

Mexican Drug Cartel

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?

Preliminary Questions

What is the business model of the drug lord?

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.

How much have our profits dropped by?

We do not have a numerical estimate for the decrease in profits. But it is significant enough to be worried.

Which drugs does our client sell?

We only produce and sell cocaine. No other drugs. And we are only present in the cocaine manufacturing business.

Since when has there been a decline in profits?

A decline in profits has been observed over the last 2 years or so.

What is the mode of transportation used?

We ship drugs overseas through sea routes, in cargo vessels. After that on land, our distributors typically use trucks.

Have competitors faced a similar loss?

We have men in a few other cartels who inform us that there is no serious hit to their profits.

Is there a particular region that is facing this loss?

Asian countries have reported lower profits. All other regions have not reported any fall.

Analysis

I want to analyze the profit structure of the client to identify the drivers for the reduced profit.

Breaking down the profit structure is a good idea. Let's go ahead with this.

Have the client's revenues decreased or have the costs increased?

The client's revenues have decreased. However, costs have remained the same.

Has the price of cocaine changed or have the number of units sold decreased?

The selling price of cocaine has remained the same everywhere. But the number of units sold have decreased.

I want to move across the value chain to identify where the problem lies.

A break across the value chain sounds good. What components do you want to break this into?

Production, Transportation, Distribution, Demand

That's fair. Let's break this down as Production, Distribution, and Local Cartel Demand. Now, let's analyze each of these specifically.

Has our production capacity for cocaine reduced?

No. Our production for cocaine has remained the same in this period.

Has the demand of cocaine from Asia reduced?

No, the demand of cocaine in Asia from our drug lord has remained exactly the same.

Are we able to transport the entire cocaine produced to the local dealers?

Distributors are unable to push enough of our cocaine to meet the local demand. This is the major issue

Have the security checks in Southeast Asia increased in that period?

Yes. That's it. Security checks have increased on certain routes in Southeast Asia. As a result, some of our trucks are caught and the drugs get confiscated.

Why are competitors not facing the same issue?

Competitors are not facing the same issue as several of them are aware of alternative routes that are less strictly monitored by the cops.

Recommendations

Please provide three suitable recommendations to address this issue.

We should use alternate routes for our trucks.

That is definitely a good possibility. We can find the alternative routes of our competitors and just copy them.

We can try bribing the cops.

That's a creative suggestion. However, this is not feasible in our scenario. Cops don't accept bribes that easily.

The client should attempt to increase security for the consignments.

Security for the consignments can and should be increased for sure. Will have to evaluate the costs associated with this.