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The MIT Sloan School of Management

Management Consulting Club

Case Book and Interview Guide

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Chapter

8

Chapter 8: Practice Cases and Solutions

Brain Teasers

Consulting Case Interview Question

Case No.: BRAIN1
Firm: Mitchell Madison
Type of Case:

_X_ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

You step into an elevator on the ground floor and there are 30 floors above you. Another person steps into the elevator with you.

The Question(s):

1. What is the probability that the other person in the elevator will get out on the same floor as you?
2. Assume two people stepped into the elevator with you. What is the probability that both are getting out on the same floor as you.

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

1. p = 1/30
2. p = 1/30 * 1/30 = 1/900

Consulting Case Interview Question

Case No.: BRAIN2
Firm: McKinsey and Company
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

1.5 chickens lay 1.5 eggs in 1.5 days.

The Question(s):

How many eggs do 4 chickens lay in 9 days?

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

24 eggs.

Here is how I arrived at the solution:

If 1.5 chickens lay 1.5 eggs in 1.5 days, and now the 4 chickens have 9 days, then the present 4 chickens have 6 times as much time to lay eggs. Since 4 chickens would lay 4 eggs in the base case, we multiply 4 by this factor of 6, and get 24.

(9/1.5=6; 6*4=24)

Consulting Case Interview Question

Case No.: BRAIN3
Firm: Mitchell Madison
Type of Case:

_X_ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

There is a large cube made of many smaller sugar cubes that are sitting in the sun. Each side of the cube is made up of a 10×10 surface of the smaller cubes.

The Question(s):

How many sugar cubes are exposed to the sun?

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

If 5 sides are exposed to the sun, you can imagine an inner cube size 8x8x9, which is not exposed to the sun. It means that 576 cubes are not under the sun. There are total of 10x10x10 small cubs in the big cube, therefore 1,000 – 576 = 424 cubes are exposed to the sun.

Consulting Case Interview Question

Case No.: BRAIN4
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

You are given two-hour glasses - one measures 7 minutes and the other measures 4 minutes.

The Question(s):

How would you use the two-hour glasses to measure a continuous time period of 9 minutes? (Time limit to derive answer is 10 minutes.)

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Let's name the 7-min and 4-min hourglasses as I and II respectively. The steps are:

- Turn over both glasses simultaneously.
- When II expires, turn II over (4 minutes).
- When I expires, turn I over (7 minutes).
- When II expires, turn I over (8 minutes).

When I expires, you have 9 minutes!

Consulting Case Interview Question

Case No.: BRAIN5
Firm:
Type of Case:

_X_ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

There're 8 balls with same size and look. One is lighter than others.

The Question(s):

How do you find the lighter ball using a balance to weigh just twice?

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Pick up any 6 balls, weigh 3 and 3 each side.

If one side is lighter take two of the three balls and weigh them. (You're supposed to solve this quiz within 10 seconds.)

Consulting Case Interview Question

Case No.: BRAIN6
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

There are 3 doors: A, B and C. Behind one of them, there's gold. First, you pick one door. For example, you pick door A. Then the game host will open one of the other two doors that does not have gold, for example, door B. Now you have a chance to change your mind, to pick door C. Or you can stick to your first choice of door A.

The Question(s):

Would you change your choice?

(It is said that this quiz first appeared in TIME magazine, and many readers had replied with wrong answers, including one certain MIT math professor. It's not a hard problem, but is NOT so intuitive, either.)

Suggested Solution

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Yes, you should change your choice!

The probability that you will win the gold if you stick to your initial choice is 1/3. The probability to win if you change your choice is 2/3. This is because the only case that you will lose if you change your choice is that you initially picked up the CORRECT door that has the probability of 1/3.

Market Sizing

Consulting Case Interview Question

Case No.: MARKET1
Firm: Gemini
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
_X_ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
  ___ Declining Profits ___ Other
  ___ Marketing Problems
_X_ Strategy *(Should our client enter the beer brewing industry? If so, how?)*
  ___ New Product Introduction ___ Competitive Response
  _X_ New Market ___ Response to Changing Environ.
  ___ Merger or Acquisition ___ Other
___ Other ________________________________

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Your client is a retail bank in the U.S. There has been no growth over the last couple of years in the domestic market so you are considering pursuing growth overseas in emerging markets.

The Question(s):

1. Provide a structure to evaluate whether or not you should enter a given country.
2. Estimate the annual size of the auto loan market in Mexico (Mexico was on my resume).

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors _X_ Other_Market Sizing_________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

For this case, I simply established the structure and then was directed to do a market sizing within this case. We never got into any other details concerning the structure that I had set up originally. However, my structure was as follows:

1. I first said that I would look at the current market size and growth rate of the country in question. I would then analyze the economic and political stability of that market.

2. I would then determine if the regulations in the given country would prevent us from doing the kinds of things that we need to do to earn a profit.
3. I then would analyze the demographic profile of the potential customers in the market (wealth, % who use banks, etc.).
4. I would then look at what banks are already in the market, is it a competitive situation? Finally I would look at what the relative cost would be to enter a given market.
5. In addition I would analyze what the operating costs would be (labor rates, etc.).

A market sizing was nestled within this case: I was instructed to estimate the annual size of the auto loan market in Mexico (Mexico was on my resume).

Originally, I started down the population path; I assumed a population of roughly 75M people and attempted to determine who was buying cars. Once I started to try to estimate this I realized that this might not be the best path.

1. I reversed course and decided a better way to approach this might be to start with the number of car dealerships. I estimated that there would be about 50 car dealerships in each major metropolitan region. With roughly 10 major metropolitan regions (I named most of them) that would be 500 car dealerships nationwide.
2. I estimated that each car dealership would sell 5 cars a day, resulting in 2,500 cars sold per day. With 300 sales days/year we have 750,000 cars/yr.
3. Estimate $10,000 per car, less 10% down payment, less 10% of the people who don't get auto loans (pay in cash) resulting in $6.075B. Of this number, the interest payments would be 20% (higher than the US for obvious reasons!) resulting in a market size of $1.215B.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: MARKET2
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
_X_ Market Sizing *(How attractive is the market for fire trucks?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Your client is an international manufacturer of electronic equipment for industrial customers. The R&D department has developed a new product -- a device that could replace all energy costs (electric, gas, etc.) using solar technology. The estimated price to the customer would be $5,000/house, with a pay back in 2 to 3 years. The R & D department says the estimated investment is $100 million.

The Question(s):

What is the potential market in the US? How would you estimate the percent of market to install the device?

The Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

(1) hypothesis: residential market. There are 50 million houses in the US = potential market size. NPV analysis looks good: estimating a 10% margin on the product, 50*500 = $25 B!!! This looks even too good to be true.
(2) we should run a market survey

Further facts by interviewer: A survey shows 30% of homeowners are interested. How do we test this?

Recommendations:

1) pre-order. This is risky since this would be expensive and would require a small sample (big confidence error)
2) look at similar energy saving devices (new refrigerators, showerheads, etc.) see what is the percentage of people who actually bought it after showing interest.

The student was then told that people don't buy energy saving devices. They would rather spend their money some other way. Market therefore is small and the project was stopped.

Wrap-up / Recommendations for client and additional information: *[Sum it all up!]*

The potential market is too small. Right now, we should advise the client not to invest. These kinds of products require an important word of mouth and the company must be ready either to spend a lot on advertising or to have a long payback period. The other solution is to spend more on R&D to decrease the investment and the price billed to the customer.

Consulting Case Interview Question

Case No.: MARKET3
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
_X_ Market Sizing *(How attractive is the market for fire trucks?)*

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Our client makes pumps for fire trucks and wants to know if they should expand manufacturing capacity.

The Question(s):

What is the market for fire trucks in the US?

The Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other___________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

1. I started by assuming that 10,000 people are served by each fire station and that there are two trucks per station. Therefore, one fire truck serves 5,000 people.
2. Since there are currently 250 million people in the U.S. (I used easy, round numbers), there is a current <u>stock</u> of 50,000 fire trucks in the U.S. (250,000,000 ÷ 5,000 = 50,000)
3. I then assumed that fire trucks have a useful life of 25 years. So in any one year 2,000 fire trucks need to be replaced. (50,000 ÷ 25 = 2,000)
4. I then added in the new fire trucks needed to serve the needs of a growing population. I assumed the U.S. population grows 1% annually, or by 2.5 million people per year. Therefore, 500 new fire trucks are needed each year in addition to the 2,000 replacement trucks. (2,500,000 ÷ 5,000 = 500)

Wrap-up / Recommendations for client and additional information: *[Sum it all up!]*

The total market is 2,500 fire trucks per year.

We then discussed whether the pump company should make commodity pumps for everyone (not a good idea, because they have a small shop and have specialized in fire truck pumps). I suggested that the pump company could expand into fire hose fitting or perhaps even hoses because these things fit their marketing channel and expertise.

Additional information that might be useful to your fellow Sloanies:

The interviewer corrected me when I tried to use 275 million people for the U.S. population. Keep the numbers **real simple** when you do these types of problems!

Operations

Consulting Case Interview Question

Case No.: OPS1
Firm: AT Kearney
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
___ Declining Profits ___ Other
_X_ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Your client is a major OEM auto manufacturer in the US. They are extremely vertically integrated, and the client has a large number of nameplates that it fears are cannibalizing their own products.

The Question(s):

What do you propose they do?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
_X_ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
_X_ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I proposed that we look at three things: 1) the *competitive* landscape in each of the segments, 2) the *customer* segments and how our vehicles are positioned in these segments, 3) our *cost* position, and whether or not it can be improved through a portfolio rationalization.

1) Competitive landscape
Q: "How competitive is each segment? Are we competing against ourselves in some segments?"
A: "Yes; competition is intense in each segment. Our individual products compete against our own products and those of our competitors. However, the relative competition differs for each segment."

[As a follow-on comment, I added that I would want to further analyze the segments, in order to determine what the competition is and how these vehicles are positioned. This could lead to information regarding which segments we would want to target.]

2). Customer segments and product positioning
The first piece of analysis that I did for the customer segments and product positioning was to draw a number of 2 X 2 matrices with a number of different attributes (speed, price, fuel efficiency, safety, etc.). Once I did this, I hypothesized that there were *more than one product in each of the segments*. I highlighted this as a serious problem. I mentioned that this might have happened because through the evolution of the company, and that it may have been a combination of a number of formerly independent brands. The main problem with this is that the consumer may be having tremendous difficulty in differentiating the brands. I theorized that therefore some automobile models might still be around because they always have been, without much thought about optimizing the portfolio to maximize company profits. Once I analyzed this, I proposed two ways to eliminate models that overlapped within the same segments:

-kill one of the models/brands, leaving behind the more profitable brand
-keep both models/brands, but invest in advertising and product improvements such that consumers would be able to differentiate the two and thus place the second vehicle into a different segment

I mentioned that this second option might be difficult, as there is significant inertia in changing people's minds about a brand that has been a certain type of vehicle for a very long time. I suggested that perhaps the *best way to do this would be to keep the most profitable vehicles in each segment that we are in, and eliminate duplicate brands.*

3) Costs
The consolidation of models could lead to significant cost savings, as fewer number of models (with greater volume of each) will lead to greater scale efficiencies in purchasing, production, engineering, advertising, etc.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Get rid of competing models in the same segment in order to better serve customer segments, reduce costs and reduce competition.

Desired Answer / Blinding Insights / Twists and Turns (if any):

The use of matrices was a hit!

Consulting Case Interview Question

Case No.: OPS2
Firm: Mitchell Madison
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
_X_ Declining Profits ___ Other
___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

You are a new consultant and your managing partner has just given you the following task: The CEO of a hospital is concerned about:
1. declining profits,
2. falling revenues, and
3. rising costs at her hospital.

The Question(s):

The partner of your firm wants YOU to prepare the proposal that will convince the hospital to retain your firm's consulting services. Your managing partner is the resident expert on healthcare issues and you have ten minutes to query him for information before he departs to London for another client engagement. How would you structure this problem and what questions you would ask of him?

Suggested Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

This is a profitability issue. So, the framework I would use is:

Profits = Total Revenue - Total Costs
= P * Q - C * Q

Volume/Quantity (for revenues and costs):
Q: "What defines volume or "quantity" for the hospital?"
A: "Patient days."

Q: "What has been happening to patient days?"
A: "They have been constant for the past five years."

General:
Q: "How long has the hospital been experiencing profitability problems?"
A: "Five years."

1) Costs:
Q: "There are fixed and variable costs. What is the proportion of each for the hospital?"
A: "30% Fixed Costs (FC) and 70% Variable Costs (VC)."

Q: "What are the key components of FC and how have FC changed over the past five years?"
A: "Buildings and Equipment are the main components of FC; FC have been constant over the past five years."

Q: "What are key components of VC and how have they been changing over the past five years?"
A: "Staff and Direct Patient VC's are the key components; staff salaries represent 50% of total costs (TC) while direct patient VC's represent 20% of TC. Patient costs have been constant with inflation for the past five years while staff costs have increased 10% during the same period.
Q: "What do you mean by "Direct Patient VCs?"
A: "Medications and supplies needed to provide patient care."

Q: "Do you know what factors have been causing staff costs to rise?"
A: "Hiring has been increasing and new hires are more expensive. Due to the increased use of technology in patient care, which requires more skill and specialized training, we have to pay new hires higher salaries."

[My conclusion: staffing cost per patient is rising.]

Q: "What happens to the old (less skilled) hires? Has the hospital laid them off?"
A: "No."

[My conclusion: old hires just stay on doing less productive work and the hospital divides all of the work to be done over the total workforce, so productivity per worker is lower. Also, the number of paid staff per patient is increasing.]

Q: "Do salaries of the old hires increase with tenure, despite their lack of specialized training?"
A: "Yes."
[My conclusion: staffing salaries (and hence costs) are rising for two reasons: one is for the genuine need for more skilled labor, the second is because salary is being increased for tenured, unproductive employees.]

2) Revenues:
Q: "What is happening to price?"
A: "It has been steady for the past five years."

Q: "How can revenues be declining if patient days (volume) and price have been steady? Are there other revenue components I have not considered?"
A: "No. The price billed has remained steady but the actual price we receive has been declining every year."

Q: "Why has price received been declining? Who is not paying, or specifically, what is the customer mix?
A: "Customer mix and the amount of price paid for each segment is as follows:"

Customer Type	*Private Individuals*	*Indigent Poor*	*HMO's*	*Govt. (Medicare, CHAMPUS, etc.)*
Percent-of-Price-Paid	100%	0%	70%	60%

Q: "What is the proportion of each customer type and how has that proportion shifted over the past five years?"
A: "Here are the shifts:"

Customer Type	*Private Individuals*	*Indigent Poor*	*HMO's*	*Govt. (Medicare, CHAMPUS, etc.)*
Percent of Price Paid	100%	0%	70%	60%
Proportion of Customer Base 5 Yrs Ago	20%	10%	35%	35%
Proportion of Customer Base Today	10%	10%	40%	40%

[My conclusion: customer mix has been shifting away from full paying customers and toward HMOs and Government programs, that pay a lower percentage of billed price. This is causing an effective decline in price even though the hospital's billed price has remained constant.]

Q: "Can we somehow modify this mix in our favor?"
A: "The hospital does deny care to patients under HMOs with the lowest reimbursement rates; we send those patients to other hospitals. We also ask some patients to subsidize their own care, or we double bill, to both their Medicare and HMO providers, for example. But HMOs are catching on and finding ways around this strategy."

At this point I began making some recommendations about pricing or customer strategies to improve revenues. The interviewer reminded me that point of the case was to develop a proposal, not to solve the problem. So, I shifted to summarizing my key points:

Wrap-up / Recommendations for client: *[Sum it all up!]*

My summary points are as follows:

- Assume that the trend toward more HMO patients and fewer full-paying patients is a given, and beyond our control for now.

- Then, one goal is to make more rational revenue estimates based on actual price received rather than price billed. This will let the hospital budget against expected rather than desired revenues. These changes will help the hospital project more realistic profit margins.
- Another key issue is to adjust cost structure by 1) laying off unproductive employees (using separation and/or early retirement incentives) and 2) getting greater productivity out of our higher skilled, more costly staff. This will help boost profit margins.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Remember what developing a proposal entails; it is not cracking the case, but finding the major issues and developing some preliminary hypotheses.

Consulting Case Interview Question

Case No.: OPS3
Firm: BCG
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
_X_ Declining Profits ___ Other
_X_ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

The client is a high tech company that manufactures crystal giftware. The market for crystal giftware is growing at 3% a year yet the client is experiencing declining sales and shrinking market share.

The Question(s):

Why is market share declining? What can we do about it?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
_X_ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
_X_ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with the 3 C's: Company (Cost)
Q: "What is the cost structure for the crystal? Is it more expensive than competitors'?"
A: Yes. The client's crystal giftware costs much more than competitors' because it is handmade. Each piece is unique. The competitors' is all machine-made. A person who knows crystal can tell the difference between hand- and machine-made, but a layperson cannot. There are also diseconomies of scale when the handmade crystal is mass-produced.

I switched to the 2nd "C": Customer
Q: "Who buys handmade crystal? What do the customers like about the client's product?"
A: There are 3 types of customers:

Individualists - Our customers. They want a unique product.
Aspirers - They buy crystal giftware for its brand name.
Pragmatists - They shop for price and function.

I now wanted to see where the crystal is sold so I told the interviewer that I wanted to look more deeply into how the crystal is sold. Switch to 4 P's: Place

Q: "Where is our client's crystal sold? Where do Individualists shop?"
A: The client sells the crystal in 3 places:
Department Stores - Growing in volume but decreasing in share
Own Stores - Stagnant sales
Mail-Order Catalog - Stagnant Sales

Individualists do not shop for handmade crystal in Department Stores! They desire the exclusivity of the brand and the art.

This was a major insight. The client changed strategy a few years back: To increase volume they started selling in department stores. Problems with this strategy were:

1. The client's crystal was much more expensive, yet was placed on store shelves next to cheaper but not visibly different competitor crystal,
2. Individualists don't shop in department stores, and
3. Department store sales people were incapable of selling it to others types of customers.

Wrap-up / Recommendations for client: *[Sum it all up!]*

I recommended that the client:

1. Withdraw the product from department stores and concentrate on own stores.
2. Since the aspirers are a very small but specific demographic group, I suggested a database marketing initiative to target them through mailings to either come to the store or order from the catalog.

Desired Answer / Blinding Insights / Twists and Turns (if any):

This is what the consultants recommended!

The key was to ask about the product and how it differed from competitors' products, and ask how the customers differed. This leads you to the Placement problem!

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: OPS4
Firm: Renaissance Solutions
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
  _X_ Declining Profits ___ Other
  ___ Marketing Problems
_X_ Strategy *(Should our client enter the beer brewing industry? If so, how?)*
  ___ New Product Introduction ___ Competitive Response
  ___ New Market ___ Response to Changing Environ.
  ___ Merger or Acquisition _X_ Other
_X_ Other Team dynamics/client relations

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

You are a consultant. The senior partner wants you to manage a team of four other consultants to address the following client problem: your client is VP of Customer Service and her objectives are to decrease costs, increase revenues, and improve customer retention.

The Question(s):

How would you approach this problem and how would you organize your team?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors _X_ Other___

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I asked the following clarification questions:

Q: "Do you want me to address team issues or problem approach first?"
A: "Either- it does not matter."

Q: "Describe what types of telecommunications services or products the client offers."
A: "Long-distance, some local and wireless; it also plans to enter the Internet market."

Q: "Can I select/recruit my team?"
A: "No. Your team has already been selected for you."

I first tackled the problem approach, and then turned to the team issues.

1) Problem Approach:

First, I would meet with the VP at the client to gain more information on the client's:

- Profitability and revenues over the last few years
- Key cost drivers of business for
- Customer retention rates over last few years
- Key client contacts and content experts, with whom my team will be partnering

Using this information, as well as industry or competitive analyses for profitability, revenues, costs and customer retention, I would generate hypotheses as to how the company could reduce its costs, increase revenues and improve customer retention.

Next, I would focus on the following more specific issues related to customer service:

- *Determine why the client's Customer Service Center is losing customers;* for example, organize focus groups and/or telephone surveys with those customers that have recently terminated their business with the client, in order to identify key performance issues that caused them to leave.
- *Determine what existing customers value most about customer service.* Survey current customers to identify the products and services they value highly, and determine the relative importance of each. Then determine how the client's Customer Service Center compares or performs for each of these criteria (e.g. create a relative importance-performance matrix).
- *Focus on improving key performance drivers in order to improve customer service.* In particular, focus on those performance criteria weighted as most important by customers, and then those criteria where this firm ranks lowest (in other words, go for "quick hits").
- *Identify the main customer service problems and feedback loops with other parts of the firms* (e.g., sales representatives do not receive timely information on new product offerings, so need to establish better communication links between sales and marketing departments).
- *Integrate systems and IT to "enable" or streamline key business processes.* Goal should be to reduce costs and to enhance service.

2) Team Organization:
I would organize my team around the key objectives outlined above:

- Divide the work based on the objectives outlined above.
- Identify the following:
  1. Skill sets/experience/backgrounds of team members.
  2. Individual preferences for specific projects/work streams.
  3. Best fit between skill sets, individual preferences and work to be done.
- Forge relationship between my consultant team and the client team members.

- Identify the following with the joint consultant-client team:
  - -cross linkages between work processes,
  - (i.e., how teams will interact, what roles are),
  - -establish joint work plan,
  - -identify key deliverables and appropriate deadlines

Wrap-up / Recommendations for client: *[Sum it all up!]*

Identify the high-impact drivers of revenues, costs and customer retention.
Develop strategies for the client to improve these performance drivers.
Dedicate significant effort to the team's effectiveness through careful planning and execution of client and consultant team tasks, processes and communications.

Desired Answer / Blinding Insights / Twists and Turns (if any):

This case was testing not only my problem-solving abilities, but also my team and leadership abilities. It is important to think both strategically and organizationally/tactically.

Consulting Case Interview Question

Case No.: OPS 5
Firm: Mercer
Type of Case:

___ Operations *(Our client's profits are down. Why?)*

___ Declining Profits ___ Other

___ Marketing Problems

Initial Facts offered by interviewer: *[This is a very long case initially!]*

The client is a $1B European company with 10 manufacturing sites throughout Europe. One of its measures of performance is "return on net asset", and right now the company would like to increase this measure from 17% to 22%. Its various products include thermostats, room controls, switches for microcomputers, and other piece parts for assembly. The channels that the company uses are the following:

- wholesalers (i.e., local mom and pops for do-it-yourself home projects)
- outlets (who sell to contractors)
- construction companies (used mostly for hotels and restaurants)
- OEM's (including switches)
- manufacturing companies (used for control processes, refineries)

The Question(s):

How should the client increase its "return on net asset" by 5%, from 17% to 22%?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing

___ The 3 C's ___ Value Chain Analysis

___ Porter's 5 Forces ___ Microeconomic Analysis

___ Internal-External Factors ___ Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with a market overview, then moved to the product line, and then the three C's: Market Overview
Q: "What does the market look like?"
A: Every family of products that the client offers is its own market, but nevertheless, each is experiencing average growth; they are relatively mature markets. The client has two primary competitors.

I switched to the company's product line:

Q: "Tell me more about the product line. How are they different from the competition? Is the range of products appropriate for the market? Are all of them profitable? Is the product range too broad, or too narrow?"

A: The products do not differ very much from the competition. Some products are more advanced than others; but they are all high-quality products. The mix seems to be appropriate- we make margins on all of our products, and the range seems to be what the market wants. However, what does differentiate the client from its competitors is the client's service- it focuses on quick delivery. The client guarantees that orders arrive within 24-48 hours.

I now wanted to find out more about the quick delivery:
Q: "How is the quick delivery operation administered? Where are the facilities for delivery vs. production?"
A: The client's ten production facilities are in Germany, Scotland, France and Switzerland. Anyone of these manufacturing plants delivers all over Europe. (The client just recently focused its plant operations to achieve economies of scale.) When products are manufactured, they are delivered to local affiliates, which store the inventory at sites closer to the customers. This allows the client to offer quick delivery despite highly variable demand. Unfortunately, even after the recent focusing of plant operations, the company has not seen an increase in market share. Assume for now that the client cannot achieve additional profits by further consolidating its production facilities.

I switched back to my original structure of the three C's: company/cost
Q: "What are the costs associated with providing the quick delivery?"
A: The operating costs are actually not a big impact on the client's cost structure. What is important, though, is the cost of holding stock at the local affiliates: the working capital tied up at these sites is estimated at $300 million.

Next I moved to competition:
Q: "Did competitors provide these services? How did their costs compare?"
A: "We don't have exact information on the competition; the client believes that it is spending more than others due to this working capital issue."

I finally arrived at customers:
Q: "What are the customer needs and preferences? How highly do they value the quick delivery?"
A: Through a targeted analysis, the client determined that customers were willing to give up time on delivery-- the most important thing to them was consistency of delivery, rather than speed alone. Customers are willing to wait more like a week or so if they know it is going to arrive on time.

Aaah! The client was providing an expensive service that was not highly valued by the customer. Problems with this strategy were:

1. Working capital/inventory that was tied up was very costly
2. Competitors did not have this cost

Wrap-up / Recommendations for client: *[Sum it all up!]*

I recommended that the client:

1. Change its delivery policy to 7 to 10 days instead of 2-3
2. Centralize delivery by reducing the number of local stock affiliates
3. Reduce costs associated with working capital levels

Desired Answer / Blinding Insights / Twists and Turns (if any):

This is basically what the client ended up doing, as per the consultant's recommendations.

It turned out that the client saved about $200 million in working capital. The company saved 10% of total assets by reducing its stock sites from 10 to 5.

Additional information that might be useful to your fellow Sloanies:

Note that you should not get caught up with the original measure of an increase of 5% on "return on net assets"; I dug into the issue of the quick delivery/costs, as opposed to doing a detailed quantitative analysis.

Consulting Case Interview Question

Case No.: OPS6
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
- _X_ Declining Profits ___ Other
- _X_ Marketing Problems

Initial Facts offered by interviewer:

You are consulting to an investment management boutique in New York. Clients must invest a minimum of $1,000,000. This money will be invested by the client's personal portfolio manager in stocks and bonds such that the portfolio created is in line with the client's personal goals. The price they charged for portfolio management was 1 basis point plus an annual fee.

The Question(s):

The firm recently benchmarked other boutiques and found that their profitability was lower than the competition. What should the investment management boutique do?

Suggested Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

It is OK to know nothing about investment management, go ahead and ask relevant questions (its not a good idea, to BS your way through and get stuck along the way!)
Q: "What is a basis point?"
A: One basis point = 1/100% of the invested amount.

Q: "How do boutiques compete?"
A: Level of service, performance, some on price.

The basic profitability equation is helpful here:

*Price * Volume – Costs = Profit*

I structured my questions around this equation.

Q: "How does our client's level of service, performance and price stack up versus the competition?"

A: Our service and performance is comparable to the competition, but their price is was lower than the competition.

Q: "How do our costs compare to the competition?"
A: The key components of the cost structure are real estate, technology costs, and salaries; they are all in line with the competition.

Q: "What is our investment base relative to the competition?"
A: The investment base is comparable to other boutiques, but magnitudes smaller than the big investment firms.

Q: "What would it take to increase our investment base?"
A: You could probably marginally increase your investment base without much investment, but to significantly increase it you would have to invest significantly (hire experienced portfolio managers away from big firms, increase advertising, etc.)

Wrap-up / Recommendations for client:

After exploring all of the angles of the profitability equation, I concluded that raising our price (at least to competitive levels) would positively affect our bottom line. I learned that a price increase would not negatively impact our investment base.

Consulting Case Interview Question

Case No.: OPS7
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
  _X_ Declining Profits ___ Other
  _X_ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

A chemical company's profits have been falling recently.

The Question(s):

How would you advise the company to improve profits?

The Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability
_X_ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with a cost-revenue framework.
Q: "You mentioned that profits have been falling. Have our costs increased lately?"
A: No. Our costs have been constant.

Okay. Costs seemed to be a dead end. Let's switch to revenues.
Q: "If there have been no changes in our costs lately, then the decline in profits must be due to a decline in revenues. Does our company sell just one product or do we sell multiple products?"
A: Multiple products. We sell generics and specialty drugs.

Q: "And have we noticed a decline in revenues on both lines of products, or just one?"
A: Our competitors have cut prices on similar generics. We've had to cut prices to match or risk losing customers.

Q: "Are we still profitable on the generics?"
A: No. Our prices are below our costs on the generics. We don't have (and cannot gain) the economies of scale to match our competitors. As a result, our costs are prohibitively high.

Q: "Are we profitable on the specialty drugs?"
A: Yes. Specialty drugs are highly profitable. Economies of scale are less important in driving down the costs of specialty drugs.

Wrap-up / Recommendations for client: *[Sum it all up!]*

I recommend that the client:

1. End production of the generic drugs.
2. Reorient or close the unprofitable generic-drug factories.
3. Concentrate efforts on profitable specialty markets, where economies of scale are not a factor. Reorient sales force; enhance distribution efforts for specialty drugs. Modify sales incentives to encourage sales of specialty drugs.

Desired Answer / Blinding Insights / Twists and Turns (if any):

The key was that the specialty drugs were profitable, while the generics were not. Therefore, stop producing the generics and focus on the specialty drugs.

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: OPS8
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*

___ Declining Profits _X_ Other
___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

A Canadian timber company has hired you. The company processes trees from the forest to make timber products (e.g., plywood, paper). They have been making more profits than their direct competitors and do not understand this phenomenon. You have been hired to find out why.

The Question(s):

Why have they been making extraordinary profits?

The Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability	___ The 4 P's of Marketing
_X_ The 3 C's	_X_ Value Chain Analysis
___ Porter's 5 Forces	___ Microeconomic Analysis
___ Internal-External Factors	___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with a profitability framework.
Q: "You say our client in making more profits. Are we also making higher margins?"
A: Yes.

If our margins are higher, then, for each item sold, our average price is higher than that of our competitors and/or our average total costs are lower than those of our competitors.
Q: "In that case, let's focus on prices. How high are our prices, relative to those of our competitors?"
A: What do you think?

Q: "Timber products are commodity goods. I assume, then, that our prices are comparable to those of our competitors?"
A: That's a fair assumption.

Let's shift to costs.

Q: "Moving over to the cost side, how do our costs compare to those of our competitors?"
A: Our costs are lower.

Q: "Let's explore variable costs. Are our labor costs the same?"
A: The hourly rate that workers are paid is comparable throughout the industry. Assume that labor skills are comparable, as well.

Q: "And raw material costs?"
A: In Canada, the timber companies own their own natural resources (forests). Let's assume that the costs of growing and cutting down any given tree are comparable throughout the industry.

Q: "How do our transportation costs compare?"
A: There is not much of a transportation difference between the forests, the mills, and the point of sales.

Q: "Let's look at fixed costs…"
A: "Assume that we use the same equipment as our competitors."

Q: "From what you've said, it seems like the cost of processing any given tree would be the same for us as they would be for our competitors. Is that correct?"
A: That's a fair assessment.

Pull back and look at the big picture.
Q: "If our prices on finished goods are the same, and our processing costs per tree are comparable, then the only way we could be making superior profits would be if our output per tree were higher than that of our competitors. Is that the case?"
A: Yes. On average, our timber company has thicker trees in their forests than their competitors. They can get a higher yield for the same amount of processing time, meaning a lower processing cost per unit.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Based on what you've said, then, our client seems to be experiencing above average profits because it enjoys a lower processing cost per unit. The next question it might explore is whether that is a sustainable competitive advantage.

Desired Answer / Blinding Insights / Twists and Turns (if any):

The timber industry produces commodity goods. You may want to think about the steps in the value chain and analyze differences between competitors at each step.
Obviously, the difference in yield per tree is the "blinding insight" for this case. This case is harder than most, not because it is particularly difficult, but rather, because you figuring out that the "blinding insight" is really a hit-or-miss proposition.

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: OPS9
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
___ Declining Profits ___ Other
___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

A bank has a loan-issuing operation that requires the following steps:

- The loan application is generated at a branch office.
- A complete applicant background check is performed at the branch office.
- The application and background check are sent to a loan processing office.
- The background check is updated and verified (this takes much less time than original check).
- The loan is either approved or denied.

The bank is considering getting rid of the first background check and only relying on the loan processor's check to speed the process. If the loan processor does the whole check with the proposed new software system, the check takes one additional hour per application at the processor's office.

- The average profit margin for a "good" loan (i.e., loans which are repaid) is $0.20 per dollar loaned.
- The average marginal loss for a "bad" loan (i.e., loans which are not repaid) is $0.50 per dollar loaned.
- 50% of the applicants pass the first background check.
- 90% pass the second background check.

The Question(s):

Should the bank implement the revised system?

The Solution

Desired Framework: *[Check all that apply.]*

X	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Q: "What I would like to do is calculate the annual profits of the original system and compare those to the annual profits of the proposed systems. With that in mind, how many loan applications are filled out per year…"

What followed were a series of questions designed to help calculate the annual profits of the two systems. For the sake of brevity, the actual questions have been left out. The following facts, however, were revealed:

General

1. Number of loan applicants is only 1,000 per year
2. Average value per loan is $10,000
3. Given: Average profit margin for a "good" loan: $0.20 per dollar loaned
4. Given: Average marginal loss for a "bad" loan: $0.50 per dollar loaned

Original system

1. Default rate under the original system: 10%
2. Processing costs under the original system: $100/application
3. Given: Acceptance rate under the original system: 45%
    - 50% of the applicants pass the first background check
    - 90% pass the second background check

Proposed system

1. Default rate under the proposed system: 5% (estimated)
2. Processing costs under the proposed system: $60/hour
3. Processing time per application under the proposed system: 1 hr
4. Expected acceptance rate under the proposed system: 40%
5. Additional costs for the new program: $50/application

Based on the information provided, the following profit calculations could be made.

Original System:

- Revenues:
    1. Dollars loaned: 1000 applications * 45% loans per application * $10,000 per loan = $4,500,000
    2. Revenues per dollar loaned: [90% Good * $0.20 - 10% Bad * $0.50] = $0.13
    3. Total revenues: $4,500,000 * 0.13 = $585,000

- Costs: $100 processing fee per application * 1000 applications = $100,000

Profit: $585,000 - $100,000 = $485,000

Proposed System:

- Revenues:

1. Dollars loaned: 1000 applications * 40% loans per application * $10,000 per loan = $4,000,000
2. Revenues per dollar loaned: [95% Good * $0.20 - 5% Bad * $0.50] = $0.165
3. Total revenues: $4,000,000 * 0.165 = $660,000

- Costs:

1. Processing fee: $60/hour * 1 hr/application * 1000 applications = $60,000
2. Additional costs: $50/application * 1000 applications = $50,000
3. Total costs: $110,000

- Profit: $660,000 - $110,000 = $550,000

Wrap-up / Recommendations for client: *[Sum it all up!]*

At first glance, it seems that the bank should progress with the new system. There are additional costs, however, that the bank should consider, such as costs associated with retraining employees, system installation costs, and so on. That said, there might be additional benefits, as well. For example, a faster loan processing speed may help the bank get more business.

Desired Answer / Blinding Insights / Twists and Turns (if any):

This case obviously tests your analytical skills. Do not attempt to answer this question without working through the calculations on a piece of paper. If your math skills are poor, this strategy could easily backfire, making you look stupid. This case is relatively straightforward, but make sure that you have all the information necessary to develop an answer.

- **Additional information that might be useful to your fellow Sloanies:**

Consulting Case Interview Question

Case No.: OPS10
Firm: Bain & Co
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
  _X_ Declining Profits ___ Other
  _X_ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

The client is a major department store chain. Sales have been declining in the last months.

The Question(s):

You have a couple of weeks to come up with a hypothesis. How would you attack the problem, i.e. what would you do to understand the root causes of flat sales in a short period of time?

The Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability
_X_ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
_X_ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Assuming that you have a limited period of time to assess the problem, you cannot start a comprehensive market analysis, or benchmarking exercise. The way to approach the problem should be hands-on.

Sales can be defined as # of customers per day * sales per customer. The next step is to analyze what each of the factors depends on.

1) Number of customers per day
(Stand in front of the shop and count the people getting in)
This depends on several factors:

- location of the stores and therefore number of people passing by;
- number of walk-ins, which is driven by attractiveness of the show window, reputation of the store's name, effectiveness of advertisement and promotion campaigns, hours of operation, competition in the area.
- proportion of visitors who actually buy something. Underlying factors may include:

- time it takes to make a purchase,
- marketing capabilities of sales people (how efficient they are in helping a customer to find what she wants or convince her that this is exactly what she wants),
- breadth of available product mix,
- match between the available price range and purchasing power of the store's dominant customer base.

The next step is to compare present performance with the past and understand which factors could have changed in the last month and thus affect sales. Among those are, for example, change in advertising and promotion policies, increased competition in the area, rotation in the sales personnel (new employees with little experience), change in the product mix or price range.

2) Sales per customer
If this number has changed, then you should analyze in depth why each customer buys fewer items or cheaper items. This can lead again to poor customer service or a wrong distribution of the goods inside the shop. At the same time decline in sales can be driven by macroeconomic factors such as general economic downturn.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Perform the above analysis, and, once the root cause has been identified, move into a deeper analysis.

Consulting Case Interview Question

Case No.: OPS11
Firm: Andersen Consulting
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
___ Declining Profits _X_ Other (declining sales)
___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

The client is a $5B UK food retailer with a network of 900 stores, 10,000 sq. feet each. The client is experiencing a decline in sales and market share, which shrank from 45% to 35%.

The Question(s):

Why sales are declining and what can we do about it?

The Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
_X_ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
_X_ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with the 1st "C": Company (Products, Costs)
Q: What are the product lines, their profitability, and changes over the last year? How do these products compare to the competitors'? What is the cost structure, how has it changed and how it compares to the competitors'?
A: The client is a low-cost provider, selling simple food products, which are similar to the competitors'. The profitability has not changed much across product lines, but sales across them dropped. The cost structure is the same as competitors'. Cost is not an issue.

I switched to the 2nd "C": Customer
Q: Who are the customers? What is the customer mix and how has it changed over the last year?
A: The customers are price-sensitive people; 75% - low income, 25% - moderate income. Over the last year we lost customers in both categories, but mostly in low income.

I switched to the 3rd "C": Competitors
Q: How many competitors are in the market? What has changed over the last year?

A: There were two main competitors - a year ago, a third competitor came in.

Q: Since the customers are price-sensitive, I assume there is a difference in price of products that this competitor is offering. Is that a fair assumption?
A: Yes. The competitor offers private labels, which are cheaper than the brand name products that the client sells.

Q: Has the client considered introducing the private labels?
A: No, that would make a good recommendation.

Q: Are there any other differences between the client and the competitor? Do the stores look the same? Are they located in the same areas?

A: The stores looked differently. The client has warehouse style stores with the top shelves used for inventory. The competitors' stores look warmer and cozier with all shelves displaying different products. The competitor has fewer stores, but they are located in the same areas as the client's.

Q: Has the client considered redesigning the stores?
A: No, that would make another good recommendation.

Q: Are the client's stores equally profitable?
A: No. Some stores are more profitable than others are.

Q: What are the reasons for the difference? Are there any common trends among stores with low profitability and high profitability?
A: At this point the client does not know why there is a difference.

I recommended studying the reasons for the difference and if it's not possible to turn unprofitable stores around, close them and concentrate the resources on profitable ones.

Q: How does the client promote the stores? What are the most effective marketing techniques?

A: Client uses all kinds of promotions, but does not track how effective they are.

I recommended conducting customer survey and developing tracking system to concentrate on promotions that are most effective and eliminate the ineffective ones.

Wrap-up / Recommendations for client: *[Sum it all up!]*

1) Introduce private labels, which are cheaper than the brand name products.
2) Start with redesigning one store as pilot to assess increase in sales. Redesign others if the benefits outweigh costs.

3) Conduct a study evaluating the reasons for low profitability and possibly closing unprofitable stores. Study the costs to streamline business operations and pass savings to the customers.
4) Evaluate promotional activities, concentrate on the most effective, and eliminate ineffective.

Blinding insight

Profitability of 900 stores is different. It's not a coincidence that the competitor has fewer stores.

Consulting Case Interview Question

Case No.: OPS12
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
___ Declining Profits ___ Other
___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

In this case the client of yours is a pharmacy retail chain. It is facing two major problems: first, its sales are declining, although the market for this service is growing; second, profitability is declining.

The Question(s):

You are asked to identify reasons for poor performance and recommend steps for profitability improvements.

The Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Approach: analyze reasons for sales decline, and then proceed with cost analysis to identify reasons for profits decrease?

Revenue side

The following questions should be answered to understand why sales are declining.

- Do fewer customers visit the pharmacy or they spend less per purchase?
- Has the product mix changed in the past?
- How price sensitive are the customers?
- Is there an opportunity for segmentation?
- What has been happening with the pricing strategy in the past?

- How consistent is performance across the stores within the chain? Are there "best performers" against whom we can benchmark and whose practices should be implemented in other stores as well?
- Has the number of competitors increased in the past? What are their pricing strategies?

Cost side

Decrease in sales is certainly one of the reasons for worsened profitability. To complete the picture, the costs have to be analyzed as well.

- Have our costs increased in the past?
- What cost components have caused this growth?
- How do different stores compare with each other in cost management?
- How do we perform relative to competition?

Wrap-up / Recommendations for client: *[Sum it all up!]*

In this case the key finding would be that there are opportunities for customers' segmentation: there are essential drugs that people use through the whole life and other items. It turns out that people are very price sensitive for the first category and less so for the second. Therefore the pharmacy should be pricing the first category very low to attract customers, but charge higher prices for other products.

Consulting Case Interview Question

Case No.: OPS13
Firm:
Type of Case:

___	Brain Teaser *(Why are manhole covers round?)*
___	Market Sizing *(How attractive is the market for fire trucks?)*
___	Operations *(Our client's profits are down. Why?)*

___	Declining Profits	___	Other
___	Marketing Problems		

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Our client is a manufacturer of specialty labels. They have been losing money for the last three years.

The Question(s):

There are two questions for you: (1) how to quickly improve profitability; (2) should the company stay in this industry?

The Solution

Desired Framework: *[Check all that apply.]*

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other______________ ______

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Let us start with profitability improvement.

Profit = Revenues - Costs
Reduction of profitability means that either revenue goes down, costs go up, or both.
1. Let us look at revenues first.
Revenue = number of units sold * price per unit
Let us assume there were no changes on the revenue side.

2. Costs = fixed costs + variable costs
What are the major cost drivers for specialty labels? They are labor (variable) and artwork (fixed).
- Variable costs are the same as industry average and have been constant over time.
- Fixed costs: significant, therefore there are significant economies of scale in this business.

– Let us now understand whether this is a good industry to be in the long run. One of the approaches here can be to understand current industry structure and the trends.

Current structure:

Rivalry

The client company is the largest player in the market; other competitors are primarily "mom and pop" producers.

Customers

High-end cosmetic companies prepared to pay premium for the client's color matching ability.

Barriers to entry:

Low, competition may increase in the future.

Next issues to consider:

- is it a growing industry;
- how is competition likely to evolve;
- what capabilities are required to compete in the future and does the client company possess them;
- are substitutes likely to evolve (other materials, other technology);
- how powerful and concentrated are our suppliers;
- how high are the exit costs.

Wrap-up / Recommendations for client: *[Sum it all up!]*

The costs will be brought down if sales go up because of economies of scale.

Consulting Case Interview Question

Case No.: OPS14
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Our client's profits are down. Why?)*
  ___ Declining Profits _X_ Other (operations efficiency)
  ___ Marketing Problems

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

You are working for a bank that is facing problems with the quality of customer service. Its customers are complaining about long waits on the phone, being transferred to multiple branches, separate accounts requiring multiple calls, etc. The customer service function is currently performed at each individual branch.

The Question(s):

How customer service can be improved?

The Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's _X_ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Start with diagnosis of the current operations: how each call is handled, what customers complain about, why did this mistake happen.

Do benchmark analysis across the branches within the client bank.
Do the same analysis but benchmarking against the competing banks: how do they handle customer service.
Benchmark against other industries, which are conducting similar customer service operations.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Consulting Case Interview Question

Case No.: OPS15
Firm: McKinsey
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
_X_ Operations *(Pricing)*
___ Declining Profits
___ Marketing Problems
___ Other (operations efficiency)

Initial Facts offered by interviewer: *[Please, relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

Our client is a used car dealership whose business has been stagnating in recent years. They are located in a low to middle-income area and in the past have only sold cars to customers who are willing to pay 100% of the cost up-front or can achieve bank financing. In order to boost sales, our client is considering offering loans to customers that the dealership itself will finance.

To be eligible for a loan customers must undergo a complete credit check (which we assume to be accurate). The credit check rates potential car buyers on a scale of 0 to 100, where 0 corresponds to a 0% chance of paying off the loan and 100 corresponds to a 100% chance of paying the loan in full. Each loan only lasts 1 year in which payments are made monthly and the entire loan will be paid off in 1 year's time. Buyers ultimately fall into two categories, those that pay off the loan entirely, and those that default.

The Question(s):

What should be the cutoff level where we decide to give potential buyers the loan?
What issues might cause you to alter this cutoff-level?

The Solution

Desired Framework: *[Check all that apply.]*

_X_ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Additional Information for the Interviewer (not to be told to interviewee unless asked)

Average cost of car to dealership: $6,000
Average price of car sold to customer: $7,000
Minimum down payment for all customers: $1,000
Average loan defaulter makes three months of payments before defaulting.

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I did not really use a framework because this was more of a question of establishing where the breakeven marks would lie. I did all calculations on the average.

What is the average cost of each car and how much does our client sell them for?

The dealership's average cost per car is $6,000. We sell them for an average of $7,000.

What is the minimum down payment? Do all customers default at an amount relative to their credit report (i.e. a potential buyer with an 80 credit rating will pay the down-payment and 80% of the remaining loan)? How much to we make on the loans?

The minimum down payment is $1,000 regardless of credit rating. The average default is after three months. Assume we make nothing on the loans; they are only used to entice in additional customers.

At this point, I stated to crank through some of the math.

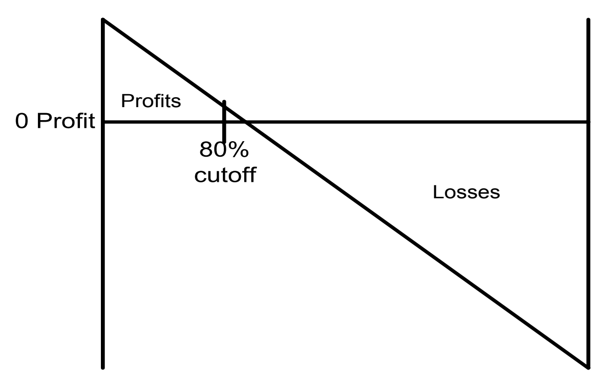
We make only a profit margin of only $1,000 on each car.
For this to be worthwhile we must make more on additional cars sold and paid for in full than what we lose in loan defaulters.

Average cost of car:	$6,000	
Average defaulter pays:	-$1,000	(down-payment)
	-$1,500	(1/4 of total loan of $6,000)
Total loss to the dealership for a default:	$3,500	

This means that we need to have 4 good loans for every 1 loan to turn a profit/not lose money.

If 4/5 of loans must be good, then a credit rating of 80 should be our cutoff.

At this point I drew the following graph for the interviewer to illustrate my point and to discuss other issues to consider:



I would probably be tempted to raise the cutoff above 80, at least in the beginning. This is for two reasons- (1) We are not sure how successful our client will be with this process, so it would be better to start more conservatively and if successful, ramp up the operation.
(2) At the 80 cutoff we are working very hard for diminishing profits, where at the 90 cutoff the potential rewards are much higher.

Alternatives and other possible issues to consider:

- Another possible solution would be to lower the cutoff level for higher risk loans but raise the minimum down payment required. This would change our risk profile.
- Look at the cash flow situation of the client. If a few unexpected bad loans in a row would bankrupt our client, then we may want to raise the cutoff.
- Examine expected economic conditions looking forward. If we sense that the economy will be poor in the future, we also may want to increase the cutoff point.
- The use of warranties or add-ons, paid at the time of purchase, that force customers to pay more up-front would also allow us to lower the cutoff levels. For example, it we allow a customer to purchase a two-year warranty for $1,000 that is paid for in full at the time of purchase, it reduces our overall risk exposure.

Consulting Case Interview Question

Case No.: STRAT1
Firm: Mercer Management Consulting
Type of Case:

___	Strategy (Should our client enter the beer brewing industry? If so, how?)		
___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

The client is a Canadian bank, with 1000 branches. It is one of 6 large area banks. It recently decided to install ATM's in all of its branches. The research concerning the cost and vendors of choice has all been done.

The Question(s):

How would you analyze the benefits from the ATM's, and what data would you need? Concentrate on the main issues.

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I did a three C's analysis, and added a fourth part on technology:

The first C: company/cost
Q: "Are there cost savings associated with the use of ATM's? I assume that some of the tellers could be replaced, and possibly some of the branches consolidated. ATM's could allow some transactions to be processed more efficiently."

A: "Yes- 30% of tellers were redundant, and there is room for substantial savings by laying them off (salaries and benefits)."

Next I moved to competitors:
Q: "Are the competitors doing the same thing?"
A: "Yes. Three of the client's largest competitors have installed them in the last 2 days."

I finished the three C's with customers:
Q: "Do customers want the service? How do they value it? Also, does the bank see this as a way to get new customers or simply to keep existing customers?"
A: "In a recent survey, the bank determined that 20% of its current customers would never use an ATM, another 50% might use them, and the remaining 30% are so fed up that the bank does not have ATM's that they are about to leave the bank as customers."

I closed my analysis with a discussion of technology issues:
Q: "By using the technology, could related information be used to offer new products (i.e., creating a data base, market segmentation)? Are there new trends in the industry using ATM's to offer new products?"
A: "This is something the client would need to look into."

Wrap-up / Recommendations for client:

I summarized by saying that:
The bank had to act fast, given that its competitors are all quickly installing ATM's, and that some customers are about to pack up and leave. I highlighted the need to respond to both competitors AND customers.

I noted that it was also important to look at the segments of customers: were some of the longest-standing, high net-worth customers the ones who were about to leave? If so, then the issue is all the more time sensitive. In other words, beware of the different types of customers you have, and value those that are the most valuable.

There are real cost saving opportunities associated with the decision, too, as discussed above.

The bank could make use of the space left by laying off some tellers to produce additional revenues. New products, such as credit cards or investment related services, could be offered, or even less traditional banking items such as food/refreshments.

Desired Answer / Blinding Insights / Twists and Turns (if any):

The interviewer said that these were all central issues to the case. She mentioned as an aside that the bank had problems initially, because customers who originally said that they might use the ATM's ended up being very technology averse, and in fact did not like to use the ATM's. This meant that they needed to be encouraged to use them (advertisements, promotions, etc.)

Additional information that might be useful to your fellow Sloanies:

This was a good example of thinking outside of the box: the interviewer really liked my idea of putting in a refreshment stand in the bank (and it is actually being done by some California banks that are selling café lattes in the bank!).

Consulting Case Interview Question

Case No.: STRAT2
Firm: Braxton Associates
Type of Case:

_X_ Strategy (Should our client enter the beer brewing industry? If so, how?)

___	New Product Introduction	_X_	Competitive Response
X	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

___ Other ____________________

Initial Facts offered by interviewer:

(There was a 1.5 page written case that I had to read. These case facts are just some of the notes I scribbled while reading it.)

GNC is a natural products manufacturer and supplier. Up until 1986, it was a discount provider of natural products such as vitamin, mineral and herbal supplements. Due to increasing price pressure from a variety of sources (grocery stores, drugstores, convenience stores, mass merchandisers/mail order houses, and independent suppliers), it decided in 1986 to move out of the discount segment and to become a specialty provider charging premium prices. In 1987, franchisers comprised 47% of outlets. Now, in 1994, the company has plans to expand the number of outlets by 25% in order to fuel growth. Today, the product line is as follows:

- Vitamin and mineral supplements (40% of sales)
- Sports, performance-enhancing food products (28%)
- Herbal supplements (10% of sales, but projected to grow 24% over the next three years)

In 1976, GNC was manufacturing none of its products, but by 1986, was manufacturing 65% of its product line. They see manufacturing as a key component of their success and future growth, because they have very cost-effective facilities. Notably, its manufacturing facility was at almost full capacity and the herbal supplements facility was operating at full capacity by 1994. Production (for herbals) recently expanded to 24-hours per day, seven days per week, in order to meet demand for GNC's supplements which used a unique gel cap packaging. GNC also has a significant R&D/new product development capability, and launched 113 new products in 1993.

The Question(s):

You are an outside director on GNC's board. At a recent board meeting, the CEO displayed a slide containing only this information: "2-year plan: Increase revenues 40% (20%/yr)." What additional information would you want to know, and what questions would you ask of the CEO?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Rather than following a particular framework, I came up with the following list of questions to ask the CEO, which the interviewer answered as if he were the CEO:

Q: "Is this a sustainable growth level?"
A: "Only a two-year plan, so sustainability is not really an issue."

Q: "What are implications for financing and capital structure over the next two years if this growth level is greater than its earnings/CFs can support?"
A: "Assume the following: 1) all expansion will be paid for using cash from operations, 2) there will be no change in capital structure, and 3) growth will be realized via franchise expansions (e.g. growth of store sales is flat)."

Q: "From where does GNC plan to "get growth" - where does it plan to expand?"
A: "GNC is bi-coastal now, and store growth in sales is flat. So, GNC needs to increase growth by increasing franchise openings. It will expand by penetrating the mid-west and southern markets."

Q: "Can our manufacturing facility support more growth, given that we are already at almost full capacity (and beyond full capacity for our fastest growing product)?"
A: "Assume GNC will be able to expand capacity by 1) adding more and better equipment to its current plant (e.g. no time lag for new construction to come on line) and 2) increasing shifts at those facilities not yet operating 24-hours per day. So, manufacturing capacity is not a binding constraint."

Q: "Who would be our new competition in the Midwest and/or south?"
A: "Direct competition will be from mom-and-pop stores while indirect competition will come from grocery and retail drug stores. Assume neither is a significant competitor for the next two years."

Q: "How do market preferences in the mid-west and south differ from GNC's traditional markets on the coasts? How would the marketing mix be different?"
A: "Assume the demographics and preferences are close enough, and that no changes in pricing, product, placement or promotion will be necessary."

Q: "Where are GNC's manufacturing facilities located and how will GNC's transportation/ shipping costs change as they enter new markets?"
A: "Assume no major changes in costs."

After I suggested these questions, the interviewer asked me some additional questions:

The Additional Question(s):

1) "What are some of the pros and cons of company owned stores versus franchises?"

My solution was the following:

Cons of Franchises:

- Managing agency problems in some franchise outlets.
- Identifying and recruiting franchise owners with the "right" attitude and values for selling your product (e.g. Anita Roddick and the Body Shop).

Solutions: Benchmark ideal qualities and best practices among current franchisees; recruit against those criteria and create formal training for new franchisers.

Pros of Franchises:

- Profit motivation of the franchisees creates alignment of goals in non-transient locations. That is, desire for profits motivates franchisees to take good care of products, make appealing displays, and keep the place clean, etc.
- Less costly way to expand than making capital investments in many new company-owned stores.
- Shared risk - GNC does not need to shoulder all of the risk in expanding because franchisee puts up some money and assumes much responsibility for operations and success of new store.

2) "What are the issues to consider in having mom-and-pop stores as your key competitor?"

- mom-and-pops
  have good access to local markets.
  have loyal customers.
  have deep knowledge about individual customer preferences.
  are small, fragmented, dispersed, and have less total capital backing than larger firms.

3) "How can GNC get more growth out of its existing stores?"

- Identify high margin products; rearrange floor display to give best access to those products.
- Offer promos such as coupons for high margin products to grow demand for them.
- Change sales help/staffing mix to give more/less customer service (more help for better service and thus more sales; less help to reduce labor costs. [However, excluding company-owned stores, labor costs are the franchisee's problem, and don't really impact GNC's margin on products supplied to the franchisee; so push for more sales help.]

- Longer or different hours to match customer-shopping schedules.
- Start a catalogue. Distribute via stores, Internet and/or mailing; this won't necessarily increase per store margins, but will increase overall product sales, which benefits GNC.

Wrap-up / Recommendations for client:

The key was to ask the right questions rather than to come up with an answer using a specific framework.

Consulting Case Interview Question

Case No.: STRAT3
Firm:
Type of Case:

___ Brain Teaser (Why are manhole covers round?)
___ Market Sizing (How attractive is the market for fire trucks?)
___ Operations (Our client's profits are down. Why?)
  ___ Declining Profits ___ Other
  ___ Marketing Problems
X Strategy (Should our client enter the beer brewing industry? If so, how?)
  X New Product Introduction ___ Competitive Response
  ___ New Market ___ Response to Changing Environ.
  ___ Merger or Acquisition X Other
___ Other ____________________

Initial Facts offered by interviewer:

The Philadelphia Museum of Art (a for-profit institution) has a web site that is basically set up just for users to look at. The head of the museum feels that there must be some way to increase the museum's revenues through use of the web site, and so he asks you to explore this issue as part of your summer research project.

The Question(s):

What do you recommend to the head of the museum?

Suggested Solution

Desired Framework: [Check all that apply.]

___ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
X Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Given that the question asked how to increase revenues (as opposed to profits), I started out saying that I would only focus on revenues, and therefore I would not address costs (but suggested that someone else do this for their summer project).

I therefore used a framework based on existing forms of generating revenues and new forms of generating revenue. The logic behind this is that there would be two ways to increase revenues: 1) use web site to increase sales of existing products and services (i.e., an increase in existing sources of revenue) and 2) use web site to market and sell new products and services (i.e., a new source of revenue).

I started out by first asking how the museum generates revenue currently:
Q: "How does the museum generate revenue currently?"
A: "Currently, the museum earns revenues from membership fees, entrance fees, catalog sales, and corporate sponsorship of blockbuster shows. Blockbuster shows are major art exhibitions that are sponsored by companies when the collections come to town. For example, a blockbuster show might be called the "US AIR" presentation of Monet's Garden at Giverny."

I then suggested that the museum do the following to use the web site to increase the revenue generated by these existing forms:

- Offer online catalog ordering via the web site. Currently, they do these sales of museum memorabilia and other gifts through the traditional gift shop at the museum and through mail-order catalogues. The web's easy access would allow customers who have never visited the museum to see and maybe order the gifts on-line. The museum could set it up such that a consumer could place an order, supply the credit card number, and the item could be sent out right away to whatever address the consumer wanted. The museum could negotiate a deal with Fed Ex to handle the deliveries. Of course we would have to actively educate the consumer as to the security of ordering through the web site, because there may be resistance in the market to giving out a credit card number on-line. The museum could guarantee security and back any fraud that might negatively affect our customers. The client could even advertise a little on the web site about what great gifts these souvenirs make.
The special benefits include:
- more cost effective, since less overhead costs involved and fewer mistakes during order (because consumers enter the information directly)
- more convenient for customers, because they do not have to be in the store or have a catalog handy
- better service for customers, since gifts are ordered directly with faster turnaround

- Advertise the museum's regular and special events. In general, use the web site to advertise the museum's collections and services by providing photos and other information about art at the museum. Utilize this powerful and interactive form of communication! Provide a complete description of what the services include for current members. Use hotlinks from corporate sponsor company web pages (i.e., link from US AIR's home page), local and national tourist web pages (i.e., www.boston.com), and other sources to bring new customers to the web pages. The goal here is to increase membership and entrance fees simply by advertising through the web.

- Provide an opportunity for customers to join the museum as members conveniently and directly on web.
This is to boost revenues from membership services through the convenience of the web, as opposed to having to be in the museum, or to call during office hours to join.

I then suggested the following new ways for the museum to generate revenue:

-Form chat groups about art and other interests of our members. Members pay an annual fee for unlimited access to the museum and special events; we could add special services and features on our web site for these dues-paying members as an attempt to increase membership.

-Offer advertising spots on our web site for relevant and appropriate products for art lovers. Naturally we would screen advertisers so that we weren't advertising Bud Light and Marlboros on our web site.

Wrap-up / Recommendations for client:

As stated above, use the web site to enhance revenues from existing forms, including catalog sales and membership/entrance fees. Also, use the web and its powerful capabilities to offer new services, such as chat groups, and online advertising spots for companies.

Desired Answer / Blinding Insights / Twists and Turns (if any):

The key was to come up with creative solutions for the museum to generate revenue. There was not a lot of material or detail to probe for in the form of questions. It was important to have some type of structure, rather than to list ideas, but it was even more essential to be creative.

Consulting Case Interview Question

Case No.: STRAT4
Firm: BCG
Type of Case:

___ Brain Teaser (Why are manhole covers round?)
___ Market Sizing (How attractive is the market for fire trucks?)
___ Operations (Our client's profits are down. Why?)
- ___ Declining Profits
- ___ Marketing Problems
- ___ Other

___ Strategy (Should our client enter the beer brewing industry? If so, how?)
- ___ New Product Introduction
- ___ New Market
- ___ Merger or Acquisition
- ___ Competitive Response
- ___ Response to Changing Environ.
- ___ Other

___ ______________________________

Initial Facts offered by interviewer:

Your client is a pharmaceutical company that is ready to launch a new drug. It is a drug for severe asthma. It is essentially the same as what is in the market today, but it is stronger, faster, and can treat severe cases that are not properly treated with today's medicine. The drug is seen as a breakthrough. The client is planning to launch this drug in Canada.

The Question(s):

How should they price the drug?

Suggested Solution

Desired Framework: [Check all that apply.]

- ___ Cost-Revenue and Profitability
- ___ The 3 C's
- ___ Porter's 5 Forces
- ___ Internal-External Factors
- ___ The 4 P's of Marketing
- ___ Value Chain Analysis
- ___ Microeconomic Analysis
- ___ Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

The first question I asked was a general one:
Q: "Why are they launching this drug in Canada and not the US?"
A: There was no real answer to this, but in the end I determined that the key issue the location issue was that in Canada the government essentially runs the medical system.

The next question I had was driving at understanding the pricing system for today's drug, as this would be a relevant benchmark for pricing our new drug:
Q: "How much does today's asthma drug go for?"
A: "It is priced at about $5."

Then I inquired about the COST of the new drug compared to the older one:
Q: "How do the costs of manufacturing and selling the new drug compare to the current one?"
A: "They are essentially the same."

I hypothesized that I would need to determine the incremental value of this improved drug to determine how much more than the $5 drug I could charge, and then to determine the optimal price of the drug to maximize profits.

I then asked the following questions, to drive at the factors that were important in determining this incremental value:

Q: "How price elastic are the Canadian customers?"
A: "The Government actually pays for these drugs for the elderly and poor, while insurance pays for drugs for other citizens."

I conclude that the price elasticity of the consumers themselves is not crucial here; rather, it is essential to determine how much the Government values this better drug. When I say this, I am asked to estimate how to calculate this incremental value to the Government. I propose the following:

Determining the actual costs of increased hospital and doctor visits of citizens who come back time after time when the old medicine is not effective. These visits would be eliminated with the new drug.

Determining the cost of "pain and suffering" of citizens who feel the affects of severe asthma. This is difficult to quantify, but I estimate that the Government would put a significant value on this if data were shown to them about this suffering.

Wrap-up / Recommendations for client:

In the end, the Government is crucial here, because they in effect set the price. Therefore it is up to our company to quantify the difference between this new drug and the old one. Obviously the drug company would need to investigate this and put together a convincing story. Nevertheless, I proposed that $30 or so would be reasonable, based on the information that we know right now.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Remember the importance of regulation/other external factors and of identifying the decision maker/purchaser vs. consumer of a good; a new and improved product is not everything!

Consulting Case Interview Question

Case No.: STRAT5
Firm: AT Kearney
Type of Case:

___ Brain Teaser (Why are manhole covers round?)
___ Market Sizing (How attractive is the market for fire trucks?)
___ Operations (Our client's profits are down. Why?)
  ___ Declining Profits ___ Other
  ___ Marketing Problems
_X_ Strategy (Should our client enter the beer brewing industry? If so, how?)
  ___ New Product Introduction ___ Competitive Response
  _X_ New Market _X_ Response to Changing Environ.
  ___ ___
  ___ Merger or Acquisition ___ Other
___ Other ______________________

Initial Facts offered by interviewer:

Our client is a utilities provider, offering gas and electric services to New Jersey and some surrounding areas.

The Question(s):

With recent deregulation, our client is considering getting into telecommunications. Should the client do it?

Suggested Solution

Desired Framework: [Check all that apply.]

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
_X_ The 4 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other______________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

My approach to this one was a basic analysis of the telecommunications market (size and growth), and then a four C's analysis: our competitors, our competencies and how they would apply to this market, the cost of playing in this market, and finally, the different customers and their needs.

Q: "What is the market like today, in terms of size and growth?"
A: "[As I had expected], this market is huge and growing very rapidly. With convergence everyone wants to compete in this industry, but no one really knows where it is going."

I then went to the 4 C's: Competition
Q: "What does the competitive landscape look like?"

A: "What would you think it would look like?"

I note that this is certainly a global market and we are currently only a regional player, which will certainly affect our strategies if we plan to enter this market. This becomes apparent as we analyze the competition. The big players: AT&T, MCI, Sprint, the 6 Regional Bell Operating Companies are all either global or becoming global. I also note the emergence of non-traditional players in this market: satellite providers who are attempting to provide all of these services wire free. Although I recognize their presence, I note that it will probably be some time before this becomes a cost effective option for most customers. I at this point hypothesize that we may not have the resources to go head to head against the big boys, but there may be a profitable niche.

I switched to the 2nd "C": Competencies (competitive advantage)
Q: "What are our core competencies, that would provide the client with a competitive advantage?" (Before asking this, however, I noted that we already have wires (electricity) running to the houses in our regions and thus have an infrastructure advantage that we should be able to leverage. In addition, we have significant contact with our market and thus have some consumer knowledge that global players may not have.)
A: "There may be another advantage for our client. Another important player in the value chain is the CAPS (some type of access providers), and these small companies are the link between the global players (AT&T, etc.) and the local market. Our client might have the capability to bypass the CAPS in our region because they can provide the same services that the CAPS do."

[I also propose some other potential alternatives: we could be a lender to some of these CAPS, as they are small players who often do not have access to capital. We could also potentially have joint ventures with some CAPS.]

I switched to the 3rd "C": Customers
My analysis of the customers points to some potentially profitable niches for our client. I confirm that there are two distinctly different segments of customers in this market. There are the business customers and the residential customers, each with very different needs. I confirm that business customers would be more profitable (less price elastic) than residential customers. I also note that there are a number of different services that telecommunications companies provide: cable, local phone service, long distance phone service, internet access, etc., and that the demand for these services would differ for each of the two customer segments.

Finally, I switched to the 4th "C": Cost
From a cost perspective, I note that the cost of becoming a global player, and investing in the necessary infrastructure will probably not be a profitable endeavor. The industry is highly capital-intensive, and this would put us at a large disadvantage relative to larger, global players.

Wrap-up / Recommendations for client:

I recommended the following:

Although more rigorous analysis needs to be performed, at first glance it seems that if our client avoids going head-to-head with the big, global players, they could potentially leverage its internal capabilities in order to compete in a profitable niche in this large, rapidly growing market.

Consulting Case Interview Question

Case No.: STRAT6
Firm: BCG
Type of Case:

___ Brain Teaser (Why are manhole covers round?)
___ Market Sizing (How attractive is the market for fire trucks?)
___ Operations (Our client's profits are down. Why?)
 ___ Declining Profits ___ Other
 ___ Marketing Problems
___ Strategy (Should our client enter the beer brewing industry? If so, how?)
 ___ New Product Introduction ___ Competitive Response
 ___ New Market ___ Response to Changing Environ.
 ___ Merger or Acquisition ___ Other

Initial Facts offered by interviewer:

Your client is a utility company who provides electricity and gas to a region in New England. They are a monopoly provider. They send out service men monthly to read both the electric and gas meters at each residence. Currently, 200 small water companies service this region. Each small town owns its own water company.

The Question(s):

Would it be worthwhile for your client to contract the reading of the water meters for these small companies (i.e., charge the water companies to read the water meters)?

Suggested Solution

Desired Framework: [Check all that apply.]

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I did not follow a particular formal structure, but I basically wanted to find out about two issues: 1) costs involved in reading the water meters, both from the perspective of the water companies and the utility, 2) revenues that could be charged by the utility to the water companies. If the utility could provide the service to the water companies at some type of cost advantage, then I think that there would be some money to be made for the utility.

On the cost side, I asked the following basic question:
Q: "Would it be simple for our servicemen to do this on their routes? How much incremental time would it take to do this service?"
A: "It would take very little extra time, as the water meters were right next to the other two meters."

I next asked more about how the meters were currently read, to learn more about the costs involved:
Q: "How are the water meters read by the utility vs. the water companies?"
A: "The utility has fancy hand-held computers to record the readings, while the water companies only use paper and pen."

[Once I learned this, I hypothesized that it might be beneficial for the utility to contract the new business, in order to amortize the cost of these machines over additional meters. Additionally, the labor costs could be much lower and accuracy increased through the use of the hand-held machines, which would benefit the water companies.]

I then further investigated the cost of doing this service:
Q: "What are the additional costs involved in reading the water meters?"
A: "In addition to trucks and fuel, the only really significant cost was labor of the servicemen. The utility pays its workers $20/hr, while the water companies only paid their servicemen $7/hr."

[I highlighted this as a major concern, in that it may not be cheaper for us to do it given this wage differential.]

Continuing with the issue,
Q: "Why the large difference- Are either of the labor forces unionized?"
A: "The utility employees are unionized but the water company workers at not."

In order to pursue some of the cost savings:
Q: "Could the water companies save significant dollars by reducing the number of trucks as a result of not having to read the meters?"
A: "The client could not eliminate the number of trucks, as they would still be needed to serve all of these houses for other types of service anyway. They could save on fuel costs, but this would be fairly marginal."

Wrap-up / Recommendations for client:

As the interviewer pushed me, I decided to determine that it was not a wise endeavor, due to the wage differential. I concluded that the utility had too high a cost structure to provide the services more cheaply, and therefore to be able to charge for the service.

However, I did not have time to explore the revenue side, in terms of how much we could charge the water companies for this service. I imagine that we could only charge them a bit less than the $7 an hour that they were paying their workers now in order to make it an attractive option. But in addition to considering the substantial labor wage differential, we must also look at what revenue we could generate by doing this service. It may result in profits, since the utility service workers are "already right there now" [reading other meters], in which case I would recommend that the client contract the business.

Consulting Case Interview Question

Case No.: STRAT6
Firm: Gemini
Type of Case:

- ___ Brain Teaser (Why are manhole covers round?)
- ___ Market Sizing (How attractive is the market for fire trucks?)
- ___ Operations (Our client's profits are down. Why?)
  - ___ Declining Profits
  - ___ Other
  - ___ Marketing Problems
- _X_ Strategy (Should our client enter the beer brewing industry? If so, how?)
  - ___ New Product Introduction
  - ___ Competitive Response
  - X New Market
  - ___ Response to Changing Environ.
  - ___ Merger or Acquisition
  - ___ Other
- ___ Other ______________________________

Initial Facts offered by interviewer:

You are working for Gemini and you need to sell a project to a large (top 20) property and casualty company.

The Question(s):

What issues do you highlight, and what do you propose?

Suggested Solution

Desired Framework: [Check all that apply.]

- _X_ Cost-Revenue and Profitability
- ___ The 3 C's
- ___ Porter's 5 Forces
- ___ Internal-External Factors
- ___ The 4 P's of Marketing
- ___ Value Chain Analysis
- ___ Microeconomic Analysis
- ___ Other______________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

For this case I outlined two main areas that I would propose to study for this prospective client: The first would be to address potential ways to grow the current business. The second major area was profitability, how profitable is the firm relative to the industry and what can we do to improve our position.

Growth:
Q: "What market segments is the insurance company in?"
A: This company is currently in only the home and auto insurance segments of the domestic personal market. They are not in commercial insurance at all. They also are only a domestic player.

Q: "What is the growth rate in our home and auto markets?"
A: I also discover that the home insurance market is growing at around 5% while the auto insurance market is relatively flat. Upon inquiry, it is unclear how other domestic insurance markets are (fire, life, etc.) growing.

Given this information, I proposed three potential avenues of growth that would be worthy of a nice consulting study.

1. The first is to penetrate the domestic insurance market further than we have to date. Of course we would need to perform detailed analysis of these markets to determine their ultimate size and growth as well as their profitability. I also found out that for the markets that we are in (auto and home insurance), we have penetrated all regions, and in order to grow within these markets we would have to steal share from entrenched competitors.
2. Secondly, I propose that we could grow by entering the commercial insurance side. This looks promising, as the margins are known to be slightly higher. However, we would have to carefully analyze our situation to see if we were capable of becoming a significant player in this market.
3. The third growth avenue that I recommended was to perhaps get into other markets completely (an out of box solution). This could make sense if we found that other markets could be more profitable, and we had some sort of core competencies that we could leverage in other markets.

Profitability:
The second area of discussion was on the profitability side. Perhaps there is a problem here that we can apply our consulting expertise to.

Q: "What is our client's profitability relative to others?"
A: I discover some details on our firm's profitability. The first thing is that the profitability metric is called a 'combined ratio' that is composed of net premiums less losses less expenses. Our ratio is 104 while the industry average is 106.5 and break-even is 100. Clearly this is an issue that we should highlight and address in order to uncover what's behind our lower than average profitability.

Q: "What is our profitability over the last 5 years?"
A: Profitability has been: 104, 106, 103, and 104 - consistently below the industry average. In order to attack this profitability problem I pursued price, volume, and cost questions. Upon inquiry I realize that our pricing and volume are not the problem. Clearly we have a cost problem. In this industry there are two major components of costs: the loss ratio and the operating expenses.

Q: "How does our loss ratio compare to the industry?"
A: I discovered that ours was 69 while the average was only 60. Therefore our customers were placing more claims than average. I stated a hypothesis regarding the fact that perhaps the make-up of our customers is more "accident prone" than average and this may be what is driving our loss ratio. The next issue is our operating expenses.

Q: “How do our operating expenses compare?”
A: Upon inquiry I discover that the sales component is the most significant one of our operating cost structure. I find that there are three different types of sales techniques:

1. Independent sales agents who have a fixed cost of 30 cents/policy, a commission rate of 5-8 basis points and a hit rate of 40%,
2. Captive agents who have a fixed cost of 60 cents/policy and 1-2 basis points with a hit rate 40%,
3. Direct Mail with a fixed cost of 10 cents/policy and 3-4 basis points and a hit rate of 20%.
    4. Although I did not get into these numbers too much, I hypothesized that we were not using the most cost efficient sales channels, and we could do a nice consulting study to optimize this.

Wrap-up / Recommendations for client:

In the end I made my three growth proposals, and suggested a screening process to stay away from "accident prone" customers. Also needed to optimize our use of the different methods of selling policies.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT7
Firm: McKinsey
Type of Case:

___	Brain Teaser (Why are manhole covers round?)		
___	Market Sizing (How attractive is the market for fire trucks?)		
___	Operations (Our client's profits are down. Why?)		
___	Declining Profits	___	Other
___	Marketing Problems		
___	Strategy (Should our client enter the beer brewing industry? If so, how?)		
___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

Your client is a large international soft drink bottler. The client wants to enter the Indian market.

The Question(s):

What are the concerns in doing this, and should you do it?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Q: "What are the profit margins in the soft drink industry?"
A: Upon inquiry you find that margins are particularly high in the soft drink industry (30%). I mentioned potential cultural issues (flag burning, and hatred of Western commercialism in India). This point was duly noted, but the interviewer directed me towards focusing on the economics. In the end you should only do it if it is profitable to do so.

The first "C": Costs

Q: "What are the up front costs? What is the selling and distribution system? What is the account structure? Can we get access to all of the channels or do we need to partner with someone who has a distribution network set up already?"
A: We discussed up-front cost to enter the market in terms of infrastructure of plants, bottling lines, warehouses, delivery trucks and coolers. An analysis of the cost structure resulted in a reasonable operating cost structure but the level of investment required to become a significant player might be prohibitive, despite the attractive 30% operating margins of soft drinks.

Another "C": Customers
Q: "What is customer demand like?"
A: An analysis of the customer led to the discovery that there probably was a latent consumer demand for cold drinks especially in the summer, highlighting the importance of visi-coolers (i.e., refrigerators with glass doors so the consumer can see the product). In addition the seasonality seemed too severe and would force our bottling costs way up in the winter, with idle capacity sitting around.

Wrap-up / Recommendations for client:

Do not enter the market due to high initial costs and high seasonality of consumer demand.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT8
Firm: McKinsey
Type of Case:

___ Brain Teaser (Why are manhole covers round?)
___ Market Sizing (How attractive is the market for fire trucks?)
___ Operations (Our client's profits are down. Why?)
 ___ Declining Profits ___ Other
 ___ Marketing Problems
___ Strategy (Should our client enter the beer brewing industry? If so, how?)
 ___ New Product Introduction ___ Competitive Response
 ___ New Market ___ Response to Changing Environ.
 ___ Merger or Acquisition ___ Other

Initial Facts offered by interviewer:

John Malone of TCI commissions you to look into a concern that he has. He has heard that Hughes is planning to launch a commercial satellite that will offer cable TV services to the domestic market.

The Question(s):

Is this is a credible threat to John's monopoly position in cable TV services?
If it is credible, what should TCI do?

Suggested Solution

Desired Framework: [Check all that apply.]

___ Cost-Revenue and Profitability ___ The 4 P's of Marketing
___ The 3 C's ___ Value Chain Analysis
___ Porter's 5 Forces ___ Microeconomic Analysis
___ Internal-External Factors ___ Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

Upon inquiry you find that it would cost Hughes $5B to get this satellite in the air and operational. You also find out that it will offer 200 channels whereas TCI only offers 50. I had a tough time putting a structure to this one. In the end, after asking a few questions, I determined that we needed to estimate the revenues and costs for Hughes to see if this was a credible threat or not.

Price:

I assumed that on average, current cable bills are $35/month. In order to be a credible threat Hughes needs to be able to provide service at a price of around $35 (could be a little higher because of additional channel offerings).

Quantity:

On the quantity side I estimated the number of customers that the satellite TV offering could reach. I start with 100M households, estimate that 60% of those are in the market for cable services (combination of income levels and need for cable service to get any reception, which differs significantly by region) I find out that TCI has 40M customers across the country. I assume that all of these households could potentially be in the market for satellite service (if it was priced right).

Initial Costs and Amortization:

The initial $5B cost needs to be amortized over the useful life of the satellite. Upon inquiry, I discover that in general a satellite could last for 7-10 years. However, due to the rapid evolution of technology, the actual useful life of 1 particular satellite would be 5 years. This means that $1B needs to be amortized each year over the customer base of the satellite TV services.

Fixed Costs:

If you estimate that Hughes can penetrate 50% of TCI's existing market (20M) than the fixed costs would be $50/year. In addition to this cost, you have to cover the costs of sales and service as well as attaining rights to cable programming.

Variable Costs:

An additional cost that needs to be amortized is the cost of the satellite dish for the consumer. It's useful to mention that you could also opt to lease dishes to consumers to get around this big up front cost for the consumer. I discovered that the combined operating costs would, if you choose the leasing of the dish method (like today's consumers lease the cable box, and it gets rolled into the monthly bill of $35), be low enough to make this a credible threat to TCI!

Wrap-up / Recommendations for client:

The threat from Hughes is credible! Some suggestions that I had for John and TCI to address this were:

1. Attempt to provide their own satellite service,
2. Buy out the Hughes offering,
3. Improve (increase) the program offerings to your current customers to close the gap on what the satellite would offer, or
4. Try to develop exclusive agreements with certain programming to lock out the satellite offering.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT9
Firm: Marakon
Type of Case:

___	Brain Teaser (Why are manhole covers round?)			
___	Market Sizing (How attractive is the market for fire trucks?)			
___	Operations (Our client's profits are down. Why?)			
	___	Declining Profits	___	Other
	___	Marketing Problems		
___	Strategy (Should our client enter the beer brewing industry? If so, how?)			
	___	New Product Introduction	___	Competitive Response
	___	New Market	___	Response to Changing Environ.
	___	Merger or Acquisition	___	Other: Advertising

Initial Facts offered by interviewer:

Your client is a major distilled spirits manufacturer with a number of major brands.

The Question(s):

What should the focus of their advertising budget be?
What sized advertising budget would be needed to follow through on your strategy?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

The first thing that I did here was separate this problem into 2 distinct parts: I first addressed the focus question and then addressed the budget issue. I used a basic 3 C's approach to address what the focus of the advertising strategy should be.

Customers: The first thing that they need to do is determine what their target segment is.

Q: "What market segment is the client in?"

A: I discovered that they were competing in the premium scotch segment. Once they determine this segment, they can do a detailed analysis of the demographics of this segment.

For arguments sake I assumed that the scotch was Johnnie Walker Black and the target market was affluent males age 30+. Then they would need to do analysis of advertising media to determine how to reach this segment, i.e., print-ads in selected magazines, billboards, sponsorship of sporting events (golf).

Once they had data on what media effectively reaches their target segment, they would decide exactly what mix of media to use, and the specifics of the campaign to address the qualities that they wanted to associate with their brand (status, taste, distinguished, etc.). Market research could benefit the client in terms of determining what qualities they wanted to stress in their ad campaigns.

Competitors: After I completed the analysis of the potential customers, I looked at the competition

Q: "Who is the competition and where are we in relation to them?"

A: I found out that we were the #3 brand with a little less than 20 share, the #1 brand had a little higher than 20 and the #2 brand was a little lower than #2. The cost of advertising was not something I got too deeply into. I just noted that advertising was a significant portion of the cost structure of premium scotch brands (over 25% of sales).

Another point to note is that because of the high margins on this product, the more volume that a brand sold, the more resources the company would have to invest in advertising. There is a certain minimum scale that is required to be able to profitably advertise in this market.

Competitors: How is advertising related to market share?

Q: "How much do the competitors advertise?"

A: The third issue that I addressed was what the competition was doing. I learned that last year, the #1 player had spent a lot of $ on advertising and increased share, while the #2 player spent nothing and lost share. We spent a little more than nothing and increased share a little. The distant #4 brand also spent nothing on advertising.

Wrap-up / Recommendations for client:

Based on this information, I hypothesized that there was a pretty positive correlation of ad spending and volume increases. Once I outlined what the focus of the advertising strategy should be, I addressed the budget issue.

I proposed three alternatives to determining our budget for next year:

1. The first was to match the #1 competitor to attempt to keep pace.
2. The second was to increase ours a little relative to our historical (last year) spending.
3. A third way would be to do a detailed cost analysis of our proposed strategy, and actually quantify what it would cost to have the number of ads and sponsorships in the types of media that we determined would satisfy our strategy.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT10
Firm: Marakon
Type of Case:

___	Brain Teaser (Why are manhole covers round?)		
___	Market Sizing (How attractive is the market for fire trucks?)		
___	Operations (Our client's profits are down. Why?)		
___	Declining Profits	___	Other
___	Marketing Problems		
___	Strategy (Should our client enter the beer brewing industry? If so, how?)		
___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

Recently, Bank One acquired First USA bank. Bank 1 provides the full range of banking services whereas First USA only provided credit cards. Bank 1 has determined that First USA will run their credit card department.

The Question(s):

You are on the integration team, what are your concerns?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other:__Cultural (OP)_______

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I did not have a generic structure for this one, rather I listed the key issues I would be concerned with, and then dug into each one. I started with some clarifying questions. I discovered that Bank One had definitely decided to use First USA to run their credit card department; there would be no discussion about this.

Cultural and Organizational Issues:

Q: "How alike are Bank One's and First USA's cultures and organizations?"

A: The first set of issues that I outlined was related to the organizations themselves. This is basically the cultural lens that we all know and love from OP. I explored the different cultures and found that there would be no major problems merging the two.

Cost and Efficiency Issues:

Q: "Are there opportunities for costs savings with this acquisition?"

A: The next set of issues was cost related. I wanted to maximize cost savings of merging the two credit card departments. I explored what kind of cost savings could be attained: headcount reduction, shutting down duplicate facilities, increased scale.

There are some scales efficiencies in credit card service, but both companies already had the critical mass to optimize this dimension. First USA did have some more efficient processes that would ultimately drive down Bank One's operating cost structure of servicing credit cards.

Customers:

Q: "How alike are the fee structures of the two companies?"

A: The next set of issues I addressed were the compatibility of the two credit cards and the specs and rates that each company provided for its own customers. This is relevant in merging the two, because if the services and low rates provided by the two are not the same (which clearly, they would not be), then the least common denominator would be a factor here.

The point is that if one set of customers is expecting no annual fee and a 12% APR then they will not accept anything worse than this, they would simply change cards. Other attributes such as customer service would also have to be managed to please all of the customers. The revenue effects of integrating the two would have to be analyzed.

Wrap-up / Recommendations for client:

In the end these three issues: organizational, cost savings, and merging fee structures and services of the two cards were the only ones that I had time to address.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT11
Firm: Marakon
Type of Case:

___	Brain Teaser (Why are manhole covers round?)		
___	Market Sizing (How attractive is the market for fire trucks?)		
___	Operations (Our client's profits are down. Why?)		
___	Declining Profits	___	Other
___	Marketing Problems		
___	Strategy (Should our client enter the beer brewing industry? If so, how?)		
___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

Your client has just developed an anti depressant drug and wants to get it to the market. They do not have experience marketing drugs.

The Question(s):

What do you suggest?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other______________ ______

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

The first thing that I did was outline the options that our client had:

I detailed three different ways they could do so, and pointed out that they should choose the option that would be the most profitable for them. The three ways would be to:

1. Sell it directly themselves,
2. License the technology to someone else and receive royalties, or
3. Co-market the product with someone else.

The 3 C's: Competitors - As I analyzed which option would be best, I used the 3 C's to tackle some key issues.

Q: "What are the competitors doing?"
A: I discovered that there were 2 significant competitors who made of 100% of the market. One drug had the same efficacy as our drug with roughly the same level of side effects. The other drug had the same efficacy with fewer side effects. Naturally the second drug was priced a little higher. I flagged this issue as being relevant because there is already a product in the market with better attributes than ours. This would certainly mean that our product afforded us no real competitive advantage, and we would just be a me-too product.

Q: "What is the market size and growth rate?"
A: It is pretty big and growing at greater than 20% compounded annually.

Q: "Can the manufacturing capacities of the other manufacturers meet this demand?"
A: No. This leads to the hypothesis that the client's drug could still be profitable in this market, even if it is a me-too drug, as capacities of the other companies to provide the drug were limited.

The 3 C's: Cost - The next topic that I covered was the cost of marketing the product.

Q: "What are the marketing costs for the drug?"
A: I found that once the drug was ready to go, the sales component of the cost structure was over 70% while the manufacturing was only 10%. Given that we do not have a sales infrastructure in place, and it would require significant investment to establish and train one, I am starting to lean away from the "market the product ourselves" option.

The 3 C's: Customers

Q: "Who needs this drug?"
A: My analysis of the customers revealed that currently the demographics of the market are such that the price of this type of drug is not a major issue (wealthy people take these drugs). These people are willing to pay a premium to avoid side effects; so wealthy people will buy the competitor's drug that has fewer side effects.

However, the growth of the market will be driven by the fact that people who are not wealthy will begin taking this type of drug. Therefore we are not locked out completely by the competitor's better, higher priced drug.

Wrap-up / Recommendations for client:

In the end, I recommend that our client not market the drug themselves (too much investment required), but they should go forward in pursuit of a co-marketing agreement with someone who does have the sales infrastructure in place as this looks like it could be a profitable opportunity.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: STRAT12
Firm:
Type of Case:

___	Brain Teaser (Why are manhole covers round?)			
___	Market Sizing (How attractive is the market for fire trucks?)			
___	Operations (Our client's profits are down. Why?)			
	___	Declining Profits	___	Other
	___	Marketing Problems		
___	Strategy (Should our client enter the beer brewing industry? If so, how?)			
	___	New Product Introduction	___	Competitive Response
	___	New Market	___	Response to Changing Environ.
	___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

Your client is a $5 billion computer maintenance company with 25,000 staff worldwide. 80% of their current business is in servicing mainframes and the other 20% in servicing network servers. While the server segment has been growing at 25% per year for the past 3 years, the mainframe segment has been declining at about 9% per year for the past 3 years. The operating margins for the mainframe segment is 20% while that for the server segment is 8%. Your client is thinking of entering the PC segment because it has been growing at 40% per year. However, the operating margins in this segment are only 1%.

The Question(s):

Should your client enter the PC segment?
(Follow-up question: Given your answer above, what should your client's operational structure be?)

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I started with the 3 C's: Company (Cost)

Q: "How does my client's cost structure stack up against potential competitors?"
A: Your client's cost structure is higher than potential competitors because they employ highly qualified technicians, who are capable of servicing mainframes, servers and PCs.

Q: " What value-added does my client offer that might justify a price premium?"
A: The client guarantees a 4-hour turnaround, and has a great reputation.

C #2: Customer

Q: "Who are potential customers, and what level of service would they expect?"
A: Customers would likely be individuals or small companies who cannot afford long-term computer maintenance contracts.

C #3: Competition

Q: "What would be the nature of competition, both current and potential?"
A: There are a large number of small competitors, as well as a handful of well-heeled companies.

Questions for operational structure follow-up question:

Q: "What is the current operational structure?"
A: In each country, there's a centralized 24-hour hotline for customers to call in for servicing and the technicians are dispersed throughout the country in vans. Once a service request is received by the call center, the nearest available technician to the customer is dispatched.

Q: "Can all technicians service all types of computers?"
A: Yes, every technician is trained to service all types.

Wrap-up / Recommendations for client:

I recommended that the company not enter the PC segment because:

- My client does not have competitive advantage in this segment. Basically a commodity business that any computer literate high school kid can enter. Would have thousands of competitors.
- My client's cost structure is too high to cost effectively compete in this segment. One could argue that the client could employ high school kids for the PC segment but there's always the company's reputation to consider.
- Customers would likely be value conscious and wouldn't go for 'branded' servicing.

I also recommended a change in the operational structure:

The new operational structure should be more decentralized, i.e., number of call centers should be appropriately matched to the number of customers in each country, and there should be 2 types of technicians - one type can service both mainframes and servers while the second can only service servers. This will:

- Reduce the operating cost because a smaller number of highly paid mainframe technicians are required.
- Increase the technician utilization rate (currently at 50%) because each call center is now keeping track of fewer vans. This is especially important for a big country like the US.
- Enable each call center to be closer to the customers and better anticipate their needs.

Consulting Case Interview Question

Case No.: STRAT13
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
- ___ Declining Profits
- ___ Marketing Problems
- ___ Other

_X_ Strategy *(Should our client enter the beer brewing industry? If so, how?)*
- ___ New Product Introduction
- ___ New Market
- ___ Merger or Acquisition
- ___ Competitive Response
- _X_ Response to Changing Environ.
- ___ Other

___ Other ______________________________

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

A company has a monopoly selling stock-quote services. A major client has recently withdrawn their business. The quoting company thinks it might be a political move, since they have just been purchased by one of their client's major competitors.

The Question(s):

What should they do?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability	___ The 4 P's of Marketing
___ The 3 C's	___ Value Chain Analysis
___ Porter's 5 Forces	___ Microeconomic Analysis
___ Internal-External Factors	___ Other___________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Some hypotheses:
- relationship problem: the client might be able to tell us about them.
- change in activity after the acquisition, access to same services with another company abroad
- our client's client might be able to build its own system and pay less (need for an NPV analysis, and a study about the pricing strategy of our client; maybe the markup is too large, trying to benefit from its monopolistic situation).

- our client's client might be unhappy with the service provided (easy to test, by interviews). In this case, it is important to understand if the big clients have the same pricing and the same level of services as the small ones.

Some critical information needed to be asked to the interviewer here:

- How did the client achieve to have a monopoly? Is it a national or monopoly? (the company that purchased our client's client may have access to other services)
- How much would it cost to build its own system (to be able to answer when is it worth having its own system... A way to show that you know how to deal with numbers!!)
- Did the client do a good job with selling quotes or were some clients unhappy about the service provided?

What the interviewee found out from his analysis:
1) improving technology will move cost frontier inward.
2) consolidation in industry will create more large clients that might make their own systems.
3) client might now sell his or her own system and we would have competition.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Our client would be better off by changing its pricing; its market power is decreasing as consolidation in the industry is increasing.

Try to be more aggressive with small clients with whom we still have a pricing advantage.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Be careful to always clarify the question. Here the "political move" does not mean anything if you don't define it.

Consulting Case Interview Question

Case No.: STRAT14
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
- ___ Declining Profits
- ___ Other
- ___ Marketing Problems

_X_ Strategy *(Should our client enter the beer brewing industry? If so, how?)*
- ___ New Product Introduction
- ___ Competitive Response
- ___ New Market
- _X_ Response to Changing Environ.
- ___ Merger or Acquisition
- ___ Other

___ Other ____

Initial Facts offered by interviewer: *[Please relate the facts the interviewer gave to set up the question/problem. Provide sufficient information so the case can be adequately understood!]*

A New England Electric Company is facing competition due to deregulation in their industry. Soon, the carrier (wires) business will be separate from the generation (power plant) business. Any company generating electricity will soon be able to sell in their market.

The Question(s):

What should the company do?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability
___ The 4 P's of Marketing
_X_ The 3 C's
___ Value Chain Analysis
___ Porter's 5 Forces
___ Microeconomic Analysis
___ Internal-External Factors
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Competition: high fixed costs, and low marginal cost business (like airlines and telephone).

Consequences:

- Incentives to produce a lot in order to amortize the initial investments;
- High barriers to exit, which causes increase in competition intensity;
- However, it takes 7 year to build a power plant, creating huge barriers to entry;
- Also, economies of scale and learning curve will give a competitive advantage to existing big players.

Therefore, after deregulation, we can forecast few new entrants, industry consolidation (the biggest players buy out the smallest), but incentive to production increase and overcapacity.

Customer: 2 kinds: individuals and corporations. Right now, the level of services offered in this industry is not very differentiated by customer type (pricing, flexibility, maintenance).

You also have to talk about the definition of market boundaries hers: customers may be loyal and/or they may not have so much choice for their electric company in their geographic location. This means that a good strategy might be to choose an area with small potential competition (Dakota...) for the electric company. New England might not be the best.

Another issue is price sensitivity. Electricity is a COMMODITY and customers should be very sensitive to prices.

Company: The interviewee found out that the customers were not satisfied with the level of service of our client; that the client is not a low cost competitor.

Wrap-up / Recommendations for client: *[Sum it all up!]*

Potential overcapacity, customer sensitivity to prices, incentives to decrease prices to marginal cost. ⇒

Additionally, our client is not excellent and does not differentiate among its competitors. Because it is small and regionally located, no chances to benefit from economies of scale...

The best way now is to find a way out. Our client will probably get a good price for the wires and the power plants.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Additional information that might be useful to your fellow Sloanies:

Always keep in mind that getting out of the business is OK to mention if you explore the other solutions and found that they were not viable!

Consulting Case Interview Question

Case No.: STRAT15
Firm:
Type of Case:

___ Strategy (Should our client enter the beer brewing industry? If so, how?)

X	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

___ Other ______________________________

Initial Facts offered by interviewer:

Your client is a manufacturer of aluminum and he is experiencing decline in sales over the last several years. Over the past he has been working on developing new technology in plastics. The client is slightly ahead of competition in this development.

The Question(s):

Should the client continue development of plastic or remain in the aluminum industry?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
X	Porter's 5 Forces	___	Microeconomic Analysis
X	Internal-External Factors	X	Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

There are two parts to the answer. First, is plastic an attractive industry and is it more attractive than aluminum in the long term? And second, does the client company have capabilities to become a profitable player in the plastic industry?
An additional consideration is what is to become of the client's aluminum business? Can the two businesses be run together without adding significant complexity costs? Is there any sizeable synergy between the two (production and/or distribution)? If not, can the aluminum business be sold for the right price?

Let us consider the first question.
Explore the reason for decline in aluminum market. Is plastic replacing aluminum? What about cannibalization of existing aluminum products?
What are the likely actions of competitors? High rivalry in declining aluminum industry will lead to price wars and declining profits.

Plastic market:
Does plastic offer significant benefits to customers? Are their needs satisfied by plastic?
What is the cost of entry into the plastic market? Minimum efficient scale for plastic is 10% of the volume of the aluminum market.
Are there any other substitutes to aluminum and plastic?

Desired Answer / Blinding Insights / Twists and Turns (if any):

No specific answer was required for this case. The key issues were:

- potential cannibalism
- high rivalry in a declining industry (aluminum) that will lead to price war and declining profits

Consulting Case Interview Question

Case No.: STRAT16
Firm:
Type of Case:

___ Strategy (Should our client enter the beer brewing industry? If so, how?)

X	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

___ Other ______________________________

Initial Facts offered by interviewer:

A client company has patented a cholesterol meter, which can be used at home. It is designed for patients who have a history of high cholesterol, and are controlling their cholesterol levels through medication.

The Question(s):

How should they introduce this new product?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	X	The 4 P's of Marketing
X	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other____________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

A problem of new product introduction is best approached with the 4 P's tool.
To start with, however, it is important to understand what market you will be working in and what therefore your marketing strategy should be.
The market:

- who are your customers and what is their purchasing pattern;
- how big is the potential market;
- who are your competitors and what are their strategies;
- what are our strong and weak points comparing to those of competition;
- what are our costs of manufacturing the new product;
- what are the future market trends?

Your marketing strategy should be then based on those facts:

- Place

- Price
- Promotion

Desired Answer / Blinding Insights / Twists and Turns (if any):

In this case consumers' purchasing pattern will be quite unusual in the sense that product decision and pricing decision are separated: neither decision makers (doctors) nor consumers are paying for the product. Usually insurance companies pay for it.

Consulting Case Interview Question

Case No.: STRAT17
Firm:
Type of Case:

_X_ Strategy (Should our client enter the beer brewing industry? If so, how?)

___ New Product Introduction
New Market
___
_X_ Merger or Acquisition

___ Competitive Response
Response to Changing Environ.
___ Other

___ Other ____

Initial Facts offered by interviewer:

A client owns a large bank with many branches and wants to get out of the banking business. With $100 M in losses, he hopes to find a new business to acquire, against which he can offset the losses (losses carry forward).

The Question(s):

Recommend an acquisition candidate.

Suggested Solution

Desired Framework: [Check all that apply.]

___ Cost-Revenue and Profitability
_X_ The 3 C's
_X_ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
___ Microeconomic Analysis
___ Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

Two stepped approach.
Step 1 - he needs to find a well performing company in an attractive industry that will meet his financial objectives.
The new company's net income within the next 15 years should be sufficient to cover losses of the banking business.
Long-term attractiveness is important, because once the losses are written off; the client must be able to sell this new business at a good price (if he so desires).
The industry is important so that the current bank capabilities can be leveraged (expertise in customer research, geographical spread, etc.)
Since there are significant requirements to the new business's profitability, most start-ups are not viable alternatives.
Step 2 - understand if the banking business has sufficient capabilities (management and other) to run a diversified company so that cost of complexity does not exceed the benefits of diversification.

Desired Answer / Blinding Insights / Twists and Turns (if any):

Consulting Case Interview Question

Case No.: STRAT18
Firm: McKinsey
Type of Case:

___ Strategy			
___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:

A major chemical producer has hired our consulting firm to evaluate another large player in the chemicals industry as a possible merger candidate. Both our client and the other company are bulk commodity chemical producers. Our consulting firm's main job is to analyze the future prospects of the target company's main product line: a bulk chemical that is used in the production of plastics.

Initial data has revealed the following facts:

- Production of this chemical has been declining slowly for several years
- Prices have declined rapidly
- There are 8 major producers of this chemical with market share divided the following way: the largest producer has a 30% share, the second largest has a 20% share, and our target company has a 15% share. The rest is divided among the remaining 5 competitors.
- Profitability in the industry is relatively low. The two largest competitors earn small returns, our target company is breaking even, and the remaining competitors are operating at a small loss.
- The largest competitor has just announced plans to substantially increase capacity.

The Question(s):

Our consulting firm has to analyze the target company's future prospects in the product line. As manager of this case assignment, what information do you need to know and how would you structure the analysis to determine if this merger is a good idea?

NOTE: At this stage in the project, our consulting firm is not in a position to make a recommendation, but is more interested in gathering the *appropriate* data. (This is different from most consulting case interviews in which the purpose is to come to a recommendation).

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
X	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

This is an industry analysis case in which Porter's Five Forces might be useful, but it is really an exercise in how to uncover the underlying drivers of the facts given in the case. In general, the interviewer was more interested to see if I could ask the right data collection questions.

A satisfactory response would include addressing the following issues:

- What buyers/markets make final use of this chemical? What is the nature of the growth and profitability of these end markets? *The chemical was used primarily in the automotive related industries.*
- How much production capacity exists in the industry compared to the demand today? To the estimated demand in the future? *Much more capacity than necessary.*
- What is the current capacity utilization in the industry? Of our target firm? *Both the industry and our target firm are operating at approximately 70% capacity.*
- What is the relative cost position or our target company compared to the rest of the competitors*? Our target company has a reasonably good position compared to the rest of the industry in terms of size, age and efficiency of equipment, and financing.*

A good response would also include addressing the following issues:

- Are there additional niche or value-added uses for this chemical or its by-products that are as-yet untapped? *Nothing really significant.*
- How rational or volatile is pricing between firms? *The industry players often engage in price cuts to temporarily increase market share, but usually suffer falling profitability as a result.*
- Are entry or exit costs prohibitive? Has the number of competitors or their market share changed significantly in recent years? *Entry is expensive due to the unique fixed costs of producing this chemical, but competitors have been in this industry for a long time and many plants are fully depreciated, making exit inexpensive. Market share has not changed significantly in recent years.*
- How diversified is this company and does this product represent a significant source of revenue? *It is a significant source of revenue but most competitive producers are adequately diversified.*

An outstanding answer would also include the following issues:

- Is this industry or product regulated in any way that affects cost, pricing, or profitability? *Environmental and pollution regulation apply in the normal way to the chemical production process, but nothing out of the ordinary.*

- Are there operational improvements that the target company could make to enable it to be more efficient or other management expertise that our client's company could bring into the merger? *Yes, on both accounts.*
- Do we know the reason for the largest competitor announcing capacity increases? Are they trying to introduce a credible threat to deter future entry or expedite exit from the industry? *We are not sure but it could be possible.*
- Are there scale economies in production or distribution? *Yes, economies of scale exist in marketing and transport, but are much smaller in production.*
- Are there other synergies between our client's company and the target company such as product mix, cross-selling opportunities, raw material purchase, etc? *Not significant at this point.*

There are countless paths that the analysis could flow down but these are some of the most obvious to consider.

Consulting Case Interview Question

Case No.: STRAT19
Firm:
Type of Case:

_X_ Strategy

___ New Product Introduction
___ New Market
_X_ Merger or Acquisition

___ Competitive Response
___ Response to Changing Environ.
___ Other

___ Other ______

Initial Facts offered by interviewer:

A British company has hired our consulting firm to evaluate its recent diversification into a new market. The firm has been a producer of car batteries in the domestic market for thirty years and is currently the quality leader throughout the United Kingdom. A few years ago, the product line was expanded to provide batteries for forklifts and other motorized loading trucks. The initial entry into this market was successful, but since then, sales have decreased steadily every year.

Our consulting firm has been able to dig up the following background information:

- The client entered the forklift battery business to utilize the company's excess capacity during periods of inactivity.
- This industry is very mature and annual growth rates have been very small over the past few years.
- Competitors in the industry include:
- – 4 domestic producers (experiencing decreasing market share)
- – 1 French producer (experiencing stagnant share)
- – 1 Spanish producer (experiencing increasing market share)
- The Spanish firm offers low priced but inferior quality batteries
- The client's forklift batteries are sold to industrial dealers by captive salesmen.
- Free maintenance service is a part of every sale.
- Purchases of automobile batteries in the consumer market are highly seasonal.
- Larger customers are sophisticated in their buying practices, focusing decisions on both quality and price. Smaller customers are less sophisticated and make purchase decisions based solely on price.
- The client's management style could be defined as 'old school,' with the original owner/founder still in charge.

The Question(s):

What recommendations would you have for this company?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
___	Internal-External Factors	___	Other_____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

The Spanish product is inferior in quality and may offer buyers a worse deal in the long run, but is targeted to smaller dealers who buy only on the basis of price. Service is not a problem for these smaller dealers who do not know much about preventive maintenance, so the product appears a better deal.

Issues addressed:

- Market Segmentation: Differences between large vs. small customers – size, needs, buying behavior
- Product/Service Bundling: How do different segments want to but our services according to their needs (stand-alone or bundled?)? What is better for us?
- Customer Profitability: How can we best profit in each segment?
- Competitor Analysis: What do competitors offer? What segments do they serve? Do they have flexibility with respect to cost, product functionality, and price?

Option 1: Establish an Off-Brand

1. An off-brand would allow the firm to develop a product better positioned in the forklift battery business (perhaps of lesser quality but more price competitive), while maintaining its product quality image in the automobile industry.
2. Cost savings with an off-brand could come from:
    - Redesign of product using cheaper materials or a different manufacturing process.
    - Offer the free maintenance service as an option, not a guarantee quoted as part of price in the low-end segment. Keep product and service bundled in high-end segment.
- Eliminate the sales force and sell factory-direct to industry dealers or use brokered distribution.
3. Sell the current product at a cheaper price with a strategy to promote market share instead of current profits.

Option 2: Focus Sales and Marketing Efforts to Educate the Consumer Market

1. Develop and promote product positioning. Offer warranties, long-run cost-savings estimates, etc. to send quality signals that competitors cannot match. Communicate 'true cost' of buying low-priced batteries and try to change consumer-buying behavior.
2. Leverage strength of quality leadership position in automotive markets.
3. Focus only on high-end of forklift battery market and target larger dealers. Set higher prices to signal quality and extract highest level of consumer surplus. Refocusing of resources would need to be evaluated in terms of dedicated assets and return on investment.

Option 3: Exit the Forklift Battery Business

1. If competing in this industry means lowering quality standards may be putting core automotive business at risk.
2. May be able to find other opportunities that better fit with company's strengths and image.
   - Forward integration into end products – industrial loaders and equipment, golf carts, etc.
   - Backward integration into chemicals, plastics, etc.

Option 4: Do Nothing

1. Wait to see how market reacts to product over a longer period of time or to minor marketing changes
2. Difficult to sell this strategy to owner given investment in expensive consulting advice, although this may in fact be the most logical approach.

Consulting Case Interview Question

Case No.: STRAT20
Firm: Deloitte Consulting
Type of Case:

___ Strategy

___	New Product Introduction	___	Competitive Response
___	New Market	___	Response to Changing Environ.
___	Merger or Acquisition	___	Other

Initial Facts offered by interviewer:
The client is a leading beer manufacturer that has been experiencing stagnant sales in an increasingly competitive industry, so is trying to evaluate growth opportunities. The following are the key problems and issues that brought the client to your firm:

- A high level executive at the client has noticed a steady and substantial increase in the consumption of bottled water products
- Believing that the assets required to product bottled water are very similar to that of beer, the client wants to recommended to the CEO that they begin production of bottled water products. He has asked your firm to help build the case for why they should enter the Bottled Water market to achieve their sales and profit goals.

<u>Additional Data Provided Up-Front</u>
Client is facing increased competition from microbreweries, and has already explored ways to penetrate the international market; however, this alone will not enable them to meet their current five-year sales and profit goals.

The Question(s):

How do your develop the business case? What recommendations would you have for this company?

Suggested Solution

Desired Framework: [Check all that apply.]

X	Cost-Revenue and Profitability	___	The 4 P's of Marketing
X	The 3 C's	X	Value Chain Analysis
___	Porter's 5 Forces	___	Microeconomic Analysis
X	Internal-External Factors	___	Other____________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

The boxes in this framework are organized by category. Each box contains questions for that category; the answers to those questions are listed as subordinate bullets.

MARKET POTENTIAL	FEASIBILITY	PROFITABILITY
• What is the expected growth rate for bottled water? – After 3 years of 30% growth, the bottle water market has flattened, with future annual growth expected to be <10% – Recent industry analysis suggests that current manufacturing capacity among the major water producers will not satisfy basic domestic demand	• How does the new product fit with our current line of business? – Client employs a focused manufacturing strategy – each plant produces a few specific product lines	• How do distribution channels of competitors compare to those of the client? Can the client use their current distributor network? – Very different - client sells primarily to distributors who sell to restaurants and liquor stores; competition sells to distributors who sell to grocery/mass merch. outlets and offices/homes
• What is the competitive environment of the bottled water market like and how does that compare with the beer market? – Beer market is highly fragmented with many regional brands – There are 3 major water producers who sell nationally	• What will be market acceptance of beer producer in bottled water market?	• Are there alternative strategies to entering the bottled water industry (i.e. outsourcing, contracting)?

MARKET POTENTIAL	FEASIBILITY	PROFITABILITY
• Who is our target market for the bottled water? How large is the market? How does that compare with beer? Are they compatible?	• What are the key success factors/core competencies for a Bottled Water manufacturer relative to Beer Brewer? – For Beer, regional brand strength and distribution coverage – For Water, low bottling costs, national brand name recognition and distribution coverage	• What is impact on beer market share due to loss of production capacity for water? Are there seasonal/cyclical impacts?
	• What capital investments are required? (Interviewee should not assume client is correct in his assumption) – Capital investment requirements for packaging beer vs. water are different: plastic bottles/jugs/coolers vs. aluminum cans/glass bottles and kegs	• What is profitability of bottled water line? (EVA, RONA, contribution margin?) How does this align with overall (executive) performance objectives?
	• What are the regulatory/labeling requirements? Do they differ substantially from our current product line?	
	• Does client have marketing/sales force infrastructure and capabilities to operate/run bottled water business successfully?	

Other questions that may be asked:

- How would you go about estimating the annual market potential/sales of the bottled water market?
- If your recommendation were counter to your client's belief, how would you go about communicating your recommendation to him/her?
- What if you learned that there was going to be a new entrant in the Bottled Water market? What analysis would you focus on to determine if you should change your recommendation?

Consulting Case Interview Question

Case No.: OTHER1
Firm: Booz Allen - Engineering/Manufacturing Group (EMG)
Type of Case:

_X_ Other _Microeconomics_

Initial Facts offered by interviewer:

Your client is a shipbuilder who builds tankers. Presently, there are a total of three tankers in the world.

The Question(s):

The client wants to know if he should build a tanker. What would you advise him?

Suggested Solution

Desired Framework: [Check all that apply.]

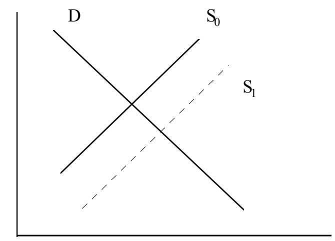
___ Cost-Revenue and Profitability
___ The 3 C's
___ Porter's 5 Forces
___ Internal-External Factors
___ The 4 P's of Marketing
___ Value Chain Analysis
_X_ Microeconomic Analysis
___ Other___________________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

This is a supply and demand issue. Specifically, I wanted to know:

1. What would happen to price if (world) supply of tankers increased 25%?
2. Are there other producers or is our client a monopoly producer? If there were other producers, what would be their likely response if our client were to undertake this project?
3. How much demand is out there?

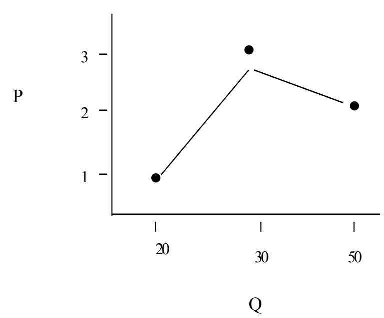
I began by drawing a basic supply and demand diagram:



Before I addressed questions 2 and 3 (above), the interviewer stated he wanted me to construct a supply curve from actual data and gave me the following:

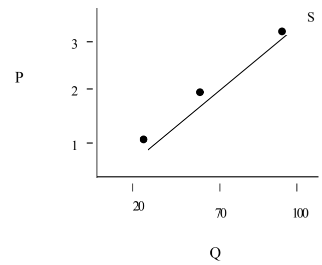
Tanker	MC ($/k ton capacity	Capacity (K tons)
1	.02	50
2	.03	30
3	.01	20

I initially (wrongly) plotted the three points using MC as price and capacity as quantity:



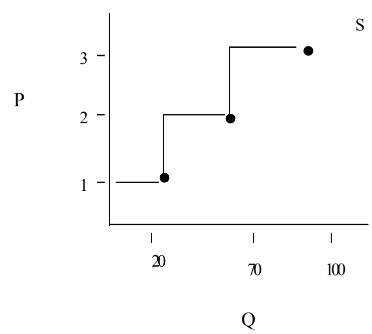
The interviewer gave me a clue and told me to plot the points using cumulative quantity to derive the shape of the curve:

MC	Capacity
.01	0-20
.02	20-70
.03	70-100



From the plot, I inferred a straight-line supply curve (as drawn here).

The interviewer asked me to draw the actual, incremental supply curve implied by the data (this is actually a step function rather than a straight line):



Our client's decision to produce depends on the amount of demand and the marginal cost of producing a fourth tanker.

Q: "What is demand?"

A: "Demand is at 70 k tons."

Conclusion:

MC at 70k tons is 2 cents per k ton.

Wrap-up / Recommendations for client:

I recommended that the client:

- build, if the client can produce a tanker at a marginal cost of no more than 2 cents per k ton
- otherwise, don't build

Desired Answer / Blinding Insights / Twists and Turns (if any):

Remember the importance of getting your pencil to paper and to draw some graphs!

Consulting Case Interview Question

Case No.: OTHER2
Firm: McKinsey, BCG, Booz Allen & Hamilton
Type of Case:

X Other Microeconomics

Initial Facts offered by interviewer:

There is a tin mining cartel consisting of Country A, B, C, and D. Every year the four governments get together to decide how much to produce according to demand forecasts, and allocate the production quota evenly among them. Now, Country A is thinking about withdrawing from the cartel.

The Question(s):

Country A comes to you for advice. What will you tell them?

Suggested Solution

Desired Framework: [Check all that apply.]

___	Cost-Revenue and Profitability	___	The 4 P's of Marketing
___	The 3 C's	___	Value Chain Analysis
___	Porter's 5 Forces	X	Microeconomic Analysis
___	Internal-External Factors	___	Other___________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic: *[Walk us through how you arrived at your answer in detail.]*

I need to determine if it is more profitable for country A to mine according to the guidelines of the cartel, or on their own.

Q: "What are the relative production costs of each of the countries?"
A: Countries A and B have a 10% cost advantage over countries C & D.
(Alternatively, you may be asked how you would find out the production costs of each country)

Q: "What volume does each country produce and sell, historically?"
A: Last year, Country A and B both produced twice as much as countries C&D (you may get actual numbers, but very often you will get broad generalizations like these.)

Q: " What is the demand curve facing the producers?"
A: A basic downward sloping demand curve (drawn as such on a piece of paper).

I wanted to derive the price implied by the supply and demand curves. The KEY to this question is to derive the world supply curve. The basic concept is from ECON 101: supply curve is the sum of MC curve of all producers. Here we only have four producers. Based on what I found out from my questions, I know that the supply curve will be a step function and can compare the price with A's marginal cost. Based on A's cost position on that supply curve, I can decide whether A will be better off producing on their own.

Wrap-up / Recommendations for client:

I recommended that country A go it alone, based on their favorable cost position, and the fact that the remaining countries did not have enough volume to "open the flood-gates" in an attempt to punish me for leaving the cartel.

Desired Answer / Blinding Insights / Twists and Turns (if any):

My answer was right on, but I did not mention the possibility of non-cartel producers who could fill the world supply.

Additional information that might be useful to your fellow Sloanies:

Consulting Case Interview Question

Case No.: OTHER3
Firm:
Type of Case:

___ Brain Teaser *(Why are manhole covers round?)*
___ Market Sizing *(How attractive is the market for fire trucks?)*
___ Operations *(Our client's profits are down. Why?)*
  ___ Declining Profits   ___ Other
  ___ Marketing Problems
___ Strategy *(Should our client enter the beer brewing industry? If so, how?)*
  ___ New Product Introduction   ___ Competitive Response
  ___ New Market   ___ Response to Changing Environ.
  ___ Merger or Acquisition   ___ Other
_X_ Other Consolidation

Initial Facts offered by interviewer:

The VP of Procurement of a large diversified company is considering consolidating purchasing efforts. Each business unit currently operates autonomous purchasing departments.

The Question(s):

What are the considerations of consolidation?

Suggested Solution

Desired Framework: *[Check all that apply.]*

___ Cost-Revenue and Profitability   ___ The 4 P's of Marketing
___ The 3 C's   ___ Value Chain Analysis
___ Porter's 5 Forces   ___ Microeconomic Analysis
___ Internal-External Factors   _X_ Other__________

Outline of Your Answer - Important questions asked, additional information divulged, assumptions, and logic:

This is a tough one to use a framework for, I basically used a cost-benefit framework to see what benefits there would be in consolidation, and what costs we would incur.

Q: "In this diversified company, how much synergy would there be in consolidated purchasing, i.e., how much of the same types of products do each division purchase?"
A: Although each division orders specific materials, there is significant overlap in some divisions.

Q: "How does purchasing work today?"
A: Each division has their own purchasing department, and materials are purchased and delivered to each of the 13 divisions' central warehouses.

Q: "Where are these warehouses located geographically?"
A: They are all in the U.S., with 9 on the East Coast, 1 in Texas, 1 in Chicago, and 2 in California.

Wrap-up / Recommendations for client:

I recommend that the client consolidate the purchasing department if the benefits outweigh the costs:

Benefits:
- Economies of scale from larger purchasing quantities
- Reduction in number of buyers, managers
- Closing of some East Coast warehouses (there can't be a need to have 9!)
- Reduction in administrative costs (billing info, secretarial support, etc.)
- Buyers may be able to establish closer relationships with vendors (we now order bigger quantities) and become more knowledgeable about products they are purchasing.

Costs:
- Making the materials purchased uniform may be a problem for some divisions, i.e., order products with features that division 1 and 2 need but not that divisions 6 and 7 need – features that might make the materials more expensive than they would otherwise be if divisions 6 and 7 bought them on their own.
- Distribution costs may be prohibitive, if warehouses were closed.

Overall, I anticipate the benefits would outweigh the costs, but would have to perform the analysis to determine what recommendation I would make.

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