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Typical case structure

A McKinsey case interview typically lasts ~25 minutes

Today's focus

	Description	What we're looking for
1 **Introduction**	Listen to a prompt and clarify any initial points about the case and problem	Non-evaluative We just want to make sure you understand the basis for the rest of the case and discussion
2 **Framework**	Provide an overarching, organized structure for how to approach the problem	Clear structure Strong mix of quantity and quality of areas to explore for the rest of the case Personalization and originality
3 **Hypothesis and brainstorming**	Generate inventive ideas on why problems may be occurring and how to resolve them	Evidence and common sense to support your ideas and proposals Creativity and applicability to the specifics of the case
4 **Analysis**	Given a set of data, run algebraic equations using common business formulas	Clear structure Execution of basic algebra Identification of unnecessary info Understanding implications of the answer
5 **Conclusion**	Provide a synthesized perspective and highlights of the topics we discussed	Concise list of recommendations and challenges Synthesis of the major points and key insights we have discussed throughout the case

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When approaching the final section of the case

1. Take some time to **consider what has been investigated in previous questions** and what the conclusions have been

2. **Summarize for the interviewer what has been determined so far**. What further investigations might be necessary?

3. **Keep your eye on the overall objective**. Refer back to the set of issues that were outlined in the first question as you answer this question

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Tips for the recommendation section

1. Breadth and depth … show your creativity and have fun with it
2. Don’t forget what you have learned and tie the pieces of the case together
3. Make assumptions explicit and drive implications through to the ultimate question (answer the HOW and SO WHAT?)

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Framework exercise – Benjamin Carpet

Let's assume our client is a family-owned carpet company, Benjamin Carpet. Benjamin Carpet is a manufacturer and seller of residential and commercial carpet. It sells carpets to retailers and in some cases directly to end-users. Benjamin manufactures 5 days a week 16 hours a day.

The carpet-making process that Benjamin currently uses is as follows:

- Purchase colored yarn
- Load colored yarn onto thousands of spools in a specific color order onto weaving machine
- Weave the carpet on weaving machine
- Put the back on the carpet via the backing machine
- Cut, roll and store the carpet

Benjamin in considering some new technology which would change the carpet-making process to the following:

- Purchase undyed yarn
- Load undyed yarn onto the spools
- Weave the carpet on weaving machine
- Run the carpet through the new technology which is like a giant ink jet printer and dry it
- Put the back on the carpet via the backing machine
- Cut, roll and store the carpet

The total investment for the new technology is $25 million

Problem Definition: Should Benjamin invest in the new carpet making technology?

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Case Math exercise – Benjamin Carpet Cont.

1. At this point, would you recommend that Benjamin Carpets invest in the new technology?

Note: We previously found that Benjamin Carpets' cost structure would not change ($2.5M in variable cost savings but $2.5M in capital cost increase) with this investment, and their revenues will increase by $82M by capturing 5% of 70M yards from high end customers and switching 30% of current customers to the high end carpet pattern

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Example answer

Incremental annual revenue: $242-$160= $82 million

Annual cost savings (from Question 3): $2.5 million:

Annual incremental costs of the new revenue: (3.5 mm units*$9.75/unit) = $34.125 mm

Net annual impact: (82+2.5-34.125) = $50.375 per year for 10 years (*assuming Benjamin Carpets can start producing more capacity immediately)*

Because the value of the investment is likely to be positive, Benjamin Carpets should invest in the new technology

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Framework exercise – Benjamin Carpet Cont.

2. What else would you want to know before making a final recommendation to the client?

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Example answer

The Market Conditions

- Stability of the carpet market for next 10 years
- Competition
- Feasibility of taking more market share of older segments
- More about potential new market segments
- Customer acceptance of dyed carpets instead of weaved color yarn

Reliability of the technology

- Risk – new technology unproven
- Flexibility of technology to adjust to new fashions/ trends in patterns for example
- The length of the technological innovation (will something new come up in 2 or 15 years)
- Quality of the product in terms of durability
- Ability of the technology to deliver constant quality throughout the life of the equipment

Company's capability to change

- Difficulty of implementation
- Training of employees in new process

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Framework exercise – Vitamin Universe

Let's assume a financial investor is considering acquiring Vitamin Universe, a chain of vitamin & health product stores. Before finalizing their bid, they have asked McKinsey & Company to analyze the industry and give an opinion on whether or not they should buy the company.

Vitamin Universe owns about 1,000 stores across the US. All of the stores are located in shopping malls and strip mall shopping centers.

The company sells a wide range of vitamins, minerals, herbs, sports nutrition product, diet products, and natural medical products to the general public. They also sell a limited assortment of food products, like nutrition bars (e.g., Powerbar) and diet drinks (e.g., SlimFast).

Problem Definition: Should our client purchase Vitamin Universe?

Framework exercise – Vitamin Universe Cont.

1. Our client is concerned that a mass retailer, imagine Wal-Mart, will increase its sales in this category and push out the specialty stores. Do you think that this will happen? Why (or why not)?

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Example answer

Yes, Wal-Mart will push out the specialty stores because:

- Wal-Mart can offer lower prices (a good answer recognizes that this is because WMT has lower costs; a very good answer asserts that this is only relevant if price is important to nutritional supplement consumers that shop at specialty stores)
- Wal-Mart outperforms specialty retailers on dimensions that are important to customers besides price (e.g., selection, service, information, latest new products, pleasant shopping experience)
- Wal-Mart draws people to its stores with other products and they buy nutritional supplements while they are there
- Nutritional supplement customers are not loyal to the existing specialty store chains

No, Wal-Mart will not be able to push out the specialty stores because:

- Wal-Mart can compete on price, but specialty retail customers are not price sensitive (a very good answer)
- Wal-Mart is not able to compete on non-price dimensions (e.g., selection, service, information, latest new products, pleasant shopping experience) (a very good answer: recognizes that some of these are more important to specialty retail customers than to Wal-Mart customers)

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Framework exercise – Vitamin Universe Cont.

2. You are going to present your findings in a meeting with our client. Based on what you have found out today, would you recommend buying this company? Why or why not?

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Example answer

Yes, because:

- The market is fundamentally attractive
- Vitamin universe seems to be able to defend itself against Wal-Mart (based on answer from previous question) and there are potential ways to reduce threat from specialty competitors
- If we consider that this is a very attractive price and the company has highly skilled management team available that is able to drive change going forward

No, because:

- The market is fundamentally attractive but threat from large stores like Wal-Mart is too great and there is no way to stop market share losses
- If we consider the acquisition price to be too high
- Should also be wary of ‘Deal breaker’ elements that might be uncovered during due diligence

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Thank you for your time! Any questions?

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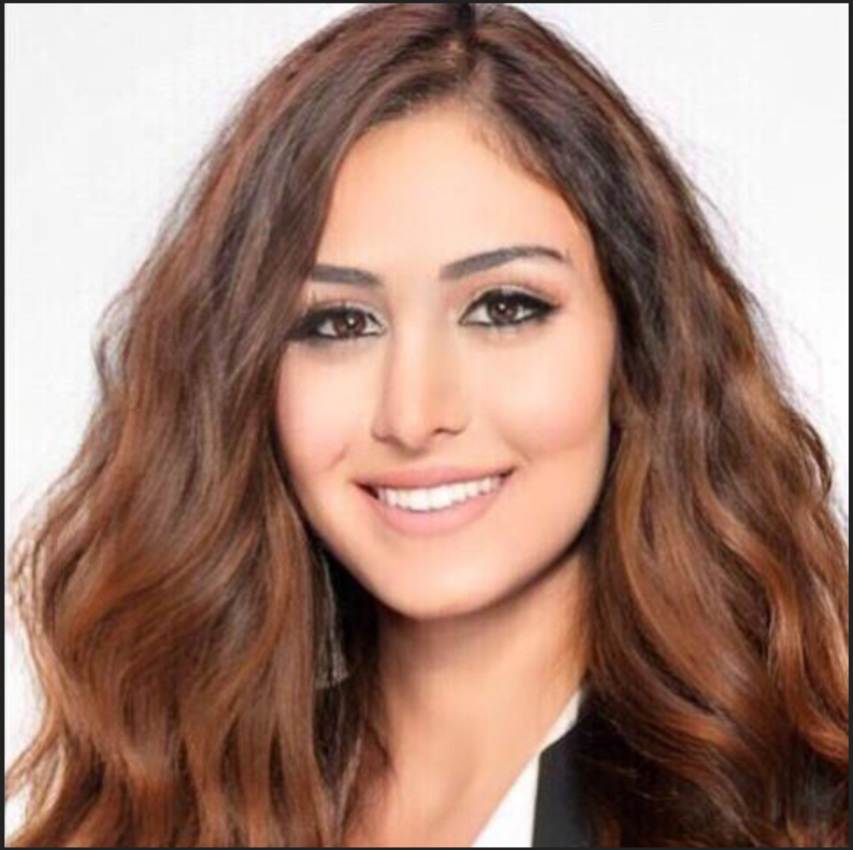

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