[redacted] Profitability ⇒ Framework
↳ Profit = Revenue − Cost

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Problem Statement :- Major retailer of clothing & house hold products has been experiencing sluggish growth & less than expected profit in the last few years. So the CEO has hired you to help her increase the companies annual growth rate & ultimately its profitability.

Additional info :- The retailer has 15 stores located in shopping mall in suburban & urban areas.

- The total profit from the 15 stores has declined despite major backend cost saving.

Objective :- The company is looking to grow, wants to increase it sales / profit & is trying to cut down its cost at the same time we also know that a lot of cost saving iniative has already been taken.

Revenue side of things ~~of~~ is what we want to deep dive into

If cost are even cut down & even after that profitability is not increasing then that means Revenues are ~~decreas~~ decreasing are at a even faster pace.

Firstly we'll start with revenue & going further we'll decide if we want to go to the cost side or not.

Revenue = Price × Quantity

Cost ⇒ Direct Cost & Indirect Cost.

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What all we know :- We know there are 15 stores located in Sub Urban / Urban areas. & this areas can differ in their profitability. ⇒ We need to explore this area.

Things to consider & Ask the Interviewer:

① Look at the overall economy & try to understand if this profitability issue is something that only our client's facing. or is it the industry wide problem. i.e Other competitions are also facing.

② Understand the product mix of Client i.e It is Clothing & House hold products. So what kinds of products clients sell. Is the profitability / margin of the products same or not.

③ Understanding more about the competitors → What is the situations of competitors. are the facing similar kind of issues ⇒ If not ~~then~~ ~~whate~~ what are the things they are doing right / What are they doing better

④ Understanding our consumers / Analyzing their buying pattern whether that is impacting our growth in sales.

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Additional info :-

Q① The profitalibility of stores are different in both areas.
Metro Vs Sub-Urban.
Ans :- Sub-Urban stores are more profitable then the
Interviewer Metro stores.

Q2) How is the product mix like in the Sub Urban Vs Metro.
& what kind of product does our Client sells
Ans :- Electronics, Clothes, Furnitures & Home Decor etc
• The product mix is similar in both areas.
Follow-Up :- Are some of the products has higher margin
Interviewer as compared to others
Ans :- Yes, infact it is Electronics has the highest margin.
& Fashion has the lowest margin.

Q3) How is the competition in both areas. is it similar or is it different
Ans :- Competition is very similar in both regions
Next Question on Economy

Q4) Are our competitors facing a decline in profitability as well or are they doing okay.
Ans :- Competitors are doing okay, Plus the competitors have a very similar product mix

Q5) Do consumers consume different types of product in both areas?
Ans :- Yes, infact in Urban areas there is high demand for Fashion accessories whereas in Sub Urban areas they tend to buy Electronics.

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So with this information, it is very clear that problem is in consumer demand & our product mix in both the areas

- Because consumer in metros / Tier - I cities, they are consuming more of low margin products i.e Fashion products
- Consumers in Tier II / Sub - Urban are consuming Higher margin products i.e Electronics

But at the same time the product mix across both regions are quite similar.

↳ Which means Electronics allocation in the Metro / Tier I areas should be less. & it is an additional cost as consumers are not buying it.

↳ Similarly Fashion & accessories in the Sub - Urban / Tier II there should be less allocation as it is not generating enough revenue → This we can ignore for a while as Fashion accessories has lesser margin → So it's fine

Recommendations
- Short Term Solutions
- Long Term Solutions.

(1) Short term solutions :- Try & managing the inventory efficiently because it's a huge cost & there is no point in holding a lot of Electronic inventory in the Metro / Tier I as consumers are not buying it & Hold more of Fashion & accessories.

- ↳ Additionally, deep diving & analyzing consumer Buying patterns (Customer Research), (RFM Analysis) to understand why it is the customers are not buying electronics from our Client.

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Is it because generally there is no demand for electronics in Metro / Tier I

OR

#. The Competitors are having better products / Marketing strategies / pricing power than our client.

Lastly for fashion & accessory products. ⇒ Seeing it from. Revenue & Cost angles.

Revenue → Is there a possibility of increasing prices without impacting the quantity to much. ⇒ Revenue & Sales ⇑

Cost → ~~Other~~. Are there other things we can do to optimise our cost for fashion & accessories so that our margins can be improved ⇒ Better Supply Chain, Managing store cost in Tier I / Tier II areas.

② Long term Solutions

Client can operate only in the high margin region which in our case is Sub-Urban / Tier II area.

Whether our client can explore more in Sub-Urban Area & reduce their presence in Metro / Tier I areas.

Reason for this is The Client wants to increase its profitability & Sales. & reduce its cost ⇒ OBJECTIVE