

Case 14: German Luxury Car Maker (I of II)

BCG, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request ⁽¹⁾
<p>A German luxury car maker wants to grow business and is looking into selling cars in Bangladesh. The GDP growth in Bangladesh is 5% per year. Currently, the only luxury car sold in Bangladesh is Mercedes-Benz and they have been in the market for the past 10 years.</p> <p>The CEO wants to find out if the company enters the market, can they break even in three years?</p>	<ul style="list-style-type: none">• Mercedes-Benz imported and sold 10,000 cars in this market over the past 10 years, and has their own dealership in Bangladesh.• There are 1000 new buyers each year.• Existing owners replace their car every 10 years (the interviewee should calculate how many new cars are sold to existing owners – 1000 per year, and therefore the total market size per year is 2000 new cars)• We will have 30% market share (don't give this info out right away, see the 2nd slide) each year.• The price Mercedes-Benz charges is \$100,000 per car.• Assume the discount rate is zero.

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**Ask candidate
how to estimate
market share**

Possible answers:

- Understand customer needs through survey and estimate how well we could meet those needs and therefore how much market share we could gain.
- Find benchmark (It turned out that our client already entered Vietnam and other markets similar to Bangladesh and on average gained 30% market share in each of these markets.)

**Break-even
analysis**

Cost Structure: Initial investment: \$7 Mn

V.C. (per car):	- Manufacturing	\$20,000
	- Transportation	120% of manufacturing cost (should be: \$24,000)
	- Customs/taxes	95% of manufacturing + transportation costs (\$41,800)
	- SG&A	12% of all the above costs combined (\$10,296)

the variable cost per car rounds up to \$96,000/car. Therefore the profit on each car is \$4000. With 30% market share, the client's annual profit will be \$2.4Mn and will break even in 3 years.

**A great interview
should evaluate
potential risks of
entering this
market**

- Assumptions might be inaccurate.
- Bangladesh is not stable politically and economically, therefore our client will bear more risk.
- There could be other new entrants.
- Mercedes-Benz could react to our entry by
 - Reducing price (the best answer might also mention that with the low income level in the country, customers who can afford luxury cars might not be price sensitive.)
Ask candidate what price Mercedes-Benz will reduce their car to. Ans: \$96,000/car or less
 - Improving their services if that's the differentiating factor of our product.
 - Blocking some local resources.