Case: Greeting Card Manufacturer

BCG, Mock Interview

Problem statement narrative

A greeting card manufacturer has experienced decreased profit. The CEO has asked you to figure out why.

Overview for interviewer

This case involves a discussion of both the revenue and cost drivers of profit. Greeting card companies operate with a unique revenue system, and this will also affect the cost side of the company.

Case Type: Profitability

Information to be provided upon request

The greeting cards are stocked at grocery stores and pharmacies like CVS

Greeting cards are good for one season only – if a card does not sell by the end of the season, it will be shipped back to the manufacturer at their expense and discarded

The greeting card industry has experienced moderate growth over the years

Competitors have experienced steady or slightly increased profit

Potential Categories of Candidate's Framework

Notable comments / potential discussion points

Industry Analysis

- Greeting cards market: growing, shrinking, stable?
- Competitors: market share, growth rate
- Consumers: needs, brand perception, differentiation?

Profit drivers

- Revenue
  - Factors that affect sales volume
    - Card selection
    - Card supply
      - Is it better to overstock or stock just the right amount?
        - Overstock: customers like choices; it looks bad when there is only one card on the shelf – creates more goodwill when there are additional cards even if they will not all sell
        - Just the right amount: do not incur additional shipping costs to send unsold cards back to the manufacturer; do not incur variable costs for unsold cards; why make more than you can sell?
  - How does the greeting card manufacturer earn revenue? What are the revenue streams?
- Costs
  - What are the fixed costs?
  - What are the variable costs?
  - Is there anything special about greeting card costs?

The candidate must figure out how the greeting card manufacturer earns revenue as well as how costs are incurred.

Potential Issue Tree & Approach to Solving the Case

Key elements of analysis to solve the case

Industry Analysis

How is the greeting card industry doing?
How are competitors performing compared to our company?
Are there changing trends?

Possible follow-up and guidance to interviewer

- The greeting card industry has remained stagnant throughout the years due to threats such as e-cards
- Competitors have experienced stable or moderate increases in profit
- Our company's cards have continuously sold out in retailers as compared to competitors

Revenues

What factors affect sales volume?
What are the repercussions if a customer walks into a retailer and the card shelves are empty?
Is it better to overstock or stock just the right amount?
What are the revenue streams?

Possible follow-up and guidance to interviewer

- If shelves are empty, the following repercussions are possible:
  - Lose the sale entirely, result in poor brand awareness; lose customers to competitors; create poor relationships with retailers
- Manufacturer receives payment only when cards are SOLD to consumers. Unsold cards are shipped back at the manufacturer's expense

Costs

What are the fixed costs?
What are the variable costs?

Possible follow-up and guidance to interviewer

COGS: $1.50
SG&A: $0.25
Shipping: $0.05 (only incurred if the card is unsold)
Fixed Costs: $200,000 (printing presses, plants, admin)

Question 1 – Breakeven

Math Question

If greeting cards are sold at $3.00 per card and fixed costs are $200,000 per year, how many cards must the greeting card manufacturer sell to break even?

Overall approach, good shortcuts & solution

Break even = Fixed Costs / Unit Contribution

Fixed Costs = $200,000

Unit Contribution = $3.00 - $1.50 - $0.25 = $1.25

Break even = $200,000 / $1.25 = 160,000 cards

Information to provide up front

N/A

Provide information if asked

COGS: $1.50
SG&A: $0.25
Shipping: $0.05 (only incurred if the card is unsold)
Fixed Costs: $200,000

Sample Recommendation

Recommendation	The greeting card manufacturer should improve revenues by ensuring a wide selection and supply of cards at each retailer while also keeping in mind the number of unsold cards at the end of the selling season. The increase in goodwill and brand awareness among retailers and consumers outweighs the added variable costs from unsold cards.
Risks	Supplying extra cards may not be profitable if the quality of the cards are lacking compared to competitors'.
Next Steps	The manufacturer should perform additional research regarding how consumers choose greeting cards and determine if unsold cards may be re-used in any fashion (salvage value).

BONUS
The number of cards sold during the year depends on the number of cards shipped to the retailer. If these are the expected sales numbers, which one should the manufacturer choose? Shipment Quantity: 2,000, Sales Volume: 1,900 Shipment Quantity: 2,500, Sales Volume: 2,200 Shipment Quantity: 2,700, Sales Volume: 2,300 Profit = ($1.25 * 2,200) – ($1.8 * 300) = **$2,210**