium — Home Depot seems to have already made some commitment to the deal by conducting initial negotiations with the potential driver. Therefore client has bargaining power. Premium can be justified by providing Home Depot with an acceptable Return on Investment analysis.

Option 2: No, we should not charge a premium —Home Depot has several other options to sponsor, including 1) another race team, 2) another sport (e.g., baseball), 3) another racing circuit (e.g., Formula One)

Conclusion: *Ask the candidate to wrap up the case. Inform him/her that the owner of the UPS #88 racing team has called for an update and that the candidate should inform him of his/her findings with a clear go/no-go decision.*

Author's Commentary/Notes:

The candidate may take this case in several different directions, including questions about the Nextel Cup season, driver eligibility, and if points are tallied based on team or individual driver performance (individual driver). Some candidates might recommend waiting until the beginning of the next racing season in order to spread costs across more races.

Other potential points include the natural tension between adding a new team and the allocation of resources (e.g., high quality mechanics from Dale's team may work with the Home Depot car, thus diluting the quality of performance of Dale).

Potential risks certainly include adding a new driver who has only drag racing experience. This driver would probably not contribute to merchandising revenue, due to his relative anonymity. There is some validity, however, to the point that salaries for the new team may be lower because the new driver lacks the name recognition of Dale Jarrett.

Finally, the total cost of equipment may be lower than average due to the ability to leverage the engine shop technology. Some candidates might recommend closing the engine shop, but we have no margin information to substantiate this.

Exhibit 1

Revenue Sources UPS#88	% of Revenues	
Sponsorships	60%	UPS dominates, other sponsors include Outback Steakhouse and 3M
Nextel Cup Race Winnings	25%	One can win from \$50K - \$1MM depending on how one finishes and the significance of the particular race
Selling Engines	10%	Strong R&D shop. Engines are sold to professional drivers domestically.
Merchandising	5%	License out production to third-party. T-shirts and caps are a small revenue source

Exhibit 2

Cost Sources UPS#88	% of Costs	
Salary	40%	'Race-facing' costs make up 50% (Mechanics and Dale Jarrett); 'Non race-facing' costs make up the remaining 50% (engine shop technicians, HR, accounting etc)
Equipment	25%	Race cars, engines, parts (sheet metal)
Travel	5%	Getting to and from races
Leisure, engine shop	10%	Leasing of land in rural North Carolina
R&D	20%	Engine shop technology improvements