Casebook IIM Ahmedabad

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CASE: TAXI DRIVER IN MUMBAI (BCG)

A taxi driver in Mumbai wants to increase his revenue and profits. The driver is the owner of the taxi and operates during the day time. The driver starts his day at the railway station and works for 10-12 hours daily.

Case Discussion

Candidate: Hi. I would like to clarify a few things before I start analyzing the case.

Interviewer: Sure.

Candidate: What is the current state of the operations of the taxi driver? Has there been any recent change in fare policy? I am assuming that fuel, parking fee and maintenance to be the major cost heads. Is there any other cost that I am overlooking?

Interviewer: Currently, the taxi driver is able to earn enough to make ends meet but is keen to increase his income. The fare policy is state determined and is unlikely to change in next 2-3 years. Apart from the cost mentioned by you, there isn't any other hidden cost.

Candidate: Okay. Now since this issue involves increasing income, I would try to look at increasing revenues and decreasing costs. On the revenue side, is the taxi driver operating on a fixed route or is he moving from point to point? The reason I am asking this is if he is operating at a single fixed stand, he might be returning empty to that stand; on the other hand, moving point to point would increase his waiting time.

Interviewer: Good that you brought it up. The driver has a spot at the railway station which is considered a profitable spot but often returns to the station empty as he doesn't often find people traveling towards the station.

Candidate: Hmm. Is the driver able to find a customer easily at the station? Is there a lean phase?

Interviewer: Yes for the first question. This is the reason of the station being a profitable spot. The trains regularly bring passengers all day long.

Candidate: So, to reduce coming back empty towards the station, the driver should focus on routes with more potential passengers such as bus stands. He should try to focus on customers going to bus stand from the station and vice versa.

Interviewer: That's a fair suggestion but do you think that it would make a significant difference to the revenues of the driver?

Candidate: I think on the revenues side, we should also try to explore the options of revenue-sharing of taxi-fare by letting some other driver drive the taxi in the night.

Interviewer: What would be potential issues with such a system?

Candidate: First issue would be obviously finding such a person on whom the driver can place the trust. Revenue sharing model and accountability and proper maintenance would be another issue which needs to be looked into.

Interviewer: Is there anything else to increase the revenues?

Candidate: The driver might offer advertisement space on his taxi. He can rely on references by tying up informally with academic institutions, hotels and such institutions.

Interviewer: What are the other options available to the driver?

Candidate: I would now focus on the cost side of the operations. Is the taxi currently operated on LPG/CNG or petrol/diesel? If petrol, what are the switching cost and variable cost?

Interviewer: The taxi is currently diesel based. Switching to CNG would require large one time investment but the funds can be arranged by any public sector banks which are encouraging such practices. Also, it is cheaper to use CNG over diesel.

Candidate: And is there any negative effect of CNG on the performance of car?

Interviewer: Not significant.

Candidate: In that case, the driver should switch to CNG. Also, he should focus on proper maintenance of the vehicle as this would increase fuel efficiency and reduce loss of revenue due to downtime.

Interviewer: Can you come up with any radical solution to increase his income?

Candidate: The driver might collude with other taxi driver to raise the prices. He can collaborate with drivers from same locality, stand or hometown to do this. The driver can also ask gatekeepers and support staffs of offices and educational institutes to call him in case anyone wants a means of conveyance.

Interviewer: Sounds good to me. I think we shall move to the next rounds now. Thanks for your time.

PROFITABILITY

CASE: CEMENT PRODUCER (BCG)

There is a major cement manufacturing company which recently has started experiencing a decline in profitability. They have hired you to determine the cause of the same and suggest remedial measures.

Case Discussion:

Candidate: Since our profitability has declined, I would like to analyze the situation from two angles, whether our costs have increased in a disproportionate manner or have our revenues decreased in a disproportionate manner when compared to the industry levels.

Interviewer: Fine.

Candidate: This follows from the fact that there might be certain factors which have decreased our selling price or any of our significant cost drivers has experienced a major influence by some external factor.

Interviewer: That seems a good enough basis.

Candidate: To start with the problem I would first like to analyze our revenues. Has our selling price decreased in the recent past?

Interviewer: No, in fact we have in fact tried to increase our price to offset this loss in profitability.

Candidate: Since revenue = price*volume and for profitability volume does not play a role, I assume that the revenue side of our balance sheet is fine.

Interviewer: Quite right, in addition to that our volumes have actually increased over the past six months.

Candidate: So, I believe it would be fair to assume that our profits might have increased but only our profitability has decreased.

Interviewer: Yes.

Candidate: Trying to analyze the cost side of the problem, I would like to analyze the value chain to determine the various cost drivers.

Interviewer: Yes.

Candidate: Our key drivers I believe would be

1. Raw Materials
2. Manufacturing
3. Storage
4. Sales and Distribution
5. Marketing and Administrative Expenses

Are we missing out on any relevant cost driver?

Interviewer: That seems a fairly comprehensive list, carry on.

Candidate: Starting with the raw materials, I am personally familiar with the cement industry. I would like to analyze what are the relevant raw materials and figure out any changes in the costs of the same with respect to any data we might have.

Interviewer: The raw material is basically limestone which has not experienced any major upheavals. In fact the same can be said about our manufacturing process.

Candidate: Assuming that there are no issues with the raw materials or the manufacturing process, I would like to analyze the distribution costs. Have they experienced any change?

Interviewer: Coming to think of it. Yes, our distribution costs have increased in a significant manner.

Candidate: And have we been able to find the relevant cause for the same?

Interviewer: No, that is why we have you here…

Candidate: With the increase in volume, one would expect the distribution costs to be less due to economies of scale. However as this is not the case, I would like to analyze the distribution system. What is the model we are following?

Interviewer: In the cement industry, cement is supplied from the factories to the relevant centers which take care of further distribution themselves. We receive an order from one of these centers and map it to the nearest facility, if it is able to supply it, then it is good, else we move on to the next closest factory and so on

Candidate: Is the cost of supplying from any one factory to any other center constant?

Interviewer: No. It depends on the distance and quality of roads. The petrol prices haven't changed that much over the past year.

Candidate: It seems that with the increasing demand we are not able to supply the cement centers in the most cost effective manner.

Interviewer: True, we almost have to end up at our third or fourth choice plants as the first two are invariably running to capacity.

Candidate: So it is clear that our plants due to their capacity are not able to satisfy their local demands in a cost effective manner.

Interviewer: That's good. So what do you suggest, we should do.

Candidate: I would suggest setting up more plants or renovating the plants to increase capacity.

Interviewer: Our client does not want to incur any capital expenditure

Candidate: We could increase our selling price to retain the necessary margins.

Interviewer: That would not be possible; it's quite a competitive industry.

Candidate: We could try to allocate centers to factories based on the most effective combination to minimize costs.

Interviewer: That seems a feasible option. How would you do it?

Candidate: Let us assume there are two Centers, 1 and 2 and two factories 'a' and 'b'. We will try to minimize

$C_{1a} + C_{2a} + C_{1b} + C_{2b}$ based on the demand and supply constraints of each center and factory. 'C' here stands for the cost incurred in the specific transit.

Interviewer: Very good. Anything else you might want to add.

Candidate: This optimization basis is a short-term solution only. The organization should carry out a proper forecast for the future demand and if it finds it favorable, it should go for capital expenditure in addition to these short term measures.

Interviewer: That seems a pretty good analysis. So can you just summarize the case for me?

Candidate: Our client is a major cement manufacturer. Of late, inspite of increase in profits, it has been experiencing a decline in profitability. The reasons were for the same were found out to be the unfavorable costs incurred while supplying the products to the relevant centers. A short term measure for the same was to optimize the costs incurred by matching the factory and center in a most cost effective manner. A long-term solution would involve doing the cost-benefit analysis of a possible expansion and using the same to expand capacity at relevant plants.

Interviewer: Thanks. We have had a good discussion.

CASE: GLOBAL RETAIL BANK (McKINSEY)

A global retail bank is in the process of expansion. However it is facing declining profits. The CEO wants you to analyze the issue and advise what the bank should do.

Case Discussion

Candidate: Hi. I would like to clarify a few things before I start analyzing the case.

Interviewer: Sure.

Candidate: Can I assume that the global retail bank is operating in India where it is facing the aforesaid issues?

Interviewer: Yes. You can assume India.

Candidate: I follow that the bank is in the process of expansion. Have the revenues of the bank also been decreasing?

Interviewer: The revenues have been increasing but the profits have been declining.

Candidate: What is the state of banking industry when this is taking place, normal or is it changing? Is the industry facing some issues?

Interviewer: You can assume that it is same as before.

Candidate: Ok. Is it fine if I analyze the revenue first and then the costs?

Interviewer: Fine, go ahead.

Candidate: Retail banks have three principle sources of revenue – net interest income (the value of the balances), debit card interchange, and fees that the bank charges on various services. I am assuming that the major source of revenue is loans.

Interviewer: Fine. I would like you to look at loans.

Candidate: A bank generates a profit from the differential between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities. Profitability from lending activities has been dependent on the needs and strengths of loan customers. Are there any changes in the loan structure or the type of customers to whom loans are given out? Is the bank giving loans to high credit rating customers or customers with low credit rating?

Interviewer: The bank has been giving out more loans to the low income customers.

Candidate: Giving out more loans to low income customers might have increased the bad debts. Has this been the case?

Interviewer: Yes, these customers do have a higher percentage of not paying back.

Candidate: Now let's look at the cost structure. There are fixed charges as well as variable charges. The fixed charges will more or less be constant while the variable costs might be increasing.

Interviewer: Go on.

Candidate: With the increasing number of low income or customers with poor credit rating, there are increasing charges as variable costs will increase. Moreover with the high percentage of bad debts, the bank is also facing non repayment of loans. This is leading to declining profits.

Interviewer: Good. Now let's go in some numbers.

Candidate: Sure.

Interviewer: Suppose the bank is currently giving loans to 10 million customers and charging interest at the rate of 10 %. Calculate the profit of the bank from loans. The percentage of bad debt from high income and low income customers is 2% and 4% respectively.

Candidate: Can I assume that the number of high income customers and low income customers is equal, i.e. 5 million each?

Interviewer: Ok.

Candidate: I am assuming that the average loan amount given to the high income and the low income customers is Rs. 10000 and Rs. 2000 respectively.

	High Income customers	Low Income customers
Interest received	10000 X .1=1000	2000 X .1=200
Interest for all customers	5000 million	1000 million
Costs		
Fixed costs (assume)	100 million	100 million
Variable costs	500 million	500 million
Bad debts	1000 million	400 million
Profit before tax	3400 million	0

Interviewer: Good

Candidate: According to the assumed figures, the bank is not making any profit on the loans credited to low income customers. Moreover there will be extra charges as well as we have accounted for only minimal heads.

Interviewer: So what would you suggest to the bank?

Candidate: The bank, in trying to expand, is lending to the low income customers irrationally. The bank has to focus more on the high income customers. It would reap more interest and lesser variable costs. The bank could increase its minimum loan amount to filter low credit rating customers. The collection mechanism in the bank should be improved to reduce the bad debts.

Interviewer: Sounds good to me. We shall move to the next rounds now. Thanks for your time.

DECLINING MARKET SHARE

CASE: MIDDLE EAST RETAIL BANK (MCKINSEY)

A well-known local retail bank in the Middle East is losing market share in a growing market. Its technology and service levels are just as good as any of its foreign competitors. The CEO wants to know why this is happening and what else they can do.

Case Discussion

Candidate: Firstly, I'd like to know what is the metric to define market share - Is it in terms of number of customers or in terms of the net deposits / loans?

Interviewer: Both, actually. It is losing market share on both these counts.

Candidate: Given this scenario, I'm assuming that customers are not choosing this bank and are opting for the foreign banks instead. Is that a fair assumption to make?

Interviewer: Yes, you can proceed with that assumption.

Candidate: In my understanding, there are about 5 factors that can affect the customer's choice of bank. They are:

- Service: Is there any specific service which the customers are seeking but is not provided by this bank? Is the client's services basket offered any different from those of its foreign competitors?
- Cost: Is the cost of servicing for the client any different vis-à-vis its competitors?
- Quality: is the service level, quality, customer care, etc. provided by the client inferior in any way to the competitors?
- Convenience: This could refer to difference in terms of location of branches, bank working hours, etc.
- Perception: Is there something about the bank's image or brand which creates a negative perception in the customer mindset?

We already know that the bank has good service levels, so let's consider the other 4 parameters.

Interviewer: The services provided are the same as the other banks, no special product or service. Its servicing charges are also the same as other banks. In terms of convenience, it is located in the same locations as other banks and is also equally convenient. What do you mean by perception?

Candidate: By perception, I mean what customers think of this bank and the image they associate with its name. For instance, foremost, banks need to be trustworthy, and do customers perceive the client bank as such?

Interviewer: Let's first talk about the customers. What kind of customers are we talking about?

Candidate: The bank could have both individuals and businesses as their customers. These customers could be further segmented on age, income or services used.

Interviewer: Let's stick to individual customer for the time being. Besides the parameters you just mentioned, how else could we segment them? Try to think around the people mix you'd find in Dubai.

Candidate: Yes, considering that more than half the population in the Middle East is expats, these customers can further be segmented on their country of origin. Is that right?

Interviewer: Yes.

Candidate: Considering this method of customer segmentation, is the client losing market share specifically in one of these segments?

Interviewer: Indeed, the client is losing business mainly amongst the expat population. Why do you think it is so?

Candidate: Can I take 30 seconds to review my thoughts?

Candidate: (After the break) Are the expats mostly here for a short while? Or, did they grow up in the Middle Ease itself?

Interviewer: They are here for a typical period of 5 – 10 years and most of the customers in this category did not grow up in the Middle East.

Candidate: There are three things that could explain the low market share among expats:

- Perception: Expats may not know the local banking brands well and hence may not consider them trustworthy. They may have a different perception than the locals.
- International Connectivity: Another major requirement of expats is the ease of sending money back home. It's possible that customers choose banks which facilitate this more easily.
- Home Banks: Many expats may already have existing accounts and relations with their respective domestic country banks and thus would prefer to continue banking with the same bank and avoid switching over to a local bank

Interviewer: Let's look at the "perception" parameter more closely. What are some of the primary factors that influence perception?

Candidate: Three would be three important factors affecting perception:

- Name / Logo / Colour
- Advertisements, marketing messages
- Word of mouth

Interviewer: Great! That was a real-life case situation I was once involved in. The name of the bank was in Arabic so expats could not associate with it well. Thus, we asked them to rebrand themselves. Besides rebranding, what else can the bank do?

Candidate: The client could tie–up with other organizations that hire expats. These organizations are usually the first point of contact for the expats in a foreign country and thus could significantly influence them. The client could also introduce easier ways for the expat customers to transfer money to their domestic countries.

NEW PRODUCT

CASE: ANTI-SMOKING PILLS (BCG)

Your client is in the business of making anti smoking pills - the way we have those patches and lozenges in the market to curb the urge to smoke. The client wants to sell it at a premium price.

You have been hired to find out if the product can be introduced in a country like India - and if so - what is the expected target market, market share and a feasible price at which the drug should be sold.

Case Discussion

Candidate: Since this is a new product launch, I would like to structure my discussion around the product characteristics (development and customization) for the Indian market and then move on to the launch (competition, distribution and promotion) part of the case.

Interviewer: This sounds fine to me. Also, please note that this product is not entirely new; it has been introduced in other countries already.

Candidate: Ok, that experience should definitely help us. To start with, can you tell me something more about the product? How is it different?

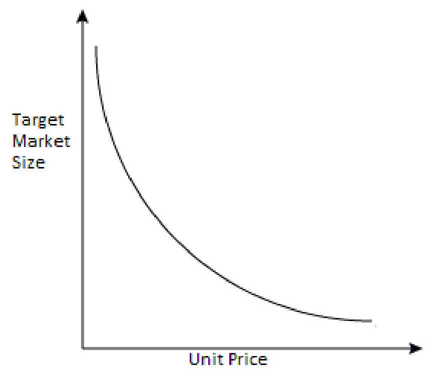
Interviewer: Unlike the lozenges or patches, this product is completely nicotine free - it is 5 times more effective as proved by lab results and 50% of the test results responded to the pill (which in this industry is an extremely high number thus indicating success).

Moreover, it is a drug that cannot be sold over the counter – it requires a prescribed dosage given by the doctor. It is to be taken for 3 months daily, 3 times a day.

Candidate: That is good. It gives us the advantage to position our product as superior due to the higher efficacy of treatment. I would like to know take up the competitive scenario next so that we can decide the price before determining the overall market size.

Interviewer: That's a fair point. So, there is no similar product in the market. Cheaper products like lozenges exist but they contain nicotine and sell for Re. 1 per unit.

Candidate: There are two ways that we can price a new product in a non-competitive market: Cost based and 'willingness-to-pay' based. In the first, I would calculate the cost to company and charge a margin on the same while in the second case; I would calculate the propensity of the consumer to pay for this drug. This would vary with my target segment chosen. The curve would look something like this. Ideally, we should be able to calculate the optimal profit case by considering the trade-off in sales volume vs. price for various price points. The solution will also be influenced to an extent by the growth rates of the different target segments overall, say movement of people to upper-class from lower-middle class.



Interviewer: Hmm… that is good. In our case, let us assume we did this and came up with Rs. 8 per unit. You think that sounds reasonable?

Candidate: I think a price of Rs. 8 per pill is feasible because of the lab results - people will be convinced that it is a medically prescribed drug and since it is a pre-scheduled dosage for 3 months, results are guaranteed. We can also stress on the on nicotine bit and indirectly position this as a life saving drug.

Interview: Ok, let's estimate the market size assuming we decide to price it at Rs. 5 per unit.

Candidate: Let's take Delhi as a base case. Population: 150 lakhs. Target segment: 40% of them smoke * 20% of them would want to quit smoking * 75% can afford (Rs. 8 * 3 * 90 = Rs. 2160 drug to quit) = 9 lakh people or INR 9 * 2160 ~ INR 200 crores.

We can now assume that this drug will reach out to 25% of the population across India (urban + rural since its effective and one-time payment to quit smoking), which means the total market is 200/150 * 0.25 * 10,000 lakh = INR 3,333 crores.

Interviewer: Very interesting. What will drive the market growth our market share?

Candidate: The market growth rate will be affected by the sales and distribution coverage, willingness of people to quit smoking and addition of new smokers who would want to quit after sometime. We can look to capture about 80% of this market eventually, assuming no major competitor enters the market, which can be prevented by IPR support.

Since this is a prescription drug, the bulk of the promotion costs in this industry are in targeting the doctors and chemists via direct sales agents or Medical Representative to convey the pros and cons for them to a) prescribe the drug and b) keep it in their pharmacies. This will drive our market share from the potential market size.

Interviewer: Good. Any other costs/concerns that you would like to address?

Candidate: The training costs for the direct sales agents will also be critical as this is a new product and local agents would need an in-depth understanding of the product. No. of sales people can be calculated by total workload method: Assuming Doctor/Population ratio and say 3 doctors per day and repeat visits every 2 months; and Chemist/Population ratio and 3 chemists per day and repeat visits every 15 days.

The supply chain will have to be considered - the warehousing, distribution network, retail chains etc. We can perform the cost benefit analysis for using middle distributors v/s direct distribution.

Interviewer: Good, I think we have covered the different aspects of the case. Thank You.

NEW PRODUCT

CASE: APPLICATION SOFTWARE AND BUNDLING (BAIN)

This software manufacturer offers shrink-wrapped software application products and has grown over the last few years – mainly through multiple acquisitions. In the recent time there stock price has declined significantly. The sales have declined but their customer service department has shown impressive growth in revenues over the last few months.

The CEO has an offer from OEMs (Original Equipment Manufacturers) to bundle his product with their products and he's unable to decide what to do. Help him analyze the situation and charter the path ahead.

Case Discussion

Candidate: Before I begin analyzing the case, I would like to clarify a few aspects of the case.

Interviewer: Sure, go ahead.

Candidate: You mentioned that the sales have declined recently but the customer service revenues have shown significant growth. How significant has the decline in sales been? Also, does the company have other sources of revenue besides product sales and customer service?

Interviewer: The sales have not declined much but they have been stagnant amidst a growing sector. Customer service revenues have been increasing steadily over the last year or so, though. These are the only two sources of revenue for the company.

Candidate: I see. I would also like to understand the type of offer that OEMs have made. What is the revenue sharing model going to be?

Interviewer: The OEMs are desktop and laptop computer manufacturers who are offering a pre-installation of trial versions of the company's software on some of their product lines. In return, the company will have to pay a fixed fee to the OEM for every new pre-installed computer sold and a 20% commission for every user who moves from the trial version and purchases a full version of the software.

Candidate: I understand. So, it appears to me that the OEMs' proposal can help us expand our sales volume, though at lower margins. I am not sure whether this addresses the core issue that we are facing, so I'd like to analyze the current profitability situation of the company. As you mention, the customer service revenues have been rising. Do we have some data on the types of customer service incidents that are commonly seen here?

Interviewer: I do not have specific numbers on customer service requests. However, I can tell you that a major category of service requests are around software configuration issues. Sometimes the company's software applications provide multiple ways to accomplish the same goals. A significant number of callers seek help on how to navigate different software.

Candidate: I see. One of the objectives of software design is to keep it simple and intuitive with in-built easy-to-use help. It appears to me that the company's products could improve on this dimension. I suspect that some of this is the result of integrating technology from aggressive acquisitions that we have made in recent years. I see broadly three ways to integrate acquisitions. First, the company can simply add an acquired product as a new standalone offering in its product portfolio. Second, the new technology from acquired companies could be utilized to add new features to the existing products of the company. Third, existing products of the company could be replaced by superior acquired products. What approach has this company taken in integration?

Interviewer: That's a good way to think about it. In this case, the company has primarily followed the first two approaches. There has been both a portfolio expansion as well as product enhancements.

Candidate: I suspect that the rising customer service revenues actually point to poor integration of the acquisitions. There are two separate aspects to a successful integration. First, the product portfolio has to be rationalized at a technical level. If the company offers multiple offers to accomplish the same goal, it tends to be confusing for the customer. Similarly, products need to have a consistent look and feel so that it is easy for customers to navigate and configure various features. Second, the sales and marketing team needs to be well trained about the company's evolving product portfolio. They should be able to help customers make good choices for their needs.

Based on the type of customer service incidents, it appears that the company has not done very well on either front. Customers are finding it difficult to configure and navigate the company's software products. Also, acquisitions should have led to an increase in sales. But stagnant sales point to deficient sales and marketing function. I think without addressing these integration issues, it will be futile to pursue the OEMs offer. It isn't beneficial in medium and long-term to acquire disgruntled customers.

Interviewer: So what would your advice to the CEO be?

Candidate: I would recommend that the sales force be overhauled. There needs to be a strong mandatory training program for the sales staff to make them fully conversant with the company's products. I'd also recommend that the redundancy in the product portfolio be reduced so as to alleviate customers' confusion. A technical push should be launched to make the software look and feel consistent across products. This should improve customer satisfaction, drive repeat business and improve sales. As for the OEMs offer, I would advice to hold off until these core issues are addressed.

Interviewer: That seems fair. I think you have identified the main issues in the case and provided crisp recommendations. We'll close here. Thank you.

CASE: RETAIL BANK IN INDIA (MCKINSEY)

A UK based banking giant wants to enter the Indian market. They have hired you as a consultant to guide them with this decision and advise them on various aspects of this move.

Case Discussion

Candidate: Foremost, I'd like to know more about the client to evaluate their entry into the Indian market. Is the client an investment bank or a retail bank?

Interviewer: The client is into Universal banking i.e. they have both investment and retail banking arms.

Candidate: Can you tell me more about the core strong business areas of the client?

Interviewer: The client has a strong presence in the retail banking business. It is the market leader in retail banking in UK, Belgium, Netherlands, Luxembourg, Germany and Austria. Personal loans and business loans for small and medium enterprises has been a big driver of its growth globally.

Candidate: Alright, in that case, I believe that the client should probably enter the Indian market with an initial focus on retail banking. The client clearly has a lot of expertise in this segment and can efficiently leverage on its strengths to make an impact in the Indian market. However, I'd also like to look at the Indian market before making this recommendation and first gauge whether entering the Indian market in itself makes good business sense.

Interviewer: Okay, that sounds reasonable. How would you ascertain the attractiveness of the market?

Candidate: Foremost, the market should have attractive growth prospects in the near future. Can you help with an estimate of the growth projections in the Indian retail banking industry?

Interviewer: The retail banking industry is booming ever since the liberalization of the economy was initiated. The industry is expected to grow at a CAGR of 28% to touch a figure of INR 9,700 billion by 2010.

Candidate: The industry shows quite promising growth prospects and definitely looks attractive for the client to enter. Can you tell me something about the degree of competition in the industry?

Interviewer: The industry is characterized by significant competition from numerous public sector banks, domestic private banks and other international banks like the client; besides the numerous smaller scheduled and co-operative banks throughout India.

Candidate: That's not very encouraging for the client as it might significant barriers in penetrating the market. However, this does not necessarily mean that the competition is fierce in all services. As I understand, most of the business in the retail banking industry is currently generated out of corporate and consumer loans where banks primarily cater to the larger corporate and the upper classes of the society. Would you agree with me?

Interviewer: That's right but I am not quite sure where this is leading. Please make your point.

Candidate: Sure. I was trying to explore was the presence of untapped opportunities for the client in the market. As you had mentioned earlier, the client has a strong presence in the personal and business loans business for small and medium enterprises. However, the other banks in the Indian banking industry focus primarily on the larger enterprises. This means that the client can strongly leverage its core expertise in the Indian market and tap into the huge market of SME enterprises.

Interviewer: Okay, I follow your arguments now. Do you see any other roadblocks besides competition for the client's growth prospects?

Candidate: I believe the existing regulations in the banking sector significantly restrict the number of branches foreign banks can operate and it is very difficult for them to get the authorization for every new branch. This would pose a serious bottleneck to the client's growth.

Interviewer: So would you recommend the client to enter India?

Candidate: Yes, I believe the Indian retail banking business holds immense potential and based on this discussion about the market, the competition and the clients existing core businesses and strengths, I'd make a favorable recommendation. The regulatory restrictions exist but the presence of numerous other international banks like HSBC, Standard Chartered Bank, Citibank; I believe the opportunities surpass the threats. Also, I might sound too pragmatic but given the pace of India's liberalization and development, I would definitely expect the regulatory restrictions to get relaxed in the near future.

MARKET ENTRY

CASE: DIAGNOSTIC LABORATORY CHAIN (BAIN)

A diagnostic laboratory chain based in America wishes to enter the Indian market. What are the factors which you would look into in order to advise them?

<u>Case Discussion:</u>

Candidate: Before I start, I would like to know more about the kind of operations this lab undertakes. For instance, is it a general-purpose health laboratory or does it specialize in certain areas of health?

Interviewer: Well, it basically tests patients' blood and urine samples for diseases as wide-ranging as cancer, AIDS, diabetes, hepatitis etc. So you can refer to it as being fairly general in its operations.

Candidate: And what is the nature of technology used in the labs?

Interviewer: They use the latest technology, the very cutting-edge.

Candidate: Okay. And lastly, what is the modus operandi of these labs by way of getting clientele. Do they advertise or are they prescribed to patients by doctors in hospitals when the former need tests to be performed?

Interviewer: These labs are fairly high-end and use the latest technology. So the main source of revenues from us is the hospitals which recommend patients to us.

Candidate: Okay. To start my analysis, I would try and look at the nature of health services industry in India and compare it what exists in the United States. In the course of so doing, I would need to examine and compare the demographics, purchasing power and health infrastructure of the 2 countries, amid other factors. Does that sound okay to you?

Interviewer: That sounds right. All I want from you is an enumeration of the various factors you would want to consider, just that.

Candidate: Okay. In keeping with what I said just now, I would like at the following. First, I would look at the kind of market India possesses as far as diagnostic laboratories are concerned. In relation to this, I would divide the market into urban and rural markets. In urban areas, I would examine the kind of labs which currently exist and the nature of clientele they cater to. I would try and explore how the patients are recommended to these labs viz. is it by the hospitals/doctors or is word-of-mouth 'publicity' important.

Interviewer: Okay. What other things?

Candidate: I would also look at prevailing competition from the point of view of the nature of services that they offer. Such analysis will help in figuring out the competitive advantage our client enjoys by way of tests not performed by other labs. Also, it would be important to find out about the range of incomes we would cater to. For instance, we could depend on high volumes based on low margins or on high margin low volume based services. While in the former, specialized services would not be required and the client's core competencies would not be the revenue-generators, the high fixed costs of opening labs makes me believe that a high volume model may in fact be feasible. On the other hand, the lab could service high-end clientele and use its expertise in health matters relating to 'rich' and upwardly mobile lifestyles.

Interviewer: That sounds interesting. Tell me something more about the fixed costs and other details the company should consider *before* launching services in India.

Candidate: Well, the sourcing of the technology will have to be thought of, as also the regulatory regime regarding investment in health infrastructure in India. Tie-ups with big hospitals will need to be explored as the first step toward gaining a foothold in the diagnostic laboratory industry, since trust would be of paramount importance when it comes to health-related matters. Subsequent to that of course, the client may want to extend operations to capture higher volumes.

Interviewer: What about rural areas?

Candidate: In rural areas, there is huge scope for such labs because of two reasons. One- the large number of people residing in rural areas. Two, the huge investments that rural health-care has seen in the last few years. However, there are certainly problematic issues as regards operating a diagnostic laboratory in the rural areas. Firstly, for such labs to be successful, strong backward and forward linkages with key infrastructural elements covering health as well as other fields are required. For instance, if there are no functioning hospitals, the labs will be of no use to patients. Similarly, the sourcing of technical equipment, medical supplies etc to labs requires well functioning roads, communication networks etc. Secondly, and perhaps most importantly, the nature of health services which would be in demand may be very different from that of the services demanded in America.

Interviewer: Different in what way?

Candidate: Typically, the nature of health ailments people in rural India will face will be very different from that of those faced by Americans because of the vast difference in lifestyles. So, the client will need to gauge if it is capable of catering to these widely different needs in a cost-effective manner.

Interviewer: Good. That will be all.

CASE: BOILER COMPANY (MCKINSEY)

You've been approached by a boiler company and they want you to help them devise a growth strategy.

Case Discussion

Candidate: So this company wants to increase its sales drastically and preferably its profits too.

Interviewer: That's right.

Candidate: Before we take a look at the company specific information, I would like to know more about the industry – current trends, any new technological advances, nature of competition etc.

Interviewer: Boiler companies typically have a line of products based on capacity and fuel used. There are no new advances in recent times. 80% of the market is organized and main customers are the thermal power plants.

Candidate: Hmm. A company can grow either by expanding market share in its existing market, entering new geographical markets, coming out with new products or by acquiring another company. I would like to know more about this company. Can you please tell me -?

- What this company's products are
- Who are its customers are
- Where does it operate
- Its access to cash/financing resources
- Its competitors

Interviewer: It's a medium size firm – about $100 Mn in sales, operates primarily in India. It's the biggest player in the organized segment which is approx 80% of total market. Its main customers are thermal power plants, etc. Products can be classified on the basis of capacity and fuel for the boilers. It doesn't have much cash or technology. It's a midget compared to global players in the same industry.

Candidate: Well, not being cash-rich restricts the firm from exploring various growth options. For instance, new product development seems to be out of question given no access to technology advances.

Similarly, exploring new geographical markets, even overseas markets, would be out of reach presently as there is dearth of capital. Acquiring another company is a possibility if synergies exist that can to offer significant benefits out of the merged entity. But, we also must keep in mind the results realization lag in case of a merger. Again, M&A activity presently does not seem feasible.

Interviewer: Sounds reasonable.

Candidate: Now that we have eliminated some of the options, I would like to focus on current market and consolidation of the existing product line. Specifically, I would like to know the individual products on offer, margins to be made on each of them and their individual growth potential.

Interviewer: It is a fair point. Our client presently offers boilers based on its capacity and fuel type. Typically, they get a maintenance contract for a specified time period as well. As far as the growth potential is concerned, there are quite a few captive power plants being developed currently in India. Additionally, there are a couple of really big power plants announced by our big customers. Margins are negotiable and depend to a great extent on the customer in question.

Candidate: I see. Given these facts, I would look at the mix of products on offer. To that effect, I would like to know the share of each of the individual product type in the sales. Post that, I would like to map each product with its growth potential, its current market share in its category and the margins to be retained.

Interviewer: I think you have figured it out. What would you like to suggest to the company?

Candidate: In my opinion, company should focus on the products which promise growth and also offer higher margins. Possibly, they are currently providing a standard capacity type or a fuel type to most of the customers. They should rather look at the individual customer needs and design their offer accordingly. This benefit to customer would also enable them to command a greater margin on each product sold. Sales force incentives could also be aligned with customer-centricity in terms of correct product requirement assessment and supply. In short, focusing on the right product is the key for growth for our client.

Interviewer: I think the analysis is sufficiently thorough. We can stop here. Thank you.

The candidate also talked about cyclic goods i.e. boilers and other such heavy industrial goods are highly cyclic in nature, meaning that if GDP grows by a 'x' percent, the sales of these goods would go up by 5x percent, and if GDP goes down by x %, their sales would also go down by 5x %. The interviewer agreed but reminded me that there's a lag in between GDP growth and growth of heavy industries.

(Comments: One can also explore Profitability of operations, possible efficiency measures, credit policies, sales force incentives)

INVESTMENT/DIVESTMENT

CASE: HOTEL IN ARMY CANTONMENT (BCG)

Your client is a Private Equity fund assessing an option to invest in a Hotel coming up inside the Army Cantonment. What should the PE Fund do?

Case Discussion

Candidate: Before proceeding with the analysis, I would like to know a few facts related to the type, size and location of the Hotel. Also as our client happens to be a PE fund, is there any particular time frame that our client is targeting with respect to this investment.

Interviewer: Well firstly as far as the time period is concerned, you may neglect any strict guidelines from the client. It is for us to decide the time frame in this case. Concerning the details of the hotel, it is planned to be a 400 room hotel located inside the army cantonment. The hotel standards will be comparable to any regular 3 or 4 star hotel.

Candidate: Fine, could you also let me know the location of the army cantonment and the intended objective of this hotel project. Moreover, would the hotel be open to non-army personnel as well?

Interviewer: No, the hotel would be exclusively for army personnel and the army cantonment is located at the outskirts of a not so big city. Maybe you can call it a town.

Candidate: And any particular reason for building this hotel. Are there any other hotels nearby?

Interviewer: Yeah, that's interesting. Currently there are no hotels nearby and the closest hotels are located in the town, all of them being at a considerable distance from the cantonment. The intended purpose of this hotel is to facilitate the stay of personnel visiting the army cantonment for training programs, short stays and as a temporary housing for those relocating into the cantonment area.

Candidate: Does this imply that currently all these people are being accommodated in the hotels nearby?

Interviewer: Not really, most of them might be staying with their friends staying within the cantonment.

Candidate: But I feel there would be a large number of people who would prefer staying in a hotel.

Interview: Yeah, in that case they go to the hotels nearby. So how would you evaluate if this project is worth investing in.

Candidate: For that I would like to know the cost structure involved in the construction of the hotel and various costs incurred in its operations.

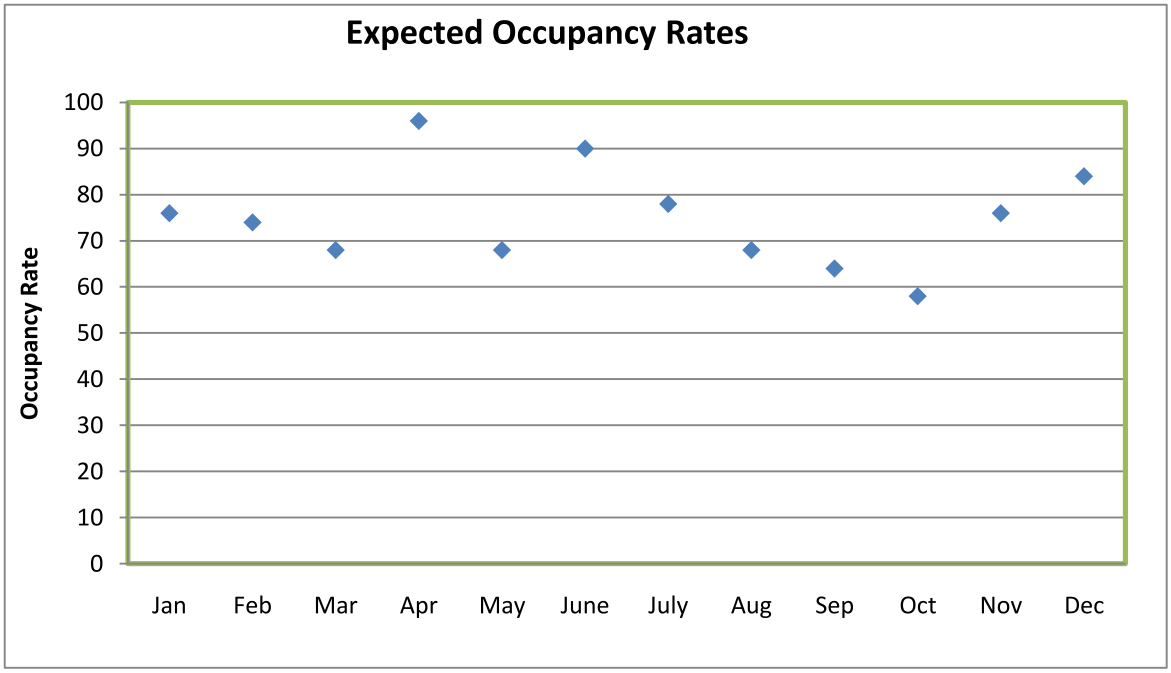
Interviewer: There is a fixed cost of construction which can be taken as $65,000 per room. Also an amount of $30 goes in the daily maintenance of each room.

Candidate: Is there any break up of costs available with respect to these costs, especially the maintenance costs upon operation.

Interviewer: No, you may treat the maintenance cost as a single block.

Candidate: Since, we are dealing with a hotel; I believe the occupancy rates would be quite critical. Do we have some data on that?

Interviewer: Wait a moment (the interviewer takes out a printed graph)



Candidate: Average Occupancy rates seem to be in the range of 70-80%.

Interviewer: Can you calculate the exact figure.

Candidate: (calculates as the interviewer looks closely) 75%.

Interviewer: So what do you make of it? Should the PE Fund invest?

Candidate: I will take a moment. Can I have the expected rent of each room? Also, are the maintenance costs stated earlier applicable all throughout or only when the room is occupied?

Interviewer: Take the maintenance costs as applicable only when the room is occupied. As far as the rentals are concerned, I would like you to come up with a number.

Candidate: Are all the rooms in the hotel going to be of similar type?

Interviewer: Yes, all rooms are of the same type.

Candidate: I would further like to know a few other details. Can you please let me know the rentals of the hotels present in the town?

Interviewer: There are 3 types of hotels in the town which for our purpose can be categorized as economical, utility and luxury. The economical category hotels charge $50, utility $75 and luxury in the range of $100-$125. It also needs to be remembered that usually the economical and utility hotels operate at near full capacities while the luxury hotels operate at moderate capacity levels.

Candidate: As we are dealing with the army, a government organization is there anything else that needs to be taken into consideration with regard to the army's allowance or maximum limit on daily rentals at present.

Interviewer: Yes, well asked. Currently the army provides a daily allowance of $75 to each of its personnel irrespective of which hotel they stay in. So if one were to spend $50, he or she would save $25. On the other hand a rental of $100 will result in the person spending $25 from his own pocket. Moreover, with the army hotel operational, the army would only be reimbursing the actual amount incurred.

Candidate: In that case, my suggestion would be to fix the rental around $75 a day.

Interviewer: Are you sure. Will this have any incentive for the army as they are already reimbursing $75 per day?

Candidate: Yes, I realize. The price should be below $75 for the army to have an incentive. Maybe we can keep the price at $70 given the high quality of the hotel's services. This amount would then make the deal advantageous for the army as well.

Interviewer: Fine, can you do the calculations now.

Candidate: With daily rentals of $70 and an occupancy rate of 75%, the net revenue earned each year would be $7.5 million. Taking operational costs of $30 per day per room into account the contribution would be around $4.2 million each year.

Further since the fixed costs amount to $26 million, with a contribution of $4.2 million each year it would take nearly 6-7 years for the client to recover its investments.

Interviewer: So, what are your views?

Candidate: The fact that the project will breakeven within 7 years should make the investment attractive for potential buyers of the hotel. Our client can look at exiting in about 5 years, as the project would have become operationally stable by then and hence would have proved its viability to potential investors.

Interviewer: Any further suggestions for the client.

Candidate: Given the occupancy rates, may be the client can plan to come up with a 300 room hotel as the occupancy rates are almost always close to or less that 75% barring two months.

Interviewer: Sounds Interesting. Can you in that case do the calculations for a 300 room hotel?

Candidate: (Adopting the same technique and after calculating a new occupancy rate of approximately 90%). In this case the return would be within a period of 5 years along with a total contribution of $4 million each year.

Interviewer: Any thoughts after seeing these numbers.

Candidate: The proposal with 300 rooms seems better as it significantly reduces the time required to recover investments. Also, it does not impact the contribution much.

Interviewer: I believe we have had a good discussion. We can now go ahead with the recommendations. Thank You.

(Comments: The crux of the case was to identify the method of pricing a room at the hotel before calculating revenues. The interviewer also checked the candidate's comfort with graphs and numbers by asking for the exact answer)

INVESTMENT

CASE: COURIER COMPANY (BCG)

Your client wants to set up a new courier company. How will you evaluate if this is the right business to get into?

Case Discussion

Candidate: Before I proceed with the analysis, I want to make sure I understand the business model correctly. I think at its simplest, a courier company basically picks up a package from point A and delivers it to point B. The company adds value, differentiates itself and earns money from its supply chain.

Interviewer: This is a simple model, but I think it works well for our purpose.

Candidate: Ok. In that case, first, I would like to get some information on the market where the client plans to operate. What is the existing competition? What geography is the company going to serve?

Interviewer: Let's assume that the client plans to operate in the city of Mumbai. There are, maybe, one or two other companies operating there. Not much competition.

Candidate: Ok. In that case I think I want to focus on the profitability of running such a business.

Interviewer: I think it makes sense to proceed this way.

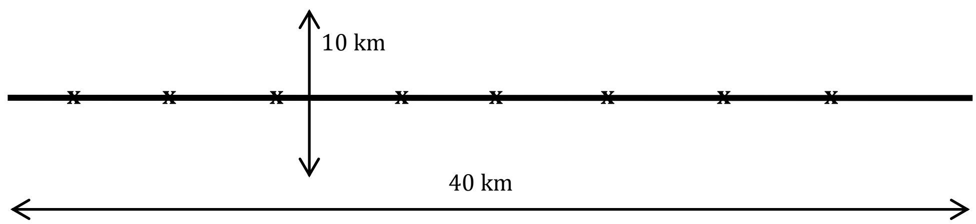
Candidate: I will look at both revenues and costs. We can estimate daily revenues if we know the expected daily business volume and the average price charged per customer. For the latter, I am assuming that the client offers just one type of service (since this is an intra-city courier company). Is that a fair assumption?

Interviewer: That's fine. You can assume the service is priced at Rs. 7.

Candidate: If the company processes 100,000 packages per day, it will earn daily revenue of Rs. 7 lakhs. Now moving to the cost side, I think there are three main cost drivers for the company – transportation/shipment, advertising and promotion and other G&A costs.

Interviewer: Good. Why don't you examine these in detail?

Candidate: I will look at the transportation costs first since I believe these are going to be critical in deciding if the business is profitable. I will assume Mumbai is a linear city, 40 km in length and 10 km wide,



We will have collection centers distributed along the length of the city at equal intervals. Our customers will be able to drop their packages at these centers and collect the receipt. In reality of course, the distribution will not be uniform, since some areas will warrant more stores while it may not be feasible to have centers in some other regions.

Interviewer: That's a fair assumption. Carry on.

Candidate: Now I need to determine the number of such centers that the company needs. From there, I will determine the number of employees to get a sense of the costs.

Let me assume that each service center remains open from 9AM to 4PM. With a one hour lunch break, that gives us six business hours per center. Let's assume that each customer takes five to ten minutes to process. If each service center is manned by one employee, then it can handle roughly 50 customers per day. Here again, the timings of the service centers could vary across the city, but I am looking at an average shop.

Interviewer: You're doing fine.

Candidate: So if one service center can handle 50 customers per day, to service 100,000 customers we will need 2000 centers spread across the city. (Brief pause) That sounds like a large number to me.

Interviewer: No, it will come up to around that. Go on.

Candidate: Ok, so we will need 2000 employees to staff these centers. Then we will also need delivery boys…

Interviewer: Let's assume that some of these employees can also double up as delivery boys. We can appropriately adjust the timings at some of the stores. Let's say there are a total of 3000 operational staff members.

Candidate: I think we will need to pay each employee around Rs. 6000 per month. That means a daily salary of Rs. 200. So for 3000 staff members, it comes to around Rs. 6 lakhs.

Interviewer: What are your thoughts at this point?

Candidate: Well, just going by the fact that the transportation costs are coming to around 6 lakhs per day when our revenue is 7 lakhs, I don't think this business looks very profitable. We haven't accounted for the advertising costs or even fixed costs yet.

Interviewer: I see. But given that this is a very rough estimate, perhaps we are in a position where the business might be profitable and we can look at areas where we can cut costs or spend efficiently.

Candidate: I think advertising will be very important in this business. I personally think that customers will choose a courier company that they think is reliable and safe. Since this is a new company, and the sector is also underdeveloped in the city, I think they will have to focus on building a brand. Consumers are more likely to consider a brand as reliable if they have heard of it. But perhaps we could structure the employees' salary so that a part of it is a bonus linked to the amount of business they bring in. That way we could save on some of the advertising costs.

Interviewer: I think you have done an excellent job. We'll end here. Thank you.

(Comments: The interviewer was looking for a bottom-up analysis rather than a top-down. In a bottom-up analysis, the interviewer is usually looking to see if the candidate is able to grasp how a business runs at the ground level and what the key drivers will be)

CASE: BPO TALENT SUPPLY (BCG)

It is the year 2005. Your client is in planning to start BPO call centers in India and he needs to know whether the talent supply in India is sufficient in the period 2005-2010.You have been hired to figure out the pool of people available for hiring for such call centers.

Case Discussion

Candidate: Since in this case the supply side is important, I would like to structure my discussion around the pool of people interested in joining BPOs. Hence I would like to take the population approach and estimate the number of youngsters in the particular age group of 18-30 in the specific income groups.

Interviewer: That is a decent approach to take but could you think of any other approach that will give you a more accurate picture.

Candidate: Ok, another alternative approach that I can think of is to go by the number of colleges in India and then estimate the percentage of students who would be interested in joining call centers. Would that be a good approach to proceed with?

Interviewer: Yes, that approach would be better. In fact I would like you to look at three specific cities where the client is looking to operate - Bangalore, Mumbai and Delhi.

Candidate: Ok. So since I am more familiar with Mumbai, having lived there for a considerable number of years, I would like to analyze the situation for Mumbai and then extrapolate it to the other cities, as the metropolitans can be considered quite similar.

Interviewer: That's a fair point. So, you can proceed with the analysis of Mumbai.

Candidate: From what I know, Mumbai has about 45000 engineering seats and if we take an approximation of 300 students per college, we can estimate about 150 engineering colleges in Mumbai. Considering that non-engineering colleges will have a larger proportion of people interested in such call centers, I will consider the total number of colleges who students would be interested in such a job to be, around 600 (150 engineering, 150 B.com, 150 BA and 150 others).

Interviewer: Ok. In our case, let us assume that the number of students per college is around 600.

Candidate: Ok, so for estimating the number of students graduating each year, let us consider 600/3.5 students since on an average the duration of the courses would be 3.5 years (3 for BA, B.Com and 4 for engineering). That makes it 600*600/3.5 that is approximately 1 lakh students graduating every year.

Now, I can think of two factors to determine the students who would finally constitute the talent pool - the level of interest in the students and the ability of students to speak proper English.

Interview: Ok, fair enough. So you can assume that the level of interest is 73% and the ability of students is 37%.

Candidate: So that makes it 73% times 37% times 1 lakh, which is approximately 27000 students who will finally get into this profession from Mumbai. And extrapolating it to the other 2 cities, assuming an approximately equal population and number of colleges in the three cities, I would get a number of approximately 81000 per year.

Interview: Yes that is a fair estimate. Now could you tell me 5 reasons which will cause your estimate to change, some factors that you may have missed to make calculations easier or something that my client could try to increase the current estimate?

Candidate: Yes, definitely. I have made some assumptions such as ignoring migration which is a large factor especially for Mumbai and Delhi. Also I have not assumed the college going students who will treat this as a part time job, especially considering the trend of increased expenditure by youth these days. Another thing I can think of is expanding to other smaller cities apart from Delhi, Mumbai and Bangalore, because it might be cheaper to set up, though the availability of talent would be lesser than a metropolitan.

Interviewer: Good. So you have given me 3 reasons. Can you think of more ways by which we can increase the job pool?

Candidate: Yes, in fact I can think of 2 more ways: one is increasing their level of interest from 73% by pitching and advertising to more colleges attracting more youngsters and the second is increasing the percentage of people who are capable of doing the job, that is people well-conversant in English, by investing more in training initiatives.

Interviewer: Very Good, I think more or less we have covered everything that was required. There is just another interesting aspect. A problem that many such BPOs face is lack of good people at managerial level. We could have looked into that also, apart from the actual callers. But that apart, the analysis has been good. Thank you.

(Comments: While doing the calculations, keep small sanity checks in mind like while doing 73X37, make it approximately 2700. Try and approximate as much as possible as that allows you less chances to make blunder. The case essentially wanted to test the guesstimate skills of the candidate and particularly see if the candidate can figure out the main factor that determines the employability of a person in a call centre (i.e. conversant in English))