

CASE 1:



BIKE DVD RENTAL SERVICE IN NYC

Firm Style	Interview Round
All	1, 2

Case Question:

Your friend has approached you with a business idea and wants your advice. He wants to open a DVD Rental service in New York City, specifically Manhattan. DVDs would be delivered to customers via delivery people on bicycles. What would you tell your friend?

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
What kind of competition exists?	Assume that Netflix and comparable services are not available. Push the student to come up with large chains (Blockbuster), local video rental stores, movie theaters, live theater, etc.
What is your friend's acceptable breakeven period?	1 year
Where will the DVDs be stored?	They will be stored in your friend's apartment (he has plenty of space for the collection).

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Framework / Structure

This is primarily a Market Sizing and Profitability case, but also includes other elements. The analysis may include, but is not limited to, the following areas:

Market Sizing Analysis (Details shows in calculations at end)

- a. Estimate the population of Manhattan – Push the student to pick a number around 2 million people.
- b. Estimate the average household size in Manhattan – Push the student to pick 2 (lower than the 3 person average for the country due to a higher number of singles)
- c. Estimate the portion of the households that your friend will be able to serve based on having one central location for the DVDs – Push the student to pick 25% of the population.
- d. Estimate the percentage of the market that your friend's service will capture in the first year. – Push the student to pick a number around 1%.
- e. Estimate the rentals per month. There can be some flexibility here, but push the student to make assumptions that yield around 2,000 movie rentals/month for your friend's business

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Profitability and Breakeven

Give the following information when asked:

- a. Assume you know someone who has a sizeable DVD collection that they are willing to sell to you to \$10,000
- b. Assume you have a friend who can set up a website and maintain it for you for a one-time fee of \$10,000
- c. Variable cost to deliver DVD is \$4 (pay bicycle delivery person)
- d. Assume an infinite supply of bicycle delivery people
- e. Choose prices between \$5 and \$8 and calculate the breakeven time in months (see excel sheet at end)

Operations Analysis

- a. What time and what days would you operate your service?
- b. How would DVDs be returned (likely dropped off at central location)
- c. How will the service function in the winter months or when it rains?

Marketing and Advertising Analysis

- a. What is the competitive advantage of this business?
- b. How would you attract customers?
- c. How can you advertise effectively and inexpensively?

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Calculations

Market Analysis

People in Manhattan	2,000,000
People/Household	2
Households in Manhattan	1,000,000
% of population that can be served	25%
% of population that rents regularly	40%
% of market that we can capture	1%
Market Potential (Households)	1,000

DVDs / Month for your friend	2000
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Market Breakdown	Size	DVDs/ Month
Low Renters	500	1
Medium Renters	250	2
High Renters	250	4

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Calculations

Profitability Analysis

DVD Capital Costs	10,000
Website Costs	10,000
Variable Delivery Costs	\$4

Price/DVD	Breakeven time (in months)
\$5.00	10.0
\$6.00	5.0
\$7.00	3.3
\$8.00	2.5

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Recommendation

The recommendation should include the following:

- a. The answer – Based on the market and profitability analysis along with my friends target of breaking even in less than a year, I would recommend that he goes forward with the business
- b. The number(s) – At a price of \$5, the friend can breakeven in approximately 10 months
- c. Risks or considerations – Demand might not materialize, delivering 60+ videos via bicycle might not be practical, and competition such as internet movies could make the service obsolete
- d. Next steps – Purchase the video collection, set up the website, and start advertising

Further Challenge Questions

What challenges would be faced if your friend wanted to expand the service to serve more customers?