

Wharton Case Preparation Toolkit: Industry Primer

Wharton Consulting Club

September 2007

OUTLINE


1. The Big Picture

- 2. What is 'Problem Solving'
- 3. Industry Overviews
- 4. Common Case Types
- 5. Other Resources

THE BIG PICTURE: CONSULTING RECRUITING INVOLVES LOTS OF LITTLE THINGS... NO SINGLE SILVER BULLET

	Your objective	What resources you will need to use
Gather info & decide	<ul style="list-style-type: none"> • Is consulting what you want to do? • Which firm do you want to join? • Why do you want to join a certain firm? • Connect the dots (pre-MBA to MBA to consulting) 	<ul style="list-style-type: none"> • MBACM industry chats • Firm websites / Vault / WetFeet • Coffee chats • EISes • Second Years • Speakers on campus
Résumé	<ul style="list-style-type: none"> • Get invited to interview 	<ul style="list-style-type: none"> • MBACM resume review • Resumania • Second Years (at least 2 reviews)
Interview: Cases	<ul style="list-style-type: none"> • Ace cases 	<ul style="list-style-type: none"> • Case books & Industry Primer • Core courses • Form teams of 3-4 with First Years • MBACM mock interviews • Interviews with Second Years • Consulting firm buddies
Interview: Fit	<ul style="list-style-type: none"> • Demonstrate 'fit' <ul style="list-style-type: none"> • Leadership • Teamplayer • Well-rounded personality 	<ul style="list-style-type: none"> • Prep 'Fit' questions • MBACM mock interviews • Interviews with Second Years • Read WSJ, Economist... something

THIS DOCUMENT WILL HELP YOU LEARN SOME VERY BASIC INFORMATION ABOUT KEY INDUSTRIES & LEARN SOME TYPICAL CASE FRAMEWORKS

 Scope of this document

Your objective

What resources you need to use

Information gathering

- Is consulting what you want to do?
- Which firm do you want to join?
- Why do you want to join a certain firm?
- Connect the dots (pre-MBA to MBA to consulting)

- MBACM industry chats
- Firm websites / Vault / Wetfeet
- Coffee chats
- EISes
- Second Years
- Speakers on campus

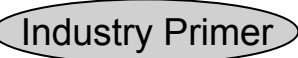
Résumés

- Get invited to interview

- MBACM resume review
- Resumania
- Second Years (at least 2 reviews)

Interviews > Cases

- Ace cases

- Case books &  Industry Primer
- Core courses
- Form teams of 3-4 with First Years
- MBACM mock interviews
- Interviews with Second Years
- Consulting firm buddies

Interviews > Fit

- Demonstrate 'fit'
 - Leadership
 - Teamplayer
 - Well-rounded personality

- Prep 'Fit' questions
- MBACM mock interviews
- Interviews with Second Years
- Read WSJ, Economist... something

... HOWEVER, YOUR MAIN GOAL IS STILL 'PROBLEM SOLVING', NOT BECOMING AN INDUSTRY EXPERT

Background

- Case interviews span a broad range of industries. You may encounter everything from financial services to pharmaceuticals
- Those of you who have not worked as consultants before will likely not have any background in these industries
- This document can give you a **very high level view** of some 'typical' industries that cases focus on

Our Belief

- We believe that having a very basic **overview of an industry helps to more effectively tackle a case**
- At the very least it helps you construct a framework that is most applicable to that particular problem context
- Examples:
 - Consumer goods: **branding** is an important driver of success
 - Pharma: **generics** manufacturers pose a major competitive threat

Important warning!

- **Do not attempt to master industry specifics** or memorize industry data
- Your primary objective over the next few weeks/months is to **master case-based problem solving**... not to become an industry expert
- Spending a little time informing yourself about the basics of a few key industries should improve your problem-solving ability

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'PROBLEM SOLVING' REFERS TO WIDE VARIETY OF DECISIONS THAT CONSULTANTS HELP CLIENTS MAKE BY ANALYZING ISSUES/DRIVERS

Examples

- Should client **enter new market**? What is NPV?
- Should client do **M&A**? Post-merger integration risk?
- How can client **increase profits**? Quantify increase.
- How can client **reduce costs**? By how much?
- Should client make **new investment**? What is NPV?
- How can client **increase share**? Quantify increase.
- How can client **grow revenues**? Quantify increase.
- Should client **outsource**? Compare/value alternatives.

- **Wide variety of decisions** businesses face
- Where possible, you will be guided to **quantify improvement** (i.e. to do some basic math)

Some solution drivers

Strategic analysis

- What are **industry trends**?
- Info on **competitors/market shares**?
- Strategic **rationale** underlying decision?

Economic analysis

- What **products? Prices? Volume**?
- What's the **cost structure**?
- **Profit impact** for client?

Customers / channels

- Which **customer segments**?
- What are **customer needs / wants**?
- What **channels? Sales force**?
- Any **regional/geographic** concerns?

'Catch-all' / Other

- What are the **risks**?
- Any **regulatory** issues?
- Any **organizational** behavior issues?

- Not all issues/drivers will be relevant but list should let you quickly zone in on key to problem
- For these drivers, think about:
 - a. **changes over time?**
 - b. **compare client with competition**
- This is meant to be a thought starter – not a comprehensive list

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CONSUMER PACKAGED GOODS (CPG)

Overview

- CPG companies provide consumers with a range of household products etc. soaps, deos, snack foods etc.

Key trends

- Lifestyle/consumer behavior e.g. aging population, social networks, online advertising, go green
- New products critical to success
 - Completely new, slightly improved, product line extensions
 - In addition, companies driving 'outside-in' product innovation (from outside of R&D division)
- Product mix and Brand management are critical to CPG companies
- Emerging markets – India & China – seen as important source of future growth

Businesses & Products

- Personal care products: toothpaste, soap, shampoo, razors and blades
- Household products: batteries, Clorox bleach

Customers

- Individual consumers
- Big, commercial buyers – retail companies (e.g. Wal-Mart)

Channels

- General merchandise Retail outlets: Wal-Mart, Target, K-Mart, Trader Joe's
- Direct (web) and mail order

How they make money

Cost drivers

Brand

Sales and marketing

COGS: commodity costs – raw & packaging material

Profit drivers

Price premium on branded good

Volume of good sold

Competition

- Procter & Gamble, Unilever, Colgate Palmolive, Kimberly-Clark, L'Oreal, Estee Lauder, Avon



FINANCIAL SERVICES > CONSUMER BANKING

Overview

- Provide deposit-based services, credit cards, consumer loans, payments etc. broad range of financial products are sold by banks whose main function is to collect money from those who have savings and loan money to those who need it i.e. they serve as financial intermediaries

Key trends

- Consolidated, mature industry with primary growth through acquisitions
- Demographic shift (baby boomer aging) creating large market for retirement products
- Emerging markets (BRIC nations) where banking services not available to large parts of population
- Offshoring of various functions to reduce expenses (e.g. call centers, back office functions)

Businesses & Products

- Individuals: mortgage, deposit accounts (checking, saving, CDs), cards (credit / debit)
- Corporations: credit, treasury and cash management, loans

Customers

- Individual consumers
- High net worth individuals
- Small businesses

Channels

- Bank branches
- Online banking
- Telephone banking

How they make money

Cost drivers

Branches
People / FTE

Profit drivers

Interest spread of deposits and loans
Fee-based products

Competition

- Banking: Citi, Bank of America, Wells Fargo, JP Morgan Chase, Wachovia
- Cards: Citi, American Express, Capital One
- Mortgage: Countrywide, Washington Mutual, Wells Fargo



Countrywide Financial

JPMorgan



Bank of America



WELLS
FARGO

FINANCIAL SERVICES > INSURANCE

Overview

- This industry is mainly about underwriting various types of risks. You make regular payments (called premiums) to the insurer for your policy and when unforeseen events, e.g. car crash or fire damage to a house, occurs the insurer pays for the damage
- The insurer also invests all the premium money collected and thus also earns investment income

Key trends

- Increasing emphasis on marketing in industry
- Companies focusing on increasing profit from core underwriting operations – greater emphasis on controlling and even reducing costs

Businesses & Products

- Property & Casualty– Personal lines: insurance for your car, home, boat etc.
- Property & Casualty – Commercial lines: workers compensation, liability insurance, property
- Life insurance: term, whole, variable, universal; Annuities: fixed, variable

Customers

- Individuals who own cars, homes, bikes, yachts etc.
- Businesses that need insurance against lawsuits, injury to workers, property damage/theft etc.

Channels

- Insurance agents (sales force – captive and independent)
- Third party distribution via banks and insurance brokers
- Direct sales via web
- Worksite marketing (product ‘demos’/explanations at company sites for employees)

How they make money

Cost drivers

Claims
SGA – sales commissions,

Profit drivers

Premiums received less: claims paid out
Returns of premium \$ investment

Competition

- Property & Casualty: AllState, StateFarm, Geico, Progressive
- Life: MetLife, AIG Life, Prudential, NY Life



Nationwide®
On Your Side



PHARMACEUTICALS

Overview

- **Branded / Ethical drugs:** patent-protected medicines for human and animal diseases
- **Generics:** when patent on drug expires, prices fall quickly due to generic products

Key trends

- Increasing price competition from generic drug manufacturers
- Increasing pressure from health insurance companies and hospital chains to reduce prices
- R&D challenge of finding high revenue drugs ('Blockbusters' have annual sales > \$1B)
- Loss of patent on key drugs for many large Pharma Cos. around 2010-11

Businesses & Products

- Products target various diseases: cancer, obesity, high cholesterol etc
- US, Europe and Japan are largest markets although emerging market opportunity is growing
- Food & Drug Authority (FDA) needs to approve all drugs before use

Customers

- Doctors who prescribe these medicines
- Insurance companies that pay for them
- Patients/consumers who need these drugs/medicines

Channels

- Retail outlets – CVS, Walgreens
- Hospital chains
- Distributors / intermediaries
- Mail order

How they make money

Cost drivers

R&D
Sales / marketing

Profit drivers

Profit margins on drugs / patent protected
High disease prevalence

Competition

- Branded: Pfizer, GlaxoSmithKline, Novartis, Schering Plough
- Generics: Teva, Ranbaxy, Merck KGaA, Sandoz (a Novartis company)



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THESE ARE 'TYPICAL' CASE TYPES... BUT BY NO MEANS IS THIS LIST COMPREHENSIVE

1. Increase revenues
2. Increase profitability
3. M&A deal-related
4. Outsourcing
5. Market entry
6. New investment
7. Non-profit organizations

IN USING THE FRAMEWORKS THAT FOLLOW, BE MINDFUL OF THE FOLLOWING:

- **The goal/intent is not memorize these frameworks! Doing so will be tricky and likely unhelpful**
- **Modify the frameworks** as *you* deem fit – each of you will find a set of issues that you will find easy to remember and work through
- Modifying and using these frameworks will also set you apart and allow you to **demonstrate your creativity**
- **This document is Version 1.0 and may contain typos as well as flaws in logic – use your best judgment in all cases. If you're not sure, ask your peers at Wharton. We will do our best to correct errors as soon as we learn about them**

1. INCREASE REVENUES

Overview

- Client's revenues (or 'top-line' in Income Statement) have stopped growing
 - You need to recommend ways to drive revenue growth
-

Sample framework

MARKET CONDITIONS	REVENUES	CUSTOMERS	OTHER
<ul style="list-style-type: none">• Industry<ul style="list-style-type: none">• Revenues (R)• Profits (II)• Growth (g)• Competition<ul style="list-style-type: none">• C1 market share (s1)• C2 market share (s2)• Etc.	<ul style="list-style-type: none">• Product mix<ul style="list-style-type: none">• Old prod doing OK?• Any new products?• Points of parity / difference our products and competition prod.• Brand awareness?• Pricing (P)<ul style="list-style-type: none">• Competitive parity in prices?• Can we ↑ prices?• Volume (Q)<ul style="list-style-type: none">• Enough capacity to meet demand?	<ul style="list-style-type: none">• Segments<ul style="list-style-type: none">• ↑ share in current seg.• Launch in new seg.• Launch in new geography• Fastest growing seg.?• Customer needs<ul style="list-style-type: none">• Any major changes?• Substitute products now available?• Channels<ul style="list-style-type: none">• Current channels?• New channel growth	<ul style="list-style-type: none">• Product safety issues?• M&A to drive growth?• <add to this list based on your ideas / understanding of industry>

2. INCREASE PROFITABILITY

Overview

- Client's earnings / profits (or 'bottom-line' in Income Statement) has declined or stopped growing
 - You need to recommend ways to increase profits
-

Sample framework

MARKET CONDITIONS	REVENUES	COSTS	CUSTOMERS & CHANNELS
<ul style="list-style-type: none">• Industry<ul style="list-style-type: none">• Revenues (R)• Profits (II)• Growth (g)• Competition<ul style="list-style-type: none">• C1 market share (s1)• C2 market share (s2)• Etc.	<ul style="list-style-type: none">• Product mix<ul style="list-style-type: none">• Points of Parity / difference our products and competition prod.• Brand awareness?• Pricing (P)<ul style="list-style-type: none">• Competitive Parity in prices?• Can we ↑ prices?• Volume (Q)<ul style="list-style-type: none">• What's our market share?• Enough capacity to meet demand?	<ul style="list-style-type: none">• Client cost structure<ul style="list-style-type: none">• Labor• Land• Equipment• Sales & marketing• Managerial overhead• IT / Systems• Litigation• Materials• Benchmarks<ul style="list-style-type: none">• How do our costs stack up versus those of our clients?	<ul style="list-style-type: none">• Customer segment<ul style="list-style-type: none">• Which seg. do we serve? Are they profitable?• Which seg. are most profitable?• Channels<ul style="list-style-type: none">• Current sales?• Are they low-cost channels?• Do these channels attract high margin customers?• How are our channel partners (e.g. retailers) doing?

3. M&A DEAL-RELATED

Overview

- Client is considering an M&A transaction
- Your goal is to recommend whether or not to do the deal

Sample framework

STRATEGIC FIT

- **Basic deal rationale**
 - Cost synergy-focus?
 - Revenue-synergy focus?
 - Early-stage co. being acquired for technology?
 - Response to competitor move?
- **Type of deal**
 - Vertical integration
 - Horizontal
 - New market entry via deal
 - Diversification move

ECONOMICS OF DEAL

- **Valuation (Know basic DCF!)**
 - Revenues
 - Costs
 - PBT (profit before tax)
 - Taxes
 - PAT (profit after tax)
 - Cost of capital (R)
 - Value = (PAT / r)
- **Deal price**
- **Synergies**
 - Cost
 - Revenue
 - Calculate new firm value
- **Compare deal price with new firm value**

RISK ASSESSMENT

- **Has the company done acquisitions before?**
 - Firm capability test
- **Organizational cultures compatible?**
 - A high proportion of M&A deals destroy value due to incompatible organizational cultures
- **Need to manage post-merger integration process**

4. OUTSOURCING*

Overview

- Client is considering outsourcing an operation
- Your goal is to recommend whether or not to do the outsourcing
- Do NOT make a recommendation on cost savings alone – explore areas like customer service impact, premium customer segment impact etc

Sample framework

STRATEGIC LOGIC	ECONOMICS OF DECISION	RISKS / OTHER
<ul style="list-style-type: none"> • Why are they thinking of outsourcing? <ul style="list-style-type: none"> • Cost savings? • Market entry into BRIC**/other markets? • Early-stage co. being acquired for technology? • Response to competitor move? • Customers affected <ul style="list-style-type: none"> • Which segments? • What are their needs? 	<ul style="list-style-type: none"> • Current costs (in-house operation) • Outsourced costs • Initial investment required <ul style="list-style-type: none"> • Outsourcing consultants • IT/System investments • Net cost savings 	<ul style="list-style-type: none"> • Risks <ul style="list-style-type: none"> • Implementation risk • Political risks? • Currency risk? • Partner capabilities <ul style="list-style-type: none"> • Quality of service • Lead time • Technology • Customer service • Stakeholder mgmt. <ul style="list-style-type: none"> • Manage media & community stakeholders – job loss issues involved

* Common outsourcing destinations: India, Eastern Europe, Ireland

IMPORTANT: Sometimes interviews might make a difference between Outsourcing and Offshoring – former refers to functions that are done outside firm's boundaries. Latter refers to outsourced functions done in a distant location such as India or Ireland

** BRIC: Brazil, Russia, India and China

5 & 6. MARKET ENTRY & INVESTMENT IN NEW TECHNOLOGY

Overview

- Client is considering entering a new market
- Your goal is to recommend whether or not they should enter the new market
- For these types of cases what is common is that the company is considering spending money to get some kind of economic return. In addition to seeing whether the decision is financially sound, you have to test:
 - Likelihood of implementation success based on industry conditions and firm capabilities
 - Do a risk assessment

Sample framework

STRATEGIC LOGIC	ECONOMICS OF DECISION	RISKS / OTHER
<ul style="list-style-type: none">• Why are they thinking of market entry?<ul style="list-style-type: none">• Growth?• Mature current market?• Response to competitor move?• Resources & capabilities<ul style="list-style-type: none">• What does the firm have that makes them think they can be successful?<ul style="list-style-type: none">– Brand– Patents– Local expertise/partners	<ul style="list-style-type: none">• New market conditions<ul style="list-style-type: none">• Total Revenues (R)• Total Profits (Π)• Growth (g)• Competition in new market<ul style="list-style-type: none">• C1 market share (s1)• C2 market share (s2)• Etc.• Economics<ul style="list-style-type: none">• Investment reqd.• Expected share of revenues• Expected share of profits• Profitable? Payback period?	<ul style="list-style-type: none">• Execution / entry barriers?<ul style="list-style-type: none">• Channel access?• Regulatory barriers?• Does firm have \$ to make investment?• Risks<ul style="list-style-type: none">• Implementation risk• Political risks?• Currency risk?• Macroeconomic risk?

7. NON-PROFIT ORGANIZATIONS

Overview

- Client is a non-profit organization
 - Your goal is to solve the specific problem for the organization
 - Important to display that you understand that non-profits have fundamentally different drivers besides just the economics of a particular decision
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Sample framework

STRATEGIC RATIONALE	ECONOMICS OF DECISION	OTHER
<ul style="list-style-type: none">• Mission of non-profit<ul style="list-style-type: none">• Health• Education• Poverty alleviation• Etc.• Stakeholder opinions and likely reaction<ul style="list-style-type: none">• Donors• “Customers” – those who benefit from the non-profit’s services• Volunteers• Paid staff	<ul style="list-style-type: none">• Planned investment<ul style="list-style-type: none">• What will it cost?• Do we have the money?• Returns (if any?)<ul style="list-style-type: none">• Will we be getting back money?• Will organization make / lose money on this?	<ul style="list-style-type: none">• Required capabilities<ul style="list-style-type: none">• Does non-profit have what it takes to do this well?• Risks<ul style="list-style-type: none">• How will media perceive this decision?• Critical to factor in stakeholder reactions – will this alienate donors, volunteers etc?

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YOU CAN FURTHER BUILD YOUR UNDERSTANDING OF VARIOUS INDUSTRIES USING THE FOLLOWING RESOURCES

- **Standard & Poor's industry reports** – can be accessed via Lippincott library (online)
- **Wall Street Journal** industry analysis section (online)
- Follow **media coverage** of few companies in industries interest you (e.g. read about them in Fortune, BusinessWeek, Financial Times etc.)

FINALLY, INFORM YOURSELF OF THE FOLLOWING MACRO TRENDS THAT ARE DRAMATICALLY AFFECTING BUSINESSES WORLDWIDE

Learn about...

- **Aging of US Population** – fundamental change in target consumer profile
- **Off-shoring** – outsourcing as a means to cut costs, globalize, tap global talent pool
- **Technology** – impact of mobile devices, social networking, online advertising etc.

Resources to use

-
- **Media:** Fortune, BusinessWeek, Wall Street Journal, Financial Times
 - **B-school publications:** Knowledge at Wharton, Harvard Business Review,
 - **Consulting firm publications:** McKinsey Quarterly, Booz Allen Strategy&Business
 - **Google** searches

QUESTIONS / COMMENTS / CORRECTIONS

This is the first year the Wharton Consulting club is using this resource and we will try to improve and correct this document over the next few weeks.

If you use this document, please feel free to email corrections and suggestions to the following Wharton Consulting Club members:

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We will incorporate your suggestions into subsequent versions.