Case 1: Food Wholesaling Case

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Case Question

- Our client is an established food wholesaler that is trying to increase profitability. The situation is that our client is a wholesaler of a variety of different food items, and has a steady stream of business and is already profitable, but is looking to unlock more profitability from its existing lines of business
- How can they can best increase profitability from their existing businesses?

3

Quants.

6

Structure

CPG

Micro-economics, Profit-ability

Case tracker

- **Industry:** Consumer Products
- **Level of Difficulty:** Medium
- **Case Format:** Improving profitability
- **Concepts being tested:**
  - Microeconomics

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 .
- Describe your most rewarding business school experience.

Guide to interviewer

- The case primarily tests an understanding of microeconomic concepts. As such, it is a little bit more qualitative and less quantitative than the average case.
- The interviewee should focus on solving insights regarding elasticity and profit-improving price changes .
- The interviewee should be able to come up with these insights if they invest some effort in understanding price elasticity of demand and its relationship to changes in revenues as price is reduced.

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Clarifying answers and case guide

Clarifying answers to provide

Industry Characteristics/Market Economics

- Growing at the rate of GDP
- Significant barriers to entry; no new competitors have entered the market in the last several years

Client Characteristics

- Client is currently the industry market share leader
- Margins are good, but depend on product line
- Offers a range of high-end and low-end food products
- Consumers are high and low-end hotels and restaurants

Competitive Dynamics

- The dynamics (duopoly vs. fragmented industry) depend on the region, but there are key competitors in each region

Guide to case / Guide to handouts

Exhibit 1 – Hand out after introducing case – Current business

- What observations can be made from this graph?
- Interviewee should make qualitative assessments about competitive dynamics (next slide), market positions, and make inferences about potential causes/advantages that have caused the change from 2000/2003.

Exhibit 2 – Hand out after solving exhibit 1 – Gross margin

- If we have a graph with gross margin on the y-axis, what would go on the x-axis?
- Use to illustrate relationship with gross margin and price elasticity. Interviewee should draw a downward sloping line from the top left corner.

Exhibit 3 – Hand out after discussing Exhibit 2 – Elasticity/GM relationship

- Demand elasticity and gross margin do not have the inverse linear relationship that we would expect.
- Push the interviewee to make observations from this graph and identify the client's optimal strategy be in each of the four graph quadrants.

Key elements to analyze

Competitive Dynamics

- Using Exhibit 1, have a discussion about the competitive dynamics and economics that could push the share gains from 2000-2003.

Demand Elasticity

- Use Exhibit 2 to have a discussion about price elasticity vs. gross margin and their relationship. When this discussion concludes, use Exhibit 3 for a discussion about the actual relationship.

Notes to interviewer

- Exhibit 1 - The client is the leader in a two-company oligopoly in North America, its biggest market. It is in a highly competitive situation in Europe, and an even more competitive one in Asia where it has similar competitors.
- There are three major points to identify: 1) given the economies of scale and distribution that are likely prevalent in this business, it helps explain the gains in their lead in North America; 2) conversely, we would expect them to lose market share in Asia and Europe for the same reasons; and 3) the increase in overall share in Asia makes sense given the high relative growth rate in Asia.
- Price competition should be softer in the U.S. than Asia due to commanding market share and fewer competitors. For bonus points, the candidate could also mention that the U.S. market may be more fertile ground for price leadership.

Notes to interviewer

- Exhibit 2 - the candidate should identify that the x-axis should have price elasticity, and this should lead him/her to draw a downward-sloping straight line from the upper left-hand corner to the lower right-hand corner.
- Exhibit 3 - the observation from the graph is that there is no apparent effect from demand elasticity on gross margins. We should leave pricing alone in Quadrants I and III, since they are behaving according to expectations. In Quadrant II, demand elasticity is high, yet we have a high margin, indicating that there is room to cut prices and increase profits. In Quadrant IV, demand elasticity and margins are low, meaning that we can raise prices to capture additional surplus.
- These insights regarding elasticity and profit-improving price changes are the main concluding insights of this case.

Solution and recommendations

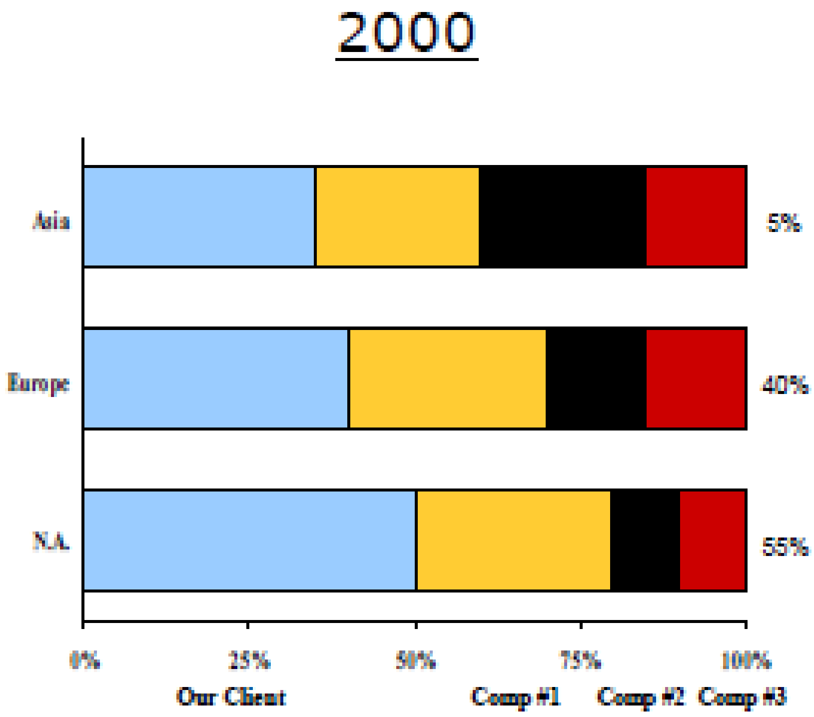
Solution & Recommendations

- Overall, our client should engage in a number of different pricing strategies that vary according to the relationship between gross margin/elasticity that varies by market.
- The client should engage in the following changes:
  - Cut prices in Quadrant II.
  - Raise prices in Quadrant IV.
  - Maintain pricing strategies in Quadrants I and III because they behaving according to expectations.

Bonus/Guide to an Excellent Case

- An excellent interviewee will quickly identify the potential drivers of changing market dynamics by continent and suggest potential strategies (i.e. price leadership in North America).
- Additionally, a strong interview will immediately grasp the relationship between gross margin/ elasticity and be able to quickly recommend related strategies from the situation shown in Exhibit 3.

Exhibit #1: Client's share of sales by region, 2000-2003



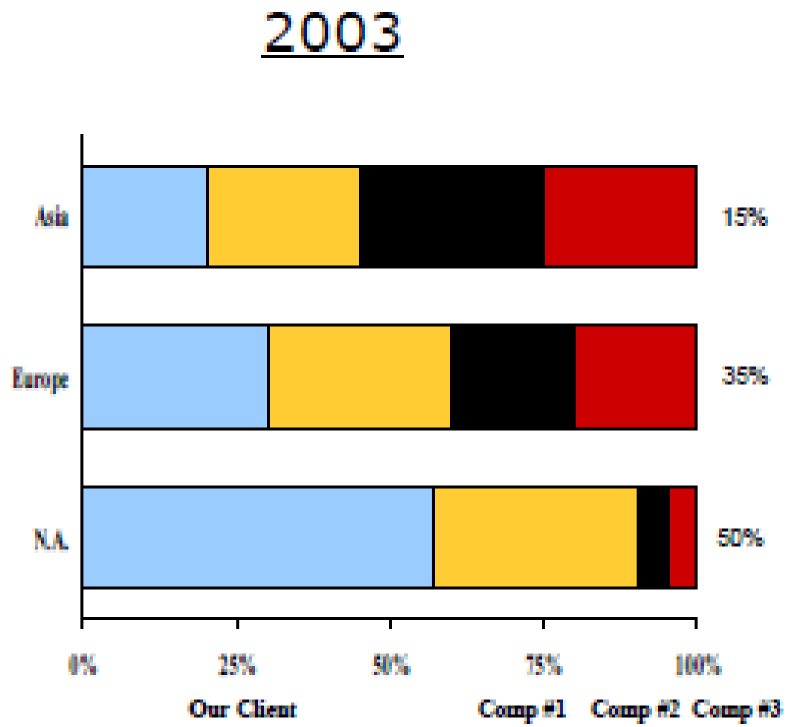


Exhibit #2: Gross Margin

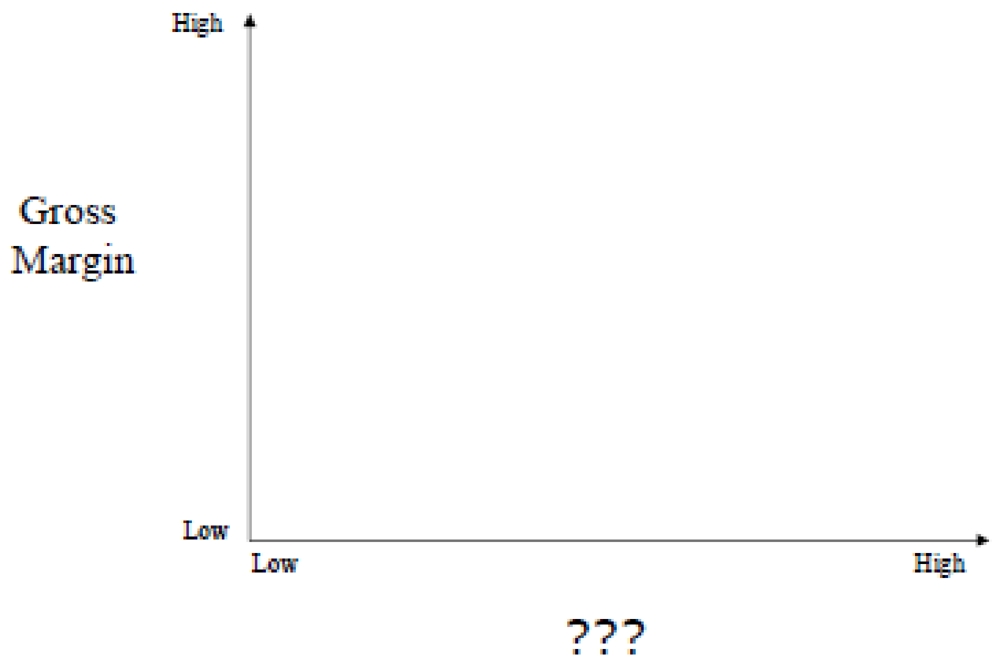


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Exhibit #3: Elasticity-Margin