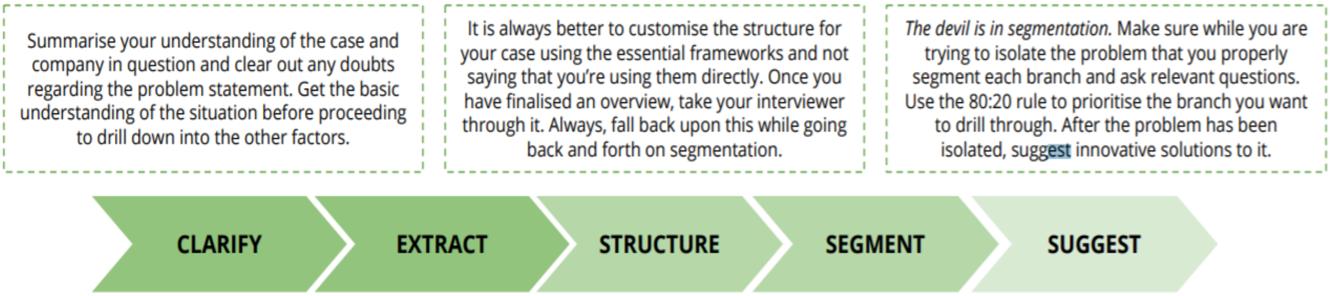
Case Frameworks

The case interview round is an integral part of the interview process for most consulting/analytics firms. It is often a part of the 'fit' interview as well where the candidate is usually judged upon analytical thinking, business acumen, problem solving skills and creativity.

A case can simply be thought of as a business problem that has to be solved by you. You would need to analyse the situation, isolate the problem and then move on to suggest your solutions. You must remember that solving a case in front of a stranger, while talking them through it, is completely different from reading through case interview transcripts at your comfort or even attempting it by yourself while taking the help of the interviewer's text. So always make it a point to practice case-solving with another person.

The key here is to understand the situation on multiple levels and identify the pain points using a mutually exclusive & collectively exhaustive breakdown, while simultaneously engaging the interviewer and explaining your approach. Discussing your numbers, thoughts, questions will help the interviewer understand your thought process and will also allow him/her to guide you through it. Listen to their feedback, they usually drop hints and help you navigate through the intricacies of the problem, provided you are asking the right questions!

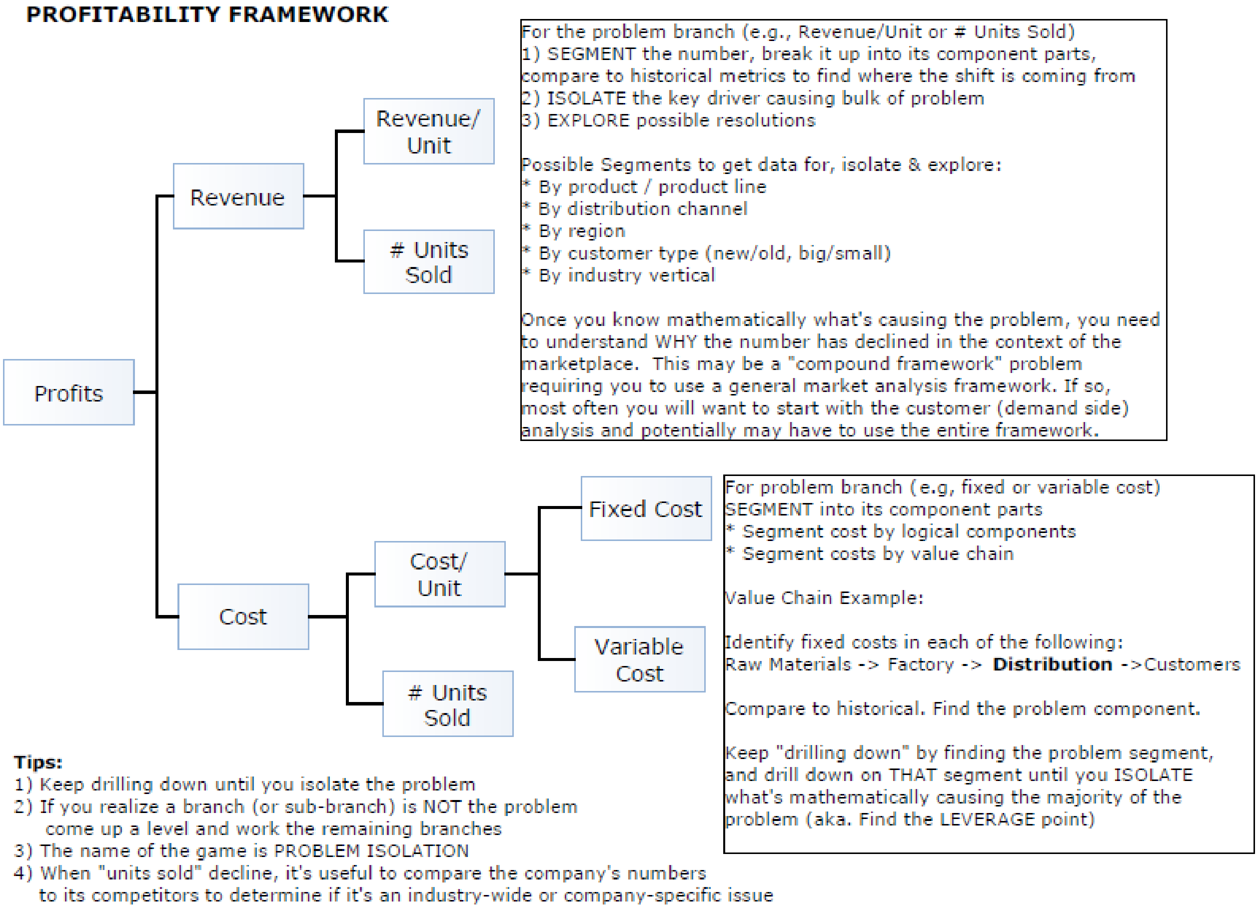


1) Profitability Cases

Profitability cases are the most common type of cases and their importance stems from the fact that profit-making is the ultimate goal of every business problem.

These deal with revenue issues, cost issues or both. One needs to identify the key revenue and cost parameters, deconstruct the problem into components and isolate the cause for a poor bottom line. To be solved effectively, a profitability problem requires proper scoping and isolation using the drill-down approach.

Framework



Typical Problem statement:

"Company X is observing a <u>10% decline in profit</u> in the last year"

OR

"Our client is an electronics manufacturing company with a <u>sales stagnation issue</u> in its mobile division. Find out what is happening" (Here sales could be revenue or no. of units sold)

Equations:

Profit= Revenue - Cost

= (Revenue/ Unit)*(no. of Units Sold) - (Cost/ Unit)* (no of Units Sold)

Cost can be of 2 types:

1. Fixed Cost - infrastructure, heavy machines

2. Variable Cost - wages of workers, raw material

If we found that Volume (i.e the number of units sold) is the problem branch, then isolate the problem along ***Value Chain***: *Production Issue-> Distribution Push Issue-> Customer Pull (or Retailing) Issue*.

Volumes could have declined either due to:
1. <u>Production Issue</u>- We are not able to produce as much as before.
2. <u>Distribution Push Issue</u>- Our products are not being pushed by the Distributors & Retailers as much as before. This could be due to fewer distribution channels, lower margins being provided to distributors relative to competitors, inconvenient packaging, not enough visibility in the stores etc.
3. <u>Customer Pull Issue</u>- This means there is reduced demand from the Customer/Consumer end for our product.

Similarly, the decline in Volume or increase in Costs can also be divided along with Geography, products division, Distribution Channels and other possible segmentation according to the problem.

Tips:
1) Keep drilling down until you ISOLATE the problem
2) If you realize a branch (or sub-branch) is NOT the problem come up a level and work the remaining branches
3) When "units sold" decline, it's useful to compare the company's numbers to its competitors to determine if it's an industry-wide or company-specific issue

Source: Victor cheng notes and case interviews cracked

Case Examples:

1. Drug Mafia.

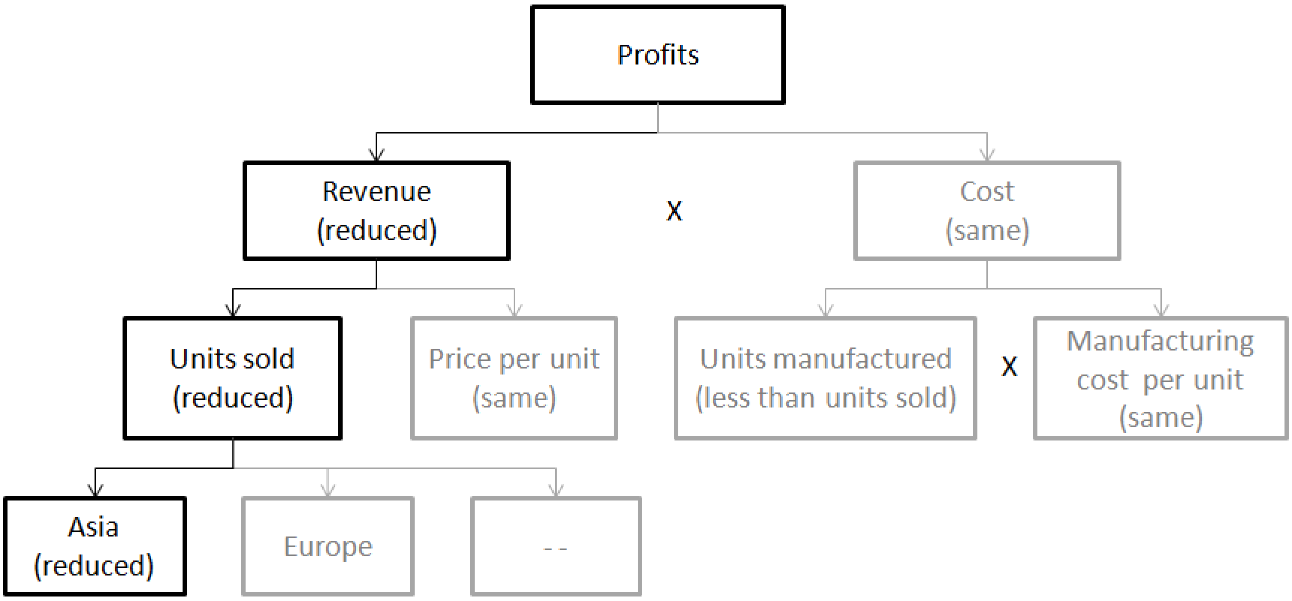
Your client is a drug lord from Mexico whose company is reporting a drop in profits in the last 2 years. He has hired you and you have no choice but to figure out why. How do you work it out?

<u>Preliminary questions</u>

How does this business work? What part of the value chain does our client operate in?
We manufacture cocaine in large quantities in Mexico. It is then shipped to various countries. Here, the local drug cartels purchase the cocaine from us and sell it to the end consumers.

What are our revenue streams? Which is the loss-making one?
We are only present in the cocaine business.
Hmm. Have our competitors seen similar losses?
We have men in a few other cartels who inform us that there is no serious hit to their profits
.
Is this an issue in a particular geography?
The Asian countries have reported lower profits.

<u>Overall Strategy:</u>
I want to study the profit structure of the client and identify drivers of lower profit. We shall then address them in the latter half of the case.



Since the # of units sold is less than what is produced, I want to understand where in the value chain is the cocaine produced not getting pushed forward, and subsequently identify the driver for it.
Production → Transportation to countries → Distributor push (in each country) → Local cartel demand

Since we are manufacturing the same number of units, production does not seem to be an issue. Are we able to transport the required amount of cocaine to the Asian countries?
Yes. We are.

Are our distributors able to push the product to the cartels? Is there enough demand for cocaine?
No. They are not. This is despite there being a demand for cocaine by the local cartels.

So, either the cocaine is not being sold and is lying in the stock or the cocaine probably went missing in transit while shipping.
The demand for the cocaine is the same. The cocaine is going missing while shipping it. Why do you think that might be happening?

It is possible that our product is being stolen.
Good, but that is not the case. What is likely to happen to an illegal product like cocaine?

It could get confiscated by the police.
Exactly. It so happens that our cocaine is being confiscated in market places by the police. Why is this happening?

This could be because either the enforcement against drugs has become stricter in Asia OR the security around our sale with the cartel has slackened OR both.
In light of stricter enforcement, the local cartels have been receiving the drugs through alternate, less risky routes and our competitors have moved to them.

Interesting, so it seems we have not adapted to this development. We can
a) Look to increase security of our consignments around this route
b) Shift to the alternate route or
c) Ramp up production to the extent that losses due to security lapses are made up for
d) Do nothing much if previous three actions will lead only to more losses.

Can we bring in our own security? Is it possible to pay off the cops to let go of our product? Can we pay our distributor more to ensure better security?
We will be unable to do either of these.

Then it looks like we are going to have to settle with shifting our trade route as well (to get back the business we have lost to our competitors). I want to understand how badly this affects our profits. It might not make sense if we go into greater losses.
That makes sense. Shifting trade routes will increase our cost, but would be more than offset through the restoration of our sales volume, leading to better profits.

Now we need to know which option between shifting routes and ramping production on existing route is more cost effective.
That fine, we can close the case here.

2. Mumbai Hotel.
Our client owns a hotel. The client is pondering whether to increase the room rental rate from $160 to $180 to increase profits and wants your recommendation on what to do?

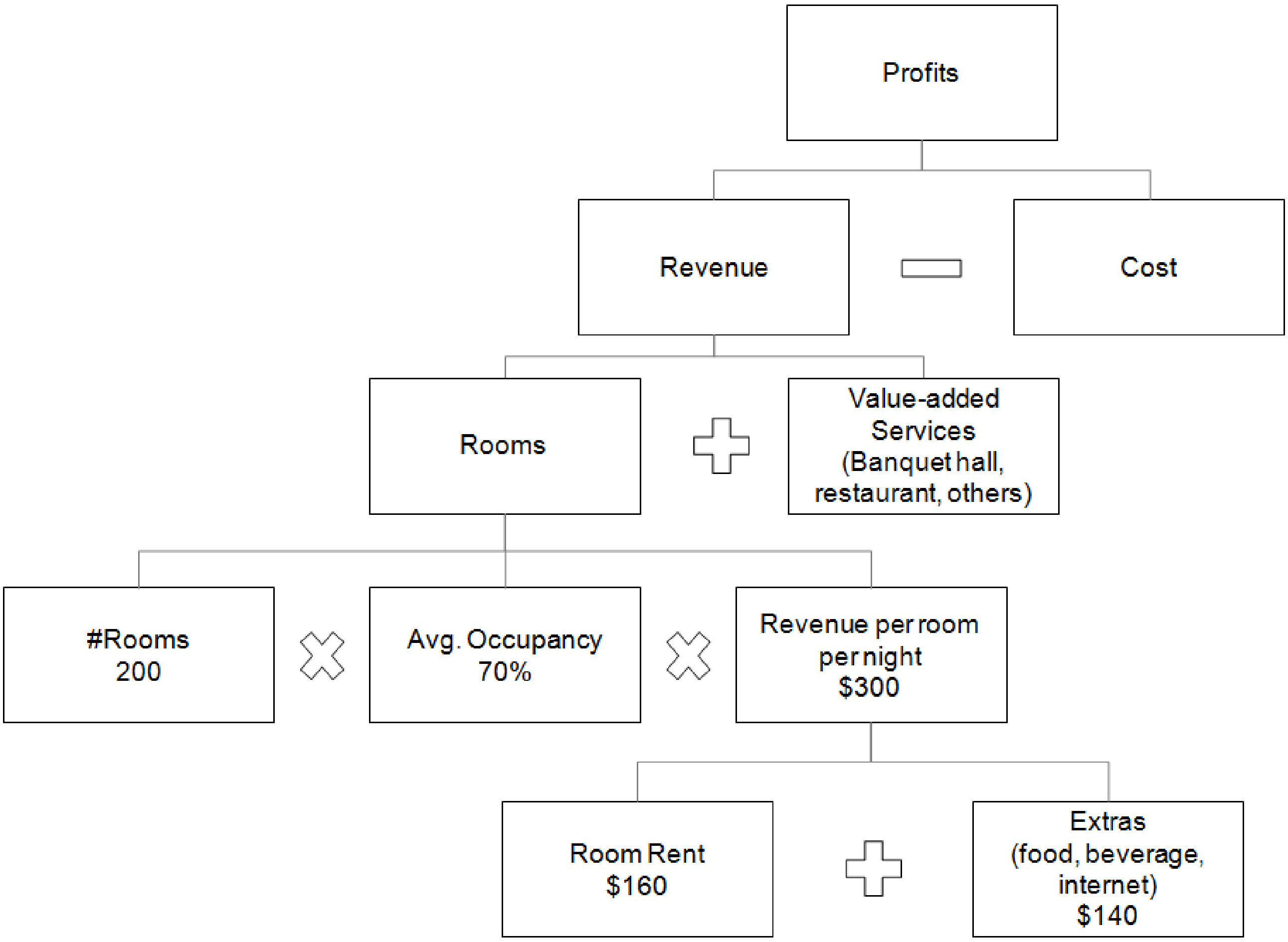
<u>Preliminary Questions</u>
Any particular reason why we have chosen price increasing strategy over other options to push profits?
Not really, we're just exploring this option for now.

(Sometimes, this question is useful to uncover what is the rationale of the client to prefer one option over the other. You can use the information then as a focal point in your analysis.)

Is $160 average room rates, or do we have standardized rooms with a uniform rate?
Uniform rate across all our rooms. They are similar.

What is the location of this hotel?
Located in a business area in Mumbai.

<u>Overall strategy</u>
I would like to begin by understanding the profit structure of the company and how room rentals fits into it. I would then like to calculate the additional new revenue and costs to check if we are more profitable than status quo. Costs will go up only if we find during the analysis that we need to make additional expenditure to justify higher room rental.



(Note: The candidate has to ask relevant question to be able to chalk out the profit structure himself. It does not have to be directly given by the interviewer.)

So we know we're increasing Room rent from $160 to $180. To understand how this affects our overall profits, I would like to understand how this decision will impact the following:
1. Occupancy rate: Customers might choose not to come to our hotel
2. Spending on Extras: Customers may scale back on this expenditure
3. Profits from Value-added services: This may be related to the #Customers coming to our hotel. This analysis can be taken care of in the potential decrease in #Customers for point 1.
4. Costs of Room: Any additional expenditure required to justify higher room rate

This looks fine, you can proceed.

I'll begin by understanding 1 (Occupancy rate) & 2 (Spending on Extras), and later come to 4 (Costs). We basically need to understand the price elasticity of our customers. I want to understand two aspects of our business
(a) Type of customers-to find out how price elastic they are
(b) Competition nearby-this will affect customer price elasticity as well
(c) Type of customers-to find out how price elastic they are

What kind of customers do we get?
Mainly business and tourists.

What is the split amongst these two type of customers?

80% business and 20% tourists.

Since we've got 80% business customers, let's begin by seeing how increasing room rental affects them. Business customers often don't pay from their own pocket but they can bill their company for the stay. Is that true?
Yes, that is in fact the case for all our business customers.

Does the company also cover for the extras?
Yes.

Hmm, that means the cost is borne by the company. We really need to look if the company would be okay with the added expense of the room.
So, the companies whose employees typically stay in our hotel have a cap for room rentals. Employees can stay in any hotel as long as rooms cost <$220 per night. Also, there is no restriction on the employees' billing of extras.

Alright, this means that we can expect similar occupancy and spending on extras, since the employees are unaffected and their spending is in line with company policies.
However, given that the cap is $220 and our objective is to maximize profits, we can potentially increase room rentals even upwards of $180.
Good suggestion, we will look into that later.

As of now we don't see the need for increasing costs in our room. We can simply increase room rates and expect more revenue.

(b) Competition nearby-this will affect customer price elasticity as well
However I would like to understand what kind of alternatives do our business customers have. **Even though they are personally not affected by the higher room rental, if they have cheaper options for same quality, they may take economic decision from their company's point of view.**
In the location that we cater to, there is one other hotel. It has rates around $160 per room. However we have a better business center.

I want to get a sense if our customers are likely to stay with us because of our business center. **Can you tell me what the use of the business center is and how important is it for business customers?**
(Notice that the candidate is not only asking a specific question but also telling the interviewer why he is asking this. This allows the candidate and the interviewer to be on the same page throughout the case.)
The business center provide facilities for holding corporate meetings. Our business customers frequently use it and hence it's quite important to them.

This means we have an edge over our competitor which will make our business customers stick with us and anyways they are unaffected by us increasing room rates.

So from the point of view of our business customers, this looks like a profit boosting strategy and we don't need to increase costs. However we also need to consider how it affects the other type of customers – Tourists.

I imagine that tourists would be a lot more price elastic than business customers since they pay from their own pocket.
That is true.

In that case we have two options,
(a) Uniform price increase for business customers and tourists: In this case, we will have to see if the additional revenue from business customers outweighs the potential decrease in revenue from tourist customers.
(b) Price increase for only business customers: This can be done through a price differentiation strategy. For example we can have "executive suites" for our business customers with slightly better ambience/facilities and "regular" rooms for tourists.
Awesome, I think that's good.

3. Fruit Juice Manufacturer.
The client is a UK fruit juices manufacturer. The facility was established 4 years ago. The client sells to big retailers as well as small and medium retailers. The client sells its product in two bottle sizes-1L and 250ml. The client has a 10% market share in the current market. The profits have been negative since inception. You have been called to turnaround the profits.

<u>Preliminary Questions</u>
We know the client is a UK based manufacturer. Is the geography of its current market also in the UK?
Yes.

Where do we lie in the value chain?
Like I mentioned, we are manufacturers. We use third-party distributors to sell our product to small, medium and big retailers.
(This maybe a redundant question, but it's better to be certain of your understanding.)

What exactly is our product, like Tropicana?
Yes, you can assume Tropicana.

Are our competitors facing the problem of negative profits as well?
No all our competitors are profitable.

Hmm, so this seems to be a company specific problem.

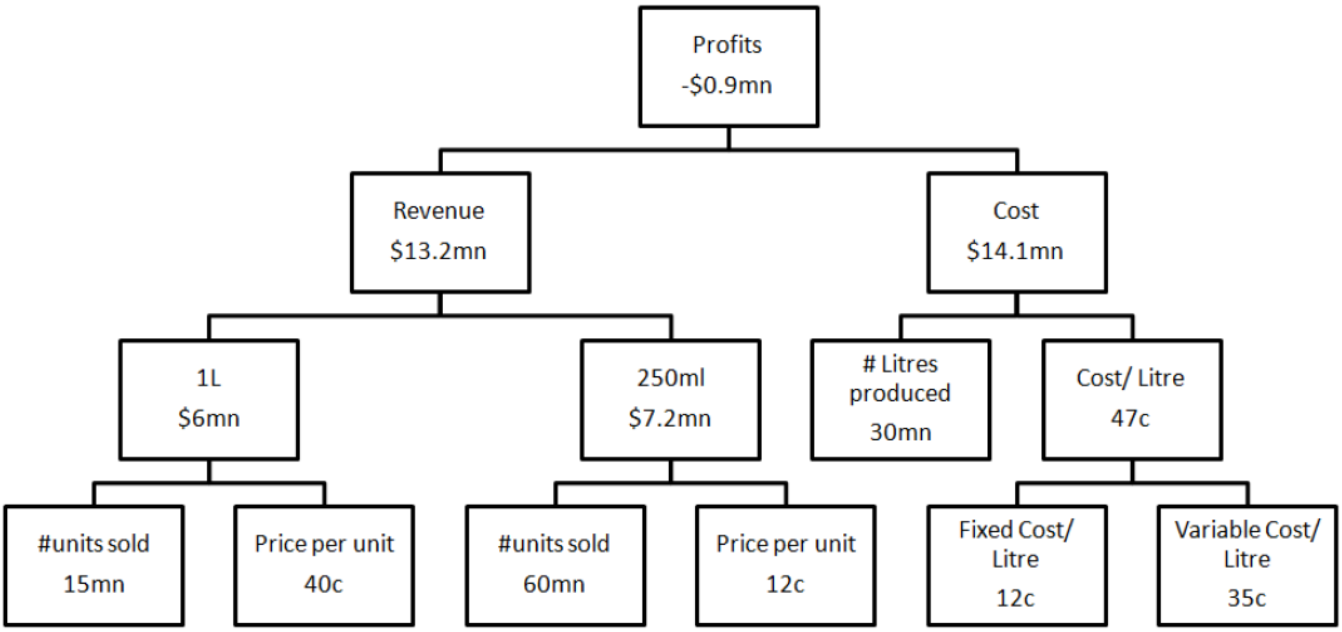
<u>Overall Strategy</u>
I would like to understand the profit structure of our company. I would then like to compare it with our competitors to see why we are making losses while the industry is profitable. Finally I'll see other ways of increasing our profits.

The below profit structure is to be discovered by the candidate by asking multiple questions. Note that it is important for the candidate to discover the ends of each branch in an issue tree because they help diagnose the problem. Suggested way to go about:

Profits = (Revenue) - (Cost)

= (Vol. * Price/unit) - (Vol. * Variable Cost/unit + Fixed Cost)

= (Vol1L * Price/unit 1L + Vol250ml * Price/unit 250ml) - (Vol. * VC/unit + FC)



We can restructure the profit formula as

Profits= (Volume) x (Profit margin per liter) - Fixed Cost

= V x (P - C) - FC

Based on the above information:

1. Litres sold (V) = (1*15 + 0.25*60 =) 30mn
2. Our Avg price per litre (P) = $13.2mn/30mn=44c
3. Our Fixed Costs (FC) = (12c) x (30mn) = $3.6mn
4. Our Variable Cost per litre (C) = 35c

I want to now compare our volume, Avg price, Fixed Costs and Variable Cost per litre with our competitors to understand where we are lagging.

Notice benefit of restructuring profit formula as: Profit= (Vol) x (Price- Variable Cost/Litre) - FC Instead of using Fixed Cost/Litre. It makes more sense to segregate it out as Fixed Cost since now we have all mathematically independent variables in the formula. If instead we wrote

Profit = (Volume) x (Price-Variable Cost/Litre-Fixed Cost/Litre)

It would be suboptimal since Fixed Cost/Litre is dependent on Volume and we cannot analyze them independently.

We know that our competitors sell 1L and 250ml bottles at the same price as us. The ratio of sales in terms of litres is also equal to 1:1 like us. Hence Avg price per litre is the same.

We know that even Fixed Costs (not fixed cost/litre) and Variable Cost/Litre is comparable with competitors. However each of our competitors are selling 3X volume compared to us.
I would like to do the analysis in the following order
1. Increasing Volume
2. Increasing Avg Price/Litre
3. Reducing Fixed Costs
4. Reducing Variable Cost/Litre

Notice how comparing each metric with competitors, helped us to establish a priority in analysis of each metric.

1. <u>Increasing Volume</u>
Can you give me an idea of our market share vis-a-vis competitors?
Sure.

Company	Market Share
A	30%
B	30%
C	30%
Client	10%

Hmm...So it seems to be a volume issue for us. Our competitors are producing 90mn litres whereas we are producing only 30mn.

Our break-even point would be
Profits= (Volume) x (Price- Variable Cost/Unit) - Fixed Cost
0 = V x (44c- 35c) - $3.6mn
0 = V x (9c) - $3.6mn
Therefore V = 40mn litres.

Anything upwards of 40mn production and our company would be back to profitability. I would now like to see if that is possible and why we have less market share compared to competitors.

We can solve the issue of increasing volume sales by upgrading the value chain through Increasing production → Better distribution and retail push → Increasing Consumer demand
We can increase volume sales only if we can increase production – assuming no inventory issue – so let's start here.

a) Increasing production - **Can we increase our production? What is our current capacity utilization?**
Current capacity utilization is 40%.

This means we can produce up to 30mn/0.4 = 75mn litres. **Why is it that we are not producing more, is it because of less demand for our product OR is it that demand exists but we aren't supplying enough to satisfy it?**
We never thought of increasing production. We can easily sell 10mn litres more if we produce that much more.

Great, this will allow us to break-even. However are market share will still be around 13-14%. We can further see why our competitors have an edge over us.
{It is important to ask the capacity utilization question. If we are operating at 100% capacity utilization the volume cannot be increased without capacity addition which would increase fixed costs.}

b) Improving distribution and retail: **I want to know if we are doing particularly badly in any of these segments-small, medium or big retail.**
What specific information you would require?

What is our split of volume across these three segments and what is it for competitors?
The splits are the same for client and competitors.

I want to know if our distributors and retailers are pushing competitor's products more than us. This can be either because of monetary reasons such as better margins being provided by competitors or non-monetary reasons like our bottles having poor shelf life, etc.
No reason to believe that competitors favored because of a better push.

So we know that we don't have any competitive disadvantage with respect to our competitors, however we can look to gain an edge over them. This can be done by
- expanding distribution network to new geographies
- increasing types of distribution channels in each geography-small, medium, big retail, online
- increasing the no. of shops we supply in each distribution channel
- improving effectiveness of each channel
{The above is a good way to breakdown the distribution operations of a company. It is hard to miss out on important issues if the analysis is well structured in a case.}
Great, but we don't need to go in that detail, you can move onto the next issue.

c) Increasing consumer demand for our product.
Here we will have to benchmark our product on a range of parameters to understand why our competitors have an edge in market share.
- **What customer segments do we cater vis-a-vis competitors?**
- **Do we satisfy the requirements of each customer segment targeted?**

How is the product priced compared to our competitor?
How is our product different from our competitors - taste, health, preservatives used, and flavors?
How is our packaging different from our competitors' - bottle sizes, color, outer packaging?
How do our marketing efforts compare with competitors - product differentiation, marketing channels, and brand recognition?
On all parameters we match competitors, except one. Over the last few years 'pulpy' drinks especially for orange juices has become a consumer fad both due to health and taste reasons. We have not tapped into this market.

What is market share of pulpy juice drinks in the overall juices market?
About 30%.

Do we have the capability to manufacture and supply pulpy drinks? Would it require any additional cost considerations?
Yes, we can manufacture and supply pulpy drinks at negligible cost increment.

(After checking with interviewer of what can be our approx. market share in pulpy segment?) So we can capture 20% of the pulpy drinks segment.
When we saw we could increase production by 10mn litres and sell, which segment was that for-pulpy or regular?
Yes, assume that those 10mn litre worth sales will come from regular juices only.

So increasing 10mn liters of regular juices allowed us to breakeven. Capturing 20% of the pulpy drinks segment of 90mn litres (30% of 300mn litres) will lead to an additional sales of 18mn litres. Total production is 30+10+18=58mn litres. This is still within our production limit of 75mn liters.

Is the price for pulpy drinks and the variable cost the same as regular juices?
Yes, assume that.

This will result in an effective profit of ((58mn litres * 9c) - $3.6 =) $1.62mn.

Great, would you like to analyze anything else?

We have seen how we can improve our market share in the existing market.
We can now see if we can increase volume by exploring new markets. We can then go back to seeing if we can increase price, reduce variable cost per unit or reduce fixed costs.

That won't be necessary in this interview. Thanks.

4. Canada Discount Retailer.
Our client is the #1 Canadian Discount Retailer named Canada-Mart. They have 500 stores spread across Canada and are leaders both in their market share as well as profitability. The #2 discount retailer in Canada has 300 stores and is named Maple-Mart.
US-Mart a US based Discount retailer having 4000 stores in the US is planning to acquire Maple-Mart. You have been hired to figure out how the acquisition could be a potential threat to Canada-Mart.

Preliminary Questions
Our objective is to understand how US-Mart's acquisition poses a threat to Canada Mart's profits, correct?
More specifically, how it threatens our Market Share and Profitability.

And market share would be in terms of (Client revenue)/ (Industry revenue)?
Yes, go with that.

And just to be clear, by profitability you mean our Profits as a % of Revenue?
Precisely.

I want to know if my understanding of a discount retailer is correct. These are basically big supermarkets offering customers cheap prices on their products.
Yes, they provide everyday low prices on a variety of products.

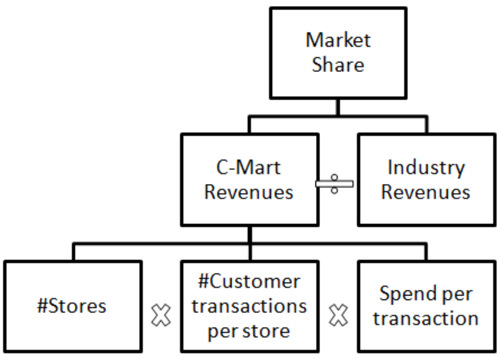
And what kind of products are offered?
All consumer products groceries, electronics, apparel, health items, etc.

And, why is US-Mart entering Canada. Is it just business expansion for more profits?
Yes.

(Though the answer may seem obvious to you for this question, it's still worth checking your understanding. This is because sometimes there are strategic or regulatory reasons behind a company's behavior and not just profits. For example the reason why Wal-Mart tied up with Bharti to enter Retail sector in India was because of a regulatory requirement that not more than 49% ownership can be with the foreign player.)

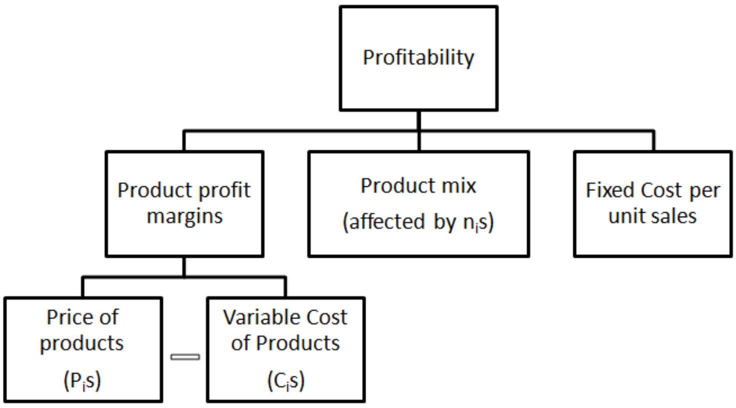
<u>Overall strategy</u>
We need to see how the acquisition of Maple-Mart affects our client's
A) Market share and
B) Profitability

A)



B) $Profitability = \frac{Profit}{Revenue} = 1 - \frac{Cost}{Revenue} = 1 - \frac{Fixed\ Cost}{Revenue} - \frac{\sum n_i C_i}{\sum n_i P_i}$

C_i is the variable cost per unit of the i^{th} item type
n_i is the number of units of the i^{th} item sold
P_i is the price of the i^{th} item



If you are reasonably comfortable with the profitability formula there is no need to write it down, you can directly break it into its component buckets and move on. The formula is just for the reader's understanding here.

1. Firstly we will see where our competitive edge lies (in market share and profitability) and see if this edge will be eroded post acquisition of Maple Mart.
2. Secondly we will analyze if we have any other advantage or disadvantage compared to the new entity that will be formed.

Essentially this case is about a competitor benchmark before and after acquisition. Here we've assigned a priority to the metrics of comparison

1) Analyzing those metrics responsible for our current competitive edge
2) Studying other metrics

You can do the benchmarking without this prioritization and solve the case, however it might take you longer. But it would be good to remember that often the drivers of our current competitive edge would be important factors to consider.

<u>A-1 (How our competitive edge is affected with respect to market share)</u>

Can I get a sense of what our client's and Maple-Mart's current market shares are?
Canada-Mart: 60%
Maple-Mart: 30%

This means we currently have twice the revenues than Maple-Mart. Let's see where does our edge lie and how this would get affected.
No. of Stores

We have 500 stores which and Maple-Mart has 300. Since we have twice the sales of Maple, this means our revenue per store is currently greater than Maple Mart. Before we come to revenue per store, do we know if US-Mart plans on opening more stores?
Good question, they don't actually.

Then we will still have an edge because of our higher #Stores.
We know Revenue per store is currently higher than that of Maple-Mart.
Since, Revenue per store = (#Customer transactions per store) x (Spend per transaction)
I want to understand why customers favor our stores over Maple-Mart.

Let's see what the potential reasons could be, Make this comprehensive list on your paper

Customer characteristics
- Segments targeted-age group, gender

Product characteristics
- price of products available, discounts and schemes
- variety and brands of products available

In Store experience
- Ambience, air conditioning
- Convenient layout, ease of finding desired items
- Time required to shop, crowd
- parking space
- trolleys

Store Location, Brand

Now select the key issues using your business judgment which you think are important. If the interviewer asks for more issues other than the key ones you mention then you can fall back to your list on the paper.

Since we are comparing supermarket stores, we should look at the following key issues
- Brand of Stores
- Location
- Price and Variety of products
- Shopping time

Good, so we know that

a) We have some high-quality product brands compared to Maple-Marts. How are we able to do so?
We have favorable supplier contracts because of our market share such that they serve to us only.

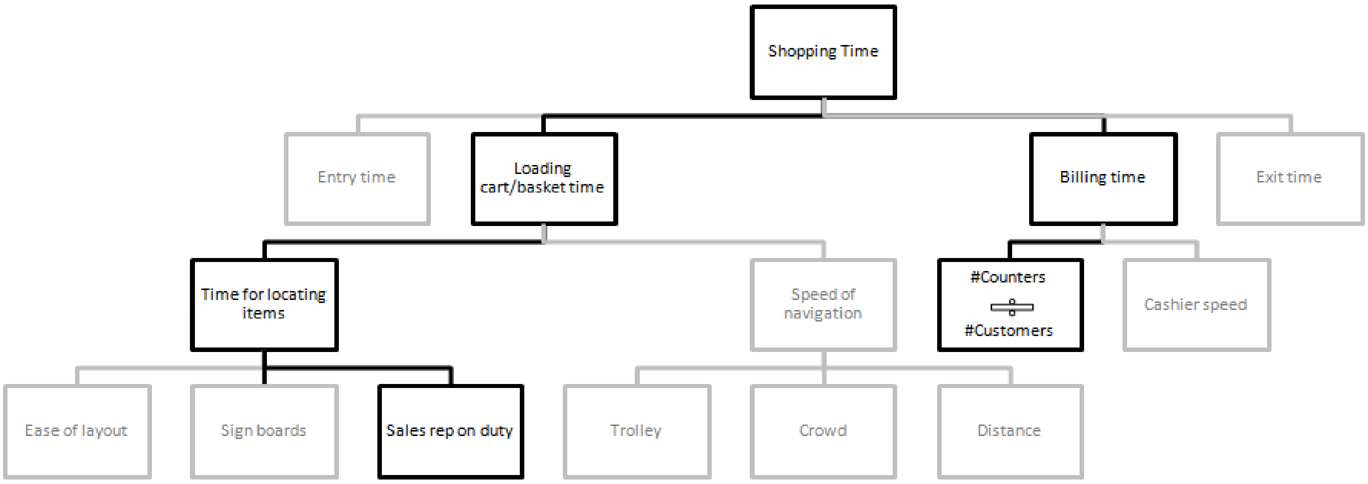
I am now wondering if we will be able to maintain this edge when US-Mart comes in. Will they somehow be able to get our suppliers to serve them by either providing higher margins to them?
US-Mart has announced it plans to source all its products from its existing supplier in the US. That will mean they will be able to put on shelves high-quality product brands to compete with us in that segment.

And from the customer point of view, within the high-quality segment do they care about the brand whether it is American or Canadian?
No, they are price sensitive. Within a segment, they are typically brand agnostic.

So it seems we will lose our edge in the high-quality product segment when US-Mart enters. Just to get an idea of how much it will impact our market share, do we know what % of revenue comes from the high-quality product segment?
5%.
So this will relatively bring a small impact on our market share.

b) *Our shopping time is lesser, hence customers prefer to come to our stores*

Why is it that our shopping time is less?



Compared to the current Maple Mart which does not have any sales representatives we have few which make it easier for customers to locate products they need.
Secondly we have a better (counter: customer) ratio leading to better billing time.

I now want to see if we might lose this edge when US-Mart comes in. How does their current shopping time in the US compared to our current time?
It's lesser by 5 min., since they have even more sales reps as well as a better (counter: customer) ratio.

This seems like a challenge for us, we might lose significant market share if we do not take shave our shopping time. Can we bear the cost of having more no. of sales rep and counter in our stores?
Actually, our stores run on a franchise-model where we lend our Canada-Mart brand to independent supermarket managers. They bear the cost of administering the supermarket and share the revenue with us in exchange for licensing our brand name. US-Mart has a conventional centrally controlled model. Our managers hence would be reluctant to bear the cost of additional sales rep and counters.

In that case can we need to communicate to the managers that it is in the mutual interest of Canada-Mart and themselves that the additional cost be incurred. Otherwise there will be a loss of revenue for both. The terms of how each party bears the cost can be negotiated. Will it be possible to do so with all our 500 stores?
This can be worked out, however it will take at least a year to negotiate the terms with so many stores.

Do we have the capital to buy-out all the stores to move to a centralized model? However before moving to that we will also have to see the advantages of the franchise model which we might lose.
No we don't have the capital for such a thing.

Hmm, so we will lose some market share since shopping time will go from being a competitive advantage to a disadvantage. Our product margins will also reduce, leading to a reduction in profitability, owing to the increased revenue sharing with the managers.

<u>A-2 (Other advantage/disadvantage on the market share front post US-Mart acquisition)</u>

I want to now see if there are any other advantages or disadvantages we will have compared to US-Mart on these criteria
- Brand of Stores
- Location
- Price and Variety of products
- Shopping time

a) We have better brand recognition than US-Mart in Canada.

Does the brand of the supermarket matter to the customers?
Yes, they trust the products based on the supermarket brand.

Is it difficult to improve the brand image for US-Mart? Given they have deep pockets they can use the money on improving their brand recognition in Canada.
Good point, our advantage will only be temporary.

b) *US-Mart prices are 10% lesser than C-Mart prices.*
This is in the existing US-Mart stores?
Yes.

I want to understand how this would translate to prices in their Maple-Mart acquired stores. Since they are sourcing these 10% cheaper products from the US after incurring distribution expenses to get them to Canada at what price will they be able to sell compared to us?
Prices will be almost the same then.
Hmm, then we won't lose out on the price front.

<u>B-1 (How are competitive edge is affected with respect to profitability</u>)
We already saw that some of our profitability is being shaved due to lower margins owing to increased revenue sharing so as to not lose market share to the competitor.

Currently why do we have an edge over Maple-Mart when it comes to profitability?
a) Better margins of products?
b) Product mix inclined towards higher margin products?
c) Lower Fixed costs per unit sales?
Our margins are better since our product mix is more inclined towards higher margin products since we are exclusively present in the high-quality product segment currently and we earn higher margins on those products.

We have already analyzed how we will lose market share in the high-quality products segment. This means our profitability will also be affected.

<u>B-2 (Other advantage/disadvantage on the profitability front post US-Mart acquisition)</u>
I now want to know if there is any other advantage or disadvantage that US-Mart's acquisition will lead to with respect to profitability.

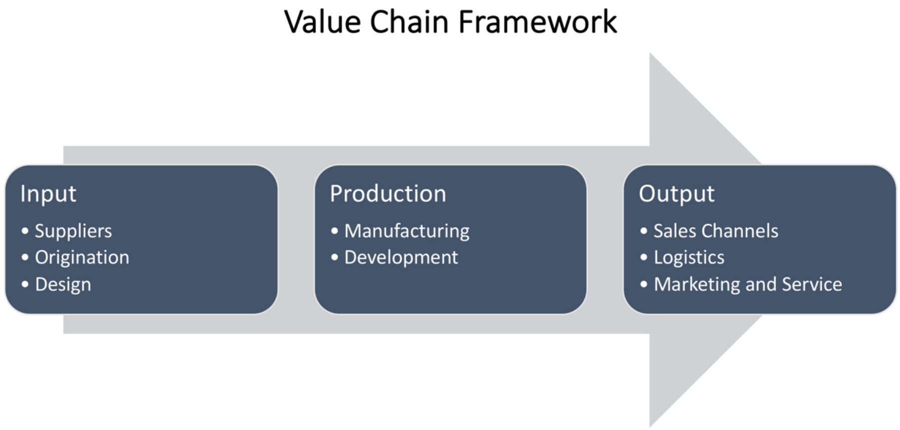
That's all we can close the case. You did well.

2) Value chain

After identifying a problem within the profitability framework (Cost/Revenue/Both), it is generally effective to delve into the value chain and to drill down for RCA (Root Cause Analysis) of the stated problem.

Value Chain Framework is indeed very useful when it comes to breaking down a firm's activities and processes. It simply comprises of 3 stages :
Production Issue → Distribution Push Issue → Customer Pull (or Retailing) Issue Or Production → distribution → Marketing

Framework



It helps businesses to see exactly what areas they need to strengthen and how they can reduce costs. It also allows businesses to decide what is most important when thinking about the value they want to create. Mapping out a value chain can be a great way to visualize all processes and see how they're impacting both the company and customers.

One is expected to identify various cost components and validate them, identify major cost drivers and then recommend how the company can change its ways to become more cost efficient.

Typical Problem statement:

"Company A has lost control of its costs. Increasing costs have dramatically impacted profit margins. CEO of Company A has asked you to identify the source of cost increases."

This example indicates that you should use the whole Value Chain Framework. Candidates may initially start with the Profit Framework but mainly focus on the cost part of that framework. When breaking down costs, candidates should quickly realize that the Value Chain Framework fits the analysis very well.
"Company B has significant challenges in its downstream value chain. Based on market research, the company knows that there is significant demand for its product, however few customers are buying. What is the root cause of the problem?" This prompt is an obvious one for using the Value Chain Framework. However, candidates should focus on the Output Stage since the main issue is sales and distribution

Tips:
When using the Value Chain Framework be aware of the relevance of your criteria and area of focus in each stage. There are thousands of criteria and things to focus on in each stage. Please make sure you surface them by asking the interviewer probing questions.

Source: https://www.spencertom.com/2018/05/27/frameworks-for-the-case-interview-part-iii-value-chain-framework/

Case Examples

1. Razer Blade

Your client is a well known razer blade manufacturer. Recently, 7% of a factory's output has been defective, which is much higher than usual. The company has hired you to figure out why.

- Could you please tell me since when have you faced this issue?

For the past two months we have been facing issues of a higher number of defective products, which is far more than usual.

- Before we try and figure out the issue in the manufacturing, I'd need more details about the nature of the defect.

The defect has been observed in some cartridges, where the blades that are to be inserted into them do not fit, and extend beyond the plastic casing.

- How much is the overfit of the blades and what is the standard?

The protrusion of the blades is approximately 0.5mm beyond the front plastic casing, which is usually supposed to be fixed about 0.2 mm behind the casing.

- Okay, so what is the process of manufacturing these cartridges?

You're from Mechanical, you should know this already. The cartridges are made using a sophisticated assembly line. First, the stainless steel is shaped into a blade by pressing, heating and edging. The output is then inspected and coated. The mould for the heads of the razor are then produced, which are fed into another insertion line where the blades are positioned into their respective heads.

- In order to understand the scope of the problem, what is the usual percentage of defects produced by the factory and what kind of defects are usually noticed?

The usual defect percentage is approximately 2%, and these defects range from faulty dimensions of the blade or cartridges to the assembly of the two, which is the major issue in this case etc.

- Since there's a sharp rise in only one particular kind of defect out of these, I suppose there's been an issue with the production equipment of this specific part of the assembly line. Has the assembly line been thoroughly inspected and evaluated, post the observation of excessive defects?

Yes, the primary machines being used for each part of the procedure have been evaluated, barring the machines in the earlier section of manufacturing as they're not involved in the dimensioning of the blades or the casing.

- **Okay, since it has been verified that there are no internal issues in the manufacturing, let's move on to the external factors. Have there recently been any changes in the factory, or any undesirable effects?**

There have been changes made to the factory. There was a change to the power supply section last month as a routine inspection helped us discover some faulty machines. We have attempted to investigate that as a lead, however it was all clear. Additionally, there was an unfortunate incident, where one of the workers unintentionally meddled with one of the sections of the mobile fixtures in the assembly line, but this issue was immediately rectified.

- So all pertaining problems regarding manufacturing machines have already been taken care of. I suspect then the issue may have been caused due to some changes in the externalities to the factory. Has there been any recent incidents around the area of the factory?

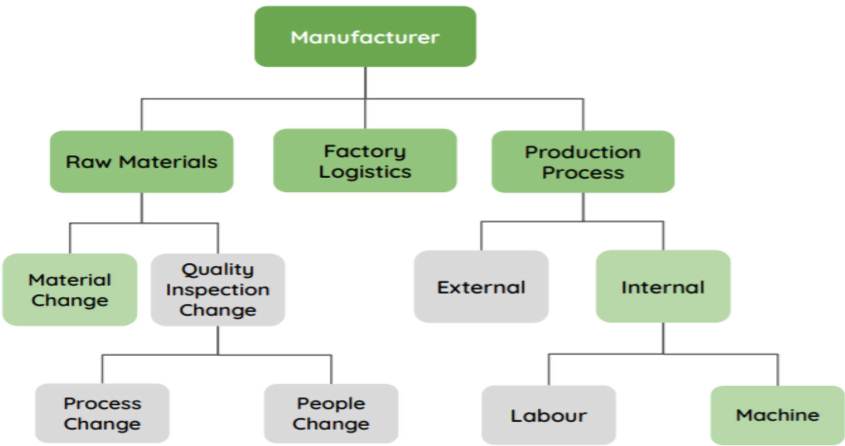
Yes, in the past 8 months construction work of another plant nearby has begun, which has affected some of our transportation of raw materials and final output in and out of the factory.

- So after analysing the information we have thus far, I have a slight hint of where the issue arises from. So I initially felt that the changes in power supply may have had an effect. However the new implemented power supply works perfectly, which led me to understand that this was not the root cause. The external factors indeed had a role to play here, but as you said, the construction began 8 months ago but in the 6 months the production had faltered only marginally, as compared to the last two months. Hence, the incident with the worker must have been the trigger for the defects to rise. I suggest going over the assembly line once again, there may be a particular fixture that is not positioned properly after being damaged and fixed. If a fixture is above or below their required positioning, it causes the overfit and underfit defects. Moreover, some other defects such as cracks in blades and cartridges may also be offset because of this.

This seems like a rather simple issue then. Could you provide us with some resolution?

- I believe this issue can be fixed by simply installing mobile fixtures for your assembly line that adjust according to the This will also be a cost effective measure, rather than replacing the entire line.

Thank you. That'd be it from our side.



A breakdown of the investigation into the origin of the rise in defects, from the issue occurring in the machines.

2. Indian Airline Operator

The client is a low cost airline operator in India. Over the past 2-3 years, they have observed reduced profitability and have been burning cash to maintain competitive pricing. How should they mitigate this?

- Before analysing the industry, I'd like to know more about the client. What kind of flights does the company run?

The company operates short flights across India and some international flights as well, including both direct and connecting flights. The profitability issue is largely domestic only.

- **Okay, coming to the domestic commercial aviation market, how many competitors are there and are they facing similar issues?**

They do have 2 major competitors but unfortunately none of them are facing such a problem, as per their information.

- Alright then. Given that this is a highly competitive market with aggressive pricing, in case of either increasing costs and decreasing revenue, the profitability will be severely hit. The main revenue streams would be domestic ticket sales, cargo services, and tours & packages. May I know in which revenue stream we have seen a decline?

The decline has been majorly in domestic ticket sales.

- Okay. The revenue from ticket sales is directly dependent on the following factors: Price x Capacity x Occupancy. Since pricing has to be aligned with the demand, I suppose the occupancy or capacity have declined.

Yes, in fact, both have shown a downwards trend.

- In case of occupancy has the decline been on some specific routes or overall in general? And in case of capacity has there been a decrease in number of flights on routes due to higher air traffic congestion or decrease in fleet size?

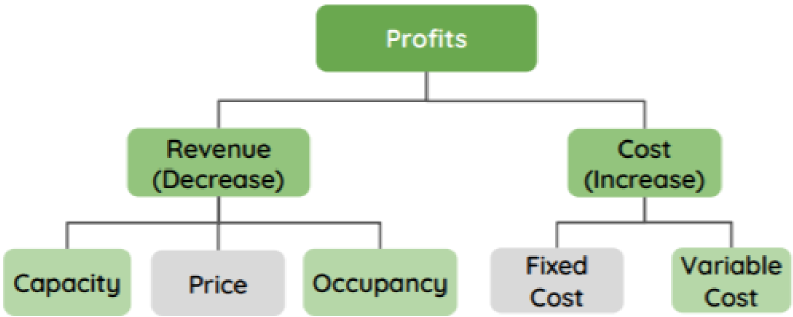
Okay to answer the first question, the client recently ventured across some niche routes and the occupancy in those routes has been dismal. In case of capacity, the client had to ground certain aircrafts due to some technical snags and the new airplanes that were ordered to increase the fleet size will be delivered only next year.

- Do any of our competitors operate on these new niche routes? And have they faced any problems due to grounding of airplanes, maybe they were procuring aircrafts from the same manufacturer?

No, we are the only ones on these routes right now and our competitors are not facing much problem due to these grounding of airplanes due to their agreements with different companies.

- So let us first analyse the occupancy problem. I would break the entire value chain: booking the flight tickets, reaching the airport, security procedure, boarding, in-flight services, deboarding. Since the flight booking system is consistent across platforms, I would like to focus on the airports - particularly in the niche routes. Since these are operating between Tier 2 and 3 cities, the airports must be located on the outskirts. So the increased time and effort that passengers have to put in makes air travel a less desirable option compared to railways. It also suggests that the people in

these routes are very price sensitive and do not have an inherent preference for air travel, as reflected in the lack of demand, which also justifies lack of competitor



Those are solid conclusions. Do you have any suggestions?

- Is there any other reason for higher costs apart from the distance which impacts accessibility to airports?

The number of taxis in this area have gone down. Now the taxis being less in number, it further increases the difficulty in reaching the airport.

- Okay. I understand. So I have two suggestions:

1) The client should start its own shuttle service or collaborate with bus transit startups, providing them added incentives. Further, the client can launch a bundled deal that includes transportation cost to and from the airport in the ticket price itself, that is cheaper than the next best alternative and also convenient for the passenger in terms of connectivity.

2) Since the customers are very price sensitive there would be only a few people regularly travelling through flights, which makes customer retention the key focal point to leverage their first-mover advantage on these routes. So, loyalty points to frequent travellers redeemable through on-flight food/beverage, ticket discounts and additional services should be introduced for these routes specifically..

To further improve the occupancy, they should have new flights on the regular serve as connecting flights to multiple cities. They may also schedule their domestic flights to maximise the efficiency of niche routes.

Good and how will you tackle the problem of capacity?

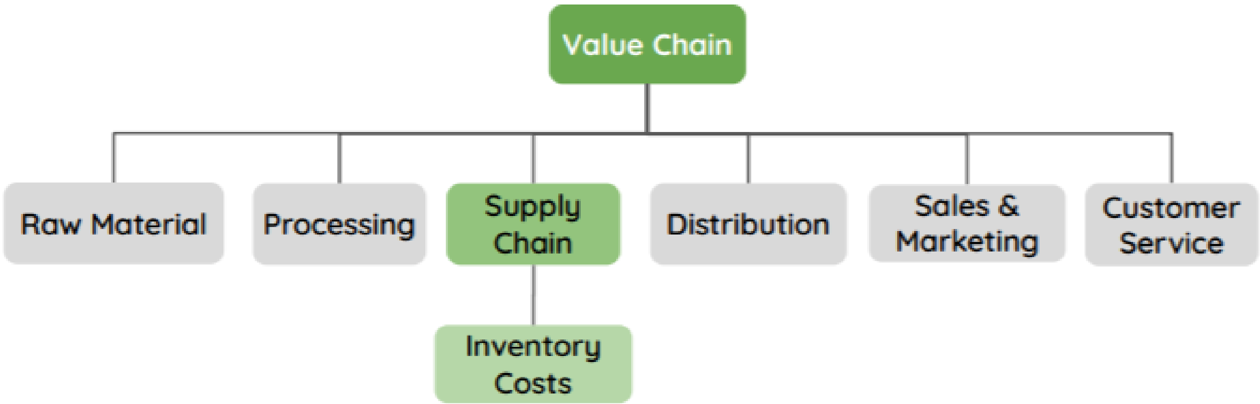
- In order to address this, I would suggest overhauling the current flight scheduling formula to maximise the air time of available aircrafts. Whereas on the other hand, recompensation offers from the aircraft manufacturing company can yield us a long term deal for snag-free aircrafts. In order to alleviate the current demand the airline can lease aircrafts for short term for the most profitable routes.

Good. Let's now analyse the costs problem the company is facing, mainly inventory costs.

- Okay, so inventory costs can be split into types and number of inventory parts and cost of carrying which would include pilferage & warehouse rent. The reasons for higher costs could be poor demand forecasting, inefficient inventory management & late supply costs. Is the cost higher across all these components as compared to competitors?

The cost is high specifically due to the types of inventory held. The airline operates with a varied fleet whereas most the competitors have one standardised fleet. Due to this, we need to hold more inventory. What will be your suggestions?

- I would like to recommend the following points:
1) Standardisation of fleet purchases - to reduce the carrying cost.
2) Renting agreements with suppliers – alternative to expensive inventory
3) Hub & spoke model - Have a central warehousing instead of maintaining inventory at every airport.
4) Strict Inventory control - Order on a need basis instead of maintaining excess



3) Pricing

The objective, in these cases, is to develop a method for pricing any product. One has to identify the kind of pricing problem in the case, consider the objective of the company, understand the product features and market environment. Finally, one should conduct market sizing analysis where required and apply a relevant method to price the product. The crucial part is to justify the pricing recommendation not just with numbers but also with industry awareness.

Typical Problem statement:

Apple is about to launch their latest version of the iPhone. What is the optimal price that they should set for this new product?

Framework:

Company / Product	Pricing based on costs	Pricing based on competition	Pricing based on value added
• What is the product's unique selling point?	• How much does it cost to produce this product?	• How much do competitors price their products for?	• What benefits does this product provide to customers?
• How does the product compare to other substitutes?	• What is the profit margin that the company is trying to achieve?	• How does our product compare to competitors' products?	• How much value does this provide to customers?
• What other products does the company sell?			

Company/Product: This is to understand the company and its product

Pricing based on Costs: The simplest way to price a product is to look at the costs to produce a product and set a higher price. If the company has a specific profit margin figure in mind, they can set a price to reach their profit margin goals.

Example: If it costs Apple $200 to produce their iPhone and they are aiming for at least a 20% profit margin, they would need to price their iPhone for at least $240.

Based on Competition: You will need to identify competitor products that are substitutes for your product. Pricing based on competition is based on two factors: the price that competitors set for their product & the customer's maximum willingness to pay for their products. The difference between these two numbers is the amount of value the customer captures from purchasing the competitor's product. In economics terms, this is known as consumer surplus.
In order for customers to purchase your product, you will need to give customers more value than they get from purchasing a competitor's product.

Example: Apple's main competitor, Samsung, has a competing smartphone that they are selling for $400. This product provides customers a value of $600 from the benefits it provides. Therefore, customers get $200 in value from purchasing this product.
If Apple's customers get a value of $1,000 from purchasing an iPhone, Apple will need to give customers at least $200 of value to make customers purchase an iPhone instead of a Samsung smartphone. Therefore, Apple can charge a maximum of $800 for their iPhone.

Based on Value: This is to identify all of the benefits that the product provides and quantify how much value these benefits provide to customers. This will equal the customer's maximum willingness to pay. For example, if a product provides $800 of value to the customer, they will not be willing to pay more than $800 for it. It does not make sense to price the product for more than this because no customers would buy it.

Example: The iPhone provides various benefits such as entertainment, productivity, communication, and status. If customers get $300 of value from entertainment, $200 of value from productivity, $400 value from communication, and $100 value from status, customers would be willing to pay a maximum of $1,000.

Tips:

7 steps to solve any Pricing Case Study-

1. <u>Understand the goal or objective of the company</u>
The first step to solving any pricing strategy case interview is to determine the goal or objective of the company. Most of the time, the company is looking to price a product to maximize profits. However, there are times when a company may be looking to maximize revenues, market share, or number of customers. Your pricing strategy will differ tremendously based on the company's specific goals.

2. <u>Develop a framework</u>
Next, develop a framework to help you structure your approach to solving this pricing case. Depending on how much context of the company or product that you have, you may also need to understand the company or product better. These could be the first one or two areas of your framework.

The rest of your framework should include the three different pricing strategies we have covered:
Pricing based on costs
Pricing based on value provided
Pricing based on competition

Make sure to walk the interviewer through your framework to see if they agree with your approach. They may provide feedback or offer a few suggestions.

3. <u>Determine the minimum price point</u>: Using the pricing *based on costs* strategy, determine what the minimum price point of your product should be. Remember, price needs to be greater than costs in order for the company to achieve a profit.

4. <u>Determine the maximum price point:</u> Next, use the pricing *based on value* provided strategy to determine what the maximum price point of your product should be.
Identify all of the benefits that the product provides customers. Then, quantify these benefits into a dollar value. The sum of the value of the benefits represents the customer's maximum willingness to pay.

5. <u>Determine the optimal price point</u>
Afterwards, use the pricing based on competition strategy to determine which price point between your lower and upper price points is optimal. Identify competitor products that are substitutes for your product. Quantify the benefits that competitor products provide customers and compare that to the prices they are set at.

The difference between these two values is the minimum amount of value that you need to give to customers in order for them to want to purchase your product.

6. <u>Consider additional pricing factors</u>
Now that you have an idea for the optimal price, you can consider additional pricing factors:
Are there additional products that the company can cross-sell or up-sell?
Can different versions of the product be sold at different price points?
How do you think competitors will respond to your pricing decisions?

All of these considerations may change the price point that you set.
- If you can cross-sell or up-sell additional products, you may be willing to lower the price of your product further if it means generating more overall profits
- If there are multiple customer segments with different needs and willingness to pay, it may make sense to have multiple versions of the product to sell at different price points
- If you set a price that undercuts competitors, they may also cut prices to compete with you. Therefore, you should anticipate the consequences of the price point that you set

For simple pricing cases, you may not need to look at any of these considerations. However, more complex pricing cases may require you to think more creatively or thoroughly on what other factors may dictate the price point the company should set.

7. <u>Deliver a recommendation</u>
At the end of the pricing case interview, you'll synthesize all of the work you have done to deliver a clear, concise recommendation.

You should try to structure your recommendation in the following way:
Recommend the optimal price point or price range
Provide the two to three reasons that support this
Propose next steps

Next steps can include areas of your framework that you have not covered yet, additional pricing considerations, or any open questions that you don't have answers to.
If you can't think of next steps, ask yourself what you would need to know to make you more confident in your recommendation. This is a helpful way to generate ideas for next steps.

Source: https://hackingthecaseinterview.thinkific.com/pages/pricing-case-interview

Case Examples

1. Fashion Magazine.
Your client is a fashion magazine company which sells a monthly magazine in India. In the hope of increasing ad revenues, the printing team of your company has proposed to start having targeted ads in the magazine for their customer base. Should they go ahead with it?

<u>Preliminary questions</u>

Okay, so my objective would be to check whether the new ad structure yields more ad revenue than the current one?
Yes.

1) Regarding the current ad revenue structure:
a) What is the current ad revenue structure?
We include full page ads in our magazine and get paid for it by the company whose ad it is. Today, we sell 1M copies. Each magazine has 100 ads. Each ad costs $50 per 1000 copies.

b) Do we assume that all magazines are exactly alike today? What I want to know is whether a company paying for ad space pays to have their ads in all magazines?
Good question. Yes.

2) Regarding the new ad revenue structure:
a) What exactly do you mean by targeted ads?
We have data on our customers based on which we would send relevant ads to them.

b) Broadly, what are the categories based on which you want to target ads?
Good question. We have premium brand ads and non-premium brand ads today. The proposal talks about sending
Premium brands ads → upper class/ premium customers, and
Non-premium brand ads → economy customers

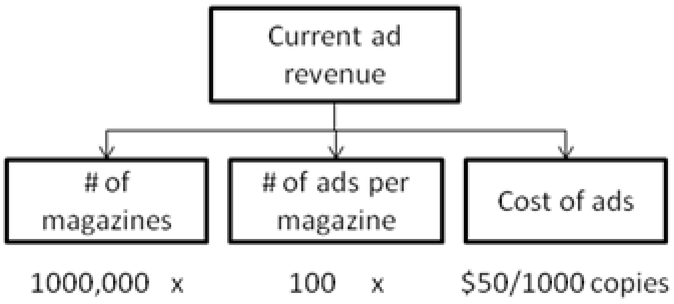
So we have 2 types of magazines in the new structure. One that contains Premium ads and another that contains Non Premium ads.
c) Do we know how many premium and economy customers we have?
How do you think you can capture this data?

Hmm. I think this data can be captured if we have some background information about the customer. This typically happens in a subscription model – online or otherwise - where we are supplied with the customer's address and profession. However, there are also a number of people who purchase these from vendors on the street. I am not sure we will be able to make this distinction here. I believe the company must have some record as such.
True. We do sell our magazines in 2 ways – Home delivery to the subscribers (80% of population) and selling on newsstands (20% of population). 75% of the subscribers are premium.

People buying magazines off newsstands typically flip through the magazine before buying them. They could be either premium or economy customers. It makes sense to have both types of ads in them i.e. according to our current structure.
Correct.

<u>Overall strategy</u>

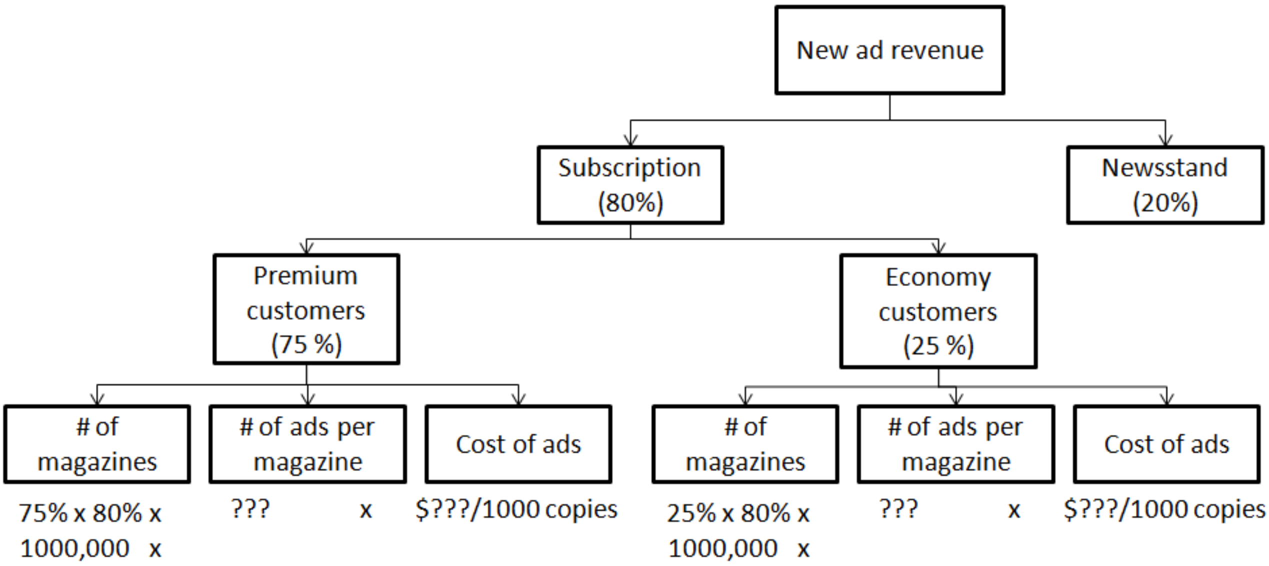
I want to study both the revenue structures and check whether the new ad structure yields more ad revenue than the current one.
For current ad revenue:



Current ad revenue (per issue) = 1,000,000 x 100 x $50/1000 = $ 5M

Why do have only 100 ads? Can we increase it?
We fear that too many ads might drive away customers. The management has decided to put a cap at 100 ads.

For new ad revenue:
Let's put down the data we have at this stage so we can figure what additional data we need.



I will need the following information to arrive at a number. In the subscription model,
● For premium ad magazines:
How many premium brands do we tie up with, today? Can we get more on board?
75. No, we cannot get any more. All potential premium brands are already with us.

Now that we have 25 more pages for ads, can we have certain non-premium brands too? E.g.: Kellogg's Cornflakes, a non-premium brand, still finds customers in the premium segment.
Sure, but the point of this exercise was to charge the premium brands a higher price. The non-premium brands would never pay more than $50 since we cannot justify this increase to them.

Alright, can we convince them to have more ads to fill out the remaining 25 slots?
Sure, we can. However, these brands typically have a set budget for advertising and we need to make a more convincing case for them to expand their budget. Assume a conservative 75 premium ads for now.

I want to now look at how a premium targeted ad should be priced.
Sure. How would you determine the price of an ad?

There are 4 ways to arrive at this.
1. Cost based pricing. However this is rarely used in the advertising industry. The cost attached to making an advertisement is often negligible compared to its value to the advertiser.
Makes sense.

2. Price based on the value of ad to the advertiser i.e. the return they will get based on how many people they'll be able to reach out.
Good idea. Can you elaborate?

Advertising in the client's magazine makes sense as long as advertiser can expect returns from it. I think it is fair to assume that premium customers are the only target segment for premium brands. Okay?
Yes.

Then despite appearing in fewer subscription magazines (800K→600K), the premium brands are still reaching out to the same audience in the new model. Hence, they have no incentive to pay a dime more for the same outreach.
True.

Let's look at the actual numbers around this. We shall be talking only about the subscription magazines (800,000 in number) here since newsstand magazines (200,000 in number) remain unchanged.
In the previous model, Premium brands paid out $40,000 (800,000 * $50/1000) to reach out to 600,000 premium customers. They do not value reaching out to 200,000 economy customers.
In the new model, to reach out 600,000 customers the payout would be $600X (X being the price per 1000 copies - which we are trying to calculate)

The payout in both models should be the same for the same value of reaching out to 600,000 premium customers.
Hence,
$40,000 = $ 600X.
X = ~ $67

Hence, the premium brands would be willing to pay a price of $67 /1000 copies in the new model for subscription
Alright.

(One might not be expected to do an analysis in this depth for all cases. However, you might just get a curveball once in a while testing your understanding of how advertising works. The above analysis should help you to think from an advertiser's perspective.)

3. Price based on a competitor's pricing. I want to understand how our magazines are different from our competitors'. Also, what prices do they charge?

Okay. There are 2 other premium fashion magazines which charge premium brands $ 70/1000 copies. They are about the same as our magazines.

Given that there is not much difference in the product, it seems like brands would be unlikely to pay more than the price of $70.

4. Price such that the total ad revenue (price * #brands) is maximized.

We do not have price elasticity data available.

Although the value-based approach gave us a price of $67, since brands pay $70 for a spot in premium magazines today anyway, $70 is the price we should demand for premium ads in our magazine.
That makes sense.

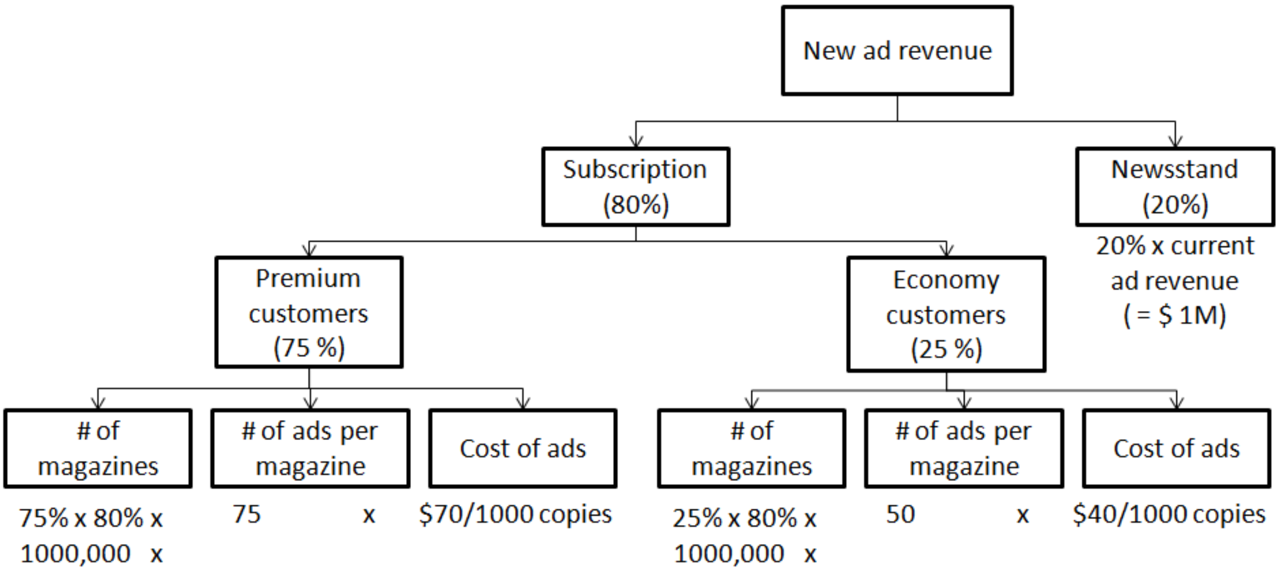
● For non-premium ad magazines:
We inferred that we tie up with 25 non-premium brands today. Since we have 75 more pages, can we get more on board?
Excellent question. We can get more, yes. How will you price these ads?

1. A cost based approach will not work.
2. Can we do some competitor benchmarking? No? However, we know that our earlier model charged $50 /1000 copies.
3. A value based approach will give us a price of $50 /1000 copies again since these brands are indifferent to premium/non-premium customers i.e. a reduction in outreach means a proportional reduction in revenue. Price stays constant.
4. Maximize revenue by optimizing price and number of brands.

Good point. Let’s say we get a total of 50 brands on board paying $40 /1000 copies.

(In reference to point 3 above: Although the price per copy remains constant, note that the total outreach is still reducing. Sometimes, brand managers have a target of reaching out a certain number of people. If their outreach gets slashed by a whopping margin, say 80%, they might just pull out of the deal altogether. However, we have left out that analysis for the sake of simplicity.)

Okay. I think we have all the data required to calculate the new ad revenue.
New ad revenue:



New ad revenue (per monthly issue) = 3,150,000 + 400,000 + 1000,000 = $ 4.55M
Looks like it does not make sense to change the current structure of ad structure from an ad revenue point of view. I recommend against it.

2. Anti Balding Pill.
Our client is a large pharmaceutical company that has found a cure for baldness. It is a pill which will rapidly regrow (within three months) your hair to the thickness it was when you were a teenager. The pill is to be taken every day to maintain the thickness. Please estimate the size of the US market and then decide what price to sell the product at.

Preliminary Questions
So the company and its customer base is located in the US?
Yes.

Is this a prescription drug or an OTC (Over the Counter)?
It's a prescription drug

(This is a useful question to ask when dealing with pharmaceuticals since it tells you how easily the drug can be accessed-through a doctor or directly through a pharmacist.)

Overall Strategy

We will first estimate the market size and then price the product. For the market size we will look at the group of people who would require a cure for baldness. For pricing the product we will look at things like cost of the product, competitor prices and try to quantify the value to customer.
Alright, move on.

Market Sizing
Price of the drug determines affordability and hence important while market sizing. We will leave the income segment for later, since we do not know the price?
Yes.

Is it a unisex product, both men and women can use it?

Yes.

Are there any side-effects to the product?
It causes sexual dysfunction in 2% of men and women thinking of having children shouldn't take it since it could cause birth defects.

How serious is this sexual dysfunction?
Relatively minor and non-permanent.

We can then say that men who are balding and need the product won't really be deterred. But we can eliminate women likely to have children, which is basically all women under 40 to be conservative.

Population
320 mn

Men	1-20	20-40	40-60	60-80+
# people	40mn	40mn	40mn	40mn
%people with thin hair	0	20%	40%	60%
# people with thin hair	0	8mn	16mn	24mn

Women	40-60	60-80+
# people	40mn	40mn
% people with thin hair	10%	20%
# people with thin hair	4mn	8mn

Total Market size=60mn

This is still an intermediate market size. The next step would be to see how many people can afford our drug, but for that we will need to price the drug. Also some people, even though their hair is thin may not want to go for an anti-balding treatment. This might be the case for the older people.
Alright, this is enough. You can proceed to pricing.

<u>Pricing</u>

What is the goal we are seeking to achieve when pricing the product? Maximizing profits?
Yes.

(Note the goal could have been to capture a significant market share, or to break-even on the investments of R&D in a fixed amount of time. So this question is important.)

There are three ways we can look to price the product
1. Cost based pricing: We will see what the variable cost of our product is. Our price needs to be greater than the variable cost, else we would not be profitable. We will also see what the fixed costs, mainly R&D expenses, and a payback period the client has in mind are. Cost based pricing gives us a lower cap for price.

2. Competitor based pricing: Our product price needs to be competitive else we will lose market share. We can charge a premium over competitors if our product has an advantage. However we will also have to discount it, if there are disadvantages.
3. Value (to-customer) based pricing: Here we try and gauge what is the value that is being created for the customer to price our product. For this we can look at similar products in the cosmetic industry to gauge how much customers value balding correction.

There is a fourth method of pricing called Price-Elasticity based pricing. This is useful when Price-Elasticity data is available. It is also useful in a situation when none of the above methods are useful

- Cost based pricing is not applicable since the cost is too low compared to value
- Competitor based pricing is not applicable since there is no competition
- Value based pricing is not applicable since value to customer is very high and cannot be quantified

In such situations the ability to purchase the product is primarily dependent on affordability of customers and using price-elasticity we can get a right price.

1.Cost based pricing:
Do we know what the cost of our product is?
Yes, it is $1 per pill.

That means for a 3 month course, our cost would be $90. Our price has to be greater than $90. What are our fixed costs, do we have any payback period in mind?
You can assume that fixed costs were negligible for this case.

2.Competitor based pricing
We will now compare our product with competitors. Do we know who our primary competitors are? What are their product characteristics?

Characteristics	Com A	Com B	Client
Price	$50/month	$60/month	??
Duration	9 months	9 months	3 months
Effectiveness	Ordinary	Ordinary	Thicker hair, faster
Side Effects	Serious	None	Minor(in target population)
Prescription/OTC	Prescription	Prescription	Prescription
Covered in health insurance	No	No	No
Type	Pill	Shampoo	Pill
Brand Image	Positive	Positive	Positive
Market Share	**50%**	**50%**	**-**

Note that each of the above information is to be explicitly asked by the candidate as opposed to the interviewer simply giving it away.

So the market is evenly split across A and B. In terms of effectiveness, brand image and accessibility A and B are similar. They do differ in pricing. It seems that although B is priced

higher, it is attracting as many customers as A since there are no side effects. Also it is shampoo based as opposed to pills, what do customers prefer?
Customers have a preference for shampoo since psychologically it gives them a feeling of using a hair product as opposed to some kind of medicine.

Will this be a big factor in their consideration compared to our product which is highly effective?
Not much, I would say.

Based on this information, we know that the total price for the anti-balding treatment of competitors is $450 for A and $540 for B respectively.

Compared to product A, we have a much better product-less serious side effects, greater effectiveness and faster treatment. So we can at least price our product at $450. The monthly price would then be $450/3=$150 per month.

Compared to product B, the client's product has greater effectiveness which should trump over the disadvantage of minor side-effects (we've excluded women under 40) and the fact that our product is a pill instead of a shampoo. At $150 per month, our product is still a cheaper buy since the total price comes to $450 as opposed to $540 for product B. The combination of better price and effectiveness should attract even those customers who have reservations about using a pill or the fact that there are minor side effects with our product.

We could potentially price our product even greater than $150 due to its high effectiveness. But we should have a competitive price initially to capture market share and later increase the price when our product gains positive reviews.

On the other hand at $150 per month, we are making a good profit of $120 per month and hence we can consider even reducing the price to $100 per month to capture market share even faster. But let's keep it at $150 for now, we can reduce the price if we aren't getting market share fast enough.
Good idea.

($150 is just a number we came up with here. It could be $100, it could be $200. It's the reasoning behind your number which matters in the case-interview more than the number itself.
Sometimes it makes sense to even look at substitutes as competitors. Not in this case, since hair wigs and a permanent solution are vastly different. However, let's say the client is a construction material supplier. A new material is becoming popular in the market and the client wants to know how to price it. Apart from looking at how the competitors are pricing the new material, it's also useful to look at the price of the substitute, i.e., the traditional construction material to judge the right price.)

3.Value based pricing:
We can now move on to Value based pricing to see if we're in the right range. Here we can look at products, services similar to getting a full head of hair and see what their prices are for comparison sake. We can also look at services, which we know are definitely of less value or

definitely of more value. The prices of these services will give us a lower and upper cap of price range.
Sure, go ahead.

We can look at gym membership price in the US for 3 months as a comparable since it also addresses a requirement improving external appearance. (Worth mentioning to the interviewer that a head of hair would be more permanent than a ripped physique and some may value a head of hair over a shapely body.)
We can look at other cosmetic products such as wrinkle removal creams and skin lightening, since the value derived for the customer is with a similar mindset of improvements of facial looks.
As a lower-cap, we can think of something like drinking coffee at a Starbucks for 3 months. It would be worth missing coffee every day for three months to have a full head of hair. A coffee costs $3, across three months this would make it $270.
As an upper-cap we can look at getting braces for teeth realignment. **Since it requires regular dental appointments, it would be more expensive than to take a pill for getting hair rejuvenation. Do you know what the price of this would be in the US?**
That's okay, we don't need to go in the numbers. I like your approach. We can close the case here

4) Market Entry/New Product Entry

In market entry cases- be it a new product launch, entering a new geography or both- there are two basic considerations – a) Is it a good idea? b) How to enter?

Typical Problem statement: *"Our client is X company and they are wondering if they should enter the Y market?"*

To understand whether a client should enter the market, following questions under each category could be asked according to the relevance of case study. As asking all questions is not goal oriented and sometimes the same questions overlap in different categories.

Framework

Customer	Competition	Product	Company
Who are our customers? What are the customer segments? Size and growth rate of each segment? What are the needs of each segment? Distribution Channels preferred? Price Sensitivity? Customer concentration and power?	Who are our competitors? What is the market share of each? Behavior(target segment, product characteristics) What are their best practices? Barriers to entry? Supplier concentration?	Commodity or differentiable good? What are its complementary goods? What are its substitutes? Product characteristics-lifecycle, etc.	Capabilities and expertise Distribution channel Cost-structure Investment cost Organizational structure

We can break these cases in 2 parts:

A. <u>Economic sense</u>: If it makes economic sense to enter the market. This is typically done by Estimating Profits.

Profits= (Market Size) X (Market Share) X (Profit per unit) - Fixed Costs

Here ask the relevant questions from the Customer bucket to estimate Market Size.
Then ask relevant questions from Competition and Product buckets to estimate Market share.
Finally inquire about the price, variable cost and fixed costs involved.

B. <u>Implementation sense</u>: If the market entry can actually be implemented. This is typically done by checking the feasibility of the value chain *Production → Distribution → Marketing*
Here do a check if we have available resources -Capital, land, labor, equipment to meet demand. Then see what kind of distribution and marketing would be required to ensure products reach customers.
Here we also see if it makes sense to enter independently, through acquisitions or a joint venture to maximize profits.

A subset of the Market Entry case, here, the company aims to introduce a completely new product, expand its existing product line or extend reach in a new geography. One has to analyse the viability of success and feasibility of entry, followed by identification of the correct price point and target segment and finally recommend levers that can drive product success in the market.

Tips:

1) Not every aspect of the framework mentioned will be applicable to all cases, but try to cover as much as you can, so that you get a good idea of the industry and the client's current status

2) It is very important to identify where the client would stand in the industry compared to the existing competitors and the measures to be taken to mitigate the competitive edge of the incumbent.

Case Examples:

1. Telecom Operator.

Our client is a Telecom operator. They are looking to diversify their presence in India and wish to enter the electronic home security market. They want you to estimate potential profits and want you to suggest how to capture a significant market share.

<u>Preliminary questions</u>

What market share is significant enough for the company? In how much time they wish to achieve this target?
About 5% in the first year.

So our objective is to estimate potential profits along with having a strategy to achieve a 5% market share at least.
Correct.

What are the products we're talking of in the home security business?
There is essentially one product. It's an alarm system which is installed in the home along with sensors. Whenever someone is trying to burgle the house, the alarm goes off.

What part of the value chain are we looking to enter?
We have not decided but generally industry players manufacture and use third parties to distribute and retail.

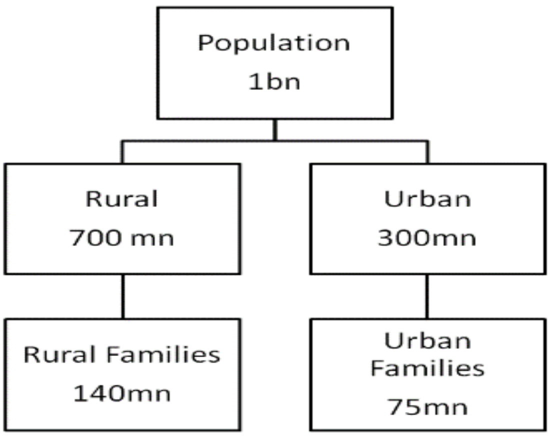
What geography are we looking to sell in?
Anywhere in India where there is a market.

<u>Overall Strategy</u>

We can begin by first estimating profits.
Profits = (Market Size) x (Market Share) x (Profit per unit) - (Investment)

While analyzing market share we can see how to ensure a minimum 5% share.
Don't worry about initial investment. Just calculate profits independent of initial investment for now.

1. <u>Market size:</u>



(We've assumed a 70-30 Rural-Urban divide. Avg family size is take as 5 and 4 respectively for Rural and Urban families.)

Next we will have to see
a) How many families can afford to purchase the home safety units?
b) How many families would buy them given some of them live in "high risk" and "low risk" areas
A smaller % of rural families would be able to afford equipment compared to urbanites. We will have to also see how many families in each segment need equipment depending on degree of criminal activity and available security measures (police enforcement, building security, CCTVs)
Good let's say we do this analysis and find that the market size is 15mn household. Let's move on from there.

2. <u>Market share:</u>

Let's now look at how we can get a market share of at least 5%.

Just to put this number in perspective what is the market share of the largest player?
The industry is highly fragmented with mainly local players. The largest player has a market share of about 5%.

I want to understand what drives local dominance?
Well, the industry is such that majority of costs are concentrated in transportation of the fragile equipment. Lesser the distance from factory lower the cost. Since manufacturing is cheap and transportation is not, factories are set up close to markets.

And, what is the growth rate of the industry?
It is about 10%.

There are two ways to enter the market, displacing existing players or taking a slice of the growing market. However, because of the fragmented nature of the industry, if we have to capture a significant market share through either path, we will need to have a competitive edge in our product. I would like to benchmark our product with competitors to see if we have an advantage. I'd like to do it on basis of price and other product parameters.
We don't have a product of our own. We plan to enter with the same type of products that already exist at the same prices.

If our product is going to be the physically the same, then to capture a significant share in such a fragmented industry, can we get an edge on
a) Production front leading to lowered cost and hence lower prices
We don't even have internal ability to produce this type of equipment

b) Distribution front leading to lower transportation cost and distributors favoring to push our products over competitors

Lowering transportation cost has been looked into and is difficult. Also because the market is very competitive we cannot afford to pay higher margins to distributors.

c) Marketing
Consumers are price sensitive, do not care much about product brand.

This means independently we cannot have a significant share. Then the only remaining options to capture a 5% market share are through a Joint Venture or by Acquiring existing players.

Joint venture would make sense if there is some part of the value chain where we can complement existing players, either in production, distribution or marketing/retailing so that together with our partner we have an edge. However we've already seen that we cannot manufacture and cannot provide any edge on distribution or marketing front.

Then it makes sense to acquire existing players. For that however we would need enough capital, do we have that?
Yes, we do.

3. Profit per unit:

I would like to know the price of existing products since that would be our price as well.
They are generally priced between Rs. 5,000-15,000. The margin earned is 10% of the revenue. Apart from that there is a servicing package which is bundled. Usually Rs. 200 per month is charged, and a margin of 25% is earned in servicing.

Why is there a range in price of the product? Is it due to difference in quality of product or brand?
No there is no difference in quality. Each product has a main alarm system along with sensors placed in different parts of the rooms. The price increases as the no. of sensors required are more.

And I am guessing that the bigger a house more the sensors required and hence a higher price.
Yes.
Calculation:

We can divide the 15mn households into
- 33% small houses requiring a unit priced at 5,000
- 33% medium houses requiring a unit priced at 10,000
- 33% large houses requiring a unit priced at 15,000

Okay. Let's go ahead with that assumption.

The average price is Rs. 10,000.
We know we earn a 10% margin which will result in a Rs. 1000 profit.
Apart from that we know that Rs. 200 per month is charged with a margin of 25%. What is the life of any unit?
One year.

Then for every unit sold we earn 200x12 = Rs.2400.
At a 25% margin this means an additional Rs. 600 of profit.
Hence total profit on a product is 1000+600 = 1600.
Hence our expected profit = (Market size) x (Market share) x (Avg Profit per unit)
= 15mn x 5% x Rs. 1600
= Rs. 120 crore

Alright, thanks.

2. Washing Machine.

The setting is that of 1990. Your client is an electronics manufacturer which wants to enter the Haryana market. You need to tell them whether it is a good idea to do so.

Preliminary questions

Do you have a metric which we should use to decide whether to enter the market or not? Maybe we can look at investment costs, profits and break-even point? Any other benchmarks we need to look at?

Let's estimate our profits for now and later we can benchmark this to Maharashtra, where we operate today.

What kind of products does our client want to introduce? Is it generic electronic items or are there a few important ones they want to focus on?

They want to introduce a specific product – a semi-automatic washing machine – into Haryana. This involves the latest technology and is operated using buttons alone.

I am not aware of the 1990 context. Is this washing machine a new product in the market? What are the other garment washing options?

There are a few manual washing machines present today. Ours is the only S/A washing machine. In fact it has been patented.

Overall strategy

I want to break down this problem into 2 parts.

(1)Whether this makes sense from a profit point of view by calculating the market size, expected market share and profit margin.

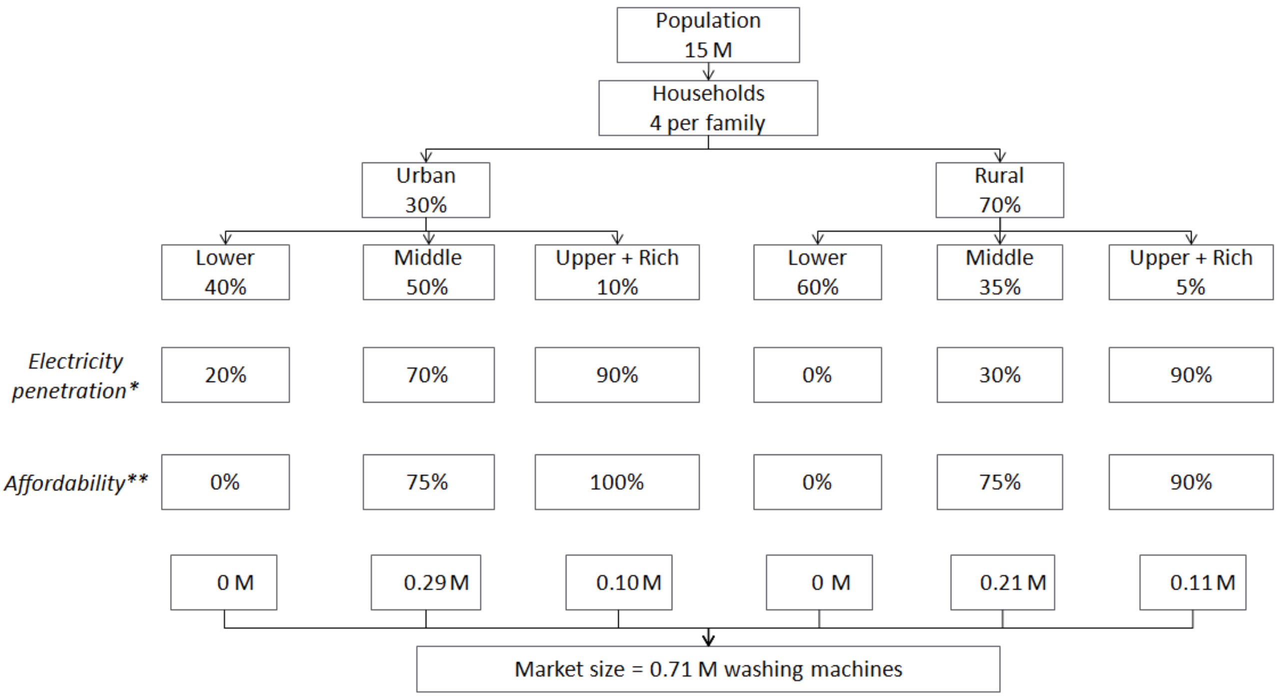
(2)Whether it is possible to establish the entire value chain so the client can sell the washing machines to the end user.

Let's assume that the implementation bit can be taken care of. Let's begin with the market sizing.

OK. To calculate the market size, let us understand the product a little first. Is the machine like any other washing machine we get today? How is it priced? I want to understand who will be able to afford it.

Yes, the machine is similar. It is in the same price range (Rs. 4000 - 5000) as most other machines available in the market today. Assume it can be afforded by most families in the middle income group or upwards.

Okay. That is helpful. Starting with Haryana population, I'll apply appropriate filters to finally get our potential market size. I will be using Maharashtra as a reference for demographics since I am not familiar with the Haryana demographics.
Alright, proceed.



**Upper income groups prefer staying in areas with electricity whereas the lower income group typically don't end up in the most developed areas. On an average, the penetration is much more for the urban population.*
***Most upper income groups will be able to invest in a washing machine. The lower income group and some of the middle income group would typically wash their clothes manually.*

The market for washing machines therefore is around 0.7M machines.
Fair enough. Move on.

Now, to calculate the market share, I want to know how the client's product compares to others available in the market. What are the factors influencing a customer's purchase of a washing machine? I can think of the following:

1. Price
Upfront cost: The company wants to sell the machine at Rs. 4500. This is cheaper than any other washing machine available.
Running cost: Rs. 500 /year (electricity). This machine is a higher power requirement than present washing machines.

2. Time saved
3. Quality of wash
4. Ease of use
5. Durability
6. Size
All these are either up to the industry standard or are better.

Can we expect a 50% market share in this industry given that we score over our competitors in most regard? It might be slightly lesser than that since there are other factors like product awareness and ability to operate a new device.
Umm... Let's keep it at 10% after the first year since people already use washing machines today.

The market for our client, therefore, is 70,000 units after a 10% market share.
Can I have the fixed cost and profit per unit to calculate the total profit and time required to break even?
Assume no fixed cost. The manufacturing cost is Rs. 4000. The distribution cost is Rs. 650 per unit when sold through retail outlets and Rs. 100 per unit when sold through the company outlets. Note, however, that using all distribution channels available, 40% of sales come through retail outlets and the rest through company stores.

		Internal Cost	Distribution cost	Total cost	Selling price	Profit
Client	Retail (40%)	4000	650	4650	4500	-150
	Own (60%)	4000	100	4100	4500	400

I see that we will be profitable if we sell our product only through our own distribution channels. We will suffer losses through the retail channel. Are the distribution costs negotiable?
No

Are there competitors who sell products through the retail stores at all? Do they make profit? Can we have their profit structure?

		Internal Cost	Distribution cost	Total cost	Selling price	Profit
Client	Retail (40%)	4300	650	4950	5000	50
	Own (60%)	4300	100	4400	5000	600

Hmm. Although the competitors have a much higher internal cost, they make up for it by having a much higher selling price. Can we increase our prices too?
No.The client wants to maintain the price advantage in the market.

Fair enough. Can we use any new channels of distribution?
No.

Alright. Since the client suffers losses by selling their washing machine through retail stores, it makes sense to distribute them only through one's own stores.

Correct.

Given the strategy is to sell through company-owned stores, we will not lose all of the 40% sales from external retail stores. Given we have a superior product creating a customer pull, we might just get more than 60% from company-owned stores.
You make a fair point. However, let's assume that it is still only 60% and go ahead.

The operating profit then becomes,
Profit = Market size * Market share * Profit per unit
= 0.7 M * (60% of 10%) * 400 = Rs. 1.68 Cr.

Is this a sensible figure?

Considering any profit is good news for client, yes, this is a sensible figure. My recommendation will be that the client enter Haryana. However, it will be interesting to know how we are doing in Maharashtra comparatively.
Our profits in Maharashtra are Rs. 40 Cr (we sold 10L washing machines last year). Can you give me possible reasons for the huge discrepancy in profit figures?

Since the profit figures have changes with geography, I want to understand what relevant factors are different between Haryana and Maharashtra:

Profit = Market size * Market share * (Unit revenue - Unit cost)
● W.r.t market size:
- **Population difference - Maharashtra is more populous than Haryana**
Fair enough.

- **Electricity penetration is probably much higher in Maharashtra**
Good but this is not the case.

- **Maharashtra has a much higher per capita income (affordability)**
Not really.

- **Lower price of product in Maharashtra. This could be lower upfront cost or lower running cost (price of electricity)**
Excellent! Electricity is much cheaper in Maharashtra.

● W.r.t. market share:
- **Little competition in Maharashtra**
Competition is in fact much more.

- **Better distribution network and marketing efforts**
Yes, that could be a reason

- **Mature market - we've probably been around for longer there**
That is right. We were one of the first to enter the market and have retained much of the market share

● W.r.t. unit profit:
- **Product sold at a higher price in Maharashtra**
Not true.

- **Lesser production + distribution cost**
That is not the case.

The profit figure discrepancy is driven by:
- Lower cost of electricity in Maharashtra
- Higher population in Maharashtra
- Haryana being a new market whereas Maharashtra operations (incl. distribution) having been around for much longer
That should be it. Thanks.

3. Chicken Nutrients.
Your client ABC Co. is a vertically integrated manufacturer, marketer and retailer of vitamins for chicken in the US. Now to pursue growth overseas in emerging markets, the management of ABC is thinking of entering the rapidly growing Chinese market. You have been hired as a consultant to evaluate the feasibility of their market expansion plan. Should the client ABC enter the chicken market in China or not? Why?

<u>Preliminary questions</u>
What metric should we use to decide whether we should enter the market or not? Else I would look at potential revenues, profit margins and investment costs.
(The second part of the question is useful when the client themselves do not have metrics in mind to determine market entry.)
The management wants you to estimate potential profits and would take a call there-after.

Is there any particular reason why the client has chosen the Chinese market for pursuing expansion?
The Chinese market is twice the size of the American market in terms of units of product.

We are vertically integrated along the value chain in the US. Do we expect the same in China as well?
Not necessarily, we will definitely be manufacturing the vitamin though.

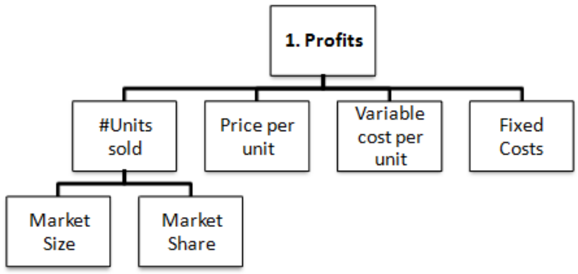
How is our product, the chicken vitamins useful to our customers?
The vitamin products produced by the client help increase the size of chicken breast and reduce fat content.

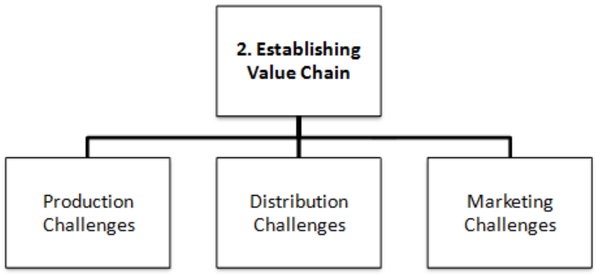
What geography within China are we looking at for expansion?
No geographic specification, wherever the business can be profitable.

<u>Overall Strategy</u>

We can proceed by doing two pieces of analysis

1. Estimate profits = Market Size*Market Share*(Price/unit – Var. Cost/unit) – Fixed Costs
2. Establishing Value Chain: Production → Distribution → Marketing





Analyze need of JV and acquisition to overcome any constraints

<u>Market size</u>

We know the market size is twice as large as the US market. Do we have a number as to how large the US market is?

Take the US market size to be X units.

Do we have any segmentation of customers in China? What is the size of each segment and their growth rate?

Segment	Size(of total Chinese market)	Growth rate (last 5 yrs.)
Small farmers	80%	1%
Community farmers	10%	15%
Corporations	10%	70%

I would like to compare this information to the US. What are the segments and their growth rate at home?

Market for Chicken vitamins comprises only of corporations and has a growth rate of about 3%.

Based on this information, the Small farmer segment is the largest=1.6X with stagnant growth. 'Corporations' is the smaller segment with 0.2X size but significantly higher growth. Community farms have the same size as the corporations segment but with a lower growth rate. Since in our home market we serve corporations, it may be easier to enter this segment, however we cannot decide which segment to enter or not enter yet.

Market Share

I would like to know what kind of competition we have in the current Chinese market.
There is no competition currently.

Are there any substitutes for our product currently?
There is a substitute product.

How does it compare to the client's product?
It is cheaper and costs 47c/unit, our product price would be 80c/unit. However it creates side-effects in the chicken.

Do we currently know which of the three segments uses the substitute product?
Small farmers and some community farmers use it, corporations shun it since they cannot risk the health and quality of chicken.

I would now like to see what kind of market share we can get in each of the three segments. Since small farmers make the largest segment, I would like to begin by that.

1. Small farmers-We know that currently they are using substitutes. Do we know what % of small farmers are using the substitutes? I want to know if there is even a market for Chicken vitamins.
About 20% of them?

Do we know why only 20% are using the substitute? Is it because of the side-effects?
Actually small farmers do not really care about the side-effects in the chicken. They are often reluctant to make the investment required to buy the vitamin due to lack of awareness and limited capital.

Hmm… and we know that our product is more expensive than the substitute. If we were to calculate the return on investment for a typical farmer would it be positive after he uses our product. This calculation would involve the investment to buy our product and the incremental price at which he can sell the chicken since it's got a bigger size.
Great question. The farmer would at best break-even.

Hmm so even if we were able to overlook the problem of low capital and lack of awareness of farmer, our product would not be useful to the small farmers.

(Notice above how many more insights are uncovered compared to the previous approach at this same point in the case. This was possible due to a deliberate attempt at being quantitative about the market share that can be captured by the client in the small farmers segment, instead of just qualitatively knowing whether the segment is ideal or not.)

2. Community farmers-We now need to see if our product would be useful to community farmers. Firstly, I want to know what community farms are.

Usually small farmers are part of a community. They donate a few chickens to the community pool and they are jointly taken care of through more advanced techniques. The income generated is then split amongst the contributing farmers.

So since they use advance techniques, they would be more open to the idea of safer and better vitamins for the chicken? Even capital for investment would be less of a concern for them?
Yes, good observation.

Would the return on investment be positive for the community farms?
Yes, because they have more #chicken compared to a small farmer, economies of scale kick in. They are also able to sell the higher quality chicken at better prices compared to small farmers.

So we know that our product would be useful for the farmers, but do we have the right distribution channels to cater to the community farms?
In fact we do not have a distribution network to cater to community farms. Since they are scattered all across china we think it will be prohibitively expensive to distribute to them, either on our own or through third parties.
Hmm... So that makes it difficult to enter community farms as a segment as well.

3. Corporations-I would imagine that corporations would benefit from economies of scale and can also command a higher chicken price due to the nature of their customers.
Yes, big corporations sell to branded restaurant chains or packaged meat in supermarkets. They can command a higher price after using the vitamins.

Would distribution be a challenge? I think it would be easier to reach to big corporations and we'll require only a few distribution centers to reach out to them. Since in the US we have similar type of customers, we even have experience in reaching out to this segment.
Precisely, we can economically reach out to this segment.

Are there any regulatory barriers to entry? Is there competition likely to be present in the near future which we should be concerned about?
We've got the approval to sell our product in China. There is no competition in the next 1-2 years.

So we know the market size of corporations is 0.2X.
Can we assume we should be able to capture about 30% of the market in the first year, and increasingly there-after?
Yes, go with that.

Then in the first year we can sell 0.06X units at a price of 80c/unit.

<u>Cost</u>

We now need to see what kind of cost we will incur to achieve this target?
We will need to incur an investment of $100,000. Our variable cost, including all transportation costs, comes out to be 40c/unit.

Based on this information our profits for the first year would be,
Profit =0.06X*(80c-40c)-$100,000=0.06X*40c-$100,000

Take X to be 10BN units and calculate.
Profit=~$240mn in the first year and are likely to grow at >80% year-on-year(y-o-y) owing to increasing capture of the market share and intrinsic growth rate of the segment itself.
Good.

I would now like to come to the second part of the analysis.
<u>2. Establishing the value chain</u>

A) Production challenges-In the first year we expect to sell 600mn units and more in the future, do we have the capacity to produce so many units? We also require a capital investment of $100,000 which seems like a small amount in this context. I expect we would have that money to spare?
Yes we can meet the production requirements and have the required capital for investment.

B) Distribution challenges-We have already covered this aspect. We know that we can reach out well to our corporate customers.

C) Marketing challenges-Since we are new to the market we will have to communicate to the corporations our brand and product benefits. I would like to see first what kind of marketing strategies we can transplant from our American business and build on them. Do we have any information on that?
That would not be necessary. This much would do, thanks.

4. Solar Lantern.
The client is a German Electronics company. They have developed a solar lantern. They have hired us to figure out whether they should enter the market in India.

<u>Preliminary questions</u>

What metric should we use to judge whether we should enter the market? Profits?
Yes. We would like to get a sense of what kind of profits to expect if we enter the market and how we should go about achieving those profits.

Okay, I understand that we need to do a study to identify market potential for profits. I just wanted to be clear on one more thing about our objectives. On the issue of how we should achieve those profits do you mean things like- at what price we should sell, production, distribution, marketing...all of that?
We have a selling price in mind, but generally yes. Look into all aspects of the business.

(In such a situation, though it seems daunting, go step-by-step through each area of the business using whatever customized framework you have. As you go into details, use your discretion and the interviewer’s guidance and interest to judge in how much detail you need to enter into for each branch)

Okay we'll come to pricing again. I had some other clarifying questions.
What parts of the value chain do we operate in?
We manufacture and use third parties for distribution.

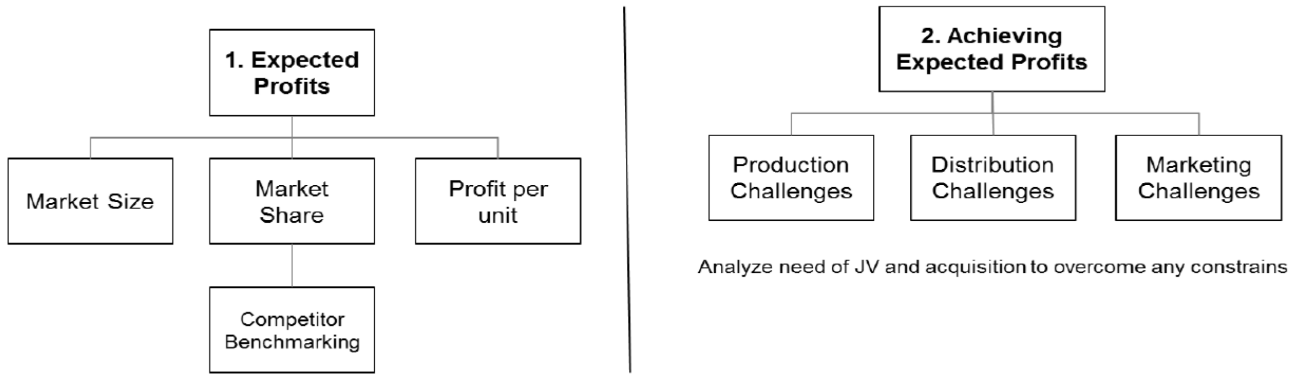
What geography within India we are looking to enter?
We are open to servicing all of India but we expect to sell mainly in rural areas.

How does the product work?
The solar lantern requires 6 hours of bright sunlight to be fully-charged and can then be used for 8 hours of illumination good enough for a small room.

<u>Overall Strategy</u>

Try to come up with an Overall Strategy to solve the case
We will address two issues:
1. Expected profits=Market size*Market share*Profit per unit sold
2. How to achieve expected profits: After we analyze what market share we can hope to achieve, we will cover production, distribution and marketing constraints. We will also see if we need to do a Joint Venture (JV) or Acquisition to overcome some of these constraints.

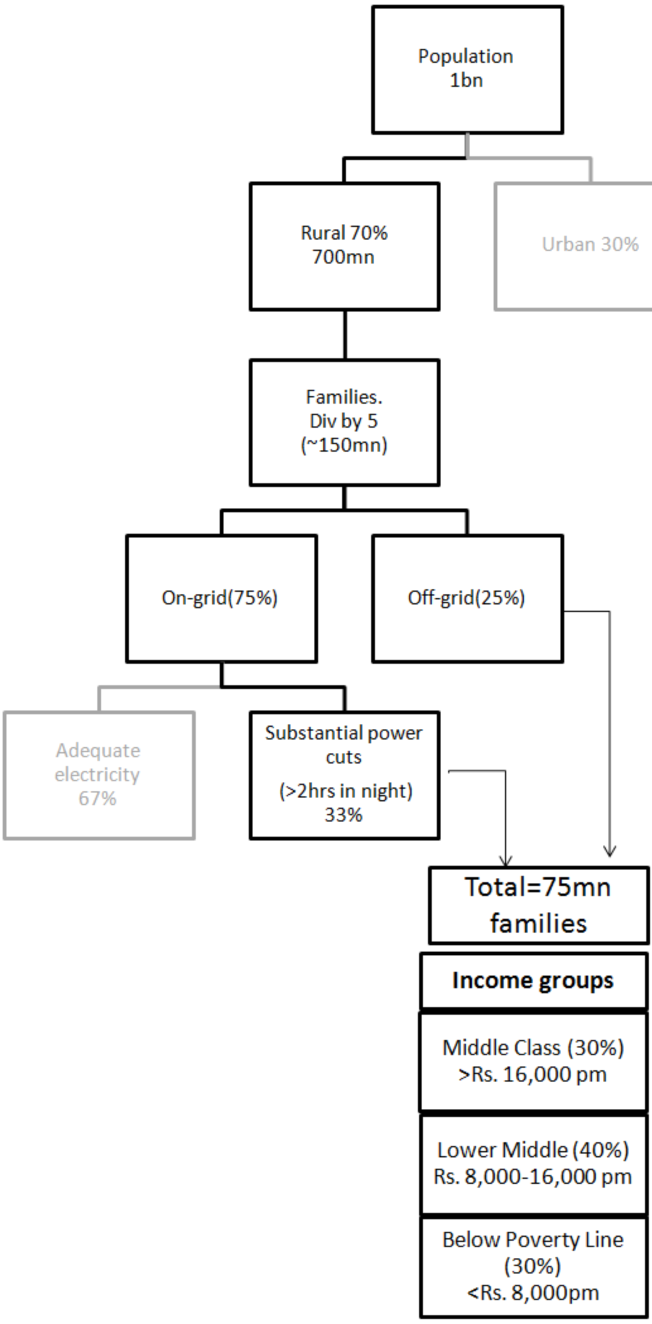
<u>Problem Structuring</u>



(The above is a customized issue tree for this case. It's perfectly fine to have a different issue tree from the one above as long as you cover the objectives. For example you may choose to analyze both 1. & 2. together instead of separately.)

<u>Market Size</u>
Let's begin by estimating our market size.

(Notice that this a very proactive way of solving the case and that is how case-solving should be. At the same time keep looking for acknowledgement from the interviewer so that you know you're on the right track as well as seek out simplification of analysis which the interviewer might be keen on giving.)



There are power cuts in Urban India but are negligible. People can also afford more expensive alternatives such as inverters. Given Rural India is 70% in size, I'd like to focus on that. Reasonable? Alright.**(80/20)**

Our lantern is useful for families facing power cuts post sundown. They would be families which are off-grid and those which are on-grid but facing substantial power cuts in the night.**(Segmentation)**

Define substantial-Lets say >2hrs.
We can do a market study, but I think 33% would be a good number to go for since I've been to villages and 1 in 3 of them have power-cuts of more than 2hrs at nights.

I want to now segment customers into income groups. To make a good income split I want to know what will be the price of the product?
Rs. 6000
We will now have to see if each income group can afford our product and whether they will buy it, given alternatives they have. But for that I'd need more info of our product and competitors.

(In the above estimation "80/20" and "Segmentation" refer to skills mentioned in Section 3 of the book and demonstrated by the candidate here.)

Let the interviewer know that you have thought of demand even in urban areas and then neglect it based on reasons. As a general rule, state the details and ask if you can make a simplifying assumption so that the interviewer does not mistake your simplification as ignorance.

<u>Market Share</u>

Let's try and understand our market share. What are the key parameters of the product which determines whether someone is going to buy it? How do we fare on them compared to our competitors?

(It's important to understand what the product parameters which affect consumer choice for product are. These parameters need to be assigned priority if possible and then compared with competitors to gauge our market share. Example in clothing, quality of fabric is a parameter for customers and for canned food, shelf life is important for distributors.)

Price, lifespan of product, illumination are key parameters.

We have no direct competitors in the solar lantern market. Our lantern has a life of 2yrs.
So our selling price is Rs. 6000 as you mentioned earlier. Over 2 yrs., this would mean a family paying little less than Rs.300 per month for illumination. We will need a financing plan based on EMI of course. Will that increase costs? Negligibly, okay. Based on the income groups:

Below poverty line: These families have modest savings of about 10% meant for buying housing or dealing with shocks like food/water shortage. Assuming avg. income of Rs.3000pm, Rs.300 represents roughly 10% of income of BPL families. Since illumination cannot replace their more essential needs of roti, kapda, makan (which is more than 90% of income), they cannot afford it.

Lower Middle: These families save about 25% of their income meant for long term purposes like buying a house. Assuming avg. income of Rs.10000 pm, this gives us Rs.7500 worth consumption. Rs. 300 represents 4% of their consumption. Illumination is necessary (kids going to school, etc.) for these families and can purchase the lantern by scaling back on things like furniture, entertainment. Still Rs.300 pm is an expensive additional bill for them, we can assume ~50% can afford it.

Middle Class: I'll assume average income of Rs. 20,000 and savings of 30%. 300 represents ~2% of their consumption. If lower middle class can afford it then so can the middle class since they earn more. They can potentially even buy two lanterns, say 20% of the families.
(80%) x (1) + (20%) x (2) = 1.2 lanterns per family.

(Note that the numbers used in this case above are subjective and should ideally come out from a discussion with the interviewer)

Now the question is what alternatives our customers have given there are no direct competitors.

1. Emergency lights, Torches and candles are temporary substitutes, so we won't look at those as they can't provide electricity for substantial periods of time-8 hours per day like a lantern can.

2. Inverters/Generators: Hmm. I think these are usually used by upper middle class since it's expensive to buy them. Even an inverter is of no use in places where there are heavy power shortages. I'll assume that ~20% of the Middle class don't need our product since they are using generators or inverters which are obviously more effective than a lantern providing illumination for only a small room.

Any other substitutes?
3. Cheap replicas -They cost 600 bucks and last for 6 months. Illumination strength is much lesser and many of them stop working a month after purchase.

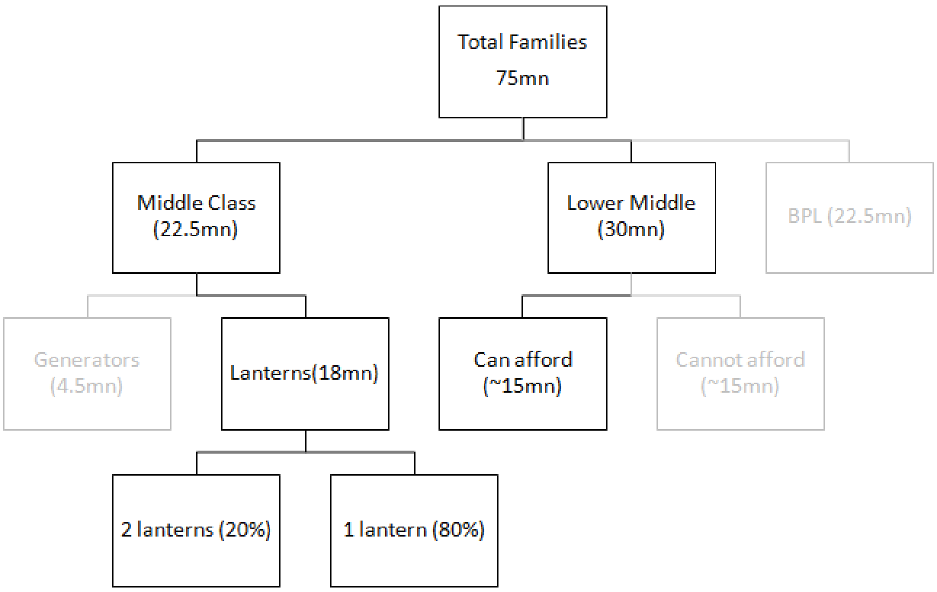
Can we sufficiently distinguish our product from them using a hallmark logo, color change, creating customer awareness to identify differentiating features?

Yes we can differentiate our product.

Candidate: Is there any negative in our product? None? German engineering, got it. Since we can differentiate our product we can overcome the risk of customers getting poor service from the clones and prevent our reputation from taking a hit. However, because the cloned lanterns are so cheap we will lose some market share to them. I'll assume after our efforts of differentiation, overall we are losing 20% Market share to the lanterns.

Outcome is not important here.
Given the mixed information about the clones -cheap but less effective -it's perfectly fine to come to a different conclusion. You might suggest that differentiating our product will be too difficult since cloners always find a way to clone again. You might say the clone is much cheaper and with only 50% less illumination, it is still a better buy. You may suggest there is a potential 80% loss in Market share. The outcome of the case is not important. The numbers can be discussed with the interviewer along the way. The PROCESS is important: your thought structure, your awareness of the factors playing in.

To put all of this info into perspective and to calculate expected profits.



Total Lanterns=
Middle class: 18mn x 1.2=21.6mn
+
Lower Middle class =15mn
~35mn
Assuming 20% MS is lost to clones, we get ~30mn lanterns.

<u>Profit per unit</u>
We know our price per unit, I want to know what our cost per unit is.

Here is some data:
These are the components of our selling price:

- Manufacturing cost: 40%
- Logistic costs: 25%
- Distribution costs: 10%
- Marketing: 15%

Based on this information our total cost is coming to be Rs. 5400. This means a profit of Rs. 600 per unit sold.
Hence our expected profits are = (30mn lanterns) x (Rs.600) =Rs. 1800 crore

Since the lifespan of the lanterns is 2yrs, we can look to achieving this number in 2-3 years and then get re-buyers subject to improving electricity outreach and changing income groups.
That's okay you don't need to analyze the re-buyers bit.

We can also see what our investments are for the project and find our break-even point. Would you like me to go into that?
We can skip that for now.

<u>2. How to achieve expected profits</u>
Since we know our expected profits now, I would like to answer how we can achieve it.

● **Production: Are we going to build a factory in India or import the lanterns? Build in India. Then, do we have the capital investment required for it.** *Yes.*
Can we meet the requirement of 30mn lamps in 2-3 years?
No we can produce only half that number.

Profits are capped at 900 crore [= (30mn/2) x (Rs. 600)]. Is there any way we can increase production?
No, we cannot.

Note that as we are limited by production, and not competition, this means that clones would have a lesser impact on our profits, would be a good observation to point out.

● **Distribution: Do we have our own distribution channel?**
No, we will need to outsource distribution to third parties.

We can possibly piggy-bank on existing distribution channels such as those for torches, basic electronics.
Yes Distribution can be taken care of, like that.

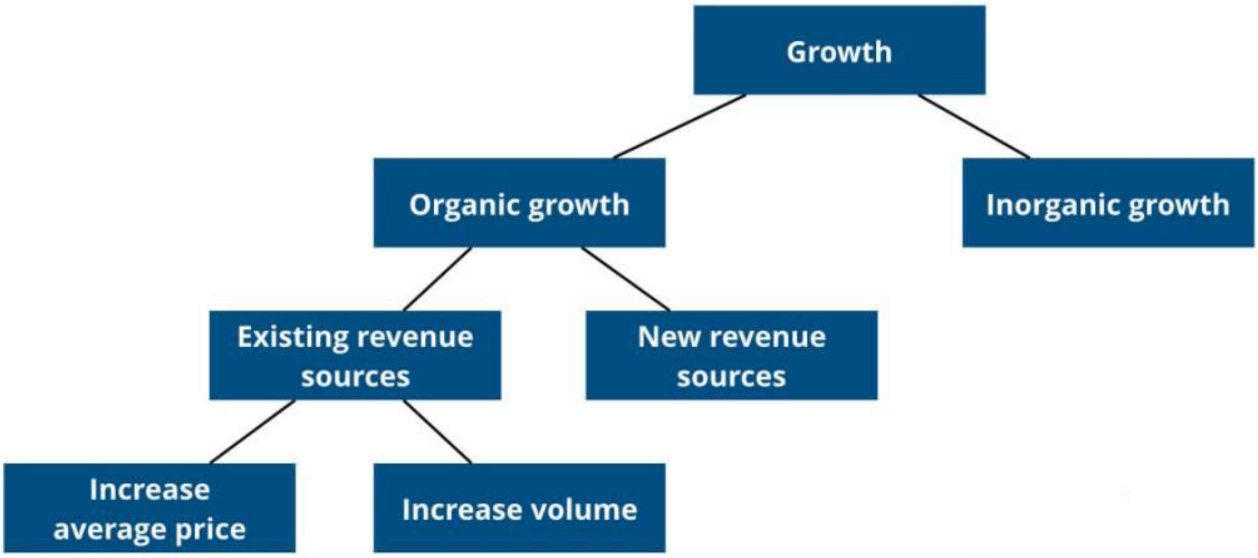
● **Marketing: We have already discussed the strategy to differentiate our product from clones. We should also have local salesman to create awareness of our product and provide replacements to any defective piece so that our product is not a 'risky' investment for them.**
All good ideas, I think we can close the case here.

Source: Case interviews cracked

5) Growth Strategies:

In this subset of Profitability Cases, the company aims for XX% YoY growth in Z years, and you are expected to brainstorm ideas that align with the growth target and then validate them by identifying pillars to support it. A company can grow either in its existing business (provided there is scope), or explore new business opportunities.

Framework:



Organic Growth:

1. Growth through existing revenue sources- its either driven by an increase in quantity of units sold or by an increase in average price per unit sold.

To increase the quantity of units sold, a company can:
Improve their product
Decrease prices
Sell through new distribution channels
Target new customer segments
Expand into new geographies
Invest more in marketing and sales

To increase the average price per unit sold, the company can:
Increase prices for their products
Focus on selling higher priced products

Remember that changing prices will impact the quantity of units sold, so it is important to look at the net effect price changes have on revenue.

2. Growth through new revenue sources- to drive growth through new revenue sources, company can:
Launch new products
Launch new services

Inorganic growth : can be segmented into three categories:

1. Acquisitions- a company can grow inorganically is by acquiring another company. This gives the acquiring company all of the revenue that the acquisition target generates. In addition, there may be revenue synergies that the acquiring company can realize. Acquiring a company gives the acquiring company access to the acquisition target's distribution channels, customers, and products. The acquiring company may be able to increase revenues by cross-selling products, up-selling products, or bundling products together.
<u>Advantages</u> of making an acquisition are that the company increases its revenues immediately. They also have full control over how they want to manage and operate the acquired company.
<u>Disadvantages</u> are that acquisitions are expensive and there could be difficulties fully integrating the acquired company.

2. Joint ventures: In a joint venture, two or more companies enter a business arrangement in which they pool together resources and share risk in accomplishing a particular task. Each company in the joint venture is responsible for profits, losses, and costs associated with the project.
<u>Advantage</u> - companies can share resources, expertise, and can decrease costs due to scale. Additionally, joint ventures are much cheaper than acquisitions.
<u>Disadvantage</u> of a joint venture is that it will take time to generate revenue. Also, the company does not have full control over the operations of its partners.

3. Partnerships: it is an association between two or more companies that provides some kind of benefit to each partner. This is slightly different from a joint venture because in a partnership, companies do not necessarily have to combine resources or efforts. They just need to be associated with each other.
<u>Advantage</u> of a partnership is that it is most often cheaper than a joint venture since resources don't necessarily need to be contributed. Also, all partners get the benefit from the brand names and customer access of their partners.
<u>Disadvantage</u> of a partnership is that it takes time to generate revenue. Also, companies do not have full control over their partners' operations.

Tips : 5 Steps to solve Growth strategy Cases

1. Understand what the company is trying to grow
The first step to solve any growth strategy case is to identify what the company is trying to grow. Are they trying to grow revenues, profits, number of customers, or something else? Growing revenues versus growing profits can lead to very different strategies. Understanding what the company is trying to grow will help you determine what growth strategies will be most effective.

Interviewer: Your client, Coca-Cola, is looking for new opportunities to grow after years of flat growth. They have hired you to determine the best way to grow.

You: Is Coca-Cola looking to grow revenues, profits, or something else?

Interviewer: They are looking to grow revenues.

2. Quantify the specific target or goal
Next, you want to quantify the goal or target that the company is aiming for. For example, if the company wants to grow revenue, how much of a revenue increase are they hoping for? In what time period are they trying to accomplish this by?

You: How much is Coca-Cola looking to grow revenue by? And in what time period are they looking to achieve this level of growth?

Interviewer: They are looking to grow revenues by $1B over the next three years.

3. Look at potential organic growth opportunities
Once you have quantified the company's target or goal, you can walk the interviewer through your growth strategy framework. You'll most likely want to start by looking at organic growth opportunities first because this type of growth is more sustainable than inorganic growth.

You: To determine the best opportunities to achieve a $1B increase in revenues over the next three years, I'd like to use the following framework.
First, I'd like to consider potential organic growth opportunities. This includes growth through existing revenue sources and growth through new revenue sources. Next, I'd like to look into potential inorganic growth opportunities. Is there a particular acquisition, joint venture, or partnership that would make sense for Coca-Cola to pursue?

Interviewer: That sounds like a great plan. How should we proceed?

You: Let's look at organic growth opportunities first. Since Coca-Cola is a mature company that has seen flat growth, I am guessing that there won't be significant opportunities to increase revenues from existing revenue sources.

Interviewer: That seems like a reasonable assumption.

You: Okay, so let's look at potential new revenue sources. Are there particular drink beverage markets that Coca-Cola has no presence in that they could expand into?

Interviewer: Let me share with you these exhibits on potential drink beverage markets Coca-Cola could enter…

4. Look at potential inorganic growth opportunities
After you have thoroughly investigated the organic growth opportunities, move onto looking into inorganic growth opportunities. Consider whether an acquisition, joint venture, or partnership would be most appropriate given your company's situation. Each of these methods of inorganic growth have their advantages and disadvantages.

You: After looking at organic growth opportunities, we determined that Coca-Cola could increase revenues by $600M by entering three niche drink beverage markets. However, we are still $400M in revenue short of our goal. I'd like to look into inorganic growth opportunities next.

Interviewer: That makes sense. There are a few acquisition targets Coca-Cola is considering. Let me share with you some further information…

5. Prioritize and recommend the best opportunities for growth
Once you have investigated all of the potential opportunities for growth, it is time to prioritize and recommend the ones that are best for the company. You'll likely need to develop some kind of rubric to evaluate each growth opportunity. You can score each growth opportunity on basis of:
- Impact
- Ease of implementation
- Cost
- Timing

In step two, you quantified the specific target or goal that the company is trying to achieve. Make sure that your recommendation meets these goals.

You: To achieve its revenue growth targets, I recommend that Coca-Cola enter three emerging drink beverage markets and that they acquire Company X. There are two reasons that support this.
1. Coca-Cola can leverage its existing production and distribution capabilities to gain meaningful market share in these emerging drink beverage markets quickly. They could increase revenues by $600M over three years fairly easily.
2. the acquisition of Company X would increase revenues by $500M, helping Coca-Cola achieve its revenue growth target. Additionally, there are many revenue synergies that Coca-Cola can take advantage of to grow revenues even more over the next few years. For next steps, I'd like to look into Coca-Cola's market entry strategy for entering these emerging markets. I'd also like to look into whether the acquisition price for Company X is fair and reasonable.

Interviewer: Great. Thank you for your recommendation.

Source:https://hackingthecaseinterview.thinkific.com/pages/growth-strategy-case-interview#:~:text=You%20can%20think%20about%20growth,organic%20growth%20and%20inorganic%20growth.&text=Inorganic%20growth%2C%20on%20the%20other,our%20growth%20strategy%20case%20framework.

Case Examples:

1. Sports Apparel and Equipment

The client is a sports apparel and equipment company in India, and is facing a decline in its market share. The market is dominated by big, international players and wants you to frame a revival strategy.

- I would like to confirm the objective before I proceed. The client is seeking suggestions to revive its business. Is there any other objective? And do we have a target envisioned?

Yes and the company wants a 5% increase in their market share by the next FY.

- Okay, I would like to understand the client a little more. Specifically, Could you elaborate a little on their product portfolio and the price points to get a sense of the consumer segment they deal with?

Alright. They manufacture high quality sportswear products for people who are at the lower end of the spectrum when it comes to cost.

- That helps. You mentioned the presence of big players in the market, can I get more information as to who these big players are? Also, have sales figures dropped along with the market share?

Sure. So the market is dominated by players like Adidas and Nike. These companies, due to an array of local franchises across the country, global supply chains and a strong historic brand positioning have gained a solid presence in the sportswear market in India. The actual sales have not dropped, but rather stagnated.

- So, I understand that the company is growing less as compared to the industry. The reason behind this could be a lack of proper marketing strategy because of which the company struggles to reach out to a larger audience. In order to improve this aspect, I would split the whole strategy into two main divisions: refining the existing business model and exploring new opportunities Within existing business, I'll look at options to increase the no. of customers or increasing revenue per customer and within new business I will be considering M&A, entering a new geographical market or introducing a new product.

Sounds good. Can you please elaborate on what exactly can be done to improve the existing business?

- Sure. So we can increase the revenue per customer by tweaking the price depending on price elasticity or by increasing the buying frequency of the customer. Buying frequency can be increased by reducing the shelf life of our products, however given that our products are known for their quality and low cost, this is not a good idea. We can strengthen its position to acquire more customers. This could be done through effective marketing and advertising. Here, I am assuming that we are not trying to redesign the product because of the significant costs involved. The company can target government schools/colleges for supplying sports kits through an exclusive partnership and provide them with bulk discounts or can introduce loyalty programs for the same students.

Okay. Tell me some ideas that will help the company in effective marketing and strengthening their position?

- The budding sports enthusiasts in schools/colleges and youth involved in various sports activities look for affordable and good quality products and hence fall within our target audience. The company can sign rising sports players at an early stage for brand endorsement deals and share the stories about their journey through advertisements to inspire sports enthusiasts. The company can leverage social media platforms to reach out to the young, budding talent in the country. It can also collaborate with one of the leading gym chains in India (cure.fit, Anytime Fitness etc.) and associate with fitness influencers to maximise the reach into the core segment. Another option is to launch their own marathon for female runners that will get the attention of media outlets and materialize social support as well

Alright. How else can the client maximise their foothold against the international brands?

- So the biggest USP of the company while competing against the likes of Nike and Adidas is its 'Made-in-India- tag. They can seek benefits and rebates from the government to promote the recent 'Atma Nirbhar' initiative by keeping the entire supply chain within the country and providing jobs

to locals. The same can be advertised to capitalize on public sentiment and drive more customers towards them.

How do we go forward with capturing new customer segments?

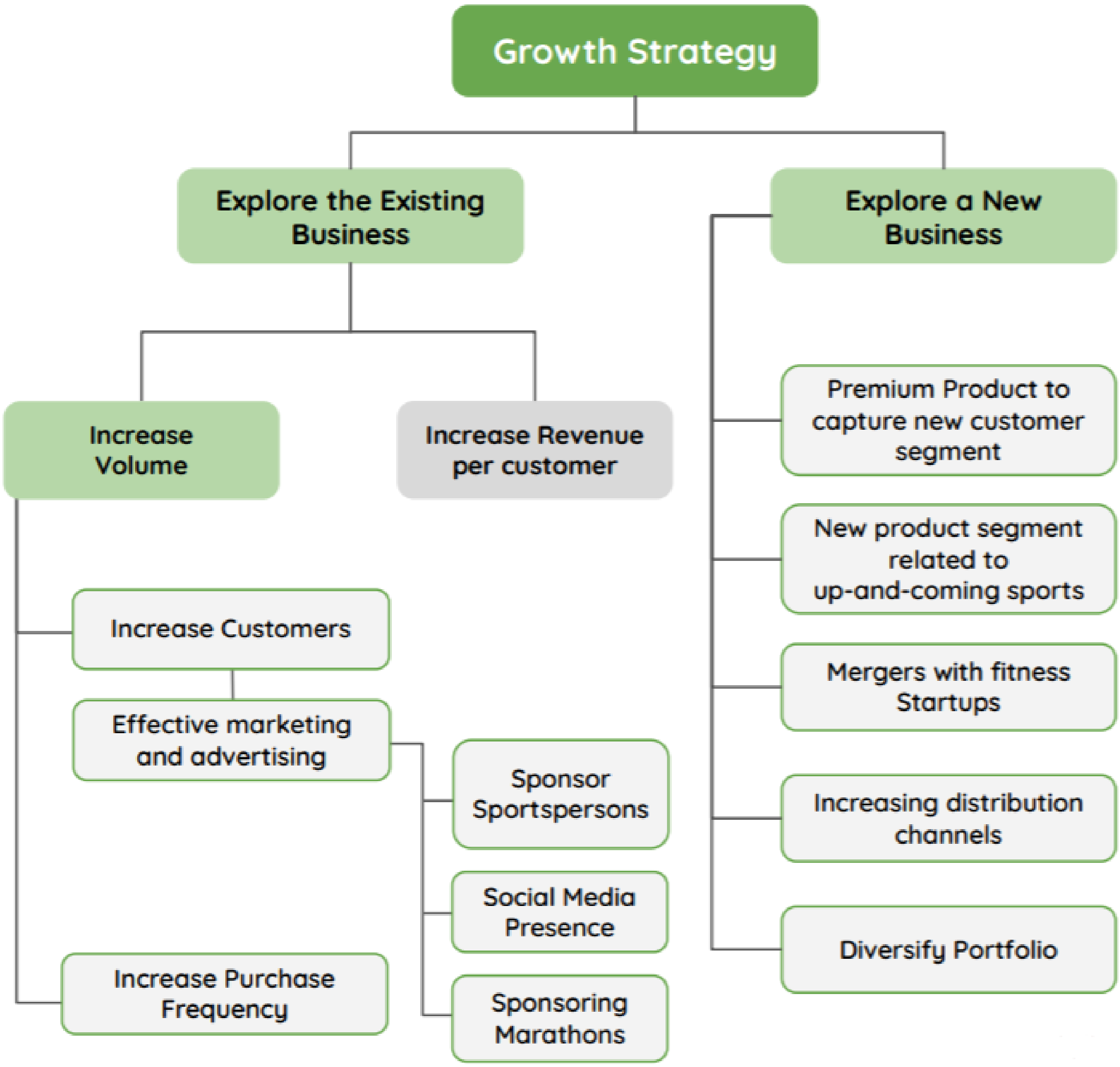
- People with higher spending capacity often take into consideration the brand value of a product. It would be difficult to capture this segment under the same brand name, so we can launch a new, exclusive product line under a different name at a premium price point to be sold in limited stores only. This brand will be showcased as a high-end alternative catering to the upper class segment looking for product innovations and variants.

That may be a good idea but what exactly do you mean by a new product?

- The company can venture into the product segment related to the up-and-coming sports (Zumba, Yoga, Aerobics etc.). It can focus on improving the design of the existing market products, introducing an element of innovation and enabling high customization at a premium. Acquiring fitness or health startups that are currently leveraging technology can help the company diversify its product range and bring in the much needed boost to the market share. Sounds good, Is there any other alternative in which the company can benefit from exploring new business.

- The company can carry out extensive market research to understand the evolving markets. It can target these markets by increasing its distribution channels and enabling a chain of local franchises in these new cities.

Alright. That makes sense. Let us wrap it up here. Thank you



2. EdTech Company

The client is an Indian Edtech Company. The global pandemic has had a tremendous impact on the education sector with edtech companies facing a huge surge in their subscriptions. They have requested your advice on a medium-term strategy to maximise on this increasing demand.

- Are there any particular objectives that I need to keep in mind?

The company has a dual objective of growth and also improving profitability.

- Understood. Before we begin, I would like to understand the client's product.

Okay, so the client has a mobile app and an online website providing educational content mainly to school students from class 1 to 12. The educational content consists of topic-wise videos and quizzes on all subjects with a special focus on Maths and Science.

- Understood. Do we have any information on the industry scenario?

You can assume that we have only one major competitor. As of now the company has 30% market share in terms of registered users on our platforms.

- Okay, I would like to break down the problem into the following three parts:
1) Increasing customer acquisition
2) Increasing customer retention
3) Analysing existing costs

Let us begin by analysing the customer base. Do we have any information about the existing customer base demographic?

90% of our users are in urban areas which account for 97% of our sales. Within urban areas, 80% of our users are from metro cities.

- Interesting. Our customer base is highly concentrated in urban areas. Is there a particular reason for this? Why have we not expanded in semi-urban and rural areas?

The company has been trying but has been unsuccessful. Can you figure out the reason?

- Some of the reasons I can understand may be:
1) Limited importance given to education in rural areas
2) Digital divide- limited/no access to electricity and internet
3) Unavailability of computers/smartphones
4) Lack of regional content or state board material
5) Affordability of subscription

Okay. So what can the company do to overcome these challenges and the digital divide prevalent in our country?
- Since the pandemic has thrust education in the digital space, this is the right time to capitalise on the market footprint. To overcome the first three challenges, the company can partner with stakeholders at different levels (state and central government, schools, telecom companies etc.) for setting up education centres within each district with shared desktops and internet facilities. Apart from this, the company can look to expand their product offerings to cater to rural and semi-urban customers, who have not had a prolonged exposure to the industry and will give us the first-mover advantage. Given how the government has put an emphasis on learning in regional languages/mother tongue till class 5, in the New Education Policy of 2020, they must develop content in various regional languages to gain a strong presence in the rural market.

Interesting Ideas. Let's move to the next aspect.

- Sure, before I move on to the customer retention strategy, do we have any information on whether we are comparable to our competitor in terms of user-friendliness, educational content and overall learning experience?

You may assume that we are similar to them in almost all aspects, with no platform having a clear superiority advantage. We are currently competing primarily on our subscription renewal rate.

- In order to understand the reason behind low subscription renewal rate, I would like to know about the performance of the students enrolled with us compared to those enrolled with our competitors.

Despite excellent content quality, our results have not been able to match the competitors' leading to a sizeable customer attrition.

- Okay, given that results are a significant parameter in differentiating our product, I'd like to understand the kind of analytics and support we offer to students not performing well in their weekly tests and quizzes.

Currently, the student can view his/her progress on the dashboard in the various tests/quizzes attempted along with solutions and their critically weak areas.

- So, to further enhance that, the company can provide live 24x7 support for the students' doubt clarification through a chat box and also weekly expert sessions from guests that can bring a new wave of conceptual understanding of the same topics. Along with this, they may introduce a personalised journey map for each student that uses their previous progress to map an ideal study routine to follow that helps in accelerating their knowledge graph. In K-12 education, it becomes difficult for the students to deal with the drastic transition to an online-only learning, so appointing mentors or buddies to every student that enrolls with us in the initial understanding of the product features and how to maximise your output will help provide a personal touch in the whole process and encourage a sense of belongingness with the brand. The mentor will maintain a constant contact with the student/parent to track the progress of the student and to help in keeping the student motivated throughout their learning journey. In order to tackle the affordability, we can provide performance-based scholarships to talented rural students and keep them motivated through additional help if they perform well.

Good points. Lets move to profitability now. How will you reduce costs?

- What are our biggest cost heads?

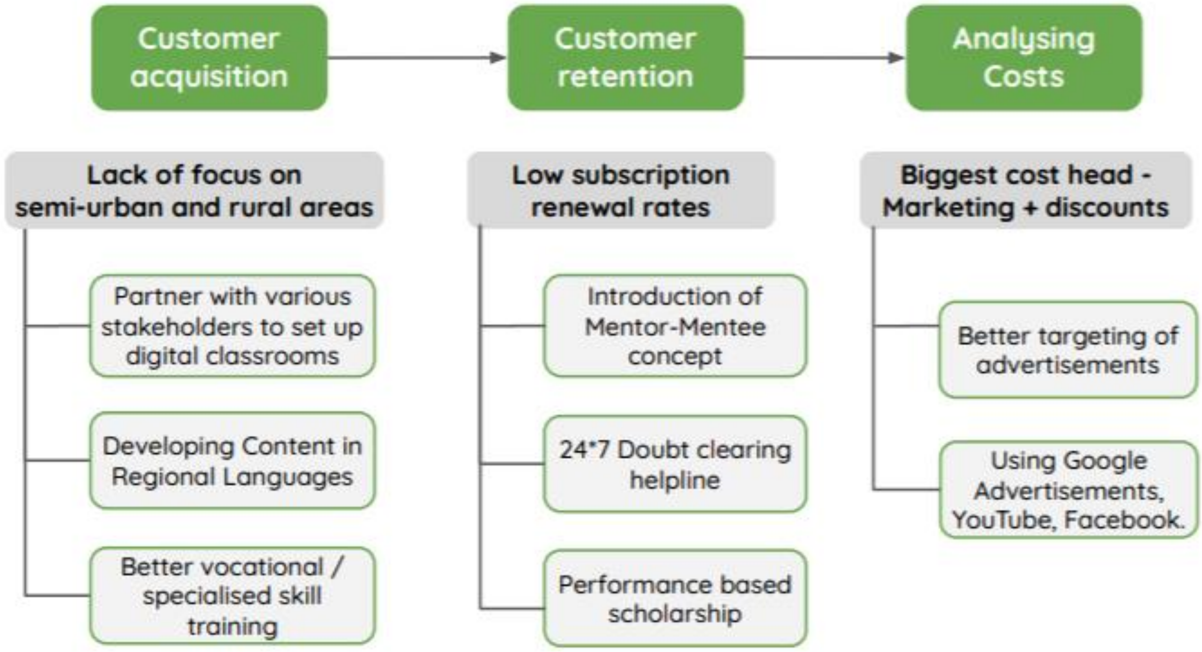
Our biggest cost head is Marketing, including discounts. This accounts for about 60% of our total spend.

- Okay. I would like to understand the various marketing channels that the company employs in order to reach the target audience.

The major costs come from offline marketing. The company conducts various events in schools across cities in order to increase word of mouth about the company and then works on the leads generated. For online marketing the company relies on the website only as of now.

- Okay. Firstly, the company must rapidly adapt to the new 5+3+3+4 structure for K-12, along with multidisciplinary subject stream options, and this should reflect in the new product offerings from next FY. The key selling point should be on the emphasis on the learning platform that is aligned with NEP 2020, giving a huge differentiation boost to the brand. They can look to improve their ad targeting for better outreach & will help in bringing down the marketing costs. This can be done by employing a diverse set of platforms like Google Ads, Facebook groups, Instagram stories ads etc.

Great suggestions. Thanks.



3. Skedasky Farms.

Skedasky Farms is involved in the process of making, selling, and distributing white wines. As of late, industry growth has stagnated. The CEO wants to increase revenue, and has enlisted you to help. To start off, come up with ideas to help the CEO with his goal.

Information Provided:

- Skedasky grows all of their raw inputs (grapes)
- Their farms are in California, with some processing facilities on-site, and another large facility located nearby.
- Skedasky sells to wine distributors, and also sells directly to some stores in the state
- They sell a variety of grades of wine, from cheaper boxed wine to premium bottles
- The industry is very fragmented (the interviewee should be able to guess this), and Skedasky has a comparable domestic market share to the other major winemakers in its area

(Structure the Ideas and mention pros and cons of each idea)

Current revenue streams

- Increase price

    Examine price elasticity of demand

    1. For each grade (boxed vs premium)
    2. For each type buyer
    3. For each type of wine (Cabernet vs Merlot)

- Increase volume

    1. Increase share of shelf space
    2. Seek new distributors or stores
    3. Increase international exposure
    4. Rebrand the wine

New revenue streams

- Wine tours, private tours and tastings for wealthy buyers
- Release new brands or varieties of top selling wines
- Expansion into new products
    1. Red and sparkling wines
    2. Spirits
    3. Beer

To start new revenue, a new product such as Beer looks like a good option to me. What do you think ?

- *Yes, Skedasky also thinks they have a good case for begin making and selling beer. According to you, what are some possible reasons this could be a good idea for skedasky?*

There are many potential synergies, such as:

- Leverage the brand name and distribution channels
- Economies of scale in SG&A and other expenses
- Perhaps some of the equipment could be used for both products Of course, there are many concerns/reasons this could be a bad idea.

- But how should they enter the Beer market and what are some associated concerns?

Growing a new product could be done in several ways, I think organically or acquisition should be preferred. Now, I‘d like to analyse these 2.

- Sure go ahead.

Organically

Pros

• More control, no integration problems

Cons

• Will take time to begin
• If they lack expertise in beer-making, could be a lengthy trial-and-error process

Acquisition

Pros

• Facilities/resources will be ready to go
• Leverage brand name of target

Cons

• Integration issues (e.g., culture clash)
• Potentially expensive
• Joint venture / Alliance

Are there any concerns related to financing?

- This depends on how much Skedasky is currently levered, and whether they have free cash to invest in this new project.

Now I'd like to analyse the current revenue branch, in that I think change in price can affect the revenue.

Can you share some data of the current price and the change in volume demand with it ?
- Sure. For the mid-upper level bottles of wines, currently, the 10,000 bottles are sold per year for $20/each. Studies have determined that a 10% increase in the price will result in a 10% decrease in volume, and a 10% decrease in price will result in a 5% increase in volume. Which course should the company take? Let me know if you need any additional information

I will also need the data for profit tmargin
- Margins are currently 50% (of $20)

The following calculations are made by the provided data:

	Currently	10% price increase	10% price decrease
Price	20	22	18
Cost	10	10	10
Margin	10	12	8
Volume	10000	9000	10500
Profit	100000	108000	84000

This suggests a 10% increase in price will be most favourable. As it has 8% increase in profit than the current price, which looks very attractive.

My final recommendation would be :
We looked at several ideas to increase revenue, such as your suggestion to enter the beer market. I believe that you can take advantage of a number of synergies with this move, and an acquisition looks like the best way to enter, so more research must be done on potential targets. However, many risks present themselves with this move, such as – will the brand name carry over? Do management capabilities carry over to the beer industry? Therefore, further analysis must be done. For an immediate increase in revenues and profits, you should increase the price of the mid-upper range wines. Research shows that you can expect a profit increase of roughly 8% in that category. Similar studies should be conducted across other product lines.

4. FoodCo
Our client is a private equity firm which has invested in FoodCo, a family-owned $19M branded frozen ethnic foods manufacturer operating out of the Northeast. They would like our help to determine how FoodCo can triple their profitability over the next 2 years.

<u>Information provided</u>
- The $19M figure is revenues
- Profit is currently $3M (so the target is $3M * 3 = $9M)
- Assume there no major changes in the market

- Price: we don't have any flexibility; benchmarking has determined that the ideal price is being charged to customers.
- Revenue Streams: For the purposes of this case assume that we produce ethnic food sold in "cups" e.g. a cup of noodles. This is the sole revenue generating stream.

(Start with a profitability framework and find out the key parameter. Then dive deep into that parameter to come up with ideas to increase profit)

Profit =(price of each food item * quantity sold) - Costs

Since the price is not flexible, I'll analyse the Quantity and Cost

Quantity
- Increasing this and expanding is an option, but we'll also have to see its implications.
- Can we build more operating centers

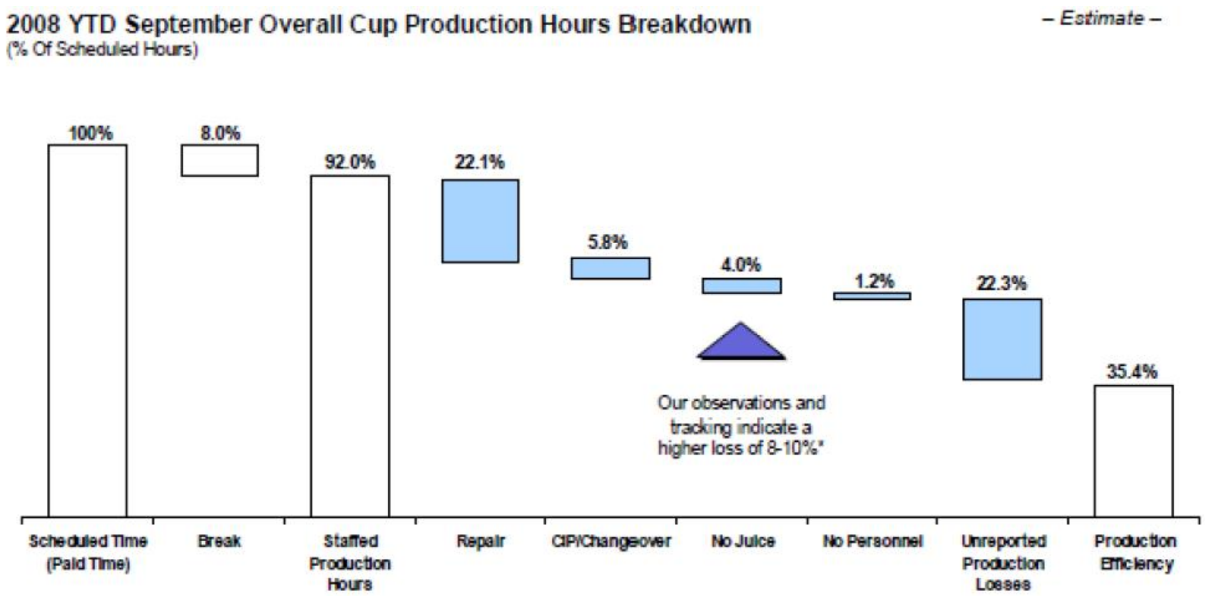
    - We can't build more operations centers. We know that there is a lot of unmet demand but we are extremely capital constrained and can't look to increase production by opening a new plant.

Other ideas
- Expanding nationally through retail and food service channels
- Expanding into new products, customers, and channels – organically or through acquisitions

Costs
These could include food materials, storage (including refrigeration), logistics, labor, and packing materials

Do you have a list of major costs and their weightage?
- Our team found that a majority of costs could be categorized into four areas: Labor (50%), Equipment (25%), Administrative (20%) and Other (5%).

I would target Labor costs to find savings. As this is more controllable and an unusually large cost driver for this type of business.
- Can you elaborate on how to reduce costs from the labor category. Following graph is given to study the efficiency of labors:



From the graph the key should be to reduce repair time, which is controllable. This could be done through training and reconfiguration of equipment. We can reduce repair time to 5% if we invest $500,000. I'd like to analyze this mathematically to answer whether we should do this or not

Labor Cost Base is $19 - $3 = $16. $16 * 50% = $8M
Savings from reduction = 22% - 5% = 17%. 17% * $8M = $1.36M
So yes, we should invest.

<u>Final Recommendation:</u>
By reducing repair time through training and equipment reconfiguration, we can both reduce costs and grow revenues by 17%. After the $500K investment, this means a total of roughly $7M profitability. This is not enough to reach the two year target, so we would have to look at other sources/options for growth and expansion.

6) Mergers & Acquisition:

Problem Statement:

when Company A is looking to acquire or merge with Company B, AND the two companies are different.

It's a fit framework. (This framework determines if there's a good fit. If Company A & B are nearly identical, use a capacity expansion framework instead. This framework does not answer the question IF it's a good idea to merge/acquire. It assumes you already know that it IS a good idea and the question is whether or not this particular target company is a good fit. To determine IF merging/acquiring is a good idea, use Capacity Expansion Framework instead)

Framework

	Customers	Product	Company	Competition
Company A				
Company B				
Company A+B				

"Core Business Situation Framework" and run it for Company A, Company B, and Company A+B

Tips:

- Identify synergy in new company
- Identify opportunities for one-way or mutual exploitation (Classic good "fit" = Company A has huge sales force buy lousy products,
- Company B has minimal salesforce but killer products. Potential sources of synergy: customers, products, distribution, resources, expertise, access to markets, physical assets, unique capabilities, overlapping cost structures)

Hint: Every time there's a synergy, that's one vote in the "good fit" column

Source: Victor Cheng Notes

Case Examples:

1. IBM.

At the beginning of the 2010s, IBM went on an acquisition spree and purchased 43 companies over 3 years for an average of $350 million each. All of these companies had smaller scale than IBM and slightly different technology.

Rationale: The main reason IBM decided to buy these 40+ companies is that they could all benefit from the firm's global sales force. Indeed IBM has a presence in the largest software markets in the world (e.g. North America, Europe, etc.) that smaller companies just don't have. IBM estimates that thanks to its footprint it could accelerate the growth of the companies it purchased by more than 40 percent over the two years following the acquisition in some cases. This is a typical product distribution synergy.

2. Apple.

In 2010, Apple decided to buy Siri, its now famous voice assistant. And in 2014, it decided to purchase Beats Electronics which had just launched a music streaming business. Both acquisitions were motivated by similar reasons.

Rationale: In both the Siri and Beats cases, Apple had the capabilities to develop the technology / product it was purchasing itself. It could have built its own voice assistant, and its own music streaming business. But it decided not to. The reason they thought it would be better to buy a competitor is that it was going to enable them to offer these solutions to their customers QUICKER. To be more precise, they probably estimated that offering these products quicker was worth more money than the savings they would make by developing the technology on their own. This is a typical revenue synergy that's widespread in the technology space.

3. Volkswagen.

Volkswagen, Audi and Porsche have been combined companies since 2012. Mergers are common in the automotive industry and usually motivated by a central reason.

Rationale: The cost to develop a new car platform is really high. It takes years, hundreds of people and millions of dollars. By belonging to the same group, Volkswagen, Audi and Porsche can actually share car platforms and reuse them for different models with different brands. For instance, the Audi Q7, the Porsche Cayenne and the VW Touareg all run on the same underlying platform. This is a typical cost synergy.

4. Big School Bus Company.

You have been approached by a private equity firm trying to decide whether or not to acquire Big School Bus Company. Big School Bus Company manufacturers, owns, and operates school buses across the United States. The private equity firm wants you to help them estimate the size of the market for school buses and to identify ways in which you might be able to extract more value from Big School Bus Company, if acquired.

Overview for the interviewer

Let the candidate begin by performing a market size estimate. Candidates should define the target market, determine how large the market currently is (volume), and identify what portion of the market Big School Bus Company could be reasonably expected to capture, based on present (and future expected) market share.

Things candidates should consider:

• Segmenting school children into those who: a) walk; b) are driven to school by parents; and c) take the school bus
• How many children take school buses every day
• How many school buses would be needed to transport all these children
• That school buses can make multiple trips every morning and afternoon
• That only a fraction of school buses are replaced every year (candidate should make a reasonable assumption for school bus lifetime – 10-15 years; thus 1/10 to 1/15 of the total school bus market is “addressable”)

FYI: every school day, about 500,000 school buses transport ~26 million school children to and from school. Use this information to help
steer the candidate back on track if they are orders of magnitude off.

NOTE: Technically there are other uses for school buses beyond simply transporting children to and from school. Depending on how time
goes, you may want to ignore this aspect and have the candidate focus on a more limited definition of the market to be sized.

Information to be provided (if asked)
- The school bus manufacturing industry is dominated by two players. Big School Bus Company is the larger of the two with about 45% market share (by volume).
- 40% of school buses are owned and operated by independent companies, such as Big School Bus Company. These independent companies often contract their services out to school districts. The rest are owned and operated by school districts themselves.
- IF the candidate identifies him or herself as not having been part of the US public school system and specifically asks for clarification, you can tell the candidate that around 60% of US schoolchildren take school buses to school every day.
- Average school bus capacity is 20 passengers for smaller school buses and 70 passengers for larger school buses.
- 80% of schools buses are larger school buses. 20% are smaller school buses.

Overview for the interviewer
How would the firm extract more value (additional profits) from Big School Bus Company? Candidates should then setup a framework that allows them to explore both sides of the profit tree (revenue and costs).

Before the candidate gets too involved with their framework and analysis, the interviewer should ask the candidate whether their intuition tells them that more value can be extracted from the manufacturing or the operations/services side of the industry. Candidates should realize that the school bus industry is in a relatively mature phase, and most of the market has already been saturated. Thus, operations and services are likely to be more attractive, in general.

There are many possibilities that candidates can address in operations/services, and this is a chance for the candidate to be creative. Several different areas may be explored, and sample ideas follow on the next slide.

Extracting more value

Revenue – explore different business models
- Customers could be the school districts themselves.
- Customers could be businesses looking for mass transport services (but unwilling to pay for coach buses); this could potentially generate a lot more revenue for Big School Bus Company during hours when school buses might otherwise be sitting idle
- Customers could also be wealthy parents willing to pay for private “mass” transportation services (perhaps where public school buses are lacking, bus stops are too far from homes, or where public school buses are of less than suitable quality to these parents).
- School children tend to take school buses just before their parents head off to work and before their parents get home from work. Thus, Big School Bus Company may be able to allocate buses to transporting employees to work (think the Google shuttle concept).
- Service differentiation. For example, provide WiFi so that students can complete their homework while riding the school bus and perhaps be less rowdy if distracted by internet-based entertainment.

• From a price perspective, Big School Bus Company could contract out services for a flat fee per year. Or they could charge per passenger. Candidates would ideally discuss the issues of willingness-to-pay versus cost-plus (and other) pricing methods, as well as which business models would better support a “fee-per-person” pricing model.

Costs
When it comes to school districts sourcing buses (and sometimes bus services), school districts may choose to put out contracts to competitive bids. Oftentimes the decision point will be who has the lowest bid that still meets the quality metrics and requirements specified by the school district.
• In order to submit a low bid, Big School Bus Company should also examine its cost structure. Candidates may delve into the fixed and variable cost components of different proposed options for creating value. For instance, fixed costs could include the buses themselves, the internet connectivity hardware and contracts with internet service providers, the corporate headquarters/dispatch center, etc.. Variable costs would include fuel and hourly wages for (potentially unionized) bus drivers.

Conclusion

Candidates should recognize that while the problem narrative focuses mostly on the questions of market sizing and extracting value, the real substantive issue is whether or not to recommend an acquisition of Big School Bus Company. Top candidates will make such a recommendation at the end, without prompting.

If a candidate does not make such a recommendation without prompting, ask them at the end of the case what they would recommend and why (the “Our client’s managing director is coming; what do you say to him/her?” executive summary).