The 1st **CraftingCases** CASEBOK

Your well-thought out casebook to get quality practice, receive insightful feedback, and master case interviews.

Cases: BierCo and Lean Fitness

By Bruno Nogueira and Julio Tarraf

For more information, techniques and case interview goodies, visit www.CraftingCases.com

Most casebooks kinda suck…

We've been in your shoes and we know how it feels.

Back when we were preparing for our case interviews, few materials were available. We relied heavily on whichever casebooks we could find.

Most of them had a few things in common: they were full of mistakes, the answers were often times confusing and it was difficult to give (and get) useful feedback.

Even then, they were exceptionally useful and important for our preparation and eventual offers at McKinsey and Bain. Even with the flaws, we are truly grateful for whoever put in the time to put them together.

But we have always imagined if there couldn't be a better way…

… so we decided to create the one we wish we had!

Our casebook is not a normal casebook. If you've known us for a while you know we don't do things like everyone else in case-interview-world. Here's a few differences:

- Instead of several cases, just a couple. Quantity is important for beginners, but every advanced candidate we've met is thirsty for quality. This casebook has two cases, but you'll learn more from these than you would doing ten cases from other sources.

- Multiple, detailed answers. Ever wondered if a certain issue is really that essential to be raised in a case or just a nice-to-have? Ever been in doubt if your structure is wrong, or simply different? We've got you covered. Here each question has not one, but a few answers. And explanations of each so you can actually know what's going on.

- Performance checklists. Simple, useful guides to evaluate answers for each question so you can give and get great feedback (and even study by yourself).

Instructions

Content
This casebook contains the candidate's version of the BierCo case and the interviewer's guide for the Lean Fitness case.

Practice time vs. learning time
In each question, you will find two suggestions of time to allow the candidate to structure their answer. Practice time is how long a real interviewer would allow. Learning time is how long a candidate who is learning should take, considering they are still mastering their skills. Developing good, thoughtful answers, even if taking longer to do so, is an important step in the path to mastering case interviews.

Sample answer and performance checklist
Each question has a sample answer which is good, not necessarily the best possible. If the candidate's answer is different than the sample answer, it is not necessarily bad. Go through the performance checklist for the specific question to assess whether the candidate's answer is good or bad.

Follow-up questions
In many of the questions you will find follow-up questions. They should be asked after the candidate finishes the answer to the main question. Follow-up questions are quite common in real cases, and may be previously planned by the interviewer or not.

Our suggestions

- Going through our material will greatly increase your understanding of the case and perception of performance as an interviewer. The usage and understanding of the cases are independent of any other materials.

- Although we highly recommend you read through and try solving the case yourself before interviewing someone with it, the casebook is designed so you only have to read through the question you are about to ask.

BIERCO

Should the market leader brewery Meister acquire the second player, Helles?

CANDIDATE'S VERSION

Case question / Framework question

Recommended time to structure ———┬— Practice mode: 3 min

└— Learning mode: 6 min

> Your client is a brewery called Meister, the market leader in Paraguay, with 45% of market share. The two next players, Helles and Dunkelbrau, have 25% and 15%. Meister's executives are considering buying Helles and have hired you to assist them with that decision. How would you help them decide on this acquisition?

CANDIDATE'S VERSION

Brainstorming question

Recommended time to structure — Practice mode: 2 min

Learning mode: 4-5min

> Your team is trying to assess a fair price to offer for Helles's shares. The main driver for this are the synergies. What are the potential synergies in this merger?

CANDIDATE'S VERSION

Chart interpretation question

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Recommended time to structure

Practice mode: 1 min

Learning mode: 2-3 min

What insights do you take from this?

	Meister	Helles	# of bars and restaurants	
# of salespeople	570	500	Total in country	100,000
Cost per salesperson per year (US dollars)	$31,500	$30,000	Sell Meister	80,000
Salesforce efficiency (bars & restaurant per salesperson)	140	120	Sell Helles	60,000
			Sell Meister & Helles	40,000

CANDIDATE'S VERSION

Analysis question

Recommended time to structure

Practice mode: 3 min

Learning mode: 5-6 min

What is the potential salesforce cost reduction after the merger?

	Meister	Helles	# of bars and restaurants	
# of salespeople	570	500	Total in country	100,000
Cost per salesperson per year (US dollars)	$31,500	$30,000	Sell Meister	80,000
Salesforce efficiency (bars & restaurant per salesperson)	140	120	Sell Helles	60,000
			Sell Meister & Helles	40,000

CANDIDATE'S VERSION

Recommendation question

Recommended time to structure ───┬─ Practice mode: none

└─ Learning mode: 2-3 min

Suppose the CEO has entered the room as soon as you've finished the last analysis, and she wants a quick idea on what to tell the board members on her next meeting regarding this acquisition. What would you tell her?

CANDIDATE'S VERSION
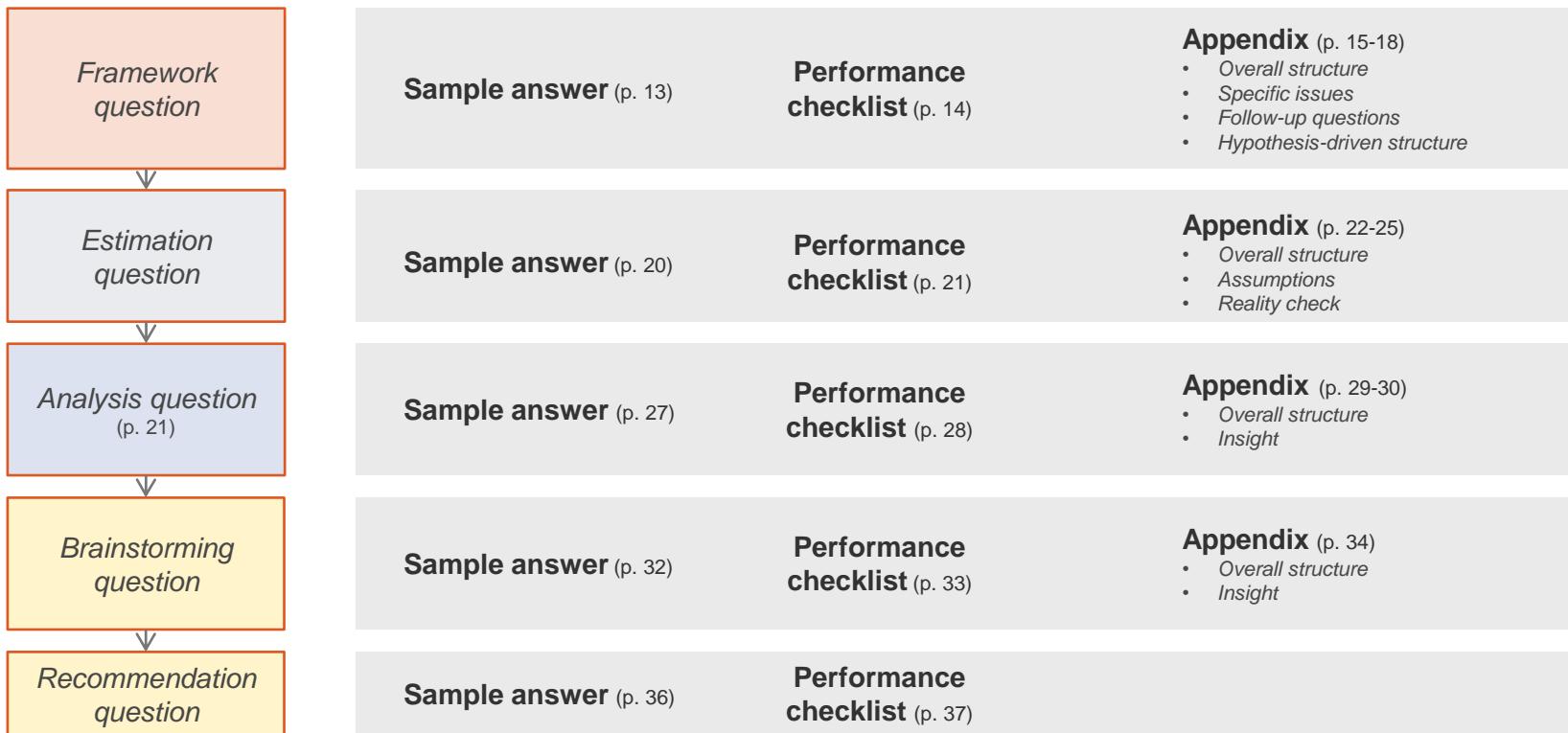
LEAN FITNESS

Should the high-end gym chain Super Body start a budget gym chain (Lean Fitness)?

INTERVIEWER'S GUIDE

Lean Fitness case map

Framework question

Estimation question

Analysis question (p. 21)

Brainstorming question

Recommendation question

Sample answer (p. 13)   **Performance checklist** (p. 14)

Appendix (p. 15-18)
- *Overall structure*
- *Specific issues*
- *Follow-up questions*
- *Hypothesis-driven structure*

Sample answer (p. 20)   **Performance checklist** (p. 21)

Appendix (p. 22-25)
- *Overall structure*
- *Assumptions*
- *Reality check*

Sample answer (p. 27)   **Performance checklist** (p. 28)

Appendix (p. 29-30)
- *Overall structure*
- *Insight*

Sample answer (p. 32)   **Performance checklist** (p. 33)

Appendix (p. 34)
- *Overall structure*
- *Insight*

Sample answer (p. 36)   **Performance checklist** (p. 37)

Case question / Framework question

Recommended time to structure ── Practice mode: 3 min

Learning mode: 6 min

Super Body is a high-end gym chain located in a few major Asian cities, currently with 30 units. They are considering opening several new facilities targeting the budget market, under a new brand: Lean Fitness. The budget fitness market is currently highly fragmented, and the main differences from the high-end market are that there's little supervision on the work-out and the work-out options are limited to weight lifting and basic cardio equipment, such as treadmills. What would you analyze to help Super Body determine whether they should launch the Lean Fitness business or not?

Follow-up Questions
To be asked after candidate presents their framework

1. Pick a data point the candidate has asked about with no explicit reason

• "You mentioned you're interested in knowing about [data point], why is this relevant to the case?" (in other words, what's your hypothesis?)

2. Pick a hypothesis (explicit or not) that the candidate has mentioned with no explicit test

• "Regarding [topic X], your hypothesis seems to be [candidate's hypothesis]. How would you test it?"

....

*Suggested data points for Follow-up Question 1:*
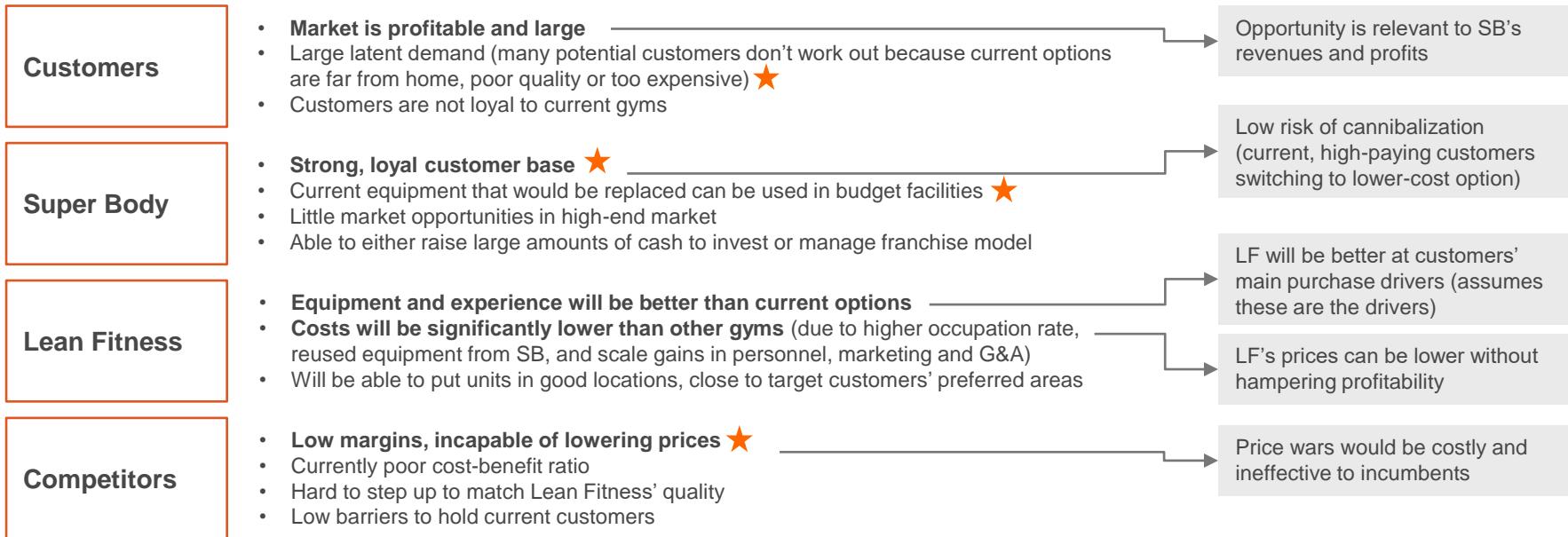
• *Budget market growth*
• *Fixed vs variable costs*

Suggested hypotheses for Follow-up Question 2:

• *Cost advantages for both companies due to scale*
• *Quality of LF will be better than competitor's*

- **Most relevant issues**
- Insightful issues ★
  Underlying hypotheses

Framework: sample answer

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Customers
- **Market is profitable and large**
- Large latent demand (many potential customers don't work out because current options are far from home, poor quality or too expensive) ★
- Customers are not loyal to current gyms

→ Opportunity is relevant to SB's revenues and profits

Super Body
- **Strong, loyal customer base** ★
- Current equipment that would be replaced can be used in budget facilities ★
- Little market opportunities in high-end market
- Able to either raise large amounts of cash to invest or manage franchise model

→ Low risk of cannibalization (current, high-paying customers switching to lower-cost option)

Lean Fitness
- **Equipment and experience will be better than current options**
- **Costs will be significantly lower than other gyms** (due to higher occupation rate, reused equipment from SB, and scale gains in personnel, marketing and G&A)
- Will be able to put units in good locations, close to target customers' preferred areas

→ LF will be better at customers' main purchase drivers (assumes these are the drivers)

→ LF's prices can be lower without hampering profitability

Competitors
- **Low margins, incapable of lowering prices** ★
- Currently poor cost-benefit ratio
- Hard to step up to match Lean Fitness' quality
- Low barriers to hold current customers

→ Price wars would be costly and ineffective to incumbents

(A) Check insights / examples from Appendix

Framework: feedback / self-evaluation checklist

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Framework performance checklist
A good framework must contain *all* of these traits

Overall structure (Categories)

☐ **Categories were MECE**
The structure was clear and thorough, with no gaps or overlaps

☐ **Structure was insightful**
It had important and unique aspects of the problem, and was not a mindless copy-paste of a generic framework

Issues / Hypotheses

☐ **At least 10 issues or hypotheses, half passing the "Toothbrush Test"**
The candidate mentioned at least 10 issues or hypotheses, and at least half passed the "Toothbrush Test" (were specific enough that they couldn't be used for a case in another industry, such as the toothbrush industry, for example)

☐ **All five critical issues of the case were raised** (A)
If candidate's issues were not exactly the same as ones in Appendix but touched on same underlying hypothesis, the issues were good enough

☐ **At least three insightful issues that show strong business sense were raised** (A)
Issues not listed in Appendix can also be insightful (but it depends on your judgment, so if in doubt, assume not)

Hypothesis-testing (follow-up questions)

☐ **Could justify need of data with a hypothesis** (A)
Candidate could answer Follow-up Question 1 with a reasonable hypothesis that justified the need for a piece of data asked during the presentation of the structure

☐ **Could test a hypothesis pragmatically** (A)
Candidate could answer Follow-up Question 2 by creating a pragmatic way to test a hypothesis raised during the presentation of the structure
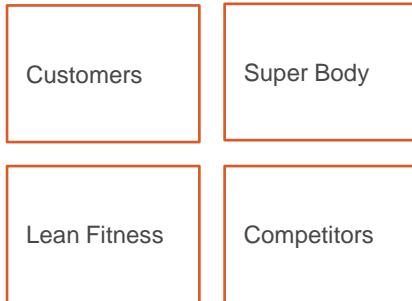
Communication

☐ **Categories first presentation**
Candidate presented a structure telling what all the categories were before explaining which issues were within each category

☐ **Communicates some hypotheses and/or examples**
At least some issues were communicated along with the underlying hypotheses and/or examples

☐ **Spoke using natural sentences**
Categories and issues were presented using proper sentences (e.g.: "Understand who are the customers and what they want" is better than "I want to look into Customers")

Framework appendix: overall structure / categories

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Recommended structure

Customers	Super Body
Lean Fitness	Competitors

- A "Products" bucket is awkward in this case, since it's hard to separate the company from its products

- A "Market" bucket could work and would be equivalent to "Customers + Competitors", otherwise it should be called "Demand"

- "Super Body + Lean Fitness" could be called "Company", given that it has separate issues for each brand

Alternative structure

Profits from opening new business	Revenues
	Costs
	Synergies / Cannibalization

Other factors	Risks
	Opportunity costs
	Implementation

- Candidate *has to have* qualitative factors driving revenues, costs and synergies as issues at some point of the structure – this is a strategy case so hard numbers aren't always available

- If candidate has used this structure, pay double attention to if key issues were raised

Advanced structure

Super Body should launch this business if…

The market is attractive	We can have significant lower costs than competition
Customers will quit competition to join LF	LF is its best investment option at the moment
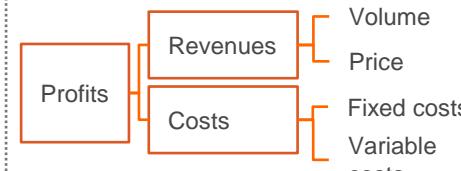
- Conditional statements can be different and structure will still be strong – hard to evaluate with no experience

Common mistake

Profits → Revenues → Volume, Price
Profits → Costs → Fixed costs, Variable costs

Using a pure profitability structure is not a sound choice for this case for three reasons:

- There are a lot of important qualitative issues that would never be considered

- In real life scenarios, numbers (especially within Volume) would be nearly impossible to estimate without a qualitative understanding of the market

- Building strategy with no context is to shoot yourself in the foot because you need the context to anticipate things in the market

Framework appendix: issues and hypotheses

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Critical issues
To miss *any* of these is a critical mistake

☐ **Budget market in these cities is large / profitable**
Lean Fitness should be a relevant business to parent company and this is only likely if its market is relevant

★ ☐ **Super Body has a strong, loyal customer base**
To assess whether cannibalization is a relevant risk or not

☐ **Lean Fitness will be better than current budget options**
To quickly gain market share, LF must be better than budget options in the main purchase drivers (equipment, customer experience, etc)

☐ **Costs will be significantly lower than other gyms**
LF will be able to have lower prices and gain market share without damaging profitability

★ ☐ **Competitors have low margins / are incapable of lowering prices**
Price wars would be costly and innefective to them

Insightful issues
A structure with *some* of these shows strong business sense (starred critical issues also count)

☐ **There is a large latent demand in budget market**
There's an opportunity: many potential customers don't work out because current options are far from home, poor quality or too expensive

☐ **Super Body has quality equipment to be replaced that would fit the budget market**
Old Super Body equipment can be used in budget facilities reducing required investment

☐ **Lean Fitness could be fit to franchising model as an option for scaling**
Even if scaling this business controlling the operations doesn't pay off, there might be opportunities for it to be profitable via franchising

☐ **Other revenue stream that become options with Lean Fitness**
Massive scale from budget market might create new options for lines of businesses (e.g. clothing, supplements)

Common mistakes
Common issues that people raise that are not relevant to this case

☐ **Super Body's capability to build such a business**
[Because they run several high-end gyms, it is implied they can build and operate budget gyms in a market that's currently fragmented (run by small players)]

☐ **Main competitors, capabilities and market shares**
[The case question states the budget market is highly fragmented, so it doesn't make sense to study each individual competitor (although it might make sense to confirm there's no one large player)]

☐ **Create from scratch vs. JV vs. M&A**
[Often used as a staple structure for market entry regardless of context. It's OK to raise this up if there's a lot of substance behind it, for instance: 'Why M&A could be better and which targets to choose', 'What kind of JV would work and with whom' , 'Why we're discussing which method of entry before determining if we should enter of not']]

Framework appendix: follow-up questions

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Follow-up Question 1
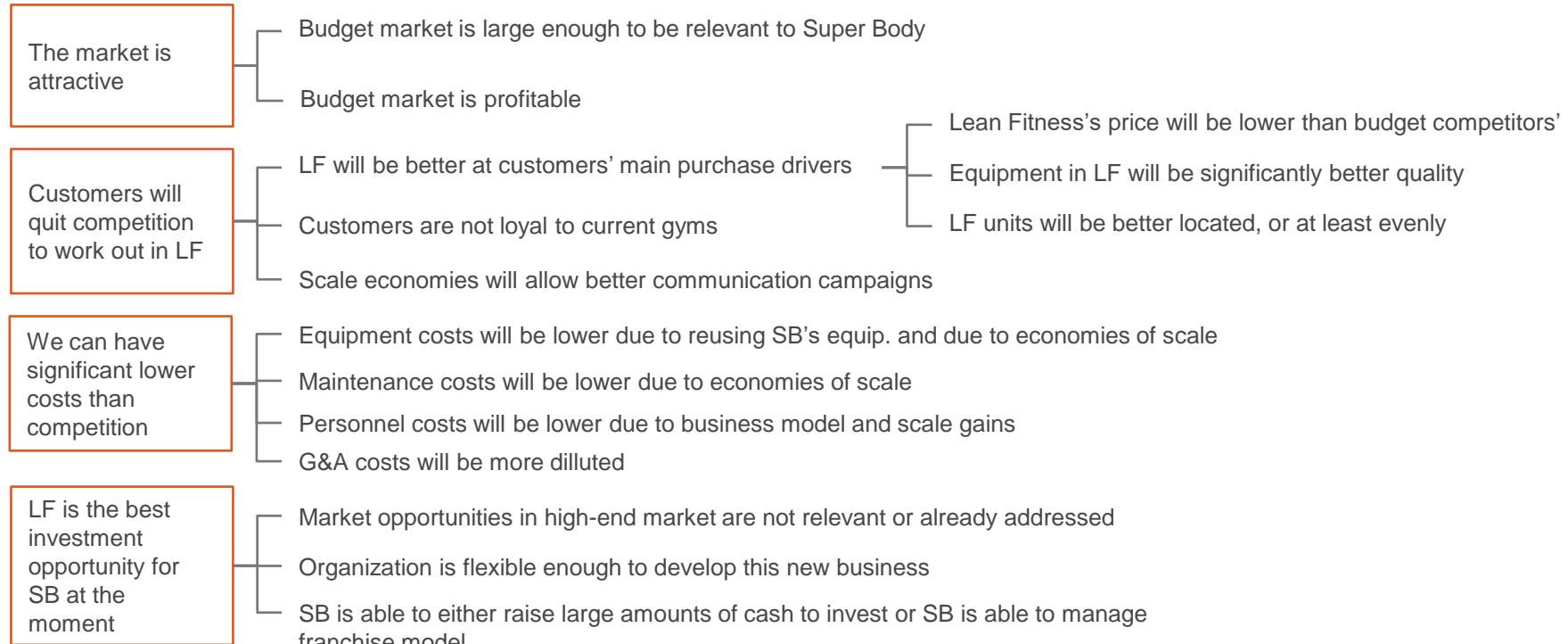
Sample answers for "You mentioned you're interested in knowing about [data point], why is this relevant to the case?"

Data point examples	Strong answer example[1]	Weak answer example
Budget market growth	"My hypothesis is that LF can grow significantly by simply capturing market growth, instead of stealing customers from competitors."	"I think it would be interesting to see if growth is large because a large growth is always beneficial."
Fixed vs. variable costs	"If fixed costs are much larger than variable, that means we need to make sure we need to keep a high number of customers per gym."	"It is nice to get a feel of the cost structure and to see if we could reduce fixed or variable costs."

1 These are examples, but there are many good possible answers; as long as the hypothesis makes sense and the data can confirm or reject it, it's strong.

Follow-up Question 2

Sample answers for "Regarding [topic X], your hypothesis seems to be [candidate's hypothesis]. How would you test it?"

Hypotheses examples	Strong answer example[1]	Weak answer example
Cost advantages for both companies due to scale	"I'd check, for each cost line (employees, equipment, marketing, etc) how scale reduces unit cost or improves utilization of fixed assets for both Super Body and Lean Fitness. For example [gives example of this done in one cost line]."	"Since we're going to have more people in the gym, I think we're going to have less costs on average."
Quality of LF will be better than competitor's	"I would ask customers from the budget segment what criteria matters to them (equipment type, staff friendliness, etc) and compare that to how our competitors currently perform and how we could perform at each metric given our capabilities and cost structure."	"Because Super Body is at the high-end market, we can assume our quality will be better."

Framework appendix: sample hypothesis-driven answer (advanced)

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Conditions and sub-conditions to launch the Lean Fitness business

| The market is attractive |

— Budget market is large enough to be relevant to Super Body

— Budget market is profitable

| Customers will quit competition to work out in LF |

— LF will be better at customers' main purchase drivers

 — Lean Fitness's price will be lower than budget competitors'

 — Equipment in LF will be significantly better quality

 — LF units will be better located, or at least evenly

— Customers are not loyal to current gyms

— Scale economies will allow better communication campaigns

| We can have significant lower costs than competition |

— Equipment costs will be lower due to reusing SB's equip. and due to economies of scale

— Maintenance costs will be lower due to economies of scale

— Personnel costs will be lower due to business model and scale gains

— G&A costs will be more dilluted

| LF is the best investment opportunity for SB at the moment |

— Market opportunities in high-end market are not relevant or already addressed

— Organization is flexible enough to develop this new business

— SB is able to either raise large amounts of cash to invest or SB is able to manage franchise model

Estimation question

Recommended time to structure ──┤ Practice mode: 2 min

Learning mode: 4-5 min

> Some decision-makers at Super Body are unsure whether the budget market is large enough to make a difference and they can't find reliable figures on that.
>
> How would you estimate the market size of budget fitness clubs for an affluent 10 million people Asian city? (e.g. Seoul)

Follow-up Questions
To be asked after candidate presents their estimation

1. Ask only if candidate does not reality check spontaneously

- "What do you think of your answer? Does it make sense?"
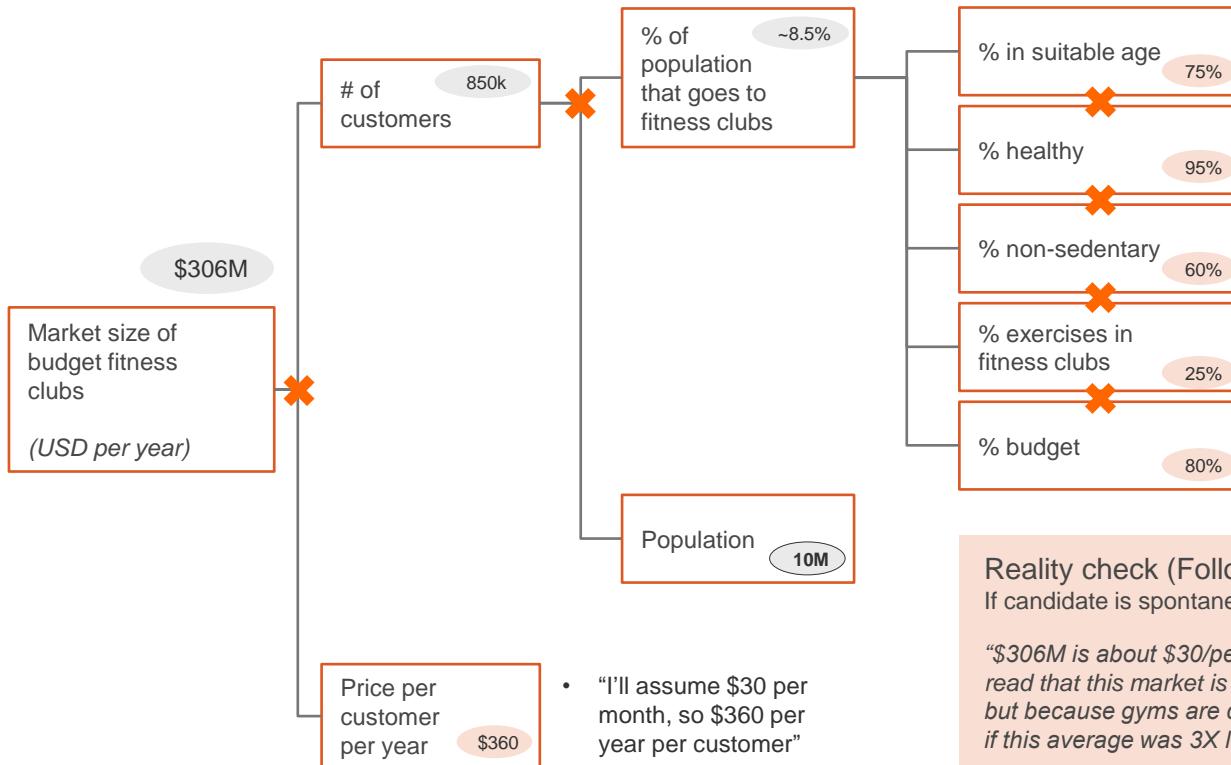
2. Ask this question regardless
- "Let's say we did some market research and it turns out the market size is $325M*. Where do you think you made a mistake?"

  ....

(*) If candidate's final answer is close to $325M, use $650M or $150M.

Estimation: sample answer

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- ## Assumptions
- ## Given data
- ## Calculated values

$306M

Market size of budget fitness clubs

(USD per year)

# of customers — 850k

% of population that goes to fitness clubs — ~8.5%

Population — 10M

Price per customer per year — $360

% in suitable age — 75%

% healthy — 95%

% non-sedentary — 60%

% exercises in fitness clubs — 25%

% budget — 80%

- "I'll assume a straight age pyramid, beginning at 0 and ending at 80; I'll also assume only pop. between 15 and 75 work out, which will give us 75%"

- "Probably high, around 90% or even 95%"

- "I'd say 60% - from my experience, this would actually be around 80%, but I think people around me tend to exercise more than average due to age and income"

- "Probably around 1 every 4 people who exercise goes to the gym as their sole exercise or as a complement"

- "Due to income distribution, this would be around 90%, but I would guess richer people work out around twice as much – so 80%"

- "I'll assume $30 per month, so $360 per year per customer"

Reality check (Follow-up question 1)
If candidate is spontaneous, even better
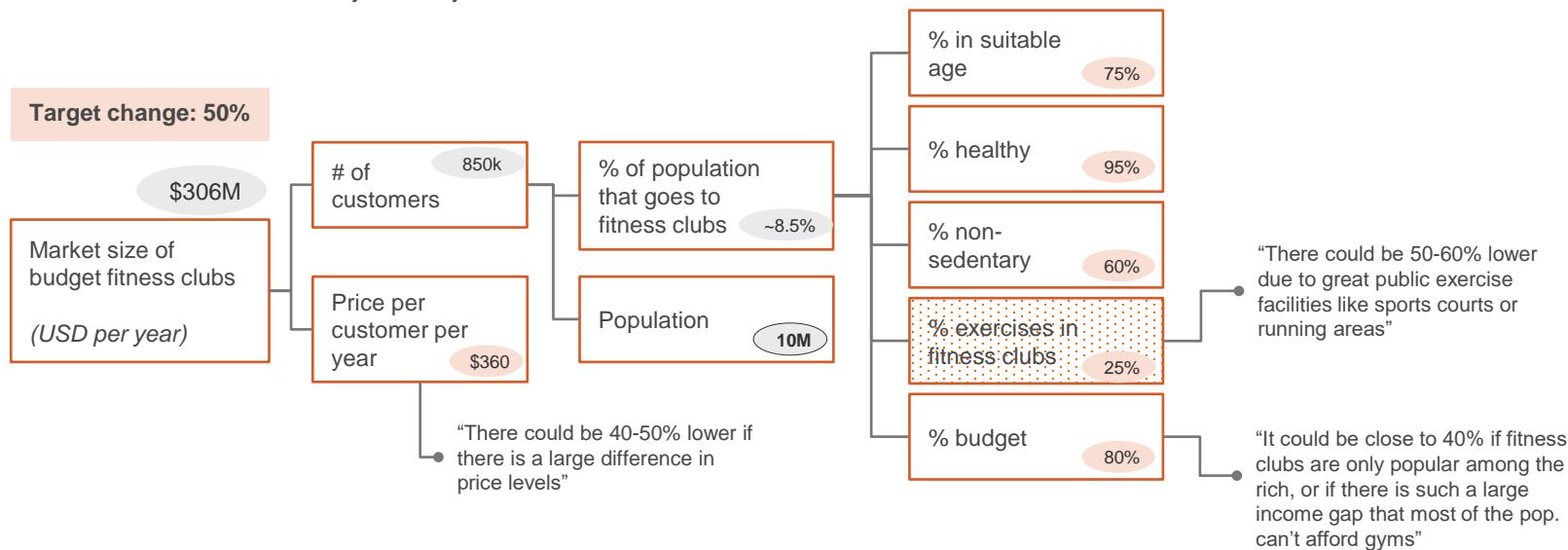
"$306M is about $30/person/year, which sounds about right – I recently read that this market is about $30B in the US, which is $10/person/year, but because gyms are concentrated in large cities, I wouldn't be surprised if this average was 3X larger in an affluent Asian city"

Estimation: follow-up questions

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Assumptions (##)
Given data (##)
Calculated values (##)

### Follow-up Question 2

Sample answer for "Let's say we did some market research and it turns out the market size is $150M. Where do you think you made a mistake? "

☐ Variable most likely to be the source of mistake

Target change: 50%

$306M

Market size of budget fitness clubs

(USD per year)

# of customers — 850k

Price per customer per year — $360

"There could be 40-50% lower if there is a large difference in price levels"

% of population that goes to fitness clubs — ~8.5%

Population — 10M

% in suitable age — 75%

% healthy — 95%

% non-sedentary — 60%

% exercises in fitness clubs — 25%

"There could be 50-60% lower due to great public exercise facilities like sports courts or running areas"

% budget — 80%

"It could be close to 40% if fitness clubs are only popular among the rich, or if there is such a large income gap that most of the pop. can't afford gyms"

(A) Check insights / examples from Appendix

Estimation: feedback / self-evaluation checklist

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Estimation performance checklist
A good estimation must contain *all* of these traits

Structuring

☐ A mathematical structure with no missing relevant issues
The structure was completely mathematical, and its elements correctly resulted in the final number with the correct units   (A)

☐ Clearly defined steps
The candidate only started to choose assumptions after finishing the structure, and only started calculating once having chosen all assumptions

☐ Matching objective
The unit of the answer to this estimation must be "Total revenues (dollars) per year", and anything different than that is wrong (if the candidate had any doubt regarding that, they should have checked with the interviewer)

Choosing assumptions

☐ Assumptions backed up by data and logic
The candidate presented a strong rationale for the numerical value assigned to each assumption when asked about it   (A)

☐ No assumption was off its correct order of magnitude   (A)

Calculating

☐ Correct calculations
Up to one or two calculation mistakes is fine, as long as the candidate was the one to catch them, not the interviewer

☐ "Out loud" math
The candidate guided the interviewer through their calculations while doing them

Reality checking

☐ Check against external data
A reality check compared data from within the model with information from outside of the model and its assumptions.   (A)

☐ Proactive reality check
The candidate has proactively done the reality check at the end of the estimation (waiting for the interviewer to ask for it is a mistake)

Sensitivity analysis (follow-up question)

☐ Prioritized issues
At least one main issue was chosen as the most likely source of mistake (in the best case scenario, the candidate came up with a short prioritized list)
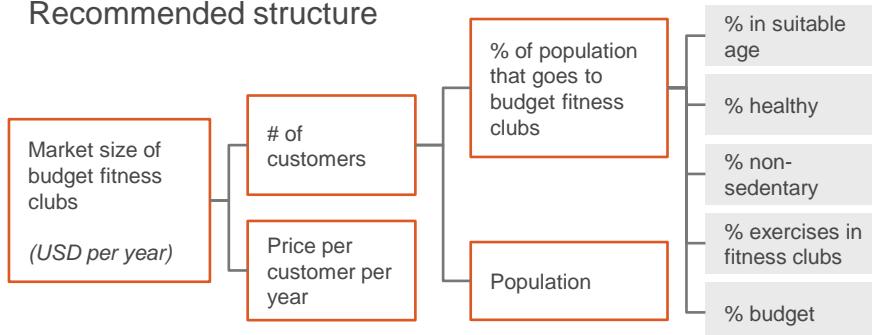
☐ Quantified "mistakes" with underlying hypotheses
Each potential source of mistake must come with an estimate of how much it could change and with hypotheses backing up the change

Could be simpler or mentioned only in assumptions

Estimation appendix: alternative structures

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Recommended structure

Market size of budget fitness clubs

(USD per year)

— # of customers

— % of population that goes to budget fitness clubs

- % in suitable age
- % healthy
- % non-sedentary
- % exercises in fitness clubs
- % budget

— Price per customer per year
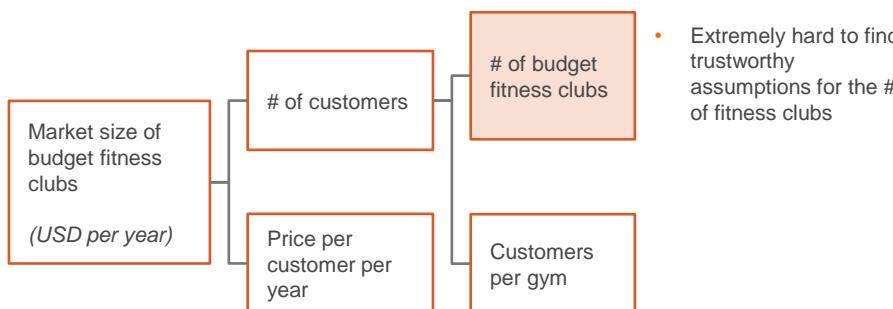
— Population

Alternative structure

Market size ($/y) = Population * % of population that goes to fitness clubs * % in the budget market * Average price per customer per year
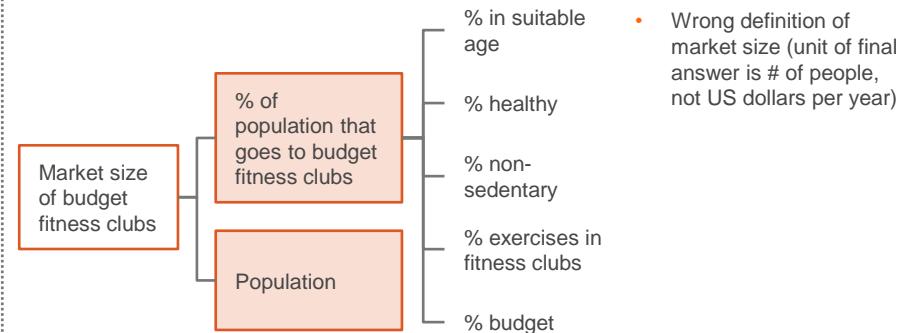
It is possible to build your structure as a written equation, as in this example. This works just as well, but we recommend a tree format because it is easier to communicate and add detail if needed

Common mistake

Market size of budget fitness clubs

(USD per year)

— # of customers

- # of budget fitness clubs
- Customers per gym

— Price per customer per year

- Extremely hard to find trustworthy assumptions for the # of fitness clubs

Common mistake

Market size of budget fitness clubs

— % of population that goes to budget fitness clubs

- % in suitable age
- % healthy
- % non-sedentary
- % exercises in fitness clubs
- % budget

— Population

- Wrong definition of market size (unit of final answer is # of people, not US dollars per year)

Estimation appendix: choosing assumptions

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	Recommended reasoning	Alternative reasoning	Common mistakes
Price per customer per year	*"$30 per month sounds reasonable, it's close to what I pay for my gym membership, so I would say **$360 per year** per customer."*	*"if price levels are just slightly lower than what I'm used to, **$30 per month** would be the cost of three lunches, so that sounds about right."*	*"**$10** – everything is cheap in Asia."*
% in suitable age	*"I think it's fair to assume a straight age pyramid, ending at age 80, and that only people between ages 15 and 75 are relevant for regular gyms. So that would give me **75%** of the total population."*		*"I think people start going to the gym at age 18, some people probably stop at age 60, others at age 80, and the average life expectancy is probably around 82 [...]."* [Too much complexity for very little difference in results]
% budget	*"Due to income distribution, this would be around 90% - at most, only ten percent of the population can afford high-end gyms –, but I will assume richer people work out around twice as much – so **80%.**"*	*"Let's say high-end gyms are 5x more expensive. This would depend on the real sensitivity of this variable, but let's say there would be 10x less consumers. I would go with **90%.**"*	*"From the people I know that work iut, around 50% go to budget gyms and 50% go to high-end gyms."*

Estimation appendix: reality check

Follow-up Question 2
Sample reality checks – or answers for "What do you think of your answer?"

Recommended[1]	Alternative	Common mistake	Common mistake
"$306M sounds about right – I know the market size for this in Sao Paulo, with around the same the population and much lower GDP per capita, is close to $150M."	"I don't really have in mind reliable data to compare with this. If I could get some data on a similar city's market size or on other population's percentage of people who work out, I could have a clear idea of the feasibility of my answer."	"Well, this basically means that each person is spending on average $300 per month with fitness."	"I have reviewed my math twice and I believe my assumptions make sense, so I think my answer is at least a good ballpark."

1 In this specific case, it is very unlikely that the candidate will have any good numbers to reality check out of his mind. The alternative suggestion would be a good answer.

Analysis question

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Recommended time to structure ─┤ Practice mode: 3 min
                                └ Learning mode: 5-6 min

From now on, let's assume the market size for that specific city is $325 million per year.

Super Body expects Lean Fitness to snatch 30% of the current market with its new facilities, but their revenue target in that city is of $200 million per year. To get to this target, they expect to also get consumers who weren't previously in the market due to two main factors: (i) their clubs are going to be slightly better than current budget gyms and (ii) some of them are going to be closer to people's homes compared to the current options.

Assuming the average budget customer spends on average $360 per year, what % of people *in the addressable market that currently don't work out in a fitness club* would have to join Lean Fitness so they can reach their target revenues?

Data to give as requested

- Addressable market: 85% of population (other: kids and people with chronic illnesses)
- % of total population that currently work-out in fitness clubs: 12% (budget and non-budget)

Data already given

- Budget market size: $325 million
- Average ticket: $360/year
- City population: 10 million people

Follow-up Question
To be asked after candidate presents their final answer

- "Do you think this is feasible?"

Data given upon request (##)
Given data (##)
Calculated values (##)

Analysis: sample answer

CraftingCases

Step 1

How much revenues we would have if the market did not grow

(just by capturing market share from other players)

$97.5M

Current total market

✖

$325M

Captured market share

30%

Step 2

How much more revenues we need to achieve our target

$102.5M

Target revenues

➖

$200M

Revenues excluding market growth (step 1)

$97.5M

Step 3

How many customers we need to earn the missing revenues

285K

Revenues needed (step 2)

➗

$102.5M

Price per customer

$360

Step 4

How many people are there in the addressable population that are not working out

7.3M

Population

➖

10M

Not addressable portion

15%

Already working out portion

12%

Step 5

How many of those people we need to capture in order to reach our target revenues (target variable)

3.9%

New customers needed (step 3)

285k

➗

Addressable pop. not working out (step 4)

7.3M

Insight / "so what" (Follow-up question 1)
Ideally spontaneous, but could be the answer to follow-up question

"3.9% doesn't look like much, but it is a lot compared to 12% of the total population working out. If 1.2M people work out, and Lean Fitness would have to convince other ~300K, which is 25% more, to start doing so. Driving a 25% market increase simply due to being slightly better and closer to some people's homes sounds unlikely to me. To make sure this isn't feasible, I would research similar situations in other cities and benchmark against those"

A Check insights / examples from Appendix

Analysis: feedback / self-evaluation checklist

CraftingCases

Analysis performance checklist
A good analysis must contain *all* of these traits

Structuring

☐ A mathematical structure with no relevant issues missing
The structure was completely mathematical, and its elements correctly resulted in the final number with the correct units   A

☐ Correct data request
*The candidate asked for all necessary pieces of data*

Calculating

☐ Correct calculations
Up to one or two calculation mistakes is fine, as long as the candidate was the one to catch them, not the interviewer

☐ "Out loud" math
The candidate guided the interviewer through their calculations while doing them
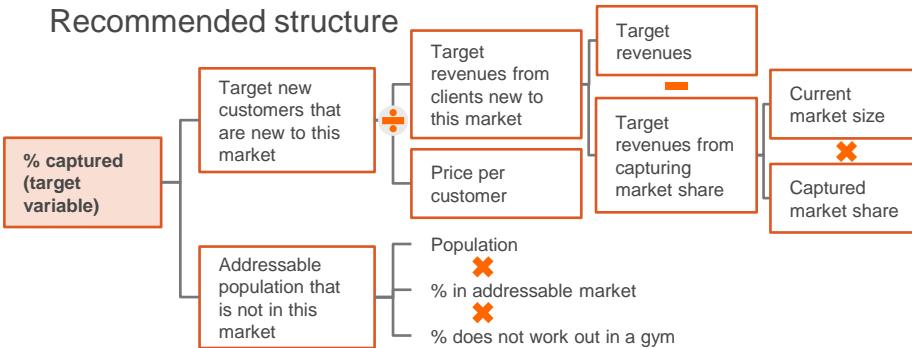
Insight generating

☐ An action-oriented, case-related insight after the calculation is done
The insight that came out of the analysis implicitly or explicitly lead the case towards new action, which could have been new analyses or hypotheses of concrete actions

☐ Proactive insight generation
The candidate has the initiative to come up with a conclusion related to the case based on the analysis made
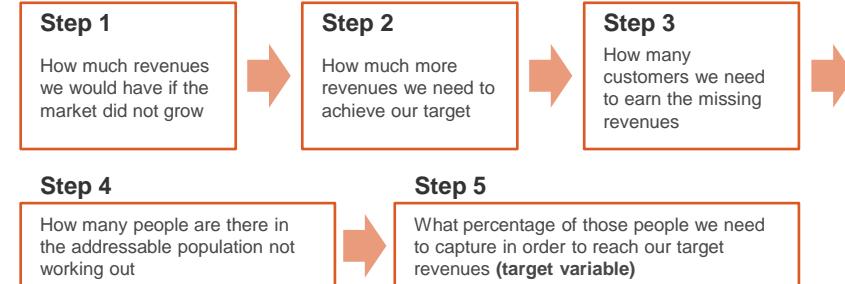
# Analysis appendix: alternative structures

CraftingCases
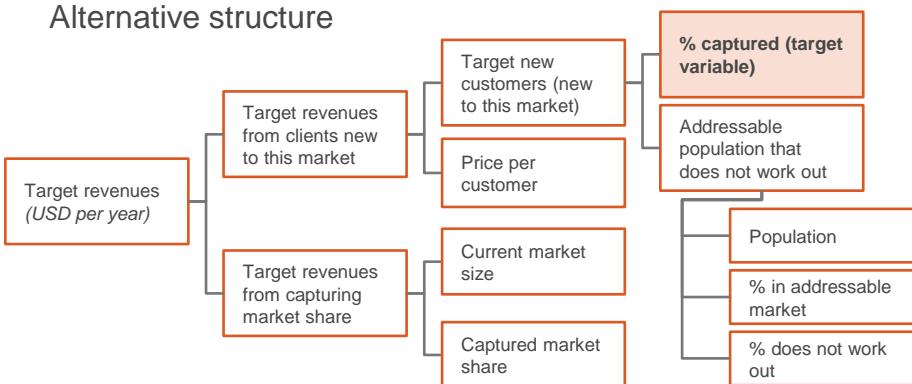
Recommended structure

Alternative structure

Step 1

How much revenues we would have if the market did not grow

Step 2

How much more revenues we need to achieve our target

Step 3

How many customers we need to earn the missing revenues

Step 4

How many people are there in the addressable population not working out

Step 5

What percentage of those people we need to capture in order to reach our target revenues **(target variable)**

Alternative structure

Common mistakes

- Not understanding the question or data before starting to structure
  - What "% of addressable mkt that doesn't work out" means;
  - That the market will grow with our entrance;

- Not asking for the correct missing data;

- Starting to calculate without finishing the structure first.

Analysis appendix: insights / "so-whats"

CraftingCases

Insight

Sample answers for "Do you think this is feasible?" or spontaneous insight given by candidate

Strong answer example

"3.9% doesn't look like much, but it is a lot compared to 12% of the total population working out. If 1.2M people work out, and Lean Fitness would have to convince other ~300K, so 25% more, to start doing so. Driving a 25% market increase simply due to being slightly better and closer to some people's homes sounds unlikely to me.

The next step here would be analyzing whether this business plan makes sense with lower revenues targets or whether we could change something in the fitness club model to make it work."

Strong answer example

"To get an idea of whether this is feasible or not, I would need to compare these values with the total of population that go to gyms in other cities with a more developed, concentrated budget fitness club market. Another option is to compare this 4% with the change in those markets after consolidation."

Weak answer example

"3.9% doesn't look like much, it seems totally feasible to get only 4% of that slice of the population to work out in our gyms, since they will be better and closer to their homes."

Weak answer example

"To answer to this question, I would have to analyze the quality of the gym, the price we would charge, and the distance to customer's homes."

Common mistakes

• Insight does not point toward action;

• Insight does not compare value to something in order to get meaning out of it;

• Conclusion does not match compared data.

Brainstorming question

Recommended time to structure ──┬── Practice mode: 2 min
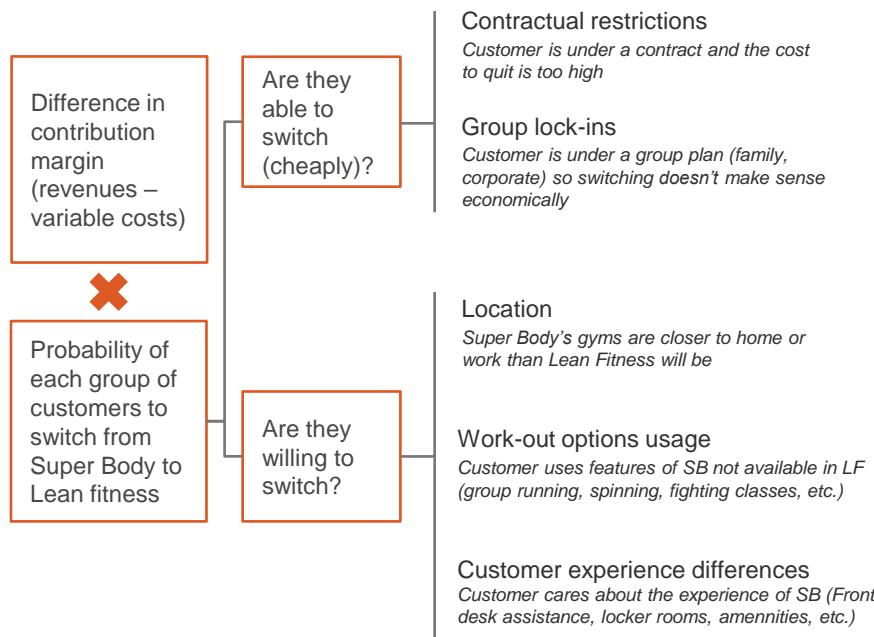
└── Learning mode: 4-5 min

Some Super Body executives are afraid Lean Fitness will cannibalize their current business. What approach would you use to assess how big this cannibalization risk is and what are things they can do to minimize it?

Note: this is a bundled question (two questions within one). Candidates should realize by themselves that they should answer both questions in sequence without the interviewer reminding them of the second. For the purpose of feedback, we have separated the two questions so the person playing interviewer-role can better evaluate the answer.

Brainstorming: sample answer

CraftingCases

How would you assess how big the canibalization risk is?

What are things they can do to minimize it?

Difference in contribution margin (revenues – variable costs)

✖

Probability of each group of customers to switch from Super Body to Lean fitness

Are they able to switch (cheaply)?

Are they willing to switch?

Contractual restrictions
Customer is under a contract and the cost to quit is too high

Group lock-ins
Customer is under a group plan (family, corporate) so switching doesn't make sense economically

Location
Super Body's gyms are closer to home or work than Lean Fitness will be

Work-out options usage
Customer uses features of SB not available in LF (group running, spinning, fighting classes, etc.)

Customer experience differences
Customer cares about the experience of SB (Front desk assistance, locker rooms, amennities, etc.)

"Nothing I can think of"

- Run group membership campaigns (incentivize customers to bring in family members / friends under a same umbrella contract)

- Minimize location overlap between Super Body and Lean Fitness gyms
- Map Super Body's customers homes location and avoid starting LF's gyms in high-density areas

- Create new work-out options interesting to customer segments that don't currently do much besides the basics (yoga, rock climbing, early morning group workouts)

- Improve SB's experience through better service, ammenities or supervision (e.g. friendlier staff, free snacks, cutomized nutrition and work-out advice)

Brainstorming: feedback / self-evaluation checklist

CraftingCases

Brainstorming performance checklist
A good brainstorming answer must contain *all* of these traits

Structure

☐ Candidate had a structure to work with before listing ideas
All questions must be answered with a structure, including brainstorming questions

☐ Structure was MECE
The structure was clear and thorough, with no gaps or overlaps

☐ Skilled handling of bundled question
Both questions were answered, promptly and in sequence; the structure of the first question was used to answer the second

Prioritization

☐ Most time was spent in the most important parts of the problem
Candidate spent most of the time in the ideas / hypotheses that (i) had a large impact, (ii) had a large probability of happening, and (iii) which the client had a high degree of control over

Ideas / Hypotheses

☐ At least four relevant ideas or hypotheses
The candidate presented at least four ideas or hypotheses, and was able to generate more if asked by the interviewer

☐ All three critical ideas / hypotheses of the case were raised
If candidate's issues were not exactly the same as the Appendix, but touched on same underlying hypothesis, they were good enough   (A)

☐ At least one insightful idea / hypothesis was raised
Issues not listed in the Appendix can also be insightful (but it depends on your judgment, so if in doubt, assume not)   (A)
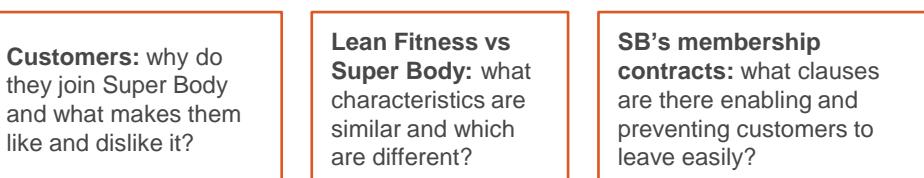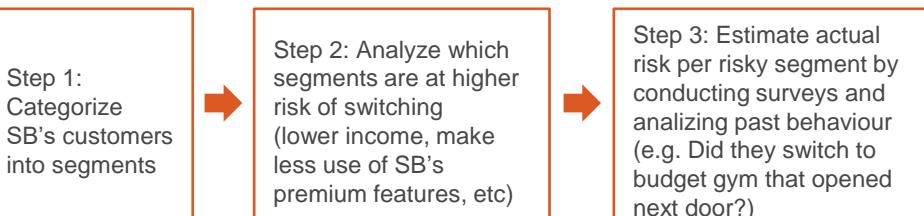
Communication

☐ Structure first presentation
Candidate presented structure telling what are all the categories before explaining which ideas and hypotheses were within each category

☐ Ideas / hypotheses were specific and actionable
"My idea is to have a better customer experience" = bad; "My idea is to train staff so that they're more knowledgeable and can provide customers with a better experience" = good

Brainstorming appendix: cannibalization risk evaluation options

CraftingCases

Examples of alternative structures to answer first question

Risk (% customers cannibalized) **=** % without lock-ins **✕** % sensitive to price difference **✕** % with little care for quality differences **✕** % addressed by LF's locations

Step 1: Categorize SB's customers into segments **➡** Step 2: Analyze which segments are at higher risk of switching (lower income, make less use of SB's premium features, etc) **➡** Step 3: Estimate actual risk per risky segment by conducting surveys and analizing past behaviour (e.g. Did they switch to budget gym that opened next door?)

Customers: why do they join Super Body and what makes them like and dislike it?

Lean Fitness vs Super Body: what characteristics are similar and which are different?

SB's membership contracts: what clauses are there enabling and preventing customers to leave easily?

Key issues to mention

Critical issues

- Location: there's only risk if there's location overlap

- Differences between both gyms: work-out options, services, customer experience, surpervision, etc

- Customer segments: different segments have different risks; candidate should be aware of that and make it explicit

Insightful issues

- Contracts: gyms are membership businesses, customers might have a hard time leaving even if they want to

- Social benefits of SB: SB's customers might like SB simply for the fact that it's expensive and other members are wealthier / care more about their body

- Co-branding: if customers are aware both brands are from the same company, they might think of LF as higher quality than other budget gyms, raising the cannibalization risk

Brainstorming appendix: cannibalization risk minimization options

CraftingCases

Guidelines to answer second question (how to minimize cannibalization risks)

Because this is a bundled question ("how to assess the risks", followed by "how to minimize them"), there are certain guidelines to answering the second:

- The structure to answer the second question must be the same structure as the one used to answer the first (that is because the way you can organize the risks can be the same way you organize the ways to reduce them);

- To minimize overall cannibalization risk, generate *specific ideas* on each source of risk you found on the first question (but not necessarily every source).

Examples of ideas to minimize chosen source of risk

Source of risk	**Ideas to minimize risk**
Location overlap is huge and many SB customers will live or work closer to a LF than their SB facility	Put LF gyms far from SB gyms
	Get database with SB's customers home addresses and avoid starting LF gyms in high density areas
Many customers don't care too much about the features SB has that LF doesn't	Improve SB gyms with features targeting these specific customers (e.g. Yoga classes, nutrition advice, etc)
Most SB customers are not locked-in contractually	Offer current customers discounts / better offers against contractual loyalty
	Incentivize family plans that are cheaper to a family and create an incentive against one member quitting
SB customers don't see much social value from other fellow members	Do more social events (parties, networking events, etc)
	Create group classes that build meaningful connections (e.g. Marathon-training groups)

Recommendation question

Recommended time to structure ⎯⎢ Practice mode: none
Learning mode: 2-3 min

Suppose the project partner has entered the room and wants to know what do we know so far and what are the next steps before giving a recommendation to the client. What would you tell him?

Recommendation

Sample answer

I wouldn't say we can give a firm recommendation to the client with what we know so far. I think the budget gym business in Asia looks promising but there are still a few things to investigate, so I'll summarize what we know in three points:

1. The budget market is large enough to hold a significant business: at $325M per city, there's a billion dollar market in every three cities

2. We don't yet know how large the cannibalization risk is, but here seems to be several ways to minimize it, so this new business would grow along the premium business they already run

3. It seems unlikely that Lean Fitness will be able to reach its targets of $200M revenues per city, as Lean Fitness would need to expand the current market by ~25% to do that

Even without reaching those targets, the business could still be attractive, and to assess that I would look into two things: (i) how much better will our gyms be compared to current options and (ii) how do the economics of each facility play out – I mean, how much revenues and costs can each gym bring.

Performance checklist

Substance

☐ A clear direction was given
The synthesis of the case pointed the client to a clear direction (e.g. to start or not the new business), and was not just a bunch of facts with no cohesion

☐ The most decisive conclusion possible, given the facts
The recommendation was as strong as the facts allow, but not stronger (i.e.: if there weren't enough facts, the candidate said why and the next steps needed to state the recommendation)

☐ Key insights backing the conclusion
On top of the conclusion, a few key facts and insights that supported it were mentioned

Communication

☐ A structured, enumerated answer
The key insights and facts backing up the conclusion were orderly enumerated

☐ Clear, concise and precise wording
The wording of the answer used as few words as possible and conveyed a clear and precise message, suited for a high-level executive audience