

Case 29: Plastic World

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Case Question

- Our client is a private equity firm interested in PlasticWorld, a plastic packaging manufacturer.
- *PlasticWorld's owners are requesting \$25M. The offer is final. Should our client buy?*

Case tracker

- **Industry:**
Financial Services
- **Level of Difficulty:**
Medium
- **Case Format:**
M&A
- **Concepts Tested:**
 - Organizational changes
 - Market share
 - Customer strategy

Fit Questions

- Spend first 15 min on fit**
- Tell me something about yourself that is not listed on your resume.
 - What was the most difficult problem you solved in your previous job, business-wise?

Guide to interviewer

- The case primarily tests the ability to gain insight from quantitative data, value a company and find potential improvements.. As such, it is a little bit more data-driven than the average case.
- The interviewee should focus on the company value as the recommendation regarding the offer depends on it; and on feasibility of identified profit-improving changes.
- The interviewee should be able to come up with the key improvements if (s)he invests some effort in understanding the price drop and its relationship to the sales force incentives; as well as the innovation-related costs from the pressure from the customers and how to push back.

3

Quants.

4

Structure



Org. Chg.
Mkt. Share
Cust. Stgy

Plastic World: Clarifying answers and case guide

Clarifying answers to provide

PlasticWorld Characteristics

- Makes plastic packaging for beverages, cosmetics, household and automotive chemicals
- Products are top quality, they have 350 sets of molds, with different materials, finish, colors, always innovating
- Overall product mix has not changed in recent years
- The sales force is “the best in breed”, they hold market share, and they are compensated on market share
- Two years ago they invested further in equipment for product innovation

Customers

- PlasticWorlds’ customers exhibit strong loyalty
- They are experiencing increasing pressures in their industries to innovate the plastic packaging

Guide to handouts

Begin by handing out exhibit #1 after stating the case question.

Exhibit 1 – Hand out after introducing case

- What observations can be made from this P&L statement?
- Interviewee should calculate the profit margin (-6%), notice that sales volume is growing but revenues are dropping, and infer that the cause may be pricing (*more detail on next page*)
- To check if it’s an industry-wide or company-specific drop in profitability, *they should request competition profitability data*

Exhibit 2 – Hand out if the candidate requests competition data

- Note that it’s a company-specific problem
- Push the interviewee to postulate what would be a realistic profit margin for PlasticWorld based on this industry profitability data (*more detail on next page*)

Exhibit 3 – Hand out after discussion of Exhibit 2

- Sensitivity analysis indicates that the company would be worth the offered \$25M if the profit margin was brought from -6% to 0%
- Interviewee should investigate the profitability drop and the low prices further and suggest options to get PlasticWorld’s profitability in line with the industry, and their feasibility

Plastic World: Key elements to analyze

Sales Force Incentives

- Using Exhibit 1, What could be the reasons behind what is in the data?

Profit Margin Improvement Feasibility

- Use Exhibit 2 to conclude it's a client-specific problem, use Exhibit 3 to discuss company's value if the profit margin is increased to the industry average.

Notes to interviewer

- Exhibit 1 – PlasticWorld has experienced a steady drop in revenues while the sales volume has been growing.
- There are three major points to identify: 1) the profit margin is dropping and negative; 2) given the unchanged product mix and increasing sales volume, the drop in revenues is caused by a reduction in prices; 3) depreciation change – it was equipment investment.
- The interviewee should find, asking independently or with your help, that sales force is compensated based on market share. This gives the sales force incentive to drop the prices.
- Interviewee should ask about the product quality and customer loyalty to discard price competition as the reason to drop prices. The products are high-quality and customers are loyal, so most of them would buy even at a higher price.

Notes to interviewer

- Exhibit 2 - the candidate should identify the profitability problem is client-specific, all competitors are profitable.
- Exhibit 3 – the observation from the graph is that the company would be worth the \$25M if PlasticWorld increased profit margin from –6% to 0%. If the profit margin reached the industry average, the company would be worth \$40M.
- Now the question is how easily can the profitability be increased above zero (making the company worth more than the \$25M). The sales force incentive change is easy to make.
- Looking for other high-impact improvements, the dense product line and constant innovation is the next largest candidate. Eliminate some molds to cut costs, mindful of innovation pressures in PW's clients' industries.

Plastic World: Solution and recommendations

Solution & Recommendations

- Our client should accept the \$25M offer and boost the profitability (and value) of PlasticWorld.
- The client should engage in the following easy-to-implement changes:
 - Compensate sales force based on company earnings instead of market share.
 - Simplify the product line - eliminate some of the 350 molds to cut costs while leveraging the superior sales force to maintain client satisfaction.
 - Examine the industry best practices to find other areas for improvement.

Bonus/Guide to an Excellent Case

- An excellent interviewee will quickly identify the pricing as the issue behind the revenue decrease and lay out potential causes for the price drop, finding the sales force incentive.
- Additionally, a strong interviewee will immediately notice that the company would be worth more than \$25M if its profit margin was at the level of industry average.
- A framework comprehensive enough to find the product line size problem would be a plus.

Exhibit 1: PlasticWorld P&L statement in the past three years

	2009	2008	2007
Sales (\$)	18,824,000	19,180,000	19,650,000
Volume (units)	36,200,000	34,250,000	32,750,000
COGS (\$)	9,050,000	8,900,000	8,650,000
SG&A (\$)	7,500,000	7,200,000	7,300,000
Depreciation (\$)	3,450,000	3,450,000	2,250,000
EBIT (\$)	-1,176,000	-370,000	1,450,000

Exhibit 2: PlasticWorld and Industry Peers Profit Margins

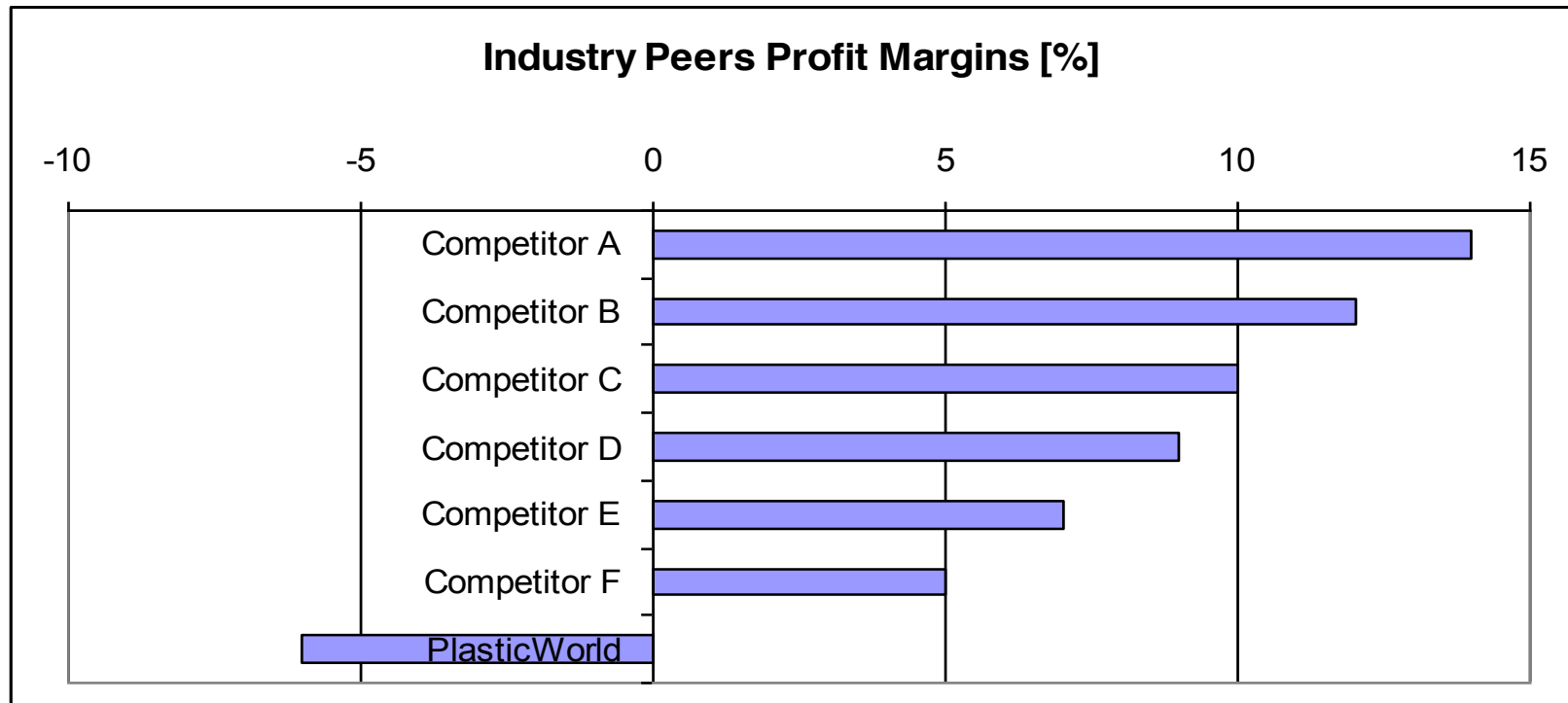


Exhibit 3: PlasticWorld Valuation by Profit Margin

