Case 13: Arbor Housing

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Case Question

- Our client, Arbor Housing, is a leading provider of short term and temporary corporate housing. Profits have remained steady the past few years, and Arbor was recently purchased by a private equity firm that has brought in new management. The new CEO has been charged with increasing sales in order to meet managements growth targets for the next few years.

    - What can Arbor Housing do to increase revenues, while remaining profitable?

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Quants.

5

Structure

Creativity Invest. Mkt. Stgy

Case tracker

- **Industry:**
  Leisure

- **Level of Difficulty:**
  Medium

- **Case format:**
  Increasing sales

- **Concepts Tested:**

  - Creativity

  - Investments

  - Marketing strategy

Fit Questions

Spend first 15 min on fit

- Tell me about a time you made an unpopular decision.

- What role do you play on a team?

- Tell me about a time in your life when you have made a difference.

Guide to interviewer

- This case is designed as an assessment of several competing options to generate growth

- The interviewee should set up a structure to identify several sources of new revenue:

    - Increase penetration with existing customers

        - Rewards Program

        - Advertising

    - Gain new customers

- The interviewee should get creative, there are a few answers for which there is structured questions but we should allow the interviewer ample opportunity to develop creative options

Clarifying answers and case guide

Clarifying answers to provide if Asked

Industry Definitions

- Corporate Housing are fully furnished short term or temporary apartment style accommodations

Client Characteristics

- Arbor owns many of their locations, and leases vacancies in other apartment buildings – Though it is a valid point to raise capacity questions, assume that capacity needed for growth is leased and major investment is not required
- This is a US based case, Arbor has locations in all major cities
- Nights Stayed is a common metric our firm uses as a proxy for Revenue

Competitive Dynamics

- We compete against hotels and apartment buildings that offer short term leases. For this case we can ignore the effect of competitors that also offer corporate housing

Interviewer Guide to case and handouts

Case Structure – Interviewee should be looking to brainstorm several ideas for growing sales in the first half of the case. As the discussion continues, we should look to provide specific exhibits and ask targeted questions about the tradeoffs between new options

Exhibit 1 – After discussing the potential current customers and industries (should be left up to creativity of interviewer), provide exhibit 1:
- *What trends do you see in our mix of clients?*
- *What percentage of 2008 nights stayed/revenue comes from Professional Services?*

Exhibit 2 – The second half of problem presents several options that can be pursued. Given the constraints of the business, the interviewee must choose the optimal course of action for increasing internal growth (setting aside growth opportunities with new customers)
- Provide clarifying data as requested (listed in solutions)
- *Which option should we pursue?*

There is an opportunity to have a discussion at the end of the case to identify new customers with new industries.

Answer – The final question to be posed is: "Summarize the case and suggest a course of action for Arbor Housing's CEO to take." The interviewee should stick with their proposed internal growth option, and also as a bonus identify the potential of moving into new industries

Key elements to analyze

Current Revenues

- Using Exhibits 1, interviewee must identify current business mix, notice trends in the chart, solve some math questions, and identify future opportunities.

Penetration with existing customers

- Using Exhibit 2, interviewee should select the best option based on the numbers provided:

Notes to interviewer

- The first part of the answer to this question should be qualitative, you should probe the candidate as to why they think certain industries have seen a declining nights stayed while others have remained steady
- Some suggested answers, not necessarily right or wrong
  - Professional Services: due to an economic slowdown firms had less projects in 2008 and 2009 but have been recovering in 2010
  - Energy: has remained steady, potentially due to longer term projects client needs fluctuate less
  - Travel & Leisure: has decreased with disposable income
  - Relocation: steadily increasing, potentially families are moving to new cities to find new jobs or contracts
- What percentage of our business is Professional Services in 2008? *ANSWER: 40%.*
- As a follow up question: What industries are not represented in this chart, where you think there is opportunity?

Notes to interviewer

- The interviewee should notice that they need to know how much revenue the company currently has and how much an additional night Costs
  - Assume each Night Stayed is worth $200 in revenue and costs $150
  - Therefore, based on 100MM nights stayed in 2010, a 1% increase in nights stayed is worth $200MM in revenue and $50MM in profit
- There is a 50% chance of a good or bad economy. The interviewee should not assume their own number but should ask for this number.
- Given the information provided, a case can be made for competing options:
  - The Ad campaign has the highest expected return, but a 50% of no benefit (with a $100MM up front lost)
  - Key Accounts is the safest move, with no possibility of a loss
  - Special Incentives is the riskiest option, and with the same payoff as Rewards is not a safe bet
- Assuming Risk Neutrality, we would employ the ad campaign, though qualitative answers can tip the scales towards other options.

Math Solutions

	Up front program Cost	Good Economy	Bad Economy
Rewards/Points Program	$50MM	5% increase = $1B Revenue, $250MM Contribution	1% increase = $200MM Revenue, $50MM Contribution
Advertising Campaign	$100MM	10% increase = $2B Revenue, $500MM Contribution	No effect
Hire Key Account Representatives	$1MM	1% increase = $200MM Revenue, $50MM Contribution	1% increase = $200MM Revenue, $50MM Contribution
Create special Sales Force incentives to focus on growth	$25MM	10% increase = $2B Revenue, $500MM Contribution	5% decrease = $1B Revenue lost, $250MM contribution decrease

- If Economy is 50% likely to be good (50% times expected value of each outcome):

    - Rewards = $100MM expected profit (250*50% + 50*50% - 50 cost)

    - Advertising = $150MM expected profit (500*50% + 0*50% - 100 cost)

    - Key Account Rep = $49MM expected profit (50*50% + 50*50% - 1cost)

    - Special incentives = $100MM expected profit (500*50% + (-250)*50% - 10cost)

Solution and recommendations

Solution & Recommendations

- The first part of the case doesn't have a real answer, it should simply be a conversation about potential options for our client

- Exhibit one is a basic math warm up, and another opportunity for the interviewer to display qualitative creativity

- Finally, depending on the risk profile of the client (which the interviewer can either assume or ask for) there can be a case made for all the competing options
  - If we need the highest return possible and we are risk neutral, the ad campaign still is the best option despite the higher up front cost compared to Key Incentives
  - If we are risk averse, Key Accounts are the best option with low cost and no downside
  - The Rewards program offers a modest return but does not offer as favorable returns as the ad campaign, it would be a viable option if we don't think we can raise the capital required for higher cost options

Bonus/Guide to an Excellent Case

- An excellent interviewee will note:
  - This is a loosely structured case and encourages creative responses.
  - There are markets that we could move into not mentioned: Government, Education (Higher Ed), Entertainment (TV & Movies), Construction, Healthcare etc.
  - Some of the proposals will gain new customers in addition to increasing existing customer sales. For example, Advertising and a Rewards program could be appealing to potential customers that don't use our product.

Exhibit 1: Annual nights stayed (MM) 2006-2010
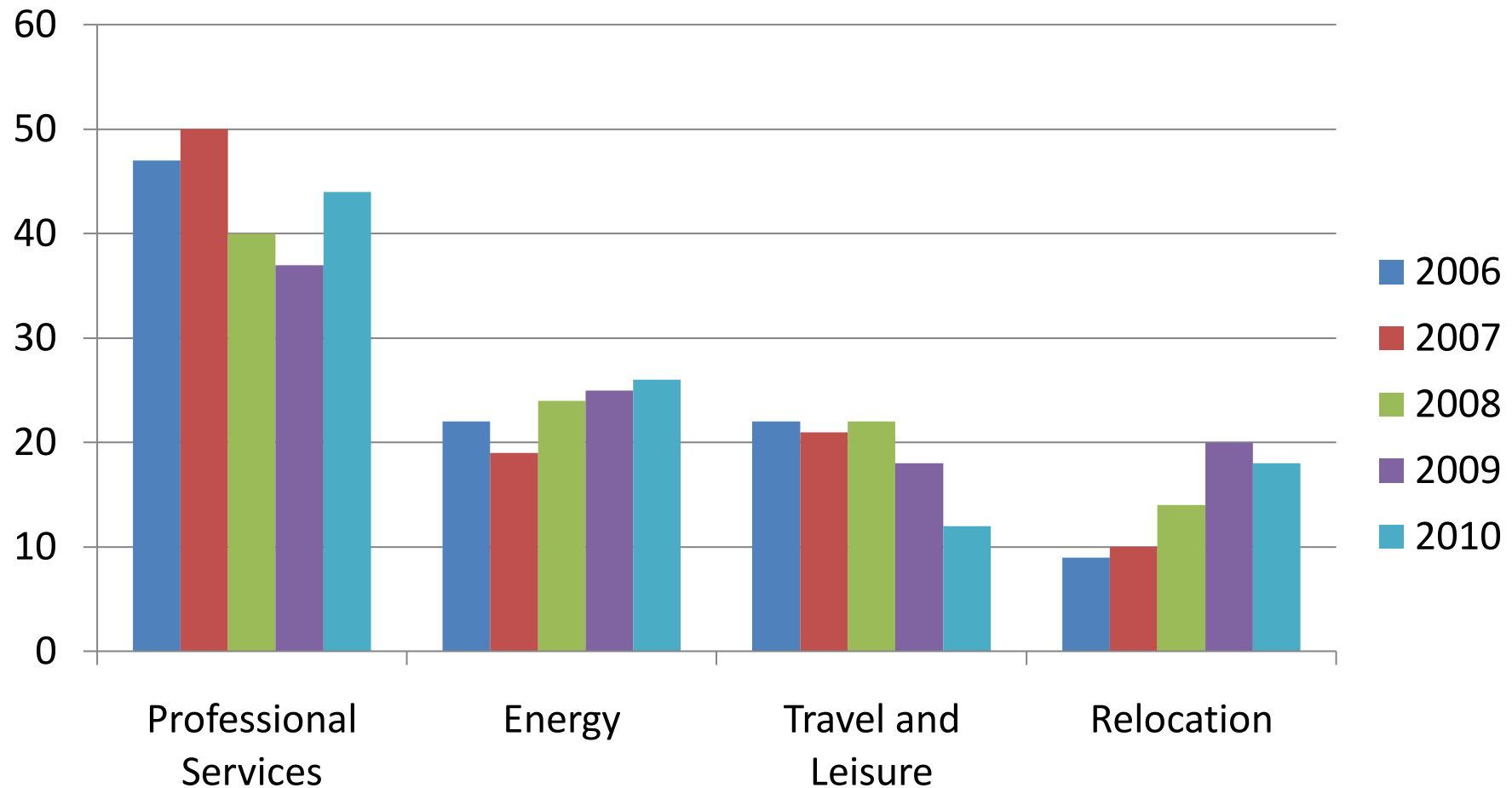
Professional Services include Consulting, Accounting/Audit, Insurance, Law,

Exhibit 2: Increasing penetration in current clients

	Up-front program Cost	Good Economy	Bad Economy
Rewards/Points Program	$50M	5% increase in revenue with existing customers	1% increase in revenue with existing customers
Advertising Campaign	$100M	10% increase in revenue with existing customers	No effect
Hire Key Account Representatives	$1MM	1% increase in revenue with existing customers	1% increase in revenue with existing customers
Create special Sales Force incentives to focus on growth	$10MM	10% increase in revenue with existing customers	5% decrease in revenue with existing customers