FOURTH EDITION

CASE IN POINT

Complete Case Interview Preparation

MARC P. COSENTINO

"With humor and insight, Marc gets students thinking about how to use the case interview as a showcase of their talents rather than an obstacle to their employment."
Nancy Saunders,
Assistant Director, Office of Career Services, Harvard University

CaseQuestions.com

AMAZON REVIEWS

★★★★★ **Secret to success — Consulting Case Interviews.** In graduate school I browsed many books on consulting case interview preparation. This was the only book I read. The clear, consistent way of thinking through how to manage case interviews made sense. Rather than focusing on formulas, frameworks (e.g., Porters Five Forces), or just examples, Cosentino classifies cases into sensible categories and coaches the student through how to think about answering. Additionally, he gives valuable tips on how to get comfortable in the interview.

The true proof however was that I interviewed with the two top strategy consulting firms and received offers from both. I would highly recommend this book to anyone considering interviewing with top strategy consulting firms.

★★★★★ **Outstanding prep for case interviews,** *Case in Point* is in my view the best book of its type on the market. The top firms vary their cases from interviewer to interviewer — Cosentino's book provides a good system for tackling any case that you're presented. This book got me extremely well-prepared for my interviews. I just received a summer associate offer from what's arguably the top consulting firm, despite my non-business background.

★★★★★ **This is excellent.** This is probably the best consulting book on the market for undergrads looking to get a job in a top consulting firm after college. I own the Vault Guide to the Case Interview and felt this was MUCH better because it gives you a system to follow, not just a bunch of random structures and cases. Cosentino does a great job of putting all these pieces together in a very useful book.

★★★★★ **Great book for consulting preparation.** Cosentino's compilation of cases is a superb way to prepare for management consulting case interviews. Not only does he provide a wide variety of cases (from market sizing to acquisition opportunity to dipping profits) he also offers several helpful frameworks for approaching consulting cases in general. I would highly recommend this book to anyone planning to do consulting interviews (and they're tough!).

★★★★★ **Having a job interview? Use this book: it's a must.** I used this book as a tool to prepare for interviews; and it really helped me. In this tough period, I followed the Ivy Case Method proposed, and it didn't fail. The book presents in a very readable way what to expect in an interview and how to create your best strategy. I'm usually very skeptical about these kinds of books, but I must say that Cosentino is able to attract the reader and through anecdotes and concrete examples, to keep the reader's interest till the last page. Definitely a must.

★★★★★ **Got me a consulting job!,** I was VERY nervous about getting a good job after school. I compared several interview guides and found some to be incomplete and others to be too long & confusing. Cosentino's *Case in Point* was easier to understand and covered the key techniques/frameworks behind case interviews. I practiced the sample cases and I eventually got a job in strategy consulting.

Also by Marc P. Cosentino

The Harvard College Guide to Consulting Case Questions

The Harvard College Guide to Consulting

The Harvard College Guide to Investment Banking

Case In Point

Complete Case Interview Preparation

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Marc P. Cosentino

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As with all case questions, we assume facts not in evidence, as well as generous assumptions. Familiar companies are used as examples because of the power of their brand and their familiarity to the general public. Information concerning the actual companies cited as examples may not be accurate. This information was based on research, but should not be used as reliable, up-to-date data.

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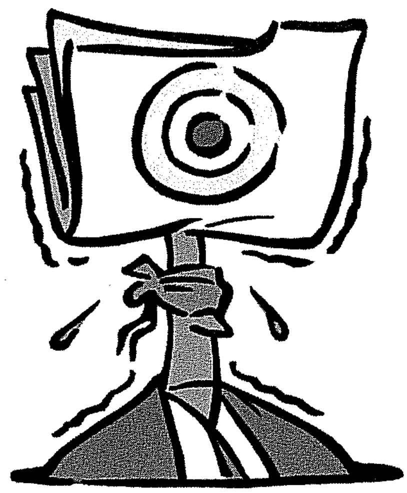
For Leisa, Emily and Colin

Life is one big case question, go and explore.



The mind is wondrous. It starts working from the second you're born and doesn't stop until you get a case question.

1 : Introduction

A European iron mining company bought a piece of land in Australia with high contents of iron. Should they mine the ore? In deciding, I want you to give me the cost per ton, the breakeven point, profit margin and the impact on the global market.

Consulting firms are in the business of renting out brains. Consultants get paid to synthesize massive quantities of foreign data, toss out the irrelevant information, structure an approach to a given client issue, and hypothesize logically and creatively before people of power and influence (like bigwigs at the mining company). That's why consulting firms put so much weight on the case question — because it allows them to judge how logically and persuasively a potential consultant (i.e., you) can present a case. In essence, a case interview is a role-playing exercise.

In order to nail a case interview, you need to know both how to prepare and how to perform. This book will help you do both. It walks you through the overall consulting interview, teaches you how to conduct your research, tells you what the consulting firms are looking for in a candidate, explores the various types of case questions, and then introduces you to the Ivy Case System©.

As a career officer at Harvard for over fifteen years, I've helped more than eight thousand of the nation's top students prepare for consulting interviews. During this time, students have tirelessly memorized individual frameworks and have then struggled to decide which one(s) to apply. All the while, the case questions given by consulting firms have become increasingly complex. The standard frameworks of the past, while still valuable, aren't enough to solve these sophisticated cases. I've developed The Ivy Case System in order to simplify things. This system will allow you to make an impressive start (without a long and awkward pause) and ensure that you approach the answer in an organized and logical way. The difference between a framework and a system is that a framework is a tool; a system is a process with all the tools built in. The Ivy Case System is the most sensible and comprehensive case interview strategy you can learn.

Keep in mind that case questions help educate you during your job search by acting as a self-imposed screening device. Is this the type of work you want to be doing? Is this the type of environment in which you can learn and flourish? You need to ask yourself, "Do I enjoy problem solving? Do I enjoy these types of questions and issues?" Case questions can and should be fun.

The best way to prepare is to hunker down and (i) read this book and don't skip any pages; (ii) attend all case question workshops sponsored by consulting firms or your Office of Career Services; (iii) practice with your econ professor, roommates, friends, and anyone you know who worked or is currently working in consulting (see The Roommate's Guide, page 170); and (iv) read this book again and don't skip any pages.

Sounds like you better start reading . . . .

2 : Interview

Relax, it's worse than you think. If you figure the odds of getting chosen for an interview, having all the interviewers like you, and making it through seven to 10 cases, you'll be spending next semester's tuition on lottery tickets. But you know what? You faced much greater odds when you applied to a top school. Not only were you accepted, you've thrived. So forget about the odds and concentrate on you. If there were ever a time for tunnel vision, this is it. Besides, the recruiters don't know about the time you . . . well, they don't know and we're certainly not going to tell them. You head into an interview with a clean slate.

INTERVIEW (time: what firms look for)

- **Intro**
  quick exchange: overall package, eye contact, smile
- **Questions About You**
  5-10 min: leadership, drive, enthusiasm, persuasion
- **Why Consulting?**
  2 min: commitment to consulting
- **Possible Math Question**
  1 min: grace under pressure
- **Case Question(s)**
  10-15 min: poise, analytical & communication skills
- **Your Questions**
  3 min: intelligence, homework
- **The Grand Finale**
  2 min: selling — why hire you?

This chapter will walk you through a first-round interview and will show you how to prepare properly for each step. Some firms set up two back-to-back 30-minute interviews for the first round. In these interviews, one interviewer spends more time questioning you about yourself and then gives a shorter case question, while the other interviewer spends less time on you and more time on the case.

+ Introduction

You get called, offer your clammy hand, then lie and say, "It's great to be here." Nothing to it, you did it the last time you had a blind date. (Let's hope this goes a little better.)

Cliché time: you never get a second chance to make a first impression. Eye contact, a pleasant smile, and a firm handshake are paramount.

+ Questions About You

The first part of the interview is all about "getting to know you." McKinsey calls it a PEI, which stands for Personal Experience Interview. They will ask you to come up with several examples of times when you influenced or persuaded a group, about your relationship building style, and goals that you set for yourself and were successful in meeting. Interviewers will ask you several questions drawn from your resumé (anything on your resumé is fair game).

What they are looking for:

- a confident, comfortable demeanor and strong communication skills (Are you a nervous wreck?);
- leadership ability and initiative (Forget about the time you organized that keg party.);
- ability to be a team player (Do you play well with others?); and
- drive, aspirations, energy morals, and ethics. (Do you have any?)

In this part of the interview you should be responding, not thinking. You're going to do enough thinking during the case questions to last you for a week. You need to research yourself beforehand. Look at the list of the most commonly asked questions in a consulting interview (*see sidebar*). You may not be asked any of these questions, but if you take the time to write out the answers, or better yet bullet point out the answers, you will be forced to think about things you haven't thought about in years (or ever). So dig into the old treasure chest and come up with memorable stories and accomplishments which substantiate the skills that will make you a strong candidate.

COMMONLY ASKED CONSULTING INTERVIEW QUESTIONS

If you take the time to answer these questions before the interview, you will be more articulate and focused when it comes time to perform.

- Tell me about yourself.
- What are you doing here?
- Why consulting?
- Why did you pick your school?
- What do you think consultants do?
- What do you know about this job and our firm?
- Why would you choose our firm over our competitors?
- How are your quantitative skills?
- What percentage is 7 of 63?
- Tell me of a time you showed leadership skills.
- Tell me of a time you were a team player.
- Give me an example of a time you influenced or persuaded a group.
- Tell me about a recent crisis you handled.
- Have you ever failed at anything?
- Tell me about a time you took the initiative to start something.
- What type of work do you like to do best?
- With what other firms are you interviewing?
- Which other industries are you looking into?
- What accomplishments have given you the greatest satisfaction?
- What experiences/skills do you feel are particularly transferable to our organization?
- Why should I hire you?

Interviewers remember stories and accomplishments more than common answers ▶ ▶ ▶

You want to get labeled. If you tell the interviewer your captivating tale about windsurfing across the English Channel, then at the end of the day when the interviewer sees your name on her list she'll remember you as "the windsurfer." Everything you spoke about will come back to her. If she sees your name and thinks, "Which one was he?" your candidacy is over.

How Do I Answer? ▶ ▶ ▶

Three of the most problematic interview questions are:

- **Have you ever failed at anything?**
- **With what other firms are you interviewing?**
- **Within what other industries are you interviewing?**

How do you answer these truthfully?

Q : 1 **Have you ever failed at anything?**
Say yes! Everybody has failed at something. People fail all the time. That's how you learn.

• **Dos:** Do talk about a failure and what you learned from that failure. Better yet, talk about how you failed, what you learned from that mistake, then how you turned it into a success. A perfect example comes from Michael Jordan. He failed to make his high school basketball team his freshman year, persevered, and became a basketball legend. Have a story to tell; make it memorable.

A DOZEN REASONS TO ENTER CONSULTING

Just in case you're not sure, below are 13 (a baker's dozen) of the most popular reasons students go into consulting.

1. You'll work and learn from very intelligent and articulate people.
2. You'll develop a vast array of marketable skills in a prestigious environment.
3. The learning curve never ends.
4. You'll receive exposure to the corporate elite: the way they think, act, and analyze their problems.
5. You'll be exposed to many industries.
6. You'll work as part of a team.
7. You'll solve problems.
8. You'll make organizations more efficient.
9. You'll work on multiple projects.
10. You'll travel.
11. You'll improve your chances of being accepted into a top business school.
12. It will always look great on your resume.
13. The money's good.

• **Don'ts:** Don't talk about a personal failure. Stay away from anything that is going to make the interviewer feel uncomfortable (i.e., "I never got to straighten things out with my Dad before he passed away," or, "My girlfriend dumped me . . ." or, "I couldn't out run that police car when I was seventeen."). Interviewers don't want to hear it. The other thing they don't want to hear is an academic failure. I can't tell you how many Harvard students have told me in mock interviews, "I took an upper-level science class, worked like a dog, but I failed." "What did you get in the class?" I'd ask. "B minus." That's not failing. If you really did fail a course, they would know about it and ask why it happened.

Q : 2 With what other firms are you interviewing?
It's okay to tell them that you're interviewing with other consulting firms. Competition's tough; you'd be foolish to put all your energy into just one firm. However, you must be able to tell them why they're your first choice and what makes them better in your mind than the other firms. Consulting firms are rated on a tier scale. There are first-tier firms and second- and third-tier firms. While who's in which tier is very subjective, don't be shy about mentioning interviews with other firms in either the same or higher tiers.

Q : 3 With what other industries are you interviewing?
Consulting goes hand in hand with two other industries. While interviewing for a consulting position, it's okay to mention that you are looking at investment banking and/or strategic planning. These positions look for the same qualities in a candidate and require similar job skills. In fact, McKinsey's and BCG's biggest competitor is Goldman Sachs — not one another.

+ Why Consulting?

You know the interviewer is going to ask you why you want to be a consultant. Now this is important — not only should your answer be immediate, but you must look the interviewer right in the eye. If you look away, it indicates that you are thinking about the question and that's enough to end the interview right then and there. You should have given this answer a great deal of thought long before you walked into the interview. While I don't want you to memorize your answer, I do want you to memorize bullet points. This makes your answer focused, linear, and an appropriate length. Avoid talking aimlessly. Having several good reasons why you want to be a consultant isn't enough. It's not always what you say, but how you say it. Your voice should carry sincerity and enthusiasm.

+ Possible Math Question

They may ask you about your quantitative skills. This could be followed by a small math question such as, "What's 100 divided by 7?" Or, "9 is what percentage of 72?" The questions aren't hard, but they might take you by surprise. It may be time to break out the flashcards.

* ***Note:*** *During the first part of the interview, you're being judged. The interviewer is asking herself whether or not she'd like to work and travel with you. Are you interesting? Engaging? Do you have a sense of humor and like to have fun? This is better known as the "airport test." The name comes from the question, "How would I feel if I were snowed in with this candidate for nine hours at the Buffalo Airport? Would we have a lot to talk about or would I have to pretend that I was in a coma so I wouldn't have to talk?"*

The interviewer is also measuring your maturity, poise, and communication skills, while thinking, "Would I feel comfortable bringing this candidate in front of a client?"

+ Case Questions

The second part of the interview is the case question(s). They carry a tremendous amount of weight. You can pass the airport test and be as poised and articulate as Cary Grant, but if you fumble the case, that's it. We'll cover the case questions in depth in Chapter Three.

+ Your Questions

The last part of the interview requires a good deal of research about both the industry and the company. In your research, you should be looking for answers to the pre-interview questions (*see sidebar*). Questions for which you can't locate answers become excellent questions to pose to your interviewer.

However, before you ask your first question, if there is anything critical that you didn't get a chance to bring up in the interview, now is the time. Simply state, "Before I ask my first question, I just want to make sure you understand . . . ." Get it out before you leave the room. If you don't, you're going to kick yourself all the way home, and even worse, you'll never know if that statement could have turned the tide.

PRE-INTERVIEW QUESTIONS

1. What type of consulting does the firm do?
2. In what industries does the firm specialize?
3. How big is the firm?
   - How many domestic and international offices does the firm have?
   - How many professionals are in the firm?
4. What kinds of training programs does the firm offer?
5. What type of work does an entry-level consultant do?
6. How much client contact does an entry-level consultant have the first year?
7. Does the firm have a mentor program?
8. How often do first-years sleep in their own beds? What's their travel schedule like?
9. How many hours make-up a typical workday?
10. How is a case team picked?
11. How often do you get reviewed?
12. How many consultants does the firm expect to hire this year?
13. How does that compare to last year?
14. Where do the consultants go when they leave the firm?
15. Is it possible to transfer to other offices, even international offices?

The best ways to collect these answers are to: ▶ ▶ ▶

- ❑ **Attend career fairs and speak to the firm representatives:** Pull out your list of questions and ask three or four. Make sure that you try to turn this meeting into a conversation. At the end, thank the reps for their time, ask them for their business cards, and inquire whether it would be all right if you called or emailed them with further questions. At this point, no one is going to judge you on your level of company knowledge. They are there to provide information and hype the firm.

- ❑ **Scour the company's web site:** This will let you know how the firm sees itself and the image that it's trying to project.

- ❑ **Talk to alumni and graduate school students who used to work for the companies that you're interviewing with:** Often, career services offices will be able to match you up with alumni who are working in a specific industry. Interviewing past employees can be very enlightening. They will tell you more about their old firm in a half an hour than you'll learn by spending two hours on the Internet. Plus, they'll tell you things that you'll never find on the Internet. They can be completely objective; they don't have to try to sell the firm.

- ❑ **Attend company information meetings:** Get your name and face in front of firm representatives so that they can associate your face with your resumé. While these people don't have the power to hire you, they do have the power to get you on the interview list. Top-tier firms often get 400 resumes for 100 first-round interview slots. Ensure that interview slot by networking and schmoozing with firm representatives every chance you get. One of the best kept secrets of company presentations is to go early. If a company presentation is scheduled to start at 6 pm show up at 5:45. Most students won't arrive until 6 or a little after, but the firm's representatives show up at around 5:30 to make sure that the room is set up correctly and the cheese table is laid out nicely. If you show up early, not only will it impress the consultants, but it will allow you to get at least five minutes of quality face time with one of them. They are more likely to remember you if you talk for five minutes in the beginning of the night than if you hang around until the end hoping for 45 seconds of their time. They are also more likely to have their business card with them. Remember to ask for their business card and send a follow-up email.

- ❑ **Search *The Wall Street Journal* or Lexis-Nexis for articles on the firm:** This allows you to be current on any firm's news.

Have your list of questions with any specific facts or figures you've dug up written out when you walk into the interview. It shows that you have done your homework and have given this interview a great deal of thought. Besides, if you freeze up, it's all right there in front of you.

+ The Grand Finale: Why Should I Hire You?

This is your opportunity to shine and market yourself. But before you launch into a laundry list of skills and attributes, you may want to simply state that they should hire you because you want to be a consultant. Then, reiterate all the reasons that you brought up earlier when they asked you, "Why consulting?"

Consulting firms look for "low-risk" hires. You're a low-risk hire if you've worked in consulting, liked it, and want to return, or if you've done your homework. Consulting firms' biggest fear is that they will spend a lot of time and money hiring and training you, only to have you bail out after six months because consulting isn't what you expected it to be.

If they aren't convinced that this is what you want to do, then it doesn't matter how talented you are. It's not worth it for them to extend you an offer. Think of it this way: How would you feel if someone accepted your dinner invitation because their first choice fell through? If your heart's not in it, they don't want you.

Students who receive job offers in consulting do so for four reasons: ▶ ▶ ▶

1. They are able to convince the interviewer that they are committed to consulting and know what they're getting into (e.g., type of work, lifestyle, travel).
2. They can demonstrate success-oriented behavior.
3. They exhibit good analytical skills when answering case questions. (That's where we come in.)
4. They are able to articulate their thoughts, create a positive presence, and defend themselves without being defensive.

Now that you understand the structure of the interview for the first round, the subsequent rounds are not all that different. The second round is often held at a nearby hotel and usually consists of two interviews, both 45 minutes in length, each with a heavy focus on case questions. The third round is typically held in the firm's offices where there are five interviews, 45 to 60 minutes each, again with a heavy emphasis on case questions.

There are other kinds of first-round interviews. Some firms conduct phone interviews while others conduct group case interviews.

First-Round Telephone Interviews

There will be times when your first-round interview will be conducted over the phone. Sometimes this is a screening interview, other times you'll get a case question as well. There are several things to remember. If possible, go to a quiet and private place. Turn off the television and lock the door so your roommate doesn't barge in and interrupt you.

Most importantly, you are your voice. That is the only thing the person on the other end of the line has to go on. Your voice should be up-beat and enthusiastic; speak clearly and with confidence, but not arrogance.

There are advantages to phone interviews. The first thing I'd do is make copies of the Ivy Case System (see pages 26–40) and tape them to your wall. That way you can have the different case scenarios in front of you in case you get stuck. Another reason to tape them to the wall is so the interviewer doesn't hear papers rustling in the background. Bullet point out in advance the answers to all the important questions like why consulting? (See the List of Commonly Asked Consulting Interview Questions on page 3). It's important to bullet point your answers and not write out passages. People can easily tell when you are reading something over the phone.

Finally, lose the calculator. I know that it is tempting to have it right there, but if you get the answer too quickly, or they hear buttons being pushed in the background, you're sunk.

First-Round Group Case Interviews

McKinsey and other firms have started holding group interviews for non-MBA graduate students as part of their first-round interviews. During a group interview, consultants look more at the group dynamics than how the group answers the question. Does this candidate have the ability to build relationships, empathy, and teamwork? On one hand, you are a competitor to the other people in the group, but on the other, for this moment in time you are teammates. People who are aggressive and try to dominate the conversation are the ones that don't get called back. Remember, consultants work in teams and if you're not willing to be a team player, then you're out.

In my Harvard Business School classes, the professor rarely called on anyone who had his hand raised while someone else was speaking. This indicated to the professor that the hand-raising student wasn't listening to his classmate and had his own agenda. Like a business school case class, you are expected to build on what others have said. You are expected to move the discussion forward, not take it off on a tangent or move the discussion back because you had a point you wanted to make.

Remember, build on what other team members have said and don't interrupt a team member when she is speaking.

One last note on preparation: Be familiar with business terms and trends. No firm is going to judge you on your business acumen, but if you can't define profit and loss, revenues, fixed and variable costs, or cost-benefit analysis, then start reading. (Please refer to the Consulting Buzzwords section.) You should also read *The Wall Street Journal* every day to keep abreast of national and world news. In other words, climb out of that academic shell and join the rest of the world. Your familiarity with business terms and trends will make it easier for you to communicate with the interviewer and demonstrate your interest in business and consulting.

And now, at last, it's time for . . .

A case question is a fun, intriguing, and active interviewing tool used to evaluate the multi-dimensional aspects of a candidate.

+ Purpose of the Case Question

Interviewers don't ask case questions to embarrass and humiliate you. They don't ask case questions to see you sweat and squirm (although some might consider it a side perk). They do ask case questions . . .

- to test your analytical ability
- to test your ability to think logically and organize your answer
- to observe your thought process
- to test your tolerance for ambiguity and data overload
- to assess your poise, self-confidence, and communication skills under pressure
- to discover your personality
- to see if you're genuinely intrigued by problem solving
- to determine if consulting is a good "fit" for you

+ Case Preparation

Case questions can be made simple through preparation and practice. I never like to equate an interview with a test, but they do have in common the fact that the more you prepare, the better you'll do. Maybe you've experienced the feeling of being so prepared for an exam that you can't wait for the professor to hand it out so you can rip right through it. Case questions are the same way. Firms look to see if you have that "rip right through it" look in your eyes. It's called confidence.

Before we look at some cases, it is best to understand The Commandments. Follow these rules and your case interviewing life will become much easier.

WHAT FIRMS LOOK FOR

Consultants spend a great deal of their time on the road at the client's site. They work in small teams and are sometimes put in charge of groups of the clients' employees. Often, consultants work under great pressure in turbulent environments while dealing with seemingly unmanageable problems. It takes a certain type of personality to remain cool under pressure, to influence the client without being condescending, and to be both articulate and analytical at the same time.

As we said earlier, the business of consulting is really the renting of brains, packaged and delivered with an engaging and confident personality. So as you work through the case, the interviewer is asking herself, if the candidate is:

- relaxed, confident, and mature?
- a good listener?
- engaging and enthusiastic?
- exhibiting strong social and presentation skills?
- asking insightful and probing questions?
- able to determine what's truly relevant?
- organizing the information effectively and developing a logical framework for analysis?
- stating assumptions clearly?
- comfortable discussing the multifunctional aspects of the case?
- trying to quantify his response at every opportunity?
- displaying both business sense & common sense?
- thinking creatively?
- rolling with the punches?

The Case Commandments

[1. Listen to the Question]

Listening is the most important skill a consultant has. The case isn't about you or the consultant; it's about the client. What are they really asking for? Pay particular attention to the last sentence — one word can change the entire case.

[2. Take Notes]

Taking notes during the case interview allows you to check back with the facts of the case. As someone once said, "The palest ink is stronger than the best memory." If you blank out, all the information is right in front of you.

[3. Summarize the Question]

After you are given the question, take a moment to summarize the highlights (out loud):
- it shows the interviewer that you listened
- it allows you to hear the information a second time
- it keeps you from answering the wrong question
- it fills that otherwise awkward pause when you're trying to think of something intelligent to say

[4. Verify the Objective(s)]

Professional consultants always ask their clients to verify their objective(s). Even if the objective seems obvious, there could be an additional, underlying objective. When the objective seems apparent, phrase the question differently: "One objective is to increase sales. Are there any other objectives I should know about?"

[5. Ask Clarifying Questions]

You ask questions for three main reasons:
- to get additional information that will help you identify and label the question
- to demonstrate to the interviewer that you are not shy about asking probing questions under difficult circumstances (something you'll be doing on a regular basis as a consultant)
- to turn the question into a conversation (nothing turns off an interviewer quicker than a five-minute monologue)

In the beginning of the case, you have more latitude in your questioning. You should ask basic questions about the company, the industry, the competition, external market factors, and the product. The further you get into the case, the more your questions should switch from open-ended questions to closed-ended questions. You start to get into trouble when you ask broad, sweeping questions that are hard for the interviewer to answer. These kinds of questions give the impression that you're trying to get the interviewer to answer the case for you. You'll know that you crossed that line when the interviewer says to you "What do you think?"

[6. Organize Your Answer]

Identify and label your case, then lay out your structure. This is the hardest part of a case — and the most crucial. It drives your case and is often the major reason behind whether you get called back. We will spend more time on this in Chapter Four.

[7. Hold that Thought for "One Alligator"]

The interviewer wants you to think out loud, but think before you speak. If you make a statement that is way off-base in an interview, the recruiter will wonder if he can trust you in front of a client. If he thinks he can't trust you, the interview is over.

[8. Manage Your Time]

Your answer should be as linear as possible. Don't get bogged down in the details. Answer from a macro-level and move the answer forward. It's easy to lose your way by going off on a tangent. Stay focused on the original question asked.

[9. Work the Numbers]

If possible, try to work numbers into the problem. Demonstrate that you think quantitatively and that you are comfortable with numbers. When doing calculations, explain what you are thinking and how you are going to do it. Take your time. I'd rather have you get it right than make a careless mistake.

[10. Be Coachable]

Listen to the interviewer's feedback. Is she trying to guide you back on track? Pay attention to her body language. Are you boring her? Is she about to nod off? Is she enthralled?

Being coachable also means asking for help when you need it. If you run into a wall, lose your train of thought, or are just in over your head, ask for help. There is no shame in asking for help — it's a sign of maturity. Look at it from the interviewer's point of view. If you were working on an actual project and got stuck, she would much rather have you ask for help than waste time spinning your wheels.

[11. Be Creative and Brainstorm]

Some of the best experiences you'll have as a consultant will be brainstorming over Chinese food at 10 o'clock at night. *Brainstorming without commitment*, as consultants call it, allows you to toss out uninhibited suggestions without being married to them. It gives you the opportunity to review all the options and eliminate the inappropriate ones. Consulting firms like liberal arts candidates with intellectual curiosity who can "think outside the box" and offer up a new and interesting perspective.

[12. Exude Enthusiasm and a Positive Attitude]

Earlier we spoke about a "ripping right through it" attitude. It's not enough to do well on the case, you have to thrive on the challenge of the case. Recruiters want people who are excited by problem solving and can carry that enthusiasm throughout the entire interview.

[13. Bring Closure and Summarize]

If you have done all of the above and you've made it through the analysis, the final action is to create a sense of closure by summarizing the case. Review your findings, restate your suggestions, and make a recommendation. You don't need to sum up the whole answer; pick two or three key points and touch on those. Students are often afraid to make a recommendation, thinking that their analysis was faulty so therefore their answers will be wrong. There are no wrong answers. Just make sure your answer makes good business sense and common sense.

+ Types of Case Questions

Case questions generally fall into one of three major categories: brainteasers, back-of-the-envelope questions, which are often called market-sizing questions, and business case questions. It's quite common to find a market-sizing question enclosed within a larger business case question. Whether fun or frustrating, all case questions are valuable learning experiences.

▶ Brainteasers

Brainteasers are scarce these days, but they still pop up in the occasional first-round interview, so it's important to be aware of them. Brainteasers are basically the same riddles and conundrums that we've all been struggling to solve since fourth grade. Some brainteasers have a definite answer; others are more flexible in their solutions. Interviewers are looking to see not only if you can come up with a good answer, but also whether you can handle the pressure. Do you get frustrated, stressed, and upset? The key is to keep your cool and try to break the problem down logically. Just give it your best shot and don't be afraid to laugh at your mistakes or be a bit self-deprecating. It makes you human and more fun to be with.

Below is an example of a brainteaser with a definite answer, and one with a more flexible solution.

The Bags of Gold

Q : 1 ***There are three bags of gold. One of the bags contains fake gold. All the bags and all the coins look exactly alike. There is the same number of coins in each bag. The real gold coins weigh one ounce each, the fake coins weigh 1.1 oz. apiece. You have a one-pan penny scale and one penny, which means you can weigh something just once. (You load the scale, put the penny in, and the scale spits out a piece of paper with the weight.) How can you tell which bag has the fake gold?***

A : 1 *You take one coin from the first bag of gold, two coins from the second bag, and three coins from the third bag. Place them all on the scale. If the coins weigh 6.1 oz., then you know that the first bag held the fake gold. If they weighed 6.2 oz., then it was the second bag. If the coins weighed 6.3 oz., then the third bag held the gold.*

Virgin Atlantic

Q : 2 ***You are driving down the road in a mini-van. In the back of the van are six 8-year-olds who you are bringing back from soccer practice. None of the children are yours. You drive by a movie marquee which announces the movie "The Last Virgin in America." One of the children asks, "What's a virgin? And why is America down to its last one?" What do you tell her?***

A : 2 *Obviously, there is no right answer. People have come up with anything from grades of olive oil to airplane logos to "Ask your mother." Again, the key is to prove that you can remain poised. As a father, I can tell you what I'd say: "Who wants ice cream?!"*

There are numerous puzzle and brainteaser books to be found in your local bookstore. If you are worried about these types of questions, you may want to pick up one of these books.

Back-of-the-Envelope

Back-of-the-envelope questions or market-sizing questions surface all the time and can be found during any round of interviews and within many larger business case questions. The back-of-the-envelope question received its name because the questions used to start with, "You're on an airplane with no books, phone, or any other resources. On the back of an envelope figure . . . ." You'll find some of these questions intriguing; some will be fun; others preposterous. However, it's important to have the "rip right through it" look in your eyes; at least pretend that you're having fun.

Oftentimes during market-sizing questions, all you have to work with are assumptions. There are going to be instances when your assumptions are wrong. Sometimes the interviewer will correct you, other times he will let it go. The interviewer is more interested in your logic and thought process than whether your answer is correct. If you are still concerned you can always say, "I'm not that familiar with this market, so if my assumptions are off, please correct me." Ninety percent of the time, the interviewer will tell you not to worry about it. Everything you say has the potential to be questioned — be ready to stand behind your assumptions. Your assumptions should be based in some sort of logic. If you just pull them out of the air, you're risking the interviewer aggressively challenging your assumptions and your credibility. Examples are:

- **How many gas stations are there in the U.S.?**
- **How many garden hoses were sold in the U.S. last year?**
- **How many pairs of boxers are sold in the U.S. each year?**
- **How much does a 747 weigh?**

Although they seem similar, these are four very different questions. Here are some hints.

- First of all, there are no right answers. Even if you had just read a Forbes article on the number of gas stations and could recite the exact total, the consultants wouldn't care. They want to see how logically you answer the question.
- All you really have to work with are assumptions. If your assumptions are too far off, the interviewer will tell you; otherwise, guesstimate.

- Use easy numbers — round up or down.
- Write the numbers down. Half of your brain is trying to figure out how best to answer this question and the other half is trying to remember the sum you just figured. Write the numbers down so you can focus on the process, not the numbers.
- **Determine if this is a population-based question, a household question, an individual question, or a "Who thinks this stuff up?" question. To determine whether it's a population, household, or individual question, ask yourself if the item is used by a population, a household, or an individual.**

❑ **How many gas stations are there in the U.S.? (Population question)**

I live in a town with a population of 30,000. There are six gas stations serving our town. Therefore, I'll assume that each gas station serves about 5,000 customers. If the population of the U.S. is 300 million, I'll just divide 300 million by 5,000 and get 60,000 gas stations in the U.S.

If you tried to answer this question based on households or individuals you would quickly find yourself mired in numerous and unnecessary calculations.

❑ **How many garden hoses were sold in the U.S. last year? (Household question)**

The population of the U.S. is 280 million people. The average U.S. household is made up of 2.8 people, so we are talking about 100 million households. (You always want to work with 100 million households in the US and 200 million in Europe)

I'm going to estimate that 50 percent of the households are either suburban or rural. That makes 50 million households. I'll also assume that 20 percent of those homes are apartments or condos. That narrows us down to 40 million houses which most likely use a garden hose. Garden hoses are relatively inexpensive, so people are likely to have a hose in the front and a hose in the back yard. That makes 80 million hoses. I want to add in another 10 million hoses which can be found in nurseries, zoos, and other outdoor facilities like Fenway Park. Most of those businesses have at least two hoses.

We are now up to 90 million garden hoses. Hoses aren't replaced every year. I'd say that they are replaced every 3 years unless they are run over by a lawn mower or run into the business end of a dog's tooth. So we take 90 million hoses divide it by 3 and come up with 30 million garden hoses sold each year.

❑ **How many pairs of boxers are sold in the U.S. each year? (Individual question)**

BACK-OF-THE-ENVELOPE AND MARKET-SIZING ASSUMPTIONS

Oftentimes, with back-of-the-envelope questions, all you really have to work with are assumptions. Below are common assumptions:

- The population of the United States is 280 million, although this number can fluctuate from 250 million to 300 million to make your calculations easier.
- Men and women each represent 50% of the U.S. population.
- The average life expectancy of an American is around 80 years.
- Americans per household is 2.8.
- Number of U.S. households is 100 million.
- Percentage of households that own a VCR is 90 percent/DVD 40%.
- Percentage of households that have cable TV is 68 percent.
- Percentage of households that have a PC is 65 percent.
- Percentage of households that are connected to the Internet is 61 percent.

I'm going to start by stating some assumptions. I'm going to assume that the population of the U.S. is 250 million, that the life expectancy is 80 years, and that there are the same number of people in each age group (i.e., there is the exact same number of 3-year-olds as 73-year-olds). So if you divide 250 million by 80, you get a little over 3 million people per age group. We'll round it off to 3 million people. I will also assume a 50/50 split between men and women.

Children ages zero – three mostly wear diapers, and kids ages four – nine mainly wear jockey-style. So we'll focus on the ages between 10 and 80. That's 70 years to cover. I'm going to go out on a limb here and say that only 10% of females ages 10 to 30 own a pair of boxers and, of that group, each might buy one pair a year.

So:
(1.5 million females x 20 years) x 10% = **3 million boxers.**

Males between the ages of 10 and 20 wear them as a fashion statement, so I'll assume that 75% wear boxers and that they buy 3 pairs a year (the economical 3-pack).

So:
(1.5 million males x 10 years) x 75% = 11,250,000 million boxers
11 million boxers x 3 pairs = **33 million boxers.**

Of males between the ages of 21 and 80 (round off to 60 years), 50% wear boxers and buy or receive as birthday or holiday gifts 6 pairs (2 sets of 3-packs) a year.

So:
(1.5 males x 60 years) x 50% = 15 million males wearing boxers.
15 million x 6 pairs of boxers = **90 million pairs of boxers.**

Add them all together:
3 million + 33 million + 90 million = 126 million pairs of boxer shorts were sold in the U.S. last year.

❑ How much does a 747 weigh? ("Who thinks this stuff up?" question)

Your guess is as good as mine. Ask questions, then break down the elements, and make assumptions. Are there passengers on board? No. Any baggage? No. Are the fuel tanks full or empty? Full. Any food or beverages on board? No.

Now you just go ahead and calculate the weight of each part of the plane.

- **8 full fuel tanks:** I'll assume the plane can fly 6,000 miles and uses 10 gallons to the mile. So that's 60,000 gallons at 2 pounds a gallon equals 120,000 pounds.
- **18 tires:** I'll assume that the tires weigh 200 pounds each — that's 3,600 pounds.
- **4 engines:** I'll assume 2,500 pounds each adds another 10,000 pounds.
- **2 wings:** 200 feet long by 30 feet wide is 6,000 square feet, times a square foot weight of 5 pounds times 2 wings equals 60,000 pounds.
- **Interior:** 75 rows of seats times 4 feet per row equals 300 feet. Add on the cockpit, bathrooms, etc., let's say around 400 feet long. I assume that the average weight per foot is 10 pounds, which equals 4,000 pounds.

• **The seats:** They number, say 500, and weigh 10 pounds each, so that's 5,000 pounds.

• **Air in the cabin:** It's captured air so we need to add one ton for the air in the cabin — 2,000 pounds.

• The **aluminum exterior:** It's pretty thin and lightweight. If the plane is 400 feet long by 25 feet high, then about 10,000 exterior square feet at 1 pound per foot equals 10,000 pounds.

• **Miscellaneous materials:** The tail, overhead bins, carpet, stairs and bathroom fixtures add on, say, another 2,000 pounds.

Now you add up the pieces:
120,000 + 3,600 + 10,000 + 60,000 + 4,000 + 5,000 + 2,000 + 2,000 + 10,000 = 216,000, or round up to 220,000 pounds, or **110 tons.**

❑ How much chocolate did America eat in 2004? (Individual problem)

First, I'm going to determine what percentage of the population loves chocolate; what percentage likes chocolate; and what percentage doesn't care for it, is allergic to it or is too young to eat it. Then I'm going to look at how they eat it.

• I'll assume that there are 250 million Americans.[1]

30% love chocolate – 75 million
50% like chocolate – 125 million
20% don't care for it – 50 million

• People consume chocolate in the following ways, via candy, junk food, commercial baking, coffees, chocolate milk and adult drinks (i.e., B52s). Taking into account four crucial holidays, Valentine's Day, Easter, Halloween, and Christmas, I'm going to estimate the number of pounds of chocolate each person within those categories eats a year.

• I'll assume that the average candy bar weighs 1.5 ounces. Someone who loves chocolate probably eats 2 candy bars a week (3 oz. times 52 weeks) equals 156 oz. or round it off to 160 oz. or 10 pounds. The person who likes chocolate probably eats two candy bars a month (3 oz. times 12 months) equals 24 oz. or 1.5 pounds. We'll round it off to 2 pounds.

The person who doesn't care for chocolate probably won't eat any candy bars.

• Next, let's look at commercial baking. It's hard to get away from chocolate, it seems to turn up everywhere. This area includes desserts at restaurants, special coffee drinks, hot chocolate and junk food. Someone who loves chocolate probably consumes another 5 pounds while someone who likes it might eat another pound. I'm also going to add one pound for those who don't care for it. They might consume it in ways that they don't know about or eat a piece of birthday cake, that sort of thing.

• Finally, there are ice cream and homemade items like cookies and cakes. While these items aren't solid chocolate, people probably consume more goodies containing less pure chocolate.

• People who love chocolate eat 25 pounds times 75 million equals 1.875 billion pounds. People who like chocolate consume 8 pounds times 125 million equals 1 billion pounds. And people who don't care for chocolate eat 1 pound times 50 million equals 50 million pounds. This all adds up to 2.9 or around 3 billion pounds of chocolate.

NB. (Americans consumed approximately 3.5 billion pounds of chocolate in 2000.).

	Loves	Likes	Doesn't care
Candy	10 lbs.	2 lb.	0
Commercial baking / coffees / drinks	5 lbs.	1 lb.	1 lb.
Ice cream / homemade cookies	10 lbs.	5 lbs.	0

❑ Estimate the size of the bubble gum market in the U.S. (General population question)

First, I'm going to make a few assumptions. I'll assume that there are 280 million Americans and that the average life expectancy of an American is 80 years. I'm also going to assume that there is an even number of people in each age category. So, I divide 280 million by 80 and get 3.5 million people in each age group. To make things easier, I'm going to calculate assuming 50 weeks in a year.

I'd also like to think about where bubble gum is sold. As I remember, bubble gum is sold in packs of 10 pieces in convenience stores, grocery stores, newsstands, etc. You can also find bubble gum inside baseball trading cards, and gumball machines.

I'm going to break the population down into different age categories, estimate the number of people that chew bubble gum in each age group, the number of pieces they chew each week and convert that into an annual number. Let's make a chart.

Ages	No. People	# that Chew	pieces / per week	pieces / year
0–5	17.5	1m	2	100m
6–10	17.5	12m	10	6b
11–15	17.5	12m	20	12b
16–20	17.5	10m	5	2.5b
21_40	70	4m	1	200m
40–80	140	1m	1	50m
Totals	280 m	40m		20.85b

So I'm going to say that 20 billion pieces of bubble gum are sold each year. Ten pieces per pack equals 2 billion packs, at 50 cents a pack, equals $1 billion.

❑ How many ATMs are there in the country? (Population problem)

I live in Needham, Massachusetts. The population of my town is approximately 30,000. There are fifteen ATMs in town. So I'll assume that each ATM services 2,000 people. I'm going to assume that the population of the U.S. is around 280 million people. Next I'll divide 2,000 into 280 million and come up with 140,000 ATMs.

With a "population type" market-sizing case that you think you'll break down by generation, have certain numbers and assumptions planned out in advance. Pick a number like 280 million Americans that is easily divisible by 4 so you'll know in advance how many people per generation. You wouldn't believe the number of people who stumble through this, come up with odd numbers, and thus start off on the wrong foot.

"I'll assume that there are 280 million Americans and the average life expectancy is 80 years. I'm going to break them down by generation assuming equal numbers within each generation."

Also, when you are determining percentages of the generations, use easy numbers like 1%, 2%, 5%, 10%, etc,. You want to make it as easy for yourself as you can.

Ages	No. of people in millions	% that need pacemakers	No. of people with pacemakers
0–20	70	0	0
21–40	70	1	.7
41–60	70	2	1.4
61–80	70	5	3.5
Total	280		5.6

❑ European PC manufacturer

Your client is a European PC manufacturer and profits have been falling. The client is thinking about entering the printer business and wants to know if it's an attractive business to enter. Estimate the size of the EU printer market.

Ages	People per generation	% that uses printers	People using printers
0–20	120	50%	60
21–40	120	75%	90
41–60	120	75%	90
61–80	120	25%	30
Total			180

I'll assume that the population of the European Union is 480 million and the average life expectancy is 80 years. I'm going to break it down by generations. I'm also going to estimate the number of people who use a printer either at or home at work.

We have a 180 million Europeans that use printers. I'll assume that half of them are printer buyers either for their own home or at work. Now we're looking at 90 million people. I further assume that printers are replaced every five years. Thus, 90/5 equals 18 million printers sold each year. If we assume each printer sells for a 100 Euros, that makes a 1.8 billion Euro market.

A second way to do it . . .

I'm going to divide the buyers up into two groups: commercial buyers and home buyers. Commercial buyers are (i) small organizations and (ii) small and medium-sized enterprises and businesses.

Type	Small businesses and organizartions	Large companies and corporations
Number of organizations	50,000	60
Numbers of printers per organization	10	100
Total number of printers	500,000	200,000
Replacement rate	1 in 5 years	1 in 3 years
Average price per printer	500	1000
Total market size / revenue potential (# sold each year times price per printer	€50 million	about €67 million

Now for the home market. There are 480 million Europeans. I'll estimate that the average size of the European household is 2.4 people, which means that there are 200 million households. We'll say that a quarter of the households have a printer. That establishes a market of 50 million households. We'll also assume that the life of a printer is 5 years, thus the market for home printers is 10 million printers a year.

So, the home market is 10 million, small business is 100,000, and the corporate market is 66,000 for a grand total of 10,166,000.

Business Case Questions

Business case questions come in all shapes and sizes, but they usually fall into two categories: numbers cases, and business strategy and operations cases.

❑ **Number Cases:** There are pure number cases that are really just math problems you are expected to do in your head. There are also "case-like" numbers cases, which seem like strategy cases, but are not. Case-like number cases are about numbers — sounds simple, but most people get them wrong because they don't listen to the question and try to turn it into a strategy case.

• **Pure number cases to do in your head**

A) The total widget market is $170 million and our sales are $30 million. What percentage of the market share do we hold?

B) Our total manufacturing costs are $20 million. With that we can make 39,379 units. What is our approximate cost per unit?

C) Our total costs are $75,000. Labor costs make up 25% of the total costs. How much are our labor costs?

D) You bought a stock for $36 a share. Today it jumped 6%. How much is your stock worth?

E) You raised $3.5 million for a start-up. Your commission is 2.5%. What's your commission in dollars?

F) What's 7 times 45?

G) In 1999, the number of current outstanding shares for Macromedia Inc. was 41,084,000. Institutional investors hold 25,171,000. Approximately, what is the percentage of shares held by institutions?

	Price	Change	Percentage change
H)	$27.00	.54	
I)	$31.00	.62	
J)	$40.00	1.00	
K)	$75.00	3.00	
L)	$10.00	1.70	
M)	$50.00	2.50	

N) Banana Republic makes 14% of The Gap's estimated $16 billion in sales. What are BR's sales?

O) Europe's population is approximately 480 million. By 2007, the EU population expected to drop to 450 million. What kind of percentage change is that?

Go figure: Try to estimate some of the percentages in your head, and then work out the others without a calculator. Round off the answers as you would during a case question. (p.s. these are from a 5th grade math test.)

P) 60% of 70 = ___ **Q)** 25% of 124 = ___ **R)** 68% of 68 = ___ **S)** 12% of 83 = ___

T) 23% of 60 = ___ **U)** 27% of 54 = ___ **V)** 13% of 19 = ___ **W)** 65% of 80 = ___

X) 78% of 45 = ___ **Y)** 78% 0f 90 = ___

Answers:
A) about 18% B) about $500 C) $18,750 D) $38.16 E) $87,500 F) 315 G) 60%
H) 2% I) 2% J) 2.5% K) 4% L) 17% M) 5%
N) Banana Republic: approximately $2.3 billion O) Europe's population around -6 percent
P) 42 Q) 31 R)46 S)10 T) 14 U) 15 V) 2 W) 52 X) 35 Y) 70

- **Case-like number cases:**

American Express is facing stiff competition from a host of new credit cards that have no annual fee and low interest rates. In response, American Express is considering dropping its $50 annual fee. What are the economics of dropping the $50 fee? (This is a popular case and one that has repeatedly turned up in interviews.)

Nine out of 10 students think this case is about competition. They focus their answer on strategy and alternatives to dropping the fee. The first part of this question is not relevant. The real question is **"What are the economics of dropping the $50 fee?"**

In order to answer this question you need to ask three questions:

- How many card members does Amex have?
- What is the average amount that each card member spends annually?
- What are Amex's revenue streams?

Amex has 10 million card members. Amex card members average $2,000 a year in purchases. Amex makes 2% from each purchase.

Amex Revenues:

10 million customers paying a $50 annual fee equals $500 million. Each member spends $2,000 x 2% = $40 a year x 10 million customers = $400 million. Total revenues then = $900 million, with 55% of that figure coming from fees.

Would card members spend more money if they didn't have to pay the annual fee? Amex card members would have to more than double their purchases to make up for the loss in fee revenues. It seems unlikely that they would go from spending $2,000 a year to spending $5,000 a year because of a dropped $50 fee.

Even a modest bump in new members couldn't make up the difference.

How many new customers would Amex have to secure in order to make up the $500 million dollar difference? Amex would have to more than double its card members from 10 million to about 25 million in a short period, say two years. Is that feasible? It took Amex 25 years to reach the 10 million customer base. So doubling it in two years seems unrealistic.

My advice to Amex is to keep its fee in place.

That's it. That's the answer. The interviewer doesn't want to hear about reducing the fee to $25 or turning Amex into a credit card. This is a straightforward question. Listen to the question.

❑ **Business Strategy and Operations Cases:** Some business strategy and operations cases should be answered in less than 15 minutes. These are referred to as mini-cases. An example:

- *GE has invented a new light bulb that never burns out. It could burn for more than 500 years and it would never blink. The director of marketing calls you into her office and asks, "How would you price this?" What do you tell her? (See answer on pg 122.)*

A regular case question, like the DuPont case below, could take anywhere from 30 to 45 minutes to answer. It could combine a market-sizing question with a strategy question all rolled into one, such as:

- *DuPont has just invented a lightweight, super-absorbent, biodegradable material that would be perfect for disposable diapers. Estimate the size of the diaper market and tell me if Dupont should enter this market and if so, how? (See answer on page 133.)*

Written Case Questions and Tests

Over the last couple of years we have seen more and more firms turn to written cases, particularly in the second and third rounds. Monitor Group was the first to pioneer the written case. Since then they have added a few new twists to the process. The interview can go something like this:

You arrive for the interview and are handed a written case (usually about 5 pages; three pages of text and two pages of charts and graphs). You are given twenty to thirty minutes to read and take notes. When the time is up, a consultant comes in and you are expected to "present" the case, much like in a Harvard Business School class. More often than not it turns into a discussion. Chances are you will be touching on all the same points as you would if given a verbal case.

Here's where it gets really interesting. Sometimes when you have finished reading the case you are taken into a room where you'll meet two to three other candidates (you all have read the same case and are applying for the same position). Again, you are expected to "present" the case. The consultants watch closely to see how you interact with the other candidates. Are you dominating the discussion? Are you sitting back and being dominated by others? Or are you building on what the other candidates say in a positive and civil manner. The Monitor consultants look to see how you interact with your peers. Are you a team player? Do you play well with others? Can you hold your own? It all boils down to fit, communication skills, respect for others, empathy, and teamwork.

This is taking the brilliance of case questions as an interviewing tool one step further.

There could be one last twist. Sometimes, when you arrive, you are joined by two or three other candidates in a small conference room. You are all given the same case and asked to present it in twenty minutes. A Monitor consultant stays in the conference room with you to monitor the group's interaction and dynamics while accessing the leadership skills of all the candidates. When your team is ready to present, two other consultants join in and your "team" presents the case.

Now, one, two, or all three of the candidates might be called back for the next round. While you act as part of a team during presentation of the case, you are all judged individually.

McKinsey & Company now requires that some candidates take a written test. "The test is testing problem solving in a written format; folks will be surprised that the straight 'quant' questions are the minority. It's not like a GRE quant test," explains a senior McKinsey recruiter.

"The bulk of it involves making judgment calls/recommendations based on information available to you at that point," the recruiter explains. "The exercise is supposed to feel like a case interview, but with multiple choice responses."

There are three cases based on McKinsey engagements — 35 questions total, about 12 per case. Candidates receive a bit more information about the business, the environment, and the problem with each question.

Students get 70 minutes and can't bring in calculators or scratch paper. The test was designed by ETS (the SAT and GMAT folks). "It was fun, now that it's over," recants a non-MBA Harvard graduate student. "There are some ratios and percentages, a couple formulas, but nothing too overwhelming. Also a few charts are used to present some of the information, but, again, fairly basic, in my opinion."

A McKinsey recruiter states "You need to be comfortable with calculating some percentages, basic equations, understanding relationships among data, but nothing terribly advanced."

Some international offices have a math section that one student says is more like the GMAT than the GRE. You have 18 questions and get 30 minutes to complete it. "You start with probability and it gets harder from there," recounts a Harvard graduate student.

The McKinsey recruiter explains, "The resulting score is used as one more 'data point' on problem solving for the interviewers to refer to if they have concerns or opposing reads. There is no magic or required score, and performance in face-to-face interviews are of greater importance to us."

Reading Charts and Graphs. One of the best ways to shake the dust off your chart and graph reading is to look at the charts and graphs printed in *The Wall Street Journal* and *The Economist* and draw some conclusions. Then read the article and compare your thoughts to the main points of the article.

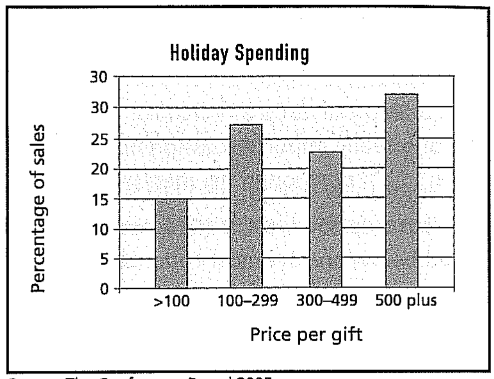
Making Slides and Graphs. There is another new twist this year, making slides and graphs. The recruiter hands you a few pages of data and asks that you create (on paper) three or four PowerPoint® slides. You are then expected to present them during the case as you would during a presentation to a client.

Chances are you will only need to use one of the three basic graph forms; the bar graph, the line graph or the pie chart. Be sure to give your charts and graphs an appropriate title that explains what the data measure.

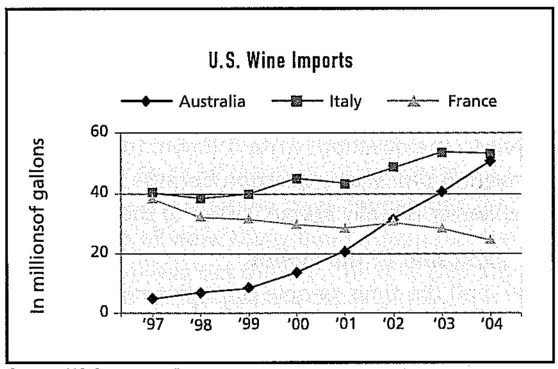
Use the bar graph when you want to show relationships between groups. The two items being compared don't need to affect each other. This chart shows what percentage of holiday sales falls into what price category.

Trends over time are generally shown in line graphs. The line graph plots the rise and fall of one data set or multiple data sets. The line graph is needed when you want to show the effect of an independent variable on a dependent variable. The second chart follows U.S. wine import levels from Australia, Italy and France over an 8 year period.

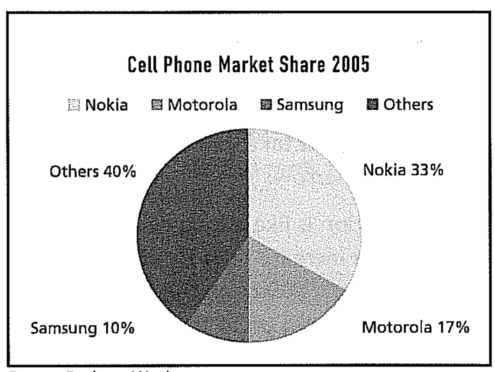
A pie chart is used to show how something relates to the whole. It usually deals with percentages. This last chart shows the market share of the U.S. cell phone market in 2005.



Source: The Conference Board 2005



Source: US Commerce Department



Source: Business Week

+ Irking the Interviewer

Interviewers get easily bored and irked. Let's face it, these guys and gals spend most of their days telling the CEOs of Fortune 1,000,000 companies what to do. Now, they've been yanked out of a really important assignment to interview you and a dozen of your closest friends. Yawn . . . "I postponed my meeting with Bill Gates for this? Dazzle me!"

The first step toward CID (Case Interview Dazzlement) is to avoid costly and obvious mistakes. Listed below are the most common mistakes that past interviewees (some still unemployed) made.

❑ **The Leno / Letterman syndrome**
A five-minute monologue will do more to hurt your career than any of the other mistakes. Remember, you ask questions not only to get additional information, but to draw the interviewer into the case with you. Make the interviewer feel that he is a stakeholder in your candidacy. Turn the question into a conversation.

❑ **What was the question again?**
Listen to the question; write it down; then repeat it to the interviewer. Candidates are always answering the wrong question because they don't take the time to identify what the interviewer is really asking. Listen to the question!

❑ **Explosion of the mouth**
I see it all the time, people can't give me the answer fast enough. Slow down. Don't jump off the mark and give the first answer that pops into your head. Take your time and analyze the information. The interviewer is there to observe the logic and thought process behind your answer.

❑ **Digression city**
You go off on a tangent because it's easy, you're on a roll, and it provides you with a false sense of security. You think it hides the fact that you can't move forward in your answer, but it doesn't. Tangents take you off the path and it becomes extremely difficult to get back on the straight and narrow.

A case question is like a long corridor with numerous side doors. Suppose the question was, "How do we increase sales for the local 7-Eleven convenience store?" You start walking down the corridor and you open the first door on the right and yell, "We can raise our prices." Close the door and move on to the next door. Open that door and yell, "We need to get more people in the store." Close the door and move on.

The problem arises when you open the door and yell, "We need to get more people in the store." Then you start walking down the side hall trying to come up with creative ways to get more people in the door. You come up with all sorts of promotions involving your favorite late-night snack food. Hey, this is easy! But that's NOT the question.

❑ The bull in the consulting china cabinet

Don't use terms that you don't fully understand. Throwing out a buzzword or business term in the wrong context highlights the fact that you have a nasty habit of discussing things about which you know little. If you do that in an interview, what will you do in front of a client?

❑ Asking open-ended questions

Open-ended questions that try to get the interviewer to answer the case for you will irk the interviewer, big time. It is far better to make assumptions than to ask the interviewer for the answer. An example would be if you were reviewing labor costs.

Right: Because the economy is strong and there are plenty of jobs, I'll assume that our labor costs have gone up.

Wrong: What has been going on with our labor costs?

+ If You Get Stuck

If you get stuck during a case and the interviewer doesn't ask you a question to help you along, then there a few things you can do. First, take a moment to recap where you've been. Chances are you've either gone into too much detail and are now stuck in the mud, or you went off on a tangent. By recapping, it pulls you out of the mud and back above the trees. Remember, for the most part, you want to view the case from a macro point of view. Many times as you recap you can see where you got off track. The second thing is to quickly run through the 5 Cs (see page 44) in your head to see if there is something obvious that you missed. Finally, if you are still stuck, ask for help. There is no shame in asking for help. If we were working on a project together, I would much rather have you ask me for help then have you waste a lot of time banging your head against a wall. That being said, I wouldn't ask for help more than once.

+ The Trouble with Math

Do you have trouble doing math in your head? Are you often off by zeros? When I do case interviews with students, the most common problem is basic math. It's the zeros that students have trouble with. From Ph.D.s to undergraduates, it's the zeros.

Number Table[1]

	10	100	1,000	10,000	100,000
10	100	1,000	10,000	100,000	1,000,000
100	1,000	10,000	100,000	1,000,000	10,000,000
1,000	10,000	100,000	1,000,000	10,000,000	100,000,000
10,000	100,000	1,000,000	10,000,000	100,000,000	1,000,000,000
100,000	1,000,000	10,000,000	100,000,000	1,000,000,000	

[1] Number Table produced and designed by Maria Teresa Petersen, Harvard MPP '01.

+ Best Case Thinking

In my years of training Harvard students to answer case questions, I've realized that the major problem many of my students have is simply getting started. Sometimes they're overwhelmed, sometimes they're nervous, and sometimes they just don't have a clue. So in 1996, with the help of a student, I developed the Tomensen/Cosentino Case Framework. Over the years it has been successfully tested in thousands of case interviews. After hundreds of debriefings, I have refined it, simplified it, and renamed it. But the biggest change is that I turned it from a framework into a system, The Ivy Case System.

THE TWELVE CASE SCENARIOS

Business cases have traditionally focused on either business strategy or business operations. However, with today's more complex cases, candidates are getting case questions that cover both categories and multiple scenarios.

Strategy Scenarios:

1. Entering a new market
2. Industry analysis
3. Mergers and Acquisitions
4. Developing a new product
5. Pricing strategies
6. Growth strategies
7. Starting a new business
8. Competitive response

Operations Scenarios:

9. Increasing sales
10. Reducing costs
11. Improving the bottom line
12. Turnarounds

When operations cases are really about strategy (e.g., Strategy: Should we proceed with a turnaround? vs. Operations: How do we proceed with a turnaround?) then think about using cost-benefit analysis (in which you analyze the pros and cons of each possibility).

A framework is a structure that helps you organize your thoughts and analyze the case in a logical manner. Often, however, you have to cut and paste from a number of frameworks in order to answer any single case question. As I've mentioned, the difference between a framework and a system is that a framework is really a tool, while a system is a process. Instead of memorizing seven individual frameworks and then trying to decide which one(s) to apply, you learn the system, which already has the tools built in.

The Ivy Case System is a two-part system made up of four easy steps to get you going and 12 popular case scenarios (*see sidebar*), each equipped with a collection of ideas and questions that will help you structure the remainder of your response. If you follow through the outline I've given for each scenario, you can be confident that your response will be logical and cohesive. You will find that there is much overlap between the 12 scenarios, so that you're not learning 12 different ideas, you're learning maybe 5.

These first four steps will provide you with a quick start (no long, awkward pause between question and answer). They'll get you five minutes into the question, give you momentum, and provide you with enough information to decide which of the 12 case scenarios (or whatever combination thereof) is most appropriate to the case question at hand. You will recognize the four steps from the "Key Guidelines" section.

You may want to read through the following explanation of the Ivy Case System and then check out a practice case or two to see how the system can be applied. Then it will be time to revisit the system and learn it.

The interviewer has just finished giving you the case. Here's what you do!

✛ The First Four Steps

[1. Summarize the Question]

It shows the interviewer that you listened. It allows you to hear the information again, and it keeps you from answering the wrong question. When listening to the question, try to weed out the irrelevant information to hear what the interviewer is asking; one word in the question could make a big difference in your answer.

[2. Verify the Objectives]

You can bet that when a consultant has her first meeting with a client, she always asks about objectives and goals. What are the client's expectations, and are those expectations realistic? Even if the objective to your case seems obvious, there is always a possibility of an additional, underlying objective. So ask, "One objective is to raise profits. Are there any other objectives that I should know about?" If the interviewer says, "No. Higher profits is the only objective," then we can determine that the choice of case scenario comes directly from the objective. If there are two objectives, you will probably need to break the case in half and tackle one objective at a time.

At this point you should be able to determine whether this is a numbers case and should proceed accordingly. (Look back to page 19 for more information on numbers cases.)

[3. Ask Clarifying Questions]

As we've said, you ask questions for three reasons: to get additional information, to show the interviewer that you are not shy about asking questions, and to turn the case into a conversation. The key is to ask broad, open-ended questions that help you narrow the information at the start, because as the case progresses, you'll lose your "right" to ask these sweeping questions (it may give the impression that you're trying to get the interviewer to answer the case for you). The 12 case scenarios will guide you in asking these questions.

However, if you still don't know which scenario to use — i.e., whether this case is about increasing sales or increasing profits (or entering a new market, producing a new product, growing a company . . .) you can choose the appropriate case scenario by asking broad, generic questions about:

- the company: Is it public or private? How big is it? Is it growing?
- the industry: Where is the industry in its life cycle?
- competition: Both internal (Who are the major players? What is our market share?) and external market factors (i.e., substitutions, the economy, interest rates, unemployment rate, price-cutting by competitors, rising material costs).
- the product: If it's a new product, ask about both the advantages and the disadvantages. (Everyone forgets to ask about the disadvantages, but oftentimes disadvantages can drive your answer more than the advantages.)

*** Note:** *Keep in mind how the economy, the Internet, and other new technologies affect each question.*

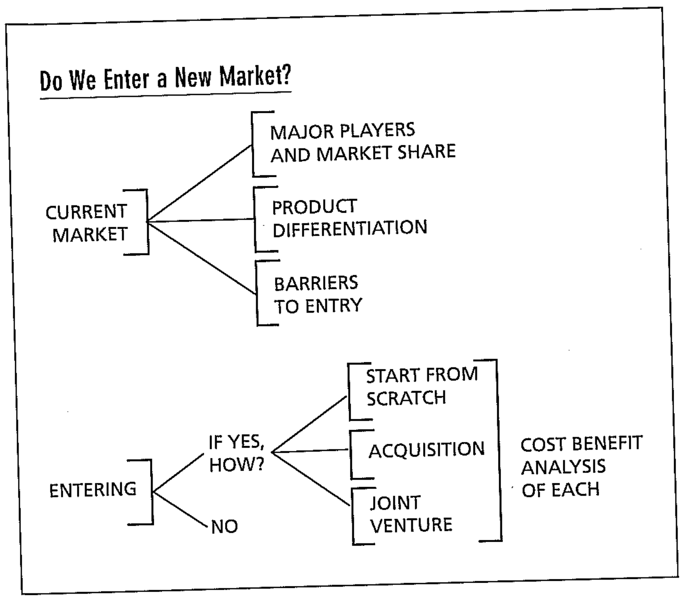
[4. Lay Out Your Structure]

This is by far the toughest part of the process and you may want to "take a moment" to think about structure at this point. Thirty seconds of silence now may save wasted time later in the interview. You've decided which case scenario(s) to work with, and you have asked a few broad questions that have given you the information you need to form a logical response. Because you have studied the scenarios, you can quickly go through the bullet points in your mind and decide which are most relevant to this particular question. You then just need to clue in the interviewer about how you plan to proceed.

With some cases, laying out your structure is the answer to the case itself — you tell the interviewer how you would go about fulfilling the company's objective, and voilà, you're done. With other cases, you'll actually need to walk through some of your proposed steps. It should be obvious (by the nature of the question and by the interviewer's feedback) which path a specific case calls for.

Most consultants think graphically. They communicate to clients through Power Point® slides, graphs and charts. Many students find that it helps to draw a decision tree. A decision tree is a map of the reasoning process — visually breaking the case down into components and laying out your structure. It allows you to review your options and investigate the possible outcomes, while weighing the risks and rewards of each course of action.

*** Note:** *The more cases you practice, the more you'll be able to draw on those practice cases during the interview. For example, if you know you're working with an entering a new market case, you can think back to that Yellow Stuff Chemical Company case (page 138) and use it as a guide.*



+ 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?

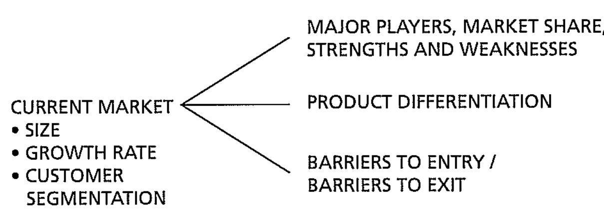
Step 3: Investigate the market to determine whether entering it would make good business sense.

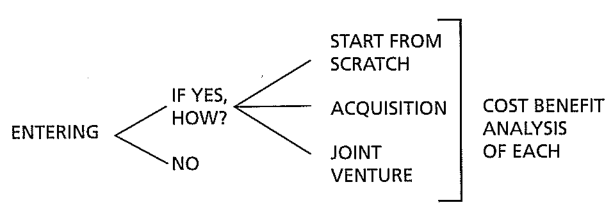
- Who is our competition and what size market share does each competitor have?
- How do their products and services differ from ours?
- How will we price our products or services?
- Are there substitutions available?
- Are there any barriers to entry? Such as: capital requirements, access to distribution 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

- CURRENT MARKET
  - LIFE CYCLE (EMERGING? MATURITY? DECLINE?)
  - PERFORMANCE (GROWING OR DECLINING?)
  - CLIENT'S POSITION WITHIN THE INDUSTRY
  - MAJOR PLAYERS AND THEIR MARKET SHARE
  - INDUSTRY CHANGES (NEW PLAYERS, TECHNOLOGY, REGULATIONS)
  - DRIVERS (BRAND, SIZE, TECHNOLOGY)
- SUPPLIERS
  - HOW MANY?
  - PRODUCT AVAILABILITY
  - WHAT'S GOING ON IN THEIR MARKET?
- FUTURE
  - ARE PLAYERS ENTERING OR LEAVING THE MARKET?
  - MERGERS AND ACQUISITIONS?
  - BARRIERS TO ENTRY, TO EXIT?

[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

- OBJECTIVES WHY BUY?
  - MARKET ACCESS
    - BOOST BRAND
    - INCREASE MARKET SHARE
  - DIVERSIFY HOLDINGS
  - PRE-EMPT COMPETITION
  - TAXES
  - SYNERGIES
    - COST SAVINGS
      - REDUCTION OF FIXED AND VARIABLE COSTS
    - CULTURAL INTEGRATION
    - DISTRIBUTION CHANNEL EXPANSION
- ACQUISITION COSTS
  - FAIR PRICE?
  - CAN WE AFFORD IT? HOW TO PAY FOR IT?
  - REINTEGRATION COSTS
  - WHAT IF THE ECONOMY SOURS?
- DUE DILIGENCE / RISKS
  - WHAT SHAPE IS THE ECONOMY IN?
  - HOW SECURE ARE MARKETS AND THEIR CUSTOMERS?
  - INDUSTRY OVERALL/TECHNOLOGY RISKS
  - COMPETITIVE RESPONSE
- EXIT STRATEGY
  - HOLD FOR HOW LONG?
  - BREAK IT UP AND SELL OFF ITS PARTS

[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

- COMPETITIVE ANALYSIS
  - COMPETITORS' PRICES
  - COMPETITORS' PRICES COMPARED TO OURS
  - SUBSTITUTIONS
  - CONSUMER BUYING HABITS
- COST-BASED PRICING
  - COST OF GOODS SOLD — WHAT DOES IT COST TO MAKE?
  - WHAT'S OUR BREAKEVEN POINT?
  - HOW MUCH PROFIT MARGIN CAN WE ADD?
- PRICE-BASED COSTING
  - WHAT ARE CUSTOMERS WILLING TO PAY FOR THE PRODUCT?
  - WHAT'S IT WORTH TO THEM COMPARED TO OTHER THINGS?
  - SUPPLY AND DEMAND

[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.

COMPETITIVE ANALYSIS
- COMPETITOR'S NEW PRODUCTS
- WHAT'S CHANGED?
- HAVE THEY PICKED UP MARKET SHARE?

RESPONSES
- ACQUIRE THE COMPETITOR
- MERGE WITH THE COMPETITOR
- COPY THE COMPETITOR
- HIRE THE COMPETITOR'S MANAGEMENT
- INCREASE OUR OWN PROFILE WITH P.R. 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.)

INCREASING SALES
- INCREASE VOLUME
- INCREASE AMOUNT OF EACH SALE
- INCREASE PRICES
- CREATE SEASONAL BALANCE

[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: Profits = (Revenues – Costs) x 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.

- ANALYZE THE REVENUES
  - WHAT ARE THE REVENUE STREAMS?
  - WHAT PERCENTAGE OF THE TOTAL REVENUE DOES EACH STREAM REPRESENT?
  - DOES ANYTHING SEEM UNUSUAL IN THE BALANCE OF PERCENTAGES?
  - HAVE THE PERCENTAGES CHANGED LATELY? IF SO, WHY?

- EXAMINE YOUR COSTS
  - ID MAJOR COSTS
  - ANY MAJOR SHIFTS IN COSTS?
  - DO ANY COSTS SEEM OUT OF LINE?
  - BENCHMARK COSTS AGAINST COMPETITORS

- VOLUME
  - 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

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

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

Channels : Distribution channels. How do we get our product into the hands of the end users? How can we increase our distribution channels? Are there areas of our market that we are not reaching? How do we reach them?

campaigns has the company done in the past? Were they effective? Can we afford to increase our marketing campaign?

+ BCG Matrix

In 1998, Wiley Press published *Perspectives on Strategy*. The book is a collection of articles and essays written by senior members of The Boston Consulting Group. One popular and useful framework is the BCG "Product Portfolio Matrix." This matrix is designed to place a product or group of products into one of four categories while taking into account a company's relative market share. BCG has been kind enough to let us reprint Chapter Three.

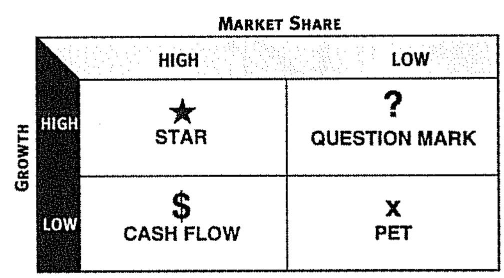
The Product Portfolio
(*Bruce D. Henderson, 1970*)[3]

To be successful, a company should have a portfolio of products with different growth rates and different market shares. The portfolio composition is a function of the balance among cash flows. High-growth products require cash inputs to grow. Low-growth products should generate excess cash. Both kinds are needed simultaneously.

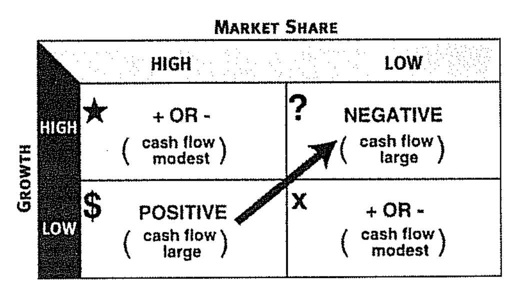
Four rules determine the cash flow of a product.

- Margins and cash generated are a function of market share. High margins and high market share go together. This is a matter of common observation, explained by the experience curve effect.
- Growth requires cash input to finance added assets. The added cash required to hold market share is a function of growth rates.
- High market share must be earned or bought. Buying market share requires an additional increment of investment.

The Matrix



Optimum Cash Flow



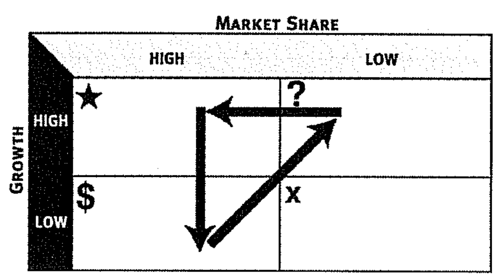
[3] Used with permission of The Boston Consulting Group. Bruce D. Henderson, "The Product Portfolio," *Perspectives on Strategy from The Boston Consulting Group*, ed. Carl W. Stern and George Stalk, Jr. (New York: John Wiley & Sons, Inc., 1998), pp. 35–37.

• No product market can grow indefinitely. The payoff from growth must come when the growth slows, or it never will. The payoff is cash that cannot be reinvested in that product.

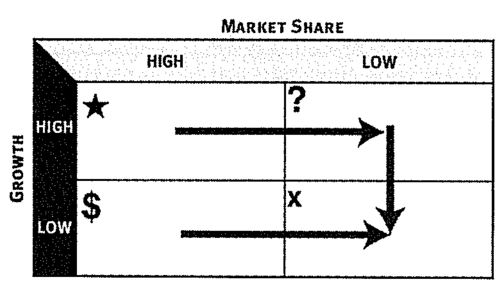
Products with high market share and slow growth are cash cows. Characteristically, they generate large amounts of cash, in excess of the reinvestment required to maintain share. This excess need not, and should not, be reinvested in those products. In fact, if the rate of return exceeds the growth rate, the cash cannot be reinvested indefinitely, except by depressing returns.

Products with low market share and low growth are pets. They may show an accounting profit, but the profit must be reinvested to maintain share, leaving no cash throw-off. The product is essentially worthless, except in liquidation.

Success Sequence



Disaster Sequence



All products eventually become either cash cows or pets. The value of a product is completely dependent upon obtaining a leading share of its market before the growth slows.

Low-market-share, high-growth products are the question marks. They almost always require far more cash than they can generate. If cash is not supplied, they fall behind and die. Even when the cash is supplied, if they only hold their share, they are still pets when the growth stops. The question marks require large added cash investments for market share to be purchased. The low-market-share, high-growth product is a liability unless it becomes a leader. It requires very large cash inputs that it cannot generate itself.

The high-share, high-growth product is the star. It nearly always shows reported profits, but it may or may not generate all of its own cash. If it stays a leader, however, it will become a large cash generator when growth slows and its reinvestment requirements diminish. The star eventually becomes the cash cow, providing high volume, high margin, high stability, security, and cash throw-off for reinvestment elsewhere.

The payoff for leadership is very high indeed if it is achieved early and maintained until growth slows. Investment in market share during the growth phase can be very attractive if you have the cash. Growth in market is compounded by growth in share. Increases in share increase the margin. High margin permits higher leverage with equal safety. The resulting profitability permits higher payment of earnings after financing normal growth. The return on investment is enormous.

The need for a portfolio of businesses becomes obvious. Every company needs products in which to invest cash. Every company needs products that generate cash. And every product should eventually be a cash generator; otherwise it is worthless.

Only a diversified company with a balanced portfolio can use its strengths to truly capitalize on its growth opportunities. The balanced portfolio has:

- stars whose high share and high growth assure the future
- cash cows that supply funds for that high growth
- question marks to be converted into stars with the added funds

Pets are not necessary. They are evidence of failure either to obtain a leadership position during the growth phase or to get out and cut the losses.

+ Michael Porter's "Five Forces" / The Structural Analysis of Industries

Michael Porter didn't develop his "Five Forces" as a case framework. However, when you are given a case dealing with developing a new product, entering a new market, or starting a new business, this framework works quite well (e.g., A regional food manufacturer is thinking of entering the gourmet toothpaste business. Should the company take the plunge?)

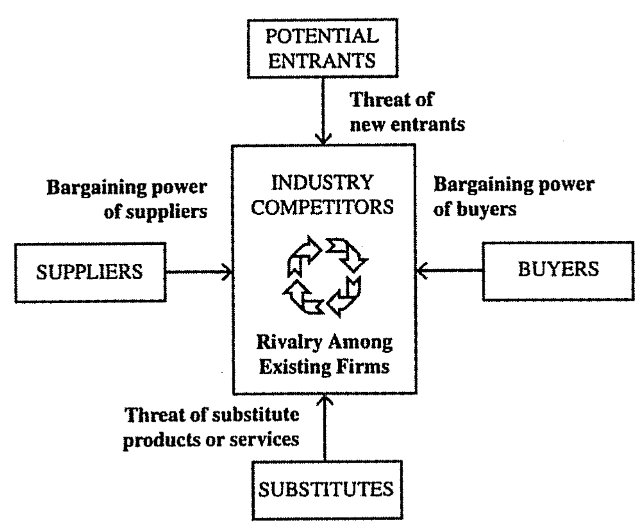
Please refer to Michael Porter's bestseller, *Competitive Strategy,* for a more in-depth explanation of his "Five Forces" model.

Porter writes that the state of competition in an industry depends on five basic competitive forces:

1. The threat of new or potential entrants. This includes new companies or acquisitions of established companies by a new player. If barriers are high or if newcomers can expect entrenchment or retaliatory measures from existing competitors, such as a price war, then the threat of entry is low. According to Porter, barriers of entry include:

- economies of scale
- capital requirements
- government policy
- switching costs
- access to distribution channels
- product differentiation
- proprietary product technology

Michael Porter's Five Forces :
Forces Driving Industry Competition



2. Intensity of rivalry among existing competitors.
3. Pressure from substitution products, e.g., sugar vs. high-fructose corn syrup and artificial sweeteners
4. Bargaining power of buyers. Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other — all at the expense of industry profitability.
5. Bargaining power of suppliers. Forces 4 and 5 have to do with supply and demand. When there are many suppliers but few buyers, the buyers have the upper hand. When there are many buyers, but few suppliers, the suppliers have the advantage.

+ The Value Chain

In his 1985 book *Competitive Advantage*, Michael Porter introduced the value chain. It's a framework that follows the company's internal product processes starting with raw materials and ending with customer purchase and service. Questioning the effectiveness and efficiencies of these steps during a case question not only shows an understanding of product flow, but can lead to relevant information to help you solve the case

Raw Materials >>> **Operations** >>> **Delivery** >>> **Marketing & Sales** >>> **Service**

Raw materials and inbound logistics: receiving materials into the warehouse, relationships with suppliers, "just in time" (JIT) delivery, etc.

Operations: processing raw materials into product through the use of capital equipment and labor

Delivery: warehousing and distribution channels

Marketing and Sales: marketing strategy, identification of customer base and the cost of customer acquisition, sales force issues (i.e. commission, company car, etc.)

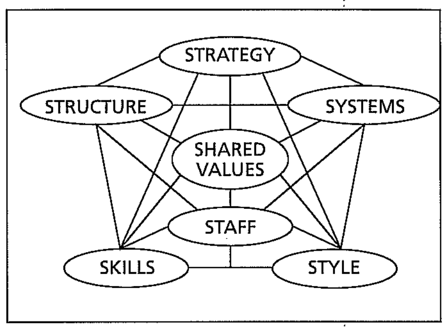
Service: customers support, customer retention (it's cheaper to retain a customer than to go out and bring in a new one)

+ 7-S Framework

In the early 1970s, three McKinsey consultants developed a framework called the 7-S Model. Its goal was to help managers analyze their organizations and their effectiveness. It studies seven key elements that make the organizations successful: strategy; structure; systems; style; skills; staff; and shared values.

The model differentiates between the "hard" side and the "soft" side of an organization. The hard "S's" are strategy, structure and systems. The company *strategy* can be aimed toward growth, higher profits, lower costs, new product development or entering a new market. It's the action or plan the company has to make it more competitive. The *structure* refers to the organizational structure — lines of authority, chain of command, and channels of communications. The third hard S is *systems*. Systems refer to more than just information systems (which was probably the first one to come to mind). It also refers to budgeting, planning, innovation, compensation, and performance measurement. These are the systems that govern everyday business activity.

The soft "S"s are style, skills, staff and shared values. *Style*, refers to leadership style of upper management and the management style of the company — meritocracy, etc. *Skills* are the company's competencies, what is does best. The sixth "S" is *staff*. The company's people, how they are trained, managed, and motivated. The final "S" is *shared values*. Shared values are the values and principals that the company operates by and stands for – things like vision, corporate citizenship or being the best or biggest.



The key thing to remember if you plan to use the Seven S's is to look at both the hard side of the organization as well as the soft side when analyzing the internal environment of the company.

Income Statement

While you may never have to draw up an income statement, you may be handed one in an interview and be asked to analyze it. Understanding the basics of an income statement is essential for answering product and company profitability questions. How do the costs stack up? Do any numbers seem out of line or a bit high? For example, if Joe's Shoe Company's labor costs were $50,000 instead of $15,000, that should send off warning bells that something is wrong. Why are labor costs $50,000, or 50% of gross revenues?

Some of my students have found that breaking a problem down by external and internal factors helped them organized their thoughts. Here's an example of a new market case.

Should we enter a new market?

External Factors

- Market — size, growth rate, stage of development, technology changes
- Customers — who are they and how are they segmented?
- Industry — entry/exit barriers; supplier status and substitutions
- Competitors — major players and market share; strengths and weaknesses, how do their products or services differ from ours?
- Risk — market, technology and regulation risks

Internal Factors

- Strategy — does it fit our long-term strategy? Does it fit our core competencies?
- Operations —
  - Marketing & Sales
  - Operations and logistics
  - Finance and control
  - Organization and culture
  - R&D — Research & Development

Joe's Shoe Company
Income Statement

	Gross Revenues (units x price)		**100,000**
(–)	Returns & discounts	(5,000)	
	Net Sales		**95,000**
(–)	Cost of Goods Sold		
	Direct Labor	(15,000)	
	Direct Material Costs	(10,000)	
	Overhead	(5,000)	
	Delivery Costs	(5,000)	
		(35,000)	
	Gross Margin		**60,000**
(–)	Selling, General & Admin.	(20,000)	
(–)	Depreciation	(5,000)	
		(25,000)	
	Operating Profits		**35,000**
(–)	Interest Expense	(3,000)	
	Profit Before Taxes		**32,000**

"If" Scenarios to Remember

Sales Scenarios

- If sales are flat and profits are taking a header, you need to examine both revenues and costs. Always start with the revenue side first. Until you identify and understand the revenue streams, you can't make educated decisions on the cost side.
- If sales are flat but market share remains relatively constant, that could indicate that industry sales are flat and that your competitors are experiencing similar problems.
- If your case includes a decline-in-sales problem, analyze these three things:
  - Overall declining market demand (e.g., soda sales have dropped as bottled water becomes the drink of choice)
  - The current marketplace might be mature or your product may be obsolete (e.g., vinyl records give way to CDs).
  - Loss of market share due to substitutions (e.g., video rentals have declined because there are numerous substitutions vying for the leisure dollar, such as going out to dinner, going to the movies, pay-per-view, direct TV, and the Internet)
- If sales and market share are increasing, but profits are declining, then you need to investigate whether prices are dropping and/or costs are climbing. However, if costs aren't the issue, then investigate product mix, and check to see if the margins have changed.

Profit Scenarios

- If profits are declining because of a drop in revenues, concentrate on marketing and distribution issues.
- If profits are declining because of rising expenses, concentrate on operational and financial issues, i.e., COGS (cost of goods sold), labor, rent, and marketing costs.
- If profits are declining, yet revenues went up, review:
  - changes in costs;
  - any additional expenses;
  - changes in prices;
  - the product mix; or
  - changes in customers' needs

Product Scenarios

- If a product is in its emerging growth stage, concentrate on R&D, competition, and pricing.
- If a product is in its growth stage, emphasize marketing and competition.
- If a product is in its mature stage, focus on manufacturing, costs, and competition.
- If a product is in its declining stage, define niche market, analyze the competition's play, or think exit strategy.

Pricing Scenarios

If you lower prices, and volume rises, and you are pushed beyond full capacity, then your costs will shoot up as your employees work overtime, and consequently your profits will suffer.

Prices are stable only when three conditions are met:[3]

- Growth rate for all competitors is approximately the same.
- Prices are paralleling costs.
- Prices of all competitors are roughly of equal value.

The volume (the amount that you produce) and the costs are easier to change than the industry price levels, unless everyone changes their prices together (e.g., airline tickets or gas prices).

The perfect strategy for the high-cost producer is one that convinces competitors that market shares cannot be shifted, except over long periods of time, and therefore, that the highest practical industry prices are to everyone's advantage[4] — meaning that price wars are detrimental and everyone will profit more by keeping prices high.

General tips

- How the Internet affects the company should be in the back of your mind in every case.
- How the economy affects the company should be in the back of your mind in every case.
- How the competition, both internal to the industry and external (substitutions), affects the company should be in the back of your mind in every case.

+ Business Case Tips

- This is more of a story than a tip. A student of mine studied hard for his case question interview, however, when the time came he froze. He just couldn't think how to begin. So he looked at the interviewer and said, "To be honest with you, I've already heard this question and feel that it wouldn't be fair for me to answer it." The interviewer thanked him for his honesty, then gave him another question which he easily nailed.

- Take graph paper into the interview. It helps you organize your thoughts, keeps the numbers lined up when you multiply and add, and reminds you to try to graph part of your answer.

- Ask for numbers. If the numbers aren't an important part of the case they will more than likely tell you not to focus on them.

- Practice your math, particularly multiplication and percentages. Almost all recruiters **will not** let you take a calculator into the interview. Most students make math mistakes. They are usually off by a zero or two.

- Interact with the interviewer as much as possible. Remember, it should be a conversation.

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[3] Bruce D. Henderson, "The Product Portfolio," *Perspectives on Strategy from the Boston Consulting Group*, ed. Carl W. Stern and George Stalk, Jr. (New York: John Wiley & Sons, Inc., 1998), pp. 21.

[4] Ibid., pp.27.

A final word before you tackle the cases.

Peer Advice — here's advice from some students that had just gone through the process. They all received offers from BCG, McKinsey or both.

"As you go through the math portion of the case, think out loud. Let the interviewer know what is going through your mind. If unsure of what to say, pretend the interviewer is on the telephone and you are explaining it to her over the phone."

"For me, one of the unexpected challenges of final round interviews was their sheer length. After five hours of intense interviews, I felt like a slouching, mumbling mess with any spark of creativity long since extinguished, and I was far more likely to make simple mistakes. Before the last couple of interviews on any given day, take a few minutes', deliberate, pause to reenergize. Splash water on your face, grab another cup of coffee, take a brisk walk up and down the hallway, do anything that keeps your brain awake and your personality alive during that final stretch."

"Motivation — Students in non-business disciplines who are looking to land a job in consulting must be able to justify their motivation for the transition. The interview process is expensive and time-consuming for firms, and interviewers are looking for clear, logical answers that will convince them of a candidate's seriousness. Additionally, candidates must be prepared to discuss how consulting fits into one's long term professional career. Because firms recruiting outside business schools could easily fill their incoming classes entirely with business school students, the burden is greater for non-MBAs."

"Preparation — Preparing for interviews in consulting should not be limited to practicing cases. Interviews also include discussions of experiences in various environments such as ambiguity and rancor as well as questions related to leadership and teamwork. The candidate must be prepared not only to discuss these subjects, but also to answer subsequent questions which interviewers will ask to uncover various layers of the topic in addition to the candidate's personality. For preparation, one should practice with a group of friends. This setting, along with the resulting constructive feedback, will help one anticipate the string of questions that will inevitably be asked and improve one's communication skills. Sound preparation will give one the confidence needed during the actual interview – confidence that will create a positive impression with the interviewer. After all, while the interviewer is there to assess whether the candidate is able to structure a problem well, he or she is also judging whether or not the candidate can be put before a client."

"In preparing stories for various settings, candidates must identify and select the most appropriate anecdotes. It is unnecessary for every story to portray the candidate as a hero. A failure through which one learns about one's weaknesses can be just as effective, if not more. Conversely, an experience through which one strengthened a skill or developed a new skill through perseverance will score well. Fabricating an event, however, will result in certain doom as interviewers are adept at digging deeper into an issue and determining gaps or untruths. Therefore, a successful candidate must select and prepare honest stories that provide insight into one's personality."

"The Ivy Case System was like a road-map. As soon as I got a question, I was immediately able to identify what type of question it was and what types of questions to ask to tease further information out of the interviewer. This is the advantage the Ivy Case System gives you. Then, having Porter's Five Forces and the 5 Cs is also useful in your toolkit"

(In regards to interviewing abroad) "Make sure you know what types of projects the country office is doing. For example, offices in China are doing many "market entry" projects. So it is important to understand the varieties and complexities surrounding 'entering a new market' and to practice those types of cases."

"Go through the interview process without second guessing how you're doing. It only handicaps your performance. Prepare and then let the cards fall. Be confident. It's impossible to know what the interviewer is thinking. They may do things intentionally to throw you off. Don't let the little things, like screwing up a math problem, upset you."

Practice, practice, practice!

Practice online interactive cases at:

www.apd.mckinsey.com and click on "Interview Prep"
www.bcg.com/careers/careers_splash.jsp click on "Interview Prep"
www.bain.com/bainweb/join_bain/join_bain_overview.asp click on "Case Interview"

+ An Aristotelian Framework

Aristotle's book *Rhethoric and Poetics* was really the first case question interview prep book. His book is about persuasion, and, after all, isn't that what we're trying to do — persuade the interviewer that we have what it takes. Aristotle lays out a tripod (a framework) and argues that persuasion relies on the relationship between logos, ethos and pathos. As you probably remember from Philosophy 101, logos is a logical, well-reasoned argument based on facts and figures, charts and graphs. Ethos deals with the speaker's (that's you) personal voice and character. How likeable and believable are you? In other words, fit. How would I feel if we were snowed in for nine hours at the Macedonian Chariot station? Would you be an interesting companion? Finally there is pathos, your audience's frame of mind. This is often tough to determine or control, but it can be massaged by incorporating logos and ethos into your answer. The point is that you need the tripod, the combination of logos, ethos and pathos to do well in a case interview. Too much logic and not enough personality results in a tipped tripod. As you prepare for your interviews, remember to concentrate on all three. It is as much about the presentation as it is about the logic.

+ Hair-raising

Case 1: Our client is a large pharmaceutical company that has developed a cure for baldness. It's a pill that will rapidly (within three months) re-grow your hair to the thickness it was when you were fifteen years old. The pill, called IPP2, needs to be taken everyday to maintain that thickness. Please estimate the size of the U.S. market and tell me how you would price the drug.

So our client is a large drug company that has developed a pill that will re-grow your hair to the thickness it was when you were a teenager. The pill is called IPP2 and needs to be taken daily. You want me to estimate the size of the domestic market and develop a pricing strategy.

– Yes, that's right.

Besides estimating the market size and coming up with a pricing strategy, are there any other objectives I should be concerned about?

– Profits. We want to make sizable profits.

How about market share?

– We're more concerned about profits than market share. You price it right, the market share will come.

Before I tackle the market size, I'd like to ask a few questions.

– Shoot.

Can this be used by both men and women?

– Yes.

Is it covered by health insurance?

– No.

Is it a prescription drug or sold over-the-counter?

– Prescription.

Is this for thinning hair or just for male pattern baldness?

– Can be used for thinning hair as well.

Are there any side effects?

– Yes. It causes sexual dysfunction in 2 percent of men, and women thinking of having children shouldn't take it because it could cause birth defects.

I don't think that's enough to deter men. However, we need to eliminate all women 40 years old and younger. Although I realize that there is a small population of women who give birth after 40. So, let's figure this out.

I'm going to assume that there are 280 million Americans and that their life expectancy is 80 years. And I'm going to assume that there are even numbers of people in each age group, and that there is a 50/50 spilt between men and women. I'll break it down by generation and by sex. So 280 divided by 4 generations equal 70 million per generation and each generation has 35 million men and 35 million women. I'll also assume that as men get older, actually as people get older, there will be a greater percentage of them losing their hair.

Age	Men	% w/ thin hair		Women	% w/ thin hair		Totals
1-20	35m	0	0	35m	0	0	0
21-40	35m	20%	7m	35m	0	0	7m
41-60	35m	40%	14m	35m	1%	.35	14.35
61-80+	35m	60%	21m	35m	10%	3.5	24.5
							45.85

With men ages 1–20, I'll assume that no one or no significant number falls into that category. Same with women. For those 21–40, I'll estimate that 20 percent of men and again zero percent of women fall into that category. The 41–60 group has a higher percent, I'd say 40 percent of men and 1 percent of women. And, finally, in the age range of 60 through 80, I'd guess 60 percent of men and 10 percent of women.

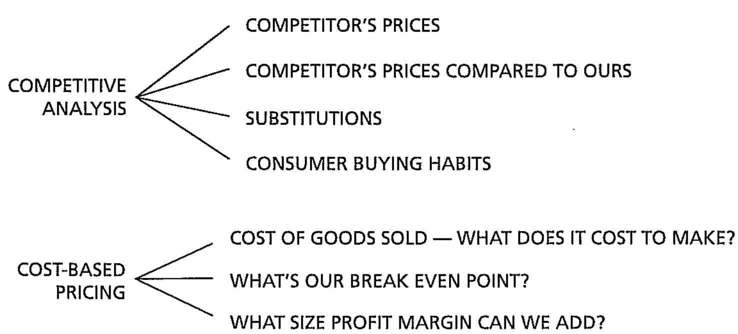
That totals around 45 million. From that number I'm going to subtract 5 million. The reasons being that some men shave their heads, some don't care about going bald, and others can't afford it, although we don't know what the price tag is yet.

So I'll estimate the market size of 40 million American customers.

– Okay, what's next?

We need to price our product. I'd like to look at it three different ways. First, who is our competition and what do they charge? Second, we'll look at cost-based pricing, and third, price-based costing. I just want to a take a moment to draw a diagram . . .

PRICING STRATEGIES



PRICE-BASED COSTING
- WHAT ARE CUSTOMERS WILLING TO PAY FOR THE PRODUCT?
- WHAT'S IT WORTH TO THEM COMPARED TO OTHER THINGS?
- SUPPLY AND DEMAND

Who is our competition, and what do they charge?

– There are two major competitors. One is a topical solution that sells for $60 for a month's supply. The second is a pill that sells for $50 for a month's supply.

How does our product compare to the competition?

– We are three times more effective. Thicker hair, faster.

Are there any credible substitutions?

– Assume no.

What about customer loyalty?

– Assume that both the competitors produce the same results and it comes down to application preference.

Let's talk about cost-based pricing. What does it cost us to make, package and market a one month supply? Were there heavy R&D costs?

– R&D costs were minimal because this was discovered by accident while we were testing a similar drug for a different illness. So the cost of the entire package, everything you need to worry about, is $1 for a month's supply.

One dollar? That's it? That's great. So with production costs of one dollar and no heavy R&D costs, we can dismiss cost-based pricing. If we look at price-based costing, we need to figure out what the market will bear. How much will people be willing to pay for a full head of hair? Currently, they are paying between $50 and $60 a month for products that aren't as good as ours. So that means that they might pay as much as $150 to $180 a month. So now we have parameters of between $2, which represents a 100 percent markup, and $180 which represents 18,000 percent markup.

– An 18,000 percent markup, are you comfortable with that?

I'm comfortable with the markup percentage if that's what people will pay. This isn't a life and death drug, like an AIDS drug. This is purely cosmetic. I'm not convinced that people would pay $180 a month. You're growing a little thin on top, sir. What would you pay?

– Rule number one, never insult the interviewer.

Sorry, but it looks good on you.

– And you were doing so well. What else do you have regarding pricing?

You need to look at what it is worth to them compared to other things in their life. People pay $3 a day for a cup of Starbucks coffee. Is a full head of hair worth a cup of coffee? I'd say yes.

– So $90 a month?

The objective of this case was profits, not market share. If it were market share, then I'd go in at $40 in order to under-price our competition, gain tremendous market share then crank the price once we have them as loyal customers. Kind of like the pricing strategies of Standard Oil in the 1930s. But I don't think we'll need to do that. If the product is that effective, we'll get heavy press coverage and soon drive the competition out of the market.

One small point as far as market share is concerned. If a large share of the market currently uses a topical solution because they like the application process, then we will have to try harder to get them to switch to a pill, realizing that a percentage of them will never switch.

- Type of Case : Market sizing, pricing
- Comments: Our candidate was lucky that the interviewer had more humor than hair. He did a good job breaking down the market-sizing aspect of the case. He used a chart that kept information organized. He also looked at three pricing strategies, quickly dismissing one as irrelevant. I also liked that he took a moment to diagram his pricing strategy. Overall, a nice job.

✛ The Discount Brokerage Race

Case 2: Look at this chart. Your client is a discount brokerage. The majority of their revenue comes from online trading. They achieved a 10 percent growth rate last year (Y1) and were ranked number six in the industry. In Y2 they fell to 7th. They want to get back their 6th place ranking. How much will they have to grow to maintain that 6th place ranking in Y3, given the rate of growth of their competitors?

Company	Industry Ranking	Current Size in Year 1 (Revenue)	Growth Rate	Year 2	Industry Ranking
A	1	1000	1%	1010	1
B	2	900	2%	918	2
C	3	800	0%	800	4
D	4	800	5%	840	3
E	5	700	5%	735	5
F	6	600	10%	660	7
G	7	600	20%	720	6
H	8	500	20%	600	8
I	9	500	10%	550	9
J	10	400	30%	520	10
K	11	300	20%	360	11
L	12	300	30%	390	12

Our client is Company F, a discount brokerage. In Year 1 we were ranked sixth with a growth rate of 10 percent and sales of 600 million. In Y2 we dropped to seventh place with a growth rate of 10 percent and revenues of $660 million. You want me to figure out how much we will have to grow by in order to get our 6th place ranking back in Y3.

– Yes, that's right.

Is it fair to assume that the growth rates of all the other firms will remain the same?

– Yes.

Do you mind if I write on the chart you gave me?

– No go ahead.

I'm going to do part of this through a process of elimination. So everyone below Company F growing at a smaller or equal rate, or whose revenues are significantly below ours, can be eliminated. So that's easily the bottom four — I through L.

We also know that A and B will remain the top two. So I need to concentrate on C through H, including us — F. So first, I'm going to do the calculations for each of those and see where they stand.

Company	Industry Ranking	Current Size in Year 1 (Revenue)	Growth Rate	Year 2	Industry Ranking	Year 3	Industry Ranking
A	1	1000	1%	1010	1		1
B	2	900	2%	918	2		2
C	3	800	0%	800	4	800	5
D	4	800	5%	840	3	882	3
E	5	700	5%	735	5	772	6
F	6	600	10%	660	7	726	7
G	7	600	20%	720	6	864	4
H	8	500	20%	600	8	720	
I	9	500	10%	550	9		
J	10	400	30%	520	10		
K	11	300	20%	360	11		
L	12	300	30%	390	12		

If we stayed at a 10 percent growth rate we'd have revenues of $726 million which would put us in 7th place. So how fast do we need to grow? If we round company E's sales off to 772 — then that's our target number. We need to beat 772. So we need an increase of over 46 million dollars (772 - 726). So 660*X = 772. Divide each side by 660 and we get X equals . . . about 1.17 or 17 percent. A minimum 17 percent growth in Y3 would put us in 6th place.

Company	Year 3	Industry Ranking
A		1
B		2
C	800	5
D	882	3
E	771.75	7
F	772	6
G	864	4
H	720	8

– Okay, good. Which company would you invest in and why?

I'd invest in G, provided they can continue their 20 percent growth rate.

- **Type of case: Numbers**
- **Comments: This case was a pure numbers case. The student did well by eliminating what was obvious and using her time well.**

+ World Spacelines

Case 3: World Spacelines has developed a rocket-boosted spaceplane® that can take off and land like a conventional airplane, but can also fly through the atmosphere and orbit the earth. World Spacelines wants to take passengers on a three-hour tour of space. They have built a prototype, which cost them $500 million. Each additional spaceplane will cost $100 million to manufacture.

- **Estimate the size of the domestic market.**
- **Determine what price they should charge for a ticket.**
- **How many spaceplanes should they build in the future?**
- **Should they manufacture spaceplanes for the competition?**

So let me make sure I understand. World Spacelines has developed a spaceplane that can take-off and land like a conventional plane and it's designed to take tourists on a three-hour tour of space.

– Yes.

You'd like me to estimate the size of the U.S. market, determine what to charge customers, decide how many of these spaceplanes to build, and whether or not they should manufacture them for our competitors.

– That's right.

I'll assume one objective is to build a successful business. Any other objectives I should be aware of?

– Yes. They want to be the first organization to build a space hotel.

Are there any competitors?

– No.

Do we have a patent on our technology?

– Yes.

How long before someone weasels around the patent and starts to compete with us?

– Three years.

How big is the plane? How many passengers does it hold?

– One hundred.

The trip takes three hours. How many trips per day are you planning?

– Two trips a day, 360 days a year.

Well, before I can estimate the market size, I need to know the price we are going to charge. Because, if it's one dollar, then the market is just about the whole country. But if we charge one million dollars, then the market is much, much smaller.

And before I can figure out the price, I need to know what it's going to cost us per passenger. So I'm going to make some assumptions about costs. How long is the life of the plane?

– Twenty years. And yes, you can allocate the costs over twenty years without interest. What do you think the major costs are?

I figure the major costs are the cost of the plane, labor (both on-board and administrative), maintenance, fuel, airport fees, insurance and marketing.

– Good. I'll give you most of the costs, however I want you to figure out the fuel costs. The plane burns 10 gallons of fuel for every mile and the fuel costs $10 a gallon.

How far is our trip? How high is the sky?

– The Earth's atmosphere is about 300 miles thick, but most of the atmosphere (about 80%) is within 10 miles of the surface of the Earth. There is no exact place where the atmosphere ends; it just gets thinner and thinner, until it merges with outer space. In addition, we use very little fuel when we are orbiting and descending. So we'll estimate our trip goes 500 miles.

So 10 gallons per mile times 500 miles equals 5,000 gallons, times $10 a gallon is $50,000 per trip. You said two trips per day, 360 days a year. Okay, $100,000 per day times 360 days equals $36 million a year in fuel costs.

Major annual costs are:

Cost of the plane (Prototype)	**25,000,000**
Labor (on-board & admin)	**2,000,000**
Maintenance	**4,000,000**
Fuel	**36,000,000**
Gate & Airport	**1,000,000**
Insurance	**2,000,000**
Marketing	**2,000,000**
TOTAL COSTS	**72,000,000**

Our costs are $72 million. We need to divide that by the number of passengers. You said 720 flights per year and 100 passengers per flight, which equals 72,000 passengers a year. Divide 72,000 passengers into $72 million in costs and you get $1,000 per passenger.

– Good. So what are you going to charge per trip?

Well there are three main pricing strategies. Competitive analysis, cost-based pricing, price-based costing. There is no competition so we have nothing to compare it to, except maybe exotic vacations, but that's a far reach. As far as cost-based pricing goes, our costs are $1,000, so if we double that to $2,000 that's a pretty good margin. However, this is really a special

trip. To go where no tourist has gone before, to a place that has been accessible to only a few elite astronauts. To a place that everyone has wondered about, not to mention all the trekkies. I think price-based costing is the way to go.

– So, what are you going to charge?

I'd like to figure out what the market is for $10,000 a ticket. Let's start with 250 million Americans. I'll assume that 2 percent of the population make over a hundred thousand a year and can afford a $10,000 vacation. So 2 percent of 250 million is 5 million people. Out of that 5 million maybe 20 percent would want to do it. So that's a base of a million customers.

How long does it take to build another spaceplane?

– Each spaceplane takes six months to build.

We have one plane now that we estimate that we can fill for the next 14 years. So I would build as many planes as I could at least for the next three years, until we see what the competition is like, then reevaluate at that point.

– Really? I think your assumptions are a little too broad. Lay it out for me.

			YEARS 1-5		
PLANES	Y1	Y2	Y3	Y4	Y5
Plane 1	72K	72K	72K	72K	72K
Plane 2	36K	72K	72K	72K	72K
Plane 3	0	72K	72K	72K	72K
Plane 4	0	36K	72K	72K	72K
Plane 5	0	0	72K	72K	72K
Plane 6	0	0	36KK	72K	72K
Passengers	108K	252K	396K	432K	432
Total	108K	108K	360K	756K	1188
Running Total		360K	756K	1188K	1620

By the end of Year 3, we will have 6 planes up and running and we would have carried a total of 756,000 passengers, well below the 1 million market estimate. However, by the end of year four, even without any additional planes, our running total climbs to almost 1.2 million passengers. That's 1.6 million passengers the following year. Two things can happen. First, we can lower the ticket price to $5,000 a ticket, which would spike demand. Second, our other objective is to build a space hotel, so we will need space planes to shuttle people back and forth, provided the space hotel has been built by then. Even if it hasn't been built, the new demand will continue to fill our planes. Third, even though we haven't spoken about this, I think that there will be large international demand as well.

You also said that competition might show up around this time.

– That's right. The last question I asked was whether you'd sell spaceplanes to the competition?

Our revenues off the prototype would be $10,000 times 72,000 customers, which equals $720,000,000 minus our costs of 72 million, which equals $648 million for the first year. If each additional plane costs $100 million that's going to drop our costs by at least $20 million if not more, depending on shared costs. But let's reduce our costs by $20 million. So now we have revenues of $720 million minus costs of $52 million equals $668 million. For us to sell our spaceplanes to the competition wouldn't be practical. If we're making $668 million a year off of each plane, we'd have to sell them for like 2 billion dollars. I doubt that the competition would pay that kind of money.

To answer your questions, the market size is 1 million passengers at $10,000 a ticket. If we drop it to $5,000, we'll see a huge spike in potential customers. I'd build as many planes as I could for the next three years and then reevaluate our situation once we see what the competition is doing and how far along the construction is on our space hotel. And I wouldn't manufacture space planes for anyone but us.

Type of Case: Market-sizing, entering a new market, and pricing

Comments: Big points for realizing that she couldn't estimate the market size without first knowing the price of the ticket, and she couldn't estimate the price without first knowing the costs.

+ North American Airlines[1]

Case 4: In an effort to increase in-flight sales, North American Airlines (NAA) is contemplating partnering with JavaMoose, the world's leading coffeehouse, to sell several varieties of special blend coffee. From the perspective of NAA, would such a partnership prove itself to be profitable?

Ok. So, let me rephrase the scenario. NAA wants to sell several varieties of JavaMoose coffee on their flights to increase sales. We want to evaluate whether or not this is a good idea for NAA. Did I understand that correctly?

– That's right.

Besides making a profit, are there any other objectives I should be aware of?

– There is the possibility of a joint marketing campaign, but focus on the profits.

I'm going to need some additional information regarding the airline's routes, the products it currently sells, its clientele, its financial targets with this venture, as well as information about the JavaMoose products it intends to sell.

– Alright. What would you like to know?

Let's start with the routes. What routes does the airline serve? What is the duration of each of these routes?

– Ok. 80% of NAA's routes are under two hours. These flights serve New York, Boston, Washington DC, and Philadelphia. Recently, NAA has added two routes to its portfolio: one connecting New York to Los Angeles; the other linking New York with San Francisco. These routes comprise the other 20%. Each of these flights is direct and lasts about six hours.

I see. Could you tell me how many flights are under two hours and how many over two hours in a given day?

– Sure. NAA makes 50 flights daily.

Ok. So forty of its flights are short, and ten of them are long.

– That's right.

Let's move on to the products it offers on its flights. Could you tell me what is complimentary, what is sold, and what the mark-up is on the items that are sold?

– NAA offers complimentary soft drinks, bottled water, regular tea, and regular decaf and caffeinated coffee on all its flights, regardless of duration or the time during which the flight takes place. On the early flights, NAA charges for specialty juices, bagels and breakfast rolls. Peanuts, chips, and fruits are offered only on the two cross-country routes. Beer, wine, and champagne are sold on every flight. There is a 50% mark-up on these items.

[1]Special thanks to Mukund Jain

Now I would like to know something about NAA's fleet, clientele, occupancy rate, and the average sales per flight. More specifically, are all planes the same size? What types of passengers are on these flights? What percentage of each flight is full? What type of passenger makes in-flight purchases? Are purchases more prevalent during particular flights and/or particular times?

– Ok. All good questions. All of NAA's planes are the same size — with the capacity of 200 passengers. Its clientele consists of business travelers usually looking to make a day trip. The average occupancy rate per flight is 95%. Because they are mostly business travelers on these flights, these are the passengers making in-flight purchases. The average number of sales per flight depends on the flight's time of day and the length of the flight. Sales on morning and early afternoon short flights average $50 per flight. Sales on the long and early flights average $100 per flight. On the other hand, sales on the shorter evening and night flights average $150 per flight, while the later, longer flights average sales of $200.

That helps. Could you tell me how much the average passenger spends?

– Of those who purchase an item, it's $5.

Of the fifty daily flights, how many are early flights and how many are late flights? How many of the early flights are long, and how many are short?

– That's split even — 25 early and 25 late. In terms of long and short, 80% of the early flights are short, and 80% of the late flights are short.

Alright. I'm going to summarize this information in a table.

	Early			Late			Totals	
	# of Sales	Sales/Flight	# of Flights	# of Sales	Sales/ Flight	# of Flights	# of Flights	Sales
Short	10	$50	20	20	$150	20	40	$4000
Long	30	$100	5	40	$200	5	25	$1500
Totals	40		25	60		25	65	
Total Sales		$1500			$4000			$5500

So on a given day, NAA's in-flight sales total $5,500, and with a mark-up of 50%, that's costs of $3,666 and $1,833 in profits.

– You're telling me something I already know. We're low on time. Could you move along?

Absolutely. What percentage of NAA's clientele are drinkers of special blend coffee?

– We don't know.

Ok. With 95% occupancy, that makes 190 potential customers per flight. We'll look at the short, early flight first. Ten drinks are sold on each of these twenty flights. I'm going to assume that each of the drinks is purchased by a different passenger. Since these are early flights taken mostly by business travelers who are usually not too price sensitive, I'll suppose that only 10% of the remaining 180 passengers will purchase a JavaMoose product. I'm basing

that assumption on a couple of facts. First, many passengers taking an early flight may want to take a nap on the flight rather than inject additional caffeine into their system. Secondly, for an appreciable number of customers, the complimentary coffee presently offered by the airline will satisfy their desire for caffeine. Third, several passengers might already purchase a JavaMoose product at the terminal while waiting to board the aircraft. Thus, we can assume that 10% or eighteen passengers are potential customers on the short, early flights.

– Really? Let's move on.

The late, short flights will probably have even a lesser number of in-flight JavaMoose customers. I'm going to estimate this number at 5% of the passenger population not ordering a drink. Justifying this number are two similar facts. One, the sale of coffee generally declines as the day moves ahead. Substitute drinks such as sodas and bottled water contribute to this decline as does a diminishing need to stay awake with less of a day remaining. Secondly, coffee is a drink that accompanies breakfast better than it accompanies lunch, an afternoon snack, or dinner. Thus, 5% of 170 makes 8.5 potential passengers. To be conservative, let us say eight sales.

– Fascinating. Please continue.

In long, early flights, there are currently 30 sales of drinks per flight. That leaves 160 passengers, assuming that those purchasing specialty juices will not purchase coffee. Even though these flights are usually three times longer in duration, I am going to assume that still only 10% — rather than 30% — of remaining passengers will purchase a JavaMoose coffee. The same reasons justify this number as the ones I mentioned for the short, early flight. First, a longer flight affords a longer opportunity to sleep. Also, the complimentary coffee provided on the plane is a satisfactory substitute for many. Additionally, the opportunity to drink multiple cups for free on a longer flight is attractive to avid coffee drinkers. So, 10% of 160 is sixteen passengers.

– We're running out of time.

Sure. That leaves us with the late, long flights. With forty drinks sold, that leaves 150 passengers who might purchase coffee. Once again, I'm going to estimate that 5% of the passenger population not ordering a drink will purchase coffee. Premium coffee is not a drink that one drinks later in the day, especially with the availability of substitute drinks that go better with an afternoon snack or dinner. Thus, the total number of passengers who might purchase some JavaMoose coffee is 5% of 150, that is 7.5 or 7 to be conservative.

The table below presents a summary of what we've discussed.

	Early			Late		
	# Sales/ Flight	# of Flights	Total # of Sales	# Sales/ Flight	# of Flights	Total # of Sales
Short	18	20	360	8	20	160
Long	16	5	80	7	5	35
Total	34	25	440	15	25	195
Total Sales			635			

Thus, the total number of cups of JavaMoose coffee that might be sold on a given day is 635.

– So, what do you think?

Well, there are a few concerns to selling JavaMoose coffee. First, JavaMoose might object, as it could cannibalize their sales at the terminal. This is a particular serious concern to JavaMoose since customers who purchase coffee might also purchase something to eat. Second, serving JavaMoose coffee might require special preparation that could raise costs for both parties, particularly if we serve several varieties. Third, storing an additional beverage in an already space-constrained aircraft would be very difficult. Fourth, there is the risk of damaging the JavaMoose brand, a serious risk given JavaMoose's position as the market leader.

– You seem to be looking at this from the JavaMoose point of view, not our client's. So should NAA approach JavaMoose with this opportunity?

I think NAA can pilot this coffee on some of the earlier flights — long and short. To push adoption, they can halt serving the complimentary coffee and offer JavaMoose for free. Or, they can simply halt the complimentary coffee and charge for the JavaMoose, but that might upset the coffee drinkers looking forward to a free cup of Joe. As far as preparation of JavaMoose is concerned, JavaMoose could help out by providing — pre-made — one or two varieties of their more popular flavors that would require minimal work on the part of the flight attendants. Looking at the table, if NAA were to charge $3 for a cup of coffee, they would raise revenues of $3 x 635 or $1905 on a given day. I assume, JavaMoose would also get an appreciable piece of this pie, which would further reduce NAA's intake.

Thus, my recommendation is for NAA not to pursue this opportunity.

– Are you at all concerned about what the competition does? Whether other airlines sell JavaMoose or Starbucks coffee on their flights.

I was going to get to that, but we ran out of time.

– What about the fact that for every cup of JavaMoose we sell, not only do we make a profit on the cup of coffee, but we save some money on the complimentary drink we were going to give them for free. Did that positive cannibalism ever cross your mind?

No, but it's a good point.

– Did you think about whether customers would switch to NAA because we now serve JavaMoose on all flights? It could raise our occupancy rate up a percent point. That's worth much more than the profit we'd make.

No.

– Did you consider the option of serving JavaMoose for free on all flights?

Given time . . .

– Did you think about how our competition would respond to our serving or not serving JavaMoose on board our flights?

That would be an interesting analysis.

– It's clear to me that you are unfamiliar with the business traveler market. And I have my doubts whether you'll be familiar with it after graduation. Business traveler purchases are notoriously price inelastic because one, these are ends-oriented busy people who can not be bothered with a price differential under $5, and two, they are generally not paying for the coffee out of their own pockets — their companies are. As such, I can't imagine anyone that would hesitate before selecting the JavaMoose coffee over airline coffee.

– And what about the "wake up" coffee — for people who rack out on the red-eye? Don't you think the percentage that would purchase a "wake up" coffee is relatively high? In addition, when I travel cross country, I just work or sleep as does everyone around me. I can't remember more than 10 percent of my flights being 95 percent full. And, finally, you paid zero attention to time zones and the jet-lag. Caffeine balance is extremely familiar to business travelers.

– How do you expect me to move you on to the next round when you missed so many key points?

You told me to focus on profits and given the time constraints I think I did a good job at looking at the economics of the situation. I asked a lot of good and relevant questions — did I not?

– Yes you did.

My quant skills were strong. I did most of the math in my head, I made easy-to-read charts and walked you through my thinking. I'm proud of my answer. Sure, I could have looked at those other things, but I needed to prioritize given the time constraints. Now I'll be happy to work out a model to determine whether it makes more sense to give the JavaMoose coffee away if it will boost our occupancy by one or two percent. I can also look at the effects of a joint marketing program as well as investigate other options such as Starbucks. And I'll be happy to do a competitive analysis within our region as well as other regions of the country.

– No, that won't be necessary. You did do a decent job. I wanted to see if you could handle criticism. And you did a good job of that as well.

Type of case: New product and increasing sales – not a very good fit for either one

Comments: The student did do a good job with the economics of the case. And she defended herself without being defensive. This is an important point to remember. Sometimes the interviewer will bust your chops just to see if you can defend yourself without getting bent out of shape. Roll with the punches and don't take it personally. They're doing their job to see if you do yours.

Red Rocket Sports

Case 5: The Red Rocket Sports Company designs and markets apparel and footwear products under many brand names. All products are generally produced using similar manufacturing processes. Additionally, these products share similar distribution channels and are marketed and sold to a similar type of customer.

Take a look at the numbers below and tell me what's going on with Red Rocket Sports and where they should be concentrating their efforts. I'll be back in 30 minutes for your analysis.

Net Sales	2004	2003	2002
Footwear	$2,430,300	$2,226,700	$2,050,000
Apparel	$1,355,000	$1,258,600	$1,050,000
Total	$3,785,300	$3,485,300	$3,100,000

Net Sales	2004	2003	2002
U.S.	$2,070,060	$2,020,000	$1,807,650
U.K.	$ 474,700	$ 444,700	$ 415,800
Europe	$ 810,400	$ 695,500	$ 607,400
Other	$ 430,140	$ 325,100	$ 269,150
Total	$3,785,300	$3,485,300	$3,100,000

(TAKE 30 MINUTES TO DO YOUR ANALYSIS THEN READ ON)

Red Rocket Sports Answer:

After 30 minutes the interviewer comes back into the room and the candidate presents his findings to the interviewer.

– Take me through your analysis.

The first thing we need to look at is the yearly percentage changes by type of product and by area. (Pulls out hand-made chart) These numbers are eyeballed, but should be pretty accurate.

	2003/2004	2002/2003
PRODUCT		
Footwear	10%	10%
Apparel	10%	20%
MARKET		
U.S.	2%	12%
U.K.	7%	7%
Europe	15%	15%
Other	30%	20%

There are a number of things we can infer from this chart.

- Footwear has grown consistently by about 10 percent over the last 2 years.
- Apparel growth has slowed, from 20 percent in 2002/2003 to just under 10 percent in 2003/2004
- U.S. market has had dramatic declining growth — from 12 to 2 percent, although it is still, by far, our biggest market.
- U.K. growth has remained steady at approximately 7 percent
- Same is true for the European market with a consistent growth rate of 15 percent.
- The most promising markets are the "other" markets, which I'll assume are Asia and Latin America. They grew by around 20 percent in 2003 and by just over 30 percent in 2004. At this rate, they will bypass the U.K. in total sales by next year. I believe that the "other" markets represents the highest area of potential growth.
- The action is in apparel, despite the slowdown in 2003/2004.

Next, I looked at what part of the business each product line and market represents.

	2004	2003	2002
PRODUCT			
Footwear	65%	65%	65%
Apparel	35%	35%	35%
MARKET			
U.S.	55%	60%	60%
U.K.	12%	12%	15%
Europe	20%	20%	20%
Other	11%	8%	8%

What this chart tells us is:

- Footwear represents 2/3rds of our sales and has remained as such over the last few year
- The U.S. is, by far, our biggest market, making up more than half of our sales, but that number is inching down
- The U.K. has inched down as well — going from 15 percent to 12 percent
- Europe has hung in at 20 percent.
- The "other" markets have inched up, now representing 11 percent of sales

Our traditional markets in the U.S. and U.K. are mature while the "other" markets have the highest growth rate. However, the traditional markets still represent the bulk of our business — over 2/3rds of sales. And apparel sales have driven the growth rates over the last two yea despite the slowdown in 2004.

– How can you say that? Why do you have so much confidence in apparel?

You need to look past the percentages and concentrate on the numbers themselves. Sales went from 3,100,000 in 2002 to 3,785,300 in 2004. That's an increase of 685,300. Of that number, apparel accounted for almost half, despite only representing 35 percent of sales.

– Okay, so what should Red Rocket do about this?

Action 1: Concentrate efforts on growth areas, particularly in "other" markets by:

- Increasing product line, particularly in apparel
- Increasing distribution channels
- Reinforcing sales force
- Launching a major marketing campaign

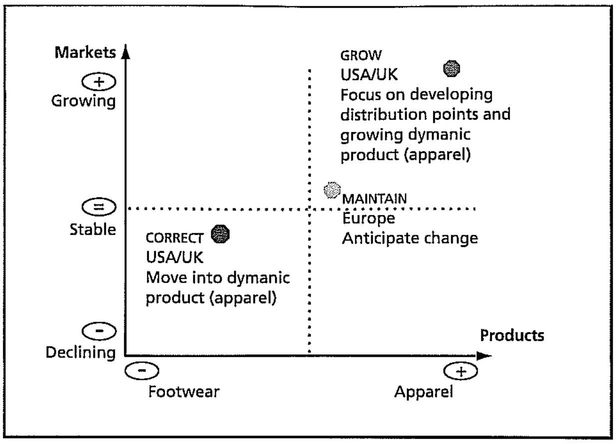
Action 2: Secure our traditional markets to maintain business:

- Launch marketing campaigns to boost sales in mature markets
- Focus on best performing distribution points and best performing stores

Action 3: Investigate market trends to anticipate future changes

- Talk to industry analysis and get their opinion of trends
- Elaborate strategy of product/market effort based on info from experts

It's easy to graph these recommendations in a 2x2 matrix



- **Type of Case: Company Analysis**

- **Comments: The student used charts and bullet points to make her presentation. She eye-balled the numbers because of the time constraint and the absence of a calculator. Remember, consultants use charts, graphs and PowerPoint® slides to get their point across with clients – you need to do to the same.**

+ Cow Brothers Premium Ice Cream

Case 6: Cow Brothers is a maker of super premium ice cream, low-fat ice cream, low-fat yogurt, and sorbet. Its products are high quality and the company uses only natural ingredients. Cow Brothers products are distributed nationwide through supermarkets, grocery stores, convenience stores, franchises and company-owned ice cream shops, and restaurants.

Cow Brothers has 30 flavors and sells its products in one-pint containers. It also has single servings on a stick.

Cow Brothers has strong brand recognition. Its "Have a Cow" marketing campaign met with great success. Last year sales were $200 million ($177 million came from supermarket and grocery store sales), which put the company third in the industry behind Haagen Dazs and Ben & Jerry's. These top three competitors hold 62% of the market.

The president, Winston Cow, is still not satisfied. He wants to increase company sales to $250 million by next year. How do you do it?

Let me make sure I understand. Cow Brothers, the number three maker of premium ice cream, wants to increase its sales from $200 million to $250 million next year. That would be an increase of around 25%. How much did Cow Brothers' sales increase last year?

– 10%.

And that was mainly due to the "Have a Cow" marketing campaign?

– Yes.

One objective is to increase company sales. Are there any other objectives or goals that I should be aware of?

– No.

Is the company privately held?

– Yes.

What was the overall industry growth last year?

– 12%.

So Haggen Daz and Ben & Jerry's only grew by 12% last year?

– No. Ben & Jerry's grew by 20%, Haagen Dazs by less.

First, we should analyze what Ben & Jerry's did to increase its sales, and compare it not only to what we did, but to what Haagen Dazs did as well.

– Fine. What else?

(Student draws the decision tree as she speaks.)

INCREASING SALES
- INCREASE VOLUME
- INCREASE AMOUNT OF EACH SALE
- INCREASE PRICES
- CREATE SEASONAL BALANCE

We need not only to increase sales, but also to grow the company. The three major ways to increase sales are to raise prices, get customers to buy more when they purchase Cow Brothers, and to expand our market base. Are we priced competitively?

– Our prices exactly match our competitors.

So that's a no for raising prices. You mentioned that Cow Brothers only produces ice cream in the one-pint containers. Have they thought about a two-pint container? That way customers would buy more per transaction.

– That's a possibility.

The third way is to expand our market base. I'd like to talk growth strategies. I know of five main growth strategies: increase distribution channels, increase product line, launch a major marketing campaign, diversify, and acquire a competitor. I'd like to look at the advantages and disadvantages of each of these and see which makes sense.

GROWTH STRATEGIES
- INCREASE DISTRIBUTION CHANNELS
- INCREASE PRODUCT LINE
- INVEST IN MAJOR MARKETING CAMPAIGN
- DIVERSIFY PRODUCTS AND SERVICES
- ACQUIRE COMPETITORS

It seems as if we are tied into all the major distribution channels for our products. But there must be areas of the country where distribution is weak. I'd analyze those markets and see if we can't increase the number of outlets that carry our products.

Increase our product line: You said we have 30 flavors. How many flavors do the supermarkets and ice cream shops carry?

– The supermarkets carry five at a time, the ice cream shops carry 15.

We don't want to increase the number of flavors because no one can carry them as is. We need to add new sizes, not new flavors. You said that the "Have a Cow" marketing campaign went well. We should look at increasing our marketing budget.

The next idea is somewhat radical, but bear with me. Diversification. Cow Brothers has great brand recognition. It's well-known and stands for quality. In marketing class we read Ted Levitt's article "Marketing Myopia," in which he uses an example of the buggy whip company. When the car came along, the demand for buggy whips dropped significantly. If the buggy whip company saw itself as being in the transportation business instead of the buggy whip industry, it would still be in business today. Likewise, if Cow Brothers pictures itself in the dairy business or gourmet foods business, it can take better advantage of its brand name.

Cow Brothers might want to try a line of gourmet cheeses and cream cheeses. The cream cheeses could be distributed through all the regular distribution channels, but we could also create new distribution channels through various chains of bagel shops, which may also want to sell our single-serve ice cream products.

– That's food for thought.

Now, acquisition might be a possibility if we can get the idea funded without loading us up with debt. We might look to buy one of our lesser, regional competitors, particularly in an area of the country where our distribution channels and name recognition are weak.

– Okay, good. So what are your recommendations?

First, I'd continue and probably step up our marketing campaign. Second, I would increase our product line by offering a two-pint container size as well as the original one-pint size. I'd also diversify our product line into other dairy products, like gourmet cream cheeses, to take advantage of our brand name and our established distribution channels. Third, I'd analyze the possible acquisition of a regional competitor, particularly in a region of the country where our sales are weak. That way we can take advantage of their established distribution channels.

- Type of case: Increasing sales and growing the company

- Comments: First, she was quick to realize that this was a two-scenario case: increasing sales and growing the company. She also quickly figured out the client's expectations. Winston Cow wanted to increase company sales to $250 million. What kind of percentage did that represent? And was it feasible? Realizing that ice cream sales alone couldn't reach the client's goal, she looked at the company overall and assessed and changed its strategy. Finally, her ability to look outside the existing business led to a great idea — Cow Brothers Gourmet Cream Cheese.

✛ Batter Up!

▶ **Case 7: You're a baseball fan and the owner of a private batting club in lower Manhattan which has six multi-use batting tunnels or cages. One tunnel also has an auto-feed Iron Mike Pitching Machine®. Members can reserve "cage time" each week. Your director of sales comes to you and wants to know what the new member target is – how many new members she needs to sign up. You know that last year the sales team signed on 200 new members. The company's revenues grew by 10 percent, and your (net) membership was roughly 10 percent, from 1000 members to 1100. If you wanted to meet your new target growth rate of about 15 percent, how many new members would you need to recruit? Is this number feasible?**

Okay we need to figure out how many new members we need to sign up in order to reach our target of 15 percent. Are there any other objectives of which I should be aware?

– No.

Okay. A fifteen percent increase from 1100 is 1100 * 1.15 equals 1265. You said last year that we signed up 200 new members, but the membership only went from 1000 to 1100. That means we lost about 100 members or about 10 percent of our membership. I'll assume that every year we lose 10 percent of our membership base. That means we are going to lose 110 members this year (1100 * .10).

If that's true, we are starting at 1100 – 110 which equals 990 members and we need to reach 1265. We calculate 1265 – 990 equals 275 new members. That's about a 20, no — 28 percent increase. Is it feasible? It's double what we did last year. I'd have to explore our marketing plan, what we've done in the past and what we've got planned in the future. Tell me —

– I'd like you to focus on something else. What would you estimate our revenues are a year? Use the 1265 member number.

What are the fees and the pricing structure?

– Members pay $1000 a year membership fee, $50 for a half an hour of batting cage time and $100 for an hour.

Do we know the percentage breakdown between half hour renters compared to those who rent for the full hour?

– Does it matter?

No, I guess not. Not if the hourly fee is the same whether you rent by the hour or half hour. Let me ask, what are your hours of operation?

– Eighteen hours a day, seven days a week.

Well first we have the membership fee. We start with 1265 people paying $1000 a year in membership fees. So that equals $1,256,000.

– I was glad to see that you could do the math in your head.

Next we have 18 hours a day times 30 days equals . . . 540 hours a month of available batting cage time. I'll assume that on Fridays, Saturdays and Sundays the cages are in use 90 percent of the time. And since there is no difference between the hourly rates — they both equal out to $100 an hour — I'll figure this on an hourly basis. So, 90 percent of 3 times 18 times $100.

3 times 18 equals 54 hours. 90 percent of 54 equals around 49 hours if I round up.

Say 50 hours times $100 equals $5000. Then I multiple it by 4 weekends in a month and I'll get $20,000 a month.

– Really?

You think that's too high?

– I think it's too low.

Too low? A 90 percent occupancy rate is too low?

– The 90 percent is fine, the total is too low.

(Checks his notes on the page) Ah, you must be referring to the fact that there are six cages and so far my numbers are just for one cage. I was getting to that.

– Strike one.

Okay, $30,000 (5,000 x 6 cages) times four weekends equals $120,000 a month or 120,000 times 12 months equals $1,440,000.

Now let's look at Monday thru Thursday. I'll say it's full from 6 am to 9 am, people going before work. It's full from 11 to 2, a lunch time break — that's another 3 hours. And it's full from 6 to midnight — that's 6 more hours. I'll estimate that it is busy 12 hours a day times $100 equals $1200 a day times four days $4,800 a week times four weeks equals . . . $19,200 a month.

– Really?

Times six cages. $19,200 times 6 is . . . 115,200. We'll take that number and multiply it by 12 and get . . .

– Can you do it in your head?

Well, 115,200 times 10 is 1,152,000 plus 230,400 equals 1,382,400.

– Good.

What other revenues streams do they have?

– What do you think?

I think that they have food and beverages. In the mornings they have coffee and egg sandwiches, maybe a fruit cup — anyway, I've estimated that people will spend $5 for breakfast. We'd probably serve lunch as well. I'll estimate $10 for lunch. For dinner time maybe $15, this includes a sandwich and a beer.

There are a lot of different ways to figure this out, but what I'm going to do is average out the food price which would be $10 and multiple it by the number of people who use the batting cages and take a percentage of that.

So if we add up the totals of the visitor dollars and divide by 100 ($1,440,000 plus $1,382,400 divided by 100) that equals 28,224 hour-long visitors. Let's say there is a 50/50 split between full hour batters and half-an-hour batters. That means there are 14,112 hour-long batters and 28,224 half-an-hour batters. That total is around 42,000. And let's say that 50 percent of the people buy food. Fifty percent would be 21,000 meals times $10 equals $210,000. It seems low compared to the other numbers, but I think it's a good number.

– Not bad. What's next?

Merchandise. T-shirts, gloves and bats. I'll assume that half the members buy something and that the average purchase price is $50. The total number of members is 1265 divided by two, which is around 630 times $50 equals (63,000/2) or around $32,000.

– Any other revenue streams?

Lessons. Because we booked out the revenue on the cages already, I'm just going to add an extra $100 to 20 percent of the batting cage revenues.

– I'm not sure what you mean?

I'm assuming 20 percent of the batting cage time is taken up by lessons and that the lessons cost an extra $100 per hour. So, I'll take 42,000 batters and multiple that by twenty percent which is . . . 8,400 and multiply that by $100 for the lesson. So we make 840,000 on lessons.

Let me total it all up. The annual revenues for Batter Up! are $5,169,400.

Revenues

	Weekly	Monthly	Yearly
Membership			1,265,000
Friday – Sunday	30,000	120,000	1,440,000
Monday – Thursday	48,000	115,200	1,382,400
Food and Beverages			210,000
Merchandise			32,000
Lessons			840,000
Total			5, 169,400

– If someone offered you $12 million for the business would you take it?

Do I own or rent the building?

– You rent it with a 25 year lease. You've got 20 years left on your lease.

Well, that's about three years worth of revenues. Not knowing what my costs are, I'd have to assume that labor costs are pretty low; there is a big margin in food and particularly beverages. The merchandise is probably marked up 50 to 75 percent. My biggest costs are rent, utilities and insurance. Let's say my costs are 30 percent of my revenues. So my costs are about $1.6 million which leaves a profit of . . . ($5.2 – 1.6 million) $3.6 million.

How many more members can I handle?

– About 300. Total membership can't go past 1500 members.

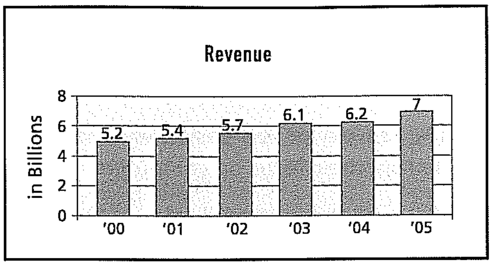
So that's an extra $300,000. Although I doubt that my occupancy rate will grow that much more. The answer is no. The price is too low. And if I'm a baseball fanatic, what else am I going to do?

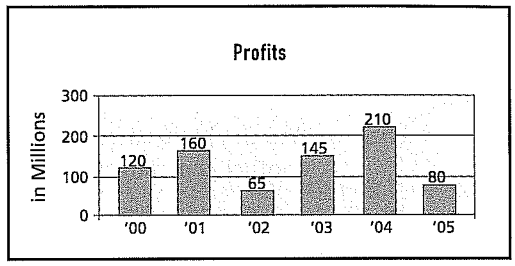
Type of Case: Numbers

Comments: This is simple and straight forward. The only tricky part was picking up on the fact that the club loses 10 percent of its membership every year. Working out the revenues is just a function of plowing through the numbers and keeping them straight. The student made a nice chart to track the numbers.

+ Japanese Electronics Manufacturer

Case 8: Our client is a Japanese electronics manufacturer who makes car stereo sound systems, a satellite navigation system, DVD recorders, computer hard drives, as well as mid-to-high-end home stereos. It has recently entered the plasma TV market. They are now one of five major players in the field, although the smallest player. However, they are the leader in plasma TVs over 40 inches, usually used for home theater systems.





Look at these charts and tell me what's going on.

Our client is an electronic manufacturer who has seen its revenues climb steadily over the last five years from $5.2 billion to $7 billion. It looks as if revenues are growing between 4 to 7 percent a year, until you reach 2005 when revenues jump 10, no, almost 13 percent. They are doing nicely on the revenue side however, on the profit side, they are all over the place. In 2000 they made $120 million on sales of $5.2 billion. That's a . . . 2 percent return where the figures for 2005 indicate about a 1 percent return.

I'd like to ask a few questions about the company. Would it be fair to break the products down by auto products and home products?

– Yes.

Can you tell me how the sales are divided?

– Auto related products make up 42 percent of the company's sales, while home electronics make up 40 percent.

What makes up the other 18 percent?

– Not relevant.

How have the two divisions been doing?

– Sales rose in both those areas, however profits dropped significantly. As you can see by the chart, profits were just 80 million on sales of $7 billion. What's going on?

Are their competitors facing similar problems?

– No.

So this isn't an industry problem?

– Not to this extent.

What does that mean? Does that mean other electronic manufacturers are seeing similar trends only not as exaggerated?

– It means that while some of their competitors posted bigger than expected profits, others just met Wall Street's expectations and profits stayed steady. To give you an example, Samsung had profits of $10 billion on sales of $53 billion — that's an 18 or 19 percent return on investment.

When did we enter the plasma TV market and how did we enter that market?

– The company entered it in early 2004, January or February. They bought a division of another company who wanted to narrow their focus on computers.

Profits jumped in 2004. I'll assume that's because of the increased sales of the plasma TVs and because of the fact that was an Olympic year.

– That played a part of it, yes. But that doesn't explain the huge drop in profits the following year because sales continued to rise.

A couple of things could be going on. First, maybe some of the other players are getting into the large plasma TV market. Increased competition will drive the prices down. There could also be strong competition from a China-based competitor and from a China-based knock-off. They say that many of the manufacturers find it hard to tell the difference between the knock-offs and their own item. Is our market share down?

– Maybe a little. What else?

There could be substitutions to plasma. I read where liquid-crystal TVs are cheaper and the technology is getting much better. The third thing could be that their costs, possibly both labor and manufacturing, are rising.

– Assume everything you said could be true. What do we do?

If a competitor picks up market share or if there's a new entry into our market, we need to take a close look at the competition. How does their product differ from ours? Do they have more features, better technology? Are they priced cheaper? If so, why? Are they manufactured in China? Do their raw materials cost less? I'd want to look into all that. If we can't figure it out on our own, we may want to hire the competition's management.

Next, I'd like to see if we can increase sales. You've stated that sales are okay, but not good, that we didn't meet Wall Street's expectation. I'll assume that we are growing less than the industry. Have we gone out and asked our customers what they want from us? Is price the only factor here or can better technology or more features differentiate us from the competition? Is it a marketing problem? Where and how are the competitors marketing their plasma TVs?

We know there are several ways to increase sales; increase volume, increase price, increase the amount of the purchase by coming up with additional products that might compliment the plasma TV experience. So, I'd spend some time trying to increase our sales team, our distribution channels and our technology because it looks as though prices are headed in the opposite direction.

Once we looked at and understand our revenue streams, we can then take a hard look at a breakdown of our costs. In this problem, revenues have climbed slowly but they have climbed every year. So while we can work on improving sales, we really need to take a hard look at lowering costs.

– Talk to me about costs.

I'd like to first look at this by breaking my costs down by internal and external costs.

Internal costs are things like labor costs, raw materials, and cost of manufacturing technology. If any cost seems out of line, I'd investigate why and put a stop to it. And of course, I'd try to benchmark the competitors. I'd also look to see if the plasma technology can be improved, maybe made from fewer parts. Anyway, look for cost savings through technical innovations.

External costs are things like the economy, interest rates and transportation costs. A good economy can not only increase our sales, but it can increase our costs if we have to pay more for labor. The economy is doing okay and interest rates are still pretty low. So we can take a closer look at shipping costs.

Finally, I'll assume that our plants are currently in Japan. If that's true, I'd move them to China. Labor is cheaper and the technology is world class. Some of the Japanese car companies have huge plants in China, so why shouldn't we? We need to compete on price.

– Okay, good. Summarize in ten words or less.

I can do it in one word — China.

- Type of Case: Increasing the bottom line

- Comments: The student did well. He was able to calculate returns in his head as he summarized the question. He had no problem identifying the problems and offered what the consulting industry calls MECE analysis: Mutually Exclusive, Collectively Exhausted. In this case, his was a fairly complete, yet general analysis of the charts and the problems the company faces. And he asked good questions. The student wasn't afraid to make the interviewer clarify an answer.

+ Eastern Training Network

Case 9: Our client is a mid-size training company that serves New England and the Atlantic Seaboard regions. They offer a variety of computer training and consulting services. Eastern just found out that IBM is going to enter into their segment of the market. What do they do?

Eastern Training Network just found out that IBM is entering their segment of the market and wants to know what to do. I'm assuming that the objectives are to either keep IBM out of our market or to maintain as much market share as we can. Is that a fair set of assumptions?

– Yes.

Are there any other objectives that I should be aware of?

– No.

Are there other firms in our area that we currently compete with?

– Yes. Including us, there are three major players that do what we do and maybe three smaller firms that serve one or two clients exclusively.

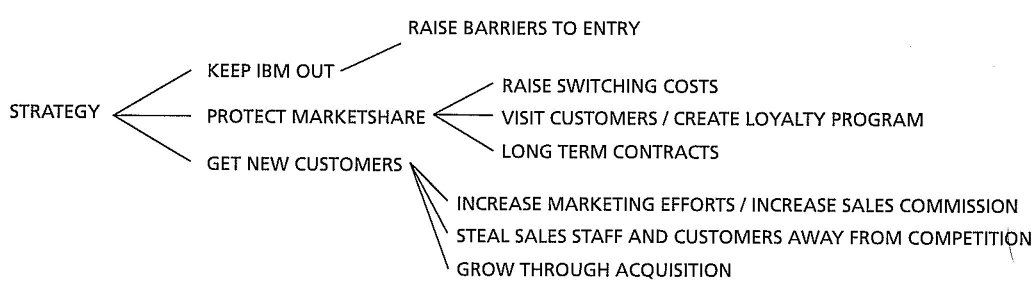
Do we know what Eastern's market share is?

– Eastern's market share within the region is 24 percent.

Do we know what our two other competitors are doing to keep IBM out?

– No. Good question but not relevant.

Since one of my major objectives is to maintain market share I'd break my strategy down into three prongs. First, I'd try to keep IBM out. Second, I'd try to protect what's mine. And third I'd go after new customers.



– Explain.

I would try to figure out what I can do to raise the barriers of entry and keep IBM out. Since they have almost unlimited resources and because this is an unregulated industry, I think the chances of that are pretty nil.

Second, I'd try to protect what's mine. It is much cheaper to keep your current customers than it is to go out and get new ones. So I'd do three things. I'd raise switching costs. Make it so that it wouldn't make sense to leave us for IBM.

– Give me an example.

Since I don't know the industry that well, I'd like to give another example. AOL makes it hard for customers to leave because they have what are called "sticky" features. Customers have their email address with AOL, they have their address book with AOL, and their customers have access to certain web information and additional benefits. So to switch over to another Internet provider becomes a hassle.

– Point taken. What's next?

I'd protect what's mine. I'd visit with my customers and find out what is important to them. Maybe increase my promotional efforts. Maybe come up with customer loyalty programs. Make them feel wanted and special. Everyone likes to feel appreciated. And third, I would do everything I could to establish long-term contracts to lock customers in. To go along with that, I'd build in incentives or give commissions to our sales staff to re-sign a client.

– Third?

Bring in new customers. I'd increase my marketing efforts, place ads, go to conventions, lobby for state contracts. I'd try to steal sales staff and customers away from my competition. And finally I would grow through acquisition. You mentioned that there were a number of smaller players that had one or two big accounts. I'd see if they would like to sell their businesses.

– Don't you think that's risky? To lay out capital to buy up small firms when IBM is coming to town. What's to guarantee that the small firm's clients won't jump to IBM?

There are no guarantees. However, being IBM is a double-edged sword. On one hand IBM is big, has an incredible amount of resources and they have the potential to do great things. On the other hand, it is because they are so big that things might very well fall through the cracks. Am I wrong in thinking that the training we offer is similar to what IBM offers? I think the things that will differentiate us are our people and our customer service. We're going to fight and do everything we can to hold on to our customer base while we prospect for new business. Being the biggest isn't always an advantage.

– What if IBM comes in and offers the same services you do, but offers a steep discount for clients to sign up? Do you lower your prices?

No. I wouldn't engage in a price war with IBM. There is no way to win. I believe that Eastern offers great products at competitive prices. If customers like us they're not going to go to IBM to save a little money. This is not like shopping around for the best deal on a new refrigerator. We're in the services business; it's all about the service. That doesn't mean I wouldn't be flexible in cutting existing customers a favorable deal to sign a long-term contract.

– I think I almost believe you. Summarize for me.

My strategy would be three-pronged. One, keep IBM out by raising the barriers to entry. Two, do whatever it takes to keep our current customers. We talked about raising switching costs, increasing promotional efforts — things like customer loyalty programs and establishing long-term contracts. And finally, grow through acquisition and a major marketing effort.

– That was good.

Type of Case: Competitive Response

Comments: The three-pronged approach served the student well. He was able to lay out his strategy in a clear and logical manner that was simple and easy to follow. The student stood his ground when pushed about a price war. Whether you agree with him or not, he articulated his point and stuck with it.

✢ Popcorn City

Case 10: Our client recently purchased a popcorn manufacturing plant that packages popcorn for two mid-sized brands. Once he saw the margins, he decided to manufacture under his own brand. What does he need to do?

Just to make sure I understand, our client purchased a popcorn plant that currently packages popcorn for two mid-sized companies. After seeing how big the margins are he's decided to manufacture popcorn under his own brand. We need to advise him of a game plan. Are there any other objectives?

– Make profits.

How big are the margins?

– Ninety percent.

Is the industry growing?

– Yes. Americans spent $1.25 billion on 5 billion bags of microwave popcorn last year. That represents a six percent growth. They spent another $500 million on ready-to-eat popcorn. That puts popcorn fourth behind potato chips, tortilla chips and nuts as the most popular snack for men.

What about women?

– Women rate popcorn as their number one snack food.

There must be a lot of competition?

– Yes. The market leaders are Act II and Orville Redenbacher, which are both owned by ConAgra — a huge multinational. There are also a number of smaller players such as Popz, Jolly Time, Lil Chiefs, Pop Weaver and Pop Secret just to name a few.

One of our biggest challenges will be to differentiate ourselves from our competitors. How do we build brand? Would our products be much different from the competitors'?

– At this point, I don't know. Maybe you can help us with that problem. That's why we hired your firm.

Okay, one major issue is building brand. I'd like to come back to that if possible.

– Sure.

Will we be producing just microwave popcorn?

– We would have several products. Currently he's manufacturing premium microwave popcorn in three flavors, premium traditional popcorn kernels in poly or plastic bags and traditional popcorn kernels in plastic jugs.

I think it's safe to say that our client knows the manufacturing side of the business. Something we need to think about is how we are going to enter the market. I can't see that there would be any barriers to entry. It's not a regulated industry. The technology isn't proprietary. I'll assume that we'll have access to distribution channels. Do we have enough capital to introduce and market ourselves?

– Yes.

Let's take a minute to look at what our management team's like and figure out what their core competencies are? We're strong in manufacturing, but are probably weak in marketing and possibly sales. How is our sales department?

– Very, very small. We manufacture for two companies, so there is not a lot of sales activity going on. The popcorn market is somewhat limited in that respect.

We need to think about who our customers will be and how best we can reach them. And once they're our customers, how do we gain their loyalty and retain them as clients? I'd also see if there is going to be a competitive response. Will one or both of the companies that we currently manufacturer for pull their business if we compete directly against them?

– Maybe. That's a good point.

If we are going to enter this market, we need a full commitment. If our plant clients pull their business do we have enough cash on hand to ensure we can survive while we ramp up? If they do pull their business, it would probably take them several months to find a new manufacturer. What can we be doing now to keep them from leaving? How can we raise their switching costs? Or, does it make sense to buy one or both of them out?

– Do a cost benefit analysis for me.

If we start from scratch, we'll have to, one, find marketing and sales people. Two, we'll need to establish distribution channels such as food brokers and distributors. Three, we'll need to find a few big customers fast — like a Wal-Mart or Costco. We could hire away our competitors' sales staff.

If we bought out a competitor they would have established distribution channels, management in place, and name recognition. It would save us a lot of time, but it would probably be expensive. Part of the decision would be based on our cash situation. It might be worth looking into.

If we didn't buy an established player, we would have to build brand. We could increase our profile with a marketing and public relations campaign. One way to differentiate ourselves is through pricing. Selling at a lower price.

– Let's not talk pricing. We've already decided that we will be priced the same as our major competitors.

Then another way to differentiate our company is to donate a percentage of profits to a good cause. Ben and Jerry's Ice Cream donates approximately 8% of its pre-tax profits. As does

Stonyfield Farms Yogurt. Both those companies have received good press and increased sales from their association with good causes. Who do we see as our customers?

– Families. Women.

We could donate a portion of pre-taxed profits to a family-oriented literacy program. That's a special interest of the First Lady. So, it might draw additional attention, and, besides, it's a great cause.

If I could, I might suggest that we cast our net wider and go after the kid and teen market as well. We could make some "rad" popcorn that pops in different colors — red, blue, green and yellow. Think of it as a microwave bag of M&M popcorn. Or, like Ben and Jerry's, we could develop different flavored popcorn and give it funky names like they did with Cherry Garcia. We could offer single servings, the standard 3-serving packet as well as a party tub size.

– What else?

Let's talk about markets. I've been assuming that we are only talking about the U.S. consumer market.

– Let's just keep this focused on the U.S. market.

Okay, but there is also the institutional market like concession stands and the fundraising market. It's a way for schools and sports teams to raise money. These products along with gift baskets could be sold over the web site. Do we have a web site?

– Not yet.

I would put a lot of thought into the web site and make it fun as well as informative. We could also continue to package popcorn under other people's names. I know that Hollywood Video and Blockbuster have their own "brand' of popcorn. Let's go after those accounts. If there is a 90 percent margin, there is a lot room to move in regards to pricing.

– Any other marketing ideas?

Two. We could give General Electric packages to give away whenever someone buys a new microwave oven. We could also sell hotels and motels individual packages to have in their guest rooms with microwaves. There are a hundred and one ways to market this.

– It seems like you're having fun with this question.

Yes. I love problems like this.

– Okay, summarize for me. What would you tell our client?

I'd tell them that this is a great market to be in, but, in order to do well, we have to overcome a few hurdles, particularly if they have decided to enter the market on their own and not buy their way in.

– Assume that we are, as you say, starting from scratch.

Then the biggest hurdle is differentiating ourselves from the competition. We need to come up with new products and expand beyond our targeted audience of families and women to include teens and preteens. Often, kids make the buying decisions regarding snack foods. We need to develop some "rad" types of popcorn flavors and names, i.e. Ben & Jerry's, to get the kids interested. One way to attract women and families to our brand is to donate part of our pre-tax profits to a literacy foundation. Another way is to offer a variety of packaging sizes.

The next big hurdle is the marketing and sales side of the management team. I suggest we hire away some of our competitors' talent. They already have the contacts inside the big buyers like Wal-Mart and Costco. Not to mention inside information on what the competitor has done in the past and what they are planning to do in the future.

A third concern is protecting our current revenue stream. The two companies that we are currently producing popcorn for might get irked that we will now be competing directly against them. We need to make it hard for them to pull their business.

Finally, I would aggressively go after packaging opportunities of "house brands" like Blockbuster and Hollywood video. The margins won't be as great, but if we have plant capacity available, it's a good additional revenue stream.

– Excellent.

- **Type: Starting a new business, entering a new market**

- **Comments: This student hit a home run. She had a lot of good questions, a number of good ideas, and some insight into the market. She also got big points for thinking about ways to keep the current clientele from leaving our company once they find out that we will be competing directly against them.**

+ The Iron Man

Case 11: A European iron mining company bought a piece of land in Australia with a high content of iron. Should they mine the ore? In deciding, I want you to give me the cost per ton, the breakeven point, profit margin and the impact on the global market.

Our client is a European mining company which wants to know whether they should mine the Australian iron or not?

– That's correct.

Besides making that decision, and giving you the cost per ton, the breakeven point, profit margin and the impact on the global market, is there any other objectives I should be aware of?

– No.

I'd like to ask a few questions. What's the worldwide market size?

– It's 400 million.

Four hundred million what?

– Tons of iron.

Who are our competitors?

– There are three major players, one of which is us. The big three hold 75 percent of the market.

How has the industry been doing?

– Flat.

How have we been growing compared to the industry?

– Our growth has been relatively flat, as well.

What's our market share?

– Not relevant.

What is it going to cost to mine the ore?

– Well, the infrastructure will cost us $1.5 billion spread out over 10 years. The actual cost of extraction is $15 per ton.

Is that pretty standard around the world?

– Good question. No, it costs $10 a ton in other countries.

Why is our extraction cost so high?

– Most iron mines are open-sky mines; this is a closed-mine.

Do we have an estimate of how many tons of iron we can extract on a yearly basis?

– We won't extract any the first year, however, 50 million tons a year for the next 15 years.

That's what? Twelve percent of the current market. You said for 15 years. Does that mean the mine will run out of iron after 15 years?

– Yes.

What does iron ore sell for on the open market?

– It's been at $25 per ton for the last five years.

I'm going to look at costs first. We have the $1.5 billion in infrastructure costs spread out over 10 years — so that's $150 million a year. We have extraction costs of $15 a ton for 50 million tons a year which equals —

– Can you do it in your head?

Yes. It's . . . $750,000,000. So the $750m plus the $150m infrastructure allocation is $900 million a year starting in year 2. Add to that the $150 million from the first year where I'm assuming that no iron will be mined because they're building the infrastructure.

I'd like to make a chart.

Our revenues will be zero in Y1, but in Y2 and for the next 14 years, assuming the market price stays at $25 per ton, our revenues will be $1.25 billion per year.

Year	Revenue	Cost	Profit/Loss
1	$0	$150m	($150m)
2	$1.25B	$900m	$350m
3	$1.25B	$900m	$350m

So our breakeven point is year two because we will lose $150 million in Y1, but make $350 million in Y2. Our cost per ton is $150 million plus $750 million which equals $900 million divided by 50 million tons equals . . . $18 per ton. And our profit margin is 25 minus 18, which equals $7 per ton or 28 percent.

Do these numbers take into account the shipping costs?

– Yes. That's another reason why the extraction costs are so high. So where do we stand?

If we mine 50 million tons of iron, that's going to drive worldwide production from 400 million to 450 million tons a year. That will increase the available iron on the world market by just over 10 percent. If we do that, it could and probably will drive down the overall price of iron.

I would like to mention that after Y10 our costs will go down because we would have paid off the infrastructure bill.

– Okay, good. Let's say we mine it and the world price for iron ore drops to $20 dollars a ton. But now, we can only sell 30 million tons of that ore a year. Looking back is it worth it?

Let me run the numbers. The first year costs will remain the same, we'll lose $150 million. In Y2 our revenues will drop to . . . $600 million (30m*$20) and our costs would be . . . $540 keeping in mind that I'm using the $18 number as the basis for our cost. That leaves us with a profit of only $60 million dollars compared to the ideal profit of $350 million.

Year	Revenue	Cost	Profit/Loss
1	$0	$150m	($150m)
2	$600m	540m	$60m

– So what would you do?

First off, if I do this, everyone in the industry will be hurt because the world price will fall. If the price drops from 25 to 20 that's a 20 percent drop. Our profit margin would go from 28 percent to 10 percent. We'd get hit the hardest because our extraction costs are 50 percent higher than everyone else's. So, I'd figure out what it will cost me to sit on the mine and calculate to see if that number is greater than the hit I'd take if I did mine it — probably not. So I'd go to the other players and say "I want you to pay me X dollars not to mine the ore." If they can cover my losses from sitting on the mine, then I'd be happy, the price of iron would remain at $25.

– Interesting, I'll be sure to write you in jail. Did the words price-fixing and collusion ever cross your mind?

I guess I got a lot to learn.

– You think?

Type of Case: Numbers / strategy

Comments: This is a pretty straight numbers case, although you need to ask the right questions to gather the numbers you need to make the calculations. I thought it was interesting that she would have her competitors help pay her costs or she'd flood the market and drive the world-market price down — even though it is probably illegal.

+ Snow Job

Case 12: Snow Shovels Inc. (SSI) imports and distributes snow shovels. The snow shovel marke is relatively stable. As expected, sales depend on demand and demand depends on weather. SSI has to order its shovels four months in advance. How many shovels should they order?

SSI imports and distributes snow shovels. They have to order their product four months in advance. They want to know how many shovels should they order?

– Yes.

Besides deciding how many shovels to order, are there any other objectives I should be concerned about?

– Yes. The goal is to maximize profits with the lowest amount of risk and the least amount of inventory on hand.

What areas of the country do they cover?

– Just Wellesley, Massachusetts.

I'd look at expanding into other areas.

– No. They just want to focus on their little corner of the world.

Then maybe we can increase their distribution channels. How many distribution channels do they have?

– Good question, but not relevant to what I'm looking for in this question.

How many did they order last year?

– Two thousand.

What was the weather like last year?

– Cold with lots of snow.

Did they have any inventory left over from the year before?

– Yes, five hundred shovels.

Is it fair to assume that they sold all 2500 shovels this past year?

– Yes.

So there is no left over inventory?

– That's right. SSI hates to carry over inventory.

Could we have sold more? Were there orders left unfilled?

– Yes. It's fair to say that if it's a cold winter they will sell 3,000 shovels. If it's a mild winter they will only sell 1,000.

Do we know what the forecast is for the coming winter?

– There is a 40 percent chance that it will be a cold winter and a 60 percent chance that the winter will be a mild.

Okay. Let me get this straight. There is a 40 percent chance of a cold winter in which we could sell 3,000 shovels. There's a 60 percent chance of a mild winter in which we would sell 1,000 shovels. And SSI hates to carry over inventory. How much do we pay for the shovels and what do we charge?

– We buy them for $10 and sell them for $20.

So we make $10 a shovel. Let's figure that 40% of 3,000 equals 1,200 and 60% of 1,000 equals 600. If you add them together it equals 1,800 shovels.

– That's it? That's your answer? Why does everyone come up with 1800 shovels? I've given this case five times today and everyone has come up with 1800 shovels. Think about the information I gave you. Think about the objective.

I'd like to look at the estimated value. If we order a thousand shovels and assume that no matter what kind of winter we had we would still sell 1,000 shovels, then the estimated value would be:

# Ordered	# Sold	Income	Costs	Net	Times %	Expected Profit
1,000	1000	1000 X 20	1000 X 10	10,000	100%	$10,000
						$10,000

If we order 2,000 shovels and there is a 60 percent chance of a mild winter in which we will only sell 1,000 shovels and a 40 percent chance of a cold winter in which we would sell all 2,000, it would be:

# Ordered	# Sold	Income	Costs	Net	Times %	Expected Profit
2,000	1000	1000 X 20	2000 X 10	0	60%	$0
2,000	2000	2000 X 20	2000 X 10	20,000	40%	$8,000
						$8,000

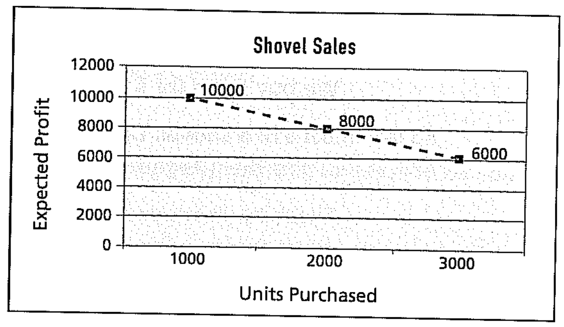
If we order 3,000 shovels and there is a 60 percent chance of a mild winter in which we will only sell 1,000 shovels and a 40 percent chance of a cold winter in which we would sell all 3,000, it would be:

# Ordered	# Sold	Income	Costs	Net	Times %	Expected Profit
3,000	1000	1000 X 20	3000 X 10	(10,000)	60%	$(6,000)
3,000	3000	3000 X 20	3000 X 10	30,000	40%	$12,000
						$6,000

Based on the numbers above, and assuming that you're relatively risk adverse, I would have to suggest that you order 1,000 shovels. You are pretty much guaranteed a $10,000 profit. If you order 3,000 shovels, you have only a 40 percent chance of making $12,000 and a 60 percent chance of losing $6,000.

– Can you graph it?

Sure. It would look like this.



– Good recovery.

One last question. In this case, we assumed that the leftover inventory is a loss in the current period? It's really an asset unless they plan to throw it away.

– Good point. You're right, but in this case we don't want to deal with it.

Type of Case: Strategy

Comments: This case is all about risk. The student tried to come to a fast answer, then pulled back and quickly rethought this strategy based on the interviewer's reaction. Estimated value may not be common knowledge to a lot of non-MBAs, so go back and reread the answer.

Editor's note: I've given this case 40 times to Harvard students and only 2 got the correct answer. On a scale of 1 to 10 this is probably a 9.

+ Jamaican Battery Enterprise

Case 13: Our client is the Jamaican Battery Company. Currently, they sell car batteries throughout the Caribbean, Africa, and Central and South America. Over the past two decades they have been eyeing the Cuban battery market. However, Cuban Battery Enterprise, a state-owned battery company currently has 100 percent of the secondary market. The reason they have 100 percent of the secondary market is because the Cuban Government has a 50 percent tariff on the manufacturing costs and shipping costs on all imported batteries.

The Castro government has just announced they will be lowering the tariff on batteries by 5 percent a year for the next 10 years until the tariff reaches zero.

The Jamaican Battery Board of Directors wants to know the size of the Cuban market and if, when and how they should enter it.

The Board of Directors of the Jamaican Battery Company wants to know the size of the Cuban market and if, when and how they should enter it. We know that currently the Cuban battery market is dominated by the Cuban Battery Enterprise because of a 50 percent tariff on the manufacturing and shipping costs on all imported batteries. But we also know that the Government is lowering the tariff by 5 percent a year for the next 10 years until the tariff reaches zero.

– Yes, that's right.

I'll assume that the objective is to gain market share and be profitable. Are there any other objectives that I should know about?

– No.

What is the market share that they would like?

– One hundred percent.

Let me rephrase. What is the market share that they can reasonably expect to gain and under what time table?

– Twenty five percent within 5 years of entering.

Let's start by estimating the size of the Cuban secondary car battery market. I'll assume that there are 10 million people in Cuba.

– That's a little low, but a good figure to use.

I'll also assume that disposable income is limited and that only one in ten households has a car. So if we estimate that the average Cuban household is made up of five people —

– Where did you get five from?

I'm assuming that there are two generations living in a number of the homes.

– Okay.

So, if there are 2 million households and if only one in ten have a car, that means that there are 200,000 cars. I would also like to add in another 10,000 vehicles which include taxis, trucks, and government vehicles.

– So 210,000 vehicles.

Yes. I'll also assume that Cubans keep their cars for a long time and that the average car needs a new battery every three years.

– Three years? What were you thinking when you made that assumption?

I was assuming that this is a monopoly in a communist country, thus the quality of the battery might not be competitive with a Jamaican Battery which probably lasts five years.

– Go on.

So 210,000 vehicles will need a new battery every three years. But there are two factors we need to figure in. First, let's say that half of the 10,000 "other" vehicles that we mentioned are government or military vehicles. So we need to subtract 5,000 from the total. Now it is 205,000 divided by every three years equals around 68,000 batteries.

Also the number is going to be reduced over the long run because our batteries will last five years, not three. I'm not sure how to factor that in.

– That's okay. It's just important that you brought it up.

If we want 25 percent of that market we're talking 17,000 batteries a year.

– Okay, what's next?

I'd like to know some costs and prices. What are our costs and prices compared to theirs?

– Prices are irrelevant, but costs aren't. It costs the Cuban Battery Enterprise $12 to produce a battery. Their raw material costs are 20 percent, their labor costs are 50 percent and their overhead and all other costs are 30 percent.

It costs us $9 to produce a battery. Our raw material costs are 20 percent, our labor costs our 25 percent and all other costs including overhead and marketing is 55 percent. It costs us $1 to ship it to Cuba.

Let me just write this out.

Cuban Battery Enterprise	**Jamaican Battery Company**
Production costs: $12	**Production costs: $9**
Raw material 20%	**Raw material 20%**
Labor 50%	**Labor 25%**

All other costs	30%	All other costs	30%
Shipping costs	$0	Shipping costs	$1
Tariff $0		Tariff $5	
Total cost	$12	Total cost	$15

That means it cost us $9 manufacturing cost plus $1 shipping costs, which equals $10. Add in the 50 percent tariff and we're talking $15 a battery.

We now need to figure out when we will be competitive. In five years the tariff will drop from 50 percent to 25 percent, which is half. So, it will still cost us $10 to manufacturer and ship the battery, however, the tariff will only be $2.50. That makes our total cost $12.50. So I would say, based on sheer numbers, we can enter and compete during year six. But if we can market and explain that for a little bit more our battery will last five years instead of three years, we might be able to charge a premium and that could justify entering the market in year five.

– Let's switch hats for a second. You now are advising the Cuban Battery Enterprise. What do you advise them?

My first step is to approach the government and try to get them to reconsider lowering the tariff.

– Castro's mind is made up. The tariff will be reduced.

Next, I would want to find out why our labor costs are so high.

– Why do you think?

The two things that jump to mind are technology and medical costs. Maybe our technology is old and our manufacturing process is very labor intensive.

– Yes, that's part of it. What else?

We are in a communist country where healthcare is free. That's the hidden cost in everything that's done, every service, and every manufactured item. Even countries like Canada, with its national healthcare program have higher prices. If the Canadian dollar wasn't so weak compared to the US dollar, they would price themselves right out of the market in many items.

– We'll save that discussion for another time.

Well, we can't do much about the healthcare costs, but we can upgrade our technology. The upgrade would also make our batteries more competitive and able to last five years instead of three years.

– Say we upgrade our technology and we are now able to make a world class battery for $9 a battery. How would that change things?

Well, the tariff becomes moot in the sense that we can be competitive without it. Which is good, but we still have a perception problem. I think we need to launch a marketing campaign

to show the Cuban public that we have a new battery that is world class. I'd also like to review our customer service and our distribution channels. These are key functions that are often overlooked in a monopoly environment.

– Good point. Our customer service is pitiful and our distribution channels are restricted to two major warehouses, one in Havana and the other in Nuevitas. You said that you would launch a marketing campaign and I'll assume that there will be a customer service aspect to that. What would you do about the distribution channels?

I'll make two assumptions. First, I'll assume that we have at least two years before the Jamaican Battery Company enters our market. Second, I'll assume that other non-American battery companies will also enter our market, probably about the same time and with a similar strategy to the Jamaican company.

– Both fair assumptions.

First I would go to every gas station on the island, both in the cities and in the countryside. I would front them the cost of the batteries, give them a nice display rack, free t-shirts, and maybe some cash. In return, they would have to sign an exclusive agreement to sell only our batteries.

Let me ask you this? Does the government make their own tires? And, if yes, how's the quality?

– Yes, they do, but the quality is poor. However based on your advice, they will also upgrade their technology and launch a marketing plan because the tire tariff is being eliminated as well.

So you know what I'm getting at. We can open a service store where residents can get both a new battery and new tires, and maybe an oil change. We can snap up all the best locations before the foreign competitors come into our market.

– We're switching hats again. You are now back to advising the Jamaican Battery Company. You have seen that the Cuban Battery Enterprise has upgraded its plant, increased its distribution channels, formed a joint venture with the Cuban Tire Enterprise and has launched a nationalistic marketing campaign. Do you now enter the Cuban battery market, if so how?

Whenever you enter a new market there are several things you need to examine. Who are the major players? What size market share do they have? How are their products or services different from ours? And are there any barriers to entry? The major player is the Cuban Battery Enterprise. They have 100 percent of the market. Two years ago, their products were inferior, but today they are very similar. The tariff was a barrier to entry, but now it looks as if access to distribution channels could be a threat.

I've learned that there are three main ways to enter a market. Start from scratch, buy your way in, or form a joint venture. I'd like to do a quick cost benefit analysis of each. Starting

from scratch would be a fine strategy if we can define our distribution channels. If the Cuban firm has all the gas stations tied up and have built tire and battery stores, then our distribution means are limited. Plus, selling 17,000 batteries a year might not justify an investment of building our own battery stores.

The second strategy is to buy our way in. Since this is a communist country there isn't a lot of buying opportunity. If we were going to buy anyone, it would have been the Cuban Enterprise, and we should have bought it when they were a mess and not a formidable competitor.

The third way is to form a joint venture. If I work under the assumption that there are no independent battery distributors, then my first choice is to form a joint venture with one of the tire companies that are entering the market. My guess is that there will be several tire companies and battery companies jumping in, so we need to be part of that coalition.

– So it all boils down to —

So it all boils down to distribution channels.

– Great job.

Type of Case: Strategy / entering a new market / market-sizing

Comments: This was a long case and one that you'd get in the final rounds where you have about an hour to answer it. It had a market sizing component to it, but probably the hardest thing was the switching of the hats. It forced the student to come up with counterstrategies to the strategies he just developed.

Most students would have tried to figure out the reduction in tariff fees year by year, but this student saved time and impressed the interviewer by picking a point in the middle and working from there. He made the math simple and was able to do the calculations in his head.

The student was very well organized, he even wrote out the costs and percentages in a little chart. This impresses the interviewer and makes everything easy for the student to find when flipping back through his notes.

A Case of Bud

Case 14: Our client is Anheuser Busch. Their flagship product is Budweiser. They want to know if they should switch Budweiser from glass to plastic bottles. What are the advantages and disadvantages of such a move? And estimate for me the size of the U.S. beer market.

What's Budweiser's objective?

– To increase profits and market share.

What kind of market share does Budweiser have?

– Anheuser Busch and its thirty products have 46 percent of the domestic market. Bud and Bud Light make up 20 percent of the market.

Is that 20 percent of the 46 percent or 20 percent of the overall market?

– It's 20 percent of the overall market.

Let's first take a minute to figure out the size of the U.S. beer market. I'd like to break it down by generation. I'll assume that there are 280 million Americans. I'll also assume that there are even numbers of people in each generation. So there are 70 million people per generation.

- **I'll estimate that the people in generation one, the 0 to 20 year olds, will not drink.**
- **The second generation, the 21 to 40 year olds, are probably the heaviest beer drinkers. I'll assume that 75 percent of them drink beer and that they have 5 beers a week or 250 beers a year. So that is 52.5 or 52 million drinkers times 250 beers equals 13 billion beers.**
- **The folks in the third generation — I estimate that 50 percent of them drink beer and that they have 3 beers a week or 150 beers a year. So that will equal 5.2 billion beers.**
- **The last generation, or as Tom Brokaw calls, the greatest generation — I'll assume that only 20 percent of them drink beer, so that's 14 million, and that they drink two beers a week or 1.4 billion beers a year.**

Age	# of People (in millions)	% that drink beer	# of beer drinkers	# of beers per week	# of beers per year (50 weeks)	Approximate totals
0–20	70	0	0	0	0	0
21–40	70	75%	52.5 million	5	250	13 billion
41–60	70	50%	35 million	3	150	5.2 billion
61–80	70	20%	14 million	2	100	1.4 billion
Totals	280					19.6 or 20 billion

These totals include drinking beer at home and drinking beer in public, like bars and restaurants. The total is 19.6 or 20 billion beers.

Now, do you want this in a dollar amount or calculated by the bottle?

– By the bottle.

Well, we came up with 20 billion beers. I'll assume that bottles and cans sell the same, so we'll assume a 50/50 split — cans to bottles. That means we are talking 10 billion bottles of beer. Now you mentioned that Bud and Bud Light make up 20 percent of that market, so we're looking at 20 percent of 10 billion, which is 2 billion bottles of Bud and Bud Light sold each year.

– Okay, good. Let's move on to the rest of the question.

I have a few questions. Does plastic have the same shelf life as glass and aluminum?

– Yes, if the bottle is colored.

Does the plastic bottle stay as cold as glass and aluminum?

– It stays as cold as long as glass, colder and longer than aluminum.

Does the bottle affect the taste?

– No.

Have any of our competitors switched to plastic bottles?

– Assume no.

I assume that the weight of plastic is about half of what glass is.

– Actually, plastic weighs one-seventh of what glass weighs.

So it is lighter, which will save on shipping costs. Is it cheaper?

– Yes. It's about half the price. Assume that it costs Bud 6 cents for each glass bottle and 3 cents for each plastic bottle.

Do they have to retool the plant?

– Good question. There will be some modifications. Beer is boiling hot when it is bottled. So between the heat and the pressure in which the beer is forced into the bottles, unless the beer is cooled first, the plastic bottle could get disfigured. In addition, the capping system is different. Plastic will have screw on caps.

What is the expected cost of retooling the plant?

– Ten million dollars.

Do they expect to sell more Bud because it's in a plastic bottle?

– What do you think?

I think that there is an emotional bond between beer drinkers and glass. I'd like to go back and find out what the industry did to introduce the metal cans.

– That's a good idea, but we don't have that info right now.

Well, first, I think that if you switched completely from glass to plastic you would lose the loyal middle-aged beer drinker. I would just offer it as a packaging option. People could buy plastic if they wanted to, but they could still get glass. I'd try to test market it for eighteen months in six cosmopolitan cities. I'd also gear my advertising toward the young adults, people who are in their twenties and thirties who grew up drinking soda out of a plastic bottle. I'd also mimic the soda in the sense that I would package the beer in 12 ounce and 20 ounce "Tall Boy" bottles. That way you'd sell more beer. In addition, you said that the plastic bottle would have screw-on caps. This makes great sense with a 20 ounce bottle.

The other huge market I see is the sports stadium. It's probably safer for everyone if beer was sold in plastic bottles during baseball, basketball, football and certainly hockey games. Plastic would also be perfect for taking beer to the beach or around a pool. Oh, I almost forgot, there would be less breakage, both while drinking and shipping the product.

– What are the economics of this decision?

We came up with 2 billion bottles of Bud sold each year. The price of a plastic bottle is three cents less. So 3 cents times 2 billion equals 60 million which is significantly more than the 10 million it will cost us to retool the plant. Add in the money we will save on shipping costs and less breakage. Economically, it makes sense to at least test market it.

– Okay, good. So, summarize for me. What are the advantages and disadvantages? And what would you tell Bud to do? Let's for a minute assume that you did a complete switch — every bottle of Bud is now plastic. What would that scenario look like?

Assume that the market for our 2 billion bottles of Bud is broken down like this:

50 percent of our market is within the 21 to 40 age group and the other 50 percent is spread out over the over 40 crowd.

Age Group	% of Bud's market	# of bottles	Savings or loss of plastic bottles
21-40	50%	1 billion	+ 30,000,000
41-60	40%	.8 billion	- 24,000,000
61-80	10%	.2 billion	- 6,000,000

What this tells me is that even if we lose 50 percent of our market share, meaning that every Bud drinker over the age of 40 switches to another brand, we would still break even on the production costs. We'd make 3 cents on a billion bottles and we'd lose 3 cents on a billion bottles.

The one-time payoff of retooling the plant would come from the savings in freight charges and breakage, and from the additional revenue of the 20 ounce bottle. Once the 10 million dollars is paid off, then, those savings and additional revenues will go straight to the bottom line.

I would tell Bud that they should test market the plastic bottle and maybe have it as a packaging option. I would also tell them that I would never get rid of the glass bottle. There is too much history there. They would certainly lose market share. They may even want to try it out first in one of their lesser brands.

Since the objective is to increase profits, I'd like to break the advantages down in two ways, reductions in costs and increases in revenues. Let's start with the savings in costs. One, plastic is cheaper than glass. We would save money in the manufacturing, because the fixed cost would go down. Two, our shipping costs would be less because plastic weighs one-seventh of what glass weighs. In addition, there would be less breakage during shipping. We would be able to increase sales because we could sell the beer in larger sized bottles. We might even be able to increase our market share with beer drinkers between the ages of twenty-one and thirty nine.

The disadvantage might be image. After all, we are the "King of Beers." But if we offer it as a packaging option, then the traditionalists might not care. The other disadvantage might be that if we produce beer in plastic bottles, younger drinkers might gulp beer as they do soda. This could cause more drunk driving accidents. We would need to keep a close eye on that.

Good job.

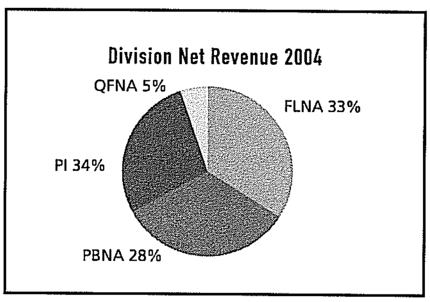
- **Type of Case: Strategy / market-sizing / cost benefit analysis**

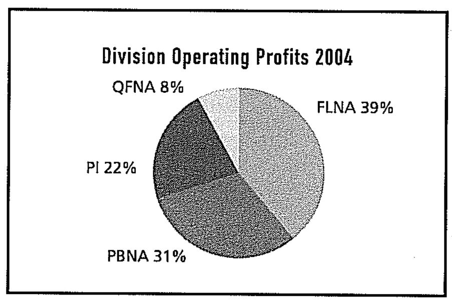
- **Comments: Good analysis of both the economic and emotional issues needed to make this decision. Also, unlike most people I gave this case to, her decision wasn't an either/or, she came up with the packaging option strategy despite the favorable economic pressures.**

+ PEPSICO

Case 15: This information was taken from the PepsiCo® 2004 Annual Report. PepsiCo is broken down into four divisions: Frito-Lay North America (FLNA), PepsiCo Beverages North America (PBNA), PepsiCo International (PI), and Quaker Foods North America (QFNA). I'd like you to look it over and let me know the highlights. Think out loud, I'd like to know how you approach this. And do all the numbers in your head.

	2004	2003	2002	2004	2003	2002
	Net Revenue			Operating Profit		
FLNA	9560	9091	8565	2389	2242	2081
PBNA	8313	7733	7200	1911	1690	1485
PI	9862	8678	7749	1323	1061	910
QFNA	1526	1467	1464	475	470	458
Total division	29261	26969	24978	6098	5463	4934
Divested businesses		2	134		26	23
Corporate				-689	-502	-438
	29261	26971	25112	5409	4987	4519
Restructuring Charges				-150	-147	
Merger-related Costs					-59	-224
	29261	26971	25112	5259	4781	4295





You'd like me to scan the numbers and the pie charts and let you know what has been going on inside Pepsi over the last year. Besides my summary, is there anything else you'd like to see?

– No.

Well, the pie charts help a great deal. I'm going to break it down much like Pepsi did. We know by looking at the chart that Frito Lay division net revenue for 2004 was 33 percent of total revenues. In 2003, if we divide 9000 by 27000 we get 33 percent. And if we divide 8500 by 25000 we get about . . . 33 percent as well. So we know that the net revenue of Frito Lay as a percent of Pepsi's overall sales has remained constant. I'll do the same for Pepsi North America. According to the pie chart, PENA net revenue was 28 percent in 2004. For 2003, I'll divide 7700 by 27000, which gives me a little less than 30 percent, probably 28 or 29 percent. Then, 7200 divided by 25000 will give us around 29 percent for 2003. So, I'd state that Pepsi North America remained relatively constant as well.

I'm going to jump to Quaker Oats. I see that Quaker made up 5 percent of the revenues in 2004. In 2003, 10 percent would be 2700 and Quaker's total is about half of that, so I'd say they remain constant as well at 5 percent. In 2003, they were around 6 percent — maybe in the high fives, if we ran the numbers instead of estimating.

So, if the three that I calculated remained the same, the fourth, Pepsi International will remain the same as well. I'll go out on a limb here and say that as a percent of revenues, all divisions held steady.

– Who had the biggest jump in sales from 2003 to 2004? Can you eyeball that as well?

Sure. Frito Lay grew to 9600 from 9100, so that equals 500. Ten percent growth would be around 910, so 500 is about 5 or 6 percent. PBNA grew to 8300 from 7700, which equals 600. So, I'm guessing that Pepsi North America grew by 7 percent. Pepsi International grew almost 1100 from an 8700 starting point. So that's . . . 12 percent. And, finally, Quaker grew by about 60 from a 2003 base of 1500 so that equals . . . a little less than 5 percent. Probably closer to 4 percent.

Pepsi International grew by about 12 percent which makes it the leader among the four divisions.

– Good. Last one. Eyeball the operating profit as a percentage of revenues for 2004.

You have 6100 divided by 30,000, which equals around 20 percent.

- **Type of case: Numbers / Company Analysis**

- **Comments: It is becoming more common for interviewers to hand you charts and graphs and ask you not only to interpret them, but to run the numbers in your head. They are testing for not only your analytical skills, but to see if you show grace under pressure. Generally, the tripartite interest will be in your (i) analysis, (ii) innovation, and (iii) calculations. This student did well. He rounded all the numbers off to make his calculations simpler. Instead of doing the actual calculations he looked at things as percentages, i.e. Quaker was 5 percent. And most importantly, he didn't get flustered by the numbers.**

Fuel Efficiency

Case 16: Our client is a large auto manufacturer who is thinking about making a device that will increase fuel efficiency in your car by 20 percent. What is the market for this product? What should it be priced at?

We have a large automaker that is thinking about making a device that will increase fuel efficiency in your car by 20 percent. They want to know what the market is and how much they should charge. Are those the only two objectives that I should be aware of?

– Objectives? Yes.

I have some questions. You said "thinking of making a device." Does that mean they have the technology? Have they already done the research?

– Yes. It's possible. The research is done and the prototype has been made and tested.

You also said 20 percent. So, that means my SUV, which now gets 20 miles to the gallon, will soon get 24 miles to the gallon.

– Yes, that's what 20 percent means.

What are the disadvantages of this product? Are there environmental concerns, like increased emissions? Does the car lose much of its power?

– There is approximately a 5 percent loss of power. That is the only disadvantage.

Will this device be sold in the aftermarket or will it only be offered on new cars? Will it be an option on new cars or a standard item?

– All of the above. It will work on any car manufactured after 1997.

Do they have a patent?

– No. This is has been fairly common knowledge in the auto industry. They could have made this device back in the early seventies when we had gas lines.

Why didn't they?

– Why do you think?

Too expensive? I'm guessing that with new technology and with the price of gas increasing they think now is the time. So, before I determine the market size, I'd like to figure out the price. Do we know what it will cost them to produce this item?

– Twenty dollars.

Does that include R&D expenses? Building the plant?

– When we figure in everything it runs $25 a unit.

Is it easy to install?

– Yes. We estimate that the average garage will charge $75 to install this device in the aftermarket.

Okay. Let's look at the pricing strategies. I can't think if there is anything else out there like this.

– Not really.

But since this technology is common to the industry, if we're successful, then I can imagine other firms jumping in rather quickly, especially in Europe where the price of gas is much higher.

– Absolutely. We can talk about that later if there's time. Let's just concentrate on the US market. You were looking at pricing, let's stick with that for now.

Competitive analysis — we have nothing to compare it to. That leaves cost–based pricing and price-based costing. Cost-based pricing; if it costs us $25 and we add on a 50 percent margin that means we would sell it to the distributors for $37.50, the distributors would probably sell it to the auto parts store or garages for $50, who would sell it to the customer for $75. In the end, it would cost the consumer for the device and to have it installed — $150 in the aftermarket.

Let's figure that the average gallon of gas is $2.00 and the consumer gets 20 miles to the gallon. The tank holds 20 gallons. It costs $40 to fill the tank. That means I can currently drive 400 miles on a tank of gas. So with this new device, I can drive 480 miles on a tank of gas. So, 80 miles divided by 20 miles a gallon equals a savings of 4 gallons times $2.00, which comes to $8 a tank. If the average person drives 15,000 miles per year, we divide 15,000 by 480 per tank, which equals around 30 tanks. We're saving $8 per tank times 30 tanks equaling a savings of around $240, more than enough to cover the cost of the new device. Less than a one-year payback.

Another way to look at it is $2.00 per gallon divided by 20 miles to the gallon equals 10 cents per mile. With this device we have $2.00 a gallon divided by 24 miles to the gallon equals 8 cents per mile. So, we are saving 2 cents a mile. If the average person drives 15,000 miles a year, which equals $300 in savings. Basically it would take the average person six months to get his money back. Half that time, if he installs it himself.

The more expensive cars usually get less mileage and we could probably charge more. The less expensive cars, let's say one that gets 30 mpg, would change to 36 mpg. I think this group would be less willing to pay for a few extra miles, especially if it takes them a year to pay it off. You may want to market it to SUV drivers who are looking for better gas mileage and can afford the device. I would seek environmental organizations to help tout the device. So, for the aftermarket, I think our pricing is low at $37.50, we could even charge $50.

If competitors jump into the market, we'll have to review the cost structure and look at manufacturing this device in Mexico or Asia. One advantage that we would have is economies of scale. If we are producing this device for all our new cars, then we'll have a pretty solid volume, especially if we can produce it for other OEMs. Still, a competitor who uses non-union labor and cheaper material might have a significant advantage in the aftermarket.

– How do you compete with that?

One, you market the quality of the part and, two, you require all dealerships to use genuine parts.

– How do you think the oil companies will react?

They're not going to be happy, but they will look pretty bad if they try to block the development and manufacturing of such a device. They'll be painted as almost unpatriotic. Instead, they will raise the price of gasoline two cents a gallon, no one will notice and they'll make a killing.

– Is your next interview with ExxonMobil?

No, no. I just want to do consulting.

Type of Case: Strategy and pricing

Comments: His math was good and he approached the problem two different ways to see where his cost-based pricing answers crossed. However he never discussed price-based costing or how much each unit will add to the cost of a new car.

+ Bull Moose Financial Services

Case 17: Bull Moose is a large financial services company with $98 billion under management. It has 20 different mutual funds and a brokerage company. Customers receive a statement for each individual mutual fund as well as one for their brokerage activities. So, if you own four mutual funds and a brokerage account, you get five separate statements and often multiple duplicate mailings for cross products.

Another problem Bull Moose has is that its customer service phone reps can't tell what the client's total investment is in Bull Moose products. The client may have $1 million in one fund and only $2,500 in another. So a million-dollar customer may get treated like a $2,500 customer. How do we ensure that the heavy hitters (big investors) get treated like royalty when they call into Bull Moose Investments?

So Bull Moose, a large financial services company, wants to improve customer service to its large investors.

– Yes.

Besides treating its customers like royalty, are there any other objectives I should know about?

– Well, we want to keep costs down as well.

Are our competitors having the same problems?

– We can benchmark our competitors, but I want you to come up with solutions — not just copy our competitors.

Is Bull Moose a public company?

– No, it's privately held.

Okay, so we need to come up with a way to increase efficiency while making our customers feel like royalty.

– Yes.

The first thing I would do is make an investment in technology. Bull Moose is a privately held company so we can take a hit to the bottom line and Wall Street won't freak out. I would consolidate all those accounts under one account number, maybe a master account number for both monthly statements and customer service reps. That way, the customers can see all their assets on one statement. We would mail only one statement instead of five, and we would also eliminate the duplicate mailings.

How many customers does Bull Moose have, and what is the average number of accounts?

– One million customers with an average of two accounts each.

So, that is a savings of at least one million mailings, times four for quarterly statements, times the price of a stamp. Not to mention all the savings on cross-mailing. I also think it's important that the phone reps have that same information, not only so they can treat a million-dollar customer like a million dollars, but also so they can service all customers better.

– Anything else?

Yes. You might want to code your customers. Break them down into groups such as platinum, gold, silver, bronze, and charcoal. Give the platinum customers an 800 number that takes priority over all calls and is picked up on one ring by a customer service rep dedicated to platinum customers. How big would this platinum group be?

– It depends on the criteria. But it's safe to say that five percent of the customers do 95% of the business.

So, 5% of one million is 50,000 customers. I'm going to assume that customers call in for three major reasons — to place a trade, complain, or get account information. Does the same rep handle all these functions?

– Yes.

You may want to break it up and have two separate lines, one dedicated to trading. You're probably spending too much money paying traders to handle customer complaints when they should be trading. You could hire recent college grads to handle the complaints. I'd also allow the customers to view all their accounts online. This could reduce the number of overall service calls. And, if Bull Moose doesn't already do online trading, they may want to look into it. I think I read that an online transaction is about one-tenth the cost of a phone call. You could even have an option where statements could be emailed to the client instead of going through the U.S. mail.

– All right, anything else?

Well, to summarize, I'd recommend an investment in technology that would allow customers to see a consolidated statement and phone reps to view all of the accounts that a customer has with Bull Moose. I would code those customers so that the five percent get fast service with separate phone lines. You could print the new numbers right on the statements. As far as reducing costs, we'd save money on the mailing of statements and cross-marketing pieces. We'd also save money by hiring recent college grads to handle the customer complaint calls and letting our traders focus on trading. I would also try to get our customers to use the Internet to handle a lot of their needs. This would reduce our costs overall and allow us to give better service to all our customers.

– Great.

- **Type of Case:** Reducing costs
- **Comments:** In this case, it wasn't so much that costs have been out of control; the problem really stemmed from a customer service problem. Here, we were able to kill two birds with one stone: improve service and reduce costs.

+ New York Opera

Case 18: Our client is the New York City Opera. They want to develop a growth strategy for the next five years. What would you advise them to look at, and what are your recommendations for growth?

The New York City Opera wants us to develop a growth strategy for the next five years.

– That's right.

Besides developing this five-year strategy are there any other objectives?

– No.

So I don't need to look at increasing sales, reducing costs or increasing profits?

– Those are all key ingredients to growth, are they not?

Yes, I guess they are. I was just trying to determine the direction of the question. I'd like to ask a few questions. Is the industry growing?

– No, down seven percent last year.

How are we fairing compared to the industry?

– Better, but not much. Our growth rate last year was two percent.

Who are our competitors and how much market share does each one have?

– Who do you think our competition is?

It's anyone or anything that competes for the leisure dollar. It could be as wide spread as a restaurant, a hockey game, events at Lincoln Center, or a trip to the Hamptons. But it is also other opera companies in New York. I'm not sure how many opera companies there are in New York.

– There're about four. The biggest is the Metropolitan Opera. Can you name any operas?

Sure. There's Tommy and Figaro. Oh, and The Barber of Seville.

– Okay. That helps me put your answer in perspective. So what do you do?

The first thing I would do is a competitive analysis. I would not only look at the other four New York opera companies, but those in other major U.S. cities and maybe London and Paris.

– What would you analyze?

Everything. Revenues and revenue streams, ticket distribution outlets, fixed costs, marginal costs, production costs, season schedule, ticket prices, the names and types of operas produced, marquee names in each production, marketing campaigns and other uses for the venue.

– That's quite a list. After you did the analysis what would you do?

I'd take the best practices and see if it makes sense to incorporate any of those practices at the New York City Opera.

– You mentioned revenue streams. What do you think the revenue streams are currently?

Ticket sales, sales of programs, drinks during intermission, and merchandise like CDs, t-shirts — that sort of thing. And I think fundraising is an important revenue stream as well.

– How would you increase revenues?

Three ways. We can look at increasing ticket prices; we can increase our marketing campaign to get more people to come to the opera; and once they're there get them to spend more money.

– Can you think of additional revenue streams?

Maybe holding lectures and panels or possibly giving lessons?

– We're not offering singing lessons. What else?

I'll assume that an opera does not perform 365 days a year and that there are often stretches of time when the venue is open or in preproduction. Every night that the opera house sits empty we're losing money. So, why not hold other events in the venue, specifically musical events. I mean the acoustics have to be unbelievable, don't you think?

– I would imagine. Okay, good. You also mentioned ticket distribution.

Yes. I'd check to see if you can buy tickets over the web and at other ticket outlets. See if we can come up with a few additional and maybe untraditional outlets or distribution channels. I'll assume that they have discounts for season ticket holders, large groups, students and senior citizens.

– That's correct.

I think schools are a good place to educate future opera fans. We have to rebuild the audience. Get the next generation interested in opera.

– The next area you mentioned was costs. I don't want to spend too much time on this, but I'll assume that you'll work hard to reduce all our costs.

Yes.

– To be honest with you, your answer isn't going where I want it to go. I feel like we're getting too bogged down in details. The question was about growth strategy. Unless you have more to say about growth strategies we'll end this interview right now.

Well, we've talked about increasing sales by bringing in a big name singer, adding new distribution channels for tickets and merchandise sales, as well as possible new revenue streams. We talked about increasing the product line and the diversity of that product line. That could

mean new merchandise or more operas, but I think it means different shows, concerts or maybe standup comic revues. Anything that fills the opera house on nights when there is no performance. A third strategy, that doesn't apply, but I thought I would mention, is acquiring the competition, maybe buying one of the smaller opera companies. But it doesn't sound like we have a lot of extra cash on hand and what we do have can be better allocated toward driving more people in our door.

– That was a nice summation, but there was nothing new there.

One last thing. This summer I worked for a mutual fund company and what we discovered is that 95 percent of the business came from 5 percent of the customer base. This company wasn't fully taking advantage of the opportunities to grow through its existing customer base. Up until this summer, they never differentiated between customers who represented real profits and customers that only represented costs.

– This is good, continue.

They found that over one-third of the money spent on marketing and customer service was wasted on efforts to acquire new customers who cost us more than we made. In some cases we were marketing toward our established customers when that money could have been better spent.

– So what are you telling me?

We should focus the company on bringing in new and profitable customers. That may mean changing the way we currently and traditionally market. It means developing better relationships with our profitable customers. And, finally, it means abandoning those customers that cause us to lose money.

– I think that theory applies to a mutual fund company better than an opera company, but I'll give you points for trying.

Type of Case: Growth strategies

Comments: Her answer was all over the place. Parts of it were very strong, others weren't. She went off on a tangent and got herself into trouble. The other thing is that she never really came up with anything extraordinary. Everything she mentioned had been tried before. The last bit about growing through existing customers and weeding out the dogs was interesting if not totally relevant.

Editor's note: Many firms have a version of this question. They could ask about a music school, a museum or a symphony.

House of Pizza

Case 19: A major video store chain is considering the acquisition of a national chain of pizza restaurants. What factors are important in making this decision?

So you have a major video store chain, I'm assuming like Blockbuster or Hollywood, who is considering purchasing a national chain of pizza restaurants. They want to know what they should be looking at in order to make this decision. Why are they doing this? What are their main objectives?

– Why do you think?

Could be a number of things. Profit, increased market access, to pre-empt the competition from buying into the pizza market and financial, operational and marketing synergies.

– Say all of the above.

May I take a moment to jot down some notes?

– Certainly.

(Student takes a minute to draw out the M&A decision tree, or a variation of this tree.)

- OBJECTIVES WHY BUY?
  - MARKET ACCESS
    - BOOST BRAND
    - INCREASE MARKET SHARE
  - DIVERSIFY HOLDINGS
  - PRE-EMPT COMPETITION
  - TAXES
  - SYNERGIES
    - COST SAVINGS
      - REDUCTION OF FIXED AND VARIABLE COSTS
    - CULTURAL INTEGRATION
    - DISTRIBUTION CHANNEL EXPANSION
- ACQUISITION COSTS
  - FAIR PRICE?
  - CAN WE AFFORD IT? HOW TO PAY FOR IT?
  - REINTEGRATION COSTS
  - WHAT IF THE ECONOMY SOURS?
- DUE DILIGENCE / RISKS
  - FAIR PRICE?
  - CAN WE AFFORD IT? HOW TO PAY FOR IT?
  - REINTEGRATION COSTS
  - WHAT IF THE ECONOMY SOURS?
- EXIT STRATEGY
  - HOLD FOR HOW LONG?
  - BREAK IT UP AND SELL OFF PARTS OF IT

How many restaurants are there in the chain?

– Six hundred.

Where are they located?

– Mostly in, and around, the major cities.

Does the pizza chain currently own all its stores, or do they franchise?

– They own all their stores.

Who are the major players and what size market share does each have? What size market share do we have?

– Pizza Hut has 46 percent of the market, Domino's 21 percent, Little Caesar's 13 percent, Papa John's has 5 percent and we have 3 percent. All the others — the little guys make up the remaining 12 percent.

Is there anything else you can tell me about the pizza market?

– Sure, what do you want to know? I can tell you that Americans eat 350 slices of pizza per second. That pizza is a $33 billion per year industry. That pizzerias represent approximately 20 percent of all restaurants in the United States and that 93 percent of Americans eat at least one slice of pizza per month. And, oh, pizza restaurant growth continues to out pace overall restaurant growth. You find any of that helpful?

Well, yes, particularly the last part about its growth.

– Why? What does that tell you?

That it is, and continues to be, a very competitive market. You asked me about major factors. The first factor is the market. If the company that we want to buy has 3 percent of a $33 billion dollar industry, that means our sales must be about $100 million.

– What? Three percent of 33 billion is 100,000 million? Try again.

I mean a billion. I was off by a zero. So, if we are serious about entering the pizza industry, then I think buying our way in is the only way to go. With all the competition it would be very difficult to differentiate ourselves, it would take a long time to build brand, find great locations, build-out the restaurants and put together a management and sales team.

– And that's why we're buying our way in. Tell me something new.

We have been running a retail business, so this isn't something entirely new. We're going after the same market. I think that there could be a lot of synergies, a lot of crossover promotions. We might even combine some of the stores. Build ones that sell pizzas and rent DVDs. People could order their pizza, pick out a DVD, and by the time they are ready to leave the pizza would be ready.

– Good. Anything else?

Do we have the cash or would we have to finance this acquisition?

– We are financing about half. What makes you think we can do a better job at running the pizza chain?

We might be able to look at the business more objectively. We can visit the idea of franchising. We can visit the idea of spinning this division off in an IPO once the market rebounds. Is this chain profitable? If so, what were the profits over the last five years?

– After tax profits have been falling over the last five years. Five years ago the company made $100 million on $500 million in sales. This year we made $30 million on $1billion in sales.

So they've gone from a 20 percent return to a 3 percent return. Have you done an analysis on why the sales are dropping?

– I didn't say the sales are dropping. I said that after tax profits were dropping.

Sorry, that's what I meant.

– What do you think is happening?

I'll assume that the reason our sales have doubled over the last five years is because we are opening up new stores. We have invested heavily in this growth. It's time to take a close look at all the stores and find out which ones are profitable and which ones aren't. I'd analyze the ones that aren't, try to fix them, and if they can't be turned around in six months, we might want to consider closing them.

– What else?

Next, I'd ask for a breakdown of our costs. How fast have they been climbing? I'd look to see if there are any costs that are out of line. Maybe we're paying too much for space? Maybe our labor costs have skyrocketed? Are there any laborsaving technologies that would reduce costs? I'd see where we could cut back without jeopardizing the quality of the product. I'd also benchmark our costs against our competitors.

– All right. I'm feeling a little better about you, but I have to tell you your answer was all over the place. If you give me a great summary, I might call you back.

Pizza is a growth industry. It's a very large and extremely competitive market. It makes sense to enter it, if we are convinced that we can increase the company's profits. First, we need to look at revenue streams. What can we be doing that we're not? How can we increase sales? What percentage does each of the revenue streams represent? Does anything seem unusual in the balance of percentages? Have percentages changed lately? If so, why?

We also need to take a close look at costs. What's out of line? What can be reduced through technology? Have there been any major shifts in costs — like labor or raw materials? And how can we streamline work processes to reduce costs?

Next, I'd do a store analysis. Get rid of the dogs, while looking for new locations. The other component in the profit formula is volume. How do we jack-up volume? One way is to open more stores; another is to increase our marketing efforts, and a third is to reduce prices to drive in traffic. And, finally, improve customer service so the customers that do come in, come back.

– So getting back to the original question.

What factors are important in making this decision? Is the price of the company reasonable? Can we afford it and service the debt when the economy is down? Is the brand strong? Can we reasonably expect to build on that brand? Do we have the expertise to increase sales while reducing costs? Are there synergies that would benefit both companies? And, finally, we need to consider the post acquisition integration issues. Things like cultural implications, strategic fit and possible exit strategies.

– That's it? That's the best you can do?

Given the time we have, yes. Give me more time and access to resources and I can do better.

– Thanks.

Type of Case: Combination of acquisition, entering a new market, and improving the bottom line

Comments: The student was strong in the beginning, and then he lost his way. He seemed to get pushed around by the interviewer. However, he did come on strong at the end with an articulate summary.

+ Coke

Case 20: Coca-Cola is trying to boost profitability domestically by raising its prices. It's focusing on the grocery store market where the volume is high, but the margin is low. What are the economics of raising the prices and is this a good idea?

So, Coke plans to increase profitability by raising prices. They want to know if that's a good idea.

– That's right.

I know that raising profitability is their main objective. Are there other objectives that I should be aware of?

– They don't want to lose market share.

Are we just focusing on Coke and not any of their other brands?

– You can think of all Coke products as one product, Coke.

What's Coke's current market share?

– Not relevant to the question.

How much does it cost to make a can of Coke?

– Not relevant to the question.

How many cans does Coke sell to U.S. grocery stores and at what price?

– Coke sold 100,000,000 cans at 23 cents each to grocery stores last year. If prices remain stable, they expect volume growth of 6 percent. They want to raise the price to 27 cents per can and they forecast volume growth of only 1 percent.

Let's see. First I can multiply:

100 million cans times .27 times 1.01 = 27,270,000
100 million cans times .23 times 1.06 = 24,380,000
2,890,000

So even though they would be selling 5 million less cans of Coke, they'd be making more of a profit, about three million dollars more.

– Profitability would be boosted by what percent?

I can take 27 minus 24 equals 3 divided by 24 equals approximately 12 percent.
By raising prices and selling less, Coke can boost its sales by approximately 12%.

– To maintain market share Coke needs to stir up consumer demand with a major marketing campaign to raise brand awareness and focus on lifestyle issues. Knowing that, and if you were Pepsi, what would you do?

Pepsi has three choices. It can follow Coke's lead and raise its prices to match Coke's. It can leave prices the way they are, or it can take advantage of the price change and lower its price.

If Coke spends a fortune marketing its product and it does its job and gets people into the stores, Pepsi can snatch sales away at the last minute with a lower price. We are talking grocery stores here. Women do most of the buying in grocery stores and are often price conscious. If they saw two brand name colas, Pepsi and Coke, and if Coke sold for $2.99 a 12-pack compared to $2.59 for a 12-pack of Pepsi, then most shoppers would choose the one on sale or the one with the lower price.

Pepsi might even want to lower its price so it can increase its market share.

In sailing, if you are behind, you're not going to catch up with or beat the opponent by sailing the same course. You have to take a different tact. If Pepsi lowers its prices and cuts marketing costs, it can steal customers away from Coke through in-store promotions and point of contact displays.

– So, if you were Pepsi, what would you do?

Let's run some numbers. How many cans does Pepsi sell to grocery stores.

– Pepsi sells 80 million cans at 23 cents a piece.
If Pepsi follows Coke and raises its prices its volume will drop from 6 to 3 percent.
If Pepsi keeps its price the same, its volume will increase from 6 to 12 percent.
If Pepsi lowers its prices to 21 cents, Pepsi's volume will increase from 6 to 20 percent.

80,000,000 X 1.03 = 82,400,000 X .27 = 22,248,000
80,000,000 X 1.12 = 89,600,000 X .23 = 20,608,000
80,000,000 X 1.20 = 96,000,000 X .21 = 20,160,000

I'd follow Coke's lead.

– Even if you knew that Coke's volume would rise from 1 percent to 3 percent.

Yes.

– Interesting. Thanks.

- **Type of case: Strategy based on numbers**
- **Comments: Straightforward case once you have the numbers.**

+ Longest-lasting Light Bulb

Case 21: GE, they bring good things to life, has invented a new light bulb that never burns out. It could burn for more than 500 years and it would never blink. The director of marketing calls you into her offce and asks, "How would you price this?" What do you tell her?

Let me make sure I understand. GE has invented a light bulb that never burns out, and the marketing director wants us to help her decide on a price.

– That's correct.

Is coming up with a price the only objective? Or is there something else I should be concerned about?

– Pricing is the only objective.

Is there any competition for this product, and do we have a patent?

– We have a patent pending, and there is no other competition.

We know that the advantage is that this bulb never burns out. Are there any disadvantages to this product? Does it use the same amount of electricity?

– There are no disadvantages, except maybe price. And that's why you're here.

What did you spend on R&D?

– It cost $20 million to develop this product.

What are the costs associated with a conventional light bulb?

– It costs us $.05 to manufacture. We sell it to the distributor for $.25, the distributor sells it to the store for $.50, and the store sells it to the consumer for $.75.

And what does it cost us to manufacture the new light bulb?

– $5.00

So if we use the conventional bulb-pricing model, that would mean that the consumer would have to pay $75 for this light bulb. If we use another simple model and say that a light bulb lasts one year and that people will have this new bulb for 50 years, that's an argument for a retail price of $37.50 (50 years x $.75). Then we need to ask ourselves whether a consumer would pay $37.50 for a light bulb that never wears out. Now we're looking at price-based costing. What are people willing to pay? And is it enough to cover our costs and give us a nice profit?

The other main issue is that the more successful we are, the less successful we'll be in the future. For every eternal light bulb we sell, that's 50 or 75 conventional bulbs we won't sell in

the future. In a sense, we're cannibalizing our future markets. So, we have to make sure that there is enough of a margin or profit to cover us way into the future.

– Good point.

I'll tell you, I have reservations about selling to the consumer market. I just don't think the opportunity for pricing is there.

– So, what do we do, scrap the project? We've already spent over $20 million in R&D.

Not at all. We turn to the industrial market. For example, the City of Cambridge probably has 2,000 street lamps. Those bulbs cost maybe $20 and have to be changed twice a year. The real expense there isn't the cost of the bulb; it's the labor. It might take two union workers. In addition, you have to send out a truck. It probably costs the City $150 in labor costs just to change the light bulb. Now if we were to sell them this ever-lasting bulb for $400, they would make that money back in less than two years and we would make a handsome profit.

– Not bad.

- Type of case: Pricing
- Comments: First, the candidate looked at cost-based pricing and realized that the price was too high and that the typical consumer would not shell out $75 for a light bulb. Then he looked at price-based costing and concluded there wasn't enough of a margin built in to make it profitable. Thinking outside the outline given in the pricing case scenario, the student also realized that he would be cannibalizing his future markets. Thus, he decided that neither pricing strategy made sense for the retail market. So, instead of suggesting that GE just cut its losses and walk away from the project, he went looking for alternative markets and concluded that there was great potential in the industrial market.

Because this product has yet to be released, and is without competition, the supply and demand theory doesn't work in this case.

+ Texas Star Markets

Case 22: Our client is a large grocery chain throughout Texas. Their stores are concentrated in suburbs outside all the major cities in Texas: Dallas, Arlington, Fort Worth, Houston, Austin, Galveston, San Antonio, Amarillo, Corpus Christi, El Paso and Padre Island. They are looking to grow the company — but only in Texas. They feel that they have saturated the grocery market in the suburbs and have dismissed the idea of opening up stores downtown.

They already have an online grocery ordering and delivery service, so they are thinking of entering into the convenience store business. Is this a good idea? If so, how best to enter the market?

Basically, a large Texas-based grocery chain wants to explore the possibility of entering the convenience market. We need to determine if this is a good idea, and if it is, how best to enter this new market?

– That's right.

Besides the ones stated above, are there any other objectives I should be aware of?

– No.

Talking in broad strokes, I'd like to figure out why the company wants to expand, what the current convenience store market is like, and then discuss ways to enter that market. Does that sound like a good idea?

– Possibly. I wouldn't have done it like that, but let's see how you make out.

I assume the reason or reasons Texas Star is entertaining this notion is because A) they have excess cash on hand and want to see if this is a better return on investment than a money market or other investments they've looked at, B) they want to increase their market share of the Texas in-store food business, C) there has been a decline in their existing business, maybe because of shrinking sales or higher costs, and or D) they see this as a growing market.

– Assumptions A, B & D are correct.

May I take a moment to jot a few ideas down?

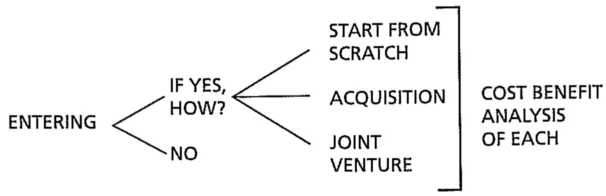
– Sure.

CURRENT MARKET
- SIZE
- GROWTH RATE
- CUSTOMER SEGMENTATION

→ MAJOR PLAYERS. MARKET SHARE, STRENGTHS AND WEAKNESSES

→ PRODUCT DIFFERENTIATION

→ BARRIERS TO ENTRY / BARRIERS TO EXIT



I know that there's plenty of competition with 7Eleven, Christy's, Dairy Mart, White Hen, The Red Apple and Utote-um, just to name a few. Can you give me any market share information?

– I can tell you that the leader is 7Eleven and that they did over $3 billion in sales last year. That includes both in-store merchandise and gasoline sales, but I don't know what their market share is.

Do you know how many stores they have?

– Over 58,000 in the U.S. and Canada. But I don't think that's relevant.

You're right. The proper question should have been how many of those stores are in Texas and how many convenience stores are there in Texas?

– That's right, but I don't have that information.

I can't think of any barriers to entry, so I'll assume that's not a concern.

– What are the concerns?

While our grocery stores have name recognition, we need to figure out a way to capitalize on that and any other competitive advantage we might have. A convenience store is a convenience store. We'll probably be selling the same items as the 7Eleven around the corner. Why would people come to us? I can think of three reasons, location, price or loyalty to the grocery chain.

– Okay, I like that. Explore it some more.

Well, the first one was location. Which leads me to the next question. How do we plan to enter the market? We can start from scratch, buy our way in or do a strategic alliance.

– Texas Star doesn't want to do a strategic alliance.

I'd like to come back and visit this question in a minute. However, we would need to look at the real estate market and see what kinds of locations are available. We may want to see if there is a small chain of existing stores with good locations but poor management that we could take over.

– What else?

Next on the list was price. This is where I think we make our mark. People pay for convenience. Prices are high because costs are high because stores tend to buy many items in low volumes. One of our advantages is that we already buy large amounts of all the products we would sell in the store, so we have economies of scales working for us. We should be able to leverage our current value chain components.

– What does that mean?

To be honest, I'm not sure.

– Let's call a time out for a second. Never use jargon or phrases that you don't understand. If you do it in an interview, then I'll assume that you will do it in front of a client. It's easy for the interviewer to lose trust in a candidate, because I can't trust you in front of a client. Now it just so happens that I like you and that you are doing really well on the question, so I'm going to pretend that I didn't hear that. Continue. Where were we?

We were discussing price. If we can price our items somewhere between what we charge in our grocery stores and what our competitors charge in their convenience stores we could drive in traffic. For instance, if I buy a gallon of milk at the grocery store it costs me $2.95. If I buy that same product in a convenience store, it costs me $3.95, a dollar more. If we could price it at $3.49, that's a significant enough difference where it would drive people into the store. In addition, I'm assuming that Texas Star, like most large grocery stores, has store-label items, such as their own brand of peanut butter. Those items sell for significantly less than the traditional name brands, so the price difference would be even greater. We could offer all the traditional convenience store items while adding things like a salad bar and prepared gourmet meals. This could change the genetic code of convenience store retailing.

– Let's not get carried away.

Let's look at the company's resources and capabilities. We buy in large volume, we have the management team, the marketing team, trained workers, name recognition, and we have an untraditional marketing channel through our existing stores. I don't think that there would be any cannibalization of existing grocery store sales, because items would still be less expensive in the grocery store. In fact, we could cross market and offer coupons to try our convenience stores.

The last thing on my list was brand loyalty. Texas Star obviously has a strong following, a commitment to Texas and, I'm guessing, to local communities.

– All right, summarize for me.

Texas Star is looking to expand. Their idea of getting into the convenience store market is a viable one. This market will continue to grow and there are no major barriers to entry. It will allow Texas Star to build on their name recognition and take advantage of the organization's existing resources and capabilities. They can offer lower prices and store-brand items, cross market with their grocery stores and offer new items to traditional convenience store fare.

The best way to enter the market is to look for a small chain that has good locations but bad management. Buy the chain, change the name and bring in your own management. All stores should be in close proximity to a Texas Star grocery store. If they can't find a buy-out target, they should start from scratch.

And I just want to restate that it is a combination of name recognition, location and prices that will make this idea a success.

– Okay, well that was pretty good. Now you got me thinking. Texas Star, as you can tell is always looking for new ways to increase their revenue streams. They are also considering opening an in-store bank. No other competitors in their area are currently doing it. What do we need to be thinking about?

Again, they are entering a new market. There are a number of things that they need to figure and decide. First, do they have the space in their stores or will they have to construct additional space? Also, if they do have the space, we need to think about whether that space can be used more effectively. How much space is needed?

– It's the equivalent of a florist department, and we already have one of those. And yes, we do have the space for this. It would take some remodeling, but nothing significant.

We need to look at who the major players are; what size market share they have; will our products or services be any different from our competition's, and if there are any barriers to entry.

– What would you guess?

That there's plenty of competition and that our products or services might be basic compared to our competitors. All we really have to offer them is convenience. Hopefully, there will be increased traffic at the grocery stores due to the bank. But now, with ATMs, debit cards and cash back the basic services are easily covered. I'm thinking that we need to figure out how best to enter the market and determine if this makes sense.

There are three ways to enter the market: start from scratch, buy our way in, and a joint venture. What are the costs in each of theses options? What are the potential revenue streams and how do they differ, and what is the risk associated with each?

– Do a quick cost benefit analysis for each.

Starting from scratch will be time consuming and somewhat expensive. We'd have to hire new people with experience in banking to run the organization. There might be some barriers due to federal and state banking regulations, which might take some additional time. And if it fails or doesn't live up to expectations, it could damage the overall Texas Star brand. On the other hand, we already have locations and our rent would be minimal. Revenues will come from bank transactions and possibly increased grocery sales. However, I'm not convinced that this is the best way.

Buying our way in would mean buying an existing bank and taking over their business. We would already have the people in place, a number of existing locations, and some brand recognition. It might be expensive. We would have to do due diligence on the entire bank an the banking industry. We might be able to sell some of the branches to other banks to help reduce any debt we would incur. This would be really jumping in with both feet.

The third way would be a joint venture with an existing bank. I think this is the simplest solu tion and holds the least risk to profits and our brand. We would just lease space to the bank for a monthly fee. We would have to weigh the rental income against the remodeling costs.

– So what are you saying?

I would tell Texas Market that if they feel that having a bank branch in their grocery stores would result in increased traffic and maybe higher sales, they should form a joint venture with an existing bank and keep risk to a minimum and lease out the space. Starting from scratch or buying an existing player is expensive and risky. We currently know nothing about the industry and a failure could hurt the Texas Star brand.

- **Type of Case:** Entering a new market(s)
- **Comments:** Besides getting into trouble for using business jargon that he did not know, the interviewee did pretty well. He laid out his strategy up front and stuck to it, but also added ways that the client could differentiate itself from the competition. He seemed to roll into the banking part of the case with a little more confidence.

+ Brazilian Soda Manufacturer

Case 23: You are working for a Brazilian soda manufacturer that has experienced declining profits over the last two years. Why do you think this is occurring? What are the company's options for improving profitability? What are the possible effects of a change in the soda's price? And, oh, yes, estimate for me the size of the soda market in Brazil.

Our client is a soda manufacturer in Brazil. For the last two years they have been experiencing a decline in profits. We want to know why, and what can be done about it. We also need to investigate the effects of a price change and, finally, you would like me to estimate the size of the Brazilian soda market. Besides increasing profits, are there any other objectives I should be concerned with?

– No, I think you have enough on your plate.

I have a few questions. Who are the major players in the Brazilian soda market? How much market share does each player have? And, what are the current price differences in our products?

– Of course, Coke and Pepsi are there. Together they make up 80 percent of the market. We have 10 percent and two generic brands that make up the remainder. Currently, the retail pricing is as follows: A 12 ounce Coke and Pepsi sells for 80 cents U.S., our 12 ounce can sells for 50 cents, and the generics sell for 35 cents.

Do we sell for less because our name isn't as big or the quality of our product isn't as good?

– We like to think name recognition.

What's our product mix? How many flavors of soda do we sell?

– Two, a cola and guarana — it's like a fruit soda.

And our competition?

– Coke and Pepsi have a full array of products. The rest just make cola.

How is the soda market doing overall?

– It was up 10 percent.

Did we lose market share? Or is it just our profits that are declining?

– Good question. Our market share has remained the same.

Okay. Right now I'd like to take a stab at the size of the market. I'm not sure what the population of Brazil is.

– Take a guess.

Two hundred million.

– Very close. It's around 180 million, but why don't you use 200.

I'll assume that the population of Brazil is 200 million. I'm going to break it down by groups. But first I'll also assume that there are even numbers of people in each age group, so there is the same number of 10-year olds as there are 40-year olds. And I'll assume that the life expectancy is 80 years.

– The life expectancy is a little high, but go ahead.

Well I'm going to assume 50 weeks in a year.

– That explains it. Okay.

I want to break it down this way.

Age Group	Number of people	Soda drinkers	Sodas/week	Sodas/year
0-10	25 m	5 m	10	2.5 b
11-20	25 m	20 m	10	10 b
21-40	50 m	40 m	10	20 b
41-60	50 m	25 m	3	3.75 b
60 -80	50 m	10 m	2	1 b
Totals	200m	100m		37.25 b

Therefore, we can assume that the market is about 40 billion sodas a year. We have 10 percent or 4 billion cans of soda a year. How much do we make on each soda?

– It averages out to 25 cents U.S.

So we make $1 billion.

– Yes.

Four billion cans of soda a year. Have we been able to meet demand? Are there any capacity constraints?

– No. We can handle it. However, if it goes much higher, we'll have to add a second shift.

There can be several reasons why we are experiencing declining profits. It could be a drop in revenues, it could be our sales are flat, or our expenses are rising. I'd like to go through each of these.

– I can save you some time. We've looked at our manufacturing costs and have determined that they are not out of line. There have been increases, but they're small. In addition, we have done everything we could to reduce them.

You said our market share is the same, and that the industry is growing, so I'll assume that our sales aren't flat.

– That's a good assumption.

Well, if our manufacturing costs are in line and our sales are growing, then it might be a drop in revenues. You said we are making 25 cents per can of soda. Were we making more than that in prior years?

– Yes. Good. Each of the last two years, the distributor has raised his fee a penny a can a year. This year alone, it cost us an additional $10 million on top of the $9 plus million from last year. We chose not to pass the cost on to the retailer or the consumer.

Well maybe it's time. Your original question asked about the effects of pricing. There seems to be a big gap between the majors like Coke and Pepsi, which sell their product for 80 cents, our products which sell for 50 cents and the generics which sell theirs for 35 cents. Do we know what affect on volume an increase or decrease in prices will play?

– Use the original pricing of 25 cents a can. If we increase our prices by 5 cents, and assume that these changes will filter down to the consumer, we can expect a 5 percent loss in volume. If we leave our prices alone we can expect a 5 percent increase in volume. And if we lower our prices by 5 cents we can expect a 10 percent increase in volume.

If the percentage decrease in the quantity demanded is less than the percentage increase in the price, we have a net increase in revenues, so the price increase makes sense. Similarly, if the percentage increase in demand is greater than the percentage decrease in the price, we again have a net increase in revenues and so the price decrease makes sense.

– Why don't you show me?

You said we sell 4 billion cans of soda a year, so:

Present volume	Δ in volume	New volume	New price	Revenues
4 billion	- 5 percent	3.8 billion	.30	1.14 billion
4 billion	+ 5 percent	4.2 billion	.25	1.05 billion
4 billion	+10 percent	4.4 billion	.20	880 million

It looks as though choice one is the best. We'd be producing 400 million less cans, but making $90 million more than if we kept our prices the same and had a 5 percent boost in volume. In addition, we won't have to add that second shift. The worst thing we can do is to lower our prices.

Do we have any additional revenue streams? Do we produce anything besides soda?

– No. Don't go there. Just focus on soda manufacturing.

Then I'd summarize by saying that we determined the size of the Brazilian soda market to be 40 billion cans of soda a year, of which we produce 10 percent or 4 billion cans. We've determined that our profits are declining mainly because the distributors have increased their distribution fees by two pennies over the course of two years. This increase has cost us almost 20 million dollars. Now we can look for new distributors, but my assumption is that we don't have a lot of choice. So, we increase our prices by 5 cents, this means we will produce 400 million less cans of soda and make 90 million dollars more. In addition, we will save on production costs, i.e. labor and raw materials, shipping costs, and the distributor fees.

– Very good.

- **Type of Case:** Market-sizing, pricing strategy, improving the bottom line
- **Comments:** The student did well. She asked a lot of good questions. Her market-sizing was clear and logical. She showed off her math and organizational skills by making the tables for both the market-sizing and the pricing issue. The student picked up on the fact that the interviewer was talking only of manufacturing costs and not all costs, therefore she was able to smoke out the additional distribution cost. Her summary was concise and articulate.

+ Getting into Diapers

Case 24: DuPont has just invented a lightweight, super-absorbent, biodegradable material that would be perfect for disposable diapers. What should they do with it?

DuPont has developed a new material that would be great for disposable diapers and they want to know how best to take advantage of this product.

– Yes.

One objective is to figure out what to do with this material. Any other objectives?

– Yes, make a handsome profit. But first, I'd like you to figure out the size of the disposable diaper market.

Okay. I'm going to make some assumptions. I'll assume that the population of the U.S. is 280 million, and that the life expectancy of an average American is 80 years. I'm also going to assume that there are even numbers of people in each age group. So, that means that there are the exact same number of 3-year olds as 73-year olds. So you divide 280 million by 80 and you get 3.5 million people per age group. Children wear diapers from age zero to three, so that's 10.5 million children. Let's round it down to 10 million children. I'm going to assume that 80% of the children wear disposable diapers, so that's eight million kids times five diapers a day equaling 40 million diapers a day. Multiply that by 365 days and you get 14.6 billion diapers times, I don't know, say, $1 a diaper. So the market is $14.6 billion a year.

– So, now we know the market size. What's next?

We look at the market and see who the major players are, what kind of market share each has, and what the pricing differentials are. I know P&G has a large part of that market and I know that there are a number of generic brands as well. The competition is tough, but I can't think of any barriers that would really stop us.

– So, you think we should get into the diaper business?

Yes, but we need to figure what part of the business. When I asked you if there were any other objectives or goals, you said profit. What you didn't say was to become a major player in the consumer diapers market. That means that there are several ways we can enter. I'd like to list them, then look at the advantages and disadvantages of each.

We can start up our own diaper company, form a joint venture, buy a smaller player and substitute our product for theirs, or manufacturer the diapers and license them to a number of companies.

First, let's look at starting our own company. We have name recognition, but not in that industry. We would have to set up a manufacturing plant, hire a management team, marketing team, and sales force, and establish distribution channels. Time consuming and expensive, but doable.

Second, we can form a joint venture with an established diaper company. The advantages there are that the company would already have everything in place as far as name recognition, management team, sales force, and distribution channels. But we might find this limiting. Depending on the deal, we might only be able to manufacture for them.

Third, we can buy a diaper company and substitute our product for theirs. This has merit for all the same reasons the joint venture has. We need to ask ourselves if we really want to manufacture and market diapers or just manufacture them.

The fourth option was to license our product to a variety of companies. If our technology is superior to the existing product, then let's get multiple companies on board and let their marketing experts fight it out.

– Good. So which one would you choose?

With just the information I have so far, I'd venture to say the last option — manufacture and license the rights, become a supplier and do what DuPont does best — manufacture.

We could even go to the different diaper companies and get pre-orders to ensure that the market is there and our pricing is in line.

▶ Type of case: Market sizing and entering a new market

▶ Comments: At first, some might think this to be a developing a new product question, and they could probably make a decent case out of it. But the question really asks, "What should they do with it?" That implies that the product has already been developed and the company is searching for the best way to exploit this new technology; thus, this is an entering a new market case.

What impressed the interviewer here was the fact that he picked up on what the interviewer didn't say and built on that. That's an extraordinary example of great listening — the best skill a consultant can have.

Savannah Jane's Laundromat

Case 25: You just bought Savannah Jane's Laundromat in Savannah, Georgia. It's twenty years old and had a small loss last year. What are you going to do?

Why did I buy it?

– Your consulting interviews didn't work out so you thought you'd take a shot at turning this business around, make some money and prove to the interviewers that they were wrong about you.

Has it been profitable in the past?

– Yes, but it has been on the decline over the last five years.

Why is that?

– Why do you think?

I'll assume that the former owner let things go. Maybe the washers and dryers are old and break down a lot. The place is probably dingy and not an attractive place to visit.

– That's pretty much it.

What kind of area am I in?

– You're in a strip mall. There's a liquor store, a discount clothing store, a sports bar, a real estate office and a bank.

Is the rest of the strip mall run down as well?

– No. I should also mention that you are not far from the Savannah College of Art and Design.

I am going to make the assumption that I did my due diligence and that the population and demographics are such that there is enough traffic to support a business.

– Yes, that's a fair assumption.

The first thing I'm going to do is inspect the equipment and determine the age and condition of each machine. I'll visit the bank and get a loan to fix up the place. I'll replace the equipment that needs it. I'll clean the place from top to bottom, repaint, and put in a new carpet. I'll stick in comfortable chairs and a wall television, and then get cable and a DVD player. We need to make it so that people will want to come and stay.

– Why stay?

You lose time and customers if people have to wait for a machine to free up. People who leave and come back often make others wait for their machine.

– Not me. When I was in college and grad school I never waited. If they weren't back in time, I'd just throw their clothes on the floor.

Maybe you should have been an investment banker.

– (Laughs) I wasn't mean enough. Go on.

I would put in additional revenue generators, such as vending machines, not only for soap and laundry stuff, but snacks and drinks. I'd offer a fluff and fold option where people could just drop off their clothes and then pick them up at the end of the day — pay by the pound.

– So you'd have employees?

Part-time employees, so I wouldn't have to pay them benefits.

– Maybe you should be the investment banker.

(Laughs) Ouch. I need to think about who my customers are. For the most part, I think that they are mothers with young children, students, and non-student singles.

– That's fair.

During the day, we probably get mothers and their children. For the children I'd put in books and Lego® sets. Maybe have a smaller TV with a VCR and some kid tapes. I'd encourage groups of mothers to meet there on certain days, maybe have a group that comes and watches certain soap operas every Tuesday and Friday. I'd put in a coffee bar, sell magazines and have internet access, that sort of thing.

I would let the students from the Savannah College of Art and Design display their art work and try to sell it. I'd do a trade out with some of the musicians at the college so that they could play their guitar or piano during certain hours and get to wash their clothes for free. Which reminds me, I'd offer a loyalty program and scan cards so that people wouldn't have to carry change all the time.

I'd work with the sports bar. Patrons could drop their laundry off, watch a sporting event, and then pick it up on their way home.

– So you'd be open late?

With this customer base you'd have to be. I'd investigate on becoming a drop off point for a local dry cleaner as an additional revenue stream. Once I have everything in place, I'd begin my marketing campaign and have a grand opening. I'd invite the press, maybe put up one of those signs — under new management.

– Okay, good. Why don't you summarize for me.

I'd remodel, add revenue streams, watch costs, market creatively, and focus on customer service.

– Would you consider doing something like this if you don't get a consulting job?

Yes, I would. I think it would be fun. I'd learn a lot and make some good money along the way — but I still want to be a consultant.

Type of Case: Strategy / marketing / turnaround / acquisition

Comments: The student did a good job. He showed that he could roll with the punches and maintain a sense of humor. He had some creative ideas and a plan. His summary might have been a little short for some folks, but he hit on all the major points without dwelling on them and being redundant.

+ Yellow Stuff Chemical Company

Case 26: Our client is a manufacturer that makes industrial cleaning solvents and pesticides. Recently, sales have been declining, mostly due to new EPA guidelines. The company has been "dumping" its old products overseas into countries that have less stringent environmental laws as well as re-engineering its products to fit the new EPA guidelines. Further evaluation of sales, both past and future, indicates that the chemical industry has, and will, continue to grow slowly over the next 5 to 7 years, with 3% annual growth.

Management has decided to diversify. While Yellow Stuff wants to keep its chemical business intact, it also wants to enter an industry that has long-term, high-growth potential. Yellow Stuff has hired us to help determine what industry or industries it should enter.

While I don't want you to come up with a list of industries, I do want you to tell me what sort of things you should be researching to determine what industry our client should diversify into.

So as I understand it, our client is a chemical manufacturer who wants to diversify outside the chemical industry into a high-growth industry.

– That's right.

And you want me to come up with a strategy on how to find the best possible match.

– Yes.

Besides diversification and profit, are there any other objectives that I should know about?

– No.

What does the company define as high-growth?

– 10% a year.

Well the first thing I'd do is obtain a list of all the industries and eliminate the ones that are growing less than 15%, or that have a potential in the next year of growing less than 15%. How much risk is Yellow Stuff willing to take?

– Medium.

Then, I'd also eliminate any high-risk or volatile industries. Next, I'd study the list to see if there are any synergies that we can share.

– Such as?

One example might be to look to see if there is a sister industry, where our customer list is the same. If we sell cleaning solvents to Pepsi and then we get into manufacturing aluminum, maybe we can sell Pepsi soda cans. We also have a history of marketing and selling

business-to-business, so we might want to stay away from consumer products. We could look at other commonalities, such as distribution channels and sales force.

Once we narrow the list, we need to analyze the market to find out who the major players are and what, if any, the barriers to entering the market are.

– Okay, what else?

There are three ways to enter a new market: start from scratch, acquire an existing player, or do a joint venture. Depending on the industry and the barriers . . .

– What sort of barriers are you talking about?

Could be government regulations. If you try to start a business and your products have to get approved by the FDA or the EPA, then that could take years. In a case like that, you might want to acquire an existing player. A barrier might be a stranglehold on the market: if, for example, two companies hold an extraordinarily large market share and have a habit of destroying new entries. If raw materials or supplies would be hard to come by, that would be another barrier.

– Okay.

Did I mention substitutions as a barrier?

– What's next?

I'd look very carefully at the future of the industry. It may be growing currently over 10 percent, but is that going to last and for how long? Is the market growing or shrinking? Are the number of players growing or shrinking? Have there been many mergers or acquisitions lately? And I'd take some time to think about exit strategies as well.

– Summarize for me.

I'd identify all the relevant industries, analyze their markets, and determine the best way to enter that market. I'd also conduct an analysis to see if the company might not be better off just investing the money into the stock market. It may make a better return and its investment would be a lot more liquid.

- **Type of case:** Entering a new market

- **Comments:** Ninety percent of this question is irrelevant fluff. It's not about the chemical industry, it's about entering a new market. The candidate took the time to ask for the company's definition of high growth. From there, it was straight logic. Now some of you might argue that this was really a growth strategies question, but the question tells us that the client really wants to diversify, which narrows the growth strategies to one: diversification. The question then becomes one of identifying the new industry.

+ WIVY FM Radio

Case 27: Our client is the owner of a small East Coast FM radio station, WIVY. CBS-owned Infinity Broadcasting, the number three radio station owner with 160 stations and six of the country's top 10 stations, has been after him to sell. Infinity Broadcasting offered him a good price, but he has turned it down. He's making a tiny profit, but needs to do better if he is to survive. He's had to lower the cost of his on-air ads to compete with other stations. He's afraid to cut into his music with more ads because he's afraid of hurting his ratings, thus forcing his ad rates even lower. What should he do?

Approach 1: We have a radio station that's not doing well. It's had to lower the price of its on-air ads to compete with other stations. And the station is afraid to increase the number of ads because it's afraid of losing listeners, correct?

– Yes.

So is his objective survival?

– That's one objective. But I think he wants to thrive, not just survive.

So he needs to turn the station around by increasing ad sales, reducing costs, and making a bigger profit?

– Are you asking me or telling me?

Let me ask you this: What format does his station play?

– Classic rock and roll. Nothing too heavy.

How many other stations in that market have a similar format?

– Three.

Has he investigated other formats?

– All the popular formats have three or four stations vying for listeners. The only format that is open is country and western, and he's not interested in that.

Why is his station doing so poorly?

– You tell me.

I'll assume that it's because he can't afford to hire a big name DJ or to have on-air contests.

– True.

How are his competitors doing?

– Fine. Their market share is higher. Our station is basically at the bottom of the ratings barrel.

Do large corporations own his competitors?

– Yes.

What about his revenue streams? I'm assuming ad sales is his major source.

– For the sake of this question, assume that it's his only source.

He is probably having a hard time competing with the other stations because they have a bigger sales force and can offer a discounted package of national ads that covers all their stations.

– Safe assumption.

And you said that he was at his maximum as far as number of on-air ads.

– I don't remember saying that, but yes, he's filled all his ad spots. The problem is that he had to lower the price to get those ads.

Let's look at his costs . . .

– His costs have already been looked at. Everything has been cut to the bone.

Okay, so if costs have been reduced as much as possible and ad sales are maxed, then we need to think of a way to get our ratings up so we can increase the price of our ads.

– What do you propose?

He can try to raise some money so he can steal the top DJ, and then promote the hell out of it. Or, he can offer the top DJ an equity piece of the station in return for coming over and bringing her audience. Either way, he is going to lose some ownership.

But, if he tries that and fails, and eventually sells the station, then he has to split the money from CBS with the DJ.

– Yes. That's right. So what should we tell him to do?

It's clear that he can't go on the way he has been. He's got to do something. Something dramatic. I would advise him to go after the number one DJ in the city, offer her a piece of the station at a price, then use that money to hire a PR firm to promote the new DJ. I would try to find an outside sales group to sell his ads on a commission basis. That way, you're reducing his labor and benefit costs.

– You wouldn't tell him to sell the station?

If he wanted to sell it, he would have sold it.

– Okay, thanks.

Type of Case: Increasing the bottom line

Comments: This candidate went the traditional route of exploring ways to reduce costs and increase sales and/or audience. It was a straightforward approach. For a more creative approach, read on . . . .

Approach 2: Okay, our client is an owner of a small FM radio station. His profits are tiny. He's reluctant to sell more ads because he's afraid his listener ratings will go down, forcing him to lower his rates even further. CBS wants to buy him out and they are offering him a fair price. He's come to us for advice.

– That's right.

Why won't he sell?

– Radio is all he knows.

What format does his station play?

– Rock and roll. Nothing too heavy. Classics from the 80s and 90s.

Has he recently changed formats?

– No.

Are there other stations that play a similar format?

– Yes, three others.

I would investigate other formats.

– All the popular formats have three or four stations vying for listeners. The only format that is open is country and western, and he's not interested in that.

Do large corporations own his competitors?

– Yes.

Sometimes we talk about barriers to entering a new market, but there are times when there are barriers to staying in a market.

– What do you mean?

His competitors are all well-financed. They probably have a team of eager salespeople that can sell ads nationally as well as locally. Much of their back-of-the-house operations are consolidated, and thus their overhead is much lower. They have more money to throw at promotions and giveaways and can therefore attract more listeners.

– That's all true, so what can we do about it?

If his objective is to stay in radio . . .

– CBS doesn't want him around. They don't want him running the station under their ownership. In fact, you can assume that none of the new owners would want him or any of his people around. Nothing against him, they just like to bring in their own people.

I can think of two options. The first is to partner with the number one DJ in town. Offer the DJ a piece of equity in the station. He can bring over his listeners and it would create a lot of press. Maybe go out and raise some additional capital from private investors based on the strength of this new DJ and pump some excitement into the station.

– Okay, that's one solution. What else?

The second idea needs to be researched a little more, but here goes. I'm going to make the assumption that many stations across the country struggle with late-night airtime, from 12 am to 5 am Listeners are far fewer, but they still have to pay an on-air personality. Fair assumption?

– Fair assumption.

Cut a deal with CBS. You sell them the station. In return, we get our great price, plus the late-night air rights to *The Howard Stern Show* archives and the late-night air rights to the *Late Night with David Letterman* archives. We syndicate a late-night program that draws from those two sources, and the CBS radio network becomes our biggest customer.

– Two good options, which one do you pick?

We don't pick. We just lay out the options for the client and allow him to decide.

– All right.

Comments: As you can see, not every case has to follow one of the scenarios. Knowing what questions to ask and being creative helps tremendously. If I were the interviewer, I would have favored this second approach simply for its creativity.

College Mail

Case 28: Our client is a company named Imagitas. They have a contract with the U.S. Postal Service to print the change of address forms that you find in your local post office. Ten years ago, the change of address form was a simple green card. Now, the mover receives a booklet with helpful hints on how to move and coupons to stores and services that the mover will need when moving. This booklet is called "The Mover's Guide." Imagitas also sends a "Welcome Kit" to the mover's new address with coupons and information that she might find helpful in her new neighborhood. Imagitas saves the U.S. Postal Service over $12 million dollars a year while making over $50 million in ad revenues.

One of the most active, yet hardest to reach markets, is the college student. Imagitas seeks ways to segment and reach the college market. Lay out a strategic plan for Imagitas to follow, keeping in mind their objectives are to:

- Reach students sooner
- Provide appropriate and attractive coupons
- Drive student/movers to the web site
- Retain mover information online
- Make a profit

So, basically, our client is a company that handles the change of address forms for the U.S. Postal Service. They want us to help them segment the college market, while meeting the objectives of reaching students sooner, providing appropriate coupons, getting students to use the web site and retain information on line while making a profit.

– Basically.

Can people currently do a change of address online?

– That will happen soon. So you can make that assumption.

The coupons that Imagitas sends out to movers, are they from local merchants or national chains?

– National chains, although we hope to distribute local merchants soon.

I can think of five segments to this market. Heading to school for the first time, heading back to school, moving back home with their parents for the summer, moving to a new city for a summer internship and moving to a new city for their first job. The three that I'd like to focus on first are heading to school for the first time, heading back to school — each year, and moving to a new city for their first job.

– Go on.

Heading to school for the first time is a great opportunity for a very strong Mover's Guide package if sent early enough before the parents go shopping. Coupons for Linens & Things and The Gap might be good additions to the Mover's Guide.

When the student arrives on campus, the Welcome Kit can be unique with a strong mix of national and local coupons, if segmented by school or city. Coupons should be for "room stash," batteries, pizza, dry cleaners, that sort of thing.

With the group that is heading back to school, I'd focus mostly on the "Welcome Kit." If Imagitas can segment by school or city, then they can get a large number of local merchants as well as national chains.

Finally, there is the group that is moving to a new city for the first job. Again, this gives us a great opportunity to weigh heavy on the "Welcome Kit." This group will need everything and now has a paycheck to pay for it. National retailers like Create & Barrel and Linens & Things should jump on it.

– What you're saying is good, but how can Imagitas reach students and get them to use the web site?

College students can be reached through a variety of channels, such as strategic partnerships with universities, advertising through trade-outs, and word of mouth. Preferably, we would like to capture student data before they get on-campus. The best possible solution would be to work with university admission and housing offices to place the USPS web address in their acceptance and housing letters.

– Why would schools do this?

This would save the schools a lot of work and money in the long run. First, we should build an alliance with university mail centers. Every summer university mail centers across the country receive tons of mail for recent graduates, students away for the summer, and students who have transferred or dropped out. It's an expensive and time-consuming effort to return or, worst yet, forward their mail.

In the spring, University Mail Services (UMS) usually places a postcard in the mailbox of all on-campus students urging them to notify both the USPS and the University mail services of their new address. I know that Harvard UMS keeps a database for students who have notified them, although I'd imagine the percentage of students that comply is probably pretty low. I know I get those notices every year and never remember to fill it out.

In return, University mail centers should be willing to place a "Mover's Guide" into every on-campus mailbox to try to eliminate or curtail this burden. First, it would save them the expense of printing the postcards. Second, the online switching through the USPS site would greatly curtail their excess mail.

Through the university mail services, Admissions, and Housing offices we could capture a significant percentage of the college population and retain them as they move through their different life stages. In addition, by-school segmentation makes us more attractive to local vendors.

– How else can students get the word?

Word of mouth. One cannot over emphasize "word of mouth." Word gets around fast, and now, with such a large percentage of this group using email, it has amplified the message an multiplied the listeners. If it is "quick and cool" it can be done.

– Can you summarize for me?

USPS and Imagitas should capture college students early, ideally before they go to college. They can do this by working in conjunction with colleges and universities by helping them reduce their excess mail load. USPS can collect the student's information in a database and have the individual update it over the Internet a month before each move. USPS can even send out an automatic email a month before the student moves, prompting them to make the change on line.

Once they sign up, the student can reinitiate their move over the Internet using a PIN number, not only in college, but for the rest of their lives. USPS will promptly mail them a confirmation notice and Imagitas would mail out the mover's guide to their current address. The mover's guide will continue to have coupons for products and services to help them move. Finally, a "Welcome Kit" will be sent to the new address.

There is one more thing I'd like to add that we didn't talk about and that's the web site. Besides changing my address, it would be very helpful if I could order my phone and cable service at the same time. So, maybe the web site should have links to the appropriate companies in my new area. That way, by the time I move, in I'll be all set. Also, maybe there could be online coupons as well. I mention this because, when you're moving your room's a mess and things tend to get lost. The last thing I unhook is my computer, so I'll have access to the web page.

– Excellent. I'll have to remember that for my next meeting with Imagitas.

Type of Case: Strategy / marketing

Comments: Although this is a strategy case it didn't fit neatly into one of the six strategy scenarios in the Ivy Case Method. The student was asked about how to reach a segment of which she is a part – thus she put herself in the mix and tried to figure out how to reach students like her. Her answer went into more detail than most case questions require, however, when you have a question that asks how do you reach a specific market, a little more detail is required.

+ Road to Ruin

Case 29 : A chemical company recently developed a road-surfacing compound designed to extend the life of major highways. Currently, the federal and state governments must completely dig up and replace their highways every five years. If highways are treated with this chemical, their effective life span increases to 20 years. Currently, the government spends $1,000 per mile to replace its roads. The total cost of the chemical (production and application) amounts to $50 per mile. The management of the Chemical company would like to know the following:

- **Estimate the number of miles of state and federal highways in the U.S.**
- **How should management price the product?**
- **What other issues should the company be aware of?**

Let me make sure I understand. A chemical company has developed a compound that extends the life of highways from 5 to 20 years. Currently, it costs the government $1,000 a mile to rip up a road and replace it. We can apply the compound for $50 a mile, and this $50 covers all development and application costs. Now the client wants us to estimate the number of government highway miles, price the product on a per mile basis, and determine what other issues we should be taking into consideration.

– Yes.

Besides those three items, are there any other objectives or goals I should be aware of?

– No.

How big is this chemical company?

– It's a venture-backed start-up. This is their first and only product.

Are there any other competitors or substitutions? And do we have a patent?

– No and yes, respectively.

We know the advantages of this product, but are there any disadvantages to this product like environmental concerns?

– Excellent question, but the answer is no.

Okay, let's start with the first request. To estimate the number of government highway miles, I'm going to make some assumptions. First, I'm going to assume that the distance between the east and west coasts is 3,000 miles and that the distance between the northern and southern borders of the U.S. is 2,000 miles. I'm also going to assume that if you straighten out all the highways, you'll have ten roads running east to west and another ten running north to south. So ten times 3,000 is 30,000 and ten times 2,000 equals 20,000 miles. Add them together and you get approximately 50,000 miles of government highways.

– Okay, I'll buy that. What's next?

We need to determine a price. There are several pricing methods that we can look at as a base and then make a determination. There is competitive pricing, but, since we have no competitor, this is impossible. We can look at substitutions, which is what the government is currently doing — ripping up the roads at a cost of $1,000 a mile every five years. Since this process lasts for 20 years we should use 20 years as a common denominator. I'll get back to that in a minute. We can use cost-based pricing and stick a margin on top. Our cost is $50 per mile. If we double that to a 100 percent mark up, we'd come up with a price of $100 a mile. Finally, we can look at price-based costing. This is what the government would be willing to pay.

I mentioned the 20-year common denominator. So if you take 50,000 miles and multiply it by 4, you get 200,000 miles. Under the current plan it costs the government 200,000 times $1,000 a mile, which equals — $200 million dollars. Our break-even point is 50,000 times $50, which equals $2.5 million. So, our price range is $2.5 million to $200,000 million.

– That's quite a range.

I think it is time to look at some of the other factors. If the government does this it will have the construction lobby on its back, not to mention the labor unions. People will be laid off and the government will be facing unemployment issues and payments. Even though I'm assuming that this is a department of transportation decision, you can bet that Congress will weigh in on the subject. So the secret is to price it so that the savings are substantial and Congress can't stop it without looking fiscally irresponsible. What if we charged them $100 million — we would be in good shape and that's half of what they pay now. They can divert the $100 million in savings to other infrastructure projects so no one gets laid off.

– So what does that breakdown to per mile?

Fifty thousand miles divided into $100 million equals — $20,000 a mile — no that's wrong, it's $2,000 a mile.

– Are you sure?

Yes, $2,000 a mile. In addition, as far as cash layout goes, the government currently pays $50 million a year. Our total is $100 million. We can spread that over the length of the project, which I assumed would be two or three years.

– Okay. Thanks for coming by.

- **Type of Case: Estimate the market size, new product, and pricing**

- **Additional Comments: This is an interesting case because it touches on so many different aspects and scenarios. The student first asked about the product, then she estimated the market size. She was smart enough not to answer the pricing question until she took the outside factors into account.**

✛ High-Speed Train

Case 30: Our client wants to open high-speed train service from Toronto to Montreal. Is this a good idea?

Our client has hired us to determine if opening a high-speed train service between Toronto and Montreal is feasible.

– That's right.

I'll assume his objective is profits.

– Profits and ego. He wants to be the next Richard Branson.

Does the client own any other trainlines, airlines, ships, hotels or travel agencies?

– He owns a couple of hotels.

Is there train service currently between those two cities?

– Yes, but it takes 3 hours compared to the 1 hour and 15 minutes that this new train will take.

I'll also assume that there is a highway as well as air service.

– That's a fair assumption.

How long does it take to drive?

– Between 3 and 4 hours depending on traffic.

And to fly?

– One hour.

What is the cost of flying?

– Roundtrip is $500.

What would be the cost of taking the train?

– We don't know yet. That's one reason why you're here.

Well first I'd like to look at the competition, that being the airlines. We know that it costs a person $500 to fly round trip. Would it be fair to assume that most passengers are business travelers?

– Yes. I can tell you that everyday approximately 5,000 people travel back and forth between Toronto and Montreal. On weekends, it drops to 1,000 passengers a day.

Is that 5,000 passengers each way?

– Yes.

Just by plane?

– No. A large percentage is by plane.

How frequent are the flights and how many passengers do they hold?

– There are 40 one-way flights a day. They run every half an hour during the peak hours — early morning and early evening. During the slow periods, flights run once an hour. The planes hold 100 passengers.

That's 4,000 passengers. You said they're mostly business travelers. I'll assume that one of the the three most important things to the business traveler is speed, which also takes into account the number of delays, frequency and price. Other concerns might be cleanliness and service.

– That's exactly right.

Let me recap the plane situation. There are 40 roundtrip flights a day. They run every half an hour during peak times and every hour during off peak. They carry 4,000 business travelers every weekday. The cost is $500 for a round-trip ticket. How long does it take to get from the airport to the city?

– Half an hour, depending on traffic.

And where would the train station be located?

– Right in the city.

Okay, let's look at the train. Does the track already exist?

– No. You'd have to build it.

How expensive is that? You'd have buy and lay the track. Probably pay big bucks for property rights, that is to allow the track passage through private property.

– The total cost of laying the track is $1 billion with $5 million a year for maintenance costs.

Let's look at some of the other costs. You'd have labor, both on-board and station help. There would be advertising costs, fuel costs, the costs of purchasing train engines and passenger cars, insurance . . .

– To save time, let's just say that the cost per trip is $50,000. And that you're planning 20 trips per day.

That's a million dollars a day. How many passengers can we hold?

– As many as a 1,000 per trip.

Have we done any surveys to see if business travelers would even take the train?

– Yes. Seventy-five percent of the people surveyed said that they would take the train.

At what price?

– A price equal to or less than the airlines are charging.

If 75 percent of the people surveyed said that they'd take the train, then we can probably count on half of that. Let's say that we captured 40 percent of the market, keeping in mind that it will take six months to a year to build up to that. So 40 percent of 4,000 passengers equals — 10 percent is 400, so 40 percent is 1,600 passengers a day.

If we charge $500 for a roundtrip and transport 1,600 passengers a day that would bring in revenues of $800,000. That means we'd be losing $200,000 a day even after six months of marketing expense. So we need at least 2,000 passengers a day just to break even and that doesn't take into account the $1 billion in infrastructure costs.

In short, unless we can significantly increase the number of daily passengers, raise ticket prices, or reduce our costs, I'd have to advise against it.

- **Type of Case: Entering a new market**
- **Comments: The student asked a lot of good questions. He used logic and numbers to prove his point.**

+ Screw Tops for Fine Wine

Case 31: You are the owner of a small to medium-size fine winery. You're considering whether or not to switch from corks to screw tops in your current vintage. This year's wine will not be released to the general public for six years. Industry estimates are that within ten years 80 percent of all wine will have a screw top, not a cork. Should you switch over now?

The issue is whether or not to switch from cork to screw tops for the current vintage, which won't be released for six years. And it looks as if the industry, or at least part of the industry, is switching over. Is the objective to save money?

– No.

What percentage of wines currently has screw tops?

– Are you talking retail?

Yes.

– About thirty percent.

If wines aren't for retail sale, which I take it means package stores and restaurants, then what's the other market?

– Well it's not really another market. The great wine chateaus of France and vineyards of California use screw tops in their library wines, their private collection and their test wines.

Because it's cheaper?

– No, screw tops are more reliable, they don't dry out, they don't affect the taste, they're easy to use, you don't need a cork screw, and you can reseal them. People who truly care about wine, care about the taste and not the ceremony.

What about corks?

– Corks sometimes have mold, which affects the wine's taste. They dry out and crack if not stored properly, sometimes they crumble when you unscrew them. Now I feel as if you are trying to get me to answer the case for you.

Okay, sorry. I know now that it's not about the cost. Even though I'll assume that screw tops are less expensive because the cheaper wines use them. It's about tradition and image. When dining out, it's fun to watch the waiter at a restaurant uncork it. It makes a great sound and it's fun to smell the cork and pretend that you know what you're doing.

– Kind of like what you're doing with this case question — pretending.

(smiles) Would we have to retool our plant to switch from cork to screw tops?

– Good question, but it's not relevant because I told you cost is not an issue.

I was thinking along the lines of timing, not cost. How long will it take us to retool the plant, not how much? We have three options. We can cork the entire vintage, we can screw top the entire vintage, or we can split the vintage between the two. Industry trends look as if they are headed this way, but, as of today, it hasn't caught on. I would want to know what the wine industry is going to do to educate the public that screw tops are better. I'd like to know what our competitors are planning to do. I'd like to do a focus group to get the reaction of wine connoisseurs and general public.

– We have no time for that. The wine has to be bottled soon and we need to place the order now. What's it going to be, yes or no?

If I had to decide today, I'd stay with the corks. The cork system has worked for thousands of years. I think that there is a higher risk bottling our best vintage with screw tops then not having it catch on. I know that you said that the people who care more about the taste than ceremony would choose screw top over cork, taste over image, but I think most people aren't that sophisticated.

– Isn't there the option of holding the wine an extra year or two until screw tops are accepted in fine wine? It's not going to go bad. In fact it might even be more valuable. The least we could have done is split it and sell the corks in six years and hold on to the screw tops longer if need be.

Maybe a split. How expensive is this wine? Until you get James Bond unscrewing a bottle of Margeaux or champagne on the silver screen, I would wager that it is not going to fly with the general public — unless the industry as a whole does it together. Until they all make the switch on a certain date in time.

– Okay, now pretend that you are advising the National Wine Association on how to get the public to switch from corks to screw tops.

It's important that we have a consensus in the industry, not only domestically but, internationally as well. France, Germany, Australia, and Chile should all sign on. Certainly an industry media campaign along the lines of "Got Milk" would be in order. It's not each individual vineyard going it alone. I'd help the smaller vineyards prepare for the switch, maybe even make it a countdown situation — 2005 the year of the screw top. I'd make it a big deal and not try to quietly switch over. Not only would I try to get stories on the news and in the newspaper, I'd try to get screw tops on television shows and in the movies. And yes, I'd try to get James Bond to unscrew a bottle of champagne on screen — I'm sure his screenwriters can come up with a catchy little sexual quip to make it all worth while. After all he did switch from an Astin Martin to a BMW.

– I guess this is where I tell you to stick a cork in it.

Isn't that what James Bond said to Dr. Christmas Jones in "The World is Not Enough."

– No, your answer was not enough. Thanks for coming by.

- **Type of Case:** Strategy / marketing
- **Comments:** It wasn't the fact that the student asked a lot of questions, it was the type of questions that he asked. He would have been better off making assumptions about the advantages and disadvantages of screw tops and corks than asking for it since that information is so critical to the question. He did roll with the punches, however, I don't think that the interviewer had much of a sense of humor. The student didn't back down when the interviewer questioned his decision about using corks, but he compromised a little. His first reference to James Bond was powerful, but he took the Bond chatter too far.

+ Starbucks

Case 32: Wall Street wants to see Starbucks sales grow 30 percent annually for the next five years. The "street" has been telling Starbucks to open more coffee shops, but the coffee retailer feels it has exhausted all areas where it could grow. What should Starbucks do?

So Starbucks wants its sales to grow by 30 percent a year for the next five years.

– Yes.

Besides the growth in sales, are there any other objectives I should be aware of?

– No. I should add that I only want you to focus on the U.S. market.

Okay. How much did Starbucks grow last year, and what is the difference between growth of company sales and store sales?

– It had an increase of 26 percent from consolidated net revenues. Comparable store sales increased 10 percent.

So we're interested in growing Starbucks overall, not just increasing store sales?

– That's right.

Is the industry growing at around the same rate?

– Around the same.

What's Starbucks market share?

– Good question, but not relevant.

While I know that Wall Street would like to see us open more stores, that might not be the best solution to 30 percent growth. I'd like to break this problem down into two areas. Store growth and company growth. Because location is the key to success for any restaurant, if we are to open new stores, we need to make sure that the location of the stores is great. But it sounds like Starbucks has been looking for great locations and is running out of sites. It's possible that the market might be close to saturation. If we're going to increase sales in this area, we'd have to concentrate on taking away market share from our competitors and getting more revenues out of our existing stores.

So, let's look at the existing stores. There are a couple of ways to increase sales. We could increase prices, run a marketing campaign to get more people into the stores, and try to get the customers who do come into the stores to spend more money.

You said that store sales only increased by 10 percent. I'll assume that some products far outsell others. That means that there are some dogs. We need to eliminate the products that sell poorly and replace them with new innovative products that will drive customers into the

stores. We should also look at how individual stores are doing and close down the ones that are losing money. For example, we might review the operating hours of each store and have certain stores stay open to serve late-night coffee drinkers, particularly stores in college towns and near movie theaters. We should also look to see if our competitors are doing anything new and ingenious.

– Okay. What else?

I'll assume that there is some elasticity in gourmet coffee prices. However, I'd like to check out the competitor's prices before I make a decision on that. But, regardless, raising prices isn't enough to generate a 30 percent increase in company-wide sales.

– So what would you do?

If we are to increase sales for the company, we need to review some proven growth strategies. We can develop new products and initiate a marketing campaign to tell the public about them. We could increase our distribution channels. We can build sales through acquisition by acquiring a smaller competitor with great locations and products. Or, we can expand outside the gourmet coffee industry.

I'd like to touch briefly on those.

– Sounds like a plan.

First, develop new products. This would include not only new drinks and food items, such as ice cream and prepared gourmet meals, but items like coffee makers and gift baskets.

– Starbucks already does that.

Oh. Well, what about reviewing the traffic flow of each store. So, if they're slow during the lunch hours, they can sell sandwiches. They could even get into catering. I'd have to review the current product line before I made a final report.

– Okay. What else?

Second, would be to develop a marketing campaign. Not only could we market the brand and new products, but possibly get involved in a social effort like Ben and Jerry's did. That action seemed to help their corporate image and sales figures.

– Starbucks is already a major player in the corporate social responsibility arena. I'm surpised you don't know that.

I didn't. Third, increase distribution channels. We already talked about opening new stores if we can find the right locations. I'll assume that Starbucks has a Web site so they probably sell items over the Internet.

– That's right.

Other distribution channels might be through grocery stores, gourmet shops, large offices, university food services, and hotels. And as long as I'm brainstorming without commitment I'd like to throw out the idea of setting up an Avon or Tupperware-like home party.

– They already do all that except the home parties.

Fourth, we could build sales through acquisition of small regional competitors. Or, we could buy up a chain of sandwich shops or restaurants and grow that way. We can establish and attach a dry cleaning service so that people can drop off their clothes and pick up a coffee. It would give them an additional reason to stop in.

– I have to tell you, you're not dazzling me yet.

It's because I haven't had my coffee yet. Have you?

– (laughs) Keep going.

Finally, Starbucks might want to look outside the industry to grow. Maybe focus money and investments in other high-growth industries.

– You want to summarize for me?

First, I think that 30 percent growth is possible. What Starbucks needs to do is stick with their current game plan of expansion. In addition, they need to review current products and stores, and get rid of the ones that aren't producing. They need to develop new products and expand their distribution channels. One way to expand their channels is to look at making an acquisition within the industry.

Finally, they should investigate opportunities outside their current industry. See if there are any synergies to be had, like shared customers, manufacturing or transportation.

– Interesting. Next time, drink your coffee before your interview.

Type of Case: Increase sales and growth

Comments: The student did well. While he didn't come up with anything really new, he did ask good questions. He also directed his answer away from just increasing the number of stores to alternative ways of growing the company.

The Gas Company

Case 33: A natural gas local distribution company (an LDC, which distributes gas locally as a monopoly) is trying to centralize its back-office functions. In the past, it has acquired other LDCs and placed them under its brand name.

Our job is to help reduce costs for the back-office functions, specifically the call center. The call center is the LDC's point of contact with its one million customers. Customers call with questions about billing, services, and emergencies. There are 150 full-time customer service associates who work in three shifts.

Recently, a new $25 million call center was built in Spearhead, Utah, because the labor costs are lower in Spearhead than in New York. Although the company has reduced operating costs from $8 million to $6.5 million, we want to reduce the costs of providing this function even further.

So, our client is a natural gas local distribution company that wants us to figure out ways to reduce costs in its new phone center. Are there any other objectives that we should be aware of?

– No. And let me save you the trouble of asking, we don't want to open a call center overseas.

Can you give me a cost breakdown?

– Labor is 60%, toll-free phone calls are 20%, and miscellaneous items, licensing fees, training, IT, and utilities make up another 20%.

Can you give a call breakdown? I'll assume the majority of the calls are about billing.

– That's right. Billing calls make up 60% of the traffic, while 39% are calls regarding service questions, and less than 1% are emergency calls.

Okay, the number that worries me is the 60% labor cost. We need to see how we can reduce labor, possibly by automating the phone lines and making information available online. Some of the billing questions can be automated, things like how much do I owe? What address do I send my check to? Did you receive my last payment? They can all be answered by touch-tone.

But there will also be questions that can't be automated, such as not understanding a bill, as well as service calls, connecting and disconnecting the gas.

– Okay, so you want to automate some of the services as well as enhance our Web site?

Yes. I'll assume that a phone call to a human runs the company about $10 a call, while an automated call costs around $1, and a visit to the Web site, maybe, 50 cents.

– You're pretty close.

What is the average length of the call?

– Five minutes total. That includes three to three and a half minutes of talking to the customer and two minutes of after-call work.

Is the after-call work computerized? Can the service rep write it up as he goes along?

– Some of the work could be done that way.

We need to do a workflow study. How does our talk time compare to the other LDCs?

– We're somewhere in the middle.

We should talk to the leaders and see what they are doing to reduce their talk time and after-call work. Do the computers regularly go down?

– Not since we moved into our new facility.

Finally, I'd like to examine the pattern of calling. When are the peak times? Is there any dead time? Can we bounce queued calls to our other phone centers? Can we use more part-time workers?

– Okay, good. We have about a minute left.

Then let me summarize. I'd try to reduce our labor costs by automating some of the calls, making more information available on the Web, staggering work shifts, using part-time workers, and having queued calls bounced to other phone centers. I'd try to reduce talk time and after-call work by having the phone rep input the work while on the line with the customer. And I'd review the information that the phone rep is recording. Is it all necessary, or are we collecting some information out of habit?

- **Type of case: Reducing costs**

- **Comment: Her focus was on reducing costs, which was exactly right. The problem wasn't so much that costs had gotten out of control, but that the company was simply looking for ways to further reduce costs. This candidate wasn't afraid to ask for a cost breakdown and to explore the savings that the Internet can create.**

+ Pay Phones

Case 34: Our client is a major player in the pay phone industry. Despite a 20% increase in market share, the manufacturer has experienced a decline in profits. The CEO wants to know why and what can be done about it.

Let me make sure I understand. Our client manufactures pay phones. Its market share has risen 20%, yet its profits are declining. The CEO wants to know why and what can be done about it.

– That's right.

Besides identifying and correcting the problem, are there any other objectives I should be aware of?

– No. If you can do those two things I'll be happy.

What sort of market share does the company have and how has that increased?

– Currently it has 55%, up from 35% two years ago.

So they've increased their market share 20% in two years?

– That's right.

That's incredible. Wait. I'll assume that the overall market size of pay phones has dropped because of the increase in cell phones. Is that a fair assumption?

– Yes. Pay phone orders have dropped by 15% during that same two-year time period.

Have any pay phone manufacturers dropped out of the race?

– Yes, two.

And is that the main reason why we've gained so much market share?

– Yes. One of the reasons.

What are some others?

– You tell me.

Increased marketing, maybe special contracts, such as military contracts. We've probably lowered our price, which has been cutting into our profit margin.

– Good. What's next?

How are our costs?

– Don't make me answer this case for you.

I'll assume that costs have increased. Particularly labor, marketing, parts, and especially transportation costs with the rise in fuel costs.

– That's right.

I'll also assume that the manufacturing process is pretty automated.

– That's right. You're not going to squeeze out much cost savings there.

Well I believe that the pay phone market is going to get worse before it gets better, if it ever does get better. But the public will always need pay phones. Maybe we need to change what they need the phone for. Currently, people use pay phones when their cell phone batteries are too low, when they don't have a cell phone when their cell phone coverage doesn't reach a particular area of the country, or when they don't want the call to be traced back to them. . .

– Hopefully you've been watching too many cop shows.

Yeah. (laughs) Let's say I'm in New Orleans for the first time and my New England cell phone plan doesn't cover the Big Easy. Yet, I'm looking for a place to eat, sip a Hurricane and listen to some Dixieland Jazz. What if I could go to a pay phone and this pay phone has an LED display and touch screen. Now I'm looking for a restaurant so I drop a quarter and hit a button that says restaurants. Now the pay phone comes up with a list of restaurants and rates them. For that same quarter, it connects me with the restaurant and asks if I want directions. I hit yes and a set of directions prints out. All this for my one quarter. Now restaurants or any company can place an ad which pops up as I hit restaurants as well as ads printed on the back of the directions tape, like grocery stores do with their receipt tape.

– So you're saying turn a pay phone into an Internet connection.

Yes. It seems like the technology is already there, it's just a problem of conversion and phone design.

– We have about two minutes left.

Okay, let me review. The industry is shrinking and costs are rising. That, along with the fact that we've lowered our prices has led us to greater market share, but lower profit margins. Now we can bail from the market and try to diversify into another technology, or we can try to change the industry standard and bring it up to speed with the future of telecommunications.

– So what would you recommend?

I'd focus on costs, you can always reduce costs somewhere. I'd look to diversify into a growth industry to lessen the company's overall risk, and then I'd reinvent the pay phone as we described. And, oh, the other thing I'd do is to ship the old inventory, the current pay phones, to developing countries.

– Thanks.

- **Type of case: Increasing the bottom line, growing the company**
- **Comments: The candidate was quick to figure out why the company's market share was increasing, yet the profits were falling. He also proved that he was quick to think on his feet — thinking outside the box. And the interviewer also gave him points for introducing a three-prong strategy: reduce costs; new product development and company diversification.**

+ eTailers

Case 35: Our client is an e-tailer, focusing on toys. Independent research shows that 5% of shoppers at brick and mortar retail stores make a purchase and 40% buy items at specialty stores like sporting goods shops.

The research shows that only 1.7% of their online visits results in a purchase. It also shows that 70 percent of their online shoppers who fill their carts bail out at the end without making a purchase. The president wants to know what's wrong and how we can fix it.

Our client is concerned because 70 percent of its customers, who fill up their shopping carts, bail out on their purchases right at the end. And only 1.7% of their customers makes a purchase, a percentage much lower than the traditional brick and mortar shppers.

– That's correct.

Besides identifying why people bail and coming up with a solution, are there any other objectives we need to be concerned about?

– No.

I'd like to ask some questions first about our client and then about the industry. Are we considered a specialty store?

– Yes.

Is the transaction rate at Web-based specialty retailers higher then general e-tailers?

– Yes. But I don't have the exact figures.

Is this a Web-wide problem? Do most e-tailers have a low percentage of actual purchases? What did you say it was, 1.7 percent?

– Yes. It is a Web-wide problem to a certain extent. Some sites have higher transaction rates than others. However, we seem to be in the higher range of the bail rates, the 65% that bail after filling their carts has us really concerned.

First, I'd conduct an analysis of our competition. I would also benchmark other sites that have a higher transaction rate to see if their sites are friendlier, easier to navigate and more simple in structure. I'd review and compare our customer service program and maybe institute an 800 customer service number in case a customer gets lost or confused. We may even want to look into a customer service audio connection through the computer.

– All right. What's next.

Is our pricing the same as our competitors?

– Yes. Assume exactly the same.

Have we had any problems with inventor, being out of stock?

– No.

How about sending the product out in a timely manner?

– No. Our distribution system is excellent.

I'd like to figure out why people bail. We know that it is not because of our reputation, that we're well respected in the industry. We haven't had any distribution problems or bad press.

– That's right.

I've bailed once or twice myself. There could be several reasons. First, I'd like to list several reasons, address each one, then lay out a plan for solving the problem.

– Go ahead.

First is the security issue. If the Web site asks for what shoppers think is invasive personal information. If the customers don't feel comfortable submitting their credit card information online, if they feel that we don't have the latest cryptic technology, they may bail.

– Not a concern. We only ask for basic information and we have the latest technology.

Another reason I bail is because I have questions about the quality of the product.

– Again, not a concern. We sell brand name toys and have a satisfaction guarantee.

What about our return policy?

– We provide labels and free postage for any returned item.

Sometimes I bail when I find myself asking, "Do I really need this? Can I afford it? Is it worth the price?" I guess you'd put that under customer psychology. That's hard to quantify.

– Let's skip that for now.

There may be folks who get sidetracked in the middle of a transaction. Maybe their boss walked in or their kids knocked over the fish bowl. They forget about it or decide that they don't need it. We've lost the moment so to speak. Combine this with some ISPs, like AOL, that time-out after ten minutes of inactivity.

– Again, that's hard to combat.

It may be hard to combat, but we have to realize that it happens and it makes up a certain percentage of the bails. Just like window and price comparison shoppers.

– So noted.

It could also be tied to some technical issues. If a customer comes over a phone line and the Web site is heavy with graphics, it may take a long time going from one page to another. They can become impatient and bail.

– That's not our fault if the consumer has outdated equipment.

Sure it is. Anything that keeps them from making a purchase is our fault. Maybe we should offer them an option of taking a heavy graphic site or a text-based site.

– Very good. What else?

Next is Web design. I know that there were times when I wanted to take something out of my cart and couldn't figure out how to do it, so I either started all over again or bailed.

– All right, Web design, that's one. What else?

This one is related. It has to do with customer service. If I can't figure out online how to return a product, then I just want someone to help me. I don't want to figure it out by reading a help button.

– You're lazy.

No, but when I want to buy something, it should be a pleasant experience and I shouldn't have to work for it.

– What else?

Sticker shock. There have been times when I've come to the end of a buying trip and the numbers total up and it's more than I've expected. And then they throw on a shipping charge on top of that. I think people bail because of sticker shock. The Internet has a rep of having the lowest prices. When the prices aren't that low, people become disillusioned.

– What can we do about that?

Sticker shock can be addressed by instituting a running total for the customer to see at all times, along with shipping options and charges. This way there are no surprises.

– Do you think people will buy less if they see the running totals?

There will be the possibility that the average purchase amount may fall, but in the end more people will buy, offsetting any loss.

– Anything else?

Yes. We have to realize that some of the people who bail are children taking a fantasy trip through the toy store. They fill up their carts and bail at the end. Now, I don't think that this is actually a bad thing, but we need to realize that X percentage of the bails are kids for whom we should develop a wish basket or toy chest.

– A wish basket?

A place where they can deposit their toys, label it with their email address and then have the parents check it out for holidays and birthdays. Kind of like registering for a wedding.

– We have a minute left.

Then I'd like to summarize. First, I'd conduct an analysis of Web sites that have a lower bail rate and higher transaction rate than we do. I'd also analyze our competitors. I'll assume that we are doing this anyway. I would also try to track down the people who bailed, send them a quick online survey to determine why they bailed and offer them an incentive to make a purchase, like five dollars off their next purchase. Second, I'd reexamine the reasons why people bail and address the ones we could, and resign myself to the fact that there are some things we can't fix. I'd institute a place for kids to register their toys so that parents, relatives and friends can buy something they like.

- Type of case: Increasing sales
- Comments: This isn't your typical increasing sales case. It's more of the "analyze and fix it" variety. The student was good at identifying the real concern (the 70% bail rate). He asked some good initial questions and he used his own experience to try to identify the root of the problem. Then he came up with a simple and logical strategy and added some suggestions as well.

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Case Questions Without Answers

Below are case questions that were given by top-tier consulting firms. For an up-to-date list, go to CaseQuestions.com and click on Recent Cases.

1. Our client is a retail pharmacy with 1500 locations in the N.E. Our engagement focused on the front end of the store operations, but during our interviewing of customers we noticed that a lot of customers were very unhappy with the pharmacy itself. We presented this information to the client, but the client retorted by saying that their revenues actually grew from $20 million $22 million. What is going on here? (BCG)
2. Our client is a REIT (Real Estate Investment Trust) where 90 percent of the net income needs to be paid to the investors. The REIT has 150 luxury hotel properties. However they do not control the branding or operations of the hotels. Those functions are outsourced. For the past couple of years the REIT income has been zero. What should they do? (BCG)
3. Our client is a tag label manufacturer; they make the tags or labels that are attached inside your clothes. Some of their clients are Nike, Reebok, Brooks Brothers, Talbots, etc. They are the biggest tag firm in the U.S. Last year they did $50 million with a 15 percent growth rate. I want you to estimate the size of the European tag market and tell me if and how they should enter this market. (McKinsey)
4. Our client is a mid-sized manufacturer of industrial batteries for the aerospace and defense industry. For example, the company's batteries can be found in various military missiles as well as in the Hubble Space Telescope. Over the last few years, the defense and aerospace industries have been flat or declining, so the client is looking for high-growth industries that might be able to make use of its battery technology. After a review of possible industries, the client wants us to look at whether they can enter the market to provide batteries for implantable cardiac defibrillators. Estimate the size of the U.S. market for implantable cardiac defibrillator batteries, and then tell me how you might go about helping the client decide whether or not this is a good market to enter. (BCG)
5. Estimate the number of travel guides sold each year. (Katzenbach)
6. An insurance company in England has been loosing money over the last five years, insuring boats that operate on the rivers. What price changes should they make to the insurance policies? (McKinsey)
7. A PC manufacturer wants to add a new line of pocket PCs. Should they do it? What do you tell the CEO? (McKinsey)

9. A cleaning product supply company's profits and revenues have been falling, but market share has remained the same. What's going on? (Charts and graphs given) (BCG)

10. Our clients are a consortium of 10 commercial real estate companies (2–3 big companies, 4-5 mid-sized companies, and 1–2 small companies) that collectively own 350–400 buildings in downtown areas of cities all over the country. Together, they spend $1 billion/year on all of the non-sexy aspects of owning commercial real estate: cleaning and general maintenance, plumbing and electrical repair, etc. They have come together to explore the possibility of setting up a "buying pool" to realize cost reduction by achieving economies of scale in purchasing products and contracting for services to conduct this general maintenance. This "buying pool" will cost $40 million (one-time fixed cost) to set up and will cost $10 million/year to maintain. Is this a good idea? What kind of information do you need to know to help your clients decide if this is a good idea? (BCG)

7 : The Roommate's Guide

If you have been begged, bribed, or blackmailed into helping your friend(s) prepare for case questions, here are some hints.

Your prep

- Read the question and answer all the way through before giving the case.
- Be aware that there are multiple "right" answers.
- It's all right to give them help if they lose their way.
- Don't cop a know-it-all attitude.

Things to watch for at the beginning

- Are they writing down the case information?
- Is there a long silence between the end of the question and the beginning of their answer?
- Are they summarizing the question?
- Are they asking about the client's objective(s)?
- Are they asking clarifying questions about the company, the industry, the competition, and the product?
- Are they laying out a logical structure for their answer?

Things to watch and listen for during the course of the question

- Are they enthusiastic and do they project a positive attitude?
- Listen for the logic of their answer. Is it making good business sense?
- Is their answer well-organized?
- Are they stating their assumptions clearly?
- Are they being creative?
- Are they engaging, bringing you into the question and turning the case into a conversation?
- Are they asking probing questions?
- Are they quantifying their answer?
- Are they asking for help or guidance?

Review list

- Was their answer well-organized? Did they manage their time well?
- Did they get bogged down in details?
- Did they seem to go off on a tangent?
- Did they ask probing questions?
- Did they use business terms and buzzwords correctly?
- Did they have trouble with math, multiplying, and percentage calculation?
- Did they try to get you to answer the question for them?
- Were they coachable? Did they pick up on your hints?
- Did they speak without thinking?
- Did they have a positive attitude?
- Did they summarize their answer?

Final analysis

- Did they take your criticism well?
- Did they defend themselves without sounding defensive?

Aftermath

- Go out on the town.

Most of this is psychological. The biggest assets a candidate can bring are a measure of confidence, a perspective of self-worth and a good night's sleep. The interview structure is daunting, the people generally intimidating, the atmosphere tense — but you can sleigh all these dragons immediately when you choose to arm yourself with a positive self-image. In the end, it's not whether you are right or wrong, it is how you present yourself, your information, your thinking — this is the measure of marketability for the firm and it is what they seek to determine through an imperfect process.

Finally, it's only you against the beast (the case question, not the interviewer). We can't be there with you, but we've given you the tools to feel confident and to have a good time. If you're excited about the challenge and the interview, then you're headed into the right profession. If you dread what's coming, you may want to re-evaluate your career choice. When discussing career choices, Winston Churchill advised his children, "Do what you like, but like what you do." It's all about having fun.

It's easy to forget that the firms know you can do the work — they wouldn't be interviewing you if they didn't think you were smart enough to succeed. Now it's just time to prove them right.

Case closed!

Back-of-the-envelope question : A type of case question, most often a market-sizing question, that asks you to make an educated estimate of something. The back-of-the-envelope question received its name because the questions used to start with, "You're on an airplane, with no books, phone, or any resources. On the back of an envelope figure . . . ." An example: "How many pairs of boxers are sold in the U.S. each year?"

Barrier to entry: Factor (such as capital requirements, access to distribution channels, proprietary product technology, or government policy) that would inhibit a company when entering a new market.

Benchmark: Continuously analyzing the industry leaders and determining what they do better. A comparison against the best to provide targets for achievement.

Bottom line: Gross sales minus taxes, interest, depreciation, and other expenses. Also called net profit, net earnings, or net income.

Brainteaser: A type of case question in which the interviewee is asked to solve a riddle or logic problem.

Cannibalize: To take (sales) away from an existing product by selling a similar but new product usually from the same manufacturer; also: to affect (an existing product) adversely by cannibalizing sales.

Capital: Cash or goods used to generate income.

Case question: A fun, intriguing, and active interviewing tool used in consulting interviews to evaluate the multi-dimensional aspects of a candidate.

COGS: See costs of goods sold.

Core competencies: The areas in which a company excels.

Cost of goods sold (COGS): On an income statement, the cost of purchasing raw materials and manufacturing finished products.

Cost-based pricing: A pricing strategy in which a product or service is priced according to the cost of producing, manufacturing, or otherwise creating the product or service. R&D and COGS are the major determinants in this pricing strategy.

Cost-benefit analysis: A technique designed to determine the feasibility of a project or plan by quantifying its costs and benefits.

Depreciation: A decrease in estimated value.

Distribution channel: Means by which a producer of goods or services reaches his or her final users.

Economy of scale: Reduction in cost per unit resulting from increased production, realized through operational efficiencies.

Fixed cost: A cost that does not vary depending on production or sales levels, such as rent, property tax, insurance, or interest expense.

Framework: A structure that helps you organize your thoughts and analyze a case in a logical manner.

Gross sales: Total value of sales, before deducting for customer discounts, allowances, or returns.

Growth phase: A phase of development in which a company experiences rapid earnings growth as it produces new products and expands market share.

Initial Public Offering (IPO): The first sale of stock by a company to the public.

Interest expense: The money spent on the fee charged by a lender to a borrower for the use of borrowed money.

IPO: see Initial Public Offering.

Joint venture: An agreement between firms to work together on a project for mutual benefit.

Market share: The percentage of the total sales of a given type of product or service that are attributable to a given company.

Market-sizing question: A type of case question that is often called a back-of-the-envelope question. This type of question asks you to estimate the size of a specific market. An example: "How many pairs of boxer shorts are sold in the U.S. each year?"

Maturity phase: A phase of company development in which earnings continue to grow at the rate of the general economy.

MECE: Borrows from the 80/20 tradition in espousing a "mutually exclusive, collectively exhaustive" approach to engagements. In other words, the consultant / interviewer must take care to ensure that, simultaneously, (1) each issue discussed is separate and distinct ("mutually exclusive") and (2) that the totality of issues discussed comprehensively addresses every conceivable aspect of the problem ("collectively exhaustive"). Likely, upon your admission to the firm, MECE will become such an instinctive element of your mentality and such a governing dynamic of your production (memos, reports, presentations, strategy), that you will be well served to evidence a familiarity and appreciation for it at some point in the hiring process. You will also be well served to remember that, when iterating your ideas, an "other issues" category can afford you a simple means to ensure you always remain at least attentive to the principle, if not genuinely MECE in your approach.

Net sales: Gross sales minus returns, discounts, and allowances.

Niche market: A focused, targetable part of a market.

Overhead: The ongoing administrative expenses of a business, such as rent, utilities, and insurance.

Price-based costing: A pricing strategy in which a product or service is priced according to what the market will bear, or what the consumer is willing to pay.

Profit: The positive gain from a business or operation after subtracting for all expenses.

Proprietary: Something that is used, produced, or marketed under exclusive legal right of the inventor or maker; specifically: a drug (as a patent medicine) that is protected by secrecy, patent, or copyright against free competition as to name, product, composition, or process of manufacture.

R&D: see Research & Development.

Research & Development (R&D) : Discovering knowledge about products, processes, and services and then applying that knowledge to create new and improved products, processes, and services that fill market needs.

Revenue: Same as sales. The total dollar amount collected for goods and services provided.

Substitution: A product or service that fills a consumer's need in the same or similar way as another product or service (e.g., Nutrasweet is a substitution for sugar).

Supply and demand: The two key determinants of price. Supply is the total amount of a good or service available for purchase, while demand is the desire and ability by individuals to purchase economic goods or services at the market price.

Transition phase: A phase of development in which the company's earnings begin to mature and decelerate to the rate of growth of the economy as a whole.

Unit cost: Cost per item.

Variable cost: A unit cost which depends on total volume.

VC: see venture capital.

Venture capital (VC): Funds made available for start-up firms and small businesses with exceptional growth potential. Managerial and technical expertise are often provided.

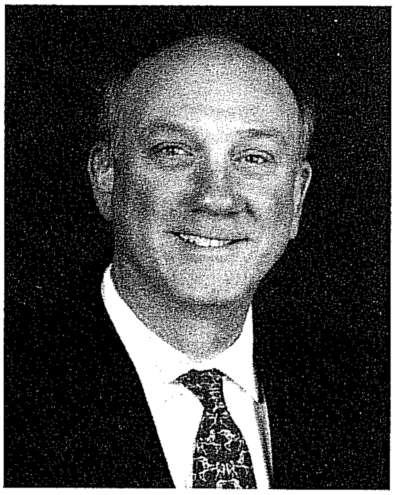

Photo: Martha Stewart 2005

About the Author

Cosentino is the president of CaseQuestions.com. Over the past 15 years he has advised and coached over eight thousand Harvard students and alumni through the university's Career Services centers. He has written three books involving cases and consulting. Cosentino has traveled around the country giving workshops to students at colleges and graduate programs and has held training sessions for career services professionals. He has consulted with and designed cases for private sector firms, government agencies and nonprofits.

Marc has a Master in Public Administration from Harvard University and a BSBA from the University of Denver.

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Cosentino demystifies the consulting case interview. He takes you inside a typical interview by exploring the various types of case questions and he shares with you a system that will help you answer today's most sophisticated case questions.

With over fifteen years of experience coaching and preparing Harvard students for consulting interviews, Cosentino offers you the expert advice you need to land a job in the competitive field of management consulting.

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