

Practice Case



Example Case – 20% off Winter Coats

Case Question

A large multi-channel apparel retailer wants to introduce a “Winter 20% Off” sale on formal Winter Coats in their stores over the month of November. They have come to you to understand if this is a good idea or not

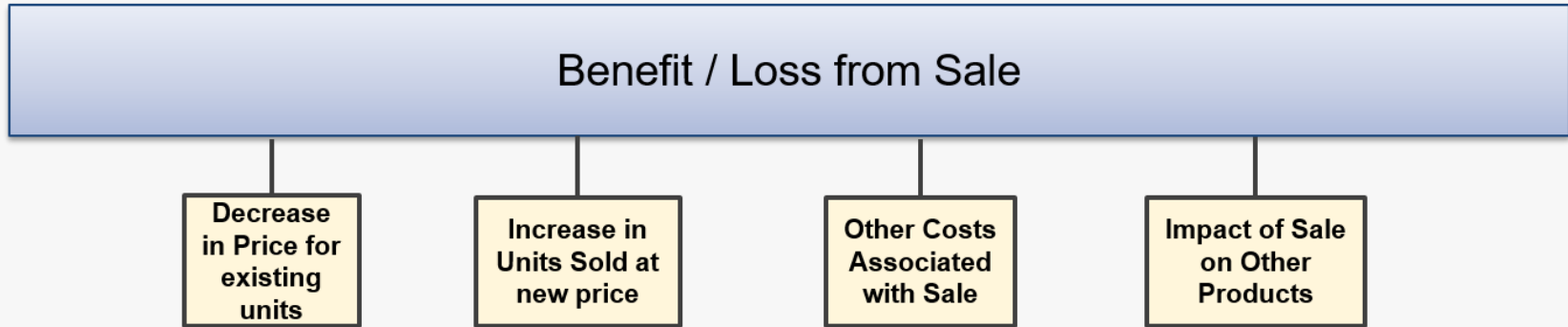
Tips / Process

- Truly understanding the case question is key - the first step should always be to repeat the question and clarify anything you are unsure about
 - Also use this opportunity to clarify the main goal(s) of the case. E.g. here a candidate can ask “Are there any other goals besides maximizing profits?”
- It is often a good idea to take a minute and draft a plan outlining the high level direction you want to take

The next slide will show an example of a plan for this case question. Take a crack at drafting a plan before moving to the next slide

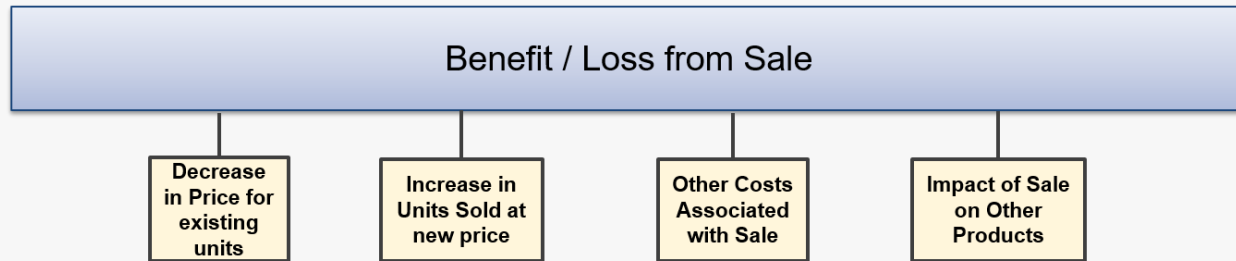
Taking the First Step – Identifying the Plan of Action

"Our goal is understanding if this sale will lead to greater profits. We can do so by comparing the profits with and without the sale using the following high level plan:"



Taking the First Step – Identifying the Plan of Action

"Our goal is understanding if this sale will lead to greater profits. We can do so by comparing the profits with and without the sale using the following high level plan:"



Tips / Process

- Unless you're given all of the data to solve your case, try to keep your plan general and high level
 - Focus on identifying the elements that will go into solving the problem rather than trying to create an equation at this point
- Don't be afraid to review the plan with your interviewer – this can make sure you don't start going in a wrong direction early on
- Your plan will guide the next steps in the case interview:
 - Use your plan to identify what information you need to ask for from the interviewer
 - If you feel lost at a later step, you should take a step back and take another look at your plan
- **In Mastercard cases, there will always be a number to calculate – make sure your approach is not entirely qualitative**

With this plan in mind, before going to the next slide think about what questions / information you would ask for from the interviewer

An Analysis is Only as Good as the Underlying Data – Asking for Additional Information

Tips / Process

- Often the interviewer has additional information available that will be necessary to solve the case – sometimes you will have to explicitly ask for that information
 - Use your plan to guide you in identifying the right information to ask
 - Think about why you need each piece of information and how that will help you get to your final answer
 - Below are some suggested questions you can ask for this case

Suggested Questions

- What is was the average price of the winter coat prior to the discount?
- What is the cost of producing a winter coat?
- How are sales of winter coats expected to change as a result of the discount?
- Are there any fixed costs associated with the sale (e.g. advertising, signage, etc.)?
- How many stores are in the network? Did all of the stores have the 20% off discount?
- How are the sales of substitute products (e.g. sweaters) expected to decline as a result of this sale?
- How are sales of complementary products (e.g. scarves and gloves) expected to increase as a result of this sale?

An Analysis is Only as Good as the Underlying Data – Asking for Additional Information

Additional Information Provided

- Avg price of Winter Coats: \$100
 - Margin rate on Winter Coats: 50%
 - Expected pre-discount November weekly units sold per store: 50
 - Space allocated for winter coats: 800 Sq Ft per store
- Fixed cost of 20% off signage: \$1000 per store
 - Total number of stores in the network: 400
 - Winter coat sales as % of total store sales last year: 2%
 - Units Sold are expected to double as a result of the discount

Go ahead and take a crack at tying this all together to get to an answer using the information provided above. Review slides 18-29 in “Case Interviews” if you want a refresher on the concepts applied

Doing the Math

There will be some math to do in every Mastercard case interview – using the tips highlighted earlier, it is now time to calculate the answer

Example Approach:

Let's review the basics of the changes as a result of the discount:

Units sold double: go from 50/week to 100/week

Price decreases by 20% - goes from \$100 to \$80

Cost of producing a unit stays the same: 50% of \$100 = \$50

Focusing on the **incremental** profits from the sale, we can break the problem down as follows:

Doing the Math

There will be some math to do in every Mastercard case interview – using the tips highlighted earlier, it is now time to calculate the answer

Example Approach:

Let's review the basics of the changes as a result of the discount:

Units sold double: go from 50/week to 100/week

Price decreases by 20% - goes from \$100 to \$80

Cost of producing a unit stays the same: 50% of \$100 = \$50

Focusing on the **incremental** profits from the sale, we can break the problem down as follows:

Margin Decrease on Existing Units Sold

Note that 50 units would have been sold regardless of the sale. Since the cost of producing a unit is the same, we expect a \$20 per unit loss on these as a result of the price decreasing from \$100 to \$80

Therefore, the margin changes by $50 \text{ units} * -\$20 \text{ margin change} = -\1000

Doing the Math

There will be some math to do in every Mastercard case interview – using the tips highlighted earlier, it is now time to calculate the answer

Example Approach:

Let's review the basics of the changes as a result of the discount:

Units sold double: go from 50/week to 100/week

Price decreases by 20% - goes from \$100 to \$80

Cost of producing a unit stays the same: 50% of \$100 = \$50

Focusing on the **incremental** profits from the sale, we can break the problem down as follows:

Margin Decrease on Existing Units Sold

Note that 50 units would have been sold regardless of the sale. Since the cost of producing a unit is the same, we expect a \$20 per unit loss on these as a result of the price decreasing from \$100 to \$80

Therefore, the margin changes by 50 units * -\$20 margin change = -\$1000

Margin Increase from New Units

While 50 units would have been sold regardless of the sale, the discount results in 50 incremental units sold

The margin on these units is Price – Cost = \$80 - \$50 = \$30

The incremental margin is 50 units * \$30 margin per unit = \$1500

Overall Impact

The overall impact of the sale therefore is obtained by this formula:

(weekly margin decrease on existing units + weekly margin increase on new units) x 4 weeks - \$1000 fixed cost of signage

$$(-\$1000 + \$1500) \times 4 - \$1000 = \$1000$$

The Bottom Line – Final Recommendation

You've done the math, now it's time for the final step in solving the case – articulating your recommendation

For Example:

"Based on the calculations earlier, the winter coat promotion is indeed profitable leading to \$1000 in incremental margin per store."

In a longer case, you may also have to quantify additional effects of this sale. Can you think of broader implications of this sale than the ones we have quantified?

The Bottom Line – Final Recommendation

You've done the math, now it's time for the final step in solving the case – articulating your recommendation

For Example:

"Based on the calculations earlier, the winter coat promotion is indeed profitable leading to \$1000 in incremental margin per store."

In a longer case, you may also have to quantify additional effects of this sale. Can you think of broader implications of this sale than the ones we have quantified?

A few broader implications of these sales include:

- Cannibalizing online sales
- Cannibalizing sales of substitute products such as sweaters and jackets
- Having a halo effect on complementary products such as gloves and scarves
- A pull-forward effect with customers who would've bought winter coats later end up "pulling forward" their sale to take advantage of the lower price

As discussed on slide 26, understanding the broader implications of a business decision can further enhance your answer. What other implications can you think of for this promotion?