

Case 20: DigiBooks Inc.

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Case Question

- Our client, DigiBooks, is a manufacturer and seller of electronic book readers . DigiBooks also distributes e-books for the e-reader through their website. The reader is only compatible with books sold through the DigiBooks site.
- DigiBooks is planning the launch of its e-book readers in a country where no e-book readers are currently sold. Only 1% of the population has ever used a e-book reader, though 50% is aware of the concept. The Chief Marketing Officer of DigiBooks has come to you to help determine:
 - *How should DigiBooks launch and market the e-reader product in this new country?*

Case tracker

- **Industry:**
Tech/Telecom
- **Level of Difficulty:**
Easy
- **Case Format:**
Developing a new product
- **Concepts Tested:**
 - Marketing Strategy
 - Customer strategy
 - Creativity

Fit Questions

- Spend first 15 min on fit**
- Tell me about a time when you failed.
 - Share me a time when you faced a difficult situation in a team and how you solved this .

Guide to interviewer

- The case primarily tests the understanding of marketing concepts, specifically a new product launch.
- The case is written in McKinsey style format; the interviewer is expected to guide the interviewee step by step through each question.
- Begin by laying out the situation and case question, allow the interviewee to layout their structure, and then jump immediately to question 1. The interviewer is expected to drive this case rather than the interviewee.

4
Quants.

7
Structure



MKT Stgy
Cust. Stgy
Creativity

Clarifying answers and case guide

Clarifying answers to provide if Asked

Industry Definitions

- *E-book reader*: Is a software, hardware and network platform that utilizes wireless connectivity to enable users to shop for, download, browse, and read e-books, newspapers, magazines, blogs, and other digital media.

Client Characteristics

- *DigiBook's Product*: Uses an e-ink electronic paper display that features 16 shades of grey. This allows for a 12 hour long battery life and easy readability.
- *Locations*: DigiBook has never sold a product outside of the US.

Competitive Dynamics

- No competitors in the e-book or tablet space plan to enter this country

Interviewer Guide to case and handouts

Case Structure – Interviewee's structure should cover the key areas needed to explore in order to determine how DigiBooks should launch and market the reader in this country.

- The interviewee should take a few minutes to sketch out a framework for analysis of the marketing plan
- Key elements expected to be included in this framework are:
 - **Segmentation, targeting and positioning**: Are there particular segments in the population that will be ideal customers for us?
 - **Product**: What key capabilities are people looking for? Can we use our existing products or do we need to develop a new one for this country?
 - **Price**: What price should the readers and books be sold at? What is customers willingness to pay? Should we price the reader at a low price so as to capture most of the market, and make margin on e-books?
 - **Promotion**: How should the e-reader be marketed? What promotion mechanisms should be used?
 - **Place/Distribution**: Should the readers be sold through retail channels, internet or other alternative means?
 - **Selection of e-books**: Is a wide selection of books available for this country?

Prompts 1-3 – After the interviewee has laid out their structure, begin by asking the question in Prompt 1. Once each prompt has been sufficiently covered, move to the next prompt. After all prompts are complete, ask the interviewee to summarize their findings. NOTE: Prompt 2 allows for creativity, so use your judgment when evaluating.

Key elements to analyze

Prompt #1: Cust. Strategy

- Through research, we found several segments. (Hand out **Exhibit 1**). We are only able to target one segment with our product.
- Using a 3-year projection, which segment should the e-book reader target?

Notes on Exhibit 1

- If unclear, the interviewee should answer based on Revenue Potential (i.e. Ignore probability of purchase) assuming all reader sales happen immediately (Ignore TVM).
- The missing data is that the average price of an e-book is \$10, for each of the segments, and that e-books and e-reader have the same margin
- Using **Exhibit 1**, interviewee should calculate:
 - SR Revenue = [(15 books x \$10 X 3 Years) + (\$200 x 1 e-reader)] x 8M People = \$5.2B
 - OR Revenue = [(10 books x \$10 x 3 Years) + (\$125 x 1 e-reader)] x 20M People = \$8.5B
 - RR Revenue = [(5 books x \$10 x 3 Years) + (\$175 x 1 e-reader)] x 10M People = \$3.25B
- ANSWER: Segment to be targeted = occasional readers (OR) with a Revenue Potential of \$8.5B**

Prompt #2: MKT Strategy

- DigiBooks is now considering how it should sell its e-book readers: through retail stores or through the internet.
- How would you go about evaluating this decision?

Notes on Prompt #2

- Retail Channel Sample Responses:**
 - CONS:
 - Lower margin due to value chain expansion
 - Will take time and money to set up and adds training costs
 - PROS:
 - Should encourage Trial of the product
 - Retailers can help with joint marketing campaigns
 - Retailers can help with customer service, returns
- Internet channel Sample Responses:**
 - PROS: Likely cheaper to establish, will result in higher margins
 - CONS: Hard to encourage trial

Prompt #3: MKT Strategy

- Based on revised market estimates, we decided to price the e-reader at \$100 and target the Occasional Reader segment.
- Using this information and **Exhibit 2**, can you estimate the profit potential of each of these sales channels? Which should we choose?

Notes on Exhibit 2

- If unclear, the interviewee should answer this with a 1-year Gross Profitability calculation for each of the Sales Channels and back out the Upfront Investment. They should ignore all other costs such as SG&A.
- There is no missing data; however, the Market Size of 20M people in the OR segment is needed from **Exhibit 1** and the price per e-book of \$10.
- Using **Exhibit 2**, interviewee should calculate:
 - Retail Profit = [(10 Books x \$10/book x 50%GM) + (\$100/e-reader x 30%GM)] x (10M People x 40% Penetration) = \$320M - \$20M II = **\$300M**
 - Internet Profit = [(10 Books x \$10/book x 50%GM) + (\$100/e-reader x 60%GM)] x (10M People x 10% Penetration) = \$110M - \$10M II = **\$100M**
- ANSWER: Sales Channel to Use = Retail with a profit of \$300M**

Solution and recommendations

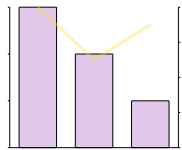
Solution & Recommendations

- Overall, our DigiBooks should launch the e-book reader for the Occasional Reader segment through the Retail Sales Channel.
- Based on our calculations, we expect to earn a \$300MM return on an initial investment of \$20MM
- **Other items to consider:**
 - What advertising mechanisms do we use in this case?
 - Do we setup a manufacturing facility in the country or do we source the products from our current manufacturing facilities?
 - Are there any prospects of competitors entering the market?

Bonus/Guide to an Excellent Case

- An interviewee who notices key nuances in the case such as: Time Value of Money impacts on Exhibit 1 and Probability of Purchase or Penetration on Exhibit 1
- An excellent interviewee will detail various elements of marketing strategy of a new product launch
- A key element of this case is being able to do relatively complex calculations at a fast pace. Laying out the tables appropriately for this case is essential to success

Exhibit #1: Market segments



\$200

\$175

\$125

Segment	Size
Super Readers (SR)	8M
Occasional Readers (OR)	20M
Rare readers (RR)	10M

Exhibit #2: Channel decisions

Channel	Percent of Total potential market	E book Gross Margin %	E-reader Gross Margin %	Penetration	Initial investment
Retail	50%	50%	30%	40%	\$20M
Internet	50%	50%	60%	10%	\$10M