

CASEBOOK

by

THE ESADE MBA CONSULTING CLUB

ACKNOWLEDGEMENTS



The inaugural edition of the ESADE MBA Consulting Club Casebook is only possible through the tremendous effort, commitment and determination of the following bright stars:

To the Boston Consulting Group...

We are hugely grateful to **Joan Sol** for his meticulous review and valuable feedback to our cases. Many thanks also to **María Ángeles Bosch** and **Santiago Fernandez** for representing BCG and helping us throughout the development of our casebook.

Thank you to all the BCG consultants who contributed their insights into the life of a consultant: **Hans Clement, Paul Fattinger, Joan Sol, Marc André Lein and Diego Aguilar.**

To the ESADE MBA Career Services...

To **Helga Kirchner**, our ESADE MBA Career Services Director and to whom the casebook owes its existence, thank you for your tireless efforts in supporting the ESADE MBA students in their career quests.

We would also like to extend our thanks to **Carmen Gonzalez**, who has become a welcome partner to the ESADE MBA Consulting Club.

To the ESADE MBA Consulting Club Members and Alumni...

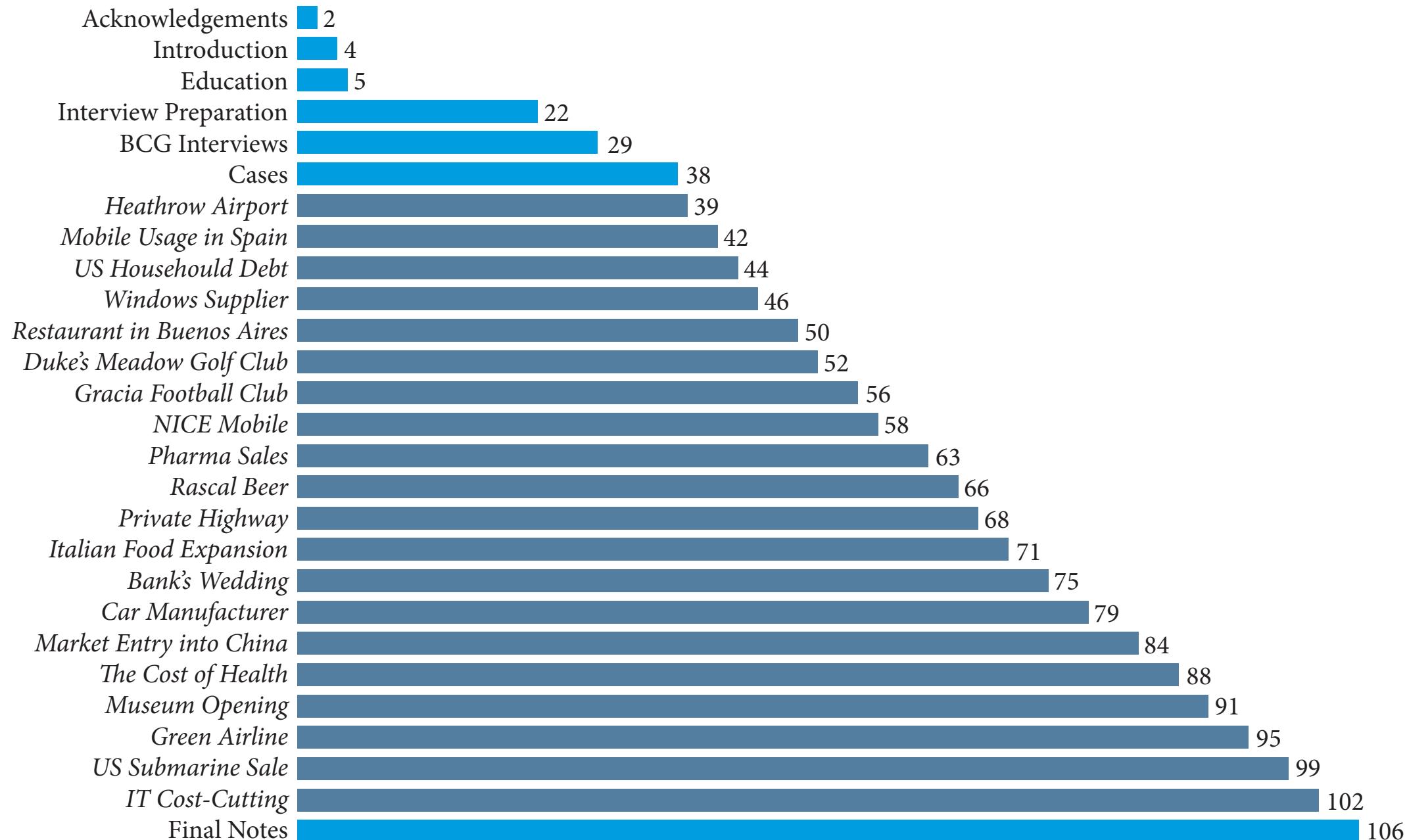
Special thanks to **Gaurav Gupta, Lina Perez** and **Lucia Piazzesi** for their case testing.

We also would like to thank our other Alumni contributors: **Dieter Kohler** (ESADE MBA Class of 2010 and member of our Alumni Advisory Board) and **Marc Andre Lein**.

And finally, thank you to **Thomas Gut, Paul Fattinger**, and the **Consulting Club Board from the ESADE MBA Class of 2011**. You set an unequivocal standard that our Board still strives to follow. For the inspiration to create this Casebook and your continued influence in driving the ESADE MBA forward, we thank you.



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INTRODUCTION

The ESADE MBA Consulting Club is proud to present the inaugural edition of our Casebook in collaboration with The Boston Consulting Group.

We created this Casebook to prepare MBA students for case interviews, specifically through:

- Sharing perspectives from BCG consultants about their personal experience in consulting
- Presenting solid insight into the case interview process and preparation techniques
- Providing access to a broad range of BCG-approved cases for practice

We placed special effort on creating a user-centric design for this Casebook – we strongly believe that design is and will be a key differentiator not just in tools such as this one, but in the future of business. By streamlining the information so cases are more intuitive and easier to give when practicing in pairs, we aim to facilitate a smoother and more efficient case practice experience.

We hope you find this Casebook useful and relevant in your interview preparations for consultancy firms.



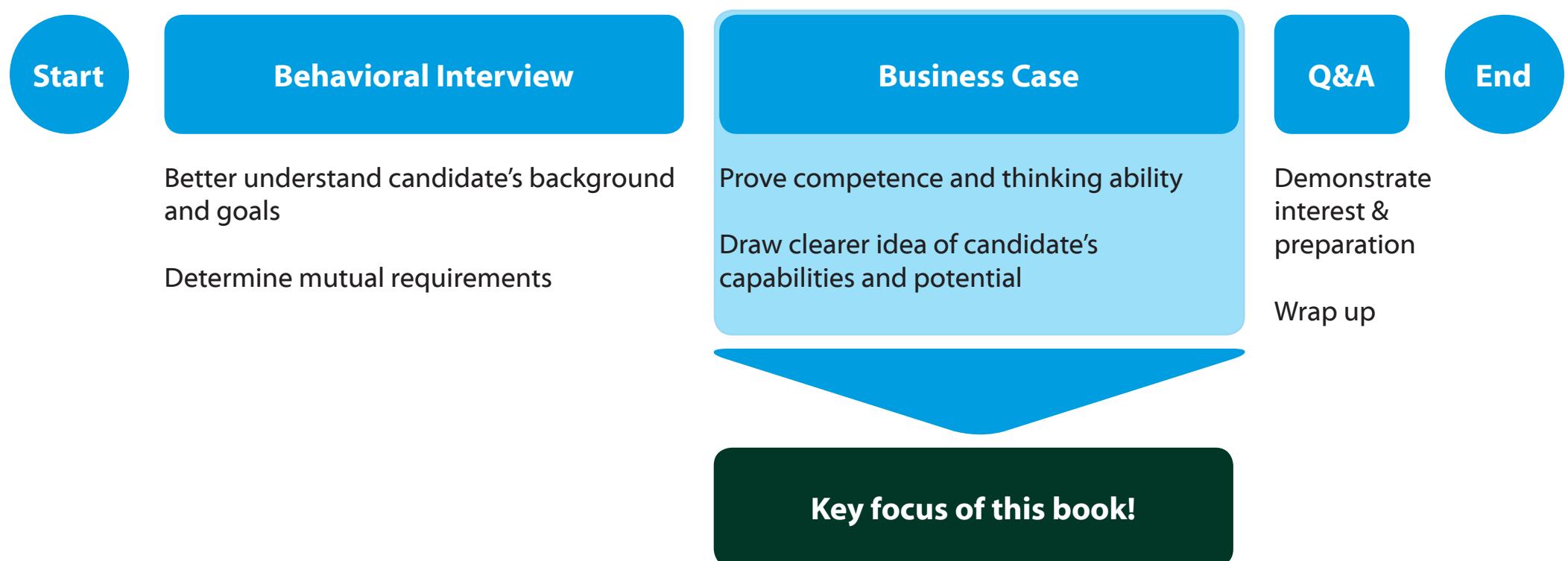
{ EDUCATION }

EDUCATION

The consulting interview

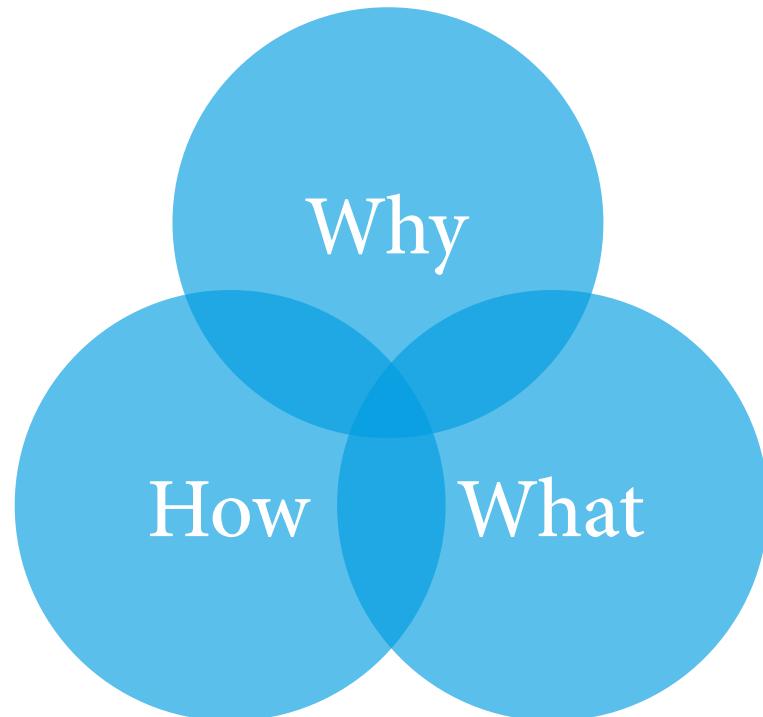
Applicants to consultancy firms can expect to undergo several interviews (typically four to five), each lasting in the region of 45 minutes to one hour.

The business case is a key feature of the interview. Mastering the case interview is essential to succeed in the consulting interview.



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Introduction to the ESADE education section



The ESADE MBA casebook will introduce the concepts of:

Why companies are increasingly using cases in their interviews

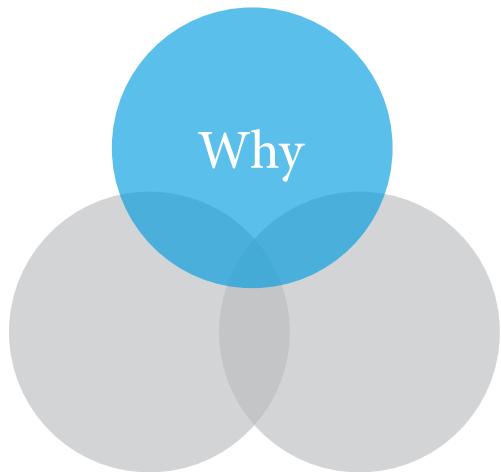
What is a case and what types of cases are frequently used

Methods and frameworks for **how** you can successfully complete an interview case

This casebook will provide a basic overview of concepts and frameworks as a guide for your interview preparation, but your study should be augmented by other materials

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Why do companies use case interviews?



Cases go beyond behavioral and background questions to **assess the actual abilities** of a candidate

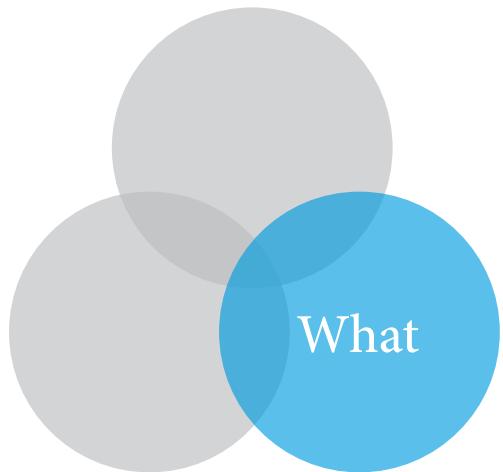
Cases can **test quantitative aptitude, creative thinking, general business acumen, soft skills, presence, poise and reaction to pressure** through a business simulation

Companies use cases to **analyze your client-readiness** and determine whether you could interact with clients in a professional manner if hired

Case interviews have historically been used by consulting firms and finance companies to evaluate potential candidates and are increasingly being used by industry

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What are cases?



Cases are a **tool used by interviewers** based on a business scenario, the candidate is expected to replicate the steps of a consulting project

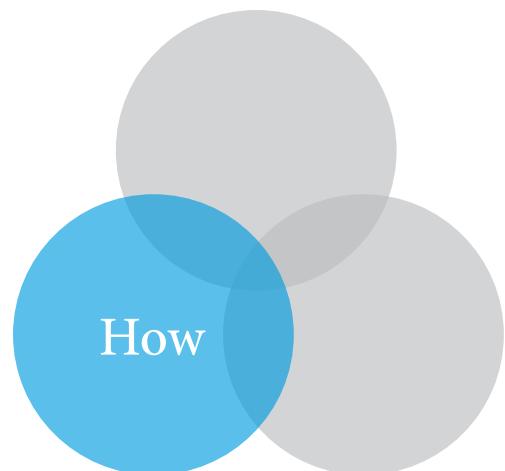
They are a **means of evaluating potential candidates** when facing a real-life business challenge

The interviewer typically selects their own cases, either based on a real-life project or on a fictitious business scenario, however **both serve the same purpose**

Interview cases are meant to show your structured thinking and how you would approach a hypothetical business problem – there is not necessarily one right answer

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What types of cases are there?



Several types of cases are commonly used:

Market Sizing

How much gum is chewed each day in the US?
How many text messages are sent each year in Spain?
What is the financial gain of hosting the Olympics?

Operations

How can a manufacturer increase falling profits?
How can a factory decrease throughput time?
One branch of a retail chain is failing. Why?

Strategy

Market entry- how should company X enter country Y?
What are growth strategies and options for company X?
How should a company bring their new product to market?

Although less common, you may also encounter:

Brain teasers

With eight marbles and one balance, what is the minimum number of moves you could make to figure out which is lighter than the others?

Finance

What is the NPV of a prospective project?
Determine which is more profitable, option X or option Y?

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How to approach your case

Source: Darek Tasek - Crack the Case 2011

1. Listen

Be sure to understand the business question

Make note of all key information

2. Assimilate

Plan and structure an approach

Determine which frameworks will be useful

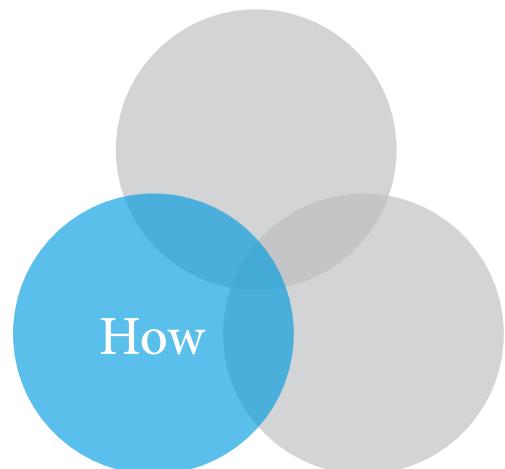
Identify what information is missing and what questions to ask interviewer

3. Deliver

Deliver a solution that answers the main business question

Be sure to interact with your interviewer at every step of your analyses and solutions

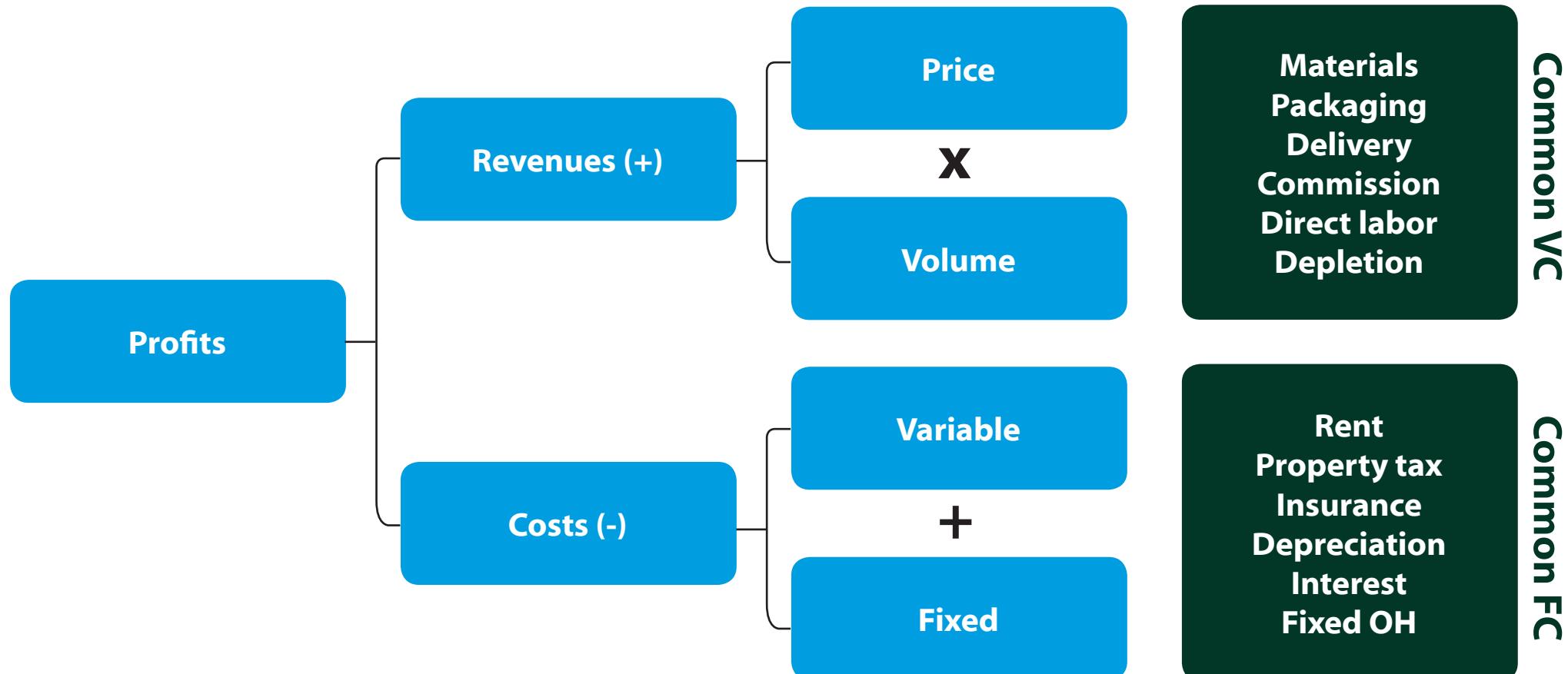
Address ideas and issues that you identify



The case interview is an interactive exercise between candidate and interviewer - be sure to communicate with interviewer at every step of your case

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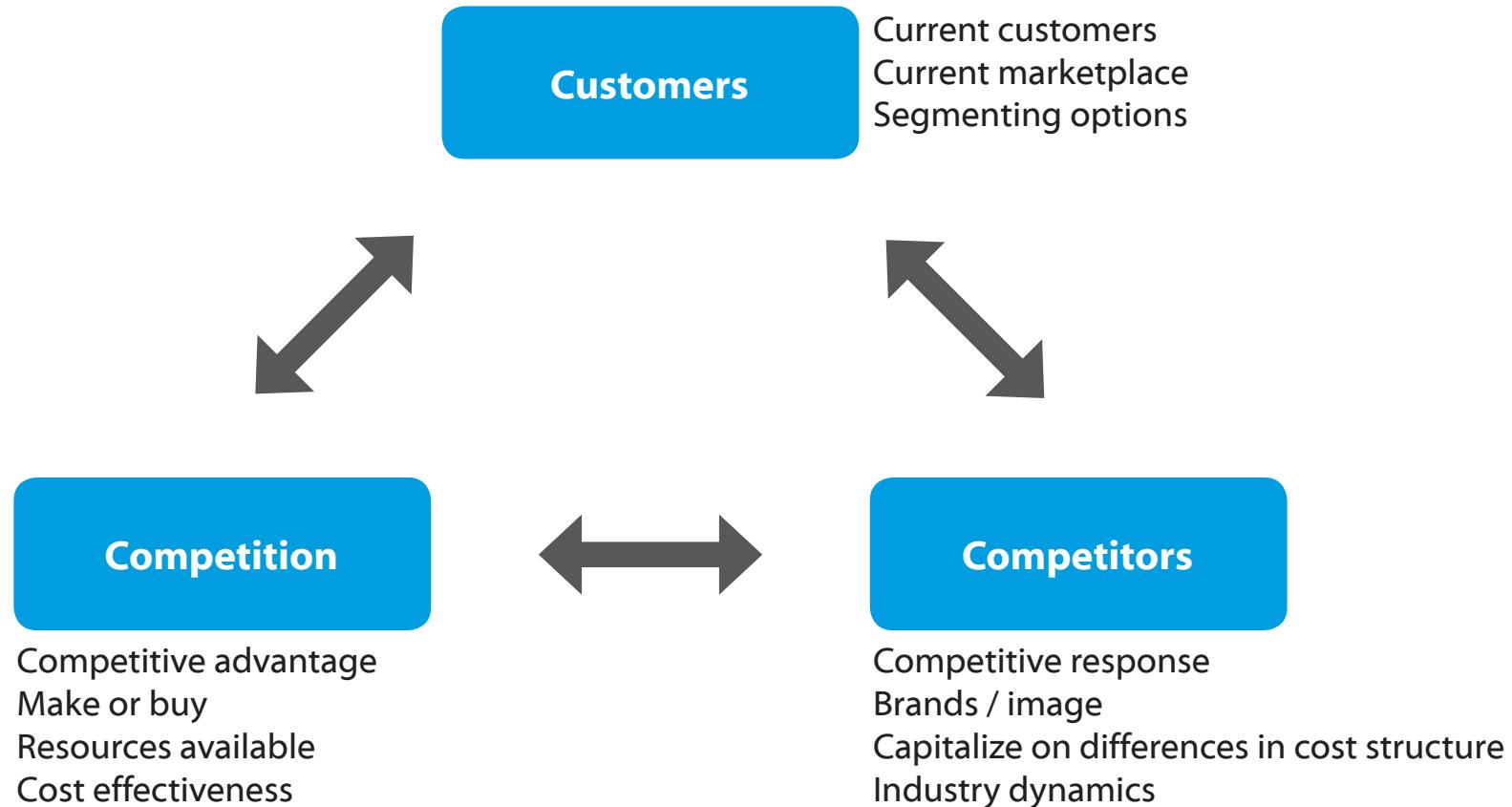
Profit tree



The profit tree is a useful framework in the evaluation of the causes and impacts of changes to a company's profitability.

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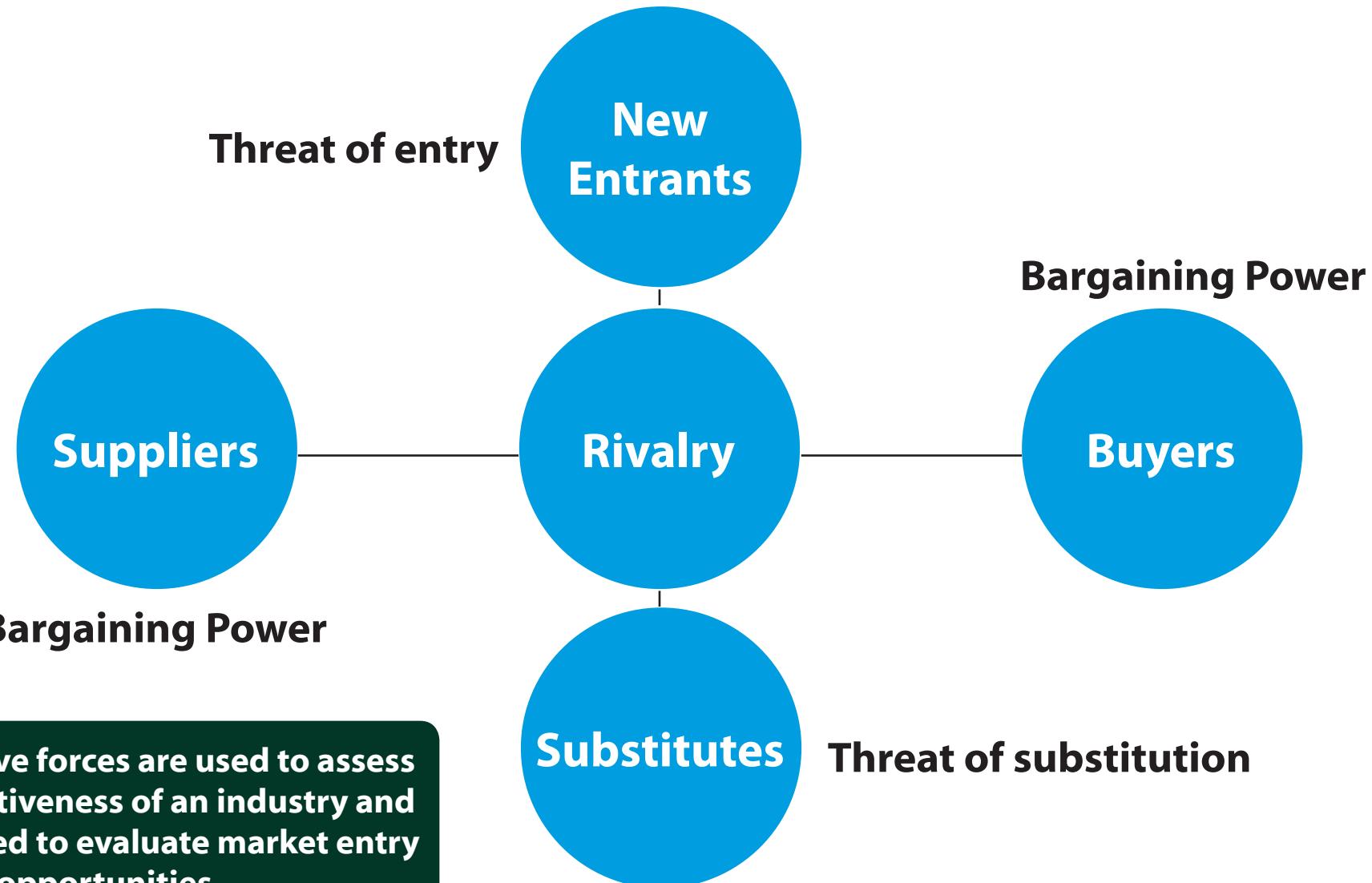
Three Cs model (or strategic triangle)



The strategic triangle, or 3 Cs framework, is useful in understanding the source or cause of broad business problems including marketing or internal performance issues.

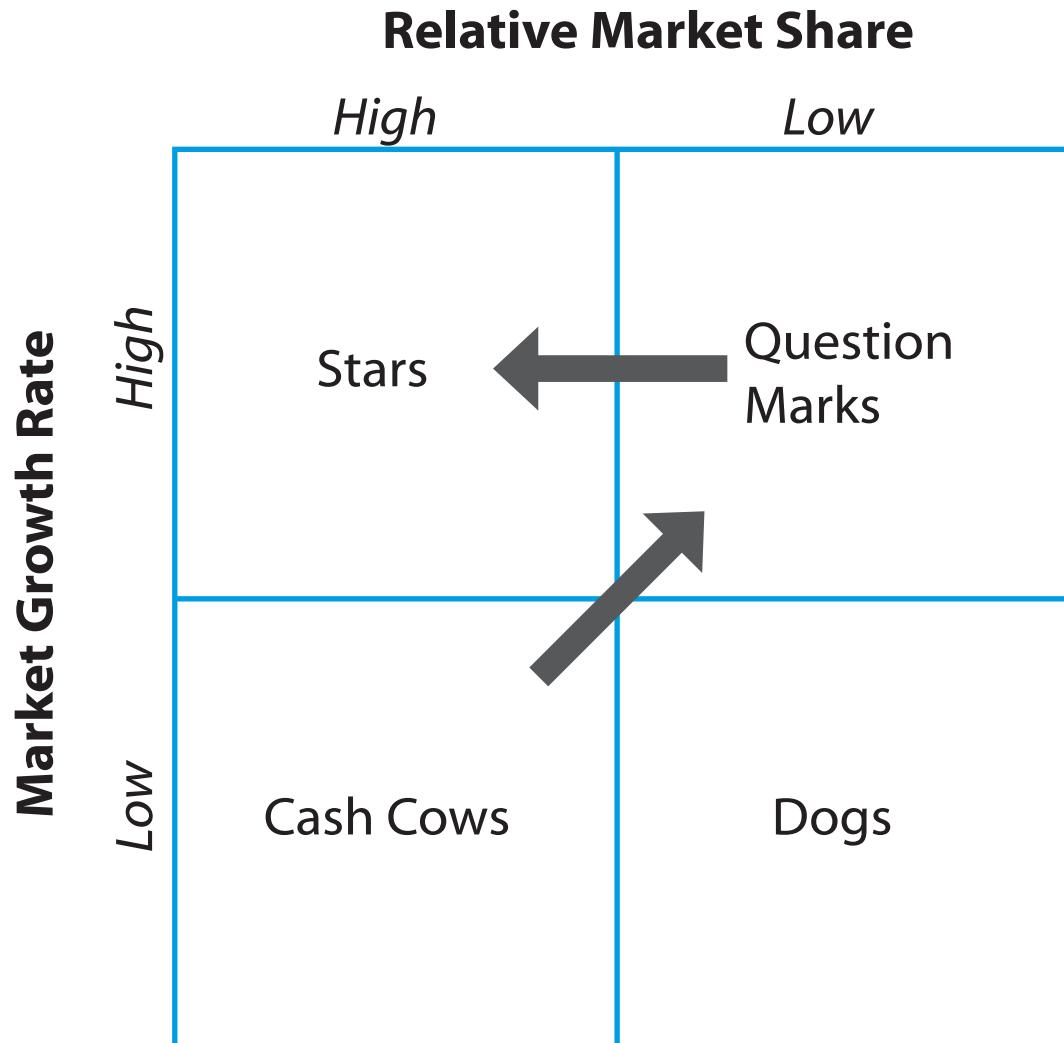
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Porter's five forces



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BCG growth matrix

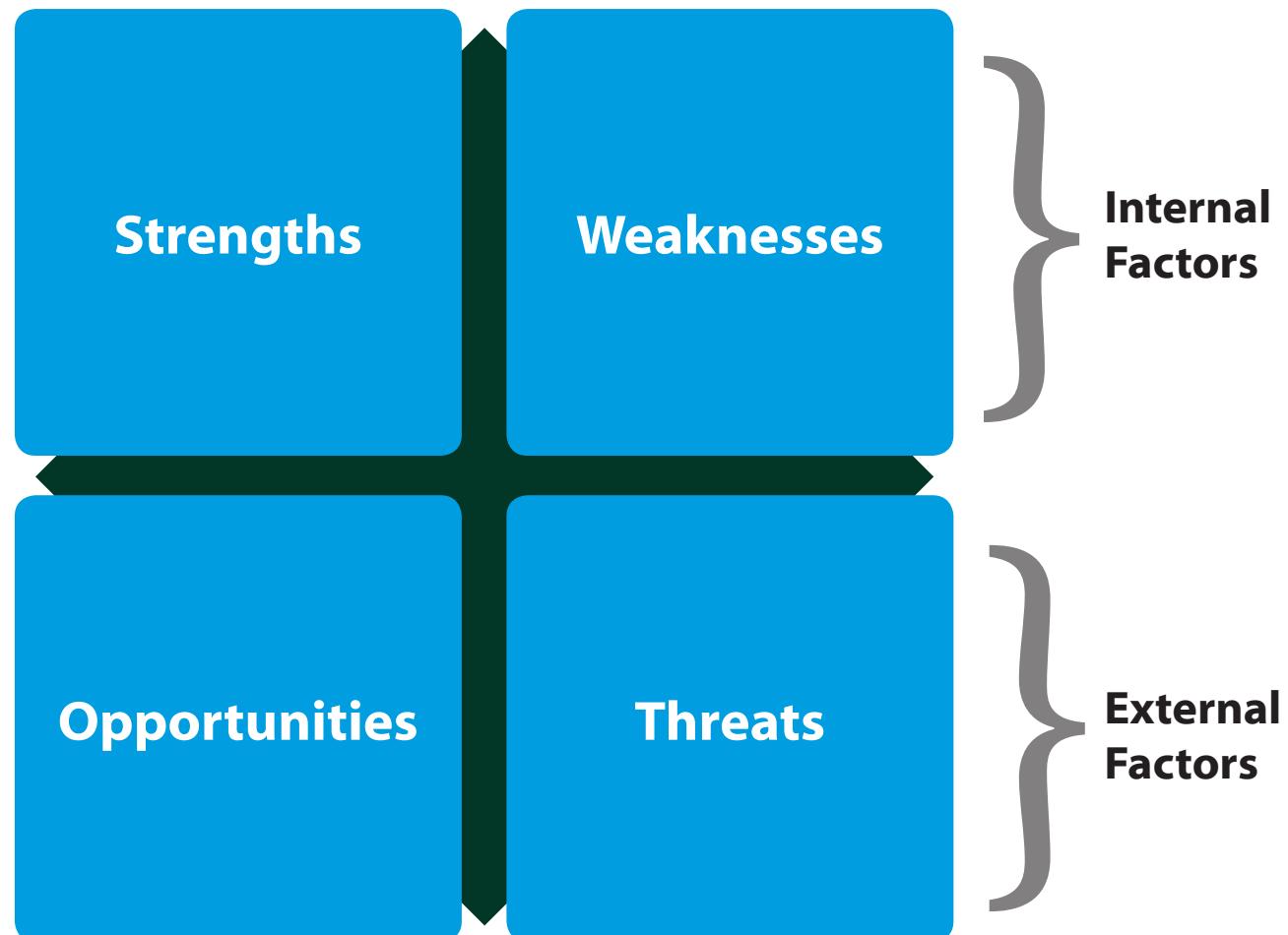


Invest profits generated by cash cows in question marks to transform them into stars.

The BCG growth matrix is used to evaluate a company's portfolio of products or product lines in order to determine in which to further invest or to divest.

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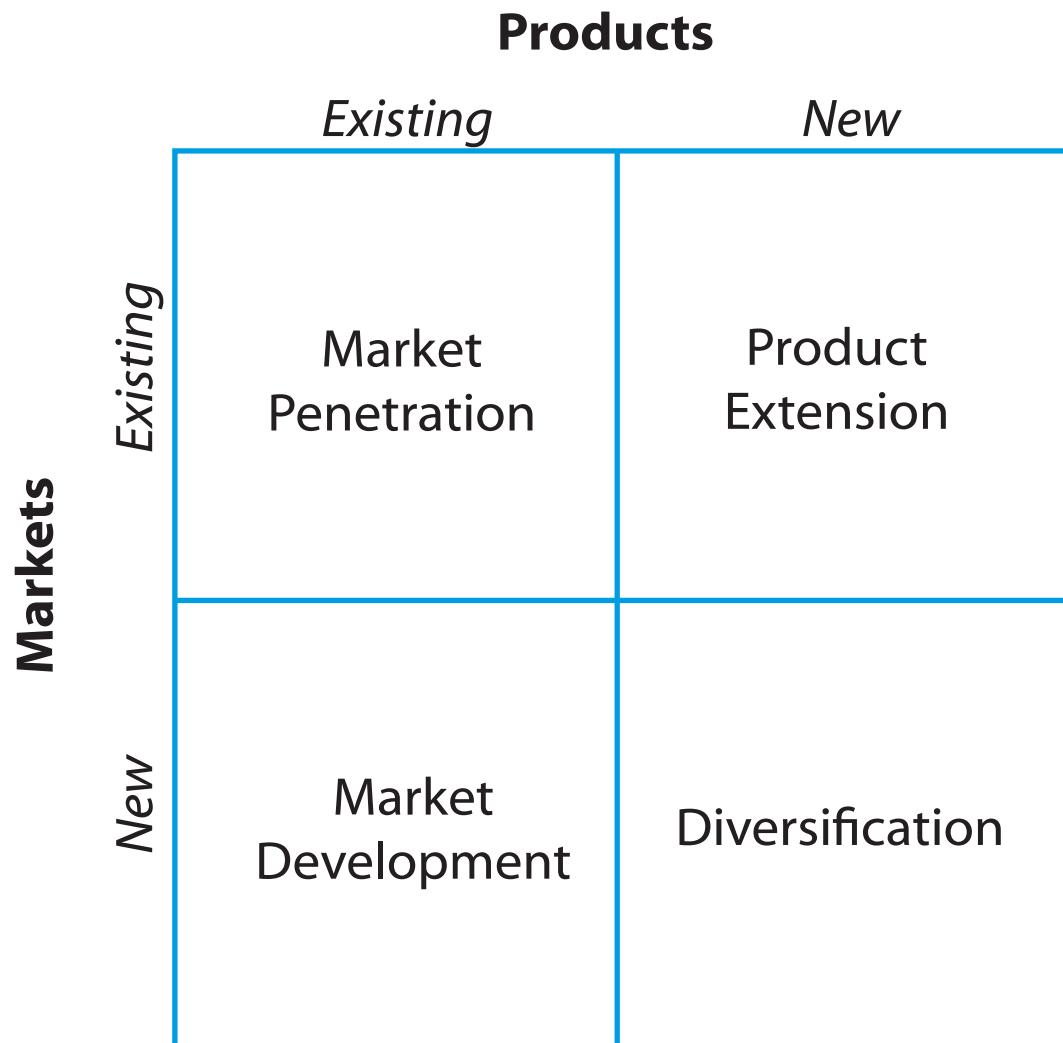
SWOT Analysis



When evaluating a market entry (geography, new product lines, etc.) or business opportunity, a SWOT analysis is used to assess the business environment.

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Ansoff growth matrix



The Ansoff matrix is used to evaluate strategies for launching new products or entering new markets when a company wishes to grow.

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Four Ps model

Product

What is the product, what customer needs does it fulfill?
How is the product differentiated?
Does the product interact with other products (complements) or product lines (internal)?

Price

What is the absolute / relative price of the product?
How will sales staff be compensated (commission, etc.)?
Will discounts or incentives be offered, at what interval?

Placement

What types of stores will offer the product?
How will the product reach the stores (supply chain, distribution channels)?
For new products, will test markets be used for roll-out?

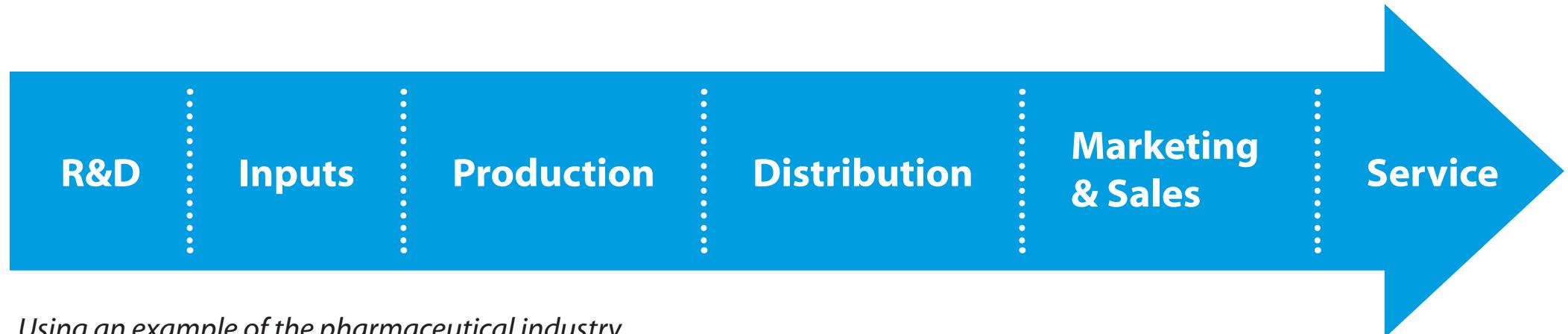
Promotion

What marketing strategy will be used?
How will the brand message be communicated to different stakeholders?
Based on segmentation, how will the product be positioned?

The four Ps are useful when evaluating a product or marketing strategy and can be used to determine the cause of an increase or decrease in sales; it can also help in identifying new opportunities to market new or existing products.

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Value chain



Using an example of the pharmaceutical industry...

New drug research & approval	Sourcing of materials needed for production	Production and packaging of drugs	Outbound logistics to pharmacies, hospitals, care facilities	Marketing efforts, PR, sales efforts to doctors / hospitals	Keeping public up to date about potential side effects
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Value chain analysis is used to look at activities throughout organizations, supply chains and distribution networks. The value chain is a useful framework to understand the workings of an organization, to determine where value is added and to identify weaknesses or bottlenecks within an organization.

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Financial statement analysis

Income Statement / Profit & Loss	
Revenues	
Sales (volume * price)	+
Financial income (ie interest)	+
Total Revenues	
Cost of Goods Sold (materials, direct labor, OH)	-
Gross Margins	
Expenses	
SG&A	-
Insurance	-
Salaries	-
Utilities	-
Total Expenses	
EBITDA	
Depreciation & Amortization	-
EBIT	
Interest Expenses	-
Income before tax	
Tax (income * tax rate)	-
Net Income	Profit

Income statement and balance sheet analysis are used to assess the financial health of a company.

Balance Sheet	
Assets	Liabilities & Equity
<i>Current Assets</i>	<i>Short Term Liabilities</i>
cash / cash-like assets	accounts payable
accounts receivable	loans payable
inventories	taxes payable
prepayments	long-term liabilities
dividends payable	long-term debt
Total Current Assets	Total Liabilities
<i>Long Term Assets</i>	<i>Equity</i>
PP&E (minus depreciation)	common stock (book value)
investments	retained earnings
Total Long Term Assets	Total Equity
Total Assets	Total Liabilities + SHE

Ratio Examples	
ROE	Operating Margin
ROA	Profit Margin
Inventory Turnover	Debt to Capital
AP Turnover	CFO to Debt
Asset Turnover	ROI
Current Ratio	Gross Margin
Cash Ratio	Price to Earnings

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Project and company valuation

Project Valuation Method	
NPV*	sum of present value of cash flows for entire project duration
IRR	discount rate where NPV equals zero, indicates the profitability of a project
Payback (Break Even)	length of time to regain cash from an investment (years or months)

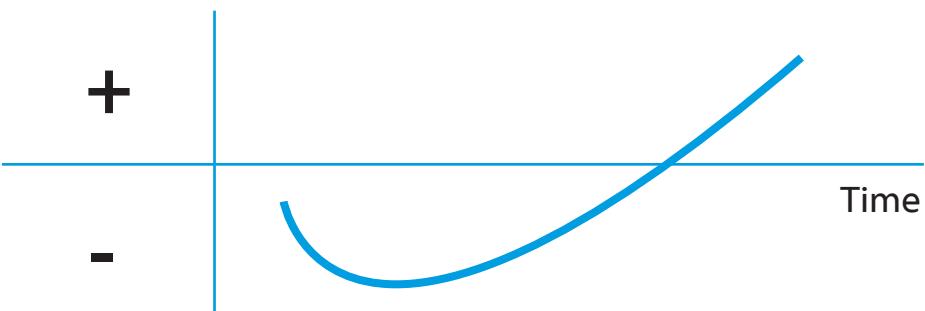
$$PV = C_0 + \sum_{i=1}^t \frac{C_i}{(1+r)^i}$$

*NPV will be most commonly used to evaluate projects for cases

Company Valuation Methods	
Discounted Cash Flows	yearly expected free cash flows discounted based on the weighted average cost of capital, can include a terminal value
Dividends-based	sum of infinite dividends payments using perpetuity estimation (terminal value)
Multiples	valuation based on comparison to similar companies (price-earnings ratio, EV/sales, book-to-market, etc.)

$$TV = \frac{C(n+1)}{R-g}$$

Terminal Value Calculation



A J-curve can be used to show cash outflow and inflow for a project and illustrate the break-even point

Free Cash Flow	
Sales	+
COGS	-
EBITDA	
D&A	-
EBIT	
Taxes	-
EBIAT	
D&A	+
Operating Cash Flow	
CAPEX	-
Working Capital	-
Free Cash Flow	

{ INTERVIEW }

{ PREPARATION }



Grow Further.

**Interview
Preparation**

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INTERVIEW PREPARATION

Our interview process is aimed at getting to know you personally, learning more about your analytic capabilities, and also introducing you to our people and our work. We assess your ability to listen, communicate effectively, and present yourself with tact, energy, and persuasiveness. We look for intellectual curiosity and creative thinking. And sometimes, we just want to find out what it would be like to spend a week on the road with you, working together on a client project. Interviewers value a sense of humor and a bit of "sparkle" in your personality.

Typically, we divide interviews into three parts: personal background, consideration of a case study, and an opportunity for the applicant to ask questions about us.

Your Personal Background

During the interview, we want to find out more about you and how you would fit in at BCG. For example, you might be asked to describe ways you have been able to make an impact in a team environment in the past. Or you could tell us of a time when you were able to overcome obstacles, persuading others to go along with a decision that they had initially resisted. The interviewer may also simply be curious to hear your motivation for choosing to pursue a career with BCG.

Case Study

We use a case study to give you an opportunity to demonstrate your problem-solving skills. Because the case is likely based on a real client project your interviewer has worked on, you will gain a unique insight into what strategy consulting at BCG is like.

MOST IMPORTANT: BE YOURSELF

The case study will feature a business problem that you and the interviewer will seek to solve together. It will not require extensive knowledge of specific industries or processes, and often our cases have no right or wrong answers. Your questions and thought processes are more important to us than coming up with an actual solution.

We hope that you will find the discussion of the case study intellectually stimulating. There is no better way to simulate what we do than to work through one of our cases.

Questions and Answers

The interview is your chance to ask questions about working at BCG or your interviewer's personal experience. It is an opportunity for you to get to know our people and our culture. Come prepared with the questions that matter to you, and we will make every effort to answer them.

Preparation for the Case Study

To prepare for the case study discussion, you can review some practice cases at www.bcg.com/careers. The Web site examples will give you an idea of what to expect in the case study portion of the interview.

While there are no set rules on how to solve a case, we have found that some advice can help you succeed. You should

- avoid rushing to a solution without making sure you understand the problem
- ask questions to get all the relevant information you need and rely on your interviewer to help you get on the right track
- make assumptions, but be transparent about the assumptions you are making
- perform a sanity check when doing calculations— you will score extra points for this
- take hints from the interviewer; we want you to succeed, and we don't play games
- be flexible: if your approach is not leading to a solution, pause, rethink the key issues, and adjust your approach
- explore what is important and what is not; focus on the former and don't let yourself be held up by the latter
- resist the urge to rely on a textbook approach or conventional wisdom
- seek creative and innovative approaches to solving the case

One last piece of advice: be yourself and have fun discussing the case. If you find this an exciting and entertaining experience, you'll likely enjoy being a consultant at BCG.

DOS AND DON'TS FOR THE CASE STUDY

Do

Listen to the Interviewer and Ask Questions

The interviewer will begin by laying out the problem. You should take time to align your thinking, ask clarifying questions, and communicate your line of reasoning to your interviewer. The interviewer will also give you hints and help along the way, so don't be afraid to take notes.

Structure the Problem and Develop a Framework to Solve it

Take a moment to think about the case to gain perspective. Putting together a structure and a framework will help you clarify each step and enable you to identify the analysis you may want to perform to reach a solution.

Focus on High-Impact Issues

Concentrate on the issues that will really make a difference and create value for your “client,” but make sure that you explain the reasons behind your choices.

Generate a Hypothesis and Explore Options Creatively

Make suggestions on how to solve the key issues you have identified. The interviewer will be looking for the same things a BCG client would expect when working with us—innovative approaches that can change the rules of the game and creation of lasting competitive advantage.

Synthesize Thoughts and Draw Conclusions from your Analysis

At the end of the interview, you should summarize the key hypotheses and options you have developed. Then, conclude with your recommended solution to the client's problem.

DOS AND DON'TS FOR THE CASE STUDY

Don't

Don't Rush into the Analysis without Developing an Understanding of the Problem

During the discussion, the interviewer will work with you to organize your thoughts and steer you toward a solution. Don't be afraid to ask questions that check your understanding.

Don't Panic if the Answer is not Apparent

There is no right or wrong answer in our interviews, and you are not expected to know everything about business. The objective of the interview is for us to learn about your approach to solving business problems, so remember to discuss your line of thought with the interviewer.

Don't Defend your Solution at all Costs

If the interviewer challenges the solution you propose, don't go on the defensive. Acknowledge the possibility that the interviewer has brought up a relevant perspective that you had not considered and reexamine your thinking accordingly.

Don't Internalize your Thought Process

The interview should be a dialogue between you and the interviewer, so make sure you communicate your logic and underlying assumptions.

Don't Stick to an Artificial Framework

Standard frameworks you have learned in school may appear relevant, but they may not hold up after closer consideration.

The Boston Consulting has more than 70 offices in over 40 countries.

To learn more about BCG, to find out more about activities on a campus near you or to apply please visit www.bcg.com

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{ BCG INTERVIEWS }

BCG INTERVIEWS

Joan Sol | Barcelona

What is it you look for in a personal interview? What about cases? Is one worth more than the other?

I look for a well-rounded and balanced candidate, with good interpersonal and analytical skills. Both dimensions are important and candidates must excel in them. The acid test question I ask myself is "Would I like to have this candidate working in my project?"

What distinguishes a good candidate during a case interview?

You feel it. A good candidate engages in the discussion, connects with the interviewer, shows high level of motivation and enjoys the interview. So, if you have fun during the interview, that's a good signal!

What is the most memorable case interview that you have ever given?

One year ago I interviewed an MBA candidate. I started introducing the case, showing him a slide about the industry, when he interrupted me and said "I have done this case, with these exact numbers". I thanked him for his sincerity and asked him who told him about the case, maybe a colleague who interviewed with me beforehand. His answer was unforgettable: "No Joan, I have done this case, in another consulting interview". I was really shocked since I created the case from scratch based on previous experience in a client. My takeaway: It's a pity I don't copyright my cases...

What is the source of inspiration for your cases?

Real projects I've done previously. I don't like asking candidates to estimate the number of ping pong balls you can fit into a Boeing 747 because I don't test consulting skills. Rather, I prefer to test them with the same kind of issues and strategic decisions I face during a project.

How did you prepare for your case interview when you interviewed with BCG?

I read a couple of booklets on consulting interviews. And I also practiced, practiced and practiced. That's the most important part of preparation.

What is the best thing about being a consultant? What is the worst?

Just one? There are a lot. My favorites are (1) full responsibility you have from day one, (2) intellectual challenge you face in every project and (3) working with such a talented group of people

The worst thing to me is traveling, especially when you have a newborn baby at home...

In your opinion, does the preparation / interview of cases reflect the skills that a consultant needs to succeed?

Absolutely. As I mentioned, I like to test candidates facing similar issues to those I have, so at the end I am testing their consulting skills.

BCG INTERVIEWS

Paul Fattinger | Vienna

What is it you look for in a personal interview? What about cases? Is one worth more than the other?

In the case part of the interview, I specifically look for the candidate's ability to structure problems, to think outside the box and to get to the bottom of the case. In the personal part I focus on a well rounded story – why Consulting?; why BCG?; does the candidate understands its strengths and weaknesses and how the implications on their job.

In my opinion the case and the personal interview are actually quite similar to each other. Both show whether candidates are prepared, how they communicate as well whether they can relate to the situation and the personality of the interviewer. Last but not least the whole interview process usually gives a pretty good picture of a candidate and the fit with BCG.

What distinguishes a good candidate during a case interview?

Well first of all a good candidate gets to the bottom of the case. Moreover he or she has a clear structure, stays calm, listens to the interviewer and shows curiosity and eagerness to understand the problem at hand.

What is the source of inspiration for your cases?

Clearly the projects I have worked on or the ones I am working on are my inspiration. As consultants we solve cases everyday – and the questions are very similar to the ones we ask in an interview. So sometimes when you discuss a problem with colleagues or clients, it just strikes you – that would be a great interview question!

How did you prepare for your case interview when you interviewed with BCG?

ESADE offered several trainings on how to solve cases, which I have found extremely useful to set get an understanding of what a case interview is and what companies are looking for. As the interview day approaches however, there is nothing better than practicing cases with colleagues.

What is the best thing about being a consultant? What is the worst?

I have always asked my interviewers this question and got many different answers... In my case I love being able to work on interesting issues together with a team of like-minded but very diverse colleagues. The 'worst', depending on where the project is: I'd sometimes like to see my girlfriend and friends more often...

BCG INTERVIEWS

Paul Fattinger | Vienna

In your opinion, does the preparation / interview of cases reflect the skills that a consultant needs to succeed?

I didn't realize until I started working as a consultant, but preparing for my case interviews was a very good learning experience and preparation for my job. Because, what we ask of candidates during a case interview, is what we offer to our clients in a nutshell: the ability to dissect complex problems into manageable pieces, getting results by asking the right questions, combining all available resources and in the end communicate them in a clear and concise way.

BCG INTERVIEWS

Diego Aguilar | Madrid

How did you prepare for your case interview when you interviewed with BCG?

I read my CV and MBA application essays several times to refresh my memory on the wording I had used to refer to past experience as well as my strengths and weaknesses, I read the book "How to crack the case Interview" and did between 20 and 30 practice cases with fellow students. I think practicing is important as well as knowing some frameworks, because you need to use them during the cases. On the other hand you also have to work on your personal part of the interview, solving the case or developing it is just one part of the interview.

What is the best thing about being a consultant? What is the worst?

There are a lot of good things, you can work in different companies, learn from different industries and practice areas. Also you get to know and work with accomplished and motivated people as well as access to top executives very early in your career.

There are always downside risks as in every other career. You can get though cases, which means long hours or you can get boring cases where you will learn very little. In my opinion some risks are worth taking, a consulting experience in a top consulting company like BCG will definitely have a positive impact in your professional career.

In your opinion, does the preparation / interview of cases reflect the skills that a consultant needs to succeed?

To some extent it does prepare you to the hurdles you will face once you start, but you will be mistaking if you thought that a good interview means you know all there is to know about consulting. There are certain skills you will need to learn very fast, if you do not have consulting experience. Making slides, the proper slide flow, working on you excell and communication skills etc. Be prepared to work very hard and remember there is a steep learning curve in consulting. BCG does a great job helping the new consultants with several trainings, but you have to work hard on your own to be able to become a good consultant.

BCG INTERVIEWS

Marc André Lein | Amsterdam

I haven't had the chance to conduct case interviews with BCG applicants, hence all the information below contains only my personal view after tons of mockup interviews, my full-time interviews as well as my time working at BCG and therefore, it may not overlap with the BCG view on case interviews. I am interested in joining the BCG interview process, but am not included in it as of now.

What is it you look for in a personal interview? What about cases? Is one worth more than the other?

In a personal interview I am mainly looking for how the person interacts with me. Most important for me is to assess whether the person is authentic or not? Basically I want to get to know the real person. Is the person somebody I could easily see within the firm? In the end BCG is a very diverse place to work at, different nationalities, backgrounds and personalities, so there is no specific type of person I am looking for, but if I like to get to know more about the person, it's definitely a good sign. It must come natural though, because otherwise I could think the person is trying to pretend somebody he or she in reality is not.

In cases I look ultimately at how well a person can solve an issue at hand. It is important to show that you have the necessary breadth to work on all sorts of problems, but also the depth to entirely understand and solve one particular problem at hand. I think that reflects also the work you do in your day-to-day life at BCG.

The way to tackle a case is of course diverse and I learned for example during the team work at ESADE that there is many ways to come to a good

result. One thing I am looking for however is to assess whether the person was just lucky with a case that came easy for him or her or whether I believe this person could also have easily solved another 'not so lucky' case. Hence, the approach to a case is also important. Am I confident that this person is following a comprehensive and holistic approach? A perfect case for me is rather a good conversation. At certain points I am trying to ask questions that are not directly correlated with the final question of the case to see how well the person can have an intellectual conversation to understand if the person is only looking at the problem at hand or does also have a more broader view. I am most impressed if a person not only solved the case in a good way, but also raises good points to consider or asks questions that I haven't thought of myself, which shows me that the person is thinking about the problem in a holistic way.

What distinguishes a good candidate during a case interview?

A good candidate has a clear structure and tries to really understand the situation/ problem rather than trying to just solve the case. Hence, they must not necessarily solve a case without difficulties, as the problems we face in our daily life are not always easy to solve neither. What distinguishes a good candidate though is the drive to tackle a problem in a structured way and identifying the issues that this case contains. In the next step a good candidate is also understanding implications of problems and possible solutions on other areas and is creative in finding solutions or identifying issues. If all these points are met, an additional nice-to-have differentiator is a candidate who is showing some sort of extra. This extra might be smart questions that show different solutions to the problem, considering something not directly correlated with the solution that might

BCG INTERVIEWS

Marc André Lein | Amsterdam

still be very important if you think about a problem holistically and hence showing that the candidate is thinking further than just the obvious...thus, trying to identify the real insight.

What is the most memorable case interview that you have ever given?

One of the most memorable interviews was during my first year at ESADE. At that time many people were preparing for their intern interviews and I was having a mockup interview with one of the highest GMAT scores in our class. Hence, I thought that he would probably blast me away with his quant skills and easily solve the case. However, I was surprised that this was not the case. Of course calculations of any sort were not a problem to him, so I tried to have a case that included quantitative and qualitative parts. Even so I could see that he had a clear structure in his head and that he could easily go into depth, he was lacking some of the breadth that was needed to solve this case. In that moment I realized that being smart is not all that is needed to make it into Consulting, but you need to have a broader skill set. Just being an expert in one dimension does not suffice.

My interview partner was of course smart enough to identify his weaknesses as well, worked on them constantly and also developed further during his time at ESADE and is today also a successful Consultant.

What is the source of inspiration for your cases?

The sources of inspiration for me are a mix of cases I have seen in other case books, the interviews I were given to myself, experiences I got from my daily work life and personal interests about topics that I am interested in discussing. If within cases a certain questions comes into my mind, I sometimes also pick up on that to start an interesting discussion.

How did you prepare for your case interview when you interviewed with BCG?

First, I started doing a lot of mockup case interviews whenever possible with fellow students.

However, I didn't feel that it would prepare me enough. I felt that it was nice to solve a case here and there, but I didn't feel like I would be totally prepared for each and every topic that might arise. As I always try to analyze and understand things as a closed system, I also tried the same for case interviews. I knew the business tools and frameworks including their implications on a business, but I didn't feel so comfortable with identifying the issue at hand, hence connecting these tools and frameworks and applying it to a company in a holistic and detailed structure, that was my main weakness. Hence, I sat down and developed a framework that basically combined all other main frameworks and tools and included them into a company's business structure and environment that would be structured in the way I think. This framework helped me thinking about a problem more exhaustively by connecting the dots. Kind of being the storyline I could use for every problem, at least that was the intention.

BCG INTERVIEWS

Marc André Lein | Amsterdam

I also found it very helpful to read several magazine and newspaper articles such as interesting ones from the Harvard Business Review as they triggered my thinking further in a broader direction and was also informed about current political and business developments and had an opinion about them.

What is the best thing about being a consultant? What is the worst?

The best thing is the intellectual challenge that you are facing over and over again. You need to be at your best at almost every day, can contribute to a company's and BCGs success and also have a visible impact and have very interesting topics to work at. Also the open working culture and exchange at BCG is one of the best things of my job. I enjoy having open discussions with my colleagues irrespective their level within the company over all sorts of problems and cases that we work on.

I like my job, so there is not a lot that I dislike. The worst part of being a consultant for me is hence being limited in your stock trading activities. I don't trade at all, as I don't want to get into a position that might contradict with the ethical values of BCG.

In your opinion, does the preparation / interview of cases reflect the skills that a consultant needs to succeed?

Definitely, a case includes most of the things that are also needed for the day-to-day life of a consultant. Given the breadths of our work, it's important that a case let an interviewee show his or her breadth. When analyzing a topic, we need to go to the utmost depth as we try to identify the underlying problem, not just the symptoms. Both taking together, we need to identify the insights needed. You also see how a person is acting under pressure as the interview itself is kind of a stressful situation. In addition, you also need to think quick sometimes when in a direct client situation, which is also tested in a case interview.

The preparation itself also helps tremendously for your work as a consultant. As you need to prepare for all sorts of topics, you also broaden and specify your skill set which is definitely needed to succeed in Consulting.

BCG INTERVIEWS

Hans Clement | Dubai

What is it you look for in a personal interview? What about cases? Is one worth more than the other?

What I look for in an interview are the main characteristics of a person and the driving forces for his application for BCG.

I try to assess his fundamental behaviour and his curiosity. At the end of the day I want to know if he/she could be a person I want to work with and if i can trust him/her fully.

With regards to the cases it's a very good mean to see a person's attitude in stressful situation and how he/she reacts with constantly changing input and ideas.

So the combination of the personal interview and the case should give me a good sense on what person sits in front of me.

What distinguishes a good candidate during a case interview?

His curiosity, his ability to handle new ideas and input, creativity and his ability to make it an interesting conversation.

What is the source of inspiration for your cases?

Previous experience – case related examples. Everyday examples

How did you prepare for your case interview when you interviewed with BCG?

I basically did a lot of interviews with my peers. I used to exercise my math skills in some classes under the influence of some disturbing voices.

The last week before my final cases I focused very much on the personal interviews.

What is the best thing about being a consultant? What is the worst?

Amazing learning curve at the beginning. High profile projects. Ever changing topics to work on.

Being away from home for most of the week.

In your opinion, does the preparation / interview of cases reflect the skills that a consultant needs to succeed?

Partly yes, it basically gives you an idea how a consultant is structuring a problem and try to solve it.

Moreover you get a very good sense that you need to think in all directions to find a solution for a problem.

{CASES}

Prompt - Part 1

The client is BAA group - the owner of London Heathrow Airport, one of the world's busiest international airports.

Estimate the number of passengers that travel through Heathrow per year.

Guide - Provide only if requested

Number of runways: 2

Runway utilization: 1 takeoff/landing every two mins

Airport opening hours: 18h per day

Average plane capacity: 250 seats

Plane utilization rate: 70%

Cookies

- Referencing different plane sizes (domestic vs international)
- Asking about cargo flights
- Distinguishing business & leisure

Traps

- Missing utilization rate
- Not considering number of runways

Suggested Approach - Part 1

1 Runway analysis

Number of runways: 2

Runway utilization:

1 takeoff or landing (T/L) every 2 mins

Opening hours of airport:

5am to 11pm - 7 days a week

Number of T/Ls per hour: 60 T/Ls

(60 mins / 2) * 2 runways

Number of T/Ls per day: 1080 T/Ls

60 T/Ls per hours * 18 hours

2 Plane analysis

Average plane capacity:

250 passengers

Average plane utilization rate: 70%

Average passenger volume per plane: 175

250 * 70%

3 Conclusion

Passenger numbers per day: 189,000

175 avg passenger volume * 1080 (candidate may round up to 190,000 if requested)

Passenger numbers per year: ~68m

189,000 passengers per day * 360 (utilized days may be reduced)

Total market size:

~68 million passengers fly though Heathrow airport

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Notes

Analytical & Problem Solving Skills

1 2 3 4 5

Prompt - Part 2

Heathrow airport is currently running over-capacity by 15% in terms of passenger numbers.

The government is insisting that BAA group (the owner of the airport) match capacity immediately (within the next year)

By how many passengers must the airport reduce in order to match capacity?

What do you recommend BAA group do in order to meet the government request?

Guide - Provide only if requested

There are four airports in London:

- Heathrow (largest)
- Gatwick (2nd largest)
- Stansted (3rd largest)
- City (smallest)

BAA Group owns Heathrow and Stansted in London, and also owns three other airports in the UK

Heathrow's location is very residential

Heathrow charges to airline companies are currently the highest of all London airports

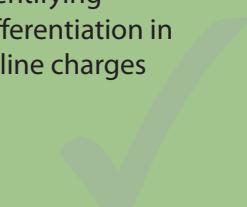
Two principal charges to airlines are:

- Hub fees
- Take off/Landing fees

Relationships between airports and airlines are long-term

Cookies

- Suggesting other important revenue sources such as retail lettings and advertising
- Identifying differentiation in airline charges



Traps

- Not asking about the neighboring airports and ownership
- Not assessing the possibility of increasing airport capacity as a solution



Suggested Approach - Part 2

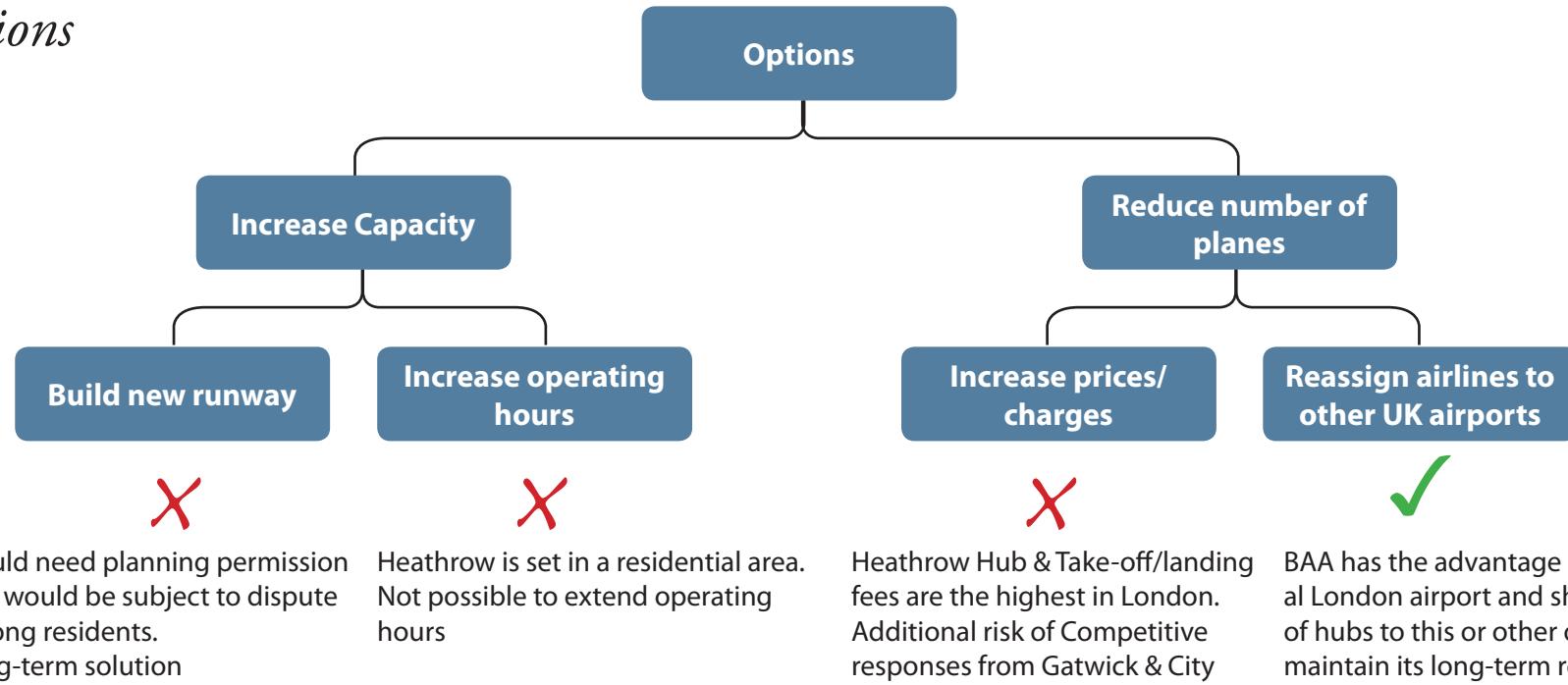
1 Runway analysis

Calculate actual capacity of Heathrow:

$$68\text{m passengers} * 85\% = \mathbf{57.8\text{m passengers}}$$

Heathrow must reduce ~10m passengers within the next year to meet government requirements

2 Options



3 Conclusion

All are good ideas, but reassigning airlines to its other airports is the best option given the already high prices of Heathrow and the competitive response from other London airports

Mobile Usage in Spain

Market Sizing
Business Operations
Strategy



Prompt

How many minutes of mobile phone calls are made each day in Spain?

Notes

Analytical & Problem
Solving Skills

1 2 3 4 5



Guide - Provide only if requested

Population of Spain: 45m

Ratio of urban:rural population: 3:1

Total market penetration: 95% (Spain)

Urban market penetration: 100% (Spain)



Cookies

- Differentiating between pay-as-you-go vs contract customers & their different consumption patterns



Traps

- Not considering rural vs. urban usage (population approach is more effective)



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Mobile Usage in Spain

Market Sizing
Business Operations
Strategy

quantitative qualitative

Suggested Approach

1 Size the market

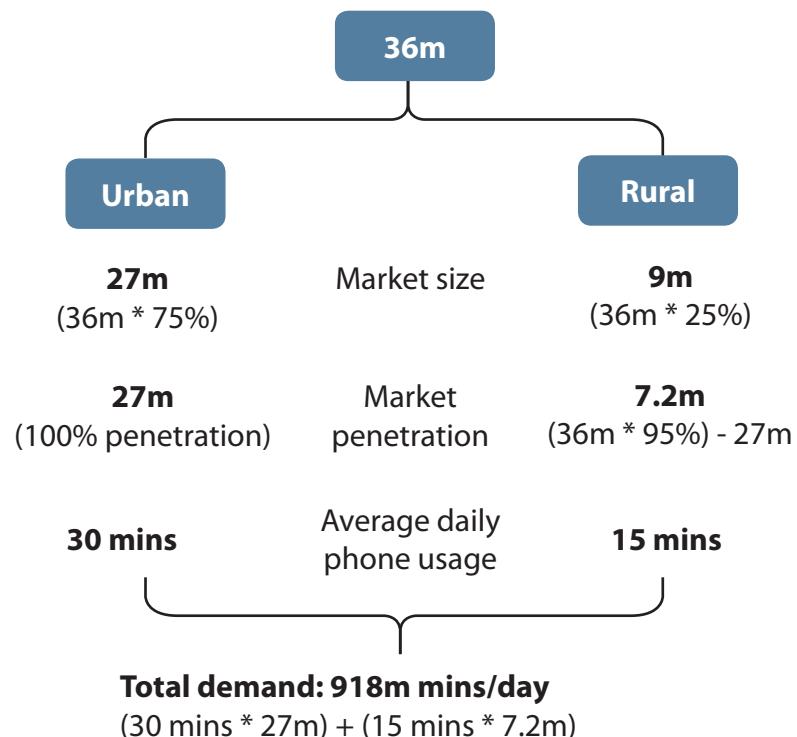
Population: 45m

Estimated demographic audience: 10-70 year olds
 $(70 - 10)/75 = 80\%$

Target market audience: 36m ($45m * 80\%$)

2 Conclusion

Approximately 900 minutes of mobile phone calls are made each day in Spain





Prompt

Estimate the total US household debt.



Guide - Provide only if requested

US population: ~300m

Average US household size: 3 people

Sources of debt:

Mortgages (70%)

Other household loans (20%)

Credit cards (10%)

% of private property among US households: 70%

% of private property with existing mortgages: 66.67%

Average US mortgage: \$150,000

Estimated credit card penetration rate in US: 55%

Average household credit card debt: \$17,000

Cookies

- Identifying principal debt sources
- For credit card debt, identifying individual consumption (as opposed to household consumption) as a preferred approach
- Recognizing that card holders can have more than one card

Traps

- For mortgage debt, assuming that all property is private property
- Assuming that all households have a mortgage (i.e. not all paid off)

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Suggested Approach

1 Estimation of US household size

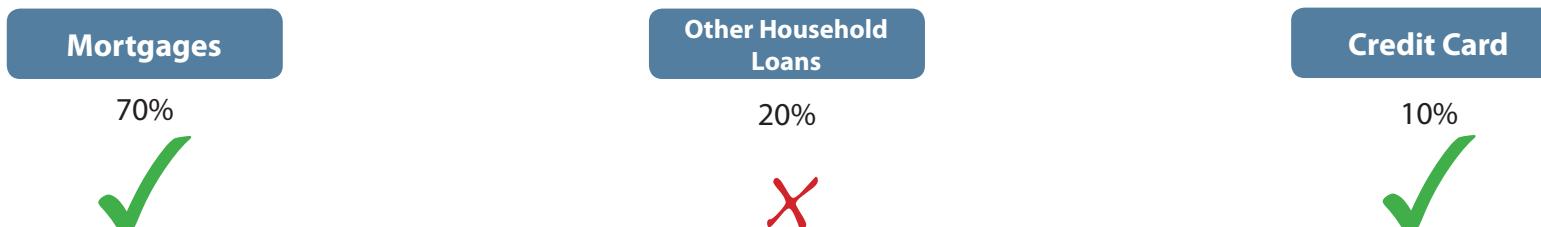
US population: ~300m

Average US household size: 3 people

Estimated number of US households: $300m / 3 \text{ people} = \sim 100m \text{ households}$

Suggested Approach

2 Analysis of debt sources



Unlike mortgages and credit cards, other household loans are extremely fragmented and include various loan types. Therefore candidate should use either mortgages or credit cards as the basis of calculation

3 2 Methods for calculation of estimated US household debt

Method 1 - Mortgages

% of private property among US households	70%	$100m * 70\% * 66.67\% * \$150,000$ $= \$6.75 \text{ trillion}$	\$6.75 trillion / 70% $= \$9.5 \text{ trillion}$
% of private property with existing mortgages	66.67%		
Average US mortgage	\$150,000		

Method 2 - Credit Card

Estimated credit card penetration rate in US	55%	$100m * 55\% * \$17,000$ $= \$0.95 \text{ trillion}$	\$0.95 trillion / 10% $= \$9.5 \text{ trillion}$
Average Household credit card debt	\$17,000		

Prompt - Part 1

Our client is a supplier of windows to global construction companies. The client owns a factory which has been extremely successful since its launch five years ago, with revenues growing at an average rate of 10% per year.

However, throughput time has decreased rapidly in recent times, from one month to an average of three months (order through to client delivery). Their clients are not happy and have signalled that they will reconsider their relationships if speed of delivery does not improve.

Why has the throughput time increased so sharply?

What can the company do to address this problem?

Notes

Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Guide - Provide only if requested

Margins / profits have remained constant

The operation is extremely efficient: No problems

The market consists of very few suppliers: 6 principal suppliers, 2 in the US (operating at full capacity), 3 in EU (operating at full capacity including your client), and 1 in China (with spare capacity)

The client has a small number of large buyers

Cookies

- Quickly identifying capacity issue
- Identifying client options (see next page) without guidance



Traps

- Spending too much time analyzing the operational process (SCM)



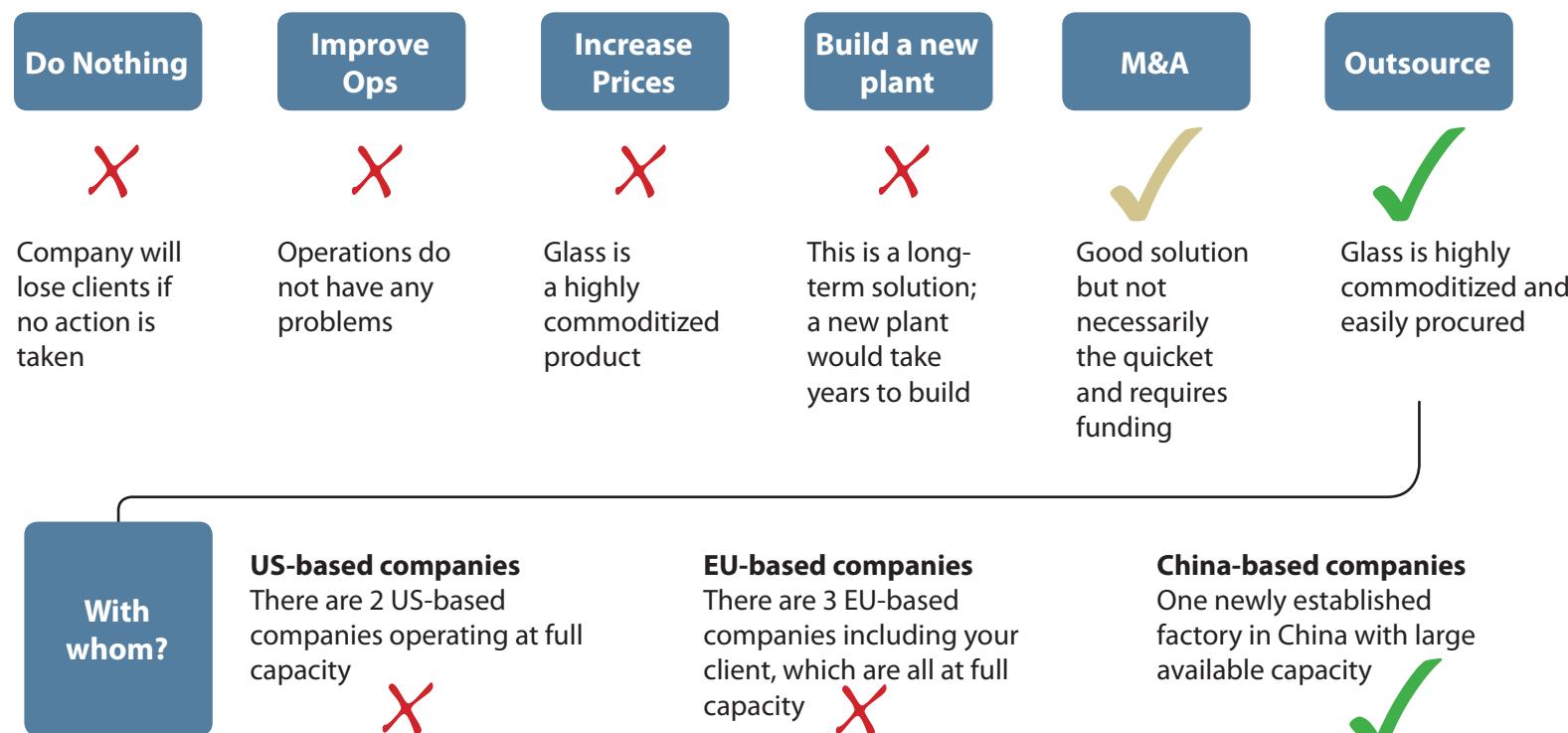
Suggested Approach - Part 1

1 Identify cause of throughput deficiency

Consistent year-on-year revenue and profit growth of 10% and an efficient operational process can only mean one thing, **the firm is suffering from insufficient capacity to satisfy its demand growth.**

2 Identify client options

Since our client's buyers have made clear that they will reconsider relationships soon, and because the company is dependent on a small number of clients (i.e. strong buyer power), the first step needs to be to identify a short-term solution.



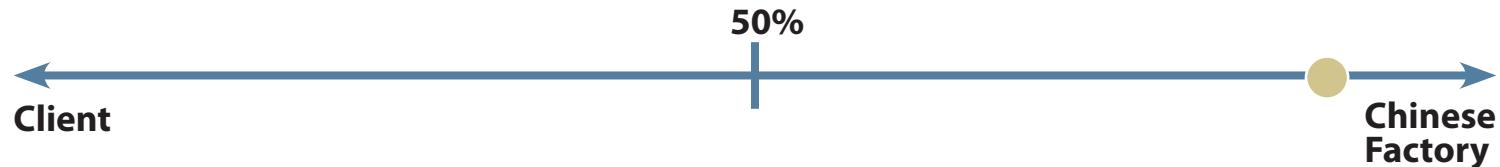
Prompt - Part 2

After identifying the chinese factory with whom to partner, you recommend that your client approach them to outsource production.

Estimate who holds the greater power in negotiations when they meet.

Suggested Approach - Part 2

Draw comparison line and ask candidate to indicate where the balance of power lies.



Prompt - Part 3

In preparation for a first meeting with the Chinese factory representatives, your client has conducted some additional research and learned that the company is on the verge of bankruptcy.

The factory was built three years ago in anticipation for demand that never materialized and hence has large amounts of spare capacity.

Based on this new information

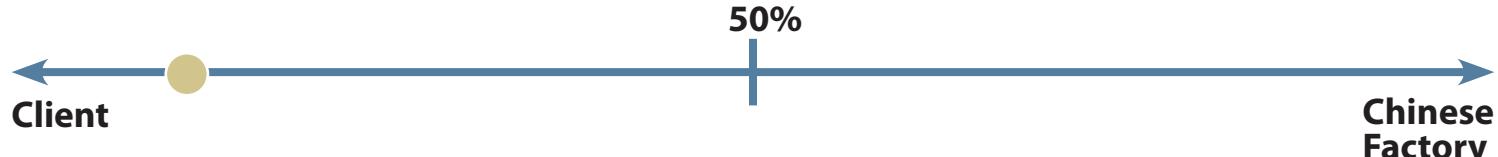
Re-estimate the balance of negotiation power?

Would there be any changes to your recommendation?

Suggested Approach - Part 3

Draw comparison line and ask candidate to indicate where the balance of power lies and why.

The new information of the financial position of the Chinese factory significantly shifts the position of power.



Based on this, the client should additionally consider an acquisition.

Conclusion

Candidate should be able to sum up a recommendation based on his/her assessment and confidently support one of the two options based on his/her assessment

M & A

Pros:

Good opportunity to expand and increase capacity of production, increase market share, increase economies of scale, and enter Chinese market

Risks:

Cultural fit and adaptation to new market
Financial risk of funding
Other M&A risks of synergies (e.g. quality of product)

Outsourcing

Pros:

Less funding required
Client can take advantage of a strong bargaining position
Quick fix to client principal business solution

Risks:

Client could lose its position of negotiatorial power in the long term and miss a strong growth opportunity
Quality of product



Prompt

Whilst on holiday in the Argentinean capital, you meet through mutual friends, Mike, the proud new owner of YuNoodle, a Korean noodle restaurant.

You ask about his restaurant and he tells you that business has been very successful since its launch one year ago.

He also mentions that he has recently been approached by a bank offering YuNoodle the option to accept credit card payments. He says that he is unsure, and that although some rival restaurants do accept card payments, credit card usage is fairly low in Argentina. Currently, YuNoodle only accepts cash payments from customers.

Mike asks you whether or not he should accept the bank's offer.

Guide - Provide only if requested

\$1 ARS = \$0.02 USD

Restaurant business can be broken down into two parts:

Restaurant (currently 90% of revenue)

Opening hours: 9 hours per day for lunch and dinner

Average client spend: 60 ARS (per head)

Capacity: 80 seats

Utilization: 90%

Profit margin: ~6%

Growth rate: 0%

Average meal duration: 1.5 hours

Take away (currently 10% of revenue)

Profit margin: 10%

Growth rate: ~20% per annum

Cookies

- Identifying that profitability is close to peaking since capacity utilization is very high
- Segmenting customers into tourists (higher usage of credit cards) and locals
- Suggesting that any fee can be passed to consumer

Traps

- Assuming that everyone will pay by credit card

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Credit card payment details: Credit card providers charge a commission (2%) per transaction.

In return they offer business intelligence / consumer insight.

Credit card acceptance will immediately double takeaway sales.

Mike expects 75% of takeaway customers to pay by credit card.

Regarding the *restaurant* business, an estimated 25% of customers would pay by credit card.

Suggested Approach

1 Understand the business

Restaurant

Average daily revenue: \$25,920 ARS

\$60 ARS * (80 seats * 90%) * (9 hours /1.5 hour duration)

Average annual revenue: \$9m ARS

\$25,920 ARS * 350 days

Average annual profit: \$540,000 ARS

\$9m ARS * 6% profit margin

Total annual profit: ~\$640,000 ARS

Take away

Average annual revenue: \$1m ARS

\$10m ARS * 10% of revenue

Average annual profits: \$100,000 ARS

\$1m ARS * 10% profit margin

3 Conclusion

Based on information and revenue benefit, Mike **should accept the Bank's offer** as Take away business is growing. Access to business intelligence will give additional customer insight which might help future business considerations.

2 Understand the card payment model and assess the impact

Restaurant

Loss in profit: \$45,000 ARS

\$9 million * 25% * (2%) = **\$45,000 ARS**

Take away

Increase in profitability: \$100,000 ARS

\$1 million * 10% = **\$100,000 ARS**

Loss in profits: \$30,000 ARS

\$2 million * 75% * 2% = **\$30,000 ARS**

Total change in annual profit: +\$25,000 ARS

\$100,000 - \$30,000 - \$45,000 = **\$25,000 ARS**

Prompt - Part 1

Duke's Meadow Golf Club was set up about 10 years ago in a suburb of London.

The course is a beginner 9 hole course (the standard is 18 holes) and has been extremely successful.

Due to initial funding constraints at time of purchase, founder/owner only developed half the land he originally purchased.

The owner asks you what he should do with the remaining 50% of his land.

Guide - Provide Only if Requested

Percentage of customers who are beginners: 80%

Demand exceeds supply and is growing.

Other sports facilities nearby include one professional golf course and one professional tennis center.

The course is situated on the river and is a neighbor to a number of rowing clubs.

Two large breweries are also based in the area.

Funding is not an issue for the client.

Cookies

- Identifying different levels of demand in winter and summer months
- Suggesting leasing the land as an option
- Suggesting a discount rate (not necessarily due to quick payback)
- Taking in account seasonal demand

Traps

- Not considering selling the land as an option
- Not requesting information regarding current funds



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

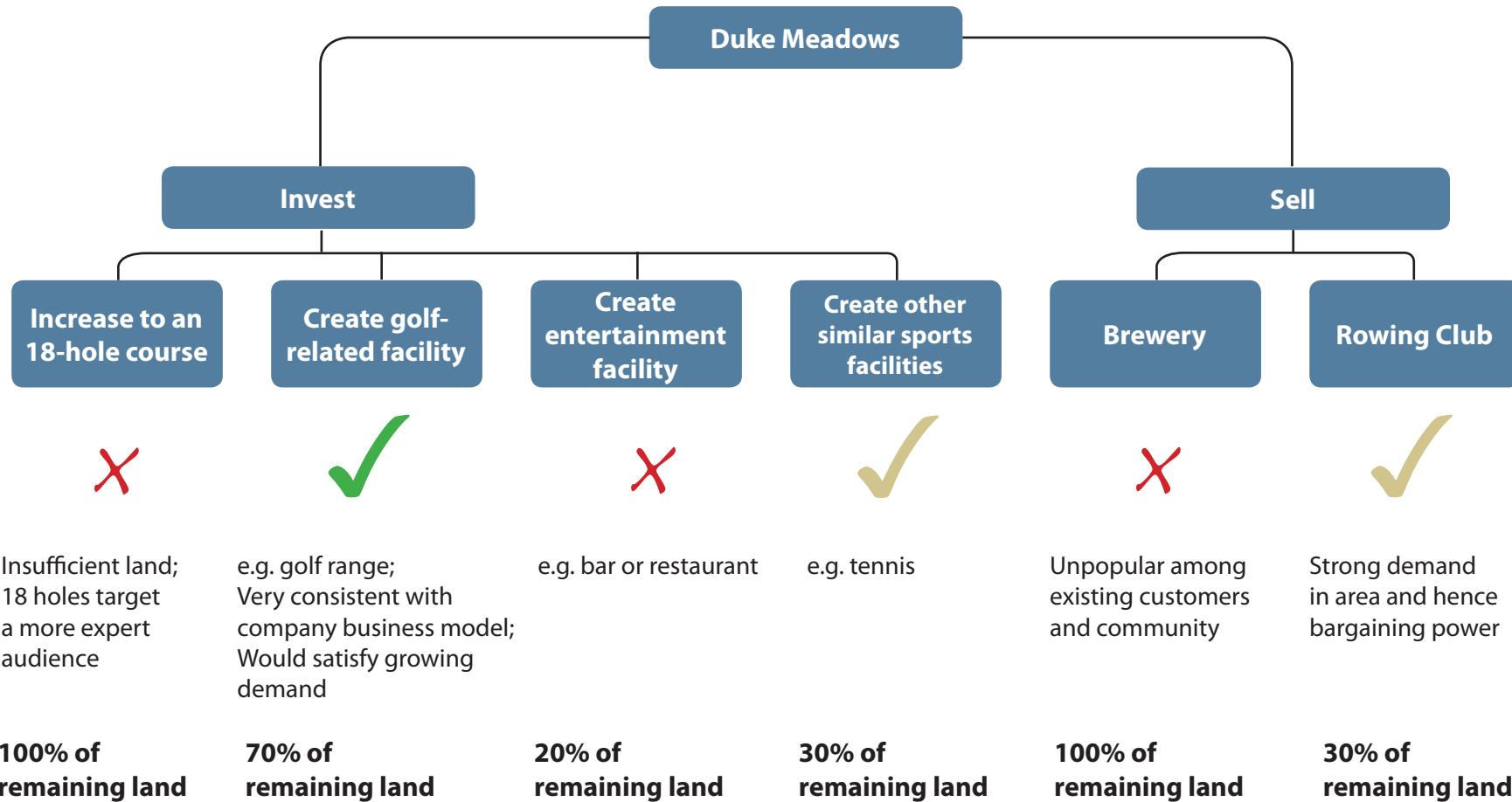
Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Suggested Approach - Part 1



Prompt - Part 2

Candidate should identify the creation of a golf range as the best option.

Assess the profitability of developing a golf range and recommend whether to pursue.

Guide - Provide only if requested

Estimations for golf range

Capacity: 50 aisles

Price: £3 for 40 balls

Average duration per 40 balls: ~30min

Summer months: Apr – Sept

Daily opening hours: 14 hours

Utilization rate: 90%

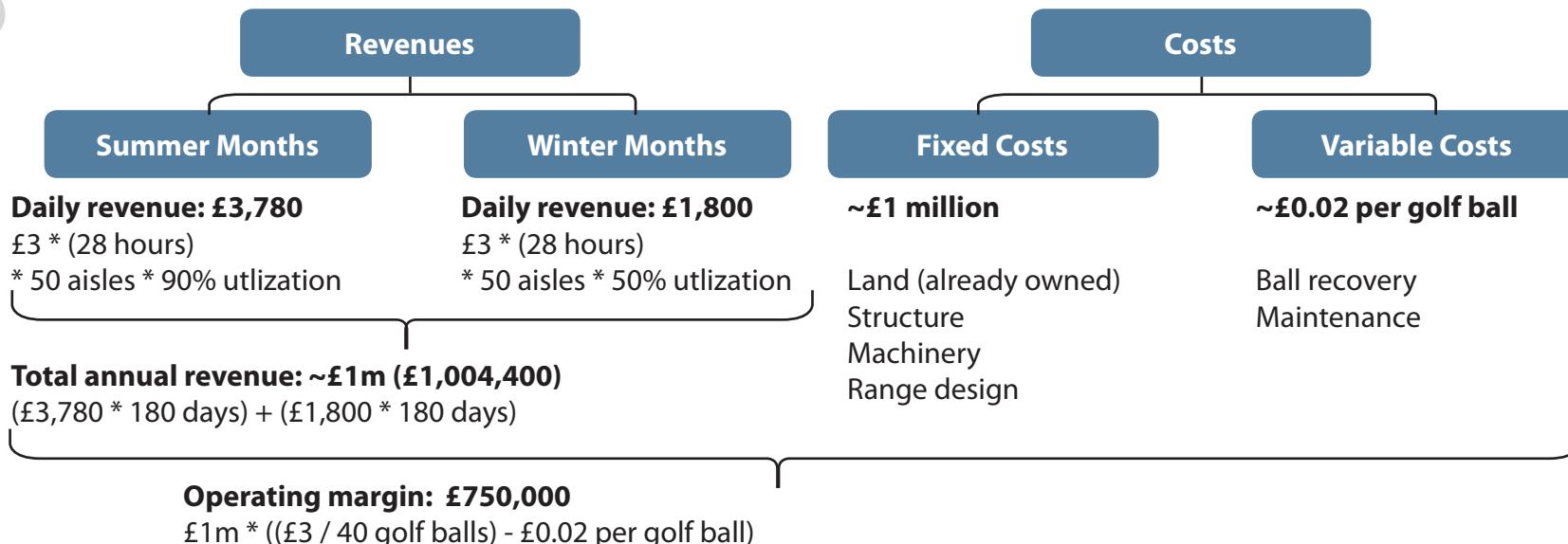
Winter months: Oct– Mar

Daily opening hours: 12 hours

Utilization rate: 50%

Rowing club has made an offer for 15% of land:
£300,000

Suggested Approach - Part 2



Yes it is a good idea. Creating a golf range would satisfy growing demand and increase profitability. Additionally, the golf range would provide a complementary service for beginner golfers.

Prompt - Part 3

Candidate should validate the construction of the golf range.

What should our client do with the remaining 30% of the land?

Suggested Approach - Part 3

Candidate should evaluate other alternatives including the following;

The client can cash in and sell the remaining land to the rowing club.

However, candidate should readdress the other highlighted option of developing land for other related sports (e.g. tennis) to the same target market audience and recommend further research.



Prompt

Gracia FC, a historically small and provincial football club, is in its fourth consecutive year in Liga 1 (the top Spanish league).

The club's board and manager has made clear the club's goal and expectation: to stay in the top league. The CEO of the club also wants to improve cash flow in order to buy top players (e.g. Messi).

Additionally, the board wishes to develop its stadium to top league standards and to increase the match day capacity to top league standards.

The club's CEO asks you what he should do with the stadium.

Notes
Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Guide - Provide only if requested

Current stadium capacity: 15,000

Average ticket price: 20€

Average Liga 1 stadium capacity: 35,000

Approximate number of games per year at stadium: 30

Stadium tickets sales: represent 30% of total revenue (other sources are TV rights and merchandising)

Football margins: Gracia FC's are usually around 20% (candidate should use this as a proxy to cash flow for calculations)

Cookies

- Applying a scenario based approach based on the information acquired
- Identifying other implications of expanding the stadium (e.g. increased sponsorship, advertising and sales channel commissions)

Traps

- Not taking into account risk factors and other qualitative factors in the assessment

Gracia paid a construction company to investigate two options

Developing existing stadium and increasing capacity by 50% at a cost of 5m € (expected utilization rate: 100%)

Building a brand new stadium seating 40,000 would cost 40m € (expected utilization rate: 80%)

For both investments, discount rate is 10%

Suggested Approach

Develop a scenario-based approach to the information acquired.
Candidate should be able to develop three distinct scenarios and assess the financial feasibility of each.

Scenario 1 Do nothing

Time to complete: 0 year
Capacity increase: 0%
Cost to build: 0 €
Utilization rate: 100%

Annual ticket revenue: 9m €
 $15,000 * 20€ * 30$

NPV: 18m €
 $((9m € * 20%) / 10%) - 0 €$

Leaving the stadium as is does not support the Club's long-term strategy of staying in the top league

Missed opportunity of increasing revenues



Scenario 2 Develop current stadium

Time to complete: 1 year
Capacity increase: 50%
Cost to build: 5m €
Utilization rate: 100%

Annual ticket revenue: 13.5m €
 $15,000 * 1.5 * 20€ * 30$

NPV: 22m €
 $((13.5m € * 20%) / 10%) - 5m €$

Less risk than building new stadium

One year until completion



Scenario 3 Build new stadium

Time to complete: 2 years
Capacity: 40,000
Cost to build: 40m €
Utilization rate: 80%

Annual ticket revenue: 19.2m €
 $40,000 * 20€ * 30 \text{ games} * 80\%$

NPV: 1.6 m €
 $((19.2m € * 20%) / 10%) - 40m €$

High risk project

Supply estimated to exceed demand

Two years until completion



Conclusion

Developing the current stadium (scenario 2), is the best option based on quantitative and qualitative analysis

Prompt - Part 1

Your client is the CEO of a French-based mobile phone operator. More specifically, they are a "virtual mobile phone operator". They differ from traditional mobile operators (e.g. Vodafone, T-Mobile, Telefónica etc...) in that they **do not** own mobile antennas, but instead partner with them and rent antenna capacity in order to offer a mobile service.

Your client has expressed interest in expanding his company's operations to a new country. They have shortlisted 12 countries.

Which country/countries would you select from the list below for our client and why?

Notes
Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Guide - Provide only if requested

NICE mobile ONLY offers prepaid services

NICE mobile currently provides services in:
France - where it partners with 'Yellow'
UK - where it partners with 'Finaphone'

Cookies

- Taking into account changes in consumer habits due to changing technologies (e.g. smart phones, messenger etc.)

Traps

- Not considering the prepaid market segment in identifying new markets to enter

To be shown to candidate

	Industry Growth Rate	% of prepaid mobile users	Stability of prepaid segment
Spain	Low	40 - 70%	Uncertain
Germany	Low	< 40%	Good
Holland	Low	< 40%	Uncertain
Belgium	Low	< 40%	Good
Italy	Low	> 70%	Good
USA	Low	< 40%	Good
Mexico	High	40 - 70%	Uncertain
Brazil	Medium	40 - 70%	Uncertain
Japan	Low	< 40%	Uncertain
China	High	40 - 70 %	Uncertain
India	High	> 70%	Uncertain
Philippines	Medium	40 - 70%	Uncertain

Suggested Approach - Part 1

Candidate should discuss key insights from chart but focus on the following two:

Italy



High % and stable number of users

India



Fast growing market with large prepaid segment

Prompt - Part 2

Which of the two markets would you recommend to prioritize and why?

Support your answer with both qualitative and quantitative analysis. Estimate potential revenue for our client based on capture of 1% of the market share in both India and Italy.

Guide - Provide only if requested

Italy

Population: ~60 million
Mobile penetration rate: ~95%
% of prepaid users: ~90%
Avg rev per customer: \$30/per month
Market entry relatively easy due to EU membership

India

Population: ~1.1 billion
Mobile penetration rate: ~70%
% of prepaid users: ~90%
Avg revenue per customer: \$10/per month
Market is highly liberalized and easy for foreign companies to enter

Suggested Approach - Part 2

Italy



$$60m * 95\% * 90\% = 51.3 \text{ million customers}$$

$$(51.3 \text{ million} * \$30) * 1\% = \sim \$15 \text{ million}$$

India



$$1.1b * 70\% * 90\% = 693 \text{ million customers}$$

$$(702 \text{ million} * \$10) * 1\% = \sim \$70 \text{ million}$$

Key takeaway: Although both markets should remain targets for NICE mobile, the client should prioritize India due to its large and growing market, along with its liberalized foreign investment policies.

?

Prompt - Part 3

Now that you have identified India as a prime choice, how can you go about entering the market?

\$

Guide - Provide only if requested

There are 15 "traditional" mobile operators in India (none of them are virtual networks).

The top 3 hold ~50% market share

One of the top 3 firms is a current partner of NICE mobile: 'Finaphone'

!

Suggested Approach - Part 3

NICE mobile has two options:

Partner with existing business partner in Europe

Indian market includes unusually large number of mobile operators: hence large supply of potential partners to enter

Prompt - Part 1

Your client is a leading global player in the pharmaceutical market. Its sales in Europe for Valvo, a drug used to treat a type of heart disease, are deteriorating.

You have been hired to understand why sales are deteriorating and to recommend actions to overcome these factors.

Guide - Provide only if requested

Distributor prices: Differ per country, but stable

Turkey	4 Euros
UK	6 Euros
Germany	10 Euros

The number of patients who use Valvo to treat their disease has remained the same, their usage has not changed, therefore, the total number of products sold is the same.

No substitute exists.

Assume the same number of people have this disease in each country and Valvo is the only currently used medication.

The patent for Valvo is not a problem.

A doctor's prescription is needed to purchase Valvo.

Pharmaceutical products can be sold across borders.

There is no need to consider other products in portfolio.

Cookies

- Understanding the six stakeholders in the market:
Pharma companies
Insurance companies
Regulatory agents
Doctors
Patients
Pharmacies
- Considering need for prescription
- Considering generics or changed insurance company policies a
- Examining typical use of the product

Traps

- Not realizing that the Pharmaceutical market has unique characteristics (e.g. regulatory pressures)

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

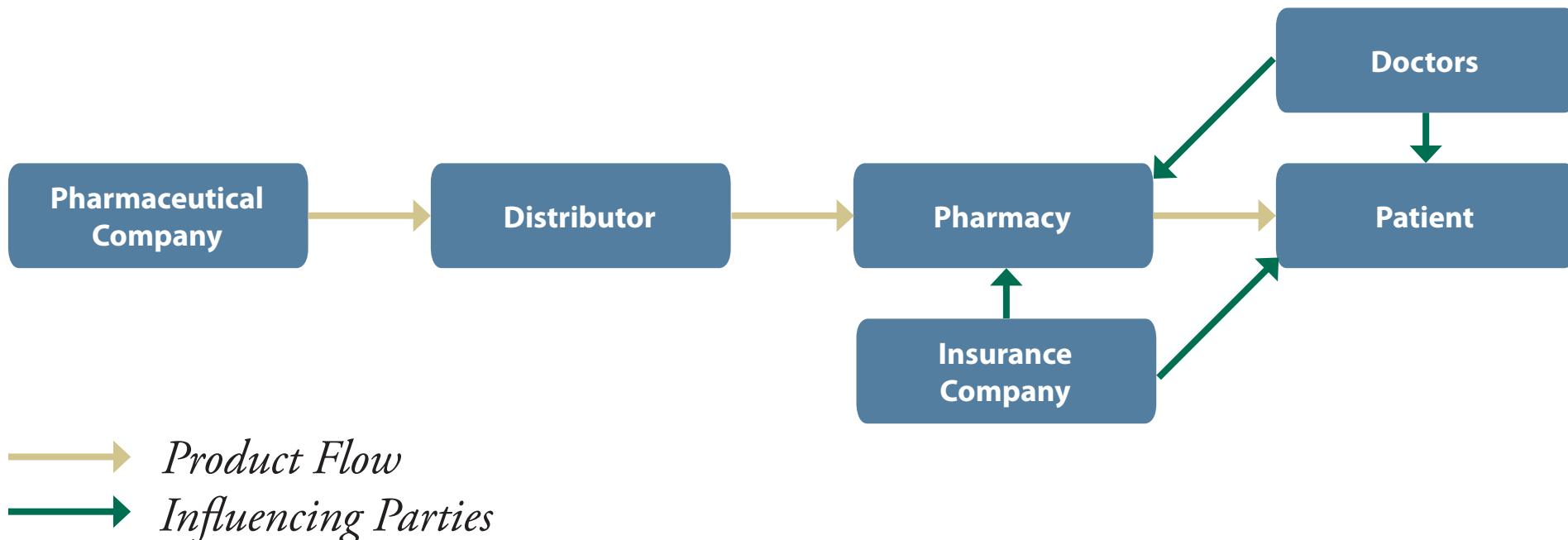
Suggested Approach - Part 1

1 Find the source for the declining sales

$$\text{Sales} = \text{Volume} * \text{Price}$$

Total sold volume is stable, but differs between countries
Price is stable but different in other markets outside of Europe
There are no restrictions for distributors where to buy their products

Distributors buy from low price markets and sell in high price markets.



Prompt - Part 2

What can be done to overcome the declining sales?

Suggested Approach - Part 2

Align prices among countries

When renewing contracts with distributors, include a clause for non-cross border sourcing

Agree with distributors on volume-based discounts on European level considering price per market

Company could enter distributor market

Influence regulators to limit cross-border medicine sales

Prompt - Part 3

If you were to align prices among countries, what challenge would you face?

Suggested Approach - Part 3

Governments and other public institutions would protect the interests of its citizens and likely resist price increases.

Prompt

Your client is Rascal, Inc., a beer company in an African country. They have just hired a new Managing Director whose first task was to visit various bars to better understand the market. He hears that some bars don't sell Rascal beer because they can't get the product.

Why are these bars unable to acquire the product?



Guide - Provide only if requested

Distributor market is fragmented.

There are approximately 1000 main local distributors.

Each bar has only one distributor.

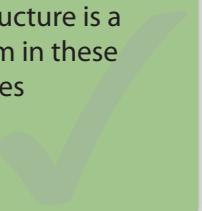
The product is placed fairly well with many distributors, approximately 250 of them.

There are 6-8 beers in the market.

The margins for all different beers along each step of the value chain are comparable.

Cookies

- Understanding that the business environment in Africa is different than in Western countries
- Realizing that infrastructure is a problem in these countries



Traps

- Not considering the value chain



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

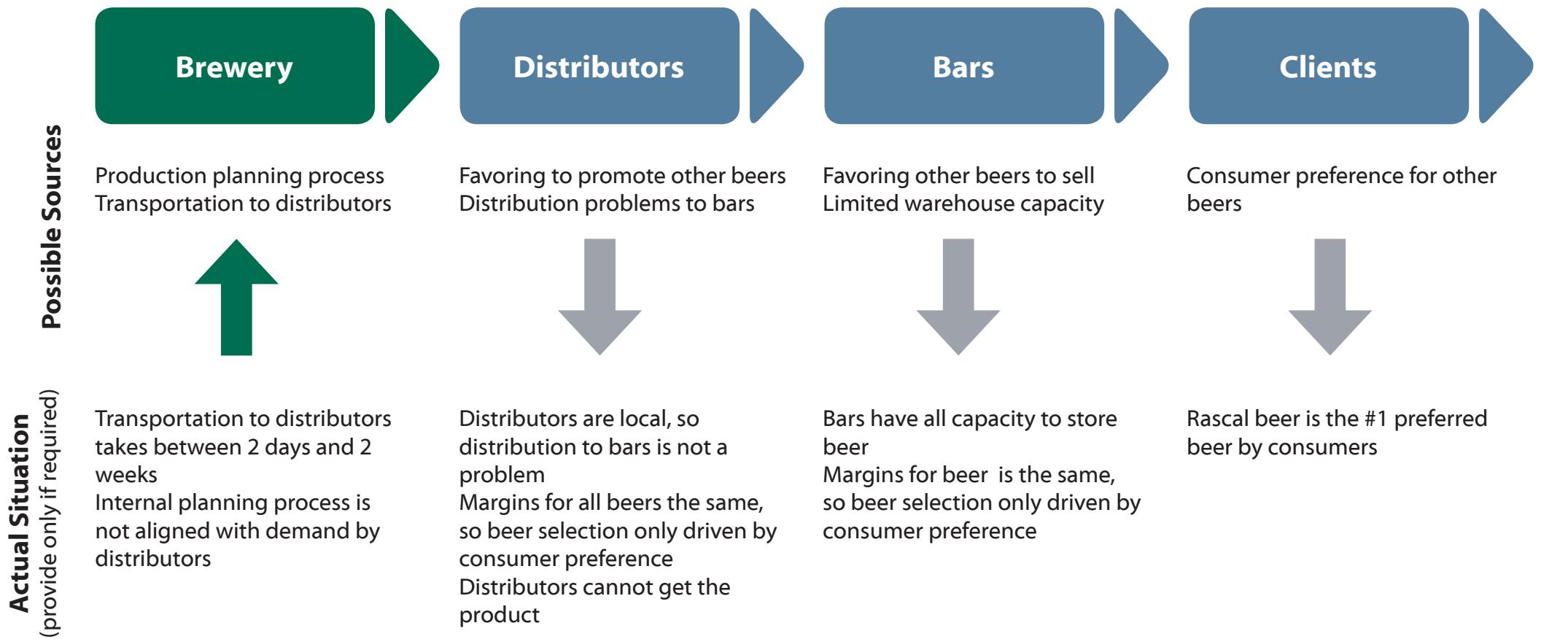
1 2 3 4 5



Suggested Approach - Part 1

1 Understand why the bars can't get the product

Structuring the problem: Possible sources causing the problem (not exhaustive)



2 Conclusion

The breweries are the problem, as transportation costs and internal planning are not aligned with distributors' needs. Candidate should elaborate on ways to increase the effectiveness of the planning process.

Prompt - Part 1

The government of Germany is considering privatizing the highway between Munich and Hamburg. Your client, who is considering undertaking this project, asks you whether this is a good idea.

How would you go about assessing this business question?

Suggested Approach - Part 1

Identify the various revenue and cost sources for such a project.

Revenue streams

- Toll fee by cars and trucks
- Payments by restaurants and gas stations located on the highway
- Road advertising
- Other services (e.g. emergency roadside assistance)

Investment costs

- Purchasing price of license
- Building of toll stations

Running costs of operations

- Maintenance of toll stations
- Road maintenance
- SG&A

Cookies

- Identifying the needs and considerations for different users of this highway (private vs. commercial)



Traps

- Missing potential costs/revenues



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Prompt - Part 2

Assuming that the annual operational costs can be covered by non toll-fee revenues (restaurants and petrol stations), **what toll should the client charge per one-way trip in order to achieve a two year payback of the investment?** (Assume no discount rate)

Guide - Provide only if requested

Tolls are collected at different stations between the two cities.

Market research estimates that the project could cost up to €8Million:

€3M License fee

€5M Construction costs (i.e. of tolls)

Distance between Munich and Hamburg is ~750 km (approx. 470 miles)

2 million commuters travel one-way annually between the two cities, of which 10% do so by car.

If asked, candidate may double revenues to take into account passengers using the motorway, but not traveling the entire distance between the two cities (only paying a partial toll)

Cookies

- Identifying that road users may not use the entire distance of the motorway whole distance
- Acknowledging different forms of transportation between two cities

Traps

- Failing to acknowledge that the toll might make travelers switch to other transport means

Suggested Approach - Part 2

$$\# \text{ annual passengers: } 2m * 10\% = \mathbf{200,000}$$

$$\# \text{ passengers over 2 years} = \mathbf{400,000}$$

$$(400,000 * \text{toll price}) * 2 = \mathbf{\$8m}$$

Recommended price: **€10**

The German government should privatize the highway and charge a toll of €10. A large risk is the inconvenience to commuters due to toll construction.

Prompt - Part 3

What would be your approach to estimating the number of pay stations needed for the toll road?

Suggested Approach - Part 3

Too few pay stations would mean commuters could drive long distances without paying a toll, representing a loss of potential revenue. Therefore, a good measure to use is the number of exits. For example, assume one pay station every 2-3 exits.

Prompt - Part 4

Now lets say that the government places pricing restriction and sets a maximum charge of 5€.

Would you still recommend the bid?

Suggested Approach - Part 4

Yes – it would simply reduce payback to 3-4 years; still a small payback period by construction standards. Other revenue opportunities (e.g. advertising, retail space) could also be explored to generate additional revenues.

Italian Food Expansion

Market Sizing
Business Operations
Strategy



Prompt - Part 1

The client is an Italian foods manufacturer who wants to grow the company quickly. They are present in Europe and produce a small range of products.

You have been hired to come up with feasible growth ideas.

Notes

Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Guide - Provide only if requested

Markets: Italy, Spain, Switzerland, Slovenia, Germany, and Austria

Italy makes up for 40% of EBITDA

Products: Dry pasta, canned vegetables, tomato sauce, and fruit juice

Total company EBITDA: €200m

Channels: Grocery stores and supermarket chains

No need to take VAT into consideration

Cookies

- Understanding that the company has the potential to grow within the product/market-matrix (existing/new - product/market)
- Understanding that acquiring FMCG shelf space is the biggest hurdle

Traps

- Failing to ask for information about the company's product mix
- Failing to assess country-specific preferences in assessment of growth opportunities

Suggested Approach - Part 1

Using the new/existing – product/market matrix as a structured entry into the case.

Candidate should explain each quadrant and quickly analyze them:

Products

		Existing	New
		Existing	Growth potential is limited with existing products within existing markets. The company would need substantial investment in marketing efforts
Markets	Existing	Delivering a new product to existing distributors might be the most feasible way, as the client has established relationships and could cross-sell new items.	
	New	Entering a new market with an existing product is one feasible way. However, finding distributors and kicking established competition from the shelves is not easy and requires superior products or a clear cost advantage.	High risk strategy. Developing a new product and entering a new market at the same time requires time, money, and human resources. Nothing that could be done quickly.

Prompt - Part 2

The client likes the approach and decides to produce a new product: olive oil.

What are the things the company should consider before kick-off?

Suggested Approach - Part 1

Some considerations include:

Market size

Additional profit from the new product, i.e. revenues and costs

Getting on the shelves of existing distributors

High quality or low cost approach? What is the differentiator?

Entering all distributors in Italy or make it exclusive?

Marketing, i.e. 4 Ps in collaboration with distributors

Logistics

Supply

Production and capacity

Prompt - Part 3

Determine the market size.

How much olive oil would you estimate is consumed in Italy? What's the value of this market?

Suggested Approach - Part 3

Population: ~60 million

Average household: 3 people

Number of households ~20 million

Average consumption of olive oil per month

per household: 1 bottle

Size of one bottle: 750 ml

Annual consumption: $20M \times 0.75l \times 12 =$

180 million liters

Average price per bottle: €7.50

Calculation for value: $20M \times €7.50 \times 12 =$

€1.8bn

Prompt - Part 4

Let's focus on financials:

Estimate the additional profit in terms of EBITDA, (ignoring VAT and potential additional Capex requirements).

Do you think the client should sell olive oil?

Suggested Approach - Part 4

Revenue

Market share estimation ~5%
(given when asked to)
5% of €1.8bn = ~€90m

COGS

What are usual COGS of a FMCG manufacturer?
Fair estimation: 50% of revenues
50% of 90M = €45m

SG&A

General & Admin. Cost:
Fair estimation: 10% of revenues = €9m
Sales &Marketing & sales (shelf space incl.):
Fair assumption: 25% of revenues = €22.5m

EBITDA

€90m – €45m – €9m – €22.5m = €13.5m estimated EBITDA

Conclusion

Yes, the client should begin producing olive oil. Based on the calculation (13.5 over 200), the client can anticipate an 6.75% increase in EBITA over the whole company.

Prompt - Part 1

Your client is one of Germany's largest private banks and is considering the acquisition of one of its rivals (Germany's 3rd largest private bank).

Which factors/synergies should be considered in order to evaluate the usefulness and fit of the acquisition?

Guide - Provide only if requested

Bank A:

Strong domestic retail client business
Market leader in SME business
Mainly focused on domestic market, strong in some Eastern European countries
Less than average Cost-Income-Ratio- Owns IT systems (different from Bank B)

Bank B:

Solid domestic retail and private client base
Good in Wealth Management
Home market Germany, also strong in other foreign countries (especially LatAM)
Owns IT systems (different from Bank A)

Cookies

- Probing for competitor intelligence and strengths/weaknesses of both banks



Traps

- Only looking at either growth or cost side



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Suggested Approach - Part 1

1 Breakdown of main considerations

Examples

Strategy

- Geographies
- Markets
- Products
- Segments

Costs

- Best practice sharing (cost-income ratio)
- Staff
- Systems
- Property, Plant and Equipment

Assets

- Capital increase
- Cash
- Shares
- Financial Leverage
- Acquisition: financing

Culture

- History
- Vision & Mission
- Goals
- Working environment
- Compensations

Prompt - Part 2

Estimate the value of the cost implementation this newly-formed company could generate through consolidation?



Guide - Provide only if requested

	Bank A	Bank B
Headquarters:	Frankfurt	Frankfurt
Staff:	15,000	15,000
No. of buildings:	10	5
Average capacity:	1,750	2,000
Average salary:	€60,000	€60,000
Estimated FTE reduction post-merger:	10% combined workforce	
Severance Package:	50% annual salary	
Estimated systems implementation costs:	€10m	
Estimated average selling price per office building:	€10m	

Cookies

- Asking about relevance of team separation
- Considering the difficulty to fire people in Europe
- Mention the retail branches as a possible additional source of savings on buildings
- Coming up with IT changes costs

Traps

- Failing to consider the "people" aspect



Suggested Approach - Part 2

Cost Synergies in Year 1

PP&E

Following lay-offs, there are now 2 unnecessary buildings:

Capacity 27.500
Staff: 22.500

Therefore, sell 2 small buildings

Cost Saving: €20m

Staff

$(15,000+10,000)*10\% = 2,500$ lay-offs

Salary cut:
 $2,500 * €60,000 = €150m$

Severance packages:
 $50\% = €75m$

Cost Saving: €75 m

Systems

Cost of implementation

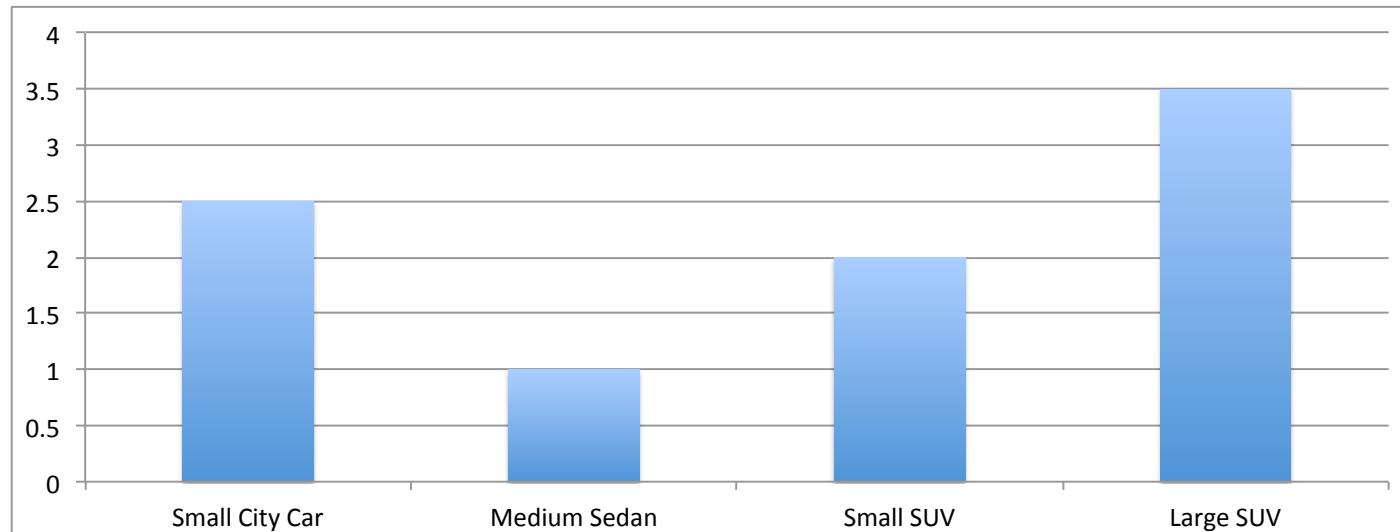
Additional Cost : -€10m

Cost Saving: €85m on the first year following the merger.

Prompt - Part 1

Your client is a large multi-brand car manufacturer. They have just decided to increase their range of their mainstream brand Auto4 by introducing a new model in 3 years time.

Currently they are not present in 4 segments and would like your advice to determine which segment to pursue.



Last year segment sales

Notes
Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

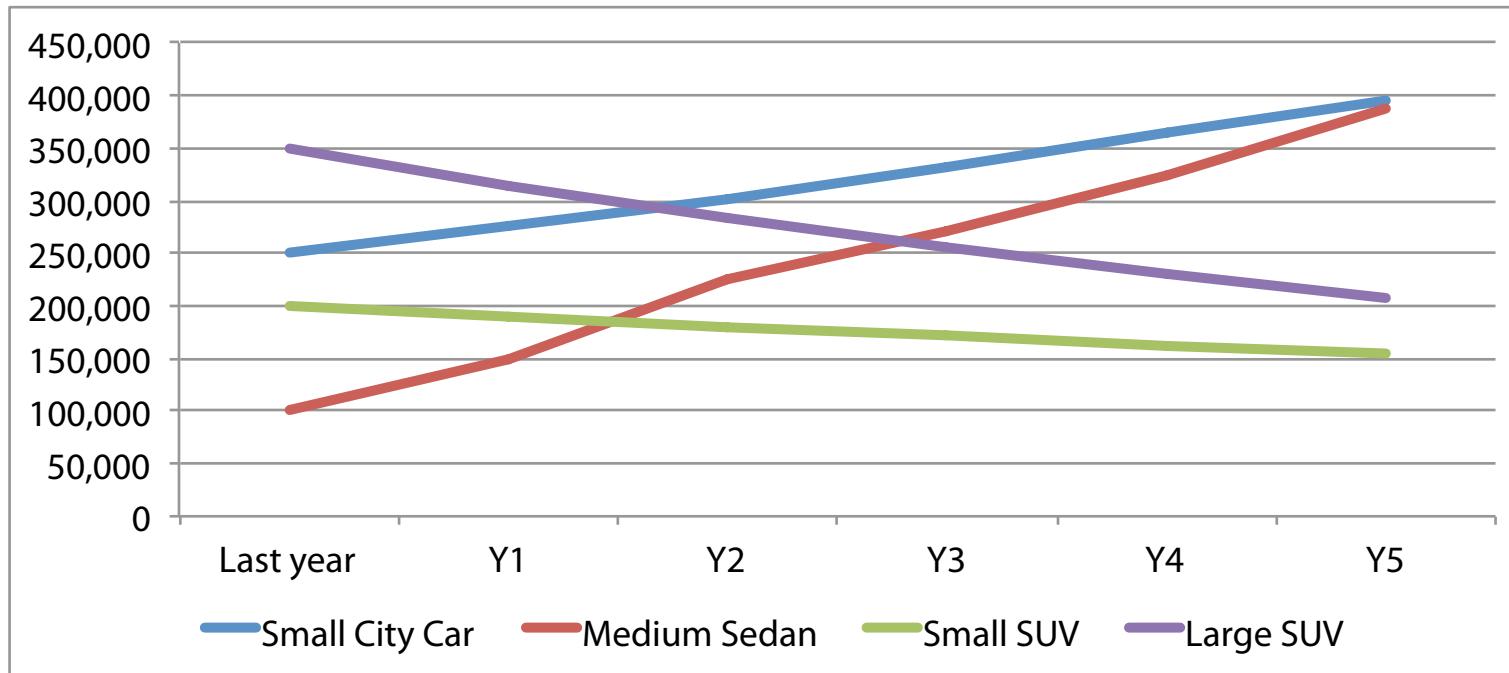
Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Guide - Provide only if requested



5 year sales forecast by segment

	Small City Car	Medium Sedan	Small SUV	Large SUV
Competitor 1	x		x	x
Competitor 2	x	x	x	x
Competitor 3		x		x

Competitor landscape

H Suggested Approach - Part 1

Small and medium cars. Based on the data, these segments have less competitors and climbing sales.

? Prompt - Part 2

Based on your recommendation, your client has decided to look into pursuing these two segments.

Conduct a profit estimation to determine which one of the two segments to pursue.

S Guide - Provide only if requested

Market share: 10% in each

Profit margin: 5% in each

Average price (small car): €10,000

sales to be calculated over 5 years

Average price (medium car): €15,000

Sales over 5 years have to be estimated using the sales forecasts graph and the market share

	Sales on 5 years	Average Price	Total Revenues	Profit Margin	Total Profit
Small City Car	1.7m	€ 10,000	€ 17B	5%	€ 0.85 B
Medium Sedan	1.4m	€ 15,000	€ 21B	5%	€ 1.05 B

H Suggested Approach - Part 2

Introduce a medium sedan car as it will generate more profit.

Prompt - Part 3

Let's now discuss the engine selection. In order play a part in the important global warming issue the VP of Product Development has decided to equip this new model with an hybrid engine. Unfortunately, our client hasn't mastered this technology yet.

What do you advise?

Guide - Provide only if requested

Option 1: In-house development

Option 2: Technological Alliance/Partnership with a competitor:

Option 3: Outsource engine production/ Buy directly from a competitor:

Candidate should come up with these 3 options and weigh the pros and cons of each.

In-house		Partnership		Outsource	
+	-	+	-	+	-
Tailored to the new model requirement (quality, power, consumption,...)	Time (min. 5 years) – Massive negative impact on sales	Reduce time and investment	Compromise (you can't impose your product specification to the other partner)	Available directly – sales can start quickly	Impact on margin
Develop new know-how	Initial investment	Develop new know-how	Time and investment Massive impact on sales	Quality is proven (engine already used in other cars)	Potential brand damage

Suggested Approach - Part 3

In the present case, outsourcing the engine production is the most attractive option; doing so does not postpone the start of sales.

Prompt - Part 4

Your client is meeting the VP of Product Development in 10 minutes and wants to present to him the first findings about this new models. Also, he would like to come up with additional ideas to increase sales of this model in the future.

What do you tell him?

Suggested Approach - Part 4

Candidate should summarize recommendations and provide next steps.

Possibilities for the future:

Build variants on the model (convertible-style, number of doors, etc.)

Strong life cycle actions (e.g. limited edition model with specialized features at a advantageous price)

Co-branding actions

Target B2B opportunities– Create a customized fleet version of the car with specific features and price for large-scale purchases

Market Entry into China

Market Sizing
Business Operations
Strategy



quantitative

qualitative



Prompt - Part 1

Your client, a mid-size US beer brewer, is considering entering the Chinese market.

Briefly outline your approach to such a market entry.

Notes

Analytical & Problem
Solving Skills

1 2 3 4 5



Suggested Approach - Part 1



PEST
PESTEL

Projected economic growth;
Degree of political control;
etc...

Sector & Market
Analysis

Five Forces
Customer Segmentation

Competitive landscape;
Supplier/buyer power;
etc...

Internal Analysis

SWOT
Cost/Benefit Analysis

Operational efficiency;
Product differentiation;
etc...

Communication &
Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense &
Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Prompt - Part 2

Your client has decided to move forward.

What would be an approach to entering the Chinese beer market?

What risks can you identify with such a market entry?



Guide - Provide only if requested

Beer production and distribution tends to be very local in China

Chinese beer consumption (sales) is 70% higher than in the USA and is growing at a rate of 10% annually

Margins are smaller in China than in US (40% vs. 15% respectively)

The alcohol industry is highly fragmented – high level of competition

The top four competitors have already entered via M&A – there are no longer viable acquisition targets in China and there is an element of protectionism

About the company

Strong reputation for efficiency

Very U.S. centric, currently only does business in the USA & Canada

There was one previous effort to expand to Japan, which failed several years ago

Suggested Approach - Part 2

Export



Almost all beer is sold where it is made. Transportation costs would make for uncompetitive pricing in what is already a competitive market

M&A



Late entry into China means that no suitable targets are available

Organic Growth



Poor track record in Asia (i.e. Failed Japan mkt entry)
Very U.S.-centric firm with little experience at adapting to local markets

Strategic Partnerships



This option is best since the company wants market presence but will need help from a business partner in order to adapt to a competitive market. Especially important because of the previous failure in expanding to Asia (i.e. Japan)

Prompt - Part 3

If you were to pick a different country for market entry in this company, which would you pick to recommend to the Board and why?

Suggested Approach - Part 3

Candidates answer should take into consideration:

Local production and distribution of beer

Market growth

Competition

Economic and political ties

A good example would be Mexico, which satisfies all the above criteria.

The Cost of Health

Market Sizing
Business Operations
Strategy



Prompt - Part 1

The CEO of the largest grocery retail chain in the U.S. sits with you in a meeting and says, "I'm spending a lot of money annually on health care insurance costs for my workforce. I need to bring these costs down."

How would you advise the CEO?



Guide - Provide only if requested

Number of employees: 186,000

Assume 80% of employees are subscribed to the company's health care insurance plan.

Of this 80%...

Percentage of employees with family: 75%

Average family size: 3 people

Disregard government subsidies for health care.

Disregard retirees who are still covered under the company health insurance plan.

Assume one standard plan per person with the same cost.

Assume employees with families insure all family members.

Cookies

- Understanding that the company pays health care costs for employees and family members



Traps

- Assuming that all employees are covered under the health care insurance of the company (some covered under spouse's health care plan, etc.)



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

H Suggested Approach - Part 1

Evaluate whether this is a large amount to spend on health care insurance costs:

Estimate the amount spent per person covered.

Number of employees covered under company insurance: $186,000 \times 0.80 = 148,800$

Number of single employees: $148,800 \times 0.25 = 37,200$

Number of employees with families: $148,800 \times 0.75 = 111,600$

$111,600 \times 3 \text{ people per family} = 334,800$

Total number of people covered under company insurance: 372,000

Amount spent per person covered annually: $\$1b / 372,000 = \$2,688 \text{ per person}$

? Prompt - Part 2

Is this a large amount to spend on health care?

S Guide - Provide only if requested

Benchmarks for comparable companies suggest an average annual spend of \$2,000 per person.

H Suggested Approach - Part 2

Yes, this is a large amount, especially considering that individuals also pay a portion of their health insurance costs (it's not 100% company-funded).

Also, with 186,000 employees, the company should have leverage to negotiate with the insurance provider for lower rates.

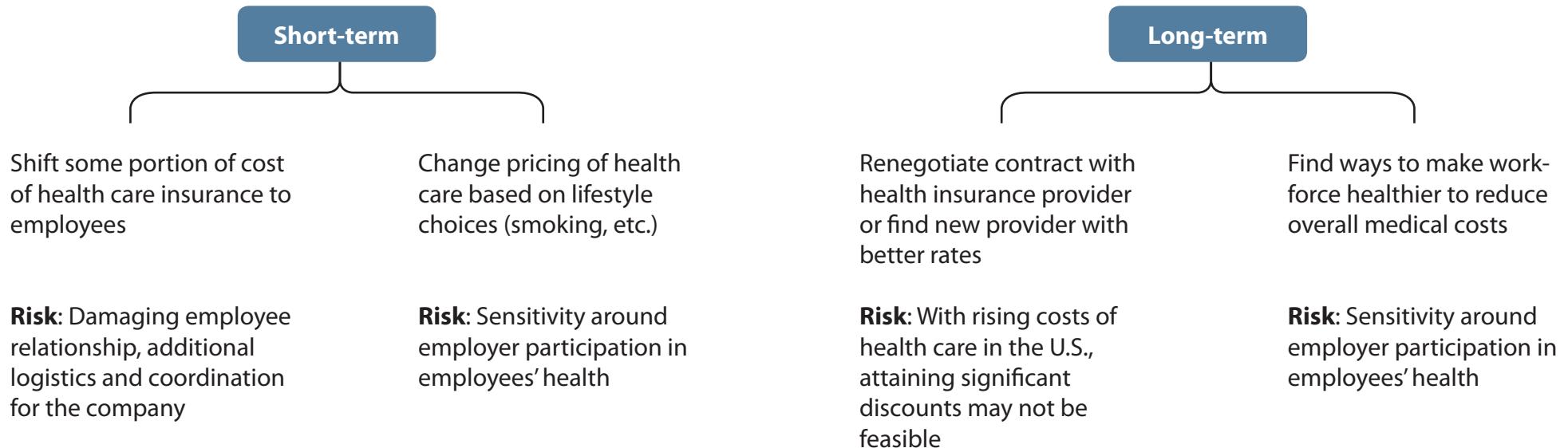


Prompt - Part 3

What are some ways to decrease these health care costs?



Candidate should evaluate options based on a short- and long- term perspective and discuss risks.



Museum Opening

Market Sizing
Business Operations
Strategy



Prompt - Part 1

A new modern art museum is scheduled to open next year in a major European city.

The project lead has requested your help with the pricing of the admission tickets. He has two questions:

How would you approach selecting a pricing method for the museum?

What price would you recommend and why?

Notes

Analytical & Problem Solving Skills

1 2 3 4 5

Communication & Presence

1 2 3 4 5

Guide - Provide only if requested

Market average admission price: 5€

Price range: 3€ - 7€

Market research: Suggests a straight correlation between average ticket price and the establishment / reputation of the museum. (i.e. the more famous the museum, the more people are willing to pay)

It is not the first modern art museum in the city

Costs: All funding for launch (building, artifacts etc.) will be financed by a national trust.

All other operating costs will mostly consist of staff, maintenance and utilities

Cookies

- Identifying the three principal pricing methods (cost plus, demand & market based) without guidance
- Suggesting additional pricing methods
- Suggesting price discrimination methods (e.g. separate pricing for adults & children etc...)

Traps

- Using a single pricing method and proceeding to calculate only that one



Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Suggested Approach - Part 1

1 Identify various pricing methods

Cost plus: Pricing based on cost plus a margin

Demand pull: Pricing based on how much customers are willing to pay

Market based: Pricing based on competitors' prices

2 Recommend a price based on most appropriate pricing method

Cost Plus



Fixed costs are high but
are already covered by the
national trust

Demand Pull



Market Based



Admission price should be based on a mix of
demand and market based pricing.
As it is a new museum, the recommended
price should be just below average
market price: ~4€



Prompt - Part 2

Almost a year has passed and the museum's launch is imminent. The bad news is that the financial crisis has hit and all museums are consequently experiencing a major drop in visitor numbers. The client has decided to halve the admission price you recommended.

What are some additional revenue sources for the museum?

Suggested Approach - Part 2



- Cookies**
- Recognizing that government funding will be difficult to secure given the recession
 - Identifying additional revenue sources



Prompt - Part 3

Regarding corporate sponsorship, your client tells you that she has received two offers : one from a major national Bank, the other from a major technology company.

Which should she accept as a sponsor and why?

Guide - Provide only if requested

Bank's sponsorship offer: €3 million fixed annual amount

Tech company sponsorship offer: Match every ticket sale

Both are long-term agreements, renewable every 5 years
The two deals are exclusive offers and cannot be accepted at the same time.

Estimated visitor numbers(opening year): 3,000 per day
Your client has growth target of 25% by year 3

Cookies

- ▢ Considering recession and potential to increase admission prices in the future

Traps

- ▢ Forgetting to halve admission price as per prompt 2
- ▢ Not asking about museum growth targets



Suggested Approach - Part 3

Candidate should calculate the technology company deal and compare with the fixed offer from the Bank, using the initially recommended price

Step 1: Calculate value of technology offer

New admission price = $4\text{€}/2 = 2\text{€}$

Technology company offer =
 $2\text{€} * 3,000 * 360 = 2.16\text{m}\text{€}$

Step 2: Conclusion with offer to accept

Whilst the Bank's offer is superior for year one, the candidate's conclusion must take into account the museum's growth targets. If museum meets growth target, the technology company's offer will be a better deal.

Prompt - Part 1

Your client is the newly appointed CEO of the national Scandinavian Airline. He has outlined his goal of becoming an industry leader in reducing his company's carbon footprint.

He asks you for specific ideas to reduce his airline's carbon footprint.

Notes

Analytical & Problem Solving Skills

1 2 3 4 5



Suggested Approach - Part 1

1 Ideas can include the following:

Client focused measures

Offset carbon emissions

Apply stricter weight restrictions

Change food packaging to recyclable materials

Investment ideas

Redesign plane (e.g. reduce weight of seats)

Place orders for newer planes which are more fuel efficient

Logistics/operational changes

Increase utilisation

Change flight routes to less congested airports

Increase cargo logistics (e.g. to pick up cargo on return flights – not to fly back with no cargo)

Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5



Prompt - Part 2

Your client says that he is particularly interested in two of those ideas you have mentioned: Increasing utilization and green packaging.

He has two separate questions for you:

What ideas can you suggest on how to increase plane utilization?

What would be the business impact of switching to green packaging for food products?



Guide - Provide only if requested

Current avg plane utilization: ~70%

Fleet size: 100 planes

Number of flights per plane: ~2 per day

Average capacity per plane: ~150 passengers

Airline is generally perceived as one of the more expensive airlines with which to fly

Currently the airline does not sell tickets through internet travel sites, which charge a commission per flight sale

Customer base: client identifies two type of customers: loyal customers (registered with loyalty program) and non-loyal members. Ratio is 1:4 approximately

Average cost of food per passenger: €2

Current food supplier is unable to supply green packaging.

There are currently only two suppliers of green food packaging for planes. Switching suppliers to either one will mean increasing food costs x3 per passenger

Cookies

- Identifying that loyal customers present a more predictable source of demand and easier to predict plane utilisation

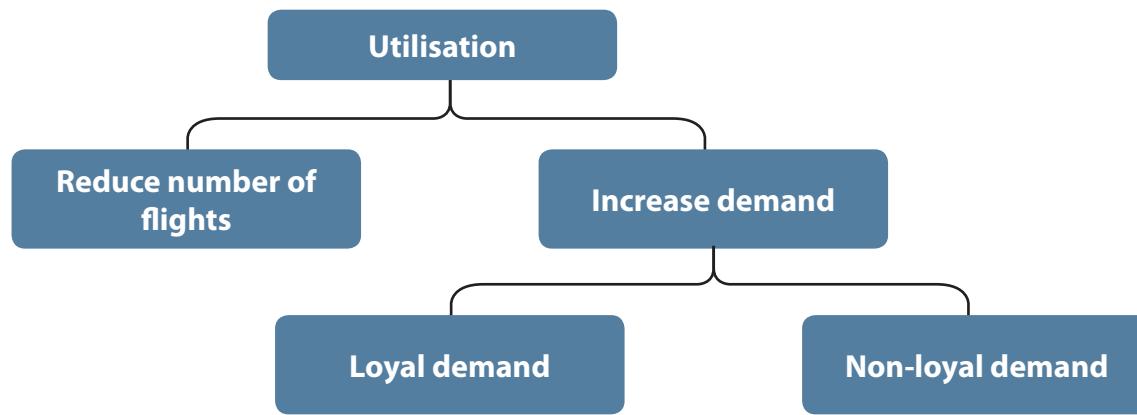


Traps

- Failing to observe that both measures come at a cost to the firm



Suggested Approach - Part 2



Suggestions to increase loyal demand

- Reward system (e.g. increase number of airmiles awarded, improve lounge access etc.)
- Strategic partnerships (e.g with credit card firms – rewarding spending with airmiles)
- Align more closely with partner airlines for business Intelligence (e.g. One world alliance members)

Suggestions to increase non-loyal demand

- Adopt internet travel sites as a new sales channel
- Adopt a pricing strategy that is more low cost/ focused on reducing average ticket prices
- Identify popular/optimal travel routes and re-arrange flight routes accordingly

Green food packaging

Current food supply costs per annum:

$$(200*360) * (150*70%)*\text{€}2 = \sim\text{€}15m$$

Flights p/a * avg number of passengers * cost per passenger

Estimated new costs after switching suppliers:

$$(200*360) * (150*70%)*\text{€}6 = \sim\text{€}45m$$


Estimated cost of switching suppliers: \sim\text{€}30m

Both measures, whilst helping to reach CEO's strategy of becoming a leading industry player in reducing carbon emissions, will both involve significant additional costs to the firm



Prompt - Part 3

Whilst your recommendations are appreciated, your client is concerned about the increased cost and the impact on his company's margin.

Would you recommend the company sacrifice profit in order to reach its strategic goals?

What ideas can you suggest to recoup the loss in revenue?

Which of the ideas would you recommend and why?



Suggested Approach - Part 3

Ideas can include the following:

Relocating airport hubs to cheaper airports (i.e. cheaper take off/landing fees + hub fees)

Charge clients for flight food

Apply stricter luggage weight restrictions and apply larger fines

Increase ticket prices from more inelastic demand sources (e.g. 1st class)

Apply flexible pricing (e.g. charging more for last minute flights)



Prompt - Part 1

The US Government has decided to sell off an older fleet of its current military submarines.

What is the current book value of this fleet?



Analytical & Problem
Solving Skills

1 2 3 4 5



Guide - Provide only if requested

Fleet size to be sold: 20 submarines

Initial book value: \$500m per sub

Date of purchase: 10 years

Depreciation rate: straight-line over 25 years

Communication &
Presence

1 2 3 4 5



Suggested Approach - Part 1

\$500m * 20 subs = initial purchase price of \$10b for the fleet

\$10b -depreciation = \$10b * (10/25) = \$6 billion (or \$300m per sub)

Common Sense &
Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5

Prompt - Part 2

Who would be interested in purchasing these submarines?

Do you recommend the US Government sell their fleet at book value?

Suggested Approach - Part 2

The two different functional reasons for purchasing ex-military submarines are:

Military purposes

Potential buyers:

Sovereign states

Scientific research purposes

Potential buyers:

Sovereign states

National institutions

Corporate and other private buyers

Assuming no external factors (e.g. political or unusual events etc.), potential buyers are likely to purchase at lower than book value price due to the following reasons:

- Zero value of opportunity cost for the US Government (i.e. decommissioning submarines)
- Competitive offering of other national governments selling off military equipment
- Older technology
- For scientific research purposes, the subs would need costly additional modifications

Prompt - Part 3

The US Government have received various offers from interested parties.

How many should they sell to whom and why?

Guide - Provide only if requested

6 sovereign states have expressed interest in purchasing three subs each at 70% book value

5 National Scientific Institutions have expressed interest in purchasing one sub each at 20% less than what countries are offering for military purchases

Cookies

- Taking into consideration political / diplomatic factors
- Considering supply/ demand factor to increase prices to scientific research buyers

Traps

- Assuming that national institutions should be prioritized since they are "of no threat"

Suggested Approach - Part 3

Sales to sovereign states should be prioritized as they offer a better price. The ideal combination should therefore be:

Military

$$6 \text{ countries} * 3 \text{ subs}: \\ (\$300m * 6 * 3) * 0.7 = \$3.78b$$

Rural

$$2 \text{ National Institutions} * 1 \text{ sub}: \\ (2 * \$300m * 0.7) * (1 - 0.2) = \$336m$$

$$\left. \begin{array}{l} \\ \\ \end{array} \right\} \$3.78b + \$0.33b = \boxed{\$4.11 \text{ billion}}$$

Conclusion

As demand > than supply (2 subs for 5 buyers), US government should negotiate for higher prices with National Scientific Institutions

IT Cost-Cutting

Market Sizing
Business Operations
Strategy



Prompt - Part 1

A large European Retail Bank has been suffering under the recent financial crisis and its CEO is desperately looking for ways to cut costs. On a Sunday afternoon, she looks through the bank's controlling reports and stumbles upon a large chunk of costs: IT.

Monday morning she calls you and asks: Do you think we can save costs here?

Guide - Provide only if requested

Total IT costs: €300m

Number of employees: 12,000

Cookies

- Asking about industry benchmarks for IT costs
- Identifying the three main types of banks and the differences in IT needs for each



Traps

- Increasing the scope of the question by addressing other areas to cut costs, instead of focusing on IT



Communication & Presence

1 2 3 4 5

Business Acumen

1 2 3 4 5

Common Sense & Practicality

1 2 3 4 5

Creativity

1 2 3 4 5

Energy & Fit

1 2 3 4 5



Suggested Approach - Part 1

Step 1: Benchmark the average IT costs in the financial services sector

The first step is to find out how the bank's IT costs compare to the industry. A benchmark analysis is required. Simple way to benchmark IT costs: average IT cost per employee

Available benchmarks:

- Retail bank of 12,000 employees spends €186m on IT
- Corporate bank of 12,000 employees spends €400m on IT
- Investment bank of 2,500 employees spends €100m on IT

Retail bank

$$\text{€186m} / 12,000 \text{ employees} = \text{~€15,500 per employee}$$

Corporate bank

$$\text{€400m} / 20,000 \text{ employees} = \text{~€20,000 per employee}$$

Investment bank

$$\text{€100m} / 2,500 \text{ employees} = \text{~€40,000 per employee}$$

Client bank average IT cost per employee:

€300m / 12,000 is €25,000 euros of IT cost per employee

Step 2: Reaching a recommendation based on observations

What can you conclude from this data?

- Investment banks have higher IT requirements (because of trading, etc.) and therefore larger costs.
- Corporate banks and retail banks are fairly comparable in their IT spend per employee
- The most useful benchmark is obviously the retail bank.

Realistically, is this enough of a benchmark to make a recommendation?

No, one would need more comparables.

What are the factors that determine a useful benchmark?

- Size (economies of scale)
- Industry and sub-sector (retail vs corporate vs I-bank)
- Location (labor costs)

Conclusion: The other retail bank has much lower costs while having same amount of employees, therefore there must be an opportunity to lower IT costs.

Prompt - Part 2

The CEO sees this and becomes very motivated to be able to slash costs in IT. How can she do this?

Guide - Provide only if requested

IT cost structure is as follows:

Personnel: €150m

Depreciation: €75m

Licenses: €50m

Others: €25m

Suggested Approach - Part 2

Gain an understanding of the IT cost structure in order to identify opportunities to cut costs.

Candidate should identify that depreciation represents almost 25% of total IT costs.

Prompt - Part 3

What does the depreciation account for?

Suggested Approach - Part 3

Depreciation is on all the machinery where applications are hosted (mainframes, servers, networks, etc.)

Prompt - Part 4

Two companies have stepped forward with offers to reduce our clients' depreciation costs.

They offer the following terms:

Company A: Offers services at cost of €10m, estimated reduction in depreciation cost by 40% and personnel cost by 10%.

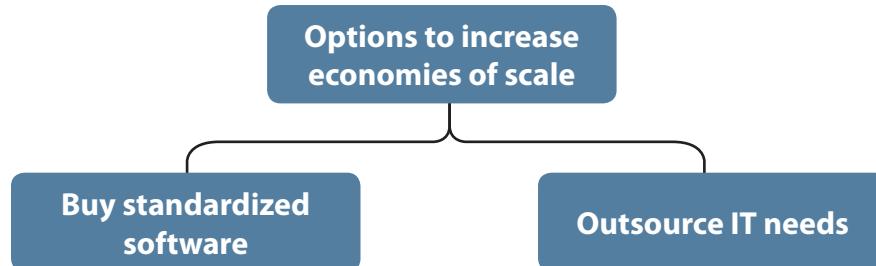
Company B: Offers services at cost of €15m, estimated reduction in depreciation cost by 20% and personnel cost by 25%.

What offer should the client choose?

Suggested Approach - Part 4

Step 1: Identify methods to save money on IT

Step 2: Reaching a recommendation based on cost/benefit analysis



Standardized software: Cost is an advantage, however the client loses its tailored software and potentially a competitive advantage

Production outsourcing: Cost is an advantage, however security is a main issue that needs to be considered

In IT you can save money by exploiting economies of scale. How do get into economies of scale? You can either buy standardized software (like SAP) and / or you can outsource the IT production to an outsourcing provider.

{ FINAL } { NOTES }

Case & Author List

Case 1: Heathrow Airport
Author: Alex DF Gash

Case 2: Mobile usage in Spain
Author: Alex DF Gash

Case 3: US Household Debt
Author: Alex DF Gash

Case 4: Window supplier
Author: Alex DF Gash

Case 5: Restaurant in Buenos Aires
Author: Alex DF Gash

Case 6: Duke Meadows Golf Club
Author: Alex DF Gash

Case 7: Gracia Football Club
Author: Alex DF Gash

Case 8: NICE Mobile
Author: Alex DF Gash

Case 9: Pharma Sales
Author: Marc Andre Lein

Case 10: Rascal Beer
Author: Marc Andre Lein

Case 11: Private Highway
Author: Alex DF Gash, Marc Andre Lein

Case 12: Italian Food Expansion
Author: Thomas Gut

Case 13: Bank's wedding
Author: Dieter Koehler

Case 14: Car Manufacturer
Author: Francois Deconinck

Case 15: Market Entry into China
Author: Alex DF Gash

Case 16: The Cost of Health
Author: Lillian Bautista

Case 17: Museum Opening
Author: Alex DF Gash, Lillian Bautista

Case 18: Green Airline
Author: Alex DF Gash, Lillian Bautista

Case 19: US Submarine Sale
Author: Kathryn Montbriand

Case 20: IT Costs
Author: Paul Fattinger

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