

CASE 7: CONTACT LENS MANUFACTURER GROWTH



Firm Style	Interview Round
Bain	1/2

Case Question:

Contact Lens Manufacturer seeks to quadruple its profits in 2 years and seeks our advice. How will you approach the problem?

Clarifying Questions & Answers

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

Question	Answer
What are the different kinds of contact Lenses?	Contact Lenses can be categorized by style and duration of use. Based on Style Lenses can be broadly categorized into 2 categories: Traditional and Cosmetic. Based on Duration of Use lenses can be broadly categorized into 2 categories: Disposable and Regular.
Where do we compete?	Primarily in the US market.
What is the price of contact lens?	For Disposable Lens, consumer pays \$400 per year. For Regular Lens, consumer pays \$100 per year.

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Framework / Structure

This is a market growth type case, considering the ambitious goal of 400% profit growth in two years the analysis should focus on **top line growth** for the company. The analysis may include, but is not limited to, the following areas:

- Client's current revenue model
- Competitor Analysis
- Market Analysis
 - Geography
 - Customer Demographics
- Purchase Criteria for Contact Lenses

Weak Plan

A weak plan would lay primary emphasis on costs; candidate does not appreciate the fact that by reducing costs it is not possible to quadruple profits in 2 years.

If the candidate asks for more information about client, provide Exhibit 1 (the income statement for client). Expected Insights or questions from Exhibit 1:

- Need grow our revenue to roughly \$800 M dollars.
- If candidate asks about margins?
 - State margins are more or less in line with the industry. This should really direct the candidate towards achieving top line growth.

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- Who are competitors?
 - There are 2 major competitors for our client, Novartis and Bausch & Lomb. They are big players with wide array of products.
- Are the products from competitors differentiated?
 - Not much differentiation, very similar products.
- If candidate wants to know about client's revenue model, provide Exhibit 2 and 3. Expected Insights or questions from Exhibit 2 and 3:
 - Sales in South region of US is much lower compared to other regions, any reason?
 - Interviewer Response: Our presence in Southern United States is smaller
 - Our product mix is predominantly "Disposable"? Any opportunity in the "Regular" market?
 - Interviewer Response: The "Regular" contact lens market is saturated.
 - Our product mix is predominantly "Traditional"? Any opportunity in the "Cosmetic" market?
 - Interviewer Response: The "Cosmetic" market is not estimated to grow much.

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- If candidate asks about the purchase process for Contact Lens, then provide the following information:
 - Interviewer Response: Customers usually can be classified into two categories, new adopters and existing lens users.
 - New Adopters: The New Adopters are the first time users of contact lenses, they usually go to a “Retail Store”, get their eye exam done. The doctor or the optometrist usually recommends lens to the customer.
 - Existing Users: The existing users usually get refill orders for their **existing lens** from “Retail Stores” or from “Online”.
- If the candidate asks about how do customers decide what brand of contact lens to use? (This is a key question expected from the candidate)
 - Interviewer Response:
 - New Adopters: It is the optometrist which usually influences which brand of contact lenses the customer buys. The customer usually plays a minimal role in this decision.
 - Existing Users: Existing Users keep using the same brand and **rarely** do they switch.
 - **Key Insight Expected from Candidate:** For the contact lens manufacturer the key is to acquire “New Adopters”

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- If the candidate asks for International Opportunities, then provide the following response.
 - Interviewer Response: Western Europe and Japan are big contact lens markets outside of US, the other markets are still small. Our competitors are deeply entrenched in these 2 markets and we don't have much presence. We don't have much detailed information on these markets.
 - **Key Insight Expected from Candidate:** Looks like international markets do not provide us much growth in the short term (because we have to build our presence), however the client should evaluate these markets on a long term basis. Since our focus is rapid growth in short term (2 years) maybe we should focus on the US market.
- If the candidate asks about more information for the market provide **Exhibits 4-8** and ask the candidate to digest the information and provide insights. Note Exhibit 4 represents total users i.e New Adopters + Existing Users.
 - Key Insights expected from Candidate:
 - Candidate should discard Exhibit 4 and instead use Exhibit 5-8
 - Women below the age of 30 should be the key target customer demographic.
 - Suburbs and cities of South of United States provide the greatest opportunity (as they are fastest growing and high user areas).

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Recommendation

The recommendation should include the following:

- To achieve this rapid growth the client should have its sales and marketing department target optometrist attached to “Contact Lens Retail Stores” and build brand awareness and relationship.
- The client should focus on stores with the following characteristics:
 - Located in cities and suburbs in South US
 - Having young women as their significant customer base
 - Stores located inside malls
 - Stores located in strip malls which have stores popular among young women (some major clothing chain etc)
- Some of the Risks could be:
 - If client focuses too much on the South it may not be able to shower much attention to the other areas where it has presence and lose customers
 - The South region may have competitors deeply entrenched which might result in additional SG&A spending
 - Other competitors might be targeting the same region.

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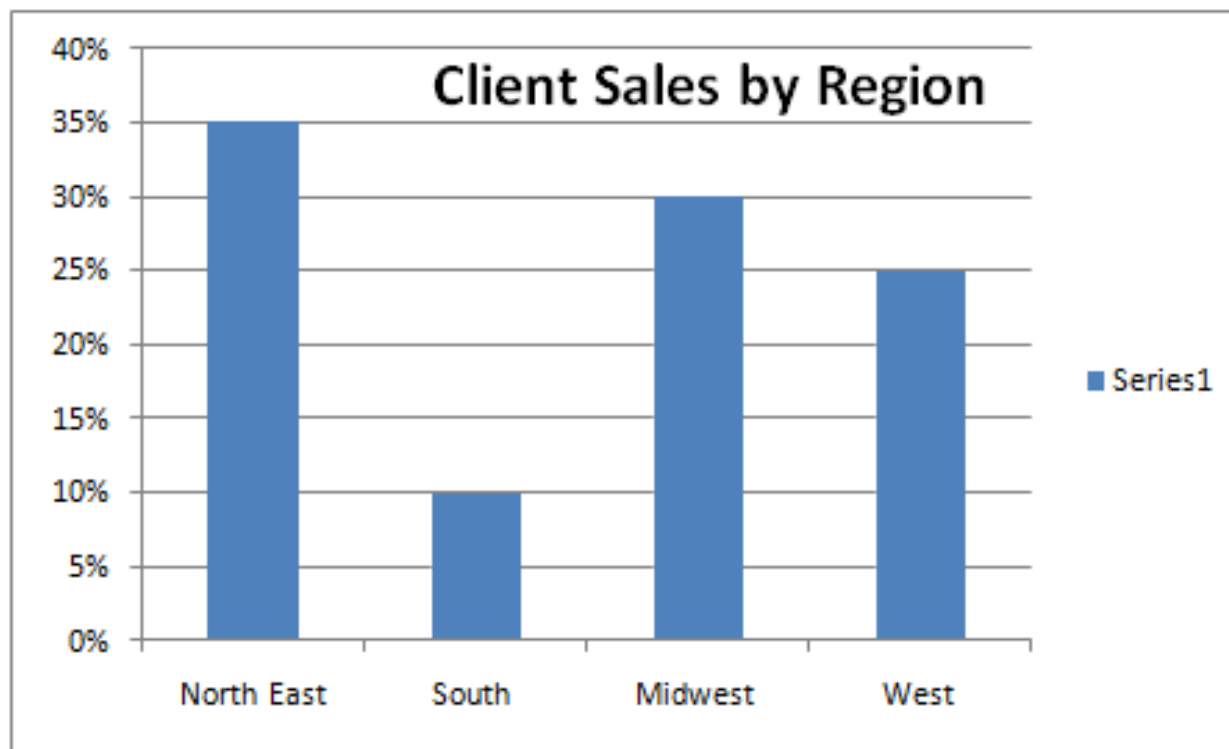
Exhibits

Exhibit 1

Contact Lens Manufacturer Income Statement (in Millions)		
Revenue	\$	229.24
Cost of Goods Sold	\$	100.45
Gross Profit	\$	128.79
Gross Profit Margin		56%
SG&A Expense	\$	104.33
Depreciation & Amortization	\$	13.06
Operating Income	\$	11.40
Operating Margin	\$	0.05
Nonoperating Income	\$	2.56
Nonoperating Expenses	\$	7.21
Income Before Taxes	\$	6.75
Income Taxes	\$	5.38
Net Income After Taxes	\$	1.37

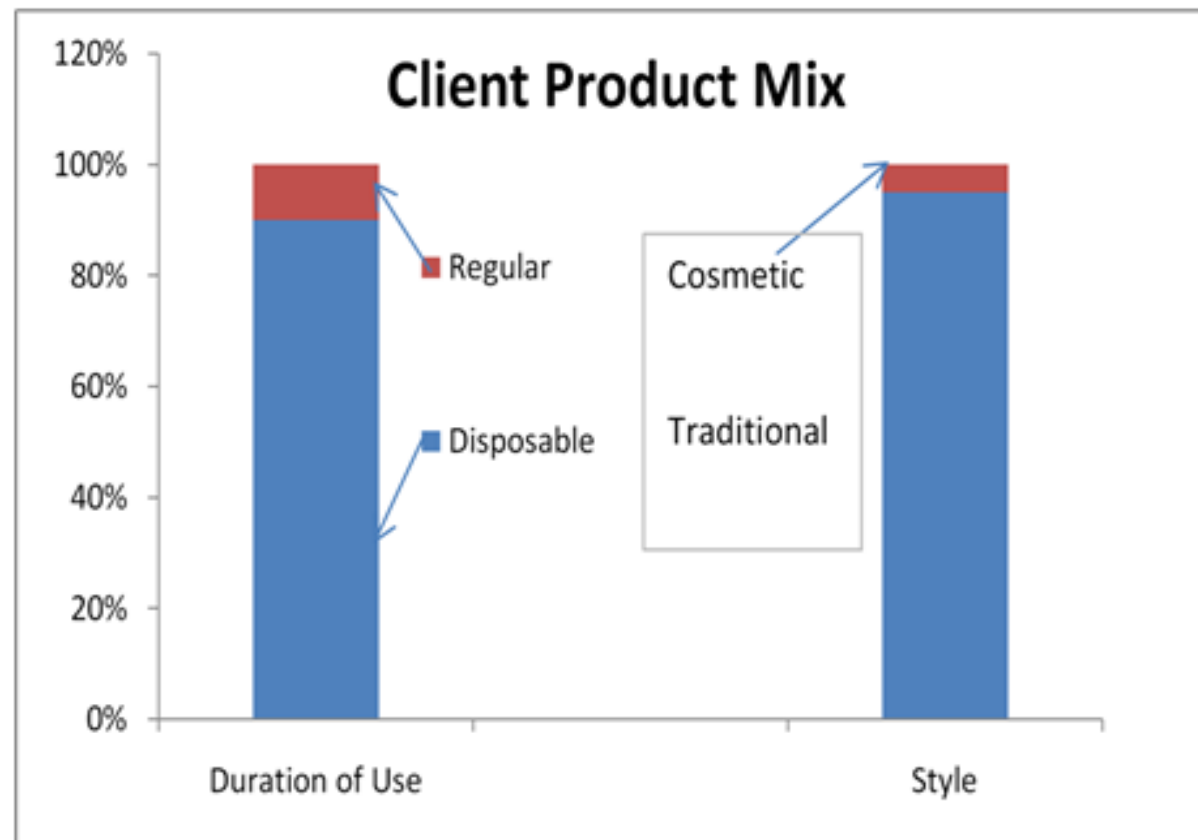
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Exhibit 2



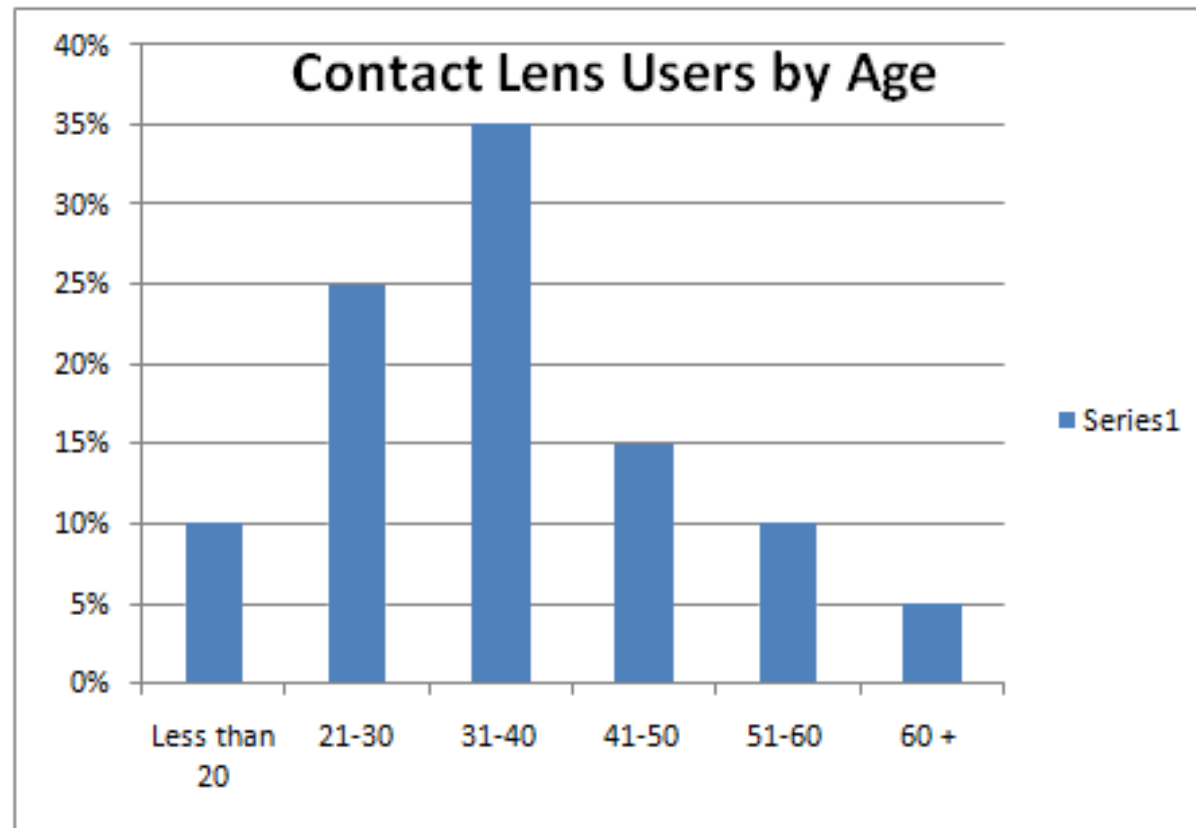
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Exhibit 3



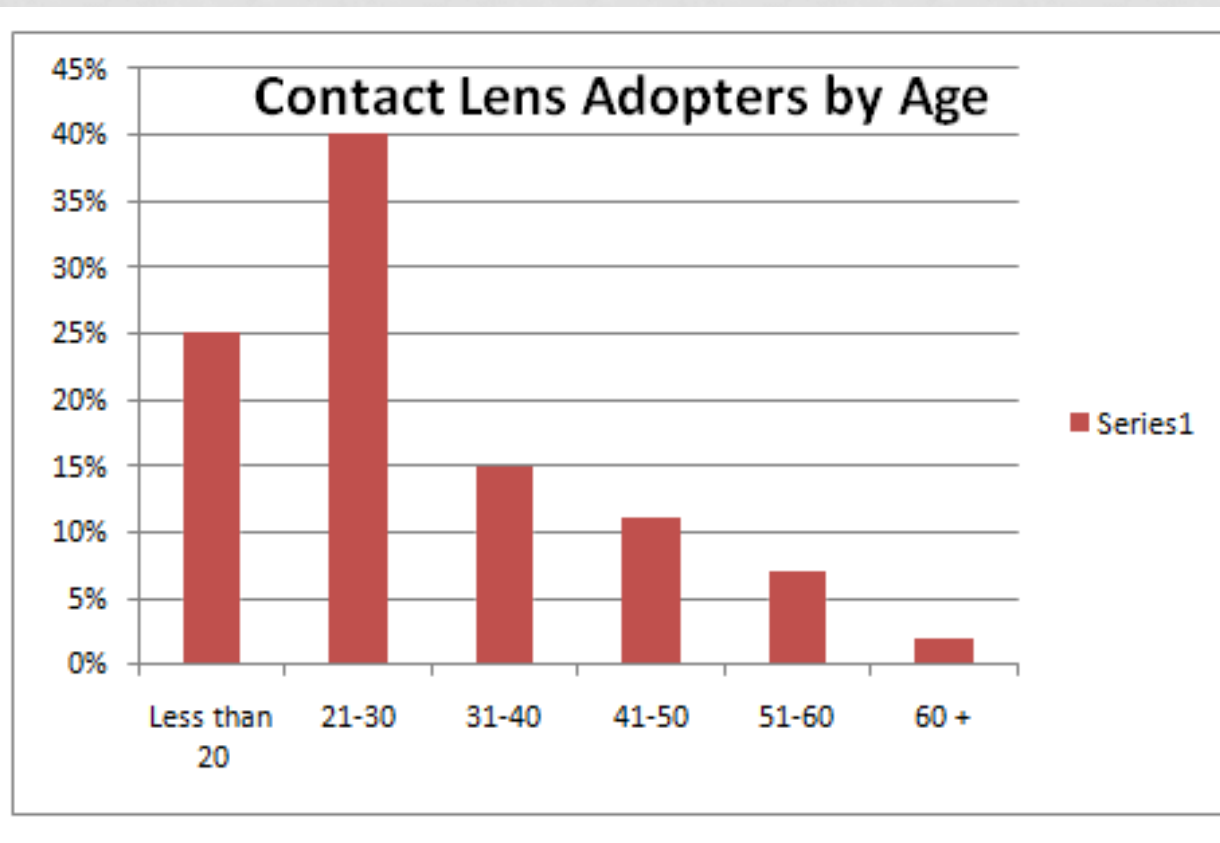
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Exhibit 4



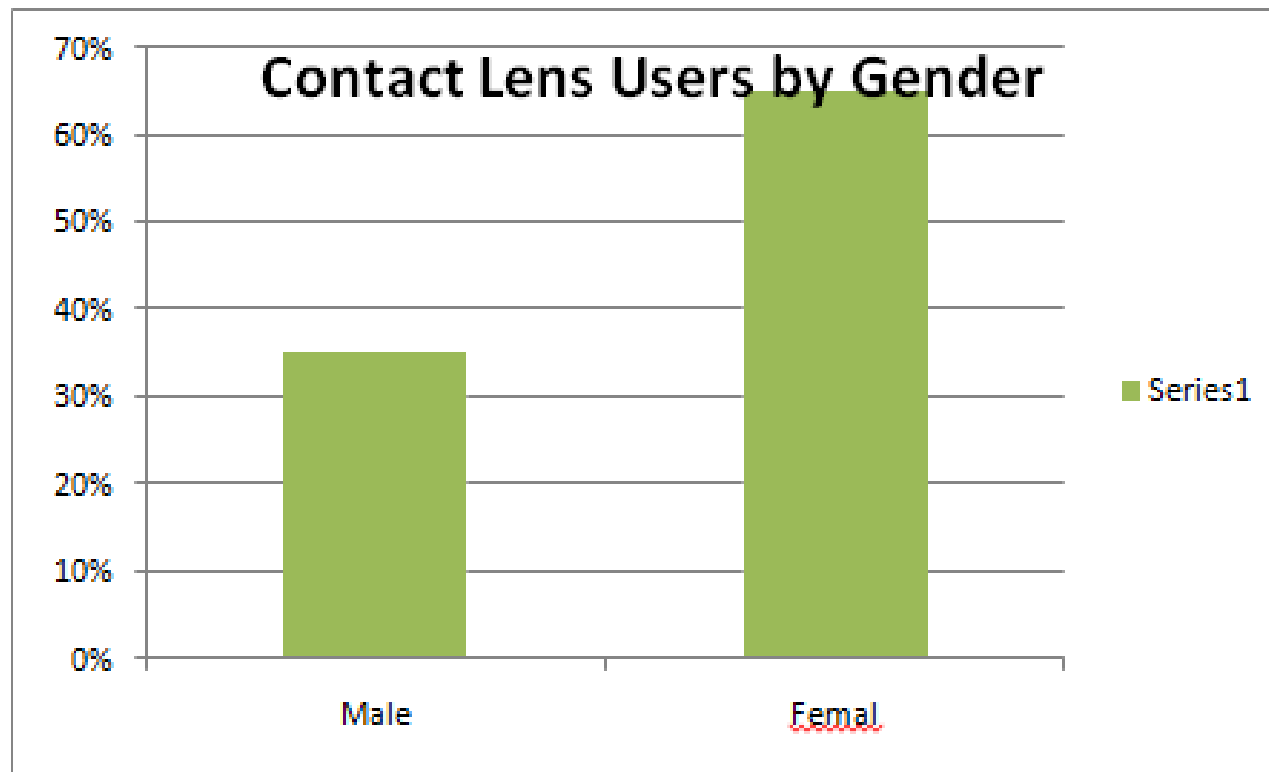
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Exhibit 5



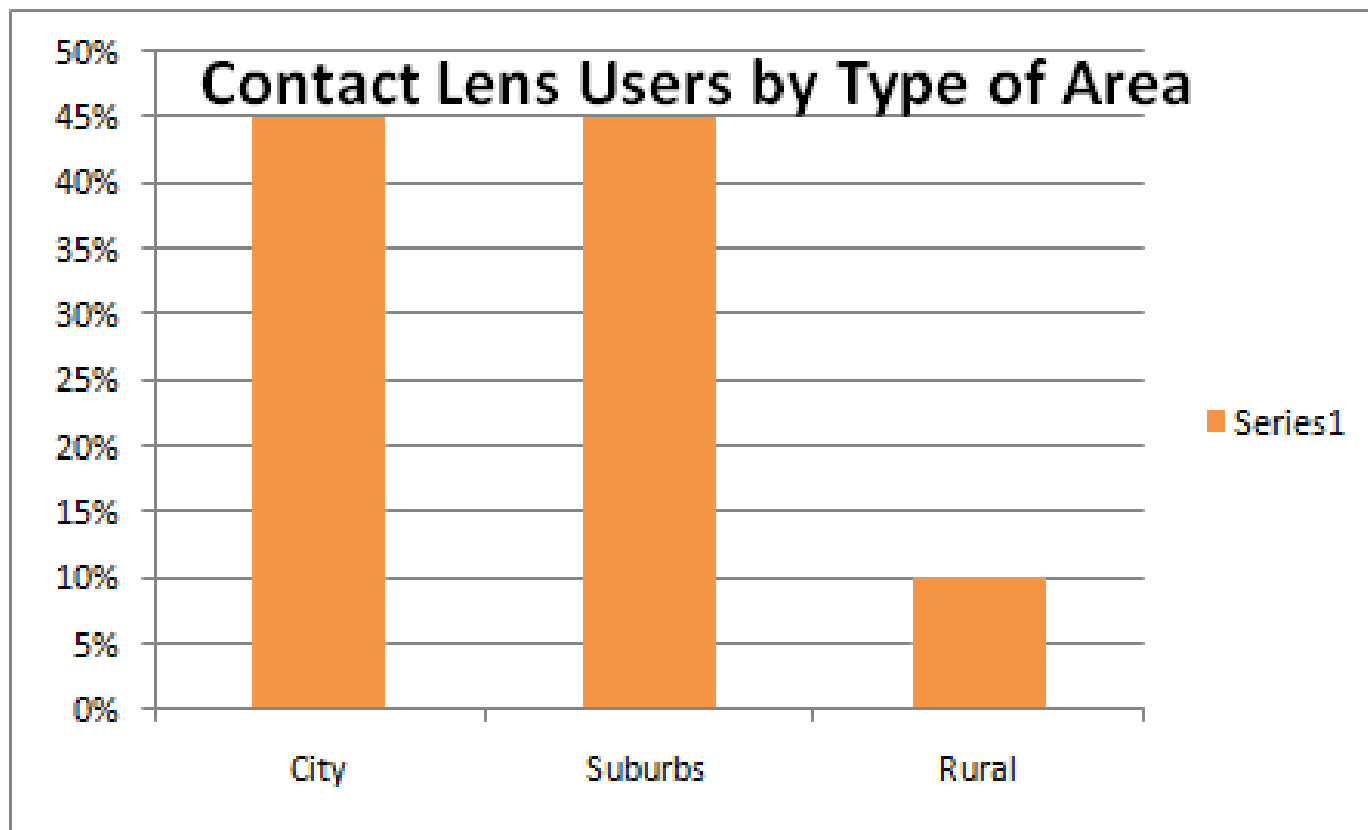
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Exhibit 6



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Exhibit 7



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Exhibit 8

