Case 18: Drug Store Profitability (I of II)

McKinsey, Round 1

Problem statement narrative

Our client is a drug store chain, similar to CVS, They are losing profits in the last few years. Can you help us identify the reasons and means to improve the profits

•The candidate should answer the following questions during the course of the case discussion

•Is the loss of profitability due to product mix, store mix, increasing costs or decreasing revenue? Or a combination of all the above

•What can the company do to improve profits – focused discussion around one area of improvement from above list.

Guidance for interviewer and information provided upon request(1)

<u>Store details:</u>

•Stores are typical to cvs, located in several areas. They have pharmacy, health and beauty, and general merchandise.

<u>Sales and Profitability by square feet and product type</u>

Product Type	Sales/Sq Ft	Profits
Pharmacy	$20,000/sqft	5%
Health and Beauty	$10,000/sq ft	20%
General Merchandise	$5000/sq ft	10%

60% of the stores are located around hospitals, with heavy competition and in some crime infested areas – these stores make 10% loss

Remaining stores make 25% profits

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Additional questions for candidate	Solution guide
• What factors affect profitability of a particular store	**Conclusion** The firm is losing profits due to several reasons 1) Product mix 2) Store Mix 3) Location details The company should look at 1) Changing product mix 2) Closing bad stores 3) Improving on locations • Key: Good MECE structure, deep dive analysis in one area, bringing different points together in final analysis