

Case 24: Ocular Co.

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Case Question

- The first contact lenses were made of glass and appeared in the early 20th century, but contacts have come a long way since then – it is estimated that there are more than 100 million contact lens wearers around the world today. Ocular Co. currently commands 40% of the Irish contact lens market with its franchise of soft-contact disposable lenses that are disposed of weekly. In addition, Ocular has been considering the launch of Ireland's FIRST daily disposable contact lens after it received a favorable regulatory review, but wants to know if it should launch.
- *What are the key issues Ocular should consider when considering the launch of this product?*
- *Will this be a profitable venture? Should Ocular Co launch?*

Case tracker

- **Industry:**
Healthcare
- **Level of Difficulty:**
Medium
- **Case Format:**
Developing a new product
- **Concepts Tested:**
 - Creativity
 - Break-Even Analysis
 - Marketing strategy

Fit Questions

Spend first 15 min on fit

- How do you feel about working in a feedback-intensive environment?
- Why is consulting a better career move for you compared to your next best option?

Guide to interviewer

- This case tests the candidates understanding of concepts such as cannibalization and challenges the candidate to make inferences about a break-even point.
- Objectives:
 - Demonstrate creativity and ability to frame strategy and risks for new product launch
 - Assess candidate's ability to solve a break even equation for product launch and to summarize key findings

6

Quants.

4

Structure



Creativity
B/E
Mkt. Stgy

Clarifying answers and handout guide

Clarifying answers to provide

Customer considerations

- There is demand for “dailies,” and a global segment that is rapidly growing
- Dailies are less durable and breathable
- Customers are generally willing to pay a premium for daily disposables

Product/company considerations

- If asked about portfolio, show **Exhibit 1**
- All R&D costs are sunk, but this requires more expensive packages & a retooling of its factories, increasing per-unit costs
- Dailies do NOT require cleaning solution

Competition

- Market research shows a likely expansion of Irish market upon launch
- Dailies would capture share from its weekly product as well as competitors
- Ocular would have a 5+ year headstart over its competitors, given R&D

Guide to handouts

The candidate should develop a framework to analyze the launch of the new product. Among other aspects, the candidate should mention potential market share, increased in costs, and impact on current products (i.e. cannibalization).

Exhibit 1 – Hand to candidate after he or she asks about Ocular’s product mix

- (If needed, nudge) How could the launch of a daily contact lens impact the performance of Ocular’s other products?
- The candidate should make qualitative assessments about the impact of launching a daily contact lens on the sales of its other products, particularly its contact lens cleaning solution

Exhibit 2 – Hand to the candidate when introducing the second question

- (If needed, nudge) Given the data provided, how attractive to Ocular’s future profit streams look when compared with those that they experienced in 2010 (without discounting)?
- Push candidate to provide calculation of profitability both before and after Ocular’s launch of daily disposable contact lenses

Exhibit 3 – Hand to the candidate after working out the above portion

- Earlier we talked about the potential impact on the sales of cleaning solution. We’ve been able to come up with these projections – how would this impact your analysis and recommendations?
- Again, the candidate should be able to solve for the two annual profit streams (before and after the daily contact lens launch) and draw conclusions from the quantitative results.

Key elements to analyze

Topic 1 being tested

- Product launch considerations
- The candidate should lay out a cohesive qualitative structure.

Topic 2 being tested

- Assessing profitability of product launch
- Use **Exhibits 2** to create an analysis of change in profitability

Topic 3 being tested

- Impact on contact lens solution
- Use **Exhibit 3** to determine change in solution market

Notes to interviewer

- A sample framework would include:
 - Potential market share gains vs. competitors
 - Increase in per-unit cost
 - Retooling the factory to produce daily lenses
 - Alternative packaging
 - Risks
 - Cleaning solution as a complimentary good
 - Cannibalizing the weekly contact lenses

Notes to interviewer

- Annual profits from weeklies:
 - Before: $(200,000 \times 50 \text{ lenses} \times \$3/\text{lens} - \$17.5\text{M}) = \12.5M
 - After: $(175,000 \times 50 \text{ lenses} \times \$3/\text{lens} - \$17.5\text{M}) = \8.75M
- Annual profits from dailies:
 - $(100,000 \times 350 \times \$0.75 - \$21.75\text{M}) = \4.5M , which would offset the losses.
 - It will take 4 years to break even on \$18M investment

Notes to interviewer

- Annual profits from solution:
 - Before: $(125,000 \times 8 \text{ bottles} \times \$9/\text{bottle} - \$8\text{M}) = \1M
 - After: $(100,000 \times 8 \text{ bottles} \times \$9/\text{bottle} - \$8\text{M}) = -\0.8M
- As a result of the introduction of dailies, the contact lens solution product will go from a profitable product to an unprofitable one

Solution and recommendations

Solution & Recommendations

- Overall, our client should consider launching the new daily disposable lenses, despite considerable investments.
- The interviewee should be mindful of the increased costs and cannibalization risks that this launch poses to its weekly contact lens product and its contact cleaning solution product.
- If the client chooses to more narrowly focus on its contact lens business, it may even consider divesting its contact lens cleaning solution product.

Bonus/Guide to an Excellent Case

- An excellent interviewee will be quick to notice the opposing profit drivers in the portfolio and potential for cannibalism. Additionally, he or she would be able to quickly draw logical conclusions from a quantitative analysis.
- An excellent interviewee would also acknowledge other risks in launching this product, such as reduced revenue related to multi-use of daily contacts (analogous to pharmaceutical pill splitting) and the large capital costs/relative increase in fixed costs.
- There are also revenue opportunities that exist outside the scope of the core analysis, such as expanding to mainland Europe.

Exhibit 1: Current portfolio

| | Description of Ocular Products | 2010 Revenue |
|--------------------------------|---|---|
| Contact Lenses | <ul style="list-style-type: none"> • Contact lenses command 40% of the Irish contact lens market (by customers) • Contacts are disposed of weekly and are maintained by a solution that disinfects and reconditions lenses | <ul style="list-style-type: none"> • \$40M |
| Contact Lens Cleaning Solution | <ul style="list-style-type: none"> • Ocular sells its contact lens solution to users of both Ocular disposable contacts as well as contacts of its competitors • Bottles are approximately 4oz and helps to moisten lenses and enhance comfort for up to a week | <ul style="list-style-type: none"> • \$10M |
| Other Ocular Products | <ul style="list-style-type: none"> • Ocular produces several other eye-health products, including: <ul style="list-style-type: none"> • Prescription dry-eye relief product • Prescription ocular antibiotics • Eye Vitamins (drops) | <ul style="list-style-type: none"> • \$7M |

Exhibit 2: Projected impact of dailies on Ocular Co contact sales

Impact on Contact Lens Sales

| Cost and Revenue Data | | | | | | Change in Consumption after 2011 Daily Contact Launch | |
|-----------------------|---|-----------------------|-------------------------------------|---------------------------|----------------------------------|---|--------------------------|
| Product | Number of Lens Pairs Purchased in a Year per Consumer | Revenue Per Lens Pair | Average Variable Cost per Lens Pair | Total Annual Fixed Cost | One-Time Factory Conversion Cost | Total Consumers (2010) | Total Consumers (2011+)* |
| Weekly Disposable | 50 | \$4 | \$1 | \$17.50M (2010 and after) | N/A | 200,000 | 175,000 |
| Daily Disposable | 350* | \$1* | \$0.25* | \$21.75M (2011 and after) | \$18M (2011 only) | - | 100,000 |

* Expected levels upon 2011 launch of daily disposable lenses

Exhibit 3: Projected impact on contact lens cleaning solution

Impact on Cleaning Solution Sales

| Cost and Revenue Data | | | | | Change in Cleaning Solution Consumption after 2011 Daily Contact Launch | |
|---------------------------------------|--|--------------------|--|-------------------------|---|--------------------------|
| Product | Number of Bottles Purchased in a Year per Consumer | Revenue Per bottle | Average Variable Cost per Bottle of Solution | Total Annual Fixed Cost | Total Consumers (2010) | Total Consumers (2011+)* |
| Ocular Contact Lens Cleaning Solution | 8 | \$10 | \$1 | \$8M | 125,000 | 100,000 |

* Expected levels upon 2011 launch of daily disposable lenses