



Casebook

**11 real cases of
McKinsey, Bain, and BCG
with detailed answers from a
professional case prep coach**

Confidential

Recruiting cycle of 2020

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McKinsey
& Company

Case #1

McKinsey

Diesel truck
manufacturer

2020



Case #1. McKinsey. 2020. Diesel truck manufacturer

Prompt



Your client is a diesel truck manufacturer that primarily sells to 3PL (3rd party logistics companies), carriers, and private fleet companies (e.g. Amazon). They would like to enter the electric car market. How would you evaluate if they should produce and sell e-trucks?

Additional information



For interviewer. Please provide this information only upon request.

- 3PL are businesses that provide distribution, warehousing, and fulfilment services.
- The client focuses on the U.S.
- The client plans to offer electric trucks and target B2B segment.
- The client didn't share a financial goal.

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about geography, financial goal, b-model of the client)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 25-30 min.

Case questions (this is an interviewer-driven case)

Question #1

How would you evaluate if they should produce and sell e-trucks?

Question #2

What's important for customers? What are their purchasing decision making criteria for choosing an electric truck (and making a switch from a diesel truck)?

Question #3

Based on the table how much should we charge for the electric truck?

Question #4

What considerations should we have based on this price of \$221k? What other factors would you think of?

Hand-outs

Appendix 1.

Q1. How would you evaluate if they should produce and sell e-trucks?



E-truck market

- Size and growth rate
- Largest e-truck producers (incl. market shares and key differentiating points)
- Average margin in the space



Diesel truck manufacturer

- Target customer segments for e-trucks (same B2B or B2C too?)
- Expected e-truck model (e.g. type, key selling points)
- Distribution (own/partner dealerships; online; etc.)



Valuation

- Expected capex
- Investment criteria (e.g. ROI, NPV, payback period)
- Expected profitability (incl. synergy analysis):
 - Revenue
 - Costs



Market entry risks

- Market specific risks
- Financial risks
- Operational risks

Comments

Make sure that the candidate covers the following key points typical for a market entry case structure: market size, growth rate, competition, average margins in the space, b-model of the client, and barriers for entry. In case the interviewer shared a financial goal – the candidate should include financial analysis/valuation too.

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Key purchasing decision making criteria

Question #2

What's important for customers? What are their purchasing decision making criteria for choosing an electric truck (and making a switch from a diesel truck)?



Financial analysis



Strategic value



Risks

Costs factors

- Price of the truck
- Maintenance costs (spare parts, maintenance services)
- Fuel/electricity consumption
- Insurance

Revenue factors

- Truck's useful life
- Truck's capacity (e.g. power, payload, mileage range)
- Expected utilization rate (due to lower number of repairs)
- Salvage value of the truck

Investment

- Expected ROI/payback/etc.
- Capex to build charging stations at their garages

Improvement in CX

- Better brand image as environmentally friendly

Risk diversification

- Less dependency on oil & gas price fluctuations
- Less legal risks to meet the pollution requirements

Operational risks

- Lack of mechanics and service stations to support e-trucks
- Increase in operational complexity as now there are two fleets: regular trucks and e-trucks
- Potential flaws in the design of e-trucks (as they haven't stood the test of time yet)
- Too long charging time
- Lack of charging infrastructure in the region

Financial risks

- Loss in economies of scale (e.g. in purchasing spare parts for both fleets instead of one fleet)
- Underestimated costs/exaggerated revenues

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Math exercise – prompt

Question #3

Based on the table how much should we charge for the electric truck? [Please provide Appendix 1 to the candidate]

	Average diesel truck	E-truck
Energy consumption	5 miles per gallon of diesel	2 kWh per 1 mile
Price for energy	\$2.5 per gallon of diesel	\$0.15 per 1kWh

For interviewer. Please provide this information only upon request.



- The current average price of a diesel truck is \$125,000.
- The salvage value is the same for both diesel and electric trucks.
- Average trucker travels 68k miles a year.
- The useful life is 4 years for both diesel and electric trucks.*
- Services/maintenance costs (tires, parts, oil, lube, etc.) for a diesel truck is \$20,600 per year. An electric truck has fewer moving parts, thus they cost less to maintain. The estimated savings are 50%.
- All other costs are negligible.
- There are no similar products in the market yet (no other electric trucks).

Note: *The real case suggested that the average useful life of a diesel truck or e-truck is 4 years, while in reality it is 15 years. The firm might have adjusted the numbers to make the calcs easier.

Q3. Math exercise – calculations

Question #3

Based on the table how much should we charge for the electric truck?

	Average diesel truck	E-truck
Energy costs	$68k \text{ mi} / 5 \text{ mi} * \$2.5 = \$34k$	$68k \text{ mi} * 2 \text{ kWh/mi} * \$0.15 = \$20.4k$
Maintenance costs	\$20.6k	$\$20.6k * 50\% = \$10.3k$
Total Cost of Ownership (TCO)	$\$34k + \$20.6k \approx \$55k \text{ per year}$	$\$20.4k + \$10.3k \approx \$31k \text{ per year}$
TCO over lifetime	$\$55k * 4 \text{ years} = \$220k$	$\$31k * 4 \text{ years} = \$124k$

Total savings = \$220k - \$124k = \$96k.



Q3. Math exercise – contextualization of the answer

Question #3

Based on the table how much should we charge for the electric truck?

Basic comments (expected from everyone):

- The e-truck generates value of almost \$100k for a customer, thus this value might be baked into the price of the e-truck: $\$125k + \$96k = \$221k$



Advanced comments (for outstanding candidates):

- We didn't take into the consideration the time value of money, so the value will be lower if we apply some interest rate to each of four years.
- The calculated value depends on the diesel price, and oil & gas prices fluctuate a lot. In case of drop in diesel prices (like in 2020), the value might drop too.
- The calculated price doesn't account for the customers' willingness to pay (WTP), which might be lower as customers might be price sensitive (even despite the estimated positive value)
- We assumed the average mileage of 68k, but there will be customers with far higher and far lower mileages, and for them the generated value will vary



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q4. Other factors to consider re pricing

Question #4

What considerations should we have based on this price of \$221k? What other factors would you think of?

01

Factor in the price other decision-making criteria mentioned before:

- How much value might the e-truck generate on the revenue side?
 - Higher payload in comparison with diesel trucks?
 - Higher utilization rate due to lower number of repairs?
- What are the typical investment criteria for our customers and does our price help them meet these criteria? (e.g. ROI, payback period)
- Should we decrease the price to balance out the potential operational risks? (e.g. lack of mechanics, lack of charging infrastructure, etc.)

02

Strengthen our hypothesis around \$221k through additional analyses:

- Benchmark (with other e-trucks in the market) [there is no other e-trucks]
- Assess willingness-to-pay of different customer groups (e.g. long-haul carriers vs regional carriers; large vs small carriers; etc.)
- Define the goal of our pricing (e.g. maximize profits, market share, or number of trucks sold) which might affect the final decision on pricing

03

Think about next steps (e.g. develop leasing programs, design risk mitigation plan, build marketing strategy based on the price, etc.)

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Recommendation

McKinsey typically doesn't require recommendation for their cases.



Appendix 1.

Question #3

Based on the table how much should we charge for the electric truck?

	Average diesel truck	E-truck
Energy consumption	5 miles per gallon of diesel	2 kWh per 1 mile
Price for energy	\$2.5 per gallon of diesel	\$0.15 per 1kWh

Case #2

McKinsey

Female executives

2020



Case #2. McKinsey. 2020. Female executives

Prompt



You have a U.S.-based retail client that would like to more closely mirror its clientele and its workforce. Currently 25% of their executive team are women, and the client would like to increase this share. What would you like to evaluate to have more women in executive suite?

Additional information



For interviewer. Please provide this information only upon request.

- We don't have any information about the client's b-model
- The client has a national geographical footprint
- Executive level is VP and above (currently 2% of all employees)
- There are 1k employees in the company
- The client would like to have five more female execs

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about the goal, total number of employees and execs, industry benchmarks, etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 25-30 min.

Case questions (this is an interviewer-driven case)

Question #1	What would you like to evaluate to have more women in executive suite?
Question #2	Based on the chart what are the issues with the current process?
Question #3	All else being equal how many women should we attract to the entry level to increase number of female execs by four over time?
Question #4	What do you think about this number? [5,000 new hires]
Question #5	Speaking of recruiting externally. How many female directors do they need to attract to hit the goal of four more female executives?
Question #6	What else should the client do to increase the number of female executives (apart from hiring directors externally)?
Hand-outs	Appendix 1.

Q1. What would you like to evaluate to have more women in executive suite?



External outlook

- Benchmarking against major retail players
- Change of this % over time



Client's % of women among execs

- Definition of the indicator (e.g. what is an executive role?)
 - Historical dynamics
 - Break-down by department



Career funnel

- Stages and channels (external recruiting vs internal promotions)
- Performance (e.g. conversion rate, drop-out rate)
- Size of funnel (e.g. # women, # executive spots)



Key drivers to attract women

- Compensation level
- Brand perception of the client as employer
- Female employees' satisfaction

Comments

Make sure that the candidate covers the following key points typical for a wild card case structure: analysis of external factors (e.g. benchmarking and overall trend), analysis of the indicator (e.g. % of female execs and trend), and process flow (e.g. career funnel and performance of its steps/stages).

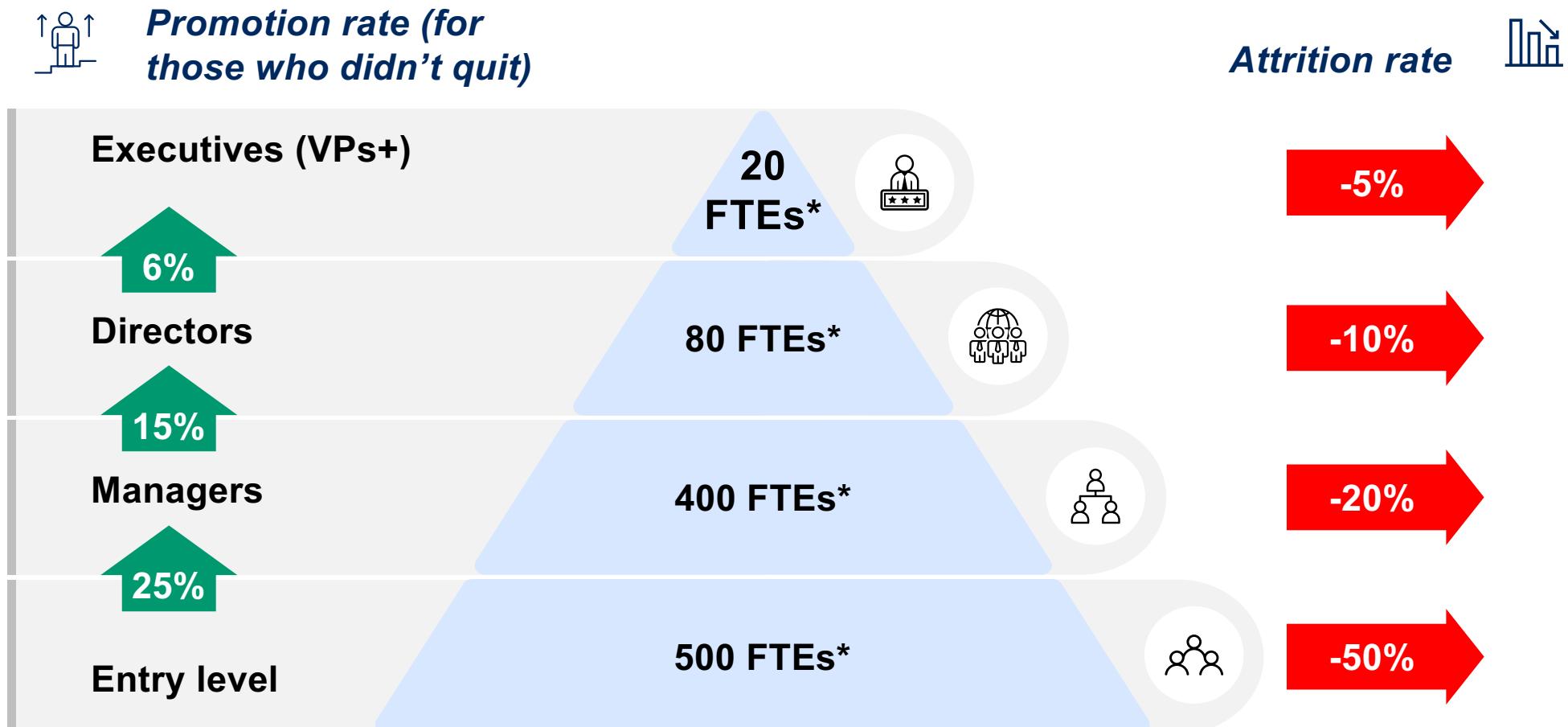
Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Chart – prompt

Question #2

**Based on the chart what are the issues with the current process?
[Please provide Appendix 1 to the candidate]**

Chart 1. Client's organizational structure and employee lifecycle



Q2. Chart – chart-reading

Question #2

Based on the chart what are the issues with the current process?



Promotion rate

The 25% promotion rate of entry level might seem too high

- Due to potential rapid growth the company might need more managers and encourage accelerated promotions which often comes at the expense of managers' quality (e.g. poor leadership and toxic culture)
- It might be driven by high attrition rate (which frees up vacancies), high competition for managers and narrow talent pool
- The company might rely heavily on the internal hiring than on attracting outside talent which brings fresh ideas/new expertise



Organizational pyramid

The ratio of managers to entry level seems on the lower end

- A good number of managers might not have subordinates at all
- The company underutilizes their managers (and thus experiences low productivity) and might benefit from consolidation of some functions to increase the ratio
- The company might struggle with filling up entry level roles (which might lead to increased overtime of existing entry level employees, lower morale, lower customer satisfaction, higher attrition, etc.)



Attrition rate

High attrition rate (entry level)

- Despite it might be natural for the retail industry (low-pay high-stress jobs), it also requires state-of-the-art recruiting, training and HR ops which might be expensive
- It might affect customer experience, culture, brand, etc.

High attrition rate (managers)

- It might cause constant disruption to the work processes (as it's more time-consuming to find a manager than entry level)
- It might suggest high recruiting expenses that might be optimized
- It might indicate low morale, low compensation, lots of low-performance managers who are fired

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Math exercise – prompt

Question #3

All else being equal how many women should we attract to the entry level to increase number of female execs by four over time?

For interviewer. Please provide this information only upon request.

- We can assume that female employees have the same attrition and promotion rates as the entire company
- We expect that the attrition and promotion rates won't change materially over time
- The attrition rate is the number of employees who quit or were fired as a % of the average number of employees
- The promotion rate is the number of promoted employees as % of those who stayed with the company (and didn't quit)



Q3. Math exercise – calculations

Question #3

All else being equal how many women should we attract to the entry level to increase number of female execs by four over time?

- For the sake of calculation, let's assume we hire 1,000 employees for entry level
- Here is how many of them will end up getting to the executive level:

	# FTEs	% who stayed	% promoted	# promoted
Entry level	1,000	\times $(1 - 50\%)$	\times 25%	$=$ 125
Managers	125	\times $(1 - 20\%)$	\times 15%	$=$ 15
Directors	15	\times $(1 - 10\%)$	\times 6%	$=$ 0.8

- So, 1,000 new hires will yield 0.8 executives in the long term
- The client wants five times more than that ($0.8 * 5$ times = 4 executives), thus we will need to hire 5,000 women for entry level employees (= $1,000 * 5$ times)
- The answer is 5,000

Q4. Math exercise – contextualization of the answer

Question #4

What do you think about this number? [5,000 new hires]

Basic comments (expected from everyone):

- It seems too high and unrealistic for the company that employs 1,000 FTEs



Advanced comments (for outstanding candidates):

- It seems very expensive in terms of recruiting costs for this many employees
- Assuming the existing scale, it might take the company 20 years to naturally hire 5,000 entry level employees [currently, the company is likely to hire 250 FTEs per year to replace those who quit – $500 \text{ FTEs} * 50\% = 250 \text{ FTEs}$], and not all of them will be women
- The improvement in promotion rates for female employees, reduction in the attrition rates, and overall growth of the company might help achieve the goal, but aren't likely to increase the number of female executives materially faster
- The client might consider hiring female executives from outside of the company to hit the goal in the foreseen future



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q5. Math #2 – prompt, calcs, and contextualization

Question #5

Speaking of recruiting externally. How many female directors do they need to attract to hit the goal of four more female executives?

- For the sake of calculation, let's assume we hire 100 female directors
- Here is how many of them will end up getting to the executive level:

# FTEs	% who stayed	% promoted	# promoted
Directors	100	\times	$(1 - 10\%) \times 6\% = 5.4$

- So, if 100 new directors yields 5.4 executives over time, and “x” yields 4 executives, then:
 - $X = (100 * 4) / 5.4 \approx 74$
- The answer is 74 female directors to be hired

Comments: _____

- The number of directors will need to sky-rocket (almost double), which might not be justified by the business needs
- It will boost overhead costs and increase management complexity
- It might also be extremely expensive and time-consuming to recruit such a high number of high-profile professionals



Q6. Other solutions

Question #6

What else should the client do to increase the number of female executives (apart from hiring directors externally)?



Recruit women

- Ensure positive brand of a company as employer
- Ensure competitive pay and perks (e.g. maternity leave, discounted daycare services)
- Focus on women-dedicated recruiting events (e.g. Women Career Conferences, build own recruiting events for women)
- Develop a recruiting force dedicated to attracting female talent



Retain women

- Create healthy corporate culture
- Provide high-quality training and development programs
- Build women mentorship and coaching programs
- Conduct women events regularly
- Ensure attractive career growth opportunities (e.g. vertically and horizontally)
- Address pain points based on the exit interviews
- Launch or strengthen women employee resource group



Promote women

- Build diversity goals into the company's priorities
- Hold managers/directors accountable for the diversity targets by including % female employees in the performance reviews
- Conduct regular trainings re management biases, diversity & inclusion

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Recommendation

McKinsey typically doesn't require recommendation for their cases.

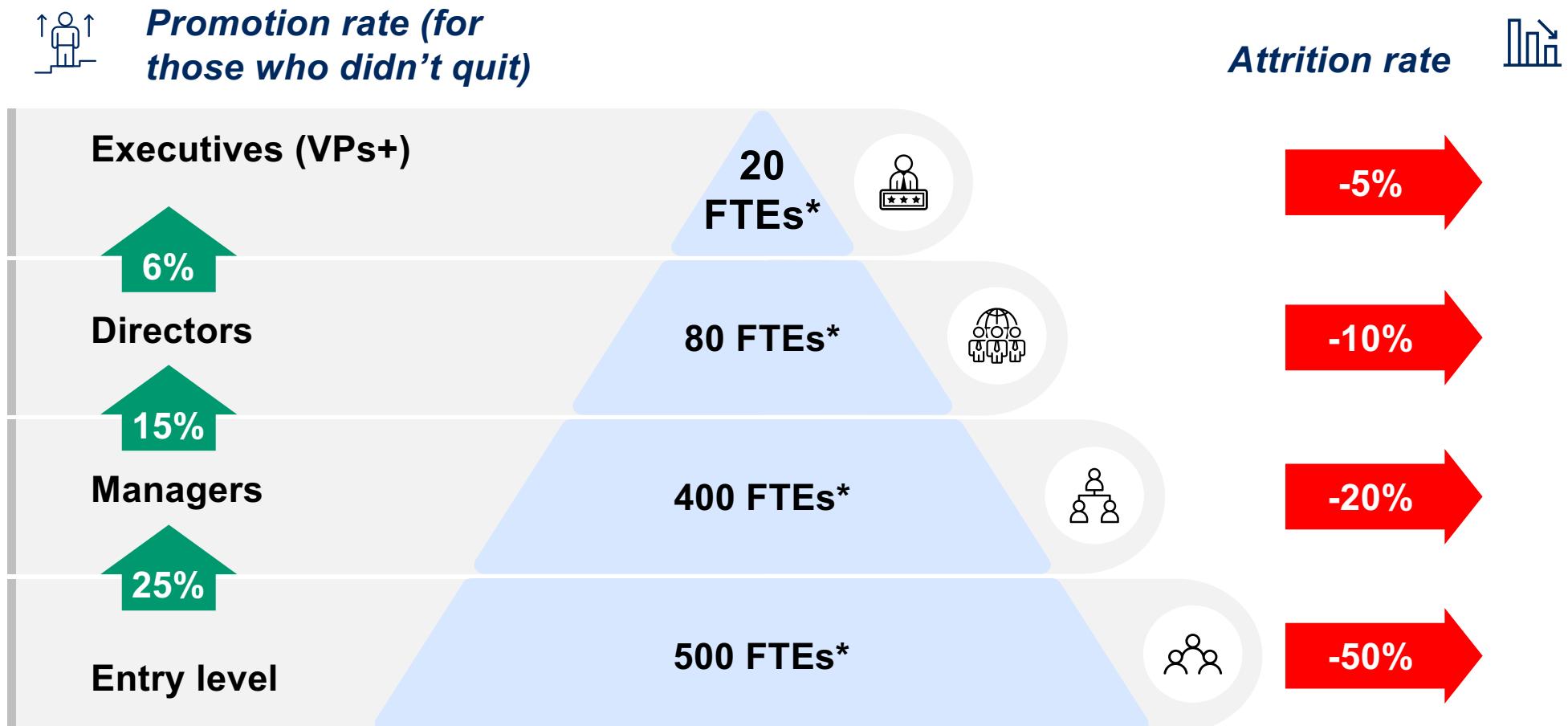


Appendix 1.

Question #2

Based on the chart what are the issues with the current process?

Chart 1. Client's organizational structure and employee lifecycle



McKinsey
& Company

Case #3

McKinsey

Spanish Airlines

2020



Case #3. McKinsey. 2020. Spanish Airlines

Prompt



A Spanish low-cost airline has been facing declining profitability. They run six domestic routes. Several newcomers have entered the low-cost airline industry in Spain recently. How to improve the client's margins?

Additional information



For interviewer. Please provide this information only upon request.

- The airline industry in Spain is fairly consolidated with top-5 players (incl. two low-cost carriers) capturing 95% of the market
- Our client is not a top-5 player
- We don't have any information on the specific profitability goals
- The client serves both leisure and business travellers

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, financial goals, etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 25-30 min.

Case questions (this is an interviewer-driven case)

Question #1	How would you approach the client's problem?
Question #2	What are some ways for this Spanish low-cost carrier to improve their profitability?
Question #3	Can you name some ideas to create new revenue streams? (Ask this, in case there were no or a little number of new revenue streams suggested in the answer to question 2).
Question #4	What are the typical key cost items in the airline business? (Ask this, in case there were no or a little number of cost items covered in the answer to question 2).
Question #5	Which potential scenario would you address first? How would you prioritize these three scenarios?
Question #6	Based on the chart, calculate the revenue from passenger tickets.
Hand-outs	Appendix 1 and Appendix 2.

Q1. How would you approach the client's problem?



Low-cost airline market in Spain

- Growth rate
- Major low-cost carriers in Spain (incl. newcomers)
- Typical margins



Client's business model

- Offerings (e.g. airline tickets, cargo, adjacency services)
- Customer segments (e.g. leisure/business travelers)



Financial analysis

- Revenue structure
- Growth rate
- Cost structure



Margin improvement areas

- Decrease costs
- Increase sales
 - Geographical expansion
 - Increase in market share
 - New customer segments

Comments

Make sure that the candidate covers the following key points typical for a profitability case structure: analysis of external factors (e.g. market's growth rate and competition), understanding of the client's business model (e.g. customer segments and service offerings), and financial analysis (e.g. revenue and cost structure).

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Profitability improvement areas

Question #2

What are some ways for this Spanish low-cost carrier to improve their profitability?

Increase sales



- Increase market share
 - More aggressive marketing
 - More appealing pricing
 - More attractive value proposition (e.g. better pre-boarding and on-boarding customer experience)
 - More efficient distribution
- Approach new customer segments (e.g. B2B, students, families)
- Launch new routes/expand to new cities/go internationally
- Launch new services (e.g. new entertainment, new upgrade options)

Decrease costs



- Fixed costs:
 - Renegotiate airport fees
 - Optimize maintenance costs
 - Reduce overhead headcount
- Variable costs:
 - Renegotiate fuel prices
 - Change suppliers of food/beverages
- Strategic initiatives
 - Change old airplanes to new ones to save on maintenance, insurance, fuel consumption, etc.
 - Change airplane to a larger one on the high-demand route and consolidate routes

Focus on high margins



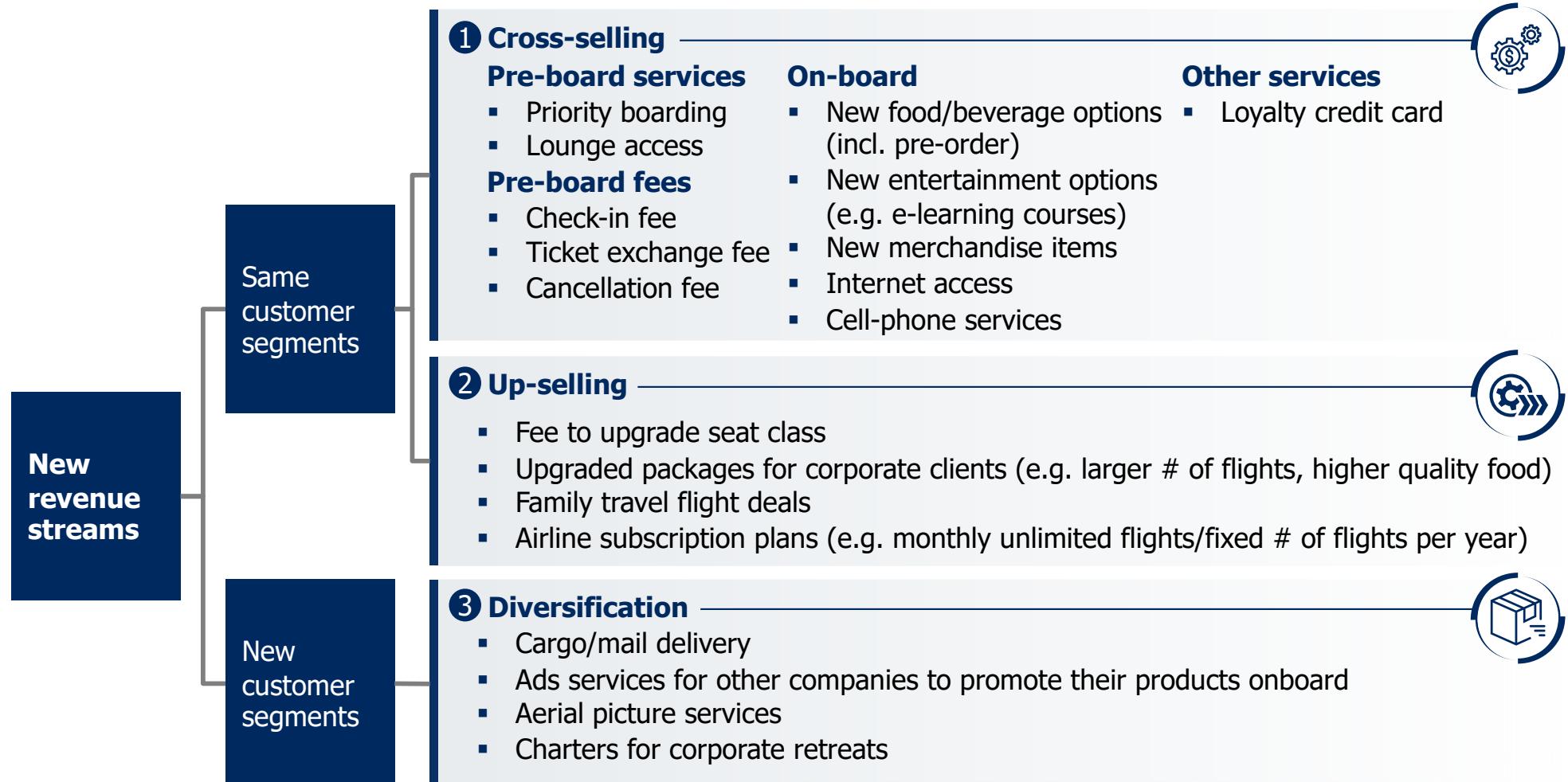
- Promote high margin services (e.g. cargo/mail delivery, seat upgrade, food/beverages)
- Focus on customer segments with high life-time value
- Discontinue unprofitable routes

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Revenue growth opportunities

Question #3

Can you name some ideas to create new revenue streams? (Ask this, in case there were no or a little number of new revenue streams suggested in the answer to question 2).



Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Key cost items

Question #4

What are the typical key cost items in the airline business? (Ask this, in case there were no or a little number of cost items covered in the answer to question 2).

Fixed costs



- Airport fees (take-off/landing, taxi, aircraft storage, gates, etc.)
- Marketing expenses
- Maintenance costs for aircrafts (e.g. spare parts, maintenance services)
- Overhead (e.g. management, shared functions)
- Rent for offices

Variable costs



- Fuel costs
- Crew salaries
- Food/beverage supplies
- Booking commissions to third party (e.g. Kayak, Expedia)
- Promotional discounts
- Credit card fees

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Scenario analysis – prompt

Question #5

Which potential scenario would you address first? How would you prioritize these three scenarios? [Please provide Appendix 1 to the candidate]

We identified three potential scenarios [we are in 2019 and nobody is expecting a pandemic]:



01

The fuel costs would increase by \$12M in 2020

02

The government would put a high-speed train system and our revenue would decline by \$3M in 2020

03

The load factor of the airplanes (capacity utilization rate) would decrease by 10% in 2020

Q5. Scenario analysis – prioritization (1/3)

Question #5

Which potential scenario would you address first? How would you prioritize these three scenarios?

Prioritization factors



1 Fuel costs



2 Train system



3 Load factor



Impact of the scenario:

1 Direct annual financial impact

- Costs go up by \$12M

- Revenue drops by \$3M

- Revenue drops by 10%

- Variable costs decrease pro rata

- Variable costs decrease by 10%

2 Indirect annual financial impact

If increase in fuel costs is industry-wide:

- Airlines will raise their prices and the demand will decline
- Other cost items will increase as fuel is baked in the cost structure of lots of services/products (e.g. food supplies, airport fees)

The client will face diseconomies of scale:

- Some airport fees might be passenger volume-driven and the client might lose volume discounts
- The client might lose volume discounts for food supplies

3 Expected duration of the scenario

- Will fuel prices drop back to the original levels soon?

- High-speed train system will likely stay

- Is it driven by seasonality and will bounce back?

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Scenario analysis – prioritization (2/3)

Question #5

Which potential scenario would you address first? How would you prioritize these three scenarios?

Prioritization factors



1 Fuel costs



2 Train system



3 Load factor



Impact of the scenario:

4 Risks associated with the scenario

- Further increase in fuel prices driven by soaring prices for oil & gas at the global markets

- Potential geographical expansion of the system to capture all five cities covered by the client
- Potential reduction in train ticket prices subsidized by the government

- Further decrease in load factor driven by the original factor (e.g. intensified competition)
- Brand/reputation risks (e.g. "not successful airline") given the decreasing market share

Success metrics of actions to address the scenario:

5 Feasibility of planned actions (e.g. how likely actions will be a success and yield expected financial result)

- Depends on the plan of actions designed to address the consequences of each scenario

6 Resources needed to execute actions (e.g. people, funds)

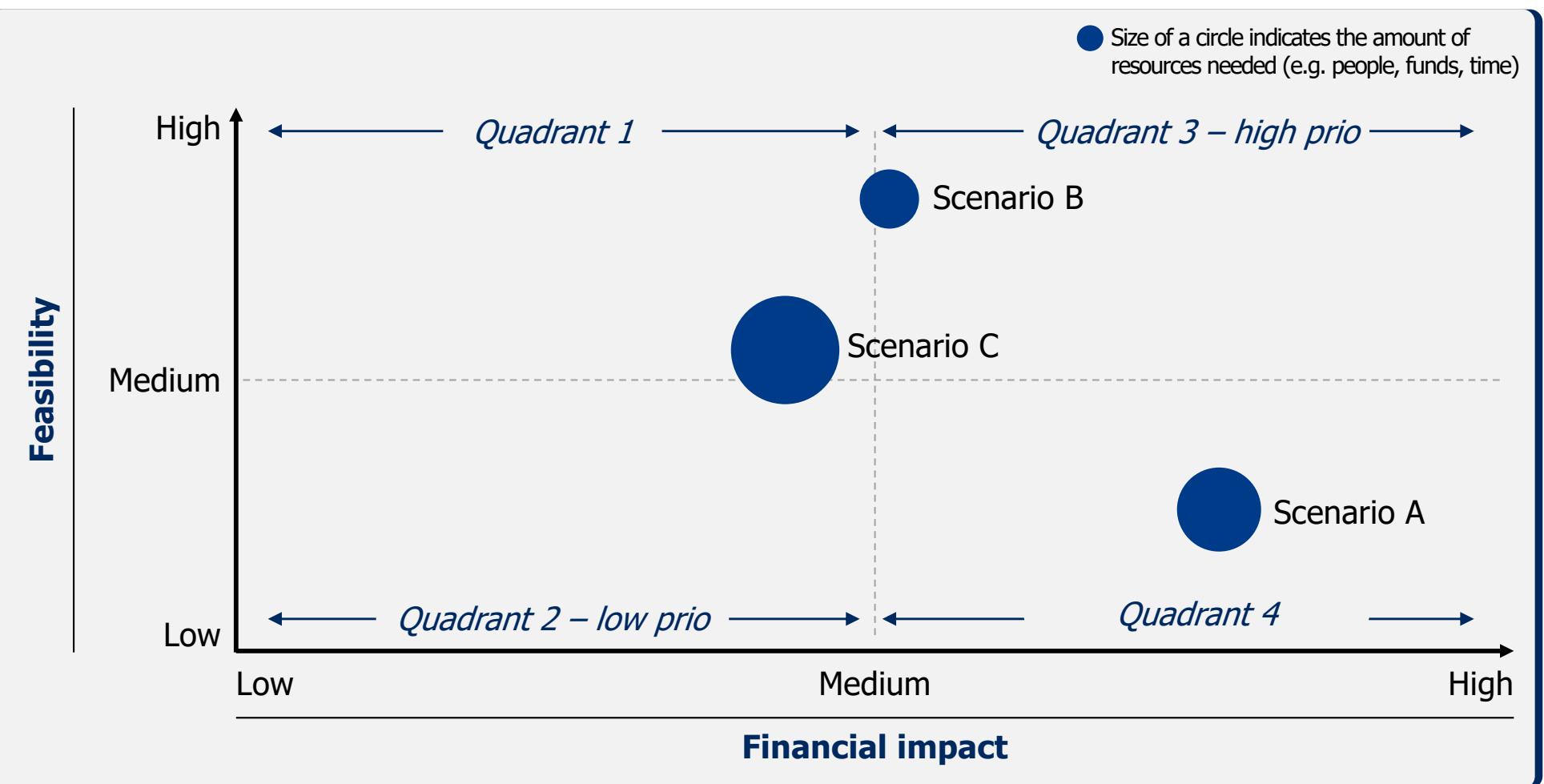
7 Time needed for actions to yield results

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Scenario analysis – prioritization (3/3)

Question #5

Which potential scenario would you address first? How would you prioritize these three scenarios?



Note: This prioritization chart is provided for illustrative purposes only. The position of scenarios at the chart and the amount of the resources needed would depend on the candidates' perspectives on each of the scenarios and rationale behind it. There is no right or wrong answer.

Q6. Math exercise – prompt (1/2)

Question #6

Based on the chart, calculate the revenue from passenger tickets.
[Please provide Appendix 2 to the candidate]

- The airline serves 5 major Spanish cities with a fleet of 6 planes Airbus A-320-200



- The airline operates 12 hours a day without weekends and holidays



Q6. Math exercise – prompt (2/2)

Question #6

Based on the chart, calculate the revenue from passenger tickets.

For interviewer. Please provide this information only upon request.

- The average length of a flight is 2 hours
- The average time on the ground is 24 min (0.4 hour) per flight
- It is okay to consider a year equal to 360 days
- The passenger capacity of Airbus A-320-200 is 143 passenger seats
- The average load factor (occupation/utilization rate) of seats is 80%
- The average price for a round-trip ticket is \$200



Q6. Math exercise – calculations

Question #6

Based on the chart, calculate the revenue from passenger tickets.



flights per day for one plane

$$12 \text{ hours} \div (2 \text{ hours} + 0.4 \text{ hour on the ground}) = 5$$

flights annually

$$5 \text{ flights} \times 6 \text{ planes} \times 360 \text{ days} = 10,800$$

passengers per flight

$$143 \text{ seats} \times 80\% \text{ load factor} = 114$$

Price per flight

$$$200 \text{ for a round-trip ticket} \div 2 = \$100$$

Revenue

$$10,800 \text{ flights} \times 114 \text{ passengers per flight} \times \$100 \text{ per ticket} = \$123M$$

Q6. Math exercise – contextualization of the answer

Question #6

Based on the chart, calculate the revenue from passenger tickets.

Basic comments (expected from everyone):

- The airline's revenue exceeds \$123M annually



Advanced comments (for outstanding candidates):

- The airline likely enjoys other revenue streams like pre-board and on-board services (e.g. upgrade fee, check-in fee, food/beverages, entertainment) as well as other services like cargo/mail delivery, which might be material portion of their revenue too
- The price per ticket is fairly low of only \$100, which makes sense as the client is a low-cost carrier
- 80% load factor seems high, but I would expect low-cost carriers to have it closer to 90-100% as volume is crucial for their survival (given low prices and high capex)



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Recommendation

McKinsey typically doesn't require recommendation for their cases.



Appendix 1.

Question #5

Which potential scenario would you address first? How would you prioritize these three scenarios?

We identified three potential scenarios [we are in 2019 and nobody is expecting a pandemic]:



01

The fuel costs would increase by \$12M in 2020

02

The government would put a high-speed train system and our revenue would decline by \$3M in 2020

03

The load factor of the airplanes (capacity utilization rate) would decrease by 10% in 2020

Appendix 2.

Question #6

Based on the chart, calculate the revenue from passenger tickets.

- The airline serves 5 major Spanish cities with a fleet of 6 planes Airbus A-320-200
- The airline operates 12 hours a day without weekends and holidays



McKinsey
& Company

Case #4

McKinsey

European Beauty
Company

2020



Case #4. McKinsey. 2020. European Beauty Company

Prompt



Your client is a European beauty company that offers fragrance, makeup, and skincare. Their profitability has been decreasing recently. They have reached out to you to get your advice on how they can increase their profitability.

Additional information



For interviewer. Please provide this information only upon request.

- Distribution channels include chain retail stores (similar to Walmart, Target) and beauty chains (similar to Sephora, Ulta).
- Makeup offerings are the client's legacy products, and they recently launched a skincare line.
- We don't know about the financial goals of the client.
- The client operates in multiple European countries.

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, financial goals, geography, etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 30 min.

Case questions (this is an interviewer-driven case)

Question #1	What factors would you consider to drive the profitability up?
Question #2	What revenue growth opportunities can you suggest?
Question #3	The client employs in-store beauty advisors (directly or through retail partners). What are the revenue drivers through advisors?
Question #4	Your analyst put together some financial information of the client and sent you these charts. What do they tell you?
Question #5	Based on the chart, what is the client's total costs of beauty consultants/beauty advisors as % of the total revenue?
Question #6	The client is considering to launch a new product line that is expected to increase the revenue from €120M to €130M in 2020. How will it change the beauty advisor costs as % of revenue?
Question #7	The client is considering the development of a smartphone-based digital beauty advisor. What is payback period of this investment?
Question #8	Is it a good investment? What do you think about this payback period?
Question #9	Lots of customers appreciate face-to-face interaction. What are ways to ensure great digital experience instead of face-to-face?
Hand-outs	Appendix 1.

Q1. What factors would you consider to drive the profitability up?



Fragrance & makeup market

- Growth rate
- Major brands and their market shares
- Typical profitability



European beauty company

- Customers segments (e.g. B2B – entertainment industry, hair salons, etc.; high-end/low-end?)
- Key product lines
- Distribution channels (e.g. own branded stores, department/drug stores, etc.)



Profitability

- Revenue analysis
 - Current level and growth rate
 - Break-down by product line and channel
- Cost structure (high VC business?)

Comments

Make sure that the candidate covers the following key points typical for a profitability case structure: analysis of external factors (e.g. market's growth rate and competition), understanding of the client's business model (e.g. customer segments and product offerings), and financial analysis (e.g. revenue and cost structure).

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Revenue growth opportunities

Question #2

What revenue growth opportunities can you suggest?

Upgrade marketing strategy



- Launch loyalty card for regular customers
- Invest in aggressive marketing campaigns and promotions
- Build/strengthen credibility through regular publications re beauty products in print, blogs, YouTube, etc.

Change pricing



- Introduce bundles
- Offer family packages
- Develop subscription options
- Adjust pricing levels to match WTP (willingness-to-pay)

Increase efficiency of distribution



- Launch e-commerce option
- Increase incentives (e.g. sales commissions) for retail partners
- Add new retail chains and beauty chains to official distributors
- Start own-branded stores
- Offer franchising

Improve and expand value proposition



- Improve CX (e.g. better select, train, assess, and incentivize customer-facing staff)
- Develop digital solution to facilitate customer journey (e.g. personalized recommendation, information on skincare products)
- Address pain points (if any) (e.g. improve packaging, quality of products)
- Develop adjacent offerings to cross-sell/up-sell
- Build offerings for B2B (e.g. cosmetics/haircut salons, entertainment industry)
- Consider going into high-end, product for men, etc.
- Consider white-labeling

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Key success drivers of salespeople

Question #3

The client employs in-store beauty advisors (directly or through retail partners). What are the revenue drivers of beauty advisors?

Increase sales efficiency



- Strengthen the selection criteria to hire only best-in-class salespeople/beauty advisors
- Invest in advanced sales training program for beauty consultants
- Conduct regular assessments of the beauty consultants
- Improve incentives for beauty consultants (e.g. increase sales commissions, perks, improve career growth opportunities)

Expand division of beauty advisors



- Hire more in-house beauty advisors
- Increase the number of beauty consultants provided by retail partners

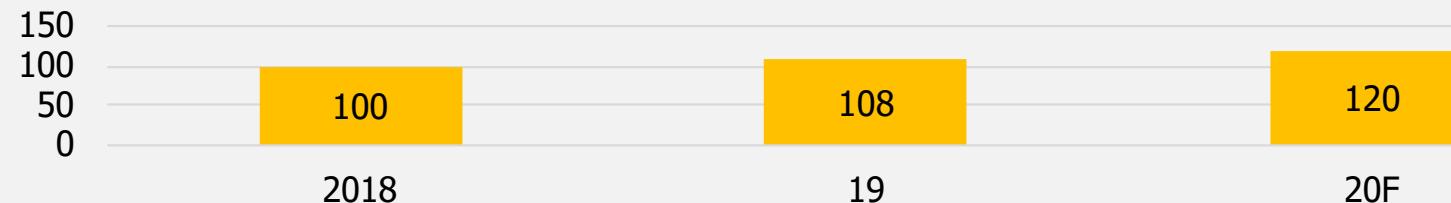
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Q4. Chart – prompt

Question #4

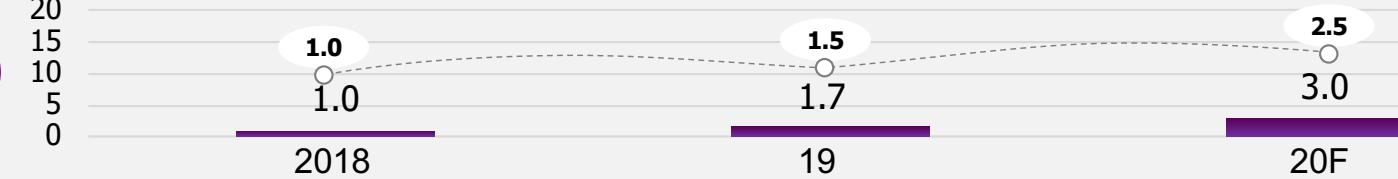
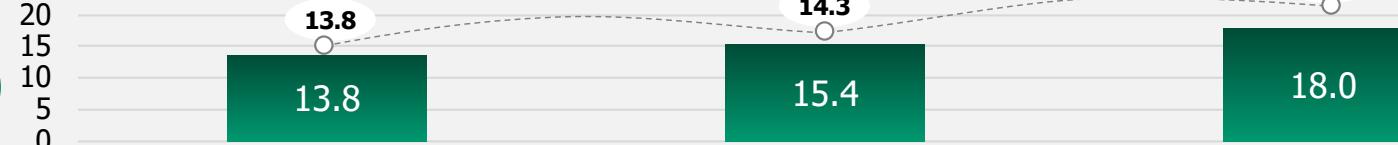
Your analyst put together some financial information of the client and sent you these charts. What do they tell you? [Please provide Appendix 1 to the candidate]

Client's annual revenue, M EUR (2018-20F)



In-store beauty advisor/consultant* costs by product line, M EUR (2018-20F)

xx - as % of company's revenue



Q4. Chart – chart-reading

Question #4

Your analyst put together some financial information of the client and sent you these charts. What do they tell you?

Basic comments (expected from everyone):

- The client's revenue is steadily increasing, which is a healthy sign
- The costs for beauty advisors are constantly going up across all product lines



Advanced comments (for outstanding candidates):

- The client is a medium-sized company and has been experiencing a rapid growth of almost 10% annually which is far above the growth rate of 2-3% typical for mature markets. That might suggest that the client has been aggressively investing in marketing pushing their costs up
- The root cause of the profitability decline is likely in growing costs as revenue is increasing
- The costs for beauty advisors are likely sales commissions, and it seems like:
 - The sales commissions increased across product lines as percentages in grey circles augmented
 - And/or the share of sales generated by the beauty advisors grows rapidly (due to cannibalization of non-assisted sales (without beauty advisors), increase in number or quality of beauty advisors)
- It seems like makeup is a client's legacy product line, and skin care is fairly new, which might explain the rapid growth skin care [if sales commissions grow, it is likely driven by pro rata increase in sales]



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q5. Math exercise – prompt and calculations

Question #5

Based on the chart, what is the client's total costs of beauty consultants/beauty advisors as % of the total revenue?

For interviewer. Please provide this information only upon request.



- No additional information.
- The costs as % of revenue are given for each product line. The total costs are the sum of these individual %s:

2018

$$13.8 + 5.2 + 1.0 = 20.0$$

2019

$$14.3 + 6.2 + 1.5 = 22.0$$

2020F

$$15.0 + 7.5 + 2.5 = 25.0$$

- The answer is 20%, 22%, and 25% in 2018-20 respectively.

Q5. Math exercise – contextualization of the answer

Question #5

Based on the chart, what is the client's total costs of beauty consultants/beauty advisors as % of the total revenue?

Basic comments (expected from everyone): _____

- The costs grew from 20% to 25% as percentage of revenue, which indicates a potential problem area

Advanced comments (for outstanding candidates): _____

- Such an explosive growth of the beauty advisor costs has been destroying the margins which dropped by 5 percentage points. Given that beauty products are fairly commoditized and differentiate mostly based on brand, the profitability in this industry is likely slim and reduction by 5 percentage points might wipe out almost the entire margin.
- It seems like increase in sales commissions (beauty advisor costs) might be a common trend as it happens across different segments
- It might also be driven by the shift in sales channel mix if the client started relying more on beauty consultants (e.g. to improve customer experience and strengthen brand) than on non-assisted offline sales and e-commerce

Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q6. Math exercise #2 – prompt and calculations

Question #6

The client is considering to launch a new product line that is expected to increase the revenue from €120M to €130M in 2020. How will it change the beauty advisor costs as % of revenue?

For interviewer. Please provide this information only upon request.

- The client will pay 12% sales commission to beauty advisors to sell the new product.
- We can assume that new product will be sold solely through beauty advisors.



Total beauty advisor costs before new product launch

$$25.0\% \times €120M = €30M$$

Beauty advisor costs driven by new product launch

$$12.0\% \times (\€130M - \€120M) = \€1.2M$$

New total beauty advisor costs as % of revenue

$$\€30M + \€1.2M : \€130M = 24.0\%$$

- The answer is 24%.

Q6. Math exercise #2 – contextualization of the answer

Question #6

The client is considering to launch a new product line that is expected to increase the revenue from €120M to €130M in 2020. How will it change the beauty advisor costs as % of revenue?

Basic comments (expected from everyone): _____

- The costs as percentage of revenue is going to decrease from 25% to 24%, which makes the launch of a new product attractive.



Advanced comments (for outstanding candidates): _____

- The final decision on the product launch will depend on a wide variety of factors like the market size for that product, the market's growth rate, competitive landscape, typical profitability, operational feasibility, potential risks, etc.
- 12% looks quite conservative and far below the beauty advisor costs for other client's product lines. That might suggest that beauty advisors wouldn't be that encouraged to sell our products and our sales goal of €10M might not be met
- The economics of the new product isn't solely driven by the sales commission, so the comprehensive analysis of the entire cost structure and potential synergies with the core business (e.g. same distribution channels, economies of scale in supply chain) will be needed to assess the financial implications of this product launch



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q7. Math exercise #3 – prompt

Question #7

The client is considering the development of a smartphone-based digital beauty advisor. What is payback period of this investment?

For interviewer. Please provide this information only upon request.

- The digital solution will include a smartphone app with AI/AR features:
 - Consumers can upload a selfie photo and the platform will instantly provide detailed diagnostics and recommendations of specific products and treatments tailored to their needs and personal preferences.
 - Consumers can “try” cosmetics before they buy through digital makeup sampling and try-on features (i.e. AR – augmented reality).
- The expected investment to build the digital solution is €2.1M.
- The ongoing operational costs to maintain the digital solution is €0.2M per year.
- We project that the technology should reduce beauty advisor costs by 5%.



Q7. Math exercise #3 – calculations

Question #7

The client is considering the development of a smartphone-based digital beauty advisor. What is payback period of this investment?

- In order to calculate annual cost savings driven by the digital solution, we need to adjust the reduction in beauty advisor costs by maintenance costs (e.g. updates, bug fixing):

Annual cost savings

€31.5M



5%



€0.2M



€1.4M

Payback period

€2.1M



€1.4M



1.5 years

- The answer is 1.5 years

Q8. Math exercise #3 – contextualization of the answer

Question #8

Is it a good investment? What do you think about this payback period?

Basic comments (expected from everyone): _____

- The payback of 1.5 years seems reasonable and we should recommend to proceed with the investment



Advanced comments (for outstanding candidates): _____

- The digital solution will likely contribute to the revenue growth too:
 - It might drive additional demand as the app will help customers educate themselves on the client's products and develop the connection with the client's brand
 - The digital solution would also improve customer experience and might become a great marketing story to go viral and attract new customers
- IT budgets and timeline for software solutions are often underestimated, so there might be a risk of increase in needed funding and launch delays
- If the digital solution is a great success, the other players ("fast followers") will replicate it and launch their own versions, taking away the competitive advantage of the client



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q9. Customer experience improvement areas

Question #9

Lots of customers appreciate face-to-face interaction. What are ways to ensure great digital experience instead of face-to-face?

Top-notch smartphone app design



- Easy to navigate
- Fast and reliable
- Versatile (works on all the smartphone platforms)
- High-quality design

Advanced smartphone app features



- AI/AR* features to replace face-to-face interaction:
 - “Virtual” try-on of makeup products
 - Makeup and skincare product recommendations based on selfie AI analysis
- Social features:
 - Sharing with friends and posting on social networks
 - Community forums to ask qs
- Purchasing functionalities (e.g. order through the app to pick up)

Flawless smartphone app support



- 24/7
- Highly trained and knowledgeable customer service agents
- Customer-oriented and friendly
- Low wait time to talk to agent

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Recommendation

McKinsey typically doesn't require recommendation for their cases.

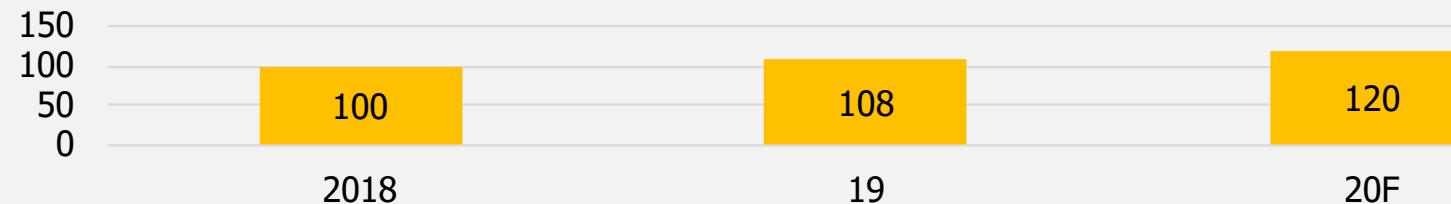


Appendix 1.

Question #4

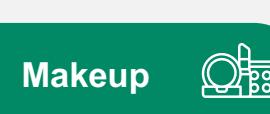
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Client's annual revenue, M EUR (2018-20F)



In-store beauty advisor/consultant* costs by product line, M EUR (2018-20F)

xx - as % of company's revenue



13.8

14.3

15.0

15.4

18.0



5.2

6.2

7.5

5.2

6.7

9.0



1.0

1.5

2.5

1.0

1.7

3.0

Case #5

McKinsey

Almond farm

2020

McKinsey
& Company



Case #5. McKinsey. 2020. Almond farm

Prompt



Your client is a PE firm and they consider purchasing a U.S.-based almond farm. They brought your team in to advise on whether it is a wise idea.

Additional information



For interviewer. Please provide this information only upon request.

- The target's almond acreage is 10k acres.
- The target is one of top-10 players, but not top-5.
- The market size of almond is \$6.2B in the U.S. (2019)
- The target isn't vertically integrated – they are an almond grower, not an almond processor

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about target's business model, investment goals of the PE firm, etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 25-30 min.

Case questions (this is an interviewer-driven case)

Question #1

How would you approach this problem?

Question #2

Your team dug deeper into the competitive landscape of almond market. Your analyst emailed you this chart. What does it tell you?

Question #3

What is the almond market size going to be in the U.S. in 2025?

Question #4

What can be causing prices of almond to decrease?

Question #5

What could possibly happen (what sort of shocks) that might cause prices of almond to increase in future?

Question #6

What are some risks of acquiring this almond farm?

Hand-outs

Appendix 1 and Appendix 2.

Q1. How would you approach this problem?



Almond market

- Size and dynamics of almond market
- Key almond producers
- Typical profitability



Target

- Product mix (e.g. types of almond; vertically integrated?)
- Customer segments (e.g. premium/mass; B2C/B2B)



Target valuation

- Profitability:
 - Revenue
 - Cost
- Investment criteria (NPV, ROI, IRR, etc.)
- Target's price



Acquisition risks

- Market specific risks
- Target specific risks

Comments

Make sure that the candidate covers the following key points typical for a PE firm case structure: analysis of external factors (e.g. target's market size, its growth rate and competition), understanding of the target's business model (e.g. customer segments and product offerings), and financial analysis (e.g. valuation and profitability).

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Chart – prompt

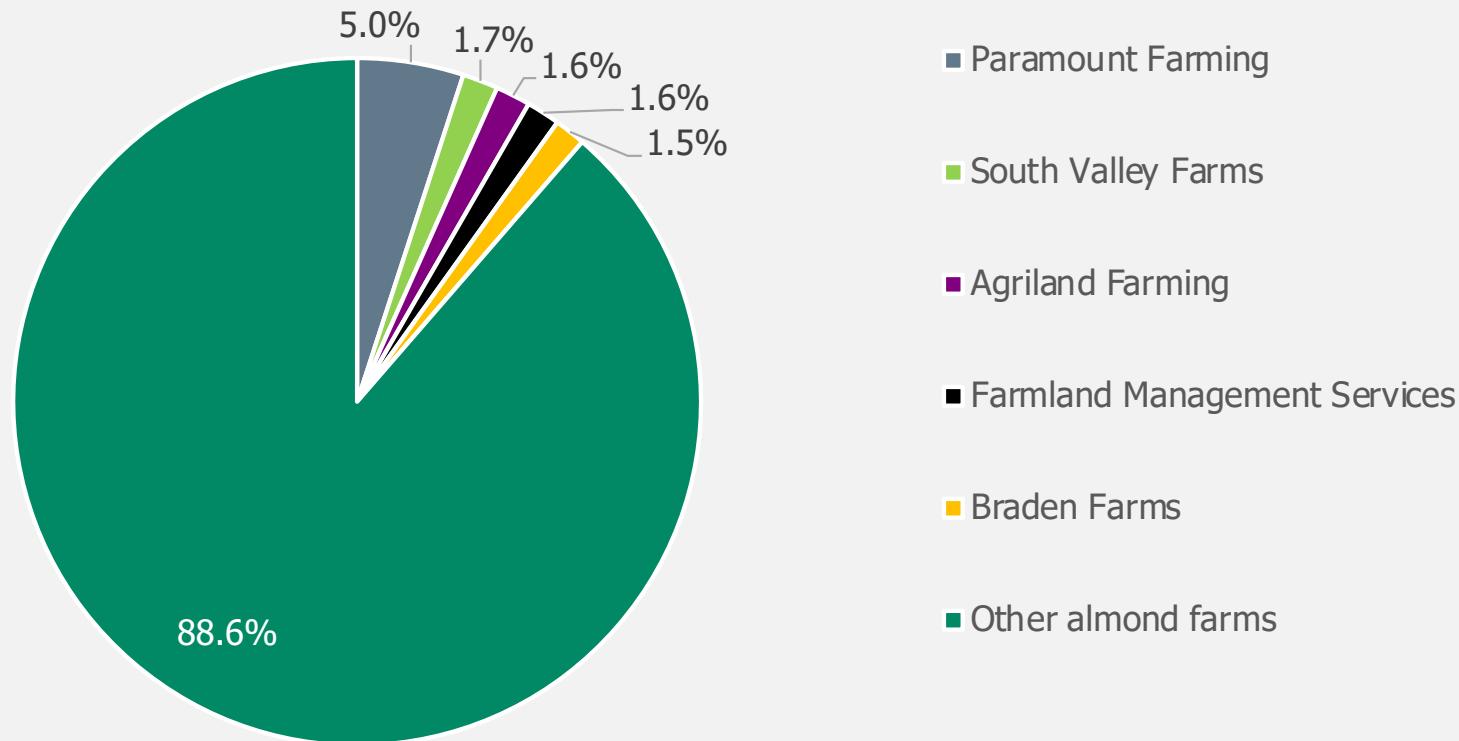
Question #2

Your team dug deeper into the competitive landscape of almond market. Your analyst emailed you this chart. What does it tell you? [Please provide Appendix 1 to the candidate]

Almond acreage by top almond farms in the U.S.



100% = 1.53M acres (2020)



Note: 85% of almond farms in the U.S. are 250 acres or less.

Q2. Chart – chart-reading

Question #2

Your team dug deeper into the competitive landscape of almond market. Your analyst emailed you this chart. What does it tell you?

Basic comments (expected from everyone):

- Top-5 almond farms capture about 11-12% of the market.



Advanced comments (for outstanding candidates):

- The almond farm space is extremely fragmented which adds to the attractiveness of this market given that the target doesn't need to compete against big-name players
- It seems like no player has high market power, high marketing budgets, or strong distribution network
- Given that almond is a highly commoditized product, the price pressure should be incredibly high leaving paper-thin margins. Under these conditions economies of scale is likely one of the key success factors, so it's fair to expect the consolidation in this fragmented space
- The competitive landscape represents favorable environment for the target to become a consolidation platform for the PE firm (as one of the strategies to consider)



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q3. Math exercise – prompt

Question #3

**What is the almond market size going to be in the U.S. in 2025?
[Please provide Appendix 2 to the candidate]**

Table 1. U.S. almond market indicators (2014-19)



Indicator	2014	2015	2016	2017	2018	2019
Annual production, M lbs	1,870	1,900	2,140	2,270	2,280	2,550
Production growth rate, %	-7%	2%	13%	6%	0%	12%
Price, USD per lbs	\$4.00	\$3.13	\$2.39	\$2.53	\$2.50	\$2.43
Market size in the U.S., Bn USD	\$7.5	\$5.9	\$5.1	\$5.7	\$5.7	\$6.2

For interviewer. Please provide this information only upon request.

- We expect the almond production in the U.S. to grow by 40% during 2019-2025.
- The conservative scenario suggests that the almond price will drop to \$2.00 in 2025.



Q3. Math exercise – calculations

Question #3 What is the almond market size going to be in the U.S. in 2025?

- In order to calculate annual cost savings driven by the digital solution, we need to adjust the reduction in beauty advisor costs by maintenance costs (e.g. updates, bug fixing):

**Annual production in 2025,
M lbs**

$$2,550 \times (1+40\%) = 3,600$$

**Projected market size in
2025, M USD**

$$3,600 \div \$2.0 = \$7,200$$

- The answer is \$7.2 Bn.

Q3. Math exercise – contextualization of the answer

Question #3

What is the almond market size going to be in the U.S. in 2025?

Basic comments (expected from everyone):

- The U.S. almond market size is expected to grow to \$7.2B in 2025.



Advanced comments (for outstanding candidates):

- The market growth from \$6.2B to \$7.2B seems low, as it is \$1B or 15-20% growth over 6 years, so it's just 2-3% annually (which is similar to the GDP growth rate)
- The sharp price decline will erode margins and might decrease the target valuation
- Rapid growth in the production suggests that the target might need to expand their capacity by increase almond acreage or harvest yield per acre – both might require extra investment and affect the expected cash flows
- The prices dropped by almost half during 2014-19, so if this trend persists, our assumption of \$2 might be too optimistic and the target's economics will be worse than we expect based on the calculations



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q4. Pricing drivers #1

Question #4

What can be causing prices of almond to decrease?

Rapid growth of supply/production



Increase in almond acreage

- New comers – new almond farms are established
- Existing farms expand their almond acreages

Increase in yields per acre

- Favorable weather
- Higher fertilizer utilization
- Better irrigation
- Progress in pest/weed control
- New higher-yield varieties of almond seeds

Decline in demand for almonds



Shift to almond substitutes

- Increase in other milk alternatives (e.g. coconut, oat, soy) to substitute almond milk
- Decrease in prices for nuts-substitutes (e.g. walnut, hazelnuts)
- Decrease in prices for regular milk, butter, flour, etc. (vs almond butter, flours, etc.)

Other factors

- Slowing down of interest to almond products (e.g. due to lack of innovation, marketing)
- Trade restrictions with China and Europe

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Pricing drivers #2

Question #5

What could possibly happen (what sort of shocks) that might cause prices of almond to increase in future?

Supply/production shocks



Drop in almond acreage

- Large almond farms go bankrupt and stop production

Drop in yields per acre

- Extreme weather
- Strict legal limits on fertilizer utilization
- Outbreak of plant diseases

Demand shocks



Drop in interest to almond substitutes

- CDC* ban/restriction on other milk alternatives (e.g. coconut, oat, soy)
- Drop in production of nuts-substitutes (e.g. walnut, hazelnuts)
- Outbreak of cow diseases

Other factors

- New type of almond that is far higher on protein and far healthier
- Lifting the trade restrictions with China and Europe

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q6. Acquisition risks

Question #6 What are some risks of acquiring this almond farm?

Market specific risks



- Change in market dynamics (e.g. radical drop in almond prices)
- Market consolidation
- Competitive response
- Risk of newcomers
- Risk of rapidly growing almond substitutes

Financial risks



- Revenue-related
 - Exaggerated assumptions for sales
 - Further growth is limited by the field capacity
 - Variability in harvest yield
- Cost-related
 - Increase in fuel prices
- Capex-related
 - Lack of funding to execute the deal

Operational risks



- Limited labor pool in case of rapid growth
- Outdated equipment
- Outbreak of plant diseases
- Lack of expertise (of the PE firm)

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Recommendation

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Appendix 1.

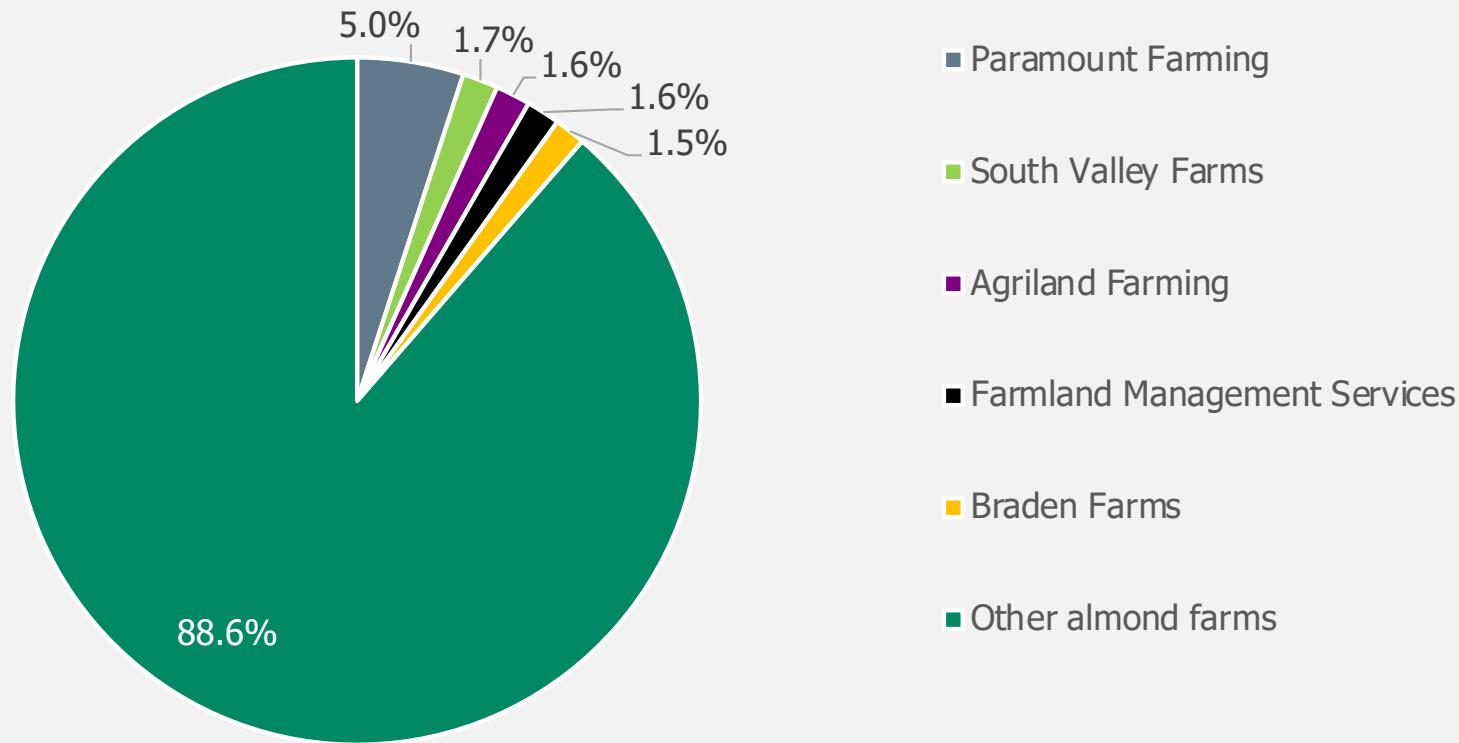
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Appendix 2.

Question #3

What is the almond market size going to be in the U.S. in 2025?

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- 
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Case #6

Bain

Banknote
manufacturer

2020



Case #6. Bain. 2020. Banknote manufacturer

Prompt



Our client is a manufacturer of banknotes for the government. There are two major players in the field (incl. our client). They hired you to increase their revenue. How would you start thinking about the client's request? [Please, provide the candidate with Chart #1.]

Additional information



For interviewer. Please provide this information only upon request.

- 183B banknotes were issued in 2019, 11% of which were manufactured by private companies for governments
- The commercial banknote production market is at \$3-4Bn and is expected to grow by 3-5% annually over the next four years
- The client's competitive advantages are shorter banknote replacement lead time and higher security level for banknotes

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, revenue goals, geographic footprint, etc.)
- Ask for a couple of minutes to structure their approach

This is a candidate-led case. Expected time is 25-30 min.

Case questions (this is a candidate-led case)

Question #1

How would you structure your approach?

Question #2

**What is the market size for U.S. banknote production in 2020?
(based on the Chart #3. U.S. paper currency circulation data)**

Question #3

How price-sensitive do you think the governments are? What will happen if we change the pricing? [No numbers are provided.]

Question #4

What revenue growth opportunities can you suggest to the client?

Question #5

Our client would like to expand into two other adjacent businesses – passport production and credit card production. What are the pros and cons of each of them?

Question #6

The client just entered the room and they would like to know your recommendations.

Hand-outs

Chart #1, Chart #2, and Chart #3.

Q1. How would you structure your approach?



Banknote market

- Growth rate (e.g. trends in bills in circulation)
- Other players (e.g. market share, offerings, key differentiating points)



Client - banknote manufacturer

- Product portfolio (e.g. banknotes only or any adjacency services?)
- Countries-customers
- Competitive advantages



Revenue analysis

- Volume currently and growth rate
- Pricing strategy
- Revenue break-down by region (incl. market share)



Revenue growth areas

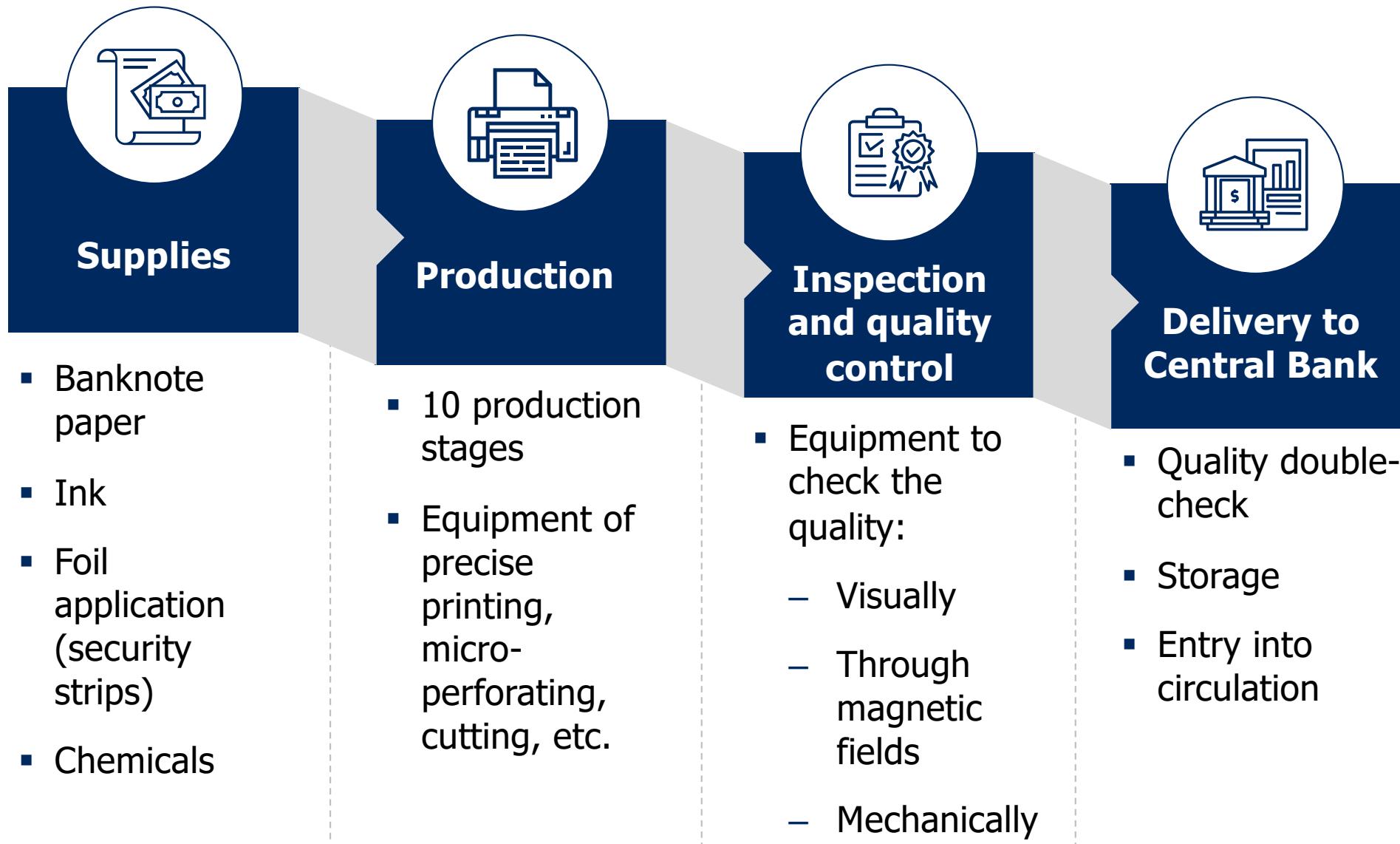
- Increase in market share (winning more countries)
- Cross-selling/up-selling opportunities
- Diversification in adjacency markets

Comments

Make sure that the candidate covers the following key points typical for a sales growth case structure: analysis of external factors (e.g. market's growth rate and competition), understanding of the client's business model (e.g. customer segments and product offerings), and revenue analysis.

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Chart #1. Typical value chain of banknote production



Note: This is for the candidate's information. No insights are expected. To be given to the candidate before framework.

Chart #2. Information on the major banknote manufacturers

	 Our client	 2 nd major player
Foundation year	1813	1852
Countries served (today and in the past)	141 countries	145 countries
Share of the banknote production market	27%	23%
Number of employees globally	2,750	11,600
Headquarter	UK	Germany

Note: Please provide this chart to the candidate if they ask for market shares or other data points from the chart.

Chart #2 – chart-reading

Basic comments (expected from everyone):

- Both companies are established players, have been around for a while, enjoy large geographical footprint and capture similar size of the market



Advanced comments (for outstanding candidates):

- There might be limited potential for geographical expansion as the client has already established relationship with most countries; the rest countries are likely either manufacture their banknotes themselves or have long-term relationship with other players (or too poor to pay for our client's services)
- It seems like there are other players that capture the second half of the market, who can represent competitive threat to our client's sales growth plans
- It seems like our client's manufacturing process is more automatized and less labor intensive in comparison with the 2nd major player; that might suggest that our client might have more efficient manufacturing and better quality control, invest in technology and offer more innovative banknote solutions
- Alternatively, the 2nd major player might have a more diversified business with banknotes providing just some of their revenue; then the client might expand to the adjacent segments that 2nd player has entered already



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Chart #3. U.S. paper currency circulation data



Bill denomination	Printing costs, cents per note	Currency in circulation - volume, Bn of notes	Projected volume to be printed in 2020, Bn of pieces	Lifespan, years
\$1	10	12.4	1.6	6.6
\$2	10	1.3	0.0	N/A
\$5	15	3.1	0.7	4.7
\$10	15	2.0	0.5	5.3
\$20	15	9.4	1.2	7.8
\$50	15	1.8	0.1	12.2
\$100	20	13.4	1.1	22.9

Note: Please provide this chart to the candidate to do a Math exercise (see next slide)

Q2. Math exercise – prompt and calculations

Question #2

What is the market size for U.S. banknote production in 2020?*
(based on the Chart #3. U.S. paper currency circulation data)

For interviewer. Please provide this information only upon request.



- We expect the printing costs to remain the same for 2020.
- Projected volume for 2020 includes the replacement of old/damaged banknotes and the increase in demand for currency from domestic and international customers
- Printing costs are all the banknote production costs that Federal Reserve pays

Printing costs for \$1 and \$2

$$\$0.10 \times (1.6+0.0) = \$0.16B$$

Printing costs for \$5, \$10, \$20 and \$50

$$\$0.15 \times (.7+.5+1.2+.1) = \$0.38B$$

Printing costs for \$100

$$\$0.20 \times 1.1 = \$0.22B$$

Market size (total printing costs)

$$.16+.38+.22 = \$0.76B$$

- The answer is \$760M.

*In the U.S. only the Treasury Department prints banknotes. In other countries private companies produce banknotes for the governments too. For the sake of this case it is assumed that U.S. is also part of the commercial banknote production market

Q2. Math exercise – contextualization of the answer

Question #2

**What is the market size for U.S. banknote production in 2020?*
(based on the Chart #3. U.S. paper currency circulation data)**

Basic comments (expected from everyone): _____

- The market size of the U.S. banknote production in 2020 is expected to be \$760M.



Advanced comments (for outstanding candidates): _____

- Potential change in export/import operations due to new trade restrictions might affect the demand for US currency and needed volume of new banknotes
- Aggressive development of cashless payments (e.g. Apple pay, Google pay) might decrease the appetite for banknotes and thus needed volume of new bills
- We should also keep in mind that change in such macroeconomic factors like country's debt, inflation, interest rates, etc. will affect the demand for U.S. currency, and thus the demand for U.S. banknotes



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q3. Key purchasing decision making criteria

Question #3

How price-sensitive do you think the governments are? What will happen if we change the pricing? [No numbers are provided.]

- The price of banknote production isn't the only factor that the governments consider. Given that a high-quality banknote producer might have a lot of advantages, the governments might not be that price-sensitive. Some of the purchasing criteria to consider are:



Financial analysis

- Price of banknote production
- Lifespan of banknotes
- Expected capex to upgrade case processing equipment in the economy (mostly in banks)
- Potential price increases for future banknote production (to replace old/damaged bills and meet higher demand for banknotes)



Strategic value

- High level of banknote security:
 - Contributes to the consumer confidence and improves the business climate
 - Decreases criminal rate of counterfeit and leads to savings from fewer prosecution and anti-fraud measures
- Top-notch design of banknotes might become part of citizens' pride and a good PR-story for the country



Risks

Operational risks

- Lack of capacity to meet the needed production volumes
- Long lead times (e.g. from order to production and delivery)
- Banknote quality control issues
- Storage and transportation security issues

Financial risks

- The government might lose in negotiation power for future orders given just one banknote supplier
- Banknote producer might go bankrupt

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Revenue growth opportunities

Question #4

What revenue growth opportunities can you suggest to the client?

Increase share of the banknote market



Launch new products



- Invest in relationship building with the central banks (e.g. more events, dedicated account managers)
- Select, train, and highly incentivize top-notch sales people
- Adjust pricing to offer various discounts
- Increase efficiency of PR/marketing to strengthen credibility and brand
- Ensure state-of-the-art quality and cutting edge security of banknotes

- Develop new optional security and/or optical features to up-sell
- Explore entering adjacency markets in B2G: passport/ID production, document security consulting services, anti-counterfeit excise tax stamps, etc.
- Explore entering B2B market: anti-counterfeit labels for packages, banknote paper, security features for credit cards, cash processing machines, etc.

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes] This is a typical Ansoff matrix approach covered in the e-course, however two buckets (geo expansion and new customers segments) are left out.

Q5. Comparison of two new businesses

Question #5

Our client would like to expand into two other adjacent businesses – passport production and credit card production. What are the pros and cons of each of them?

Financial analysis



- Both will require capex in new equipment
- Each will have different expected revenue depending on market size, its growth rate, and realistic market share
- Passport production might offer some cost synergies with the core business like volume discounts for materials (e.g. paper, ink) and savings on overhead cost (no need to hire new salesforce and do lots of marketing – the client is the same B2G)

Strategic value



- New opportunities
 - Success with passports might open a door to other segments like ID and other official documents
 - Success with credit cards might be a platform for other opportunities in B2B (see previous slide)
 - Passports strengthen the value proposition of the client as a one-stop shop for B2G
- Advantages in operations
 - Both can increase utilization rate of equipment, logistics, warehouses, etc.
- Risk diversification
 - Passports will diversify business risks across different product lines
 - Credit cards – across different customer segments

Risks



- Market specific risks
 - Each has different competitive pressure
 - Barriers for entry for credit cards might be higher due to lack of reputation in B2B
- Both have operational risks
 - Potential lack of capabilities to produce passports/credit cards
 - Increase in operational complexity
- Both come with financial risks
 - Lack of funding to execute
 - Exaggerated assumptions in financial analysis

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q6. Recommendation

Question #6

The client just entered the room and they would like to know your recommendations.

Recommen- dation



Based on our analysis we recommend to enter the passport production and credit card production markets.

Reasoning



- First, the growth potential of the banknote space is limited given slow growth rate of the market (3-5%), fairly high competitive pressure from almost equally sized 2nd player, and long sales cycle.
- Secondly, passports and credit cards are presumably attractive markets comparable in size to the banknote space and can offer new growth opportunities to further expand to adjacent segments.
- Thirdly, it is where our client can leverage their core capabilities in producing anti-counterfeit solutions with high level of security.

Risks



We should consider some market entry risks though like potentially tough competitive landscape, lack of expertise/credibility in the domain, and unreasonable assumptions in projected market share and costs.

Next steps



As for the next steps we would suggest to build a risk mitigation plan, conduct a comprehensive due diligence of the passport/credit card markets and design a go-to-market strategy.

Note: This is just one of many potential ways to make a recommendation. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to structure their conclusion as RRRN (recommendation, reasoning, risks, and next steps) and keep it under 1.5 min]

Case #7

Bain

**Fast casual food
restaurant**

2020

BAIN
& COMPANY



Case #7. Bain. 2020. Fast casual food restaurant

Prompt



Your client is a fast casual healthy food restaurant (e.g. salads, wraps, soups). They have 1k locations in the U.S. and are growing to 2k locations across the U.S. and Europe by 2021 (it's currently 2018). The company is afraid that they will saturate the market after their expansion. How can they continue growing if that happens?

Additional information



For interviewer. Please provide this information only upon request.

- The client serves only lunches and dinners.
- We don't know much about the competitive landscape and the fast casual food market dynamics.
- The client hasn't shared any revenue goals.
- They aren't in Europe yet, but plan to enter it this year.

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, revenue goals and timeline, etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 25-30 min.

Case questions (this is an interviewer-driven case)

Question #1	How would you approach this case?
Question #2	What ways can you suggest to grow once the client had their 2K stores?
Question #3	The client would like to start offering breakfasts. (Currently they offer only lunches and dinners). How to estimate additional revenue? What information do you need? Keep in mind that the client would like to continue enjoying 5% margin.
Question #4	Based on the chart, calculate the expected profit margin.
Question #5	The team is considering three more options. The analyst summarized them in this chart. What recommendations would you make?
Question #6	What other information re these three options do you need to know?
Question #7	Would you implement catering services in addition to breakfasts or instead?
Hand-outs	Appendix 1 and Appendix 2

Q1. How would you approach this case?



Fast-casual healthy restaurant market

- Growth rate [low as mature market?]
- Major restaurant chains
- Substitutes (e.g. cooking at home, healthy food options from coffee shops, convenience stores, meal-kit delivery companies, etc.)



Client – fast casual food company

- Product offerings (e.g. types of meals; pre-packaged to-go vs freshly cooked; share of non-food items)
- Customer segments (e.g. B2C/B2B; high-end/low-end)
- Marketing strategy
- Current revenue and growth rate



Sales growth areas

- Increase in market share
- Product innovation
- Geographic expansion
- New customer segments

Comments

Make sure that the candidate covers the following key points typical for a sales growth case structure: analysis of external factors (e.g. market's growth rate and competition), understanding of the client's business model (e.g. customer segments and product offerings), and revenue analysis.

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Revenue growth opportunities

Question #2

What ways can you suggest to grow once the client had their 2K stores?

Upgrade marketing strategy



- Launch loyalty card for regular customers
- Invest in aggressive marketing campaigns and promotions
- Build/strengthen credibility through regular publications re healthy nutrition in print, blogs, YouTube, etc.
- Improve online rating of restaurants (e.g. Yelp, OpenTable)
- Increase in-store and local marketing

Change pricing



- Introduce meal bundles (combos)
- Offer family-size meals (for price-sensitive customers)
- Develop subscription options
- Adjust pricing levels to match WTP (willingness-to-pay)

Increase efficiency of distribution



- Launch online/smartphone orders (e.g. UberEats, DoorDash)
- Launch drive-through
- Train cashiers and increase their incentives (e.g. sales commissions) to cross-sell and up-sell
- Increase the capacity of current restaurants (e.g. increase # seats, working hours)
- Enter retail pre-packaged food space by offering to-go packaged meals at groceries, convenience stores, etc.
- Start franchising in regions other than Europe/US

Improve and expand value proposition



- Improve CX (e.g. cleanliness, friendliness, speed of service)
- Develop a smartphone app to facilitate customer journey (e.g. personalized recommendations, info on new healthy meals)
- Address pain points (if any) (e.g. improve packaging, quality of products)
- Launch breakfasts, coffee and low-calorie bakery
- Develop adjacent offerings to cross-sell/up-sell (e.g. merchandise, seasonal offerings)
- Build offerings for B2B (e.g. corporate catering)
- Consider going into high-end

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Variables to estimate revenue

Question #3

The client would like to start offering breakfasts. (Currently they offer only lunches and dinners). How to estimate additional revenue? What information do you need? Keep in mind that the client would like to continue enjoying 5% margin.

Revenue variables



Direct impact Indirect impact

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ # of unique customers ▪ Frequency of purchases ▪ Average ticket: <ul style="list-style-type: none"> ○ Product mix purchased ○ Price ○ Discounts/ promotions | <ul style="list-style-type: none"> ▪ Cannibalization rate of lunches/ dinners (if breakfast items are offered throughout day) ▪ Estimates of revenue synergies: <ul style="list-style-type: none"> ○ New customers attracted by breakfasts might also come later for lunches/dinners ○ Existing customers might come more often attracted by the “one-stop store” value ○ Loyalty card members might come more often as now they have more options to gain points ○ Assuming breakfast items might be offered throughout day, the client might have more bundling and cross-selling options |
|---|--|

Cost variables (to hit 5% margin goal)



- Cost structure of breakfasts
- Capex needed (e.g. specific cooking equipment for breakfast)
- Cost synergies:
 - Volume discounts for supply purchases (breakfasts will increase supplies needed)
 - Increase utilization rate of cooking equipment, store, logistics, etc.

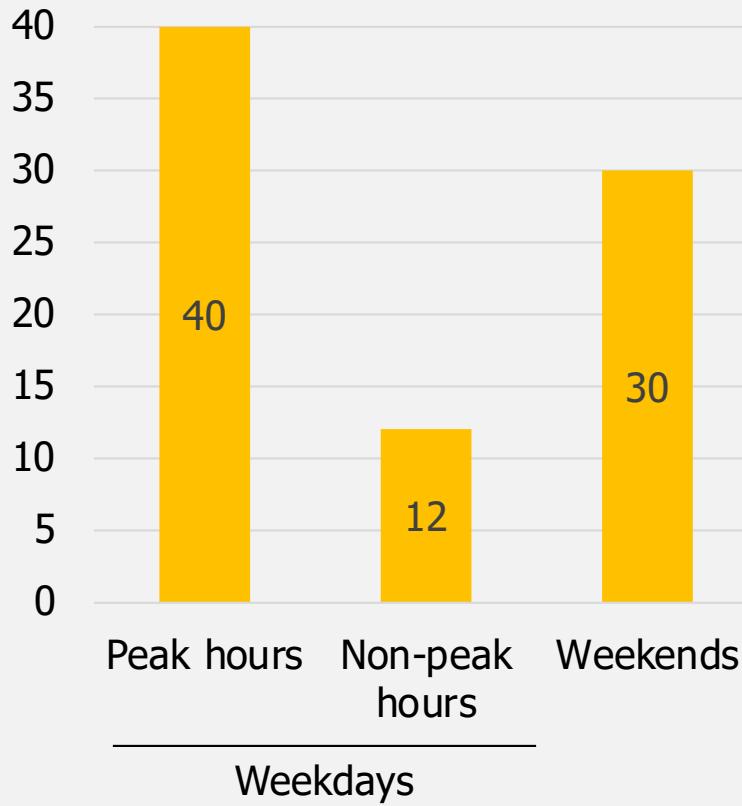
Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Math exercise (chart #1) – prompt (1/2)

Question #4

Based on the chart, calculate the expected profit margin. [Please provide Appendix 1 to the candidate]

Number of breakfast customers per hour



Expected product mix for breakfasts



Breakfast type	Average spend	% of breakfast customers		
		Peak hours	Non-peak hours	Weekends
Grab-and-go	\$5	60%	40%	20%
Sit-down	\$10	40%	60%	80%

Q4. Math exercise – prompt (2/2)

Question #4

Based on the chart, calculate the expected profit margin.

For interviewer. Please provide this information only upon request.

- Peak hours are 6-8 am, and non-peak hours are 8-11 am
- On weekends the breakfast is served at 6-11 am
- Total weekly costs associated with breakfasts are expected to be \$6.5M
- It is assumed that each customer purchases only one breakfast
- We don't have information on potential cannibalization, revenue synergies or cost synergies



Q4. Math exercise – calculations

Question #4

Based on the chart, calculate the expected profit margin.

- The weekly number of customers

Peak hours

$$40 \times 2h * 5 \text{ days} = 400$$

Non-peak hours

$$12 \times 3h * 5 \text{ days} = 180$$

Weekends

$$30 \times 5h * 2 \text{ days} = 300$$

- The weighted average spending per customer

Peak hours

$$\$5 * 60\% \times \$10 * 40\% = \$7$$

Non-peak hours

$$\$5 * 40\% \times \$10 * 60\% = \$8$$

Weekends

$$\$5 * 20\% \times \$10 * 80\% = \$9$$

Weekly breakfast revenue per store

$$400 * \$7 + 180 * \$8 + 300 * \$9 = \$6.94k$$

Weekly breakfast costs per store

$$\$6.5M \div 1k \text{ stores} = \$6.5k$$

Profit margin/profitability

$$(6.94k - 6.5k) \div 6.94k = 6\%$$

- The answer is 6%.

Q4. Math exercise – contextualization of the answer

Question #4

Based on the chart, calculate the expected profit margin.

Basic comments (expected from everyone):

- Breakfasts will demonstrate 6% profit margin which meets the client's 5% goal



Advanced comments (for outstanding candidates):

- The profit margin might be even higher if we consider potential cost synergies (breakfasts will add to the overall food supply purchases (for lunches and dinners) and thus the client might get volume discount)
- Potential revenue synergies might also improve margins as breakfasts would likely attract new clientele that might come back later to buy lunch/dinner too
- We made a lot of assumptions and the delta between 6% and 5% might not be statistically significant – minor changes in numbers might affect margins radically
- Given restaurants are a location-driven business the breakfast sales might vary drastically across different restaurants (depending on foot traffic in specific location)



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q5. Chart #2 – prompt

Question #5

The team is considering three more options. The analyst summarized them in this chart. What recommendations would you make? [Please provide Appendix 2 to the candidate]

	 Food trucks	 Corporate catering services	 Packaged food in retail chains
Estimated annual revenue	\$7M	\$7M	\$7M
Typical distance from the client's stores, mi	1 mile	3 miles	5 miles
Type of locations	Downtown and suburbs	Downtown	Suburbs
Staff implications	Extra staff for trucks	Existing staff completes corporate orders	New staff for production lines

Q5. Chart #2 – chart-reading (1/2)

Question #5

The team is considering three more options. The analyst summarized them in this chart. What recommendations would you make?



Food trucks



Corporate catering services



Packaged food in retail chains

Financial analysis

- Revenue = \$7M
- Costs: capex for trucks, new costs on fuel, new staff, maintenance, etc.

Strategic value

- No obvious strategic advantages

Risks

- Might cannibalize the restaurants' sales given close proximity
- Might attract price-sensitive customers which will lower margins

- Revenue = \$7M
- Costs: new costs on new sales reps, delivery, etc.

- New customer segment (B2B) offers new sales growth opportunities through cross/up-sales

- Might lower margins given volume discounts for B2B

- Revenue = \$7M
- Costs: capex for production line, new costs on markup of chains, new staff, etc.

- Might trigger a rapid sales growth by adding new (national?) retail chains

- Might lower margins given volume discounts for retail chains

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Chart #2 – chart-reading (2/2)

Question #5

The team is considering three more options. The analyst summarized them in this chart. What recommendations would you make?

Basic comments (expected from everyone):

- All options offer the same revenue and we'll need to add costs to the analysis
- Catering services don't require hiring new staff, so we might save on costs

Advanced comments (for outstanding candidates):

- Catering services might suggest better economics, as food trucks and packaged food might require substantial capex (for trucks and production line) and add new considerable costs (e.g. markup for retail chains)
- Catering services and packaged food might offer strategic growth platforms. Catering services might open the door for new sales growth opportunities for B2B (e.g. cross/up-selling, in-house caterer, party catering), and retail chain might provide immediate access to a large portion of the market scaling up the sales
- All of the options have risks of lower margins; however food trucks are also likely to cannibalize the client's restaurants' sales due to the close proximity of 1 mile
- I would recommend to go with catering services given potentially better economics, expected strategic benefits, and similar risks

Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q6. Data request

Question #6

What other information re these three options do you need to know?



Financial analysis

- Expected capex and client's investment criteria [ROI/NPV, etc.]
- Projected cost structure and potential cost synergies
- Forecast of pricing changes [to see the impact on the margins]



Strategic value

- Potential additional revenue opportunities driven by each option
- Serviceable Addressable Market (SAM) for each option that provides access to new customer segments/regions [e.g. food truck – price-sensitive customers, catering services – B2B, retail chains – new regions]



Risks

- Level of operational risks (e.g. increase in operational complexity, quality control)
- Expected rate of cannibalization

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q7. Implementation tactics

Question #7

Would you implement catering services in addition to breakfasts or instead?



Financial analysis

- Revenue. Breakfasts and catering serve complimentary customer segments (B2C vs B2B), which expands SAM (Serviceable Addressable Market) and suggests limited/no cannibalization
- Costs. Each of two new revenue streams will increase volume and thus strengthen economies of scale (e.g. lower costs for food supplies due to volume discounts, higher utilization rate of the cooking equipment and space; etc.)



Risks

Simultaneous launch of two large projects might represent too high pressure for the client's resources and operations:

- Financial. Each project requires financial resources (e.g. for marketing, new staff to increase cooking capacity, salespeople for B2B, etc.)
- Ops. The rapid increase in operational complexity (e.g. change in supplies, cooking, working hours for breakfasts as well as new order processing system and large size of orders for B2B) might be detrimental to business

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Recommendation

**This Bain case doesn't
require final
recommendation.**

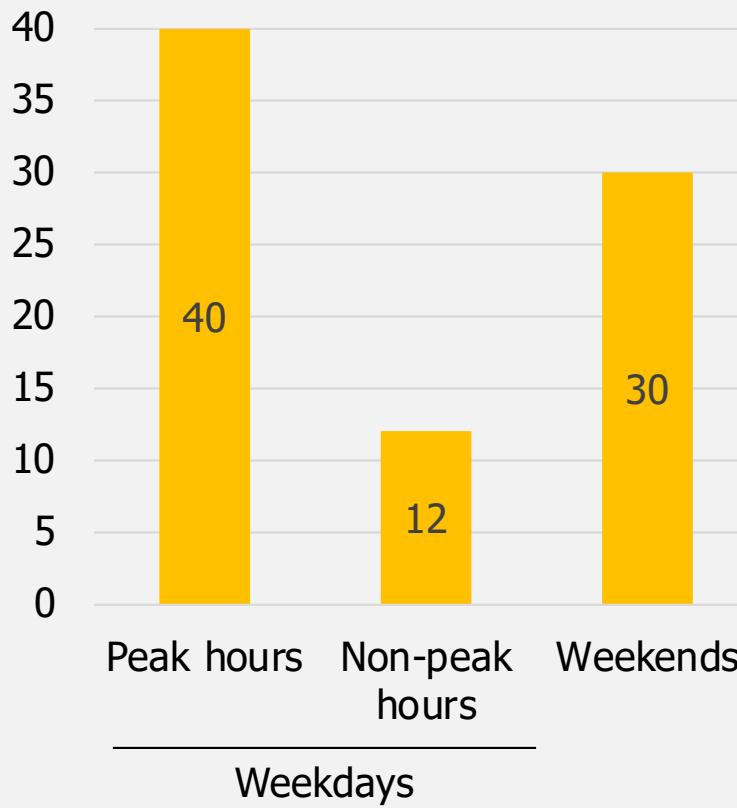


Appendix 1.

Question #4

Based on the chart, calculate the expected profit margin.

Number of breakfast customers per hour



Expected product mix for breakfasts



Breakfast type	Average spend	% of breakfast customers		
		Peak hours	Non-peak hours	Weekends
Grab-and-go	\$5	60%	40%	20%
Sit-down	\$10	40%	60%	80%

Appendix 2.

Question #5

The team is considering three more options. The analyst summarized them in this chart. What recommendations would you make?

	 Food trucks	 Corporate catering services	 Packaged food in retail chains
Estimated annual revenue	\$7M	\$7M	\$7M
Typical distance from the client's stores, mi	1 mile	3 miles	5 miles
Type of locations	Downtown and suburbs	Downtown	Suburbs
Staff implications	Extra staff for trucks	Existing staff completes corporate orders	New staff for production lines

Case #8

Bain

**Instant coffee pod
producer**

2020



Case #8. Bain. 2020. Instant coffee pod producer

Prompt



Brew Co produces instant coffee makers and coffee pods. A large hotel chain wants to have their machines in the rooms but would like to have biodegradable pods as a condition to the contract. Currently coffee pods of Brew Co aren't biodegradable. Should Brew Co change their production process and accept the deal?

Additional information



For interviewer. Please provide this information only upon request.

- Brew Co would want to have \$1M in weekly profit from the deal
- A hotel chain is one of the top chains in the U.S. with 1,200 hotels in its network
- No information on other coffee pod makers bidding for this deal
- Brew Co is exploring both options: in-house and outsourced production for biodegradable pods

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, client's goals for the deal, the deal's details (e.g. volume) etc.)
- Ask for a couple of minutes to structure their approach

This is an interviewer-driven case. Expected time is 30-35 min.

Case questions (this is an interviewer-driven case)

Question #1	How do we evaluate it? Should the client change their production process and accept the deal?
Question #2	What are the key cost items of the Brew Co?
Question #3	What are the risks of accepting the deal?
Question #4	What other ideas to increase sales can you suggest?
Question #5	What information do you need to assess the client's potential revenue from this deal?
Question #6	The client wants to hit \$1M in weekly profits from the deal with the hotel chain. Can you calculate their expected weekly profits?
Question #7	What would happen if % coffee-drinkers at the slide changed from 50% to 40%? [Supposed to be mental Math without writing.]
Question #8	The client decided to pursue the contract. Should they produce the pods in-house or outsource? How to evaluate this decision?
Question #9	We managed to learn some details re in-house and outsource options. What recommendations would you make based on them?
Hand-outs	Appendix 1 and Appendix 2

Q1. How do we evaluate it? Should the client change their production process and accept the deal?



Brew Co

- Product portfolio
- Customer segments
- Biodegradable pods: value prop and operational implications



Financial analysis

- Capex and investment criteria
- Expected revenue
- Expected costs



Strategic value

- New opportunities
- Advantages in operations
- Improvement in CX
- Risk diversification



Risks

- Market specific risks
- Operational risks
- Financial risks

Comments

Make sure that the candidate covers the following key points typical for a comparison case structure: understanding of status-quo (e.g. business model of the company, options to compare), analysis of financial implications of each option (capex, revenue and costs), potential strategic value of each option, risk assessment of each option.

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Key cost items

Question #2

What are the key cost items of the Brew Co?

Fixed costs



- Rent
- Maintenance costs for the equipment (e.g. spare part, maintenance services)
- Marketing expenses
- Overhead (e.g. shared functions, management team)
- Transportation/logistics costs

Variable costs



- Supplies (e.g. coffee, pods, spare parts for coffee machines)
- Packaging materials
- Labor
- Distribution fees (e.g. markups for retail stores for B2C sales)
- Discounts
- Credit cards commissions

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Risk assessment

Question #3 What are the risks of accepting the deal?

Market specific risks



- Change in customer preferences (e.g. drop in interest for biodegradable pods due to shorter shelf life)
- Intensified competition (e.g. lower pricing, aggressive marketing)
- Rise in new entrants to biodegradable space
- Rise of substitutes (e.g. coffee paper filters)

Financial risks



- Revenue-related
 - Exaggerated assumptions for sales
 - Hotel's withdrawal from the deal or deal renegotiation mid-way
- Cost-related. Higher waste given potential shorter shelf life of biodegradable pods
- Capex-related. Lack of funding for new equipment

Operational risks



- Delays in new production line launch
- Quality control for biodegradable pods
- Increase in operational complexity for production, storage, distribution
- Lack of tech personnel to support production equipment for biodegradable pods

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Revenue growth opportunities

Question #4

What other ideas to increase sales can you suggest?

Upgrade marketing strategy



- Invest in aggressive marketing campaigns and promotions
- Partner with complementary brands to do co-branding (e.g. with bakery chains, business magazines, etc.)

Change pricing



- Introduce bundles (e.g. annual supply of coffee pods with a coffee mug/coffee maker)
- Develop subscription options (e.g. monthly delivery of coffee pods)
- Adjust pricing levels to match competition/WTP (willingness-to-pay)
- Introduce different sizes of packages (e.g. coffee singles, family-size package for price-sensitive groups)

Increase efficiency of distribution



- Launch e-commerce
- Start their own chain of coffee shops to promote their brand of coffee
- Expand the network of their distributors (e.g. grocery chains, retail chains)
- Incentivize better their distributors (e.g. increase markups)
- Better select, train, and incentivize the sales team to sell to B2B
- Build a network of coffee vending machines

Improve and expand value proposition



- Launch a high-end premium / low-end standard coffee
- Enter coffee-based beverages (e.g. bottled iced coffee, cold brew)
- Offer a variety of coffee pod options
- Expand in B2B (e.g. partner with fast food chains, airlines, large employers)
- Develop adjacent offerings to cross-sell/up-sell (e.g. merchandise, seasonal offerings)
- Consider white-labelling

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Data request

Question #5

What information do you need to assess the client's potential revenue from this deal?

Contract volume data



- # of hotels in the chain
- # rooms per hotel
- Average occupancy rate
- # of guests per room
- % coffee-drinkers among guests
- # coffee pods consumed per coffee-drinker per day
- Expected changes in any of the above

Contract pricing data



- Expected price of the contract/per pod
- Potential discounts
- Forecasted changes in any of the above due to inflation, change in volume, etc.

Indirect impact on revenue growth



- Estimated revenue for adjacency products/services (e.g. cross-sell of coffee mugs to hotel guests)
- Assessment of potential marketing value:
 - Expected future revenue from new customers who enjoyed coffee at the hotel and will start purchasing it for themselves after their stay at the hotel
 - Estimated improvement in the retention rate of existing customers whose loyalty to the client's coffee brand will strengthen after their stay at the hotel
 - Estimated increase in coffee consumption of existing customers whose loyalty to the client's coffee brand will strengthen after their stay at the hotel

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q6. Math exercise – prompt

Question #6

The client wants to hit \$1M in weekly profits from the deal with the hotel chain. Can you calculate their expected weekly profits? [Please provide Appendix 1 to the candidate]

Details on the expected deal



- # of hotels in the hotel chain = 1,200 hotels
- Average # of rooms per hotel = 200 rooms
- Average occupancy rate = 70%
- Average # of guests per room = 1.6 guests
- Average % of coffee-drinkers among guests = 50%
- Average # coffee pods consumed by a coffee-drinker per day = 2 coffee pods
- % of coffee-drinker guests who drink:
 - Premium coffee = 50% (margins are \$0.8 per coffee pod)
 - Regular coffee = 50% (margins are \$0.3 per coffee pod)

Q6. Math exercise – calculations

Question #6

The client wants to hit \$1M in weekly profits from the deal with the hotel chain. Can you calculate their expected weekly profits?

# occupied rooms	1,200	\times	200	\times	70%	$=$	168k
# coffee-drinkers	168k	\times	1.6	\times	50%	\approx	135k
Daily profits	135k	\times	2	\times	$(\$0.8*.5+\$0.3*.5)$	\approx	\$150k
Weekly profits	\$150k	\times	7	$=$			\$1,050k

- The answer is \$1.05M.

Q6. Math exercise – contextualization of the answer

Question #6

The client wants to hit \$1M in weekly profits from the deal with the hotel chain. Can you calculate their expected weekly profits?

Basic comments (expected from everyone):

- The client will be able to hit their target of \$1M in weekly profits



Advanced comments (for outstanding candidates):

- The contract might also lead to indirect impact on the client's revenue improving the overall financial results:
 - In addition to coffee the hotel guests might purchase some adjacency products (e.g. clients' coffee mugs)
 - The presence of the client's coffee makers and pods in the hotel will increase the client's brand awareness contributing to the sales outside of the hotel
- It's not clear if the hotel is going to purchase the client's coffee makers too which will increase revenue, or the client provides them at no charge increasing opex
- Overall, \$52M in annual profits seem attractive, as it is also going to be a predictable and consistent cash flow



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q7. Math #2 – prompt, calcs, and contextualisation

Question #7

What would happen if % coffee-drinkers at the slide changed from 50% to 40%? [Supposed to be mental Math without writing.]

Weekly profits

\$1.05M



40%/50%



\$0.8M

- The answer is \$0.8M.

Basic comments (expected from everyone): _____

- The expected weekly profits will drop to \$0.8M.



Advanced comments (for outstanding candidates): _____

- We made a lot of assumptions in our calculations and there is quite little room for error as \$1.05M is not that far from the client's goal of \$1M (only 5% difference)
- If any of the assumptions (e.g. # guests per room, # coffee pods consumed) changes slightly, the client won't be able to hit their financial target



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q8. Comparison of in-house vs outsource

Question #8

The client decided to pursue the contract. Should they produce the pods in-house or outsource? How to evaluate this decision?



Financial analysis

Costs factors

- Cost structure for in-house vs outsourced production

Revenue factors

- Production capacity of in-house vs outsource

Investment

- Capex required to develop in-house production
- Expected ROI/payback/etc.



Strategic value

New opportunities

- Ability to produce different types of pods in-house vs outsource
- In-house might offer more opportunities to innovate to design new types of coffee pods

Advantages in operations

- In-house (potentially):
 - Better quality control
 - Higher production flexibility
 - Quicker lead times
- Outsource (potentially):
 - Less operational complexity
 - Immediate launch
 - All necessary expertise available
 - Quick scale-up (if needed)

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q9. Math #3 – prompt

Question #9

We managed to learn some details re in-house and outsource options. What recommendations would you make based on them? [Please provide Appendix 2 to the candidate]



In-house



Outsource

Time to implementation

6 months

1 month

Capex required

\$40M

\$10M

Variable costs per pod

\$1

\$2.5

% utilization rate

25%

75%

Q9. Math #3 – calculations and contextualization

Question #9

We managed to learn some details re in-house and outsource options. What recommendations would you make based on them?

Break-even point

$$\$40M-\$10M \div \$2.5-\$1 = 20M \text{ pods}$$

Annual contract volume

$$135k \text{ coffee-drinkers} \times 2 \text{ pods} \times 365 \text{ days} = 100M \text{ pods}$$

Basic comments (expected from everyone):

- The in-house option seems far more attractive financially



Advanced comments (for outstanding candidates):

- Given the margins are \$0.3-\$0.8 per pod, the variable costs for outsourcing (\$2.5) seem incredibly high and might eat the whole margins making the deal unprofitable
- The client might consider a hybrid option, start with outsourcing and build the in-house capabilities in parallel (if the economics of outsourcing can be improved) – it will help avoid five months of wait period [6 months - 1 month] and get extra sales



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Recommendation

**This Bain case doesn't
require final
recommendation.**



Appendix 1.

Question #6

The client wants to hit \$1M in weekly profits from the deal with the hotel chain. Can you calculate their expected weekly profits?

Details on the expected deal



- # of hotels in the hotel chain = 1,200 hotels
- Average # of rooms per hotel = 200 rooms
- Average occupancy rate = 70%
- Average # of guests per room = 1.6 guests
- Average % of coffee-drinkers among guests = 50%
- Average # coffee pods consumed by a coffee-drinker per day = 2 coffee pods
- % of coffee-drinker guests who drink:
 - Premium coffee = 50% (margins are \$0.8 per coffee pod)
 - Regular coffee = 50% (margins are \$0.3 per coffee pod)

Appendix 2.

Question #9

We managed to learn some details re in-house and outsource options. What recommendations would you make based on them?



In-house



Outsource

Time to implementation

6 months

1 month

Capex required

\$40M

\$10M

Variable costs per pod

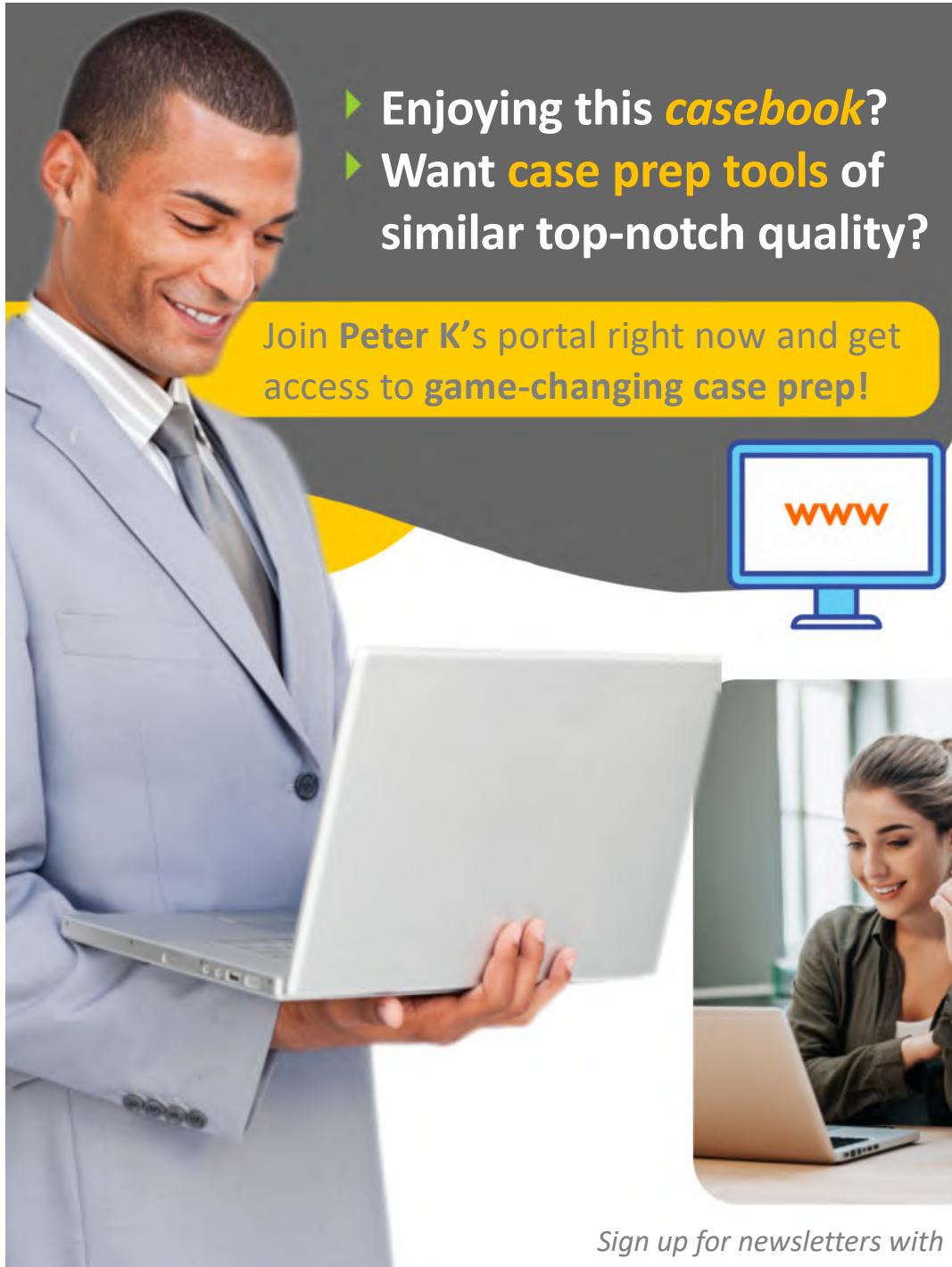
\$1

\$2.5

% utilization rate

25%

75%

- 
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Case #9

BCG

Grocery retailer

2020



Case #9. BCG. 2020. Grocery retailer

Prompt



Your client is a U.S.-based grocery retailer with \$20B in sales. Their competitors offer lower prices for some product categories while maintaining the same profit margin as your client. How do their competitors manage to do that? What should the client do?

Additional information



For interviewer. Please provide this information only upon request.

- The client didn't share a clear profitability goal
- The client is a national grocery chain with a lot of stores
- The client offers all kind of groceries and adjacency products
- The key customer segments are likely low-end and mass market
- The major competitors are Costco, Kroger, Ahold, and Aldi

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, client's profitability goals, geographical footprint, etc.)
- Ask for a couple of minutes to structure their approach

This is a candidate-led case. Expected time is 30-35 min.

Case questions (this is a candidate-led case)

Question #1	How do other players offer lower prices for some product categories and keep the same profit margin? (before framework)
Question #2	What factors would you consider to analyze the client's problem and design plan of attack?
Question #3	What are the key cost items of the client?
Question #4	What cost reduction initiatives can you suggest?
Question #5 (Hand-out)	We've collected some sales and profitability data for the juice segment. What does this chart tell you?
Question #6	Can we renegotiate prices/mark-ups with Kraft? What makes you think that we have leverage in the negotiations with Kraft?
Question #7	What price would you negotiate for with Kraft? What will be your target margins? Why?
Question #8	What if Kraft doesn't do it for you? What else would you do?
Question #9	What would the client's incremental profits be if we improve the margins from 8% to 10%?
Question #10	If you can renegotiate better terms with other product categories and replicate juice's success, what extra profits should we expect?
Question #11	You are in the final steering committee with the client's management team and they would like to hear your recommendations

Q1. How do other players offer lower prices for some product categories and keep the same profit margin?

Revenue factors



- Different revenue structure (product mix)
 - higher share of high-margin products
- More favorable terms for mark-ups from suppliers (e.g. higher mark-ups, volume-driven mark-ups)
- Potential extra revenue streams coming from suppliers:
 - Fees for in-store marketing
 - Fees for special merchandising (e.g. better shelf-space)
 - Fees for customer analytics

Cost factors



- Fixed costs:
 - Lower rent
 - Lower transportation costs
 - More efficient marketing expenses
 - Lower overhead costs
 - Lower maintenance costs (for fridges, trade equipment, etc.)
- Variable costs:
 - Lower waste of products
 - Lower labor costs (more efficient layout, management, etc.)
 - Lower credit card commissions
 - More favorable terms with grocery delivery companies (e.g. Instacart)

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes] In the real interview the interviewer asked this before the candidates did their frameworks.

Q2. What factors would you consider to analyze the client's problem and design plan of attack?



Competition

- Major grocery retailers (with lower prices)
- Their pricing strategy
- Analysis of their profitability (incl. cost benchmarking)



Client – grocery retailer

- Key product categories (e.g. packaged, fresh, cooked)
- Customer segments (e.g. low-end/high-end)
- Geographical footprint



Financial analysis

- Revenue and market share
- Pricing strategy
- Cost structure:
 - Fixed costs (FC)
 - Variable costs (VC)

Comments

Make sure that the candidate covers the following key points typical for a profitability case structure: analysis of external factors (e.g. competition), understanding of the client's business model (e.g. customer segments and product portfolio), and financial analysis (e.g. revenue and cost structure).

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q3. Key cost items

Question #3

What are the key cost items of the client?

Fixed costs



- Occupancy costs for stores, distribution centers/warehouses, offices, etc.
- Maintenance costs of the equipment (freezers/fridges, cash registers, warehouse equipment, etc.)
- Marketing expenses
- Salaries for management, shared functions (e.g. legal, IT), warehouse employees
- R&D expenses
- Inbound/outbound logistics

Variable costs



- Purchasing costs of groceries
- Packaging costs
- Labor cost
- Promotional discounts
- Sales commissions to third party (e.g. Instacart)
- Credit card fees
- Waste of products (e.g. expired, damaged)

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Cost reduction plan

Question #4

What cost reduction initiatives can you suggest?

Fixed costs



- Renegotiate rates for rent
- Switch to cheaper maintenance service provider
- Increase the efficiency of marketing
- Reduce headcount costs (e.g. optimize headcount and compensation)
- Scale back R&D (if any)
- Consolidate logistics to increase utilization rate of trucks and drivers and thus decrease costs

Variable costs



- Consolidate purchasing to get volume discounts for groceries and packaging materials
- Increase the efficiency of labor (e.g. better lay-outs of the store, more strict processes)
- Scale-back discounts
- Renegotiate sales commissions to third party grocery delivery companies
- Improve expiration date tracking to avoid food waste

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Chart – prompt

Question #5

We've collected some sales and profitability data for the juice segment. What does this chart tell you? [Please provide Appendix 1 to the candidate]

Chart 1. Client's margins for juice products of different brands

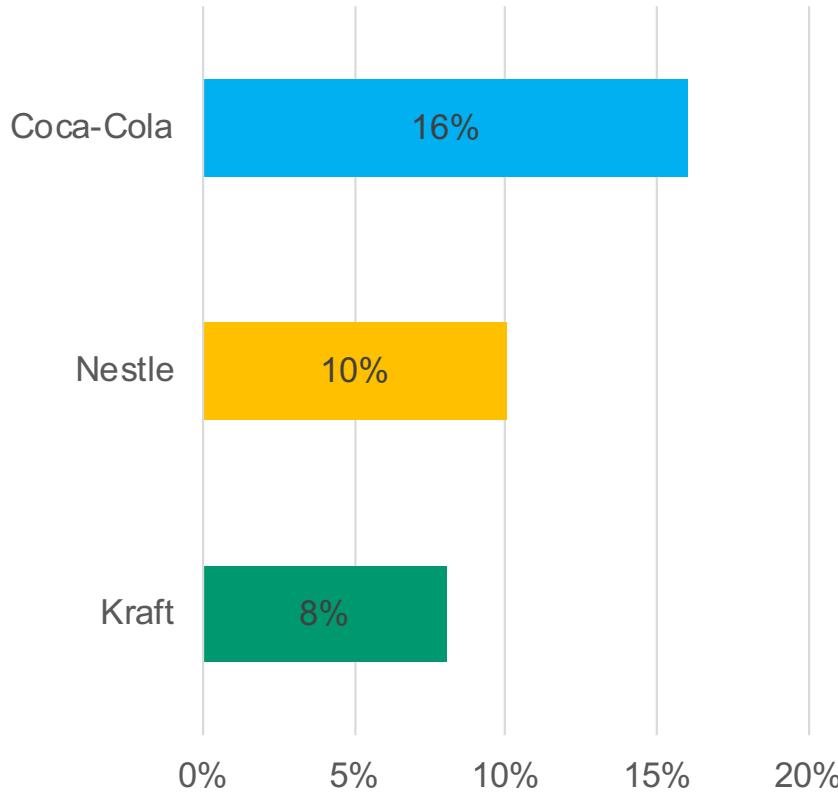
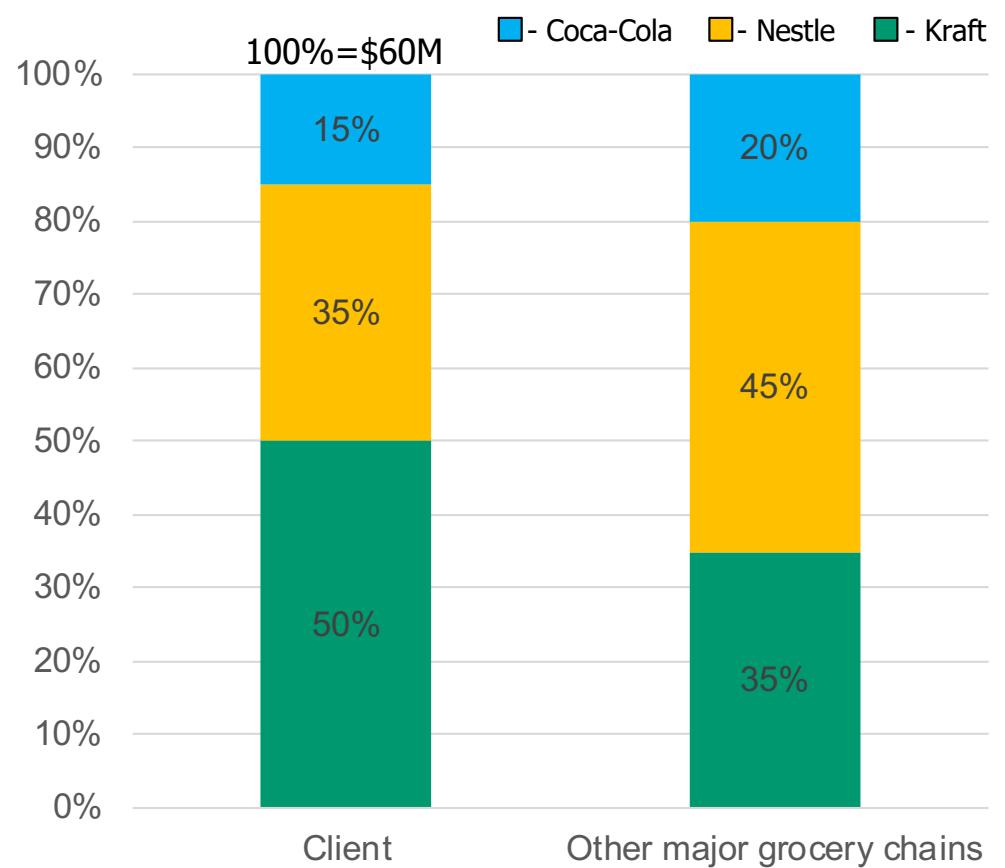


Chart 2. Sales structure in juice segment



Q5. Chart – chart-reading

Question #5

We've collected some sales and profitability data for the juice segment. What does this chart tell you?

Basic comments (expected from everyone):

- There is a wide variability of margins across different brands of juice.
- The client relies a lot on a low-margin brand (Kraft) which might lower their profitability



Advanced comments (for outstanding candidates):

- It is not surprising to see fairly low margins for most juices as it is a highly commoditized product with quite price-sensitive customer segments and thus high price pressure
- Coca-Cola offers incredibly attractive margins due to their competitive cost structure (e.g. huge economies of scale) or aggressive strategy to win market share in the juice segment; if the latter, then 16% is not going to be for long and the client needs to take advantage of that
- The client can capitalize on the incredibly high share of Kraft in their sales structure (50%) and negotiate a volume discount and/or higher mark-up which will improve the client's profitability
- Shift in the brand mix towards higher-margin Coca-Cola and Nestle will improve the client's profitability too
- Given that the juice sales (\$60M) represent only a fraction of the overall client's sales (\$20B), margin increase for juices would not move the needle much for the overall client's profitability



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q6. Negotiation factors

Question #6

Can we renegotiate prices/mark-ups with Kraft? What makes you think that we have leverage in the negotiations with Kraft?

Existing leverage



- The client moves high volume of Kraft's juices and might ask for a volume discount
- The client supposedly provides large shelf space for Kraft's juices which contributes to the increase in Kraft's brand awareness
- Kraft's juices aren't attractive to the client based on the benchmarking analysis, and if Kraft doesn't improve the client's margins it's natural to expect that the client will shift towards other juice brands
- The client likely purchases other Kraft's products (e.g. snack, dairy) too, and thus is an important buyer for Kraft

Potential new leverage



- The client might offer to conclude a long-term contract with Kraft to ensure a predictable revenue stream for Kraft
- The client might offer benefits: in-store marketing, customer analytics, real-life Kraft sales results (IT integration required), etc.
- The client might offer to increase purchasing volume for other Kraft's product too
- The client might offer to bring some Kraft's ops functions in-house (e.g. merchandising, tracking inventory) to save them costs

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q7. Negotiation factors #2

Question #7

What price would you negotiate for with Kraft? What will be your target margins? Why?



Reference points		Potential target margins	Negotiation strategy
Brand's margin	Grocery's margin		
Coca-Cola	16%	<ul style="list-style-type: none"> 16% - might be unrealistic to expect given Coca-Cola has competitive cost structure (due to huge scale) or lower prices temporarily to capture larger market share 	<ul style="list-style-type: none"> Estimate the highest margin Kraft would agree on based on the analysis of Kraft's economics and our potential suggestions (e.g. see previous slide)
Nestle	10%	<ul style="list-style-type: none"> 11.3% - average of three brands $[(16\%+10\%+8\%)/3]$ 10% - match Nestle 	<ul style="list-style-type: none"> Clarify if the client has any profitability goals Target 10% to match Nestle, but start the talks from 12% to have some room for negotiation
Kraft	8%	<ul style="list-style-type: none"> 9.2% - will yield average margin of 10.5% to match other groceries $[16\%*.15+10\%*.35+9.2\%*.5]$ 	<ul style="list-style-type: none"> Do not go below 9.2% as the client's goal is to match their profitability to other major groceries

Q8. Alternative options

Question #8

What if Kraft doesn't do it for you? What else would you do?

Revenue factors



- Renegotiate margins with Nestle and Coca-Cola
- Shift the mix of brands towards Nestle and Coca-Cola
- Bring other juice brands that offer higher margins
- Increase retail prices for Kraft juices (this will increase margins; price-sensitive customers will switch from Kraft to higher-margin Nestle or Coca-Cola)
- Focus on high-margin juice substitutes (e.g. flavored electrolytes, flavored water)

Cost factors



- *See question 4.*

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q9. Math – prompt, calculations, and contextualization

Question #9

What would the client's incremental profits be if we improve the margins from 8% to 10%?

Revenue from Kraft's juices

$$\$60M \times 50\% = \$30M$$

Incremental profits

$$\$30M \times (10\%-8\%) = \$0.6M$$

- The answer is \$0.6M.

Basic comments (expected from everyone):

- The client will increase their profits by \$0.6M



Advanced comments (for outstanding candidates):

- Extra \$0.6M in profits will help the client match their competitors' overall profitability for juice products, but it will be negligible change in overall client's profitability
- The client is still incentivized to sell more of Coca-Cola products given its 16% margin, which might decrease the volume for Kraft, upset the brand and make them reconsider their 10% margin



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q10. Math #2 – prompt, calcs, and contextualization

Question #10

If you can renegotiate better terms with other product categories and replicate juice's success, what extra profits should we expect?

Extra profits for juice category

$$\$0.6M \div \$60M = 1\%$$

Total incremental profits

$$\$20B \times 1\% = \$200M$$

- The answer is \$200M.

Basic comments (expected from everyone):

- The client will increase their profits by \$200M



Advanced comments (for outstanding candidates):

- If we extrapolate the juice's success to the entire company, the client's profitability will go up by 1 percentage point which is phenomenal for such a commoditized space
- This might involve a lot of negotiations with a great deal of suppliers, take time and people resources, require building a comprehensive negotiation strategy for each product segment based on thorough market research and benchmarking



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q11. Recommendation

Question #11

You are in the final steering committee with the client's management team and they would like to hear your recommendations

Recommen- dation



Based on our analysis, we recommend to renegotiate prices and terms with suppliers and consider shifting towards high-margin products/brands

- Preliminarily this strategy will lead to the growth in the profitability by 1 percentage point and generate additional \$200M in profits
- Tracking changes in prices and sales structure will allow us to max profits and avoid profitability gaps with other grocery chains in future
- Such an active supplier management strategy might potentially allow us to build closer relationship with suppliers and work together to design new mutually beneficial forms of contracts and innovative pricing

Reasoning



Current potential lack of negotiation capabilities and lack of market intelligence might become roadblocks to a successful renegotiation of terms with suppliers. The juice segment might not be representative for extrapolation, so the financial result of \$200M might be exaggerated.

Risks



For our next steps we would like to address the identified risks, run similar analyses for major product segments to confirm our conclusions, and design a purchasing negotiation strategy for all the segments

Note: This is just one of many potential ways to make a recommendation. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to structure their conclusion as RRRN (recommendation, reasoning, risks, and next steps) and keep it under 1.5 min]

Appendix 1.

Question #5

We've collected some sales and profitability data for the juice segment. What does this chart tell you?

Chart 1. Client's margins for juice products of different brands

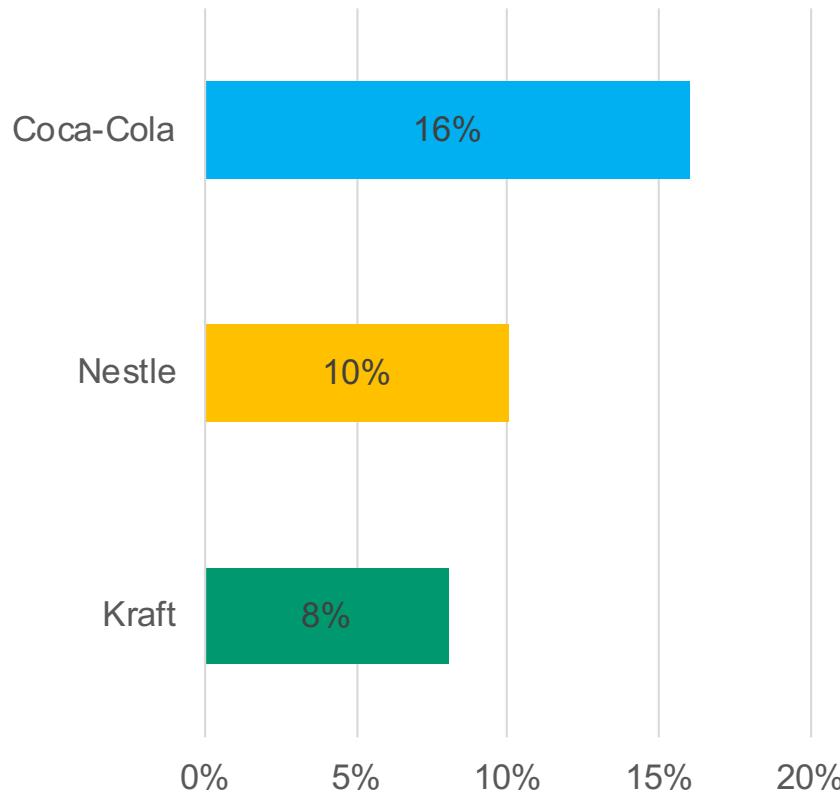
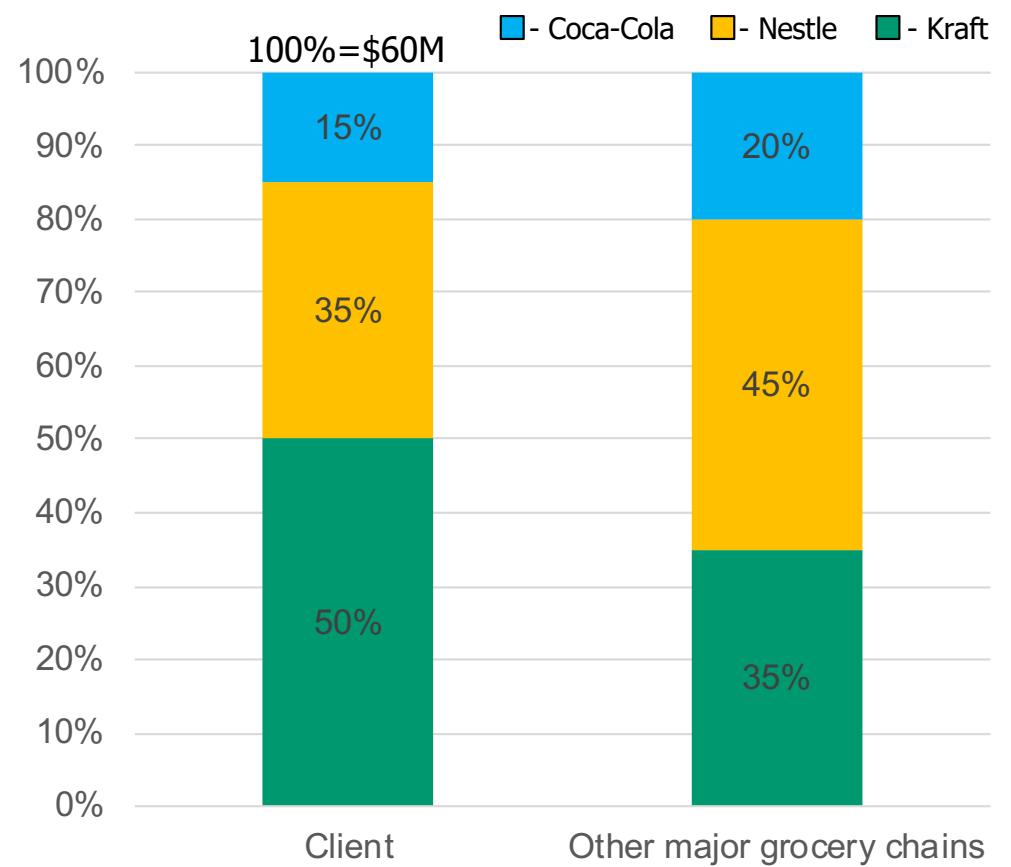


Chart 2. Sales structure in juice segment



Case #10

BCG

**Snack food
company**

2020



Case #10. BCG. 2020. Snack food company

Prompt



A snack food company hires a contractor to distribute their products (e.g. cookies, crackers). They would like to bring distribution in-house and hire full-time workers to distribute their products (i.e. put the products on the shelves in the stores). Should they switch to the other model?

Additional information



For interviewer. Please provide this information only upon request.

- The contractor takes 20% commission
- The client has ambition to triple their sales in the near future
- Other players own the value chain and do distribution in-house
- The client is a large player, but not among top-5 companies
- The client has a national footprint

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, metrics of success, details about distribution models, etc.)
- Ask for a couple of minutes to structure their approach

This is a candidate-led case. Expected time is 25-30 min.

Case questions (this is a candidate-led case)

Question #1	How would you structure your approach to assess whether the client should switch to the other model?
Question #2	What are the pros and cons of switching to in-house model (vs current outsourced model)?
Question #3	What are the ways to drive the client's sales and accomplish the goal of tripling their revenue?
Question #4	Our analyst did some research re the competitors and here is what they found. What does this table suggest?
Question #5	Can you calculate the total costs as % of sales for each of three players?
Question #6	What would the financial implications be of bringing the distribution in-house? Can you calculate it?
Question #7	You are in the client's meeting and they would like to know your recommendations.
Hand-outs	Appendix 1

Q1. How would you structure your approach to assess whether the client should switch to the other model?



Distribution models

- Process flow
- Volume and capacity
- Models of key competitors



Financial analysis

- Planned capex
- Projected revenue change
- Expected change in costs
- Financial goals



Strategic value

- New opportunities
- Advantages in operations (e.g. speed, quality)
- Improvement in CX (e.g. higher flexibility)
- Risk mitigation



Risks

- Financial risks
- Operational risks

Comments

Make sure that the candidate covers the following key points typical for a comparison case structure: understanding of status-quo (e.g. business model of the company, options to compare), analysis of financial implications of each option (capex, revenue and costs), potential strategic value of each option, risk assessment of each option.

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Comparison of in-house vs outsourcing

Question #2

What are the pros and cons of switching to in-house model (vs current outsourced model)?



Financial analysis

Costs factors

- Increase in some costs: salaries to in-house distribution workers and transportation
- Cost savings – no commission for distribution contractor

Revenue factors

- Potentially higher quality of distribution (e.g. no sold-out, damaged, expired, etc. items) which will improve sales

Investment

- Potential capex in own truck fleet and trade equipment for distribution workers (e.g. barcode scanners, tablets)



Strategic value

New opportunities

- Geo expansion isn't limited to the geo footprint of distribution contractor

Advantages in operations

- More operational flexibility
- Potentially shorter lead times
- More opportunities to experiment and innovate with ops processes

Improvement in CX

- Stronger relationship with distributors given the direct access to them

Risk mitigation

- Less risk of delays and de-prioritization if the contractor is overbooked with orders



Risks

Operational risks

- Potentially long time to develop the necessary capabilities to match the distribution contractor (that has been doing it for years)
- Narrow talent pool to staff in-house distribution
- Increase in operational complexity

Financial risks

- Lack of scale (low sales) in some regions to make in-house distribution economically viable
- Underestimated costs/exaggerated revenues
- Lack of funding for necessary capex

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q3. Revenue growth ideas

Question #3

What are the ways to drive the client's sales and accomplish the goal of tripling their revenue?

Upgrade marketing strategy



- Invest in aggressive marketing campaigns and promotions
- Increase in-store marketing
- Partner with major wine brands to do co-marketing for wine, cheese and cracker pairings

Change pricing



- Offer family-size packages (for price-sensitive customers)
- Introduce bundles of different cookies/crackers
- Adjust pricing levels to match WTP (willingness-to-pay)

Increase efficiency of distribution



- Bring distribution in-house and ensure its top-notch quality (e.g. no sold out, damaged, expired items on the shelves)
- Launch e-commerce
- Incentivize distributors to promote our products (e.g. increase their mark-ups, get best shelf-space)
- Add new distribution channels (e.g. retail chains, groceries, drug stores)
- Partner with creameries, bakeries, dessert places, and coffee shops to sell our products
- Enter vending machine business to sell cookies and crackers

Improve and expand value proposition



- Design new flavors, shapes, calorie count, types of cookies/crackers
- Partner with major ice cream brands to do cookie and cream ice cream
- Enter high-end/low-end segments
- Enter corporate segment with cookies for professional meetings
- Consider entering baking and sweets business (e.g. pies, cakes, candies) by leveraging core capabilities and understanding of the customer segments
- Consider white-labeling

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q4. Chart – prompt

Question #4

Our analyst did some research re the competitors and here is what they found. What does this table suggest? [Please provide Appendix 1 to the candidate]

Indicator	Player A	Player B	Client
Annual volume sold, # items	1.6M	2.0M	0.4M
# SKUs* offered	150	200	30
# SKUs* sold out in the stores	2%	1%	5%
# SKUs* misplaced in the stores	1%	1%	3%
% promotion (placed on a special aisle) at:			
- Mass retail stores	100%	100%	100%
- Grocery chains	100%	100%	90%
- Drug stores	100%	100%	90%
Distribution-related costs (as % of revenue):			
- Distribution center costs	5%	5%	5%
- Transportation costs	2%	3%	-
- Distribution workers	8%	8%	-
- Distribution commission	-	-	20%

Q4. Chart – chart-reading

Question #4

Our analyst did some research re the competitors and here is what they found. What does this table suggest?

Basic comments (expected from everyone):

- Our client is a smaller player in terms of sales and size of product portfolio
- The quality of client's contractor job is inferior to the other players – number of sold our or misplaced SKUs is far higher than industry averages
- Not all of the client's SKUs are placed on a special aisle
- The client pays distribution commission to their contractor, and the other players use their in-house distribution capabilities



Advanced comments (for outstanding candidates):

- The drastically higher volume gives other players economies of scale which makes in-house distribution economically viable
- Far more developed product portfolio (# SKUs is 5-7 times higher than our client's) might suggest far more complicated distribution systems in place
- The outsourced contractor serves a wide variety of clients and might not be 100% focused on our client's needs – this might explain fairly high % of sold out and misplaced SKUs which likely hurts our sales and experience of our customers
- Our client's distribution center costs (5%) are aligned with the industry benchmarks, so the client is already a success at some parts of distribution value chain, which might be foundation for capturing the whole distribution value chain (bringing it in-house)



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q5. Math – prompt, calculations, and contextualization

Question #5

Can you calculate the total costs as % of sales for each of three players?

Player A

$$5\% + 2\% + 8\% = 15\%$$

Our client

$$5\% + 20\% = 25\%$$

Player B

$$5\% + 3\% + 8\% = 16\%$$

Basic comments (expected from everyone):

- The client's distribution costs are far higher than the industry average



Advanced comments (for outstanding candidates):

- In-house distribution might dramatically improve the client's margins and economics
- The substantial gap in costs might be also driven by the economies of scale of other players (that our client doesn't enjoy given they are 4-5 times smaller)
- It might also occur that the existing contractor overcharges us, and the client should renegotiate the terms in parallel with transitioning to 100% in-house distribution



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q6. Math exercise #2 – prompt

Question #6

What would the financial implications be of bringing the distribution in-house? Can you calculate it?

For interviewer. Please provide this information only upon request.

- Given that at the beginning the client will lack the necessary expertise and capabilities, we expect that the client's distribution workers will be less efficient than the contractor, so the revenue will decline by 10%
- The average price per unit is \$4.0
- The client's profit margin is 12%



Q6. Math exercise #2 – calculations

Question #6

What would the financial implications be of bringing the distribution in-house? Can you calculate it?

- Currently (before bringing distribution in-house)

$$\text{Revenue} \quad 0.4\text{M units} \times \$4 \text{ per unit} = \$1.6\text{M}$$

$$\text{Profit} \quad \$1.6\text{M} \times 12\% = \$192\text{k}$$

- After bringing distribution in-house

$$\text{New revenue} \quad \$1.6\text{M} \times (1-10\%) = \$1.44\text{M}$$

- The distribution costs are likely to decrease. They probably won't become as low as 15-16% as the client doesn't enjoy the same scale and don't have the same expertise in distribution as Players A and B. Let's assume that distribution costs will bridge half the gap of 10% and decrease by 5% which will drop to the bottom-line.

$$\text{New profit} \quad \$1.44\text{M} \times (12\%+5\%) = \$240\text{k}$$

- The answer – new profit is \$240k.

Q6. Math exercise #2 – contextualization of the answer

Question #6

What would the financial implications be of bringing the distribution in-house? Can you calculate it?

Basic comments (expected from everyone):

- Despite the client's revenue is expected to decline, the profits are going to jump by almost \$50k.



Advanced comments (for outstanding candidates):

- Once the client build the necessary distribution capabilities and develop expertise their revenue will likely restore, which will boost profits even more
- It's also fair to expect that the client will lower # SKUs sold out or misplaced from 3-5% to 1-2% which will contribute to the sales growth too
- Decrease in revenue by 10% will lead to diseconomies of scale (e.g. lower utilization rate of production equipment and logistics, lower volume discounts for raw materials, etc.) which will likely reduce the profit margin and should be added to the analysis
- Our assumption of 5% should be validated based on the benchmarking with similar size players and/or more detailed financial modeling
- We didn't consider potential capex (e.g. for trucks, trade equipment like scanners) in our calculation which might materially change the financial results



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q7. Recommendation

Question #7

You are in the client's meeting and they would like to know your recommendations.

Recommen- dation



We would like to recommend for the client to go ahead and make the transition to the in-house distribution model.

- Despite it will reduce the revenue at the beginning, the profits are expected to increase dramatically
- Building in-house distribution capabilities will provide higher control over the value chain and offer more operational flexibility
- It might also help strengthen the relationship with our distributors and react to their concerns quicker

Reasoning



Risks



We should keep in mind some important risks like current lack of distribution expertise, increase in operational complexity, and potentially unfair financial assumptions.

Next steps



Our next steps would include to build a plan to address potential risks, design roadmap to bring distribution in-house and try to renegotiate the current 20% rate with the contractor before we complete our transition.

Note: This is just one of many potential ways to make a recommendation. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to structure their conclusion as RRRN (recommendation, reasoning, risks, and next steps) and keep it under 1.5 min]

Appendix 1.

Question #4

Our analyst did some research re the competitors and here is what they found. What does this table suggest?

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- Transportation costs	2%	3%	-
- Distribution workers	8%	8%	-
- Distribution commission	-	-	20%

Case #11

BCG

Electronics
manufacturer

2020



Case #11. BCG. 2020. Electronics manufacturer

Prompt



Your client is a U.S.-based electronics manufacturer. They have three product lines: PC, laptop, and tablet. Laptop's profitability has been declining recently. What are the reasons behind it and how to turn things around?

Additional information



For interviewer. Please provide this information only upon request.

- The client wants us to be laser-focused on their laptop business
- The client is a medium-size player, not in top-5
- The client's current profitability is 2%
- The client sells their laptops globally, not just in the U.S.
- The client offers a wide variety of laptops for B2C and B2B

Comments



Typically the candidates are expected to:

- Restate the prompt to make sure they are on the same page with the interviewer
- Ask 2-3 clarifying questions (e.g. about client's business model, profitability goal, geography, etc.)
- Ask for a couple of minutes to structure their approach

This is a candidate-led case. Expected time is 25-30 min.

Case questions (this is a candidate-led case)

Question #1	What are the reasons behind the profitability drop and how to turn things around?
Question #2	What reasons might be behind the declining profitability?
Question #3	Your team put together some data about the laptop market dynamics. What does it tell you? (We're in 2019)
Question #4	Based on our research, the laptop market is going to decline over the next four years. What might the reasons be behind it?
Question #5	Assuming the client will keep the same market share, will they be able to hit \$3.5B in sales by 2023? What EBITDA should they expect in 2023?
Question #6	The manager has just entered the room and they would like you to summarize your conclusions.
Hand-outs	Appendix 1

Q1. What are the reasons behind the profitability drop and how to turn things around?



Laptop market

- Market dynamics (incl. growth rate, trends)
- Largest laptop manufacturers
- Average margin in the industry



Client – electronics manufacturer

- Product range of laptops offered by the client
- Customer segments (B2B/B2C, low-end/high-end)
- Distribution strategy (incl. major channels)



Profitability analysis

- Revenue dynamics
 - Pricing strategy
 - Volume currently and growth rate
- Cost structure:
 - Fixed costs (FC)
 - Variable costs (VC) (high VC business?)

Comments

Make sure that the candidate covers the following key points typical for a profitability case structure: analysis of external factors (e.g. growth rate, typical profitability, competition), understanding of the client's business model (e.g. customer segments and product portfolio), and financial analysis (e.g. revenue and cost structure).

Note: This is just one of many potential ways to structure your approach. Please treat this example only as a reference point and develop your own style.

Q2. Profitability decline factors

Question #2

What reasons might be behind the declining profitability?

Shrinking sales



Volume-related

- Decreasing demand for laptops (e.g. due to the shift to tablets/smartphones)
- Intensifying competition that steals our market share:
 - More aggressive marketing
 - More appealing pricing
 - More attractive value proposition (e.g. more laptop power, more features)
 - More efficient distribution
- Discontinuation of some client's brand/models/regions

Price-related

- Lower prices for client's laptops
- More aggressive promotions and discounts for client's laptops

Rising costs



Fixed costs related

- Rapidly growing marketing budget
- Ballooning overhead costs
- Increase in transportation costs (e.g. due to growth in oil prices)
- Aging equipment causing higher maintenance costs and drop in utilization rate

Variable costs related

- Increase in commodity prices (e.g. chips, metal, plastics, packaging)
- More expensive license fees for pre-installed laptop software

Focus on low-margin



- Rapidly growing sales of low-margin laptop models/brands
- Shifting sales structure towards low-end customer segment and/or regions with low profitability profile

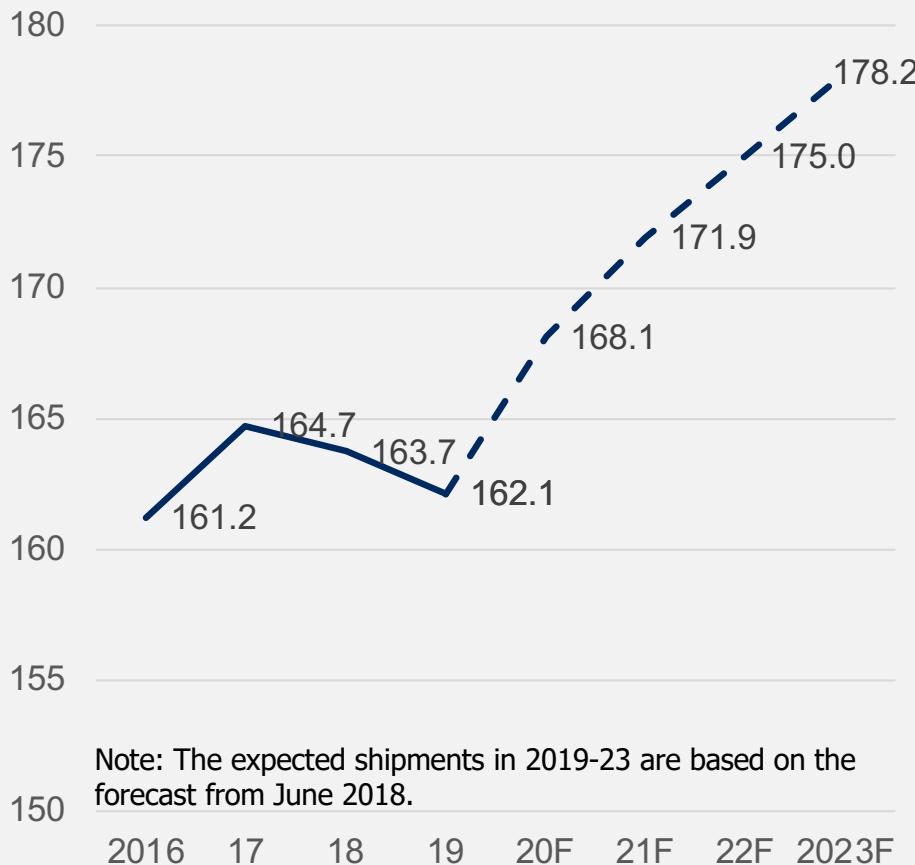
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Q3. Chart #1 – prompt

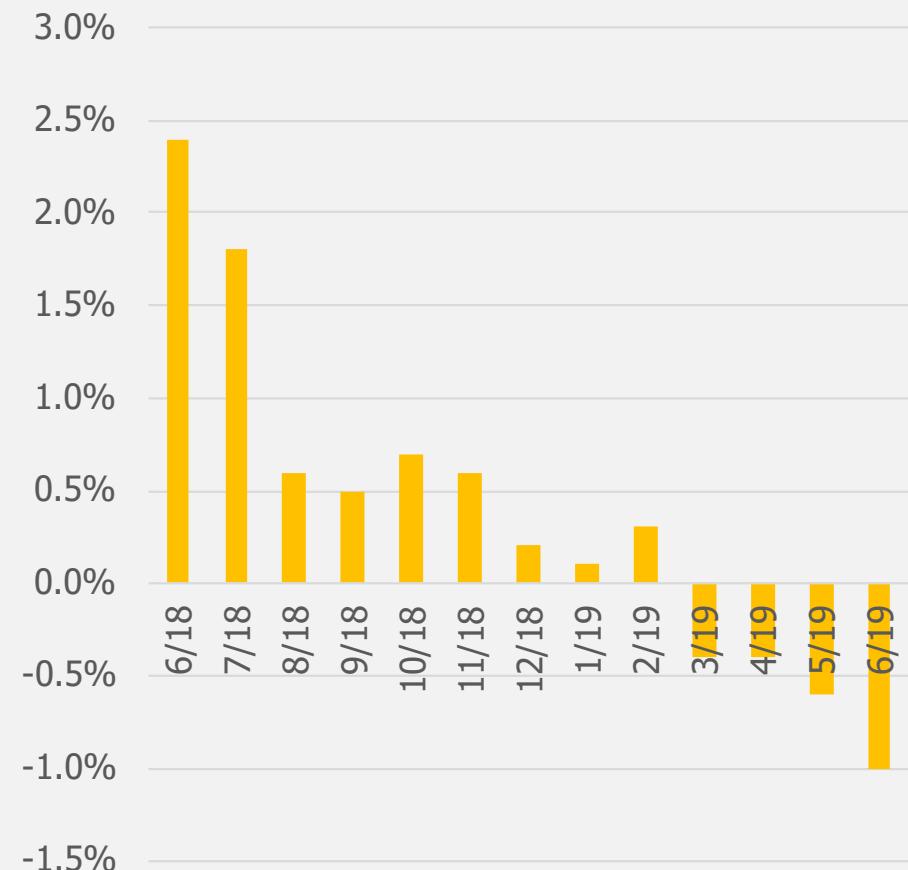
Question #3

Your team put together some data about the laptop market dynamics. What does it tell you? (We're in 2019) [Please provide Appendix 1 to the candidate]

Global laptop unit shipments, MM units



Forecast of CAGR for shipments in 2019-23 made in different month, %



Q3. Chart #1 – chart-reading

Question #3

Your team put together some data about the laptop market dynamics. What does it tell you?

Basic comments (expected from everyone):

- The market has been slowly declining but was expected to grow for the next four years. However, the CAGR forecast was revisited from about 2.4% to negative 1%. So, it seems like the market would likely keep shrinking



Advanced comments (for outstanding candidates):

- The laptop market is a mature space, so I am not surprised to see that it has been fairly flat since 2016 and that the original CAGR forecast was in single digit numbers
- It seems like the industry is facing a lot of ambiguity and unpredictability as the forecast has been revisited all the time
- The radical change in CAGR forecast might suggest rapidly changing market conditions like:
 - Customer preferences shifting to smartphones and tablets
 - Dramatic lack in laptop innovation with old models quickly reaching the end of their product cycle
 - Trump's trade war with China which caused disruption in supply chains



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q4. Reasons of expected laptop market decline

Question #4

Based on our research, the laptop market is going to decline over the next four years. What might the reasons be behind it?

Pricing factors



- Accelerating price war
- Considerable market-wide drop in costs:
 - Drop in chip prices
 - Drop in metal/plastic prices
 - Drop in license fees for pre-installed laptop software
 - Drop in export duties from China (assuming that most world laptop production happens there)

Volume factors



- Potential market saturation – lack of product innovation with old models quickly reaching the end of their product cycle
- Rise of substitutes:
 - Tablets and smartphones (e.g. decrease in demand from B2C, while same demand from B2B)
 - More powerful PC and game-consoles stealing gamers from laptop market
- Change in trade policies that disrupts supply chain and limits laptop production

Note: This is just one of many potential ways to brainstorm. Please treat this example only as a reference point and develop your own style. [The candidate is usually expected to generate at least 4 ideas. The best practice is 8+ ideas, structured approach, and on-the-fly delivery without taking notes]

Q5. Math exercise – prompt

Question #5

Assuming the client will keep the same market share, will they be able to hit \$3.5B in sales by 2023? What EBITDA should they expect in 2023?

For interviewer. Please provide this information only upon request.

- The client shipped 5.3M laptops in 2019
- The average price of a laptop is \$600. We assume that it's not going to change by 2023
- The current EBITDA margin for the client is 2%. We don't expect it to change materially over time



Q5. Math exercise – calculations

Question #5

Assuming the client will keep the same market share, will they be able to hit \$3.5B in sales by 2023? What EBITDA should they expect in 2023?

Revenue in 2019

5.3M units 

\$600 

\$3.2B

- To calculate the expected revenue in 2023 we might need to use the latest CAGR for 2019-23 from the chart on the right-hand side (see question 3), as the forecast data of the chart on the left-hand side is outdated. According to the note on the chart it was built based on the forecast from June 2018
- According to the latest forecast made in June 2019, CAGR for 2019-23 is expected to be -1%. In order to calculate the change in revenue we need to use compounding, however given that the rate of 1% is very little, the error would be negligible if we use a linear approach [1%*4 years]

Expected revenue in 2023

\$3.2B  (1-1%*4 years) 

\$3.07B

Expected EBITDA in 2023

\$3.07B  2% 

\$0.06B

- The answer is \$3.07B for revenue and \$60M for EBITDA in 2023.

Q5. Math exercise – contextualization of the answer

Question #5

Assuming the client will keep the same market share, will they be able to hit \$3.5B in sales by 2023? What EBITDA should they expect in 2023?

Basic comments (expected from everyone): _____

- It is unlikely that the client will hit \$3.5B in 2023. Based on the current forecast, the client's sales are expected to be \$3.07B and EBITDA is going to be \$60M in 2023.



Advanced comments (for outstanding candidates): _____

- It seems like the laptop business is an incredibly commoditized space with huge price pressure which explains such a low EBITDA of 2%
- On the other hand the client is fairly small and enjoys just 2-3% of the market [5.3M/162.1M], so small scale might be the reason of non-competitive cost structure and thus low margins
- Given that the sales are expected to shrink, the client would face diseconomies of scale which would push EBITDA down – it is likely that EBITDA would be less than 2% by 2023
- The CAGR forecast varies substantially as the time goes [see question 3], so we can't 100% rely on the calculated \$3.07B and \$60M and might need to adjust the calculations every month



Note: The candidate is not expected to mention all the advanced comments, but adding some of them will demonstrate that the candidate can connect the dots, see the depth, add colors and bring some insights even if the candidate is not that familiar with the industry/topic

Q6. Recommendation

Question #6

The manager has just entered the room and they would like you to summarize your conclusions.

Recommen- dation



Based on our research, the decline in profitability is caused by rapidly changing market conditions. In order to improve margins the client should either increase market share or optimize their cost structure.

Reasoning



- The forecast for laptop market growth rate has been changing all the time with the latest expected 4-year CAGR of -1%.
- The laptop business is highly commoditized and requires large scale to ensure healthy margins. The client's market share of 2-3% might be limiting the profitability growth.
- Operational excellence and best-in-class unit economics are key success factors for commoditized industries, and we need to ensure that the client's opex is aligned with the industry's benchmarks

Risks



We should keep in mind risks of changing market dynamics, competitive response to the client's potential actions, and increasing pressure on margins due to the diseconomies of scale.

Next steps



As for the next step, we would like to design a sales growth strategy, conduct diagnostics of client's operations, and build a cost optimization plan.

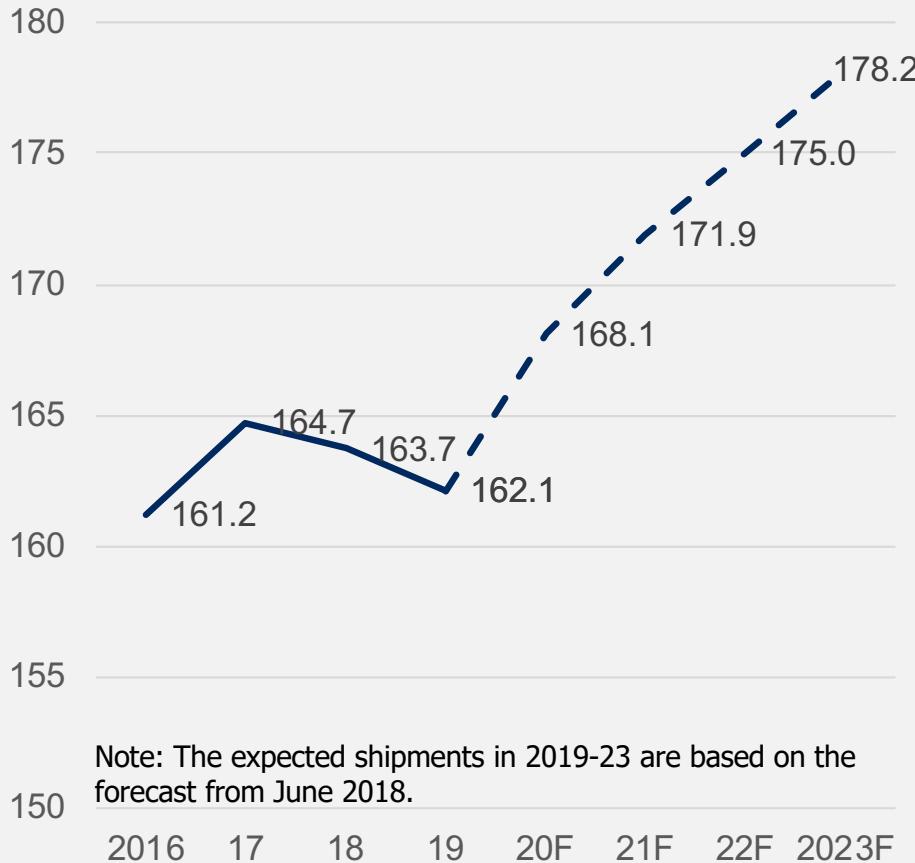
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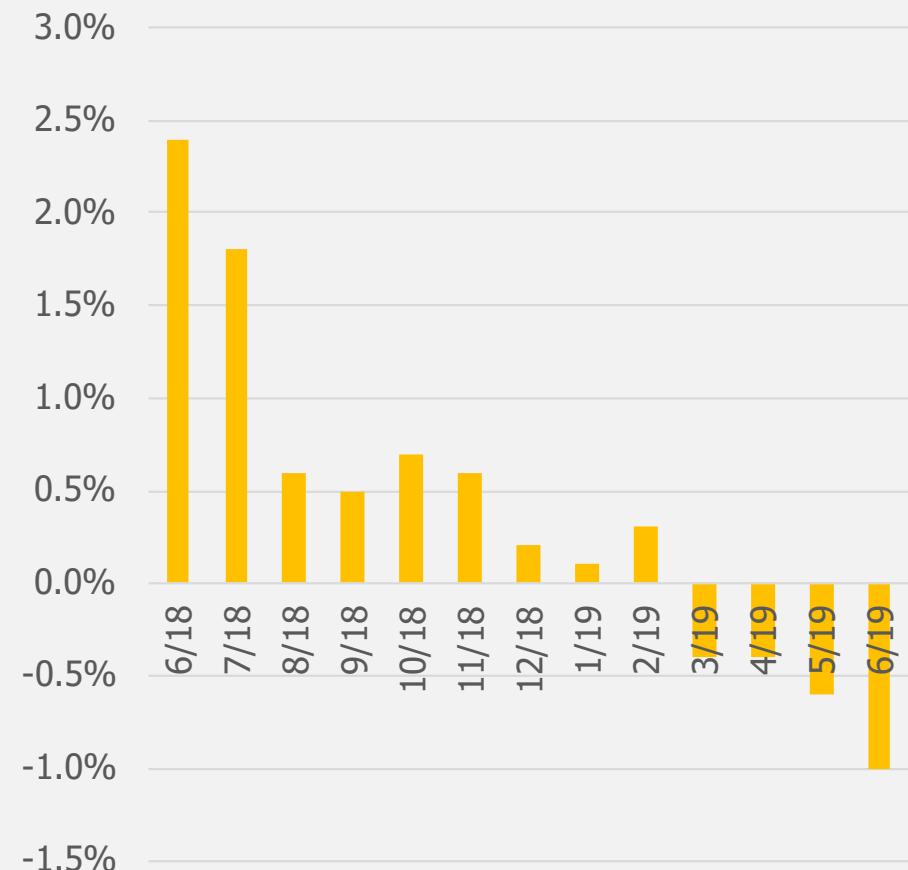
Question #3

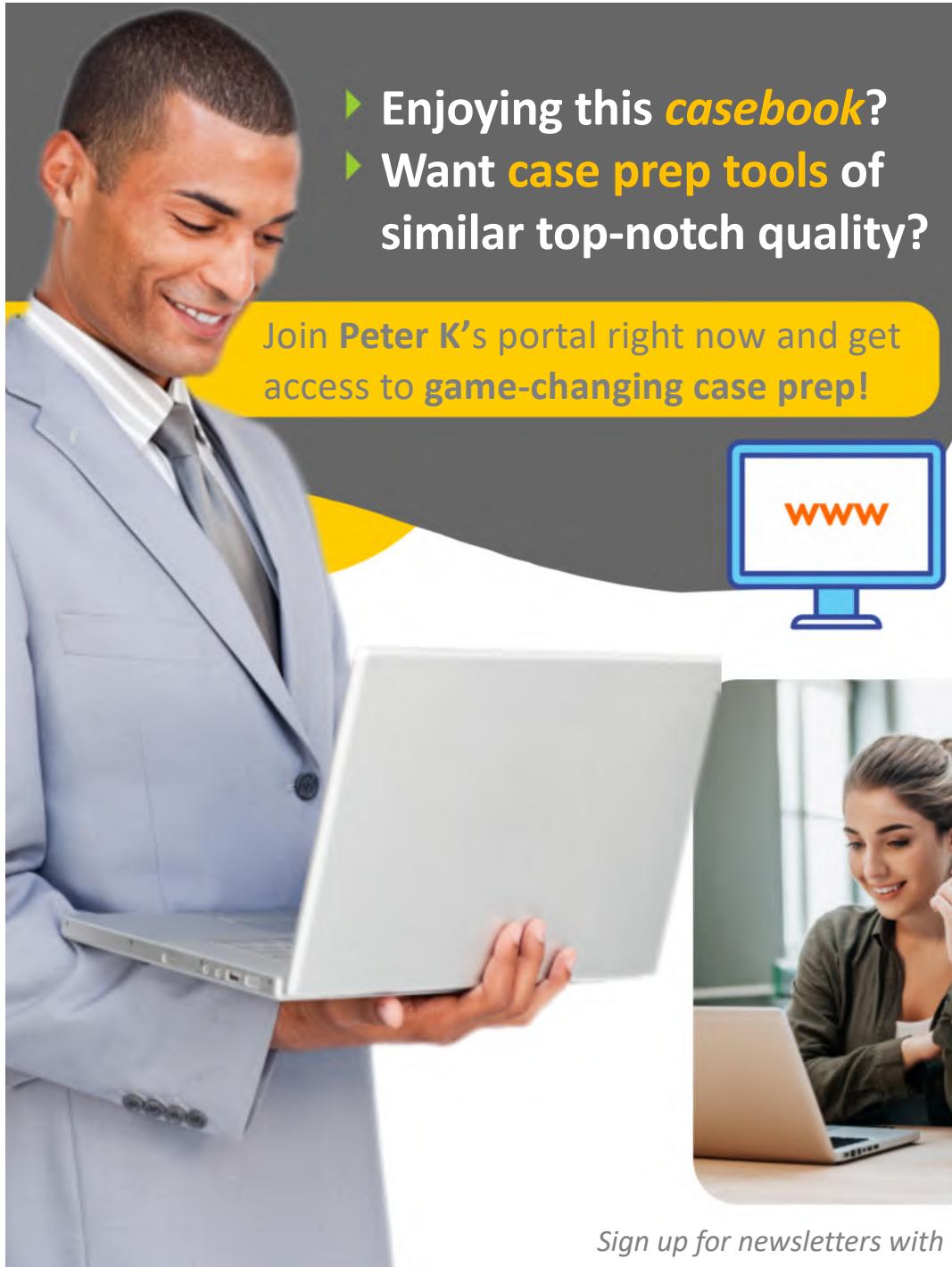
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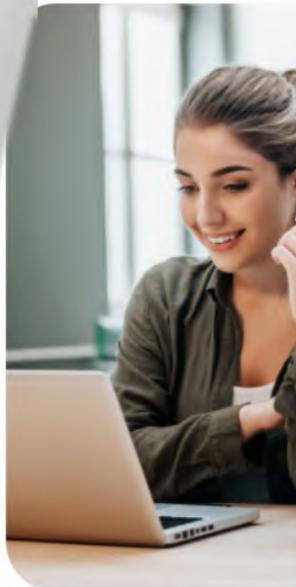


Forecast of CAGR for shipments in 2019-23 made in different month, %



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