Practice Case 18 (Children Clothes E-Retailer)

Part 1:

Case Situation:

It's a Friday afternoon. You've just accepted an offer to join our consulting company as a Senior Associate in the Business Strategy Competency. You've just called in to confirm your start time on your first day and find out you have an excellent opportunity to be the lead business strategist on a high profile project. We have partnered with a leading bricks-and-mortar children's apparel retailer to help them analyze, design, and build their Internet strategy. There will be a kick-off meeting for the project with the client (including the client's CEO) on Monday morning. The Principal/Engagement Leader on this project has asked you to lead a discussion about how the client should think about opportunities on the Internet. Right now, the client only has a marketing and informational presence on the web (a.k.a. "brochureware"). The Principal/ Engagement Leader wants the client to think about the range of opportunities and challenges the Internet presents and whether the client should invest aggressively in pursuing any initiatives.

Company Background:

The client's web site and some associated articles found on the Internet have provided the following information.

- The client is a publicly traded company with a $3B market cap. The share price has risen from $15 to $45 in the past 12 months.
- The client has 300 stores, mostly east of the Mississippi, and all stores are within the U.S.
- Revenues are approximately $250M, and the firm has average profitability for its industry.
- The client has been on a rapid store expansion program adding about 25 new stores each quarter for the past two years. They claim to expect similar growth going forward.
- The market for this client is clothing for children 12 and under. Sales are roughly split between boys and girls.
- The company is vertically integrated: It designs all its own products, has deep relationships with contract manufacturers in Asia, and distributes all of its products through company owned stores.
- The company sells a high quality product that is priced about 25-30% lower than its chief competitors.
- The company has done only limited marketing. The brand remains relatively unknown.

Your Challenge:

- Plan for the client meeting. Structure the problem at hand. What questions would you ask?
- Then, work with your interviewer to explore and broaden those questions and brainstorm the client's hypothetical responses.

Possible Approach:

To present the best solution, the candidate must have a better understanding of the customers, the competitors and the client. Some of the important questions to ask are:

Market and Competitive Landscape:

- What are the main trends and dynamics going on in the client's industry?
- What are their competitors doing?
- Who are they?
    - What are the brick-and-mortar children's apparel retailers doing?
    - How are they using the Internet: Has there been a direct causal relationship to their revenues and/or expenses from their Internet strategy and implementation?
    - What are the Internet pure play apparel retailers doing?
    - Who could some of the oblique or peripheral competitors be?
    - Would they be likely to enter the market?

Customers:

- Who are the client's customers?
- What is the value proposition to the client?
- What are the trends in the customer base over time?

Client:

- What are the client's goals?
    - To increase revenues? To reduce costs? To increase market capitalization?
    - How could different Internet initiatives accomplish each of these goals?
    - Are these the right goals for the client to have?
    - What are the client's organizational capabilities?
    - Are they capable of supporting an Internet initiative with the existing culture? Talent? IT infrastructure, legacy, processes? Operational structure, processes, procedures, policies? Accounting processes?

[The goal of the interviewer is to assess the candidate's ability to analyze and develop questions for the client to answer. The interviewer will often play the devil's advocate and challenge the hypothesis the candidate generates.]

Part 2:

Quantitative Analysis:

After spending part of the weekend preparing for your kick-off meeting and discussion facilitation, you check your voicemail from the airport before hopping onto the shuttle on your way to the client's office for the meeting. The one new message is from your Principal/Engagement Leader asking you to provide an estimate of the size of today's online component of domestic children's apparel sales and how large it might grow in the next 5 years. As you step onto the plane, you realize that you'll have no access to the Internet or other research before the meeting starts. Instead, you will need to create a "back-of-the-envelope" analysis on the plane.

Your Challenge:

Spend about 5 minutes creating an answer to these two questions:

1. What would you estimate the size of today's online component of domestic children's apparel sales today?
2. How large do you think it will grow in the next 5 years?

[The point of this scenario is to test the candidate's ability to do some real time analysis, to articulate a methodology, and to make reasonable and explicit assumptions in order to arrive at a ballpark estimate.]

Possible Response

Assume the children's apparel category is dollars spent on clothes for kids ages 12 and under, as stated in the case facts.

There are approximately 275M people in the U.S., perhaps 15% are under 12.

275M x 15% = approximately 40M kids under the age of 12.

Assume the average parents spend $250 on each kid age 12 or under each year.

40M kids x $250 = $10B children's apparel industry for kids 12 and under.

Of the people who spend this $10B, assume 35% of them have Internet access and have the potential to shop online.

Therefore, the theoretical current maximum potential size of the market is $3.5B.

However, just because people use their online access to buy their kids' clothes doesn't mean they spent all $250 for each child online for their apparel. In fact, only a small fraction of those dollars are spent online today, perhaps 5% (a.k.a. share of wallet).

5% x $3.5B = $175M (which is not too far off the actual estimate of $130M in 1999-Forrester Report)

In the next five years, let's assume the number of kids increases to 42M, average spending goes to $300 per kid age 12 and under, Internet access rises to 55% and share of wallet rises to 20%.

The 5-year growth estimate would be:

42M kids x $300/kid x 55% x 20% = $1.4B (which is not too far off the Forrester estimate of $1.6B).