Case 5: Deposit Slips (I of III)

Bain, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request[1]
Your client manufactures and sells deposit slips to banks at a price of \$1/slip. They are the leading firm in this \$100Mn industry with 60% market share. There is only one other competitor. Federal regulations will decrease the industry size by 10% next year. Our client wants to maintain its profit to fund other projects. What options does it have and are any of these appealing?	Push interviewee to determine the client's current profit and whether or not the client should lower price / engage in a price war Total Cost for client is \$0.70 per slip. Competitor out-sources manufacturing for a total cost of \$0.90 per slip. Candidate should determine who would win the price war and if the price war would maintain current profitability.

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Candidate should calculate current profitability.	Q = 60% x 100M = 60M TR = Q x $1/slip = $60M TC = Q x $0.70/slip = $42M → Profit = TR – TC = $18M
Candidate should determine who would win a price war…	Client cost of $.70/slip is lower than competitor cost of $0.90/slip, so client will win the war. Rational competitor should not price below cost.
…and whether client will maintain current profits after price war.	The price war will end at P = $.90/slip. Q = 90M (client has 100% of market now, but market has shrunk by 10% due to federal regulation) TR = Q x $0.90/slip = 81M TC = Q x $0.70/slip = 63M → Profit = $18M → Profits are maintained → Go ahead with price war.
A solid interview will address other potential risks…	• Capacity constraints: Q is increasing by significant amount (50%), so plant expansion may be necessary. (Reality was that only two shifts were run, so simply need to add a shift.) • Competitor may act irrationally. • Federal regulation may be a sign of future trends → lower industry profitability in future years.

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Additional questions for candidate	Solution guide
• The competitor has another division. Does this change anything?	Provide the following information if specifically asked: -The competitor's other division comprises 75% of its revenues. -This division manufactures a specialty chemical that is sold to banks to check for fraud. (e.g. ink pen that changes color when used on counterfeit money). -This division is highly dependent on bank relationships built through the deposit slip business. Solution: -The competitor is more likely to sell deposit slips below cost because its other division is so dependent on it. -Price war may not be a good idea.