Business Intuition for Consulting Interviews

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Understand how to think through business cases to ace consulting interviews and advance your career.

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Introduction

First and foremost, thank you for reading. You are doing a big favor to yourself and your career for wanting to learn more and improve as a person. I can guarantee you that the intuition developed from understanding how to think through these cases will help you in your career, even if you're not in consulting.

You might be wondering who I am so let me tell you a little bit about myself.

I'm currently a consulting manager at a big consulting firm. I've been working here for almost five years now, and it's been quite the journey.

I studied computer science and math in college, but didn't feel like a traditional coding desk job fit my image of a fulfilling career. Sure, I had a technical background, but what set me apart from my peers was that I also loved to talk to people, enjoyed new, spontaneous experiences, and getting my hands on a lot of different projects rather than dedicating my life to one thing.

I couldn't relate when my peers were starry eyed about securing that stationary coding job for the rest of their lives. I wanted to travel and see the world, meet people from all different backgrounds and cultures, and overall live an exciting life.

I had no idea how I was going to accomplish this since everyone told me college would be the best four years of my life and that I would be dead inside as soon as I started a real job. I also had no idea what I wanted to do with my life after college and I thought the best way to find out was to try a lot of things.

But I was told that switching jobs frequently would cost me my career, so how was I going to try new things if I couldn't switch jobs every few months?

I learned about consulting during my later years of college. I learned that it was a career that allowed me to put my hands into many different jars and figure out what I liked to do instead of commmiting to one thing. It also aligned with what I was passionate about: coding, analytics, and business. It also wasn't like a sales job where you travel around and try to close deals. You have to be analytical and impelement the best solutions.

It also happens to be a highly lucrative career.

In my five years doing consulting, I've been to most major cities in the U.S. and a couple of foreign countries. I was able to rack up enough points at hotels to let me live in an upscale hotel in my personal time for more than a month. I had enough flight points to book me six round trip flights from New York City to Los Angeles for free. Sure, there were some sleepless nights when work needed to be done, but it was good for character development and worth it in my opinion.

I would post my travels and accomadations on social media and my friends who were working regular desk jobs would ask how I lived such an exciting life. I was doing everything I've always wanted to do while generating great income.

That's where I'm at right now at the time of this writing.

By purchasing this book, you are on my email list. Any updates to this book will be sent your way. You will always have access to any improvements or additional content I add to ensure that you have the resources to be on top of your career.

Why Consulting

In my experience, not many people outside of the consulting industry actually know or understand what the profession is about.

For me, there are six key benefits working in the field.

1. Great exposure

If you don’t know what you want to do, consulting is a great place to start. You are able to jump into a variety of projects and develop a good sense of what you like and don’t like to do. Based on this, you can request certain types of projects down the road that fit your preferences.

In a traditional job, you are typically hired to do one job and one job only. If you don’t like the job function, then the only way to change what you do is by leaving the company.

In consulting, you can just leave the project and find another one. You still will have your job and income, and do not need to interview externally in addition to working during your working hours.

You also meet many different people by being exposed to a variety of projects. You quickly learn how to assess situations, figure out who is in charge of what, and overall develop your social intuition.

2. Travel accommodations

In most cases consultants travel a lot, if not constantly. You need to fly here for a client meeting, then there for a sales pitch, then back home to work with your team on building out the solution.

For a lot of people that sounds unenticing because of things like family obligations or homesickness. For others it sounds awesome because you get paid to see the world and rack up hotel and flight points that can be used for your personal vacations.

In a typical job, you would have to take paid time off (PTO) in order to travel somewhere other than your home town, but as a consultant it can be part of your job!

3. Flexibility

You typically report to two entities as a consultant - your direct manager in your consulting firm and the client. Your direct manager will help you out if you need it, but you don't usually interact that often. Your day to day work will be with the client.

This allows flexibility when choosing who you work with.

4. Great exit opportunities

Since you're doing a wide variety of things, you learn to be competent in many skills. You can decide what you want to become an expert in when you find what interests you.

The connections you make with clients on projects are invaluable. They often leave the client company you worked with and go to other great companies, which gives you a solid, diverse network of people who think highly of you.

It is also not uncommon for clients to offer high performing consultants full-time jobs at wherever they may see fit.

For me, I've been on software engineering, advanced analytics, data engineering, and project management roles, and I could steer my career into any of those paths if I chose to do so. I have connections in each of those industries as well to help with the transition.

5. Develops good business sense - a skill that will propel you in any career.

Understanding how business make decisions will always be a great skill to have. No matter what job or industry you work in, chances are you work for some kind of business. In consulting, you get exposure to a wide variety of business problems and have to think through how to best solve them with often limited information.

You can bring that knowledge with you to wherever you go in your career even if you choose to go into a technical field.

6. High pay

Money ideally shouldn't be the most important thing when choosing a career, but I had to list it on here. Many college grads get six figure jobs right out of college and continue to double or triple their take home salaries in just a couple of years.

Alright, I've given you a brief introduction to consulting and described the perks that make it a highly sought after career path.

The key to being successful in this industry is understanding how businesses make decisions. To do that, you must go through many examples of business cases to see common themes and patterns. Even if you aren't in consulting, learning how to think through business problems will be beneficial in any career path. There is value for everyone in this book.

The cases are not in any particular order. You can jump back and forth as you please. I've compiled these cases from various sources from the internet, so you don't have to.

Cool. Ready? Me too. Let the games begin.

McKinsey - Beautify

Client Goal

Our client is Beautify. Beautify has approached McKinsey for help with exploring new ways to approach its customers.

Situation Description

Beautify is a global prestige cosmetics company that sells its products mainly inside high-end department stores such as Harrods and Shanghai No. 1. It also has a presence online with specialty retailers like Sephora. Beautify produces a number of makeup, fragrance, and skin care products sold under several different brands.

In department stores, beauty consultants play a critical role with consumers:

- approaching "passive" customers
- demonstrating their knowledge of the products
- actively selling the products
- maintaining a loyal customer base of repeat buyers

These consultants are hired directly by Beautify or through specialist, third-party agencies that find new recruits for a fee. Beautify is then responsible for selecting, training, and paying the consultants. Within Beautify, beauty consultants are managed independently by each brand in each country. For example, this may mean a consultant might be part of the Chanel team in a store. However, consumers are shifting more to online shopping, and too many beauty consultants are left working in empty department stores.

McKinsey Study

Beautify's president and COO engaged McKinsey to help evaluate if training the majority of beauty consultants to use virtual channels to connect with customers could be profitable for the company.

Question 1:

Beautify is excited to support its current staff of beauty consultants on the journey to becoming virtual social media-beauty advisors. Consultants would still lead the way in terms of direct consumer engagement and would be expected to maintain and grow a group of clients. They would sell products through their own pages on beautify.com, make appearances at major retail outlets, and be active on all social media platforms.

What possible factors should Beautify consider when shifting this group of employees toward a new set of responsibilities?

Answer

Some of the factors you might discuss with your interviewer could include:

Retailer response. How will retailers respond to consumers buying directly from beautify.com? What kinds of financial arrangements will Beautify have to work out with its retail partners?

Competitor response. Do other beauty companies offer virtual assistants? If yes, how successful are they? If no, do they have plans to digitize the personal selling experience?

Current capabilities. What is the current skill set of beauty consultants regarding social media? How many already have an online presence, for example, those with more professional accounts on social media platforms or a personal beauty or skincare blog? Would it be possible to hire new advisors with these marketing skills?

Brand image. What are the implications for Beautify's brand if hundreds of advisors suddenly start posting about its products? How could this be leveraged to make Beautify seem more attractive as an employer in the market?

Question 2:

One of the key areas that Beautify wants to understand is the reaction of current and potential new customers to the virtual social media-beauty advisors.

Imagine you are a current Beautify customer and you mostly shop at your local department store because you enjoy the high-touch service offered by in-store consultants. What features would make you consider switching to a mostly virtual sales experience?

Answer

Some of the features you might discuss with your interviewer could include:

Getting real-time feedback on new looks. Beautify could develop a “selfie mirror” mobile app, which would let you upload a selfie and get tailored recommendations from your advisor. They could also potentially use that image to show you new ideas, colors, or product lines, and make suggestions such as, “That lipstick is too matte, but here’s what a glossier formulation would look like.”

Joining an online social community. Advisors could start closed groups, or a blog, where they encourage and respond to comments. This is a great way to connect with other people who have similar interests and learn what makeup and skincare products work well for them.

Learning about latest trends from someone you trust. If an advisor is active on social media, like Instagram, TikTok, or Douyin, they probably post several times a day. Some of it will be personal, to build rapport, but much of it will be related to beauty and skincare. An advisor might offer tutorials, give product reviews, discuss common beauty myths, or more.

Responding privately to a particular concern. If you’re having skin issues, you could contact the advisor privately. The two of you could connect to discuss your specific concerns. Again, the advisor would understand which products you already use and could make appropriate adjustments.

Question 3:

The discussion about virtual advisors has been energizing, but you'd like to ground the discussion in some analysis. You've always found it helpful to frame an investment in terms of how long it will take to turn profitable, such as when incremental revenues are greater than the cost of the project.

You sit down with your teammates from Beautify finance and come up with the following assumptions.

- With advisors, you expect ten percent overall increase in incremental revenue—the team assumes that Beautify will gain new customers who enjoy the experience as well as increased online sales through those engaged, but it will also lose some to other brands that still provide more in-store service. The team assumes this will happen in the first year.
- In that first year, Beautify will invest €50 million in IT, €25 million in training, €50 million in remodeling department store counters, and €25 million in inventory.
- All-in yearly costs associated with a shift to advisors are expected to be €10 million and will start during the first year.
- Beautify's revenues are €1.3 billion.

How many years would it take until the investment in advisors turns profitable?

Answer

One possible approach to discuss with your interviewer could be:

Incremental revenues = €130 million: €130 million is ten percent of €1.3 billion Resulting profits = €120 million: €130 million minus €10 million annual all-in additional costs for new beauty advisors Expected upfront investment = €150 million: 50 + 25 + 50 + 25 This investment will be profitable after 1.25 years or one year and three months: €150 million investment divided by €120 million annual profit = 1.25 years

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Source: https://www.mckinsey.com/careers/interviewing/beautify

McKinsey - Diconsa

Client Goal

The Bill & Melinda Gates Foundation is a private organization with vast ambitions; one of its goals is to reduce extreme poverty worldwide. The foundation has asked McKinsey to design a basic financial-services offering for residents in remote communities in Mexico.

Situation Description

The majority of Mexico's rural population is relatively poor, relying in part on government benefits for their livelihood. Since they tend not to have bank accounts, they usually collect those benefits in cash from a limited number of state-owned bank branches. These branches are often a long way from where the recipients live, so it can take a lot of time and effort to collect benefits. In addition, while traveling to the branches, people can be at risk of falling victim to crime.

The Mexican government also owns and operates a chain of 22,000 stores throughout Mexico, called Diconsa, which provide basic food, clothes, and other essential goods to rural populations. These stores are supplied through a network of central and regional warehouses and several thousand delivery trucks.

McKinsey Study

McKinsey has been asked to investigate and assess the possibility of using the Diconsa network to provide a set of basic financial services to supplement the limited number of state-owned bank branches. This would start with dispensing benefit payments and would gradually grow to include savings accounts, bill payments, insurance, loans, and other financial products.

Question 1:

What should the team investigate to determine whether the Diconsa network could and should be leveraged to provide a range of basic financial services to Mexico's rural population?

Answer

Some of the factors you might discuss with your interviewer could include:

Benefits to the Mexican rural population. How much time, effort, and expense would a benefit recipient save through the Diconsa network—for example, through shorter travel times? Beyond what was stated in the summary, what benefits would there be for rural populations being given greater access to a broader range of financial services? Would there be better security for their money?

Benefits to the government, state bank, and Diconsa network. Would the government benefit in terms of increased compliance with, or the collection of benefits such as lower administration costs? Would these financial services result in better financial management among the rural population, like more business for Diconsa stores? Would this alternative model reduce pressure on and increase efficiency at the bank branches that currently distribute benefit payments?

Potential risks due to this venture. Does the Diconsa network have the capacity or ability to deal with financial payments and products? Does the state bank have the capacity to operate financial services across a much larger network of outlets? Is there a greater risk of fraud or theft due to less centralized control of benefit payments?

Question 2:

The team has estimated that it currently costs a family 50 pesos per month in transportation and food to make the journey to collect benefit payments. The team also estimates that if benefits were available for collection at local Diconsa stores, the cost would be reduced by 30 percent.

Twenty percent of Mexico's population is rural, and of that number, half currently receive state benefits.

You can assume that Mexico has a population of 100 million.

You can also assume that families in Mexico have an average four members, and that this does not vary by region.

If every family could collect state benefits at their local Diconsa stores, how much in total per year would be saved across all Mexican rural families receiving state benefits?

Answer

One possible approach to discuss with your interviewer could be::

- There are five million families in rural Mexico: 20 percent times 100 million, divided by four people per family
- There are 2.5 million families receiving benefits: 50 percent times five million families
- Each family currently spends 600 pesos per year to receive benefits: 50 pesos per month times 12 months
- In total, families spend 1.5 billion pesos per year to receive benefits: 600 pesos times 2.5 million families
- 450 million pesos could be saved: 30 percent times 1.5 billion pesos

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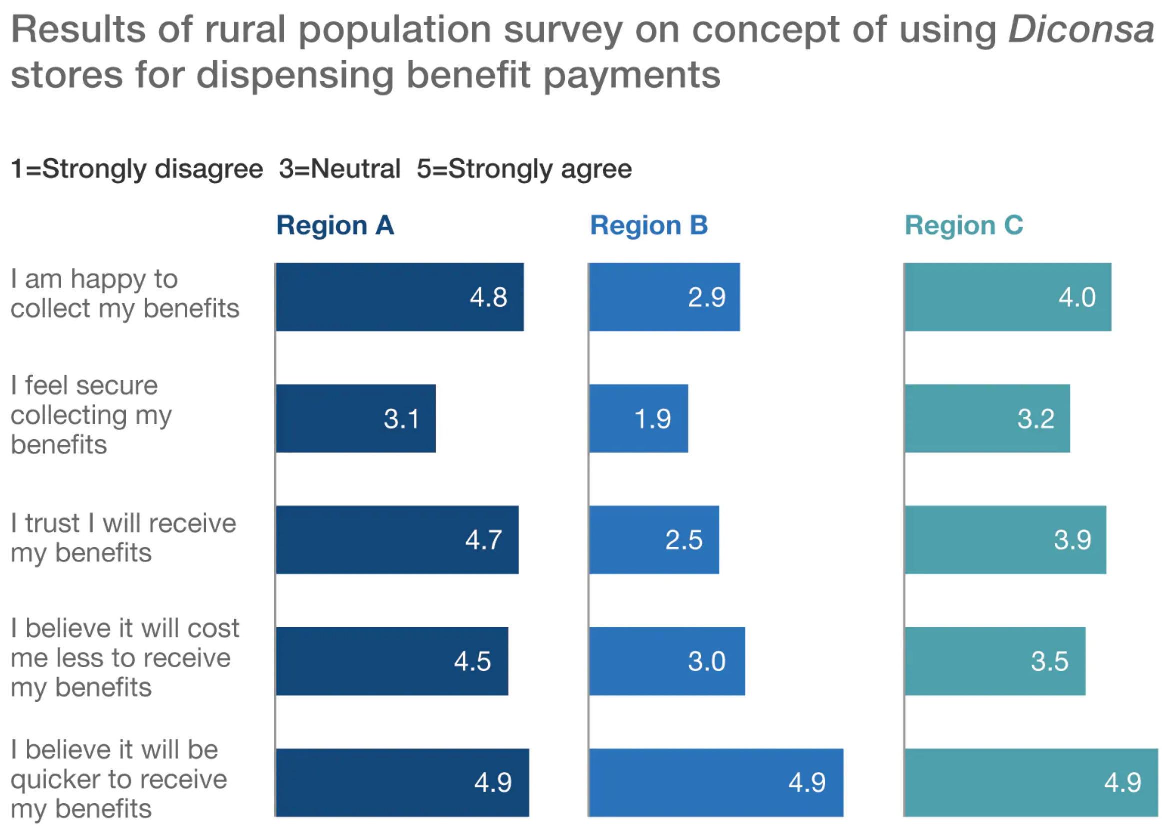
Question 3:

The team conducted a survey on a sample of the rural population in three different regions of Mexico. Participants were shown several statements about the concept of collecting benefits at their nearest Diconsa store and asked how much they agreed with each statement. The average response to some of the questions in each region is shown below:



Rural Population Survey

What are your observations regarding this information, and how would you explain these trends?

Answer

Some of the observations you might discuss with your interviewer could include:

- There are significant differences by region as to how interested people are in collecting benefits at their nearest Diconsa
- Everyone has security concerns about collecting benefits at a Diconsa, but this is especially true in Region B
- People are not so concerned about whether they will receive their benefits, except in Region B
- Not everyone is completely convinced it will cost them less to collect benefits from their nearest Diconsa, despite the fact that they all agree it will save time

- Broadly speaking, security, trust, and cost effectiveness all seem to influence whether someone is interested in collecting benefits at a Diconsa. People's perception of these seem to differ by region, with Region B being a particular issue. One potential explanation for the results in Region B is that this region has far higher levels of crime and corruption, which means people are less convinced that they will receive their benefits or that they can keep them secure once received.

Question 4:

In a subsequent meeting, representatives from the state-owned bank express concern about how challenging it will be to offer basic financial products to the rural population.

One of the representatives mentions that these are regions where people have minimal education and are unfamiliar with banking products. There is also significant crime and fraud. He asks for the team's thoughts about how the bank could sell these services effectively to the population given these challenges.

Answer

Some of the thoughts you might discuss with your interviewer could include:

Examples suggestions on how to overcome lower levels of education and familiarity with banking products:

- Pilot some products in certain regions where the population might be more receptive, so that less receptive people can see that they are already being used by others in similar situations
- Arrange in-store talks and demonstrations, focusing on educating people about what the products are and how they can be used to dispel common causes of distrust
- Collaborate with brands or organizations that are already well-known and trusted by the rural population living in these areas
- Advertise using individuals who have benefited from similar products, for example, people who have made successful insurance claims, or who managed to save money for a specific need
- Motivate Diconsa employees to encourage product take-up

- Offer promotions to encourage initial take-up, for example, pay 50 pesos when people make their first deposit into a savings account

Example suggestions to overcome crime and fraud:

- Increase security at Diconsa stores
- Impose daily or weekly transaction limits
- Introduce technology, such as chip cards, to reduce fraudulent activity and discourage crime by reducing the use of cash

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Source: https://www.mckinsey.com/careers/interviewing/diconsa

McKinsey - Electro-Light

Client Goal

Our client is SuperSoda, a top-three beverage producer in the United States that has approached McKinsey for help designing its product launch strategy.

Situation Description

As an integrated beverage company, SuperSoda leads its own brand design, marketing, and sales efforts. The company also owns its entire beverage supply chain, including production of concentrates, bottling and packaging, and distribution to retail outlets. SuperSoda has a considerable number of brands across carbonated and noncarbonated drinks, five large bottling plants throughout the country, and distribution agreements with most major retailers.

SuperSoda is evaluating the launch of a new product, a flavored sports drink called "Electro-Light." Sports drinks are usually designed to replenish energy, with sugars, and electrolytes, or salts, in the body. However, Electro-Light has been formulated to focus more on the replenishment of electrolytes and has a lower sugar content compared to most other sports drinks. The company expects this new beverage to capitalize on the recent trend away from high-sugar products.

McKinsey Study

SuperSoda's vice president of marketing has asked McKinsey to help analyze key factors surrounding the launch of Electro-Light and its own internal capabilities to support that effort.

Question 1:

What key factors should SuperSoda consider when deciding whether or not to launch Electro-Light?

Answer

Some of the factors you might discuss with your interviewer could include:

Consumers. Who drinks sports drinks? Are there specific market segments to address?

Cost and price. Is the sports-drinks market more profitable than the markets for SuperSoda's current products? Is it possible to sell Electro-Light profitably at a price set by the market and internal production costs? Given the fixed costs involved, what would be the point for Electro-Light to break even?

Competitors. Which products will Electro-Light be competing with? Which companies are key in the market, and how will they react?

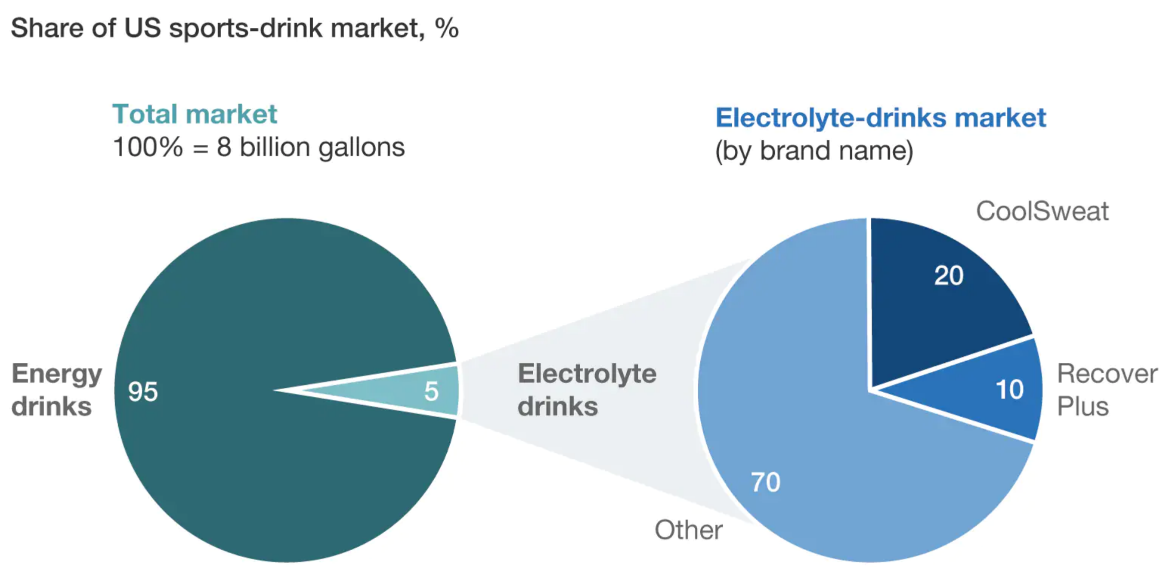
Capabilities and capacity. Are the necessary marketing and sales capabilities available within SuperSoda? Does the product require specialized production, packaging, or distribution? Is it possible to accommodate Electro-Light in the current production and distribution facilities? What impact does geography have on plant selection?

Channels. What is the ideal distribution channel for this product? Are current retail outlets willing to add Electro-Light to those product catalogs?

Question 2:

After reviewing the key factors that SuperSoda should consider when deciding whether to launch Electro-Light, your team wants to understand the beverage market and consumer preferences to gauge the potential success of Electro-Light.

Your team has gathered the following information about the US sports drink market. The information shows an estimated share of electrolyte drinks, as well as the current share for the two main electrolyte products: CoolSweat and RecoverPlus.



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Based on the target price and upfront fixed costs, what share of the electrolyte drink market would Electro-Light need to capture to break even? Here is some additional information for you to consider as you form your response:

- Electro-Light would launch in a 16-ounce format—or one-eighth of a gallon—at a price of $2 to retailers
- To be able to launch Electro-Light, SuperSoda needs to bear $40 million in total fixed costs, including marketing expenses and increased costs across its production and distribution network
- The vice president of operations estimates that each bottle would cost $1.90 to produce and deliver in the new process

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Answer

One possible approach to discuss with your interviewer could be:

Electro-Light would need to capture a 12.5 percent market share of electrolyte drinks to break even. Therefore, Electro-Light would need to become the number two product on the market.

1. Electro-Light would need to sell 400 million units to break even:

- Variable profit per unit: $2 minus $1.90 equals $0.10

- Breakeven units: Total fixed costs and variable profit per unit is approximately $40 million divided by $0.10 per unit equals 400 million units

2. Electro-Light would need to capture a 12.5 percent market share:

- Electrolyte drinks market: five percent times 8,000 million gallons equals 400 million gallons
- Electro-Light sales in millions of gallons: 400 million units divided by eight units per gallon equals 50 million gallons
- Market share: 50 million gallons divided by 400 million gallons equals 12.5 percent

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Question 3:

SuperSoda executives believe that the company's position as a top-three beverage company gives it strategic impetus toward achieving the desired market share. However, they ask the team to outline what would be needed to achieve the target 12.5 percent share of the electrolyte-drinks market. What would SuperSoda need to do to gain the required market share for Electro-Light following its launch?

Answer

Some of the ideas you might discuss with your interviewer could include:

Match with consumer preferences. Ensure that the product image, attributes, and quality fulfill the needs of all consumers or a niche segment to reach the desired market share; ensure that the target price is consistent with other products on the market as well as with consumer expectations.

Strong branding/marketing. Create a successful introductory marketing campaign, including advertising, pricing, and bundling promotions. Leverage the company's top-three producer status and minimal market fragmentation to position the Electro-Light brand within the top three in the market segment. Anticipate competitors' responses—for example, advertising, pricing, and distribution agreements. Ensure that product positioning does not cannibalize* other, more profitable SuperSoda products.

(In marketing, the drop in demand for an existing product that occurs when its vendor releases a new or similar product is called "cannibalization." It is not important that you use this terminology.)

Operational capabilities. Secure access to preferred distribution channels. Ensure that the sales force has the capabilities needed to sell the new product. Ensure that production ramp-up allows for a response when demand increases.

Source: https://www.mckinsey.com/careers/interviewing/electrolight

McKinsey - GlobaPharm

Client Goal

Our client is GlobaPharm, a major pharmaceutical company (pharmaco) with $10 billion a year in revenue. Its corporate headquarters and primary research and development (R&D) centers are in Germany, with regional sales offices worldwide.

Description of situation

GlobaPharm has a long, successful tradition in researching, developing, and selling "small molecule" drugs. This class of drugs represents the vast majority of drugs today, including aspirin and most blood-pressure or cholesterol medications. GlobaPharm is interested in entering a new, rapidly growing segment of drugs called "biologicals." These are often proteins or other large, complex molecules that can treat conditions not addressable by traditional drugs.

R&D for biologicals is vastly different from small-molecule R&D. To gain these capabilities, pharmacos have three options: they can build them from scratch, partner with existing start-ups, or acquire the start-ups. Since its competitors are already several years ahead of GlobaPharm, GlobaPharm wants to jumpstart its biologicals program by acquiring BioFuture, a leading biologicals start-up based in the San Francisco area. BioFuture was founded 12 years ago by several prominent scientists and now employs 200 people. It is publicly traded and at its current share price the company is worth about $1 billion in total.

McKinsey Study

GlobaPharm has engaged McKinsey to evaluate the BioFuture acquisition and to advise on its strategic fit with GlobaPharm's biologicals strategy. Our overall question today, therefore, is "Should GlobaPharm acquire BioFuture?"

Question 1: What factors should the team consider when evaluating whether GlobaPharm should acquire BioFuture?

Answer

A good **Answer** would include the following:

The value of BioFuture's drug pipeline, number of drugs currently in development, quality of drugs (likelihood of success), potential revenues and profits

BioFuture's R&D capabilities (future drug pipeline), scientific talent, intellectual property (for example, patents, proprietary processes or know-how for biologicals research), and buildings, equipment, and other items that allow BioFuture's R&D to operate.

BioFuture's marketing or sales capabilities. Especially how promotional messages will be delivered, for example, relationships with key opinion leaders that can promote biologicals; key opinion leaders can come from the academic arena, like prominent medical school professors, or from the public arena, like heads of regulatory bodies or prominent telejournalists.

Acquisition price.

A very good **Answer** might also include multiple additional key factors GlobaPharm should consider:

BioFuture's existing partnerships or other relationships with pharmacos.

GlobaPharm's capability gaps in biologicals, R&D, sales and marketing, etc.

GlobaPharm's alternatives to this acquisition. Alternative companies GlobaPharm could acquire. Other strategies for entering biological segment, for example, entering partnerships rather than acquiring, and pursuing other strategies than entering the biological segment

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Question 2:

The team wants to explore BioFuture's current drug pipeline. The team decides to focus first on evaluating the value of BioFuture's current drug portfolio. What issues should the team consider when evaluating the value of BioFuture's existing drug pipeline?

Answer

A good **Answer** would include the following:

Further cost of R&D until each drug is ready to be sold.

Potential value of selling each drug.

Market size, for example, size of patient population, pricing

Market share, for example, number of competitive drugs in R&D or on the market; different side effects, convenient dosing schedule (that is, patients are prescribed to take a drug at regular intervals that are easy to remember such as once a day or every 12 hours)

Costs to manufacture and sell, for example, marketing, distribution

Press about these drugs, for instance, have famous doctors called for this kind of drug? Is it only slightly improving on what is on the market already?

A very good **Answer** would also include the following:

Risk level

Likelihood clinical trials of a drug will prove effective

Likelihood that a drug will win regulatory approval

Side effects and potential legal exposure, for example, potential law suits due to unexpected side effects

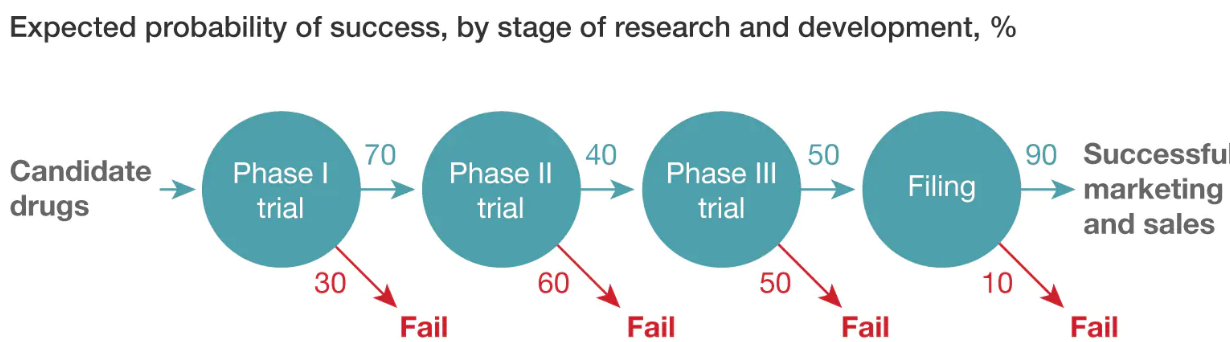
Emergence of substitutes: are competitors working on substitutes already? Is it about speed and does BioFuture have enough researchers working on the respective drugs?

Strength of underlying patents, that is, how likely is it that a competitor can successfully copy BioFuture's drug?

Question 3:

Below is a description of expected probability of success, by stage, in the Pharma R&D pipeline.

Note: "Filing" is the process of submitting all of the clinical and safety evidence from Phase I, II, and III trials, and asking for regulatory approval to actually sell the drug.



GlobaPharm believes that the likelihood of success of BioFuture's primary drug candidate can be improved by investing an additional $150 million in a larger Phase II trial. The hope is that this investment would raise the success rate in Phase II, meaning that more candidate drugs successfully make it to Phase III and beyond. By how much would the Phase II success rate need to increase in order for this investment to break even?

The interviewer would tell you to assume that if the drug is successfully marketed and sold, it would be worth $1.2 billion (that is, the present value of all future profits from selling the drug is $1.2 billion).

Answer

A very good **Answer** would include the following.

- Investment would need to increase the probability of success in Phase II from 40 to 80 percent (that is, increase of 40 percentage points). There are multiple ways to approach this calculation. One method is shown here:

- If a candidate drug passes Phase II, then it has a 50% x 90% = 45% chance of being successfully marketed and sold. Since a successful candidate drug is worth $1.2 billion, a candidate drug that passes Phase II is worth 45% x $1.2 billion = $540 million.

- To break even (that is, to make the $150 million investment worthwhile), the value of the candidate drug that passes Phase II would need to increase to $540 million + $150 million = $690 million. This means, the probability of combined success in Phase I and II would need to increase by (150/540) = 28 percentage points.

- So the current probability of Phase I and II, that is, 70% x 40% = 28% would have to increase by 28 percentage points, to 56%. In order to come up to 56%, Phase II probability would have to increase from 40% to 80% (70% x 80% = 56%).

- This seems like a very big challenge, as an increase by 40 percentage points means that the current probability of 40% needs to double.

Question 4:

Next, the team explores the potential setup with BioFuture after the acquisition. Although BioFuture's existing drug pipeline is relatively limited, GlobaPharm is highly interested in its ability to serve as a biological research "engine" that, when combined with GlobaPharm's existing R&D assets, will produce many candidate drugs over the next 10 years.

What are your hypotheses on the major risks of integrating the R&D functions of BioFuture and GlobaPharm?

Answer

A very good **Answer** would include the following:

Scientists do not have overlapping disease (therapeutic area) interests or expertise and are unable to materially collaborate.

Integration into the process-driven GlobaPharm culture kills the entrepreneurial culture at BioFuture that has been key to its success.

Language barriers severely hinder communication and sharing of information.

Poor management and sense of community as a result of R&D operations that might come with a time difference of 9 hours.

Key scientific talent leaving BioFuture after the acquisition – either because acquisition makes them independently wealthy or because they don't want to be a part of the new big GlobaPharm pharmaco.

Source: https://www.mckinsey.com/careers/interviewing/globapharm

McKinsey - National Education

Client Goal

Loravia is a fictional country located in Eastern Europe with a population of 20 million. The government of Loravia wants to make major improvements in both the quantity and quality of education for its children. Because McKinsey has great deal of global knowledge and expertise in the education sector, the Loravian department of education has asked McKinsey to advise on how it can achieve this transformation of its school system.

Situation Description

Loravia’s free market economy is still developing, having emerged from many decades under communism. Recently, the government of Loravia put a new economic plan in place with aspirations to transform its economy and turbocharge its development so it’s well positioned to compete with its European neighbors. The government of Loravia realizes that the education of its children is a critical factor in meeting crucial economic development goals. It intends to transform the school system over the next ten years to enable it to support its economic aspirations.

Schooling in Loravia is completely public and is provided by a network of government-run schools that admit children from ages five through 18.

The first stage of this effort will involve diagnosing the current state of education in schools in Loravia to determine how best to meet the government’s future aspirations.

McKinsey Study

McKinsey has been asked to support the Loravian department of education in diagnosing the state of its current school system, and in identifying the most important areas for improvement.

Question 1: What issues would you want to investigate in diagnosing the current state of the Loravian school system?

Answer

Some of the factors you might discuss with your interviewer could include:

The quantity of available education. What is access to education like, and how does it differ by age, region, and demographic group? What is the supply of teachers and education resources like at a national, regional, or local levels? What are the national, regional, and local budgets for education?

The quality of available education. What is the quality of the current curriculum, for example, the subjects taught in schools and levels of attainment or learning objectives? What is the quality of the teaching, for example, the qualification level of teachers or results of teacher assessments?

Loravia's broader economic objectives. What industries and sectors will be a priority for Loravia in future, and what skills will be needed? How well does the current education system develop these skills? Should alternative models to a public education system be considered, for example, independent or private schools?

Question 2:

The chart below shows some important education-related measures for Loravia and also for some comparison countries. Three sets of comparison countries have been used. The first set contains some of Loravia's neighboring countries in Eastern Europe. In the second set are some of the most developed economies in Europe. Finally, in the third set are some countries that have similar sized economies to Loravia on a per person basis, which have similar GDP per capita.

What observations can you derive from this chart?

	Students per school	Students per teacher	Government spending on education per student (US$)	Average international assessment score
Loravia	500	18	5,000	41
Close neighbors				
Neighbor A	400	16	3,000	38
Neighbor B	700	20	4,000	43
Neighbor C	800	20	5,500	48
Developed EU economies				
Developed A	500	21	8,000	54
Developed B	350	23	8,500	55
Developed C	400	20	9,000	53
Similar economies				
Similar A	600	22	3,500	45
Similar B	500	20	4,000	44
Similar C	300	19	4,500	46

Answer

A good **Answer** might include the following observations:

Loravia spends more on education and also has a lower student-to-teacher ratio than the majority of its neighbors and economic peers, however, despite these factors, Loravia still has one of the lowest international assessment scores.

Broadly, there seems to be no direct relationship between student-to-teacher ratio and education outcome as measured by the international assessment.

Developed countries clearly spend more per student on education and have better outcomes as measured by the international assessment. However, among Loravia's peers and neighbors there is no clear relationship between spending and education outcomes.

While student-to-teacher ratios and per-student funding are levers that could be important in improving education quality, the data here indicates that alone, these may not deliver the necessary improvements. Issues such as teacher quality and curriculum content should be investigated.

Question 3:

One of the clients at Loravian's educational department mentions neighbor country "C" as an example, because it's outperforming all of Loravia's economic peers and neighbors in the international assessment. She believes that the more concentrated school structure in this country is a big reason for better outcomes in the international assessment. She suggests that having larger, less fragmented schools allows for more effective teacher selection and training, leading to improved education outcomes for students. Finally, she shares that 15 percent of Loravia's population is currently attending school.

What would be the reduction in the total number of schools in Loravia if it were to achieve the same average school size as neighbor country C?

Answer

One possible approach to discuss with your interviewer could be:

There are three million schoolchildren in Loravia: 15 percent times 20 million

There are currently 6,000 schools across Loravia: three million school children divided by 500 per school

Assuming the same school size as neighbor C would mean there are 3,750 schools across Loravia

Therefore, 2,250 schools would be closed—or about 37.5 percent of schools

Source: https://www.mckinsey.com/careers/interviewing/national-education

McKinsey - Talbot Trucks

Client Goal

Our client is Talbot Trucks. Talbot Trucks has approached McKinsey for help in assessing the feasibility of manufacturing electric trucks to reduce its fleet's carbon footprint.

Situation Description

Talbot Trucks is a Europe-based private truck OEM. It produces and sells trucks all over the world. Talbot Trucks is considered a leader in quality manufacturing. Its primary customer base includes large trucking companies that own thousands of trucks and owner-operators, which are smaller customers that own fewer trucks.

Trucks today are mainly powered by diesel engines and require carbon-based petroleum fuel. Talbot Trucks is interested in exploring ways to reduce the carbon footprint of its vehicles and has specifically asked about electric trucks, or "eTrucks."

ETrucks and diesel trucks differ in the design—e-motor and batteries versus combustion engines—and also in the way they are fueled, meaning comparably slow charging versus quick refilling with diesel fuel at gas stations. The introduction of this new technology is disruptive for the manufacturers as well as customers both large and small.

McKinsey Study

The CEO of Talbot Trucks has approached McKinsey to help determine the attractiveness of an investment in eTruck manufacturing for its European market.

Question 1:

What information would you want to collect to understand the attractiveness for Talbot Trucks in producing and selling eTrucks in Europe?

Answer

Some of the information you might discuss with your interviewer could include:

Market. What important differences exist between large and small truck customers, such as price, features, reliability, and volume? Which geographies in Europe are most receptive to eTrucks—an environmentally conscious population, or ones with apolitical agenda? How will customers perceive Talbot Trucks' eTrucks when compared to existing competitors or new entrants? What are potential substitutes, like rail?

Financials. Are there different market segments or use cases for eTrucks? How does revenue potential compare between these segments? What are Talbot Trucks' main cost drivers? What price could be expected in different segments?

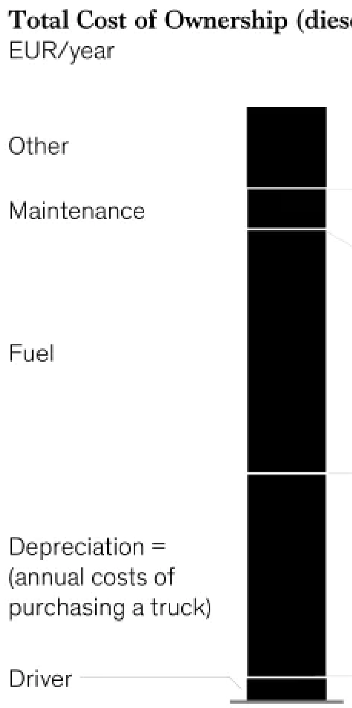
Risks. How much experience does Talbot Trucks have with eTrucks? Will it be able to produce a reliable product in a cost-efficient way? What will happen to sales of current truck models? Will legislation force a move toward eTrucks? If so, what are the risks associated with actively addressing the issue instead of waiting it out?

Question 2:

The team set out to investigate the major cost drivers for buying and operating one diesel truck, an analysis commonly referred to as "total cost of ownership" (TCO). You have been given the following information comparing the TCO for a diesel truck against that for an eTruck:

Exhibit 1

Total Cost of Ownership for Trucks



Key assumptions

	Diesel	**eTruck**
Other	• 10,000 EUR per year	• 5,000 EUR per year
Maintenance	• 5,000 EUR per year	• 3,000 EUR per year
Fuel	• 30 liters per 100 km • EUR 1 per liter • 100,000 km per year	• 100 kWh per 100 km • EUR 0.15 per kWh • 100,000 km per year
Depreciation	• Lifetime 4 years	• Lifetime 4 years
Driver	• EUR 3,000 per month	• EUR 3,000 per month

McKinsey & Company

Driver: A driver costs around €3,000 per month. There is a significant shortage of drivers in the market

Depreciation: Diesel trucks costs €100,000. The typical lifespan is four years. Residual value—the value at which you can resell the truck—is assumed to be €0

Fuel: A heavy duty diesel truck consumes around 30 liters of diesel per 100 kilometers. Diesel costs €1 per liter

Maintenance: As a general rule, maintenance per truck is around €5,000 a year for a diesel truck

Other, including tolls, insurances, and taxes: €10,000 per year

Using this data, what can you infer about the differences in TCO for diesel trucks vs eTrucks?

Answer

Some of the differences you might discuss with your interviewer could include:

Fuel and depreciation account for the majority of the costs of an eTruck, and therefore are the key drivers for buying an eTruck.

eTrucks have a significant advantage over diesel trucks in terms of cost per kilometer. Therefore, eTrucks become more attractive the more distance they cover per year

Depreciation may also vary drastically for eTrucks, since presumably eTrucks will be more expensive as the technology is newer.

Other costs are much lower for eTrucks, suggesting there may be tax breaks or other financial incentives keeping these costs lower.

Question 3:

After running focus groups with Talbot Trucks' customers, the team concluded that the total cost of an eTruck needs to be the same as a diesel truck to be considered attractive to customers. Currently, a Talbot Trucks diesel truck costs €100,000.

Assuming that the figures above do not change, what is the maximum price Talbot Trucks can charge for its eTruck so that the total cost of ownership is equal to that of a diesel truck?

Answer

One possible approach to discuss with your interviewer could be:

Annual TCO for an existing diesel truck has five components:

Driver costs: €3,000 a month times 12 months equals €36,000

Depreciation: €100,000 over lifespan divided by four years equals €25,000

Fuel: 30 liters divided by 100 kilometers times €1 per liter times 100,000 kilometers a year equals €30,000 Maintenance: €5,000

Other: €10,000

This adds up to €106,000 total annual cost of ownership for a diesel truck.

Four of the five components of an eTruck's annual TCO are:

Driver costs: €3,000 a month times 12 months is equal to €36,000

Fuel: 100 kWh divided by 100 kilometers times €0.15 per kWh times 100,000 kilometers a year equals €15,000 Maintenance: €3,000

Other: €5,000

This adds up to €59,000, not yet including the depreciation component

If the annual TCO for an eTruck is equal to the annual TCO of a diesel truck: €106,000, then the annual depreciation for an eTruck is €47,000, which is €106,000 minus €59,000

Therefore, to match a diesel truck's TCO over the four year lifetime of the truck, the maximum purchase price for an eTruck would be €188,000, or 47,000 times four years.

Source: https://www.mckinsey.com/careers/interviewing/talbot-trucks

McKinsey - Shops Corporation

Client Goal

Our client is Shops Corporation. Shops Corporation approached McKinsey for help to improve diversity, equity and inclusion within their company.

Description of situation

Shops Corporation, is a US-based retail company that is committed to ensuring that its own employees—especially those at their corporate headquarters—represent its customers. The majority of Shops Corporation's customers are women, while only about a quarter of their executive team is women. The CEO has shared the following with your team

Companies in the top-quartile for gender diversity on executive teams are more likely to outperform on profitability. Companies in the top-quartile for ethnic/cultural diversity on executive teams are more likely to have industry-leading profitability.

For these and other reasons, Shops Corporation would like to improve diversity, equity, and inclusion throughout their organization. In particular, they are dedicated to enhancing the representation of women and other minority employees within senior leadership.

McKinsey Study

Shops Corporation has recently created full-time, director-level roles to lead a number of inclusive affinity groups and has engaged McKinsey to help Shops Corporation with their diversity and inclusion goals.

Question 1:

What types of factors would you want to explore to understand how Shops Corporation might improve its diversity within senior leadership?

Answer

Some of the factors you might discuss with your interviewer could include Hiring. Where does Shops Corporation hire from and how diverse are these candidates? How is personnel selected? Are there processes in place to foster a fair view on diverse profiles (e.g., unconscious bias trainings)?

Retention. Is there equity in compensation? What policies (e.g., parental leave) or programs (e.g., Ramp On/Ramp Off) to ensure Shops Corporation keeps/retains the best and most diverse talent?

Promotion. What measures are in place to ensure equity in performance reviews? What kind of initiatives are in place to foster greater sponsorship of diverse employees?

Planning. What are target levels for diversity groups? Which area of an employee journey is the biggest roadblock (e.g., if retention is very low, then hiring entry level employees is much less likely to have an impact on senior leadership diversity)?

Goal setting. How good is Shops Corporation in communicating their diversity goals and uniting the employees behind a common goal. How do diversity goals align with other company priorities, (e.g., if the company also undergoes great change in other areas, employees capacity to address this challenge might be limited)?

Question 2:

One of the things the joint team of Shops Corporation and Mckinsey has been working on is what they are calling a Talent Pipeline. The pipeline displays the career progression for women and their representation across the following 4 levels. From most junior to most senior, they are:

Professional: this includes entry level hires and support staff (e.g., executive assistants). Manager: slightly more senior professionals (e.g., hires after business school) and select support managers. Director: vast majority are aligned to revenue generating functions; at this level, individuals typically manage teams. Executive: business unit leaders, executive team, etc. managing tens to hundreds of people. The pipeline shows the proportions for hiring, attrition (proportion of people in that group that left Shops Corporation), and promotion.

What can be possible explanations for the challenges that Shop Corporation faces in achieving and maintaining higher rates of women executives according to this data?

Answer

Some of the explanations you might discuss with your interviewer could include:

Women are not prematurely leaving the workforce compared to men. Even at the most senior levels women are motivated to stay, even slightly more than men. Perhaps there is sufficient connectivity at each level to stay, but not between levels to create opportunities for women

Hiring at junior levels is not really the problem; however, senior level hires are predominantly men. Entry level and middle management hires are roughly even between women and men. Yet, it might be more difficult to hire senior women, perhaps because other organizations are facing similar challenges and the pool of senior women is small.

The biggest driver of low levels of executive representation is lower promotion rates for women; Women are 'stuck' in middle management, potentially because: Fewer women in senior levels to 'pull up' or sponsor other women or there might be fewer women role models to enable junior women to see themselves in those roles

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Question 3:

Shops Corporation is considering hiring more women as managers from external sources to increase its proportion of women executives. They have a goal of reaching 40% women executives in the next 10 years. To understand the impact, the team has gathered the following information:

The total number of executives today is 300, and is expected to stay the same over the next ten years

Over the next five years, the team projects that two-thirds of these hired Managers will become Directors; Over the subsequent five years, one-third of those Directors will become Executives

Over the next ten years, assume a total of 50 percent of these hired Managers will leave

Everything else stays the same (i.e., existing women employees move through the pipeline at the same rates as they do today)

As a reminder, 25 percent of Executives are women today

How many additional female managers would need to be hired next year to reach Shops Corporation's goal of 40% executives in the following 10 years?

Answer

A possible approach to discuss with your interviewer could be:

The number of additional women executives targeted in 10 years can be calculated as

(Target share - Current share) * total number of executives = (40% - 25%) * 300 = 15% * 300 = 45 additional women executives

Shop Corporation will need X new hires today. We assume these will transition along the talent funnel:

X * (Manager to Director rate) * (Director to Executive rate) * (retention rate) will lead to 45 additional women executives

X * (1/3) * (2/3) * (1-50%) = 45

X = 405

Thus, shops corporation would need to hire 405 additional managers today to achieve its target.

Source: https://www.mckinsey.com/careers/interviewing/shops-corporation

McKinsey - Conservation Forever

Client Goal

Our client is Conservation Forever (CF), a conservation-focused nongovernmental organization (NGO). CF has asked McKinsey to help prioritize restoration and conservation efforts.

Situation Description

The degradation of nature is a major cause of the twin global climate and biodiversity crises. That is why McKinsey commits pro bono resources to nature conservation worldwide.

Our client, CF, was formed in 2011 at the start of the United Nations Decade on Biodiversity.

CF aims to permanently conserve large areas of land and ocean over the next decade. Land-use planning in these natural areas will be conducted in such a way that it considers biodiversity outcomes as a priority. This will require restoring natural habitats and ecosystems.

Biodiversity, or the variety of life on Earth at the genetic, species, or ecosystem level, has enormous intrinsic value, but is also essential to human well-being and our economies. It provides essential ecosystem services, such as clean air, food security, and fresh water. Investments in biodiversity can therefore contribute directly to reducing poverty and safeguarding sustainable development.

However, biodiversity is in severe decline, putting its intrinsic value and its ecosystem services to indigenous peoples, local communities, and economies worldwide at risk.

Large conservation projects at the scale required to reverse this loss entail significant upfront financing, complex legal frameworks, and extensive coordination between all parties involved, such as civil society, government, NGOs, and donors.

Due to the complexity and magnitude of these projects, conservation efforts must be carefully selected early on. CF shortlisted three candidate geographies: the coastal areas of Peru, the steppe grasslands of Ukraine, and the mountain forests of Uganda.

McKinsey Study

As part of a pro bono study, McKinsey has offered to help CF prioritize these geographies and the activities it should focus on.

Question 1:

What factors could the team consider when choosing one of the three specific geographies on which to focus the conservation efforts?

Answer

Some of the information you might discuss with your interviewer could include:

Local economic development. What are the benefits to residents? What areas have potential for self-sufficient community development and job creation, such as ecotourism or small-scale sustainable fisheries?

Biodiversity gains. Are there endangered species or ecosystems in the region? Would protecting specific areas allow merging with other already protected areas, such as reducing fragmentation to create a large-scale habitat for wildlife?

Climate impact. Which ecosystems could sequester and avoid releasing the most carbon?

Costs. What are the opportunity costs of alternative developments in the area? What are the initial one-time costs and ongoing operational costs for setting up and maintaining the protected area such as land acquisition and infrastructure development.

Other risks. What risks are associated with working in that area? How might these reduce the feasibility of a project and the likelihood of it being successful? Potential sources of risk could be political—like being in a war-torn area, high levels of corruption, government instability, or low political support for conservation—financial risks, such as low availability of public and private funding sources for conservation, or operational issues, meaning no local CF partners on the ground for implementation or limited community support for existing conservation efforts.

Question 2:

The CF and McKinsey team decided to focus their initial efforts on protecting the coastal areas of Peru. Coastal vegetation provides critical habitats for multiple species, protects shorelines, and sequesters carbon at significant levels.

The coastline is also beautiful and relatively unspoiled, making ecotourism an interesting opportunity. Ecotourism is different from other kinds of tourism in that it is designed to attract visitors who want to experience a natural environment with the assurance that their visit will not damage ecosystems or biodiversity.

There are currently five communities that have suitable tourism infrastructure, and each one welcomes 100,000 visitors each year. By protecting that area and setting up ecotourism infrastructure to welcome visitors, the team came up with the following estimates:

- annual visitor numbers to the main coastal villages will increase 20 percent over the next five years

- average length of stay in the local communities will double from two to four days

- the average amount visitors will spend in the communities is not expected to change and will remain stable at $100 per person per day

How much additional revenue will come from ecotourism in these five communities five years from now?

Answer

One possible approach to discuss with your interviewer could be:

There are currently 500,000 annual visitors—100,000 visitors multiplied by five villages.

The annual revenue from these visitors is $100 million, which is 500,000 visitors times two days by $100 per person per day.

Visitor numbers will increase to 600,000 in the next five years—500,000 visitors times 120 percent.

The new annual revenue from this increase in visitors and length of stay will be $240 million: 600,000 visitors times four days multiplied by $100 per person per day.

The additional revenue from ecotourism is therefore $140 million: $240 million total revenue minus $100 million from original revenue.

This is an increase of 140 percent: $140 million divided by $100 million.

Question 3:

The director of CF likes these initial projections, but is not convinced that the assumptions are realistic. They tell the team, “According to your model, there are three levers we need to focus on to generate revenue from ecotourism in Peru: number of visitors, length of stay, and spending amount. What are your best ideas for how to maximize each lever? And how about some ideas outside of the constraints of this model?”

Your team is meeting in ten minutes to generate ideas in preparation for a workshop with leaders from several coastal communities, and you are jotting down some notes.

What ideas do you have to generate revenue linked to ecotourism?

Answer

Some of the ideas you might discuss with your interviewer could include:

Ideas to lengthen stays. Provide package deals to incentivize longer stays; for example, five days, four nights, meals included, or organize local communities and travel agencies to encourage week-long stays and run promotions to visit all five villages.

Ideas to encourage visitors to spend more per visit. Focus on experience tourism, like local cooking classes using sustainably harvested products, educational tours of the coastal mangroves, and coral restoration projects, and provide even more memorable or exclusive experiences, such as safe interaction with wildlife or rare fauna, diving, and surfing. Or, you could also simply ask for donations.

Ideas to increase the number of visitors. Advertise in places visitors can easily travel from, like nearby South American countries and run promotions during the off-season.

Other ideas. Offer sponsorships for specific areas and provide regular updates for sponsors on development across the years. You can help create different offerings that are relevant year-round to avoid large seasonal variations in revenue by something like exporting value-added products such as regional crafts or local foods.

Question 4:

CF has decided to launch ecotourism pilots in a small number of communities in Peru to test some of the team's revenue generation hypotheses. The team mapped out how ten of the largest coastal communities compared in terms of number of expected new visitors and therefore determined the amount of investment required in addition to the return on investments.

Looking at this information, which communities in Peru should CF prioritize for the pilots and why?

Answer

Some of the ideas you might discuss with your interviewer could include:

Communities with the greatest expected increase in visitors—the y axis—are likely to require more urgent investment to support tourism demands and prevent collapse and environmental degradation.

Communities with the highest return on investment—the x axis—are expected to capture more value per dollar invested, making better use of CF's resources.

One way to prioritize communities is to look for those with both the expectation of more visitors and a healthy return on investment. Those are "B" and "G." While their population is slightly smaller than C, F and I, the returns seem to be anywhere from two to three times higher. For example, F is a large community where the number of visitors is expected to double in size and the return is expected to be six percent. In contrast, visitor numbers in B are growing at 120 percent, and the return is greater than 13 percent. Over time, B would be a better investment.

That said, investing in larger communities, such as C and F, will deliver a positive impact to more people.

In addition, communities currently facing difficulties with managing visitor flow, even if visitors are not expected to increase, like in community J, also have a more urgent need for financial and management support.

Finally, feasibility could play a role in prioritization: communities in proximity to other priority communities would allow for bundled interventions, spreading out investment costs, impacting more people, and accelerating overall implementation.

Source: https://www.mckinsey.com/careers/interviewing/conservation-forever

Bain & Company - Coffee Shop Co.

Client Background

A friend comes to you for business advice

You're having lunch with an old friend from university, and she's looking for some business advice. She is thinking of opening a coffee shop in Cambridge, England, a large university city an hour and a half away from London.

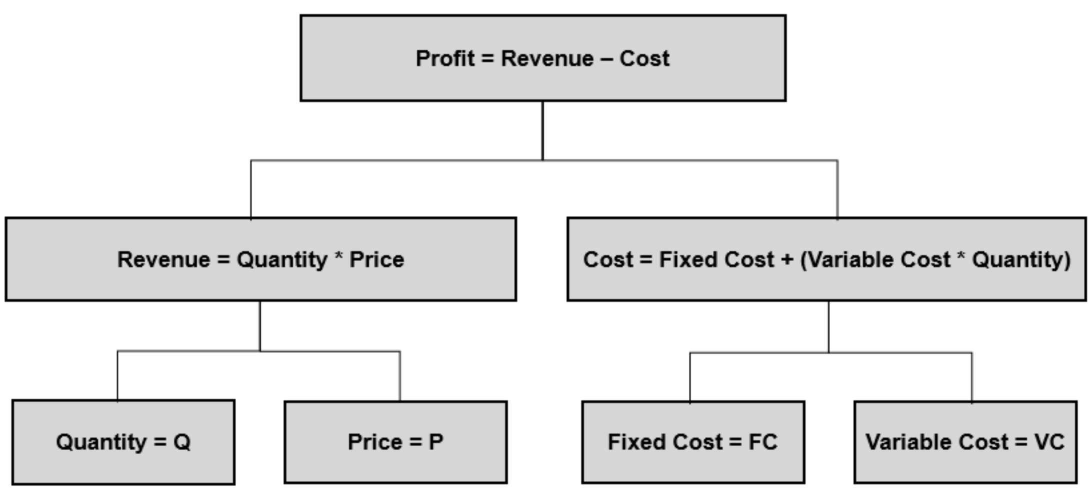
She sees potential in this business but wants your help in determining whether opening a coffee shop is a good idea.

What do you think?

Case Setup

Here are some sample questions to ask yourself:

• How big is the opportunity? • How much does it cost to open a coffee shop? • What is the shop's go-to-market strategy?



Analysis

You show your proposed framework to your friend, and she really likes it! She's especially interested in figuring out how big the market is to best estimate how much coffee she can sell. She knows the market probably includes commuters, visitors, etc., but for now, she wants you to focus on Cambridge residents alone.

How do you estimate the size of the market?

Answer

Two potential approaches come to mind when estimating market size:

1. "Top-down" approach: Start with a large number (e.g. total relevant population) and progressively narrow down.
2. "Bottom-up" approach: Start with a small number (e.g. average cups of coffee consumed per day) and progressively scale up.

After you show her the potential options for estimating market size, she wants you to approximate the market size using your framework. Assume that Cambridge has a population of 100,000 people and, on average, each drinks 1 cup of coffee per day.

Top-Down

- 100,000 people live in Cambridge
  - *80% are adults = 80,000
  - *50% of adults are coffee drinkers = 40,000 people
  - *1 cup of coffee per person per day = 40,000 cups of coffee per day
  - *50% of coffee made and consumed at home = 20,000 cups of coffee per day bought at coffee shops
  - *~350 days per year = 7,000,000 cups of coffee per year

Total market size is 7,000,000 cups of coffee per year

Now that you have the market size, your friend wants to gain a better understanding of how much coffee she would need to sell to break even in her first year.

How much coffee does she need to sell to break even in the first year?

Here is some additional information:

• Price per coffee = £3 • Cost to open shop = £245,610 • Cost to run shop each year = £163,740 • Cost per cup of coffee = £1

Answer

Breakeven

(Price * Quantity) - (Fixed costs + variable costs) = £0

Profit = £0 Revenue - Cost = £0

(3*Q) – (163,740 +245,610+ [1*Q]) = 0

2Q - 409,350 = 0

Q = 204,675 cups to breakeven

Case Recommendation

After running through the calculations, do you think it’s reasonable for her to open up a coffee shop?

Answer

Yes! Because there are 7,000,000 cups sold and the break-even point is 204,675 cups, which is ~3% of the market share, breaking even is achievable.

A better answer would take into account how long it would take for her to recoup the cost to open the store and other considerations before proceeding.

Breaking even is achievable, but we'd want to understand more about our friend's investment timeline. Depending on how many years she plans to run the store, it might be difficult to recoup the cost of opening it.

Other key questions she needs to think about before proceeding include:

What is CoffeeCo's go-to-market strategy?

How will the organization differentiate itself among its competitors?

Is there a dominant player that will make it difficult to win share?

Is the market full of smaller competitors that CoffeeCo could beat?

Source: https://www.bain.com/careers/hiring-process/interviewing/coffee-case-study/

Bain & Company - Fashion Co.

Advise a player in the fashion market on why it has experienced declining revenues for the past five years.

A CEO needs to build a path forward

Our client is FashionCo, a player in the women's fashion market. It's been in the industry for a long time, but has experienced declining revenues each year for the past five years.

FashionCo wants to understand:

What is causing this decline?

What can the organization do to drive revenue?

FashionCo will have a management meeting at the end of the week, and the CEO wants a recommendation from Bain on how to proceed.

What can they do to drive revenue?

Case Setup

Here are some sample questions to ask yourself:

• What are the possible drivers of declining revenue? • What are customers' key purchase criteria? • What are the quantitative and qualitative ways to solve FashionCo's problem?

Analysis

Ask the interviewer questions to gain additional information.

Market trends

What have sales looked like in the women’s fashion market in the past 5 years?

What are the greatest recent advances in the industry?

Are any new companies disrupting the market?

Consumer trends

Which styles do we offer?

Do we know what consumers want these days?

Provide additional suggestions to continue the conversation.

Additional suggestions to continue the conversation include:

There may be a bigger percentage of stores online versus brick-and-mortar.

Competitors may be integrating technology into their stores in new and interesting ways.

There may be an increase in loyalty apps, through which customers can pay via mobile.

Consumers may want an easier way to return clothing or more overall online shopping options.

Answer

A good answer

Ways to increase revenue include:

Consider changing the style to shift more towards social wear since it appeals to shifting consumer trends

Raise the prices to make more money per item

Increase volume through sales and advertising to drive more traffic to the store

A better answer Shifting styles

Pro: Might help with customer acquisition, if it appeals to more/younger customers.

Con: Might not align with current brand positioning and could alienate the core customer group.

Raise prices

Pro: As long as sales stay constant, we would increase our revenue.

Con: This is an unlikely assumption and requires more research to understand our elasticity of demand. The assumption is that volume would fall if we increased the price, making the likelihood of success unclear.

Increase volume through sales and advertising

Pro: Don't have to change merchandising or pricing strategy.

Con: Need to ensure we're not spending more than we're bringing in. The CEO will most likely need to approve a new sales and advertising strategy, so the CFO and CMO will narrow it down to two possible options:

Option A: A rewards program

• Estimated number of customers participating in Y1: 25%

• # of customers: 10M (assume flat) • Average pre-sale spend per person, per year: $100 • One-time customer activation fee: $50 • With the rewards program, customers always receive 20% off

Option B: Intermittent sales

• Customers (flat): 10M • Average pre-sale spend per person, per year: $100 (assume evenly distributed across years) • Model: 20% discount 3 months per year • Assumption: Discount would increase pre-sale purchase sales by 100% over those 3 months

Which one would result in more revenue this year?

Option A: Rewards Program

10M customers * 25% = 2.5M rewards program users

2.5M users * $50 = **$125M revenue (activation)**

2.5M users * $80 = **$200M revenue (user sales)**

7.5M non-users * $100 = **$750M rev (non-users)**

Total revenue: **$1.075B revenue in Y1**

Option B: Intermittent Sales

$75 * 10M = **$750M revenue (full price)**

($25 + [$25 * 100%]) = $50 avg purchase (pre-sale)

$50 * (100%-20%) = $40 avg sale purchase

$40 * 10M = **$400M revenue (sale)**

Total revenue: **$1.15B**

Case Recommendation

After understanding and researching the facts, what are your recommended next steps for FashionCo?

Answer

A good answer:

We recommend using the intermittent sales strategy (Option B), as it is projected to generate $50M more than the awards program (Option A).

A better answer:

A better answer would include additional risks and next steps for FashionCo.

Risks and additional considerations:

Option A might be a better long term strategy if there is an increase in customer sign-ups in Year 2.

Not changing the style or introducing more tech into the clothing could be a big issue if market trends continue their current trajectory. Further steps:

Test if the rewards program might make loyal customers spend more in Year 2 and beyond, given the 20% discount.

Revisit digital and style questions with CEO; conduct survey to ground in data.

Source: https://www.bain.com/careers/hiring-process/interviewing/fashion-case-study/

Resources

Interview structure: https://igotanoffer.com/blogs/mckinsey-case-interview-blog/115672708-mckinsey-case-interview-preparation-the-only-post-youll-need-to-read

Mock Interview: https://www.bain.com/careers/hiring-process/interviewing/consultant-practice-case-interview/