

Profit Puzzle

In the US market, there are two online retailers, Budget Mart and Elite Goods. Budget Mart provides budget-friendly goods to consumers, and Elite Goods caters to only the high-income groups, providing premium products at high prices. The revenue of Budget Mart is \$100 million, and for Elite Goods, it is \$120 million dollars. However, the profit margin of Budget Mart is greater than the profit of Elite Goods. Your client is Elite Goods, and it wants you to identify why Budget Mart has greater profits even after catering to the lower-income category. As a consultant, you are required to pinpoint those key areas due to which Elite Goods might be facing the problem.

CASE TYPE
Profitability

COMPANY NAME
LEK Capability Network

DIFFICULTY LEVEL
★ ★ ★

Profit Puzzle

Secret of high profits?

Case Type

Unconventional Case

Company Name

LEK Capability Network

Round

Partner

Difficulty Level



Problem Statement

In the US market, there are two online retailers, Budget Mart and Elite Goods. Budget Mart provides budget-friendly goods to consumers, and Elite Goods caters to only the high-income groups, providing premium products at high prices. The revenue of Budget Mart is \$100 million, and for Elite Goods, it is \$120 million dollars. However, the profit margin of Budget Mart is greater than the profit of Elite Goods. Your client is Elite Goods, and it wants you to identify why Budget Mart has greater profits even after catering to the lower-income category. As a consultant, you are required to pinpoint those key areas due to which Elite Goods might be facing the problem.

The problem can lie in the value chain. Considering the value chain of an online retailer, a customer places an order, gets delivery, and then observes the quality of the product or service. This is followed by after-sales services like a refund in case of dissatisfaction with the product or service.

Great. Go ahead

The problem could also lie in the user interface. Budget Mart might be having a more user-friendly application with great comfort in placing the order. The UI/UX may be better designed as compared to the app of Elite Goods. Due to this, Budget Mart gets higher profits.

Makes sense. What other problems can you identify?

Moving forward, the problem can lie in awareness. Elite Goods caters only to the high-income group while Budget Mart is catering to the lower segments. Budget Mart will also have some customers from the high-income group. This barrier of affordability in Elite Goods leaves us with a small target market.

How do you think we could remedy that?

One thing is to target the middle-income segment without compromising the brand value of the products to increase the target market

Apart from the user-friendliness of the application and the small target market, another factor that could be posing a problem is the delivery aspect

Could you elaborate on that?

Budget Mart might be having partnerships with delivery partners that maximize the delivery speed, and the affordability of their products leaves enough budget for warehouses and other storage avenues. These are some assumptions I have taken that may be the reasons that Elite Goods is losing its clients as compared to Budget Mart.

You seem to have identified all the problems. Moving forward, give me 5 suggestions to improve this situation.

Firstly, we can focus on improving our warehousing and improving our supply chain. Due to premium products, we might be facing problems in procuring the goods at the required time, which necessitates the availability of enough supply to cater to the demand.

Secondly, we can hire web designers to update our website if it is not user-friendly or needs an upgrade. Next, we can contract with delivery partners to increase the quality of the delivery service. Outsourcing will also cut back on the costs, leaving us with more resources to specialize in the supply side of things.

Good job till now. Please tell the remaining two suggestions and we're good to go.

Another thing we can do is to improve our after-sales services leading to greater customer satisfaction and repeat sales. We should also inspect for any defect in the products that may be leading to us losing our customers. Lastly, we can reduce our price a bit to target the middle-income segment along with the high-income group to maximize our revenue.

Great, we can conclude the case here. Well done!



HERE'S A TIP!

The candidate's suggestion to target the middle-income segment without compromising the brand's value stands out and showcases strategic thinking. This approach demonstrates a willingness to expand the target market while maintaining the brand's premium image, which sets it apart from traditional strategies focused solely on high-income clients.

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CASE FLOW

CASE FACTS

- 1 The company is currently **located in the USA** and has a **major competitor** BudgetMart.
- 2 BudgetMart provides affordable goods and caters to all customers while the **client caters to the elite** population
- 3 **Client has higher revenue** than the competitor but has a **lower profit margin**
- 4 The client wants to know the **reasons** for low profit margin and key areas causing the issue

