

+ The 12 Case Scenarios

[Entering a New Market]

► **Question:** Your client manufactures hair products. It's thinking about entering the sunscreen market. Is this a good idea?

Step 1: Determine why? What's our goal? What's our objective?
Does it fit into our overall strategy?

Step 2: Determine the state of the current and future market.

- What is the size of the market?
- What is the growth rate?
- Where is it in its life cycle? (stage of development: Emerging? Mature? Decline?)
- Who are the customers and how are they segmented?
- What role does technology play in the industry and how quickly does it change?
- How will the competition respond?

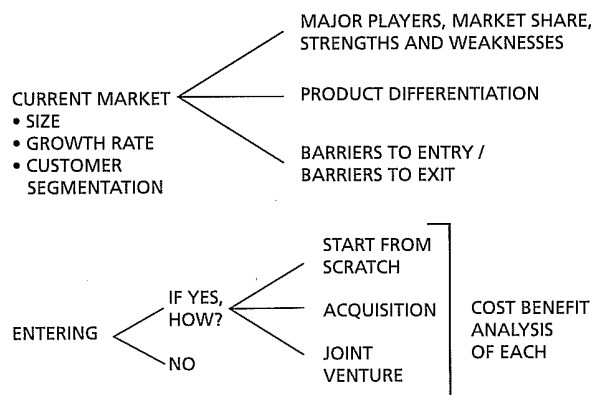
Step 3: Investigate the market to determine whether entering it would make good business sense.

- Who is our competition and what size market share does each competitor have?
- How do their products and services differ from ours?
- How will we price our products or services?
- Are there substitutions available?
- Are there any barriers to entry? Such as: capital requirements, access to distribution channels, proprietary product technology, or government policy.
- Are there any barriers to exit? How do we exit if this market sours?
- What are the risks? Such as: market, regulation or technology?

Step 4: If we decide to enter the market, we need to figure out the best way to become a player. There are three major ways to entering a market:

- Start from scratch (see Starting a New Business)
- Acquire an existing player within the desired industry
- Form a joint venture/ strategic alliance with another player with similar interests

Analyze the pros and cons of each. This is sometimes called a cost-benefit analysis. You can use this whenever you are trying to decide whether to proceed with a decision.



[Industry Analysis]

► **Question:** Our client is thinking of acquiring a diversified company that has holdings in three different industries. One of those industries is entertainment. Our client knows nothing about the entertainment industry and has asked us to do an analysis. What do we analyze?

Step 1: Investigate the industry overall.

- Where is it in its life cycle? (Emerging? Maturity? Decline?)
- How has the industry been performing (growing or declining) over the last 1, 2, 5, and 10 years?
- How have we been doing compared to the industry?
- Who are the major players and what kind of market share does each have? Who has the rest?
- Has the industry seen any major changes lately? Such as new players, new technology and increased regulation.
- What drives the industry? Brand products, size, or technology?

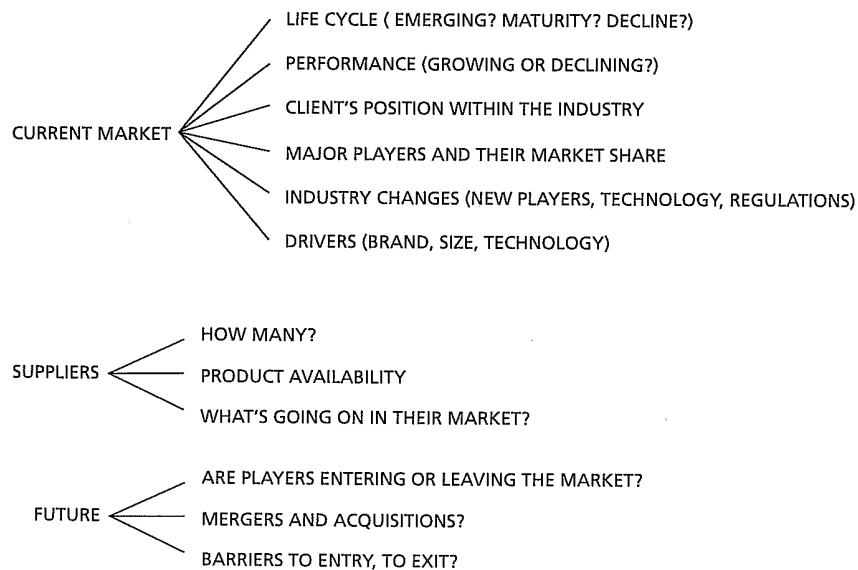
Step 2: Suppliers

- Have the suppliers been consistent? What is going on in their industry? Will they continue to supply us?

Step 3: What is the future outlook for the industry?

- Are players coming into or leaving the industry?
- Have there been many mergers or acquisitions lately?
- What are the barriers to entry and/or to exit

Industry Analysis



[Mergers and Acquisitions]

► **Question:** Ben & Jerry's is buying a mid-size cream cheese manufacturer. Does this make sense? What should they be thinking about?

Step 1: Determine the goals and objectives. Why are they buying it? Does it make good business sense, or are there better alternatives? Is it a good strategic move? Other reasons could be to:

- Increase market access
- Diversify their holdings
- Pre-empt the competition
- Gain tax advantages
- Incorporate synergies: marketing, financial, operations

Step 2: How much are they paying?

- Is the price fair?
- How are they going to pay for it?
- Can they afford it?
- If the economy sours, can they still make their debt payments?

Step 3: Due diligence. Research the company and industry.

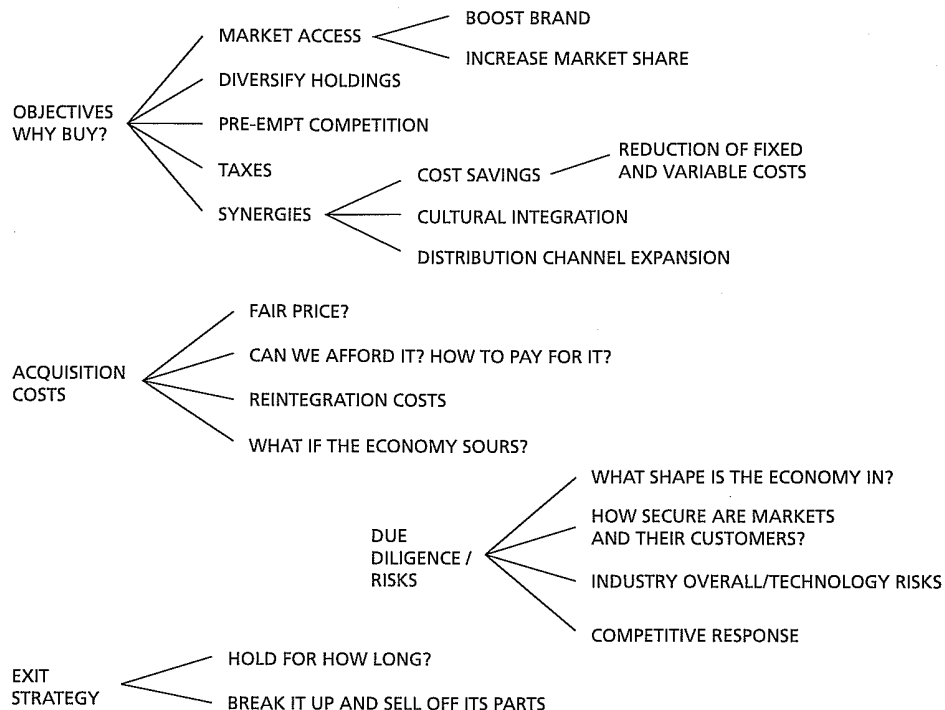
- What kind of shape is the company in?
- How secure are its markets and customers?
- How is the industry doing overall? And how is this company doing compared to the industry?
- How will our competitors respond to this acquisition?
- Are there any legal reasons why we can't, or shouldn't, acquire it?

Step 4: Exit strategies, looking for a way out.

- How long are they planning to keep it?
- Did they buy it to break it up and sell off parts of it?

Mergers and Acquisitions

Objectives, costs, due diligence, exit strategies



[Developing a New Product]

Question: Our client has developed a new biodegradable product, which is both a soft drink and a car wax. What should they be thinking about?

You can approach the next four steps in any order you like.

Step 1: Think about the product.

- What's special or proprietary about our product?
- Is the product patented?
- Are there similar products out there? Are there substitutions?
- What are the advantages and disadvantages of this new product?
- How does the new product fit in with the rest of our product line?

Step 2: Think about our market strategy.

- How does this affect our existing product line?
- Are we cannibalizing one of our existing products?
- Are we replacing an existing product?
- How will this expand our customer base and increase our sales?

- What will the competitive response be?
- If it's a new market, what are the barriers to entering this market?
- Who are the major players and how much market share does each firm have?

Step 3: Think about our customers.

- Who are our customers?
- How can we best reach them?
- Can we reach them through the Internet?
- How can we ensure that we retain them?

Step 4: Think about financing.

- How is the project being funded?
- What is the best allocation of funds?
- Can we support the debt? (What if interest rates change? What if the economy sours?)

[Pricing Strategies]

► **Question:** Our client has developed a new Hollywood screenwriting software package. How are we going to price it? What's our strategy and why?

Step 1: Investigate the product.

- What's special or proprietary about our product?
- Are there similar products out there, and how are they priced?
- Where are we in the growth cycle of this industry? (Growth phase? Transition phase? Maturity phase?)
- How big is the market?
- What were our R&D costs?

Step 2: Choose a pricing strategy.

Is the company in control of its own pricing strategies, or is it reacting to suppliers, the market, and its competitors?

- Cost-based pricing vs. price-based costing (i.e., do you decide pricing based on how much the product costs to produce or on how much people will pay?)
 - How much does it cost to make or deliver/provide?
 - What does the market expect to pay?
 - Is it a "must have" product?
 - Do we need to spend money to educate the consumer?

COST-DRIVEN PRICING

(The Deadly Business Sin)

Before there was Michael Porter and all the other modern day business gurus, there was Peter Drucker. The following is from Peter Drucker's *Wall Street Journal* article "The Five Deadly Business Sins."

The third deadly sin is cost-driven pricing. The only thing that works is price-driven costing. Most American and practically all European companies arrive at their prices by adding up costs and then putting a profit margin on top. And then as soon as they have introduced the product, they have to start cutting the price, have to redesign the product at enormous expense, have to take losses — and often, have to drop a perfectly good product because it is priced incorrectly. Their argument? "We have to recover our costs and make a profit."

This is true but irrelevant: Customers do not see it as their job to ensure manufacturers a profit. The only sound way to price is to start out with what the market is willing to pay — and thus, it must be assumed, what the competition will charge — and design to that price specification.

Cost-driven pricing is the reason there is no American consumer-electronics industry anymore. It had the technology and the products. But it operated on cost-led pricing — and the Japanese practiced price-led costing.²

² Peter Drucker. "The Five Deadly Business Sins." *The Wall Street Journal* (October 21, 1993).

Step 3: Supply and demand (you'll win big points for graphing your answer)

- What's the supply? How's the demand?
- How will pricing have an affect on the market equilibrium?
- Matching competition: What are similar products selling for?
- Are there substitutions? (in this case, Microsoft Word®, typewriters, etc.)

Basically, there are three main ways to price the product: competitive analysis, cost-based pricing and price-based costing.

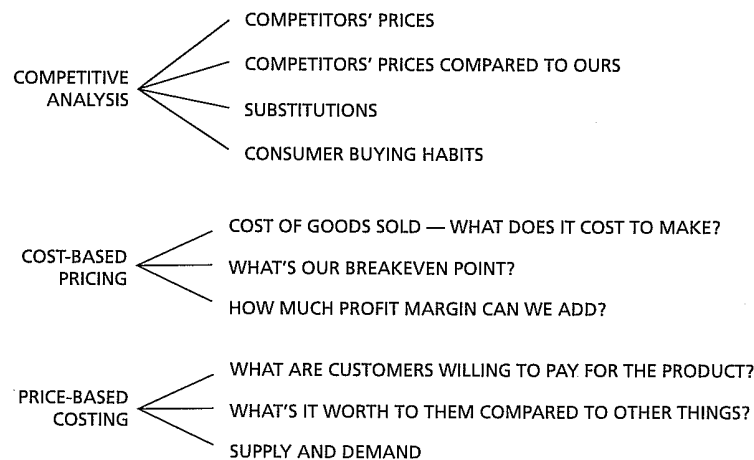
Competitive analysis: Are there similar products out there? How does our product compare to the competition? Do we know their costs? How are they priced? Are there substitutions available?

Cost-based pricing: Take all our costs, add them up and add a profit to it. This way you'll know your breakeven point.

Price-based Costing: What are people willing to pay for this product? If they're not willing to pay more than what it costs you to make then it might not be worth making. On the other hand, they may be willing to pay much more than you would get by just adding a profit margin. Profit margins vary greatly by industry. Grocery stores have a very thin profit margin while drug companies traditionally have a large profit margin.

When solving a pricing problem, you need to look at all three of these strategies and see where, or if, they intersect.

Pricing Strategies



[Growth Strategies]

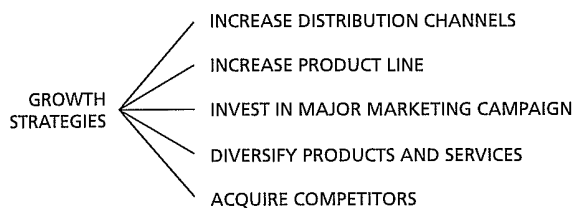
► **Question:** XYB Corporation has a high cash reserve (lots of cash on hand). How can we best use that money to grow the company?

Step 1: Ask your feeler questions. Growth strategies could mean focusing on a certain product, division, or the company overall. This is a true strategic planning question, and you must determine the direction of questioning.

- Is the industry growing?
- How are we growing relative to the industry?
- Are our prices in line with our competitors?
- What have our competitors done in marketing and product development?
- Which segments of our business have the highest future potential?
- Do we have funding to support higher growth?

Step 2: Choose a growth strategy. Increasing sales is one of the ways you grow, though not the only one. You need to determine if all or some of the following strategies for growth fit the question.

- Increase distribution channels.
- Increase product line.
- Invest in a major marketing campaign.
- Diversify products or services offered.
- Acquire competitors or a company in a different industry.



[Starting a New Business]

► **Question:** Two brothers from Ireland want to start a travel magazine. They've come to us for strategic advice and to develop a business plan for getting started. What do you tell them?

Step 1: Starting a new business encompasses entering a new market as well — the first step is the same. Investigate the market to determine whether entering the market makes good business sense.

- Who is our competition?
- What size market share does each competitor have?
- How do their products/services compare to ours?
- Are there any barriers to entry? Such as: capital requirements, access to distribution channels, proprietary product technology, or government policy.

Step 2: Once we determine that there are no significant barriers to entry, then we should look at the company from a venture capitalist point of view. Would you, as an outsider, invest in this start-up? Would you risk your own money? Venture capitalists don't simply buy into an idea or product, they invest in:

- Management
 - What is the management team like?
 - What are their core competencies?
 - Have they worked together before?
 - Is there an advisory board?
- Market & Strategic Plans
 - What are the barriers to entering this market?
 - Who are the major players and what kind of market share does each firm have?
 - What will the competitive response be?
- Distribution Channels
 - What are our distribution channels?
- Products
 - What is the product and technology?
 - What is the competitive edge?
 - What are the disadvantages of this product?
 - Is the technology proprietary?
- Customers
 - Who are our customers?
 - How can we best reach them? Can we reach them on the Internet?
 - How can we ensure that we retain them?
- Finance
 - How is the project being funded?
 - What is the best allocation of funds?
 - Can we support the debt? (What if interest rates change? What if the economy sours?)

[Competitive Response]

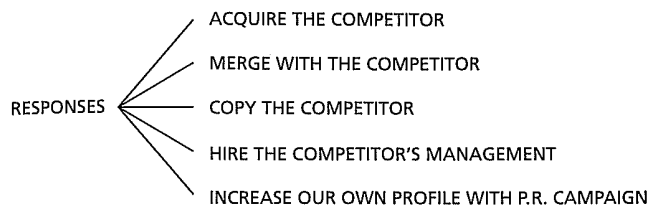
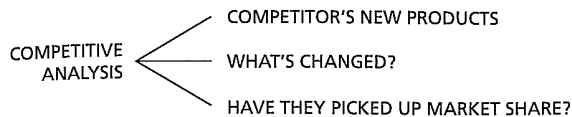
► **Question: Sperry Topsider has developed a new non-slip sailing shoe that has been eating into the sales of our bestseller, The Commodore 2000. How can we respond?**

Step 1: If a competitor introduces a new product or picks up market share, we want to first ask such questions as:

- What is the competitor's new product and how does it differ from what we offer?
- What has the competitor done differently? What's changed?
- Have any other competitors picked up market share?

Step 2: Choose one of the following response actions:

- Acquire the competitor, or another player in the same market.
- Merge with a competitor to create a strategic advantage and make us more powerful.
- Copy the competitor (e.g., Amazon.com vs. BarnesandNoble.com).
- Hire the competitor's top management.
- Increase our profile with a marketing and public relations campaign.



[Increasing Sales]

► **Question:** BBB Electronics wants to increase its sales so it can claim that it is the largest distributor of the K6 double prong lightning rod. How can BBB Electronics reach its goal?

Step 1: Increasing sales doesn't necessarily mean increasing profits. Think about the relationship. What can be done? What do we need to know?

- How are we growing relative to the industry?
- What has our market share done lately?
- Have we gone out and asked customers what they want from us?
- Are our prices in line with our competitors?
- What have our competitors done in marketing and product development?

Step 2: There are four easy ways to increase sales. Determine which action (or combination thereof) is your best strategy:

- Increase volume. (Get more buyers, increase distribution channels, intensify marketing.)
- Increase amount of each sale. (Get each buyer to spend more.)
- Increase prices.
- Create seasonal balance. (Increase sales in every quarter — if you own a nursery, sell flowers in the spring, herbs in the summer, pumpkins in the fall, and trees and garlands in the winter.)



[Reducing Costs]

► **Question a:** A publishing company is having a cash flow problem and needs to reduce its costs, otherwise it will have to layoff staff. How should the company proceed?

This is a straightforward reducing costs question. In such a scenario, you need to:

- Step 1: Ask for a breakdown of costs.
- Step 2: If any cost seems out of line, investigate why.
- Step 3: Benchmark the competitors.
- Step 4: Determine whether there are any labor-saving technologies that would help reduce costs.

► **Question b:** EEC's sales are flat and profits are taking a header. How can we fix things?

If there has been a surge in costs, you need to approach this question by focusing on the internal and external costs that could account for the rise (e.g., If labor costs have skyrocketed, is it because of the good economy and because good workers are hard to find? Or is it that your workforce has unionized?) Examples of:

- Internal costs: union wages, suppliers, materials, economies of scale, increased support systems
- External costs: economy, interest rates, government regulations, transportation/shipping strikes

[Increasing the Bottom Line: Profits]

► **Question:** Our client manufactures high-end athletic footwear. Sales are up, but profits are flat. What do we need to look at?

Whenever you hear the words "bottom line" or "profits" you should immediately think:

$\text{Profits} = (\text{Revenues} - \text{Costs}) \times \text{Volume}$. Because profits are an underlying theme in many cases, you need to make sure that profit is the main subject of the question before choosing to focus exclusively on this case scenario. (Asking feeler questions can help determine this — How have we been doing compared to the rest of the industry? How is the overall economy performing?) Price, costs and volume are all interdependent. You need to find the best mix, because changing one isn't always the best answer. If you cut prices to drive up volume, what happens to profit? Do profits increase or decrease? There needs to be a balance. The reason behind the decision needs to make sense.

Step 1 : Always look at the revenue ("price" is sometimes substituted) side first. Until you have identified your revenue streams, you can't know where best to cut costs.

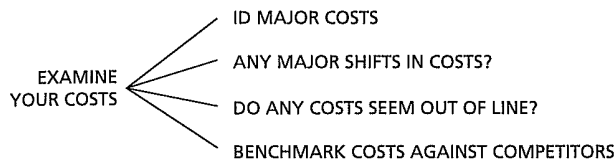
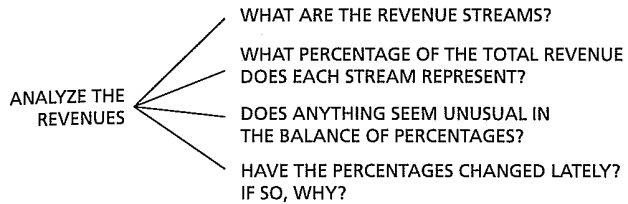
- What are the revenue streams? (Where does the money come from?)
- What percentage of the total revenue does each stream represent?
- Does anything seem unusual in the balance of percentages?
- Have those percentages changed lately? If so, why?

Step 2: Examine your costs.

- Identify the major variable and fixed costs.
- Have there been any major shifts in costs? (e.g., labor or raw material costs)
- Do any of these costs seem out of line?
- How can we reduce costs without damaging the revenue streams?
- Benchmark costs against our competitors.

Step 3: Determine whether you want to pump up the volume. If so, you can:

- Expand into new areas.
- Increase sales force.
- Increase marketing.
- Reduce prices.
- Improve customer service.



[Turnarounds]

► **Question:** AAS Company is in trouble and you've been brought in to save it. What do you do?

Step 1: Gather information.

- Tell me about the company.
- Why is it failing? Bad products, bad management, bad economy?
- Tell me about the industry.
- Are our competitors facing the same problems?
- Do we have access to capital?
- Is it a public or privately-held company?

Step 2: Choose the appropriate actions from the following list. While this isn't a quick fix for all troubled companies, these are the main points and actions you should be thinking about.

- Learn as much about the business and its operations as possible.
- Review services, products, and finances. (Are products out of date? Do we have a high debt load?)
- Secure sufficient financing so your plan has a chance.
- Review talent and temperament of all employees, and get rid of the deadwood.
- Determine short-term and long-term company goals.
- Devise a business plan.
- Visit clients, suppliers, and distributors, and reassure them.
- Prioritize goals and get some small successes under your belt ASAP to build confidence.

+ Ivy Case System at a Glance		
Type	Approach	Elements
Entering a New Market	Market	Competition Market share Comparative products and services Barriers to entry
	Entry	Start from scratch Acquire an existing player Joint venture/strategic alliance w/ existing player
Industry Analysis	Current industry structure	Life cycle? (growth, transition, maturity) Performance Major players and market share Industry changes (new players, new technology) Drivers (brand, size, technology)
	Suppliers	How many? Product availability What's going on in their market?
	Future	Expanding or shrinking? Mergers and acquisitions? Barriers to entry or exit?
Mergers & Acquisitions	Objectives	Increase market access Diversify holdings Pre-empt the competition Tax advantages Incorporate synergies
	Price	Fair? Affordable? How to pay? If the economy sours ... ?
	Due Diligence	What shape is the company in? How secure are its markets and customers? How is the industry overall? Competitive response to acquisition Legal issues
	Exit Strategies	How long to keep it? Divest parts of the organization?
New Product	Product	Special or proprietary? Financing? Patented? Substitutions? Advantages and disadvantages Place in product line Cannibalizing our own products? Replacing existing product?
	Market Strategy	Expanding customer base Prompting competitive response Barriers to entry Major players and market share

4 : The Ivy Case System

Ivy Case System, continued

Type	Approach	Elements
	Customers	Who? How to reach them? Retention — how to hold them?
	Financing	How funded? Best allocation of funds? Debt viable?
Pricing Strategies	Pricing	Competitive pricing Cost-based pricing Price-based costing
Growth Strategies	Assessment	Is the industry growing? How are we growing compared to the industry? Prices relative to competitors Competitors marketing and development Which segments have the most potential? Funding for higher growth
	Strategies	Increase distribution channels Increase product line Invest in major marketing campaign Diversity of products or services offered
New Business	Market	Who is the competition and their market share? Products comparison Barriers to entry
	Cost/Benefit Analysis	Management Marketing and strategic plan Distribution channels Product Customers Finance
Competitive Response	Why?	New product? Competitor's strategy changed? Other competitor's increased market share
	Strategy	Acquire a competitor Merge with competition Copy competitor Hire competitors' management Increase profile with marketing campaign

Ivy Case System, continued

Type	Approach	Elements
Increasing Sales	Assessment (Increasing sales doesn't necessarily mean increasing profits)	Growth relative to market share Changes in market share Customer polls Prices competitive? Competitor's strategies (marketing & product development)
	How?	Increase volume? Increase amount of each sale? Increase prices? Create seasonal balance?
Reducing Costs	Assessment	Get cost breakdown Investigate for irregularities Benchmark competitors Labor-saving technologies
	Cost analysis — Internal	Union wages, suppliers, materials, economies of scale, increased support system
	Cost analysis — External	Economy, interest rates, government regulations, transportation/shipping strikes
Increasing Profits	Revenue Profits = (revenues — costs) x volume. Until you have identified the revenue streams, you can't cut costs)	Identify revenue streams Percentage of total revenue of each Unusual balance? Have percentages changed?
	Costs	ID fixed costs ID variable costs Shifts in costs Unusual costs? Benchmark competitors Reduce costs without damaging revenue streams
	Volume	Expand into new areas Increase sales (volume and force) Increase marketing Reduce prices Improve customer service
Turnaround	Strategy	Learn about company Review services, products, finances Secure funding Review talent and culture Determine short term / long term goals Business plan Reassure clients, suppliers, distributors Prioritize goals and develop some small successes for momentum

5 : Additional Tools & Frameworks

In this section, we will explore some supplements to the Ivy Case System. These include both other frameworks and additional tools so that you have an understanding of what else is out there. I've purposely limited the number of alternatives, however, because I've learned from experience that too many options can become a burden. Keep in mind that none of these frameworks or tools was specifically designed to answer case questions. It is far better to understand the underlying problems of the case and how to logically address those problems than to try to apply a "fix-all" framework. That being said . . .

+ Five C's and Four P's

These are two elementary frameworks that can do the job. You're not going to blow anyone away with these, but you won't drown either. They will allow you to touch on all the main points and appear fairly well-organized.

There are two secrets to using these frameworks. First, since every case is different, the C's or the P's have to be rearranged to fit the case. If you treat these frameworks like a laundry list, your answer will seem nonlinear and possibly disorganized. Second, you need to kick up some dust to conceal the fact that you're using these frameworks. If your interviewer discovers you're using the Five C's or Four P's you might lose some points; neither of these frameworks is particularly impressive.

[Five C's]

- **Company:** What do you know about the company? How big is it? Is it a public or private company? What kinds of products or services does it offer to its clients?
- **Costs:** What are the major costs? How has its costs changed in the past year? How do its costs compare to others in the industry? How can we reduce costs?
- **Competition:** Who are the biggest competitors? What market share does each player hold? Has market share changed in the last year? How do our services or products differ from the competition? Do we hold any strategic advantage over our competitors?
- **Consumers/clients:** Who are they? What do they want? Are we fulfilling their needs? How can we get more? Are we keeping the ones we have?

[Four P's]

- **Product:** What are our products and services? What is the company's niche?
- **Price:** How does our price compare to the competitions'? How was our price determined? Are we priced right? If we change our price, what will that do to our sales volume?
- **Place:** How do we get our products to the end user? How can we increase our distribution channels? Do our competitors have products in places that we don't? Do they serve markets that we can't reach? If so, why? And how can we reach them?
- **Promotions:** How can we best market our products? Are we reaching the right market? What kind of marketing