Case 11: Pipeline Manufacturer (I of II)
Booz Allen - Home Team, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request[1]

The client is a pipeline manufacturer. They think about entering the US market and hired you to advise whether they should do that, and if so, how to enter.
 	
Information given upon request
 	
• The client is located in Eastern Europe and is the market leader in Europe. However, its sales have been flat for the past a few years.
• Their facilities have 85% utilization.
• The current profit margin is 20%, equal to average profit margin of US players.
• The client has lower labor cost but the advantage will be offset by higher logistics expenses if going to the US market.
• The client is able to supply to the US market with products worth of $500Mn.
• Client has $1Bn in cash, and doesn't know how to spend it.
• The US market has flat growth.
	The US market has three distributions channels:
	• Small shops (10% market share)
	• DIYs - Do It Yourself (30% market share)
	• Distributors (60% market share)
	
	There are two types of competitors in the US market:
	• Large companies (6 players) - (63% market share)
	  • Player 1 – x% market share
	  • Player 2 – 2x% market share
	  • Player 3 – 4x% market share
	  • Player 4 – 8x% market share
	  • Player 5 – 16x% market share
	  • Player 6 – 32x% market share
	• Small firms (200+ players) - (37% market share)
	
	• Player 3 has $400Mn revenue coming from the DIY channel and 10% market share of that channel (this is not its total revenue).
	• Recently the client got an offer to acquire Player 3 for $800Mn
	•There is no product difference among players.

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Candidate should calculate x and estimate market size	Player1 – x% Player 2 – 2x% Player 3 – 4x% Player 4 – 8x% Player 5 – 16x% Player 6 – 32x% 63x% = 63% => x=1 Market size 10% of DIY is $400Mn => DIY = $4Bn 30% of the market is DIY => market size = $4Bn/30% = $13.3Bn
Candidate should calculate the value of Player 3	Revenue = 4% * $13.3Bn = ~$500Mn Profit = 20% * $500Mn = $100Mn Assuming 10% cost of capital and profit = cash flow: Value of Player 3 = $100M / 10% = $1B, which is greater than $800M => good deal
Candidate should further evaluate the acquisition	• Any potential synergies from the acquisition? • The majority of Player 3's revenue comes from the DIY channel. What are the growth prospects of this channel? Can the client penetrate the other channels? • Why is the offer price lower than what Player 3 is worth? Are there any hidden risks? • Other risks: no experience in US market, learning curve, organizational fit, etc. • A great interview will also explore other modes of entry and evaluate each option. - Exporting products from Europe to the US - Building facilities in the US