Wharton Consulting Interview Guide
2006 – 2007 Edition

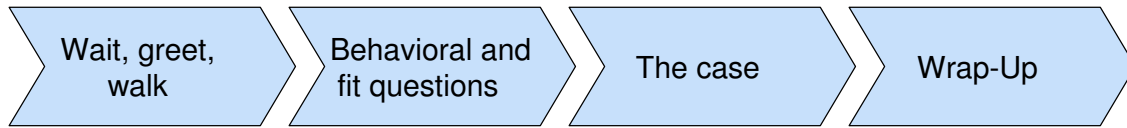# Table of Contents

Overview

Consulting interviews begin with your arrival in a hospitality suite (or somewhere on campus), where you will wait until your interviewer calls your name. The short walk to the interview room is a good time to start building rapport with your interviewer—your goal is to appear warm, confident, and professional.

Interviews generally consist of a case and behavioral questions, which will be covered in detail below. If you can, try to view the experience as an interesting business discussion with a colleague, rather than as a stressful, evaluative experience. Be proactive in driving the case discussion, but be sure to listen carefully as well—your listening skills are being evaluated.

Remember that the interview isn't over until you are out the door, and collapsing in relief or despair after the case is over does not convey the sense of confidence and poise that you are going for. For similar reasons, we do not recommend asking for feedback (additionally, most firms have policies against giving feedback). Always thank your interviewer for his time. Finally, remember that most firms have alumni or ex-interns on campus, so you can expect companies to learn about any inappropriate comments or behavior even after the interview ends.

Typical Interview Structure

Consulting interviews typically take from 30 to 45 minutes, and are composed of four main steps:

Wait, greet, walk	Behavioral and fit questions	The case	Wrap-Up

Process

• Wait in hospitality suite with other candidates • Interviewer asks for you by name • Handshake & greeting • Walk to interview suite	• Interviewer may give personal background • Questions about your resume • Deep dives on your experience in certain situations	• Interviewer leads into case • Be sure to find out how much time is allotted for case	• Ask intelligent questions • Let the interviewer speak • <u>Do not ask for feedback at interview</u>

Your Objective

• Appear warm, confident, professional	•Show leadership, comfort in ambiguity, conversational ability •Pass "airport test"	•Demonstrate your mental horsepower •Maintain confident, collaborative, upbeat demeanor	•Leave interviewer with good impression

Next, we will describe in more detail the two most important steps of the interview: behavioral (fit) questions and the case.

The Behavioral Interview (Fit)

Before starting a case, most consulting interviews will take a few minutes to ask detailed questions about your resume and experiences. Topics such as your ability to work in teams and show influence with clients are likely candidates for behavioral questions since they are hard to test in a case exercise. In many ways, these are similar to questions you thought about as you applied to business school—they are looking for evidence of leadership, impact, and self-awareness.

To prepare for the behavioral portion of the interview, think back over your past experiences for stories that show how you demonstrated these skills. Ideally, identify situations or experiences that show multiple attributes so that you can adapt them to a number of questions. You should develop <u>concise</u>, hard hitting stories about each experience; identify what is critical to the story and provide enough details to make them sound vivid and engaging. Conversely, work to eliminate irrelevant details and facts that are not critical to your story so that you can make your point quickly and convincingly. A good method for practicing this is using 3x5" cards: Write each question on one side and the key points of your story on the other. Quiz yourself until the stories flow well without filler words ("uh", "like") and without forgetting any key points. Another alternative is to use a digital camera with video to record yourself answering behavioral questions (with another person or from your flashcards), and watch to see if your answers are concise, if you mumble or if you sound rehearsed.

Beyond assessing you through the case and behavioral responses, interviewers try to assess whether you are a good match for their firm's culture. Are you the kind of person who would fit in with a case team spending four nights a week in Omaha for eight straight weeks? Can you pass the "airport test" – in other words, would the interviewer mind being stuck in an airport with you for a few hours? Would you hold your own if you met the client COO in an elevator, and he asked you how the case was *really* going? Interviewers will assess your fit both by asking specific questions and by observing your overall presentation in the interview.

Interviewers want to see that you are confident, personable, and that you can think on your feet. They want to find out whether you are a good listener and if you can present your ideas clearly. Much of this comes out through the case, but you should be aware of how you are presenting yourself throughout the interview. Make small talk and build rapport with your interviewer as you walk to the room. Approach the interview as a conversation, and the case as a shared problem to be discussed. Show a genuine interest in the firm and ask intelligent questions.

It may be helpful to create a matrix of experiences that relate to the characteristics that you want to show:

	Experience 1	Experience 2	Experience 3	Experience 4	Experience 5	Experience 6
Leadership	x			x		
Teamwork		x			x	
Strategic Thinking	x		x			
Creativity/ Innovation	x					x
Quantitative/ Analytical					x	
Results	x					
Curiosity			x			
Communication		x				x
Motivation				x		x

Finally, the STAR framework may help to structure your stories when answering behavioral questions:

Situation – background about the problem or issue
Task – your objective
Action – what you did (be specific about what you personally did, versus what the team did as a whole)
Result – what happened, and what you learned

Potential Fit Questions

- Why are you interested in consulting?
- Why are you interested in our firm?
- If we give you an offer, will you accept it?
- What other companies are you applying to?
- What is your greatest accomplishment?
- Tell me about a defining experience in your life.
- What has been your biggest failure?
- What are your strengths? Weaknesses?
- Tell me about a time when you've shown leadership and influenced outcomes even when you had no official authority?
- Talk about a time you set performance goals.
- If I looked at development suggestions from your evaluations at prior employers what would I find?
- Tell me about the most valuable feedback/constructive criticism you've received.
- Tell me about a leadership experience you've had.
- What role do you usually play on a team, and why?
- Describe a time when you had to persuade someone to do something.
- Describe a challenge you've had working on a diverse team.
- Tell me about a time when you were faced with an obstacle.
- What is the last book you read and what did you think of it?
- Walk me through your resume, starting with undergrad.
- Tell me about a time you faced conflict and how you resolved it.
- What role do you usually take in a team setting?
- What do you do for fun?
- What makes you unique?
- What areas do you need to develop?
- Tell me about a team experience that was a failure.
- Tell me about a standout academic experience.
- Tell me an important thing that you learned from your work and school experiences.
- Tell me about a specific situation in your professional career where you solved an important problem.
- How would your workmates describe you?
- After your two years at Wharton, how will your classmates remember you?
- How would your friends and family describe your personality?
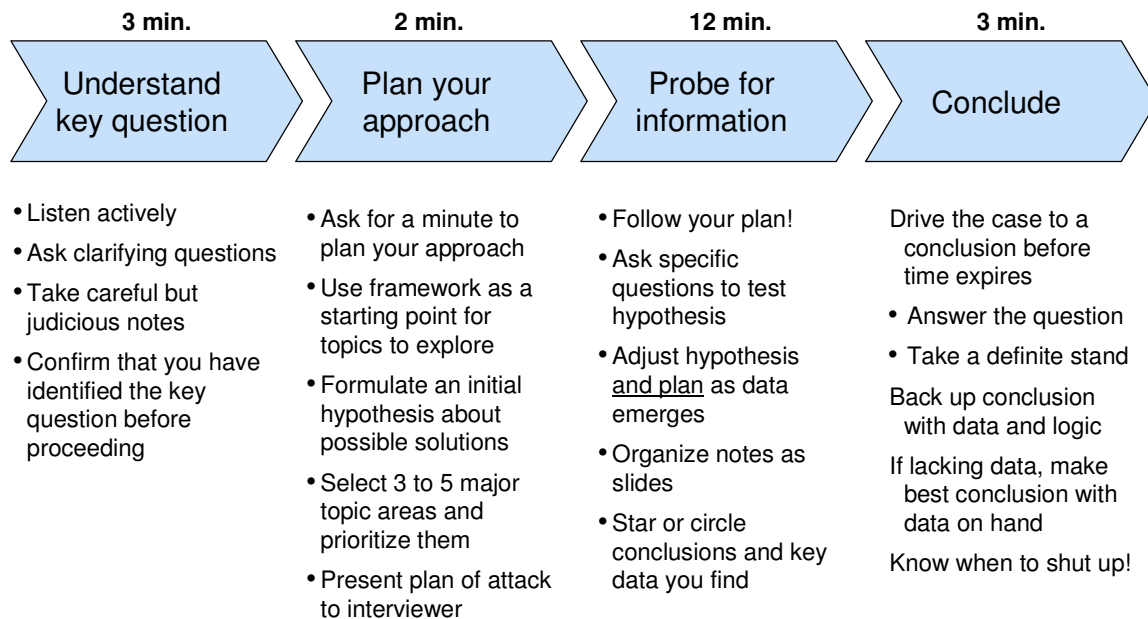- If two managers were discussing you, what would they be saying?

Note that these are only a sample of possible fit questions. We do not recommend that you prepare scripted answers to every single fit question you can find; rather, use these to spark your thinking about your experiences, strengths and weaknesses, and goals.

The Case

A "Case" is simply a broad, ambiguous problem that you are expected to solve by interacting with the interviewer. Remember that the case is a way for the interviewer to observe how you problem solve and communicate; your answer is less important than demonstrating your thought process and ability to collaborate.

Case interviews test you for skills that consultants use on the job every day; structuring a problem, identifying and prioritizing hypotheses to test, asking for the data to test your hypotheses, and using intuition and logic to make inferences when you're not sure what to do. You may be asked to brainstorm, make logical judgments about an industry you've never seen, or crunch some numbers. Every case is different and case formats differ between firms, but in general they are all trying to see how well you think under pressure. You should not view the case as a treasure hunt for a hidden fact to "crack the case", but as a very short day on the job. In fact, the case can be very similar to the problem solving in actual engagements – if the case interview process is the least enjoyable thing you've ever done, it may be a warning signal about your fit with consulting.

Basic Case Structure (20-Minute Case)

3 min.	2 min.	12 min.	3 min.
Understand key question	**Plan your approach**	**Probe for information**	**Conclude**

• Listen actively	• Ask for a minute to plan your approach	• Follow your plan!	Drive the case to a conclusion before time expires
• Ask clarifying questions	• Use framework as a starting point for topics to explore	• Ask specific questions to test hypothesis	• Answer the question
• Take careful but judicious notes	• Formulate an initial hypothesis about possible solutions	• Adjust hypothesis <u>and plan</u> as data emerges	• Take a definite stand
• Confirm that you have identified the key question before proceeding	• Select 3 to 5 major topic areas and prioritize them	• Organize notes as slides	Back up conclusion with data and logic
	• Present plan of attack to interviewer	• Star or circle conclusions and key data you find	If lacking data, make best conclusion with data on hand
			Know when to shut up!

Mental horsepower isn't enough to succeed — you must also be able to communicate your ideas clearly and convincingly. The interviewer will be assessing how you organize your questions, organize and validate your ideas, and present a conclusion. You must be confident in your questioning and presentation, and you must proceed through the case following an orderly plan and arriving at a decisive conclusion. Imagine that you are at the client site on your first day and the CEO just stopped by to ask what you have concluded so far – the interviewer wants to be confident that you could handle such a situation.

The case will begin with the interviewer giving an overview of the problem and some background information. Be sure to listen carefully and take notes—while you don't want to write down every word, be sure to capture any data or key points. It's also a good idea to write down the key question and double check that you understand it properly before diving into the details.

After the interviewer gives you the initial problem to solve, it is up to you to drive the case forward. Most candidates ask for a few moments to think about the issues (in a polite and poised way, of course) and use that time to structure a framework that will help you gather information and form your recommendation. Your framework is a checklist and roadmap to keep your inquiries structured; as the interview progresses, you should gain a clearer picture of the business problem and begin to focus on a few issues that answer the key question.

Once you feel that you have enough information (or if you are within five minutes of running out of time—try to casually keep an eye on the clock), bring the case to a close by directly answering the question posed and providing logical support for your answer based on the facts you have gathered. Be sure that your conclusion is concise and consistent with the case information.

Success in a case interview does not simply come from "cracking the case"—after all, there is often no single right answer. It is more important to show logical structure in your approach to the problem, good listening skills, and an ability to quickly identify the most important information and synthesize it.

Types of Cases

Different firms use a number of variations on the standard case interview. To help you understand what types of cases you might encounter, we've listed various cases that students have received in past years"

Standard Case – Most case interviews will be of the style contained in this and other casebooks. These cases generally ask you to consider a broad business problem and come up with a recommendation for responding to it. In some cases, the interviewer may provide a substantial amount of data either verbally or in the form of charts or graphs. Other times, the interviewer will provide no facts whatsoever and ask you to make reasonable assumptions for all case facts. These cases will always require you to drive to a conclusion.

Market Sizing Case – Market Sizing cases are not common in MBA interviews, though you may encounter one. In these cases, you are simply asked to estimate some unknowable amount. This could be estimating the market for Silly Putty in the US. It could be estimating the number of ping-pong balls that would fit in a football stadium. Solving these cases is all about coming up with reasonable assumptions, approaching the problem clearly and logically, and crunching the math.

Command and Control Case – McKinsey has begun using cases where the interviewer takes substantial control over the interview, using a Standard Case introduction but forcing transitions into Market Sizing, brainstorming, and specific branches of your framework. These cases can be difficult because you must maintain control over the case in order to reach a reasonable conclusion, yet the interviewer will periodically derail your questioning to have you solve a particular problem. The key here is to keep moving quickly, addressing the problems they pose and then moving on in your questioning.

Crunch and Interpret – Some cases will be simply about the numbers. You may be given a graph, a chart, or even a set of equations and be asked to analyze the data to answer a particular question. ZS used this format for their first-round interviews with a series of slides: first a graph, then a table of data, and finally an equation. Candidates were asked to analyze the data presented in each slide and then reach a final conclusion that synthesized all of the data provided. In these cases, you don't need to worry about driving the case because the interviewer will be doing that. Instead, focus on getting the math right and trying to pull insight from the data provided. Be ready to provide a concise conclusion that pulls together everything that you have discovered.

Read and Discuss – Monitor used a case format for their first rounds that involved reading a three-page case in a short period of time and then discussing the case with the interviewer. The interviewer asked questions about the case that required both synthesizing information from the overall reading, as well as pulling specific numbers and performing analysis. These cases are difficult because you will have very little time to read the case, but must still be able to pull the case facts from memory and analyze them. Take a deep breath and read the case quickly but carefully, underlining or noting key facts in the case so that you can more easily find them when you need them. You still need to drive these cases, but doing so is more difficult since the interviewer will be asking a number of specific questions. Try to put the case into an overall question that needs to be answered (e.g. "Is this a business we should enter?") and then approach the analysis of the interviewer's question using this focal point.

Present to the Board – A variation of the Read and Discuss case was used by ZS and Monitor in second round interviews. Candidates were given a larger quantity of case materials to read and had 40 minutes to read them and prepare

a presentation to the board of a fictional company. At the end of the 40 minutes, the candidate was asked to come into a room where 4-5 interviewers were playing the role of the board. The candidate then had to present their findings and answer (sometimes aggressive) questions from the board. To ace this case, you must be able to maintain composure and present well. Because you will not have a chance to ask questions while you are formulating your recommendation, the dynamics of the case analysis are a bit different. Make assumptions, draw clear conclusions, and stick to your guns in the presentation.

IT Case – Diamond and the Booz Allen Hamilton IT practice perform IT-specific interviews which will combine a Standard Case with a deep dive into associated IT technology. In first-round Diamond interviews, candidates were asked to solve a business problem relating to poor automation of sales force activities. Once the candidate diagnosed the problem, they were asked to describe an IT solution that would solve the problem. You will not get these interviews if you have no IT background, but if you do, expect to be tested on your knowledge.

HR Case – KPL conducted its case interviews in a manner fitting with their focus on the organizational aspects of strategic implementation. Candidates were asked to start solving a Standard Case. After about five minutes of a typical case when the overall problem had been diagnosed and some solutions posed, the interviewer then stopped the case and switched gears, asking how the solutions would be implemented from an HR perspective. The recommended solution would have created significant impact on morale and answering the case well required a display of empathy in the solution.

Stress Case – While not different in format from a Standard Case, these cases are modified to throw you off your game by creating an environment of high stress. Often, the problem will be fairly straightforward but the interviewer will give little or no information and then be stone-faced or even combative in response to the candidate's questions. In one interview last year, a candidate was given a graph and no information and asked to interpret the situation. The interviewer would not provide any more information, so the candidate postulated different scenarios that might account for the graph. The interviewer's response to each incorrect hypothesis was a curt "No, that's wrong." The key to mastering a Stress Case is realizing that you are in one and keeping your composure.

Stealth Case – Certain firms will start with a casual question about a job on your resume or a recent event from the business press (such as GM layoffs). Although you initially think this is simple conversation, the interviewer will keep probing you for your opinions on the nature of the problem and how it was handled, and at some point you realize this is not simple conversation – you're in the middle of an evaluative case to see how analytical you can be about prior events.

A Case Framework

While having one or more prepared frameworks in mind is a helpful starting point, many cases have deliberate twists to frustrate rigid frameworks. A fatal mistake candidates make is trying to fit every case into a standard framework—instead, think carefully about the specific case, start with a framework that makes sense, and take a minute to brainstorm what issues in the case might exist beyond your basic framework.

The WCC has put together a sample framework that breaks down into 8 major topics. It may be helpful to memorize these and quickly run through them in your mind to ensure that you cover all the relevant issues in a case. These topics also have a number of drivers that you can use to direct your exploration. It is important to note that to be effective, your framework should be complementary to your thinking style. Every time you do a case (mock or real), re-evaluate your framework and adjust it as necessary. However, make sure that you don't become too dependent on it, otherwise you risk fumbling with atypical cases.

Major Topic	Possible Drivers
Revenue	Volume Price Product
Cost	Variable Costs Fixed Costs
Competition	Rivals New Entrants Substitutes
Customers	Market Size Segments Needs
Supply Chain	Suppliers Distributions
Processes	Manufacturing Marketing Sales Distribution Customer Service
Company	Core Competencies Cost of Capital Brand Organization / Incentives Controls
Macro	Legislation Unions Technology Economy International Issues

Mock Interviews

Mock interviews are an essential element of your preparation and a significant time investment. Therefore, it is important to use your time and effort efficiently.

One of the common pitfalls of candidates is to dedicate a disproportionate attention to practicing cases. While having a strong performance across cases is necessary to receive an offer, it seldom is the only factor considered by recruiters. Behavioral questions are essential to demonstrate that you fit within the organization, and a significant portion of consulting interviews is allocated to this end. To make sure that you are prepared, you should do full 30-45 minute mock interviews that include both behavioral questions and a case.

Many students do more mock interviews than necessary. You should aim to do a limited number of high-quality interviews and schedule them so that you're at the

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top of your game during the interview week, not before or after. Different people may need to start preparing at different times: think about your GMAT preparation. Did you prepare 3 months in advance, or did you take a week off work to study for it? Did you do 300 questions and 2 simulated exams, or did you do 3000 questions and 8 practice exams? Your answers to those questions should point you to an adequate schedule of mock interviews for you and you only.

Mock interviews should be as realistic as possible. Practice the full interview, including behavioral questions, and schedule 2-3 mock interviews back to back. This will prepare you to better deal with the inevitable fatigue during the interview period. Don't interfere with environment annoyances such as an extremely hot, cold or noisy room. You might face a situation like that in your interviews and you want to be prepared for it. Finally, do at least a couple mock interviews dressed as if they were real. It will be weird or funny at the beginning, but your objective is to minimize surprises when you have a real interviewer in front of you. Most importantly, observe time limits!

Some people overlook the importance of being the interviewer, while in reality sitting in the interviewer's seat is as important as sitting in the interviewee's seat. Learning from others is an important part of the process, and you want to make sure that you absorb as much as possible from your friends.

Ask frequent mock interview partners to unexpectedly simulate stress interviews. It is important to feel confident when the interviewer is not helpful and even combative. Other techniques are to interview with people you don't know (in case marathons, for example), or to have two interviewers at the same time asking questions.

Another often overlooked aspect of your preparation is that it becomes much more effective if you have lessons learned from all your cases. The easiest way accomplish that is to actively record how your mock interview was, good answers that you gave, things that you overlooked, revisions to your framework, important feedback you receive and so on. Review your mock interview notes periodically and make sure that you internalize the lessons learned and track your feedback to see if you have any recurring problems that need intensive targeting.

Finally, be prepared to give and receive tough feedback. Your mock interviews are the best time for you to find out you have an offensive mannerism, story, or body odor (!). You don't want to find that out after the interview week trying to understand why you didn't get the offer you wanted. However, not all feedback is valid – use your own judgment if you receive conflicting suggestions.

Mock Interview Feedback Checklist

To give more effective feedback, you should study 2-3 cases from a casebook and give them repeatedly. This allows you to refine your case delivery to better represent the dynamics of a real interview. Additionally, knowing your case by heart means you can focus on evaluating the candidate, not reading the key during the interview. By providing high-quality feedback, your mock interview partners will appreciate your efforts and improve the quality of the feedback they give you.

Below is a suggested feedback checklist. Feel free to adapt it and include more areas that you would like to cover.

Structure and Logic
- Sensible framework
- Attempt at MECE structure (Mutually Exclusive, Comprehensively Exhaustive)
- Plan communicated effectively and updated as new information and hypotheses emerged

Communication and Composure
- Listened carefully; did not need to be reminded of the key issues
- Calm and confident discourse
- Language Skills (for internationals)

Analytics
- Executed math clearly and without errors
- Explained calculations as you progressed
- Calm and controlled image even when facing challenging calculations

Recommendation
- Decisive conclusion supported by a few key facts

Sample Cases

Case - Paperboard beverage cartons

About This Case

This case was given by BCG in the first round; it's a case from the interviewer's experience rather than a standardized firm case.

The Problem

Our client manufactures paperboard beverage cartons for major bottlers (12 bottle or can packs, 24 packs, etc.). They are experiencing a sustained period of near-zero operating margins and have asked you to help restore profitability.

Information Gathering

Read this information well before you give the case. This case was given as a very open, unstructured problem for the candidate so there is no need to give the interviewee any hints on where to start.

Possible issue tree for low profitability
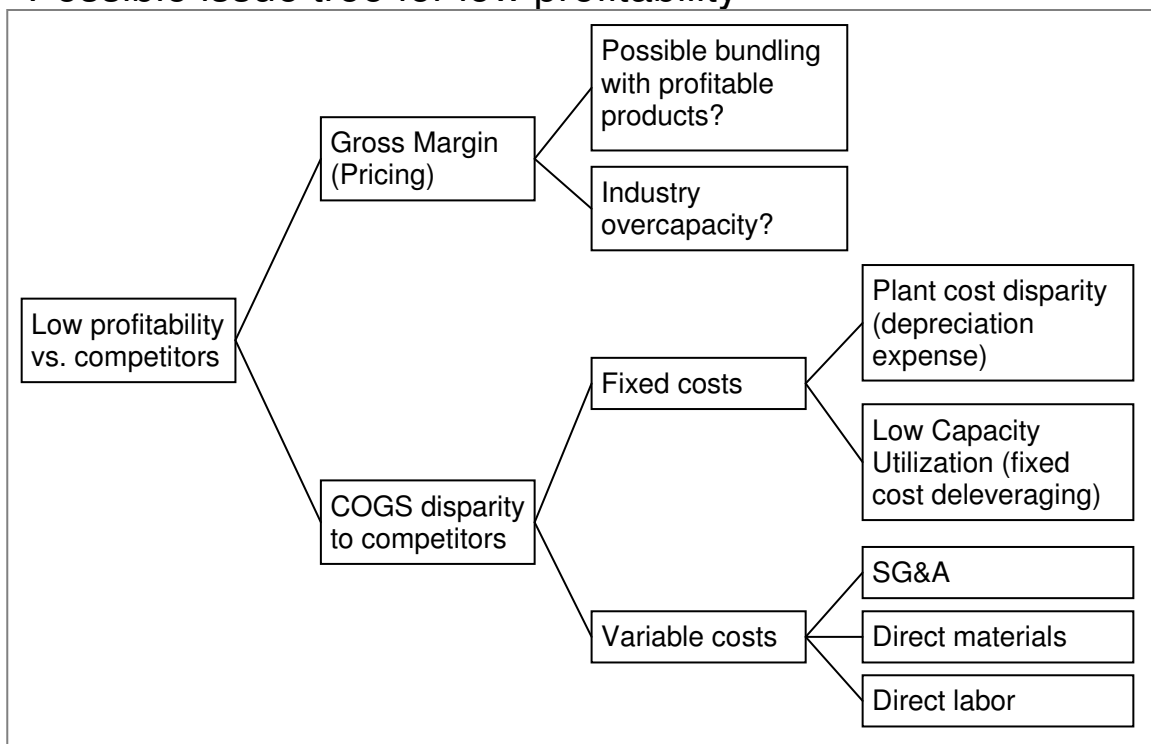
Answers corresponding to this issue tree:

- Gross Margin: ours is significantly lower than competitors
  - No bundling or "high-low" pricing appears to be occurring (this product is not a loss leader for some other product)
  - The industry appears to be at equilibrium – there are no pricing games in progress, predatory pricing, etc.
- COGS disparity
  - Fixed costs
    - Our plant and depreciation costs are inline with competitors
    - Our plants are operating at full capacity (i.e., we are not spreading fixed costs over a small number of units produced)
  - Variable costs
    - G&A costs appear to be inline or better than competitors
    - Direct labor costs are inline
    - Direct materials: SEE MORE DATA BELOW

Do not share this until the interviewee asks about raw materials or input costs:

Our product is produced by taking raw paperboard, then printing, cutting, folding, and gluing to make the finished product. The current cost breakout is as follows:

	$ per 1000 units
Ink	$3
Paper	$40
Glue	$2
Other variable costs	$10
Other fixed costs	$10
Total costs	**$65**
Wholesale price	**$65**

Answers to possible questions on materials:

- Other fixed and variable costs are not an issue here
- Our folding design is like competitors (no lost yield)
- Ink costs are inline with competitors
- Regarding paper we obtained the following data:

Company	Paperboard thickness
Our client	40
Competitor A	35
Competitor B	30
Competitor C	35

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- There is no appreciable difference in end product quality between our cartons and competitors A/B/C (i.e., thinner paper does not affect consumer perception, breakage, etc.)
- Paper is priced on a per-pound basis (i.e., proportionate to thickness)

At this point the interviewee has everything they need to reach a conclusion.

Conclusion

A good candidate will see that his/her time is nearly up and will present a recommendation for the client without prompting. If the interview is within 3 minutes of the end, ask: "The project sponsor is asking if we've found the problem. What can we tell her?"

Good Answer: We have identified a way to increase operating margin from 0% to 15%.
- We should target a new paper thickness of 30 or better
- This will reduce our paper cost per thousand cartons from $40 to $30
- Total cost per thousand cartons will be reduced from $65 to $55
- Operating margin will be increased from $0 to $10
  - Interviewee should be able to put this in percentage terms; from 0% margin to ~15% margin

Case - Great Outdoors

About This Case

This case was given by McKinsey in first-round interviews and is a "command and control" case. In this style of case, the interviewer initially allows the candidate to drive the case and explore possible routes to a solution. However, once the candidate has laid out a plan, the interviewer takes control and asks the candidate to solve a few specific problems before coming to the final conclusion.

When giving this case, allow for some initial planning and brainstorming by the candidate, but then firmly take control of each of the "modules" described below. Try to move the candidate along through each of them, since in the actual interview only those candidates that complete all of the sections will be considered to have done well. This case tests mental horsepower and the ability to move to conclusions quickly.

The Problem

Our client is a small not-for-profit organization near Philadelphia that provides outdoor experiences including "wilderness therapy". Great Outdoors is primarily concerned with providing 10-15 day primitive camping and hiking trips for troubled teenagers. However recently a friend of Great Outdoors asked the group provide a shorter program for executives, which was a great success in the first few iterations. The board has retained you to make a recommendation on whether to expand Great Outdoors to create a full-fledged executive program.

Information Gathering

Read this information well before you give the case. Note that this case requires you (the interviewer) to drive key points in the discussion. Allow the candidate to formulate a plan and then prompt him/her to consider each of the topics listed below if the interviewee does not think of them themselves.

***Prompt*: What should you consider?**

Good Answer: Many different frameworks can work here as long as they drive to the main question and clearly account for the not-for-profit nature of the company. This case is really designed to test candidate flexibility since most people haven't practiced cases on nonprofits. A candidate who approaches the question as a standard business case without acknowledging that stakeholders are concerned with mission, emotional benefits, philanthropy, etc. will not succeed because they have not shown flexibility or good listening skills.

Issues that should appear in Candidate's framework
- Economics of the two programs (don't let them drive this yet – we'll get to it later)
- Operational issues
  - Major constraints on capacity (e.g. guide availability, permits, geographic reach, scheduling, etc.)
  - Possible synergies from the two programs (e.g., offsetting seasonality of demand, economies of scale)
  - Underutilized fixed costs (lots of idle time for guides or gear that could be utilized at no marginal cost)
- Mission: What is Great Outdoors' purpose? What is at risk from expanding?
  - Are there constraints on engaging in commercial activity based on endowment or foundation restrictions?
  - Will the current employees revolt if "profit" becomes a factor?
  - Does organizational passion become compromised by "selling out"?
  - Credibility issues by straddling profit/nonprofit worlds
- Competitive situation

***Prompt*: Does expanding the executive program make sense economically?**

Provide the following information if the candidate asks for it clearly and directly.

Competitors and Market Size – we do not have any specific information but believe we can sell out our capacity at current prices (no demand constraints). Competitors are very fragmented.

Mission/Charter restrictions – we are not aware of any rules stipulating what the organization can or can't do – we don't anticipate losing funding based on a decision here

Costs and revenues –Do not show this table to the interviewee; just share the numbers in a conversational way. They should create something similar in their notes

Revenue and Expenses Per Trip

		Executive	Nonprofit
	# students per trip	15	8
	Program Fee per student	2,000	800
DO NOT SHARE ->>	Revenue	30,000	6,400
	Days per trip	4	11
	Food, equipment, insurance, etc. per student per day	200	125
DO NOT SHARE ->>	Subtotal	12,000	11,000
	Guides	4	2
	Cost per guide per day	200	150
DO NOT SHARE ->>	Subtotal	3,200	3,300
DO NOT SHARE ->>	Total Margin	14,800	(7,900)

Prompt: At this point what is a preliminary recommendation?

Clearly the economics of the executive program are compelling. However it's critical to think about whether it is practical for the nonprofit organization to expand into this very profitable activity.

Prompt: What would concern you about Great Outdoors starting a regular executive offering?

Should touch on these factors:
- **Competitor response** – Competitors are very fragmented *[candidate should realize this means a response is not likely]*
- **Cost/Operational Savings** – May be slight
- **Loss of nonprofit status for fundraising, foundation charter restrictions, etc.**– The company's lawyers believe this won't be an issue
- **Organizational**
  - P*eople who are motivated to help out a non-profit may be less willing to help if they feel that the organization has "sold out" to high-paying corporate customers*
  - *Do corporate customers require different types of guides?*

Prompt: How would you deal with employees, donors, and other supporters who feel that working with corporate executives conflicts with Great Outdoors' core values? Will working with profitable executive programs mean that traditional programs are compromised?

Candidate can brainstorm many different answers as long as they make sense. Some possibilities:

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- *Sell the idea that every corporate program funds two traditional programs; by doing more corporate ventures we can reach more kids*
- *Executive programs are basically advertising Great Outdoors to a large pool of donor money; running exec programs is a good way to drive awareness among potential mentors, philanthropists, clients, etc.*
- *For some employees that are environmentally driven (think about the type of person that chooses to work as a guide) getting executives out to nature helps promote conservation and environmentalism.*

Prompt: What is your final recommendation?

Conclusion

This is a fairly open ended case that doesn't "crack" with any one insight; it is about assessing the way the interviewee approaches the process and how thoughtful they are about each issue.

Good Answer: The organization should expand executive programs as there appears to be unsatisfied demand and it creates other benefits – demand balancing, scale benefits, etc. However communicating this decision to stakeholders correctly is critical to avoid alienating core supporters.

Failing answer: Any answer that focuses only on the business and economic issues of the case without spending a considerable amount of time addressing the ideological and non-economic motives of nonprofit operators.

Case – Market Sizing

Estimate the market for routers in the commercial segment (companies with 20-1000 employees) in the U.S.

> Information
> - IT spending is about 5% of revenue for these companies.
> - Networking is a subset of IT (20%).
> - Routers make up 5-10% of spending on networking.

A Possible Approach

First, estimate the number of U.S. companies with between 20 and 1000 employees:

- 300 million population, assume half are of working age, so 150 million potential employees.
- Of those, assume 2/3 are employed full-time (100 million).
- Assume 60% fall into the segment we're looking at (60 million).
- Assume an average of 500 employees per company, so 60 million/500 = 120,000 companies.

Then, make an estimate for revenue per head at these companies. Let's say, $80,000. So at a given company, annual revenue is $80,000 x 500 = $40,000,000.

Next, use the information given to calculate the share of revenue spent on routers by a given company, which is 5% x 20% x 10% = 0.1% of revenue.

So for each company, annual spending on routers is $40,000,000 x .001 = $40,000. And for the total market, we just multiply that by the number of companies, already estimated to be 120,000. 120,000 x $40,000 = **$4.8 billion** estimated market for routers in U.S. commercial segment.

10/4/2006

Case – Roller Skate Acquisition

We've been hired by a roller skate manufacturer to determine possible avenues of growth. Our client is the market leader with a 32% share, but their recent performance has been flat, both in terms of revenue and profit. They are specifically looking at whether they should acquire a company to drive growth, and are looking for our recommendation.

Background Information (supply as requested)

The roller skate market is flat overall, with declining sales in traditional skates. There are pockets of growth in some niche markets (innovative, high-tech products).

Market Shares – Roller Skates
- Client – 32%
- Company A – 19%
- Company B – 9%
- Other companies – 5% or less

  Client, Company A, and Company B offer a wide range of roller skates, primarily traditional models, but with an increasing emphasis on innovation (however, their R&D is not considered cutting-edge or even particularly strong).

  Many of the smaller competitors are much more innovative, and offer very targeted products that that have high share in niche markets that Client does not serve. These products are also more profitable than traditional roller skates.

Client has limited experience with acquisitions. Three years ago, Client acquired one of its smaller competitors, and that company's sales are now down by 40%. However, management is confident in their integration skills.

Suggested Approach

Let's look at three areas, customers, competitors, and the company itself.

  Customers: It is important to understand why Client's sales are declining—in this case, customers simply aren't as interested in traditional roller skates anymore, resulting in declining growth. Customers want innovative, high-tech products and are willing to pay more for them.

  Competitors: There are two types of competitors, traditional roller skate manufacturers very similar to Client, and niche competitors who tend to be

much more innovative. The traditional companies face similar problems as Client, but on the other hand significant cost synergies could be captured. Niche companies potentially offer significant growth opportunities and better profitability, if they have sustainable innovation capabilities.

Company: We know that profitability is down in addition to revenue. One way to improve profitability is to reduce costs—and acquisition synergies could be a good way to accomplish this. In considering whether to make an acquisition, it is also important to understand company management's ability to handle the integration phase effectively and without becoming distracted from their other responsibilities.

Now let's consider the possible steps Client could take. Basically there are three options: acquire a traditional company (A or B), acquire a niche company, or acquire no company.

- First, Client could acquire Company A or B, which would increase sales and supply significant savings via cost synergies.

  There are a number of possible sources of cost synergies, some of the most likely would be G&A (accounting, IT, HR, etc), property (consolidate HQs), distribution (consolidate distribution centers), marketing/advertising, and COGS (purchasing).

  However, this assumes that Client could successfully integrate Company B. We know from prior experience that Client had problems managing one small acquisition, so this may be questionable.

- Another possibility would be to acquire one of Client's niche competitors that operate in higher-growth areas. Client could use its manufacturing and distribution scale to produce more efficiently and to increase sales. These smaller acquisitions would be less risky than one large acquisition—the acquisition cost would be less and the integration would be less complex. However, Client would need to pick the "winners" among the target possibilities, companies with sustainable growth prospects, and this may prove challenging.

- If no target is available for a reasonable acquisition price, or if Client's integration skills are deemed insufficient, then Client should not make an acquisition. In that case, Client could focus on organic growth (e.g., improving innovation and R&D) and cost cutting to improve its top and bottom line results.

Recommendation: Acquire one of the niche competitors to capture growth potential via better innovation combined with Client's production capabilities.

Notes:
- If the candidate does not mention synergies as a rationale for an acquisition, ask e.g.: What kinds of synergies could our client expect to result from an acquisition?
- Optional math question: Let's say that we expect $4 million in run-rate synergy savings. What % of Client's annual revenue does this savings represent? Note that the total annual sales for the roller skate market are $50 million.
  - 4 million / (0.32 * 50 million) = 4 million / 16 million or 4 / 16 = about 25%

Case - Consumer Electronics – Portfolio Strategy

Background

We were hired by a large international consumer electronics company to support them with their portfolio strategy. Currently they have 10 lines of business that we are evaluating to understand which businesses our client should divest from, and what should be the strategy for the ones they keep.

Our team is responsible for analyzing the personal computers division. Should our client invest or divest on it?

Interviewer Information – to be given if asked by candidate

Market Environment
- Market growth trends:
    - Average 4%/year sales growth
        - 15%/year for laptops
        - -5%/year for desktops
- Fragmented Industry: 10+ players
- Market Shares and Trends
    - Competitor A: ~20% and slowly growing
    - Competitor B: ~13% and slowly growing
    - CLIENT: 5% and slowly declining
    - Other competitors: ~60%

CLIENT
- CLIENT has a very strong brand that is synonym of Quality and state of the art Technology, but so far its brand did not translate into the ability to charge a price premium on its products
- Manufacturing is currently 95% based on pre-configured systems.
    - CLIENT has not developed the capability to deliver customized systems in an adequate time frame for end users
    - CLIENT sells PCs through its website, but sales are negligible
- CLIENT has its own sales force to cater to corporate customers, but penetration for corporate customers is very low and this segment is not profitable for CLIENT at this point.
- The Personal Computers division has no specific strategic importance to CLIENT

Revenues and Costs
IMPORTANT:
- Reveal only information that the candidate asks for.
- As soon as the candidate has information on Average Price, Gross Margins, Market Shares and Number of Units sold by CLIENT, you should

ask him/her to calculate COGS and number of units sold by Competitors A, B, and CLIENT – only COGS (Laptops and Desktops).
- In summary, cells in gray should be calculated by the candidate

	Laptops				Desktops			
	Avg Price	Gross Margins	COGS	Units	Avg Price	Gross Margins	COGS	Units
Competitor A	$1,000	9%	$910	8.0M Units/year	$600	5%	$570	4.0M Units/year
Competitor B	$1,500	15%	$1,275	5.2M Units/year	$900	10%	$810	2.6M Units/year
CLIENT	$1,900	20%	$1,520	2.0M Units/year	$1,200	10%	$1,080	1.0 M Units/year

Competitors
- Competitor A
    - o Competitor A's core business is personal computers
    - o Uses a direct model for consumers and SME, and has a large and respected sales force for corporate clients
    - o Focuses on made to order model, having Inventory turns 3x CLIENT's and 2x Competitor B's, and is renowned for its operational effectiveness
    - o Due to bargaining power with suppliers and it's made to order model, Competitor A has negative working capital
    - o Despite its lower gross margin percentages, Competitor A still has EBITDA margins 2x industry average (when the industry average includes Competitor A).
    - o The industry's average EBITDA margins not including Competitor A is negative.
- Competitor B
    - o Competitor B's core business includes personal computers, servers, networking equipment and IT services
    - o Sells through big block retailers to consumers, and through its own sales force for corporate clients
    - o Sells mostly pre-configured systems, but also delivers made-to-order computers
    - o Above market average EBITDA margins and inventory turns

Customers
Mention to candidate only characteristics explicitly asked for.

	Consumer (30% of the laptops market)	Corporate (70% of the laptops market)
Preferred Channel	Direct service or retail	Specialized sales force
Competitive Features	Price, customization options	Price, reliability, sales force/tech support quality

Price Sensitivity	High	Medium-High
Perception of <u>CLIENT's</u> Products	Expensive, sleek, small level of customization, brand inspires quality (although consumers are not sure if computers are of good quality)	Expensive, not appropriate for corporate travel due to less than stellar build quality, reliability considered to be low because of "sleek look", inadequate tech support and sales force
Perception of <u>Competitor A's</u> Products	Affordable, fair quality and reliability, easy to order	Affordable, decent quality, good sales force and excellent tech support
Perception of <u>Competitor B's</u> Products	Expensive, very robust and reliable, decent variety of system configurations, "boxy" looking	Expensive, very robust and reliable, excellent sales force and tech support

Suggested Answer

- CLIENT is losing share in a market where strong players such as Competitor A are thriving through the use of a direct sales model (and high customization level) for consumers, and strong sales force and tech support for corporate customers
- Not considering Competitor A, the industry has negative average EBITDA margin, evidencing a highly competitive environment
- Although CLIENT has a distinctive brand that many times is a synonym of Quality and state of the art Technology, it was not possible to realize any price premium without compromising market share
- CLIENT's COGS is significantly higher than Competitors A and B, possibly due to economies of scale. Those competitors are also specialized on IT and personal computers, and have reached a high level of operational effectiveness (especially Competitor A), as evidenced by their higher inventory turns and higher EBITDA margins.
- CLIENT also is not aligned with customer needs for both consumers and corporate clients, and would have to improve significantly its tech support and sales force size and effectiveness. Investing in improving its sales force size and effectiveness would lead to high capital investments and would take a long time to ramp up on the learning curve.
- Therefore, CLIENT should divest from its personal computers division since it seems unlikely that it will be able to compete effectively in that market and the overall market attractiveness is low.

- An outstanding candidate would consider implications to CLIENT's brand, potential companies that would acquire the division, and other alternatives to remain in market such as alliances, outsourcing production, etc.

Case – Medicine Distribution Non-Profit

Background

Our company is doing a pro-bono case for the largest non-profit medicine distribution network in the U.S. CLIENT's network consists of 50 Medicine Banks that distribute drugs to 30,000 charitable Agencies, including homeless shelters and community hospitals. Medicine Banks are warehouses that store drugs received from donations and distribute them to Agencies (for example, Hospitals).

Each year, CLIENT's network secures and distributes more than 2 million boxes of drugs, that in turn are provided to 700 thousand Americans in need annually (working poor, elderly, homeless, etc.). Drugs are sourced from big pharma companies, and also from other corporations and the public in general (liquid asset and in-kind donations).

The drawing below shows the simplified network structure of our client.
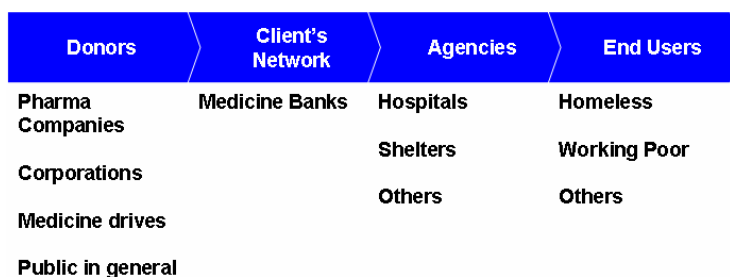
In a talk with the client's CEO and SVP of Strategy, two main concerns were raised. Those will be the focus of our team's activities:

1. Although the organization has significantly increased its output over the years to End Users (in terms of boxes of drugs), reported need of Drugs by Hospitals and Community Service Agencies continue to escalate. Why?
2. What could CLIENT do to improve the situation?

Obs.: This is a long introduction. The interviewer should give the candidate enough time to take notes and understand the questions.

Interviewer Information – to be given if asked by candidate

Client Information

- Main CLIENT activities:

- o Medicine Sourcing: Forge/maintain relationship with donors, acquire supplemental medicine using financial donations, centralize donations, distribute donations to members through its own fleet and transportation companies in-kind donations
  - o Public Education and Advocacy: Research and studies, lobbying, public relations
- Donation Trends:
  - o The number of boxes of drugs donated by CLIENT has been increasing for the last 5 years with a CAGR of 7.2%
  - o Liquid asset donations and In-Kind donations (services such as transportation) have also been increasing with a CAGR of 10.1% in the same period
  - o Government programs dedicated to sourcing medicine to the needy have also increased their budget with a CAGR of 6.7%
- Demand Trends
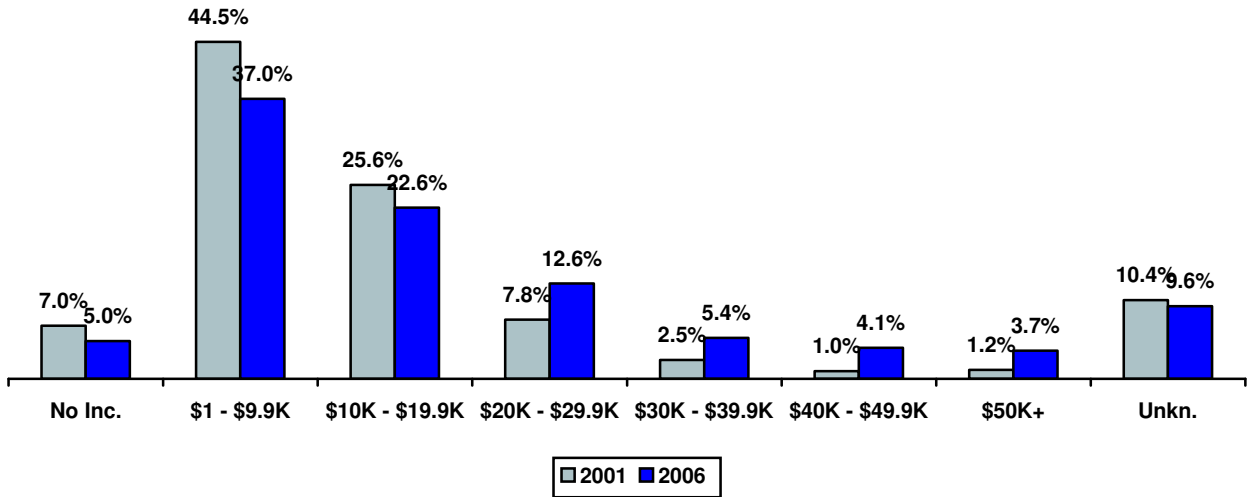 - o Total need for medicine to the needy has been growing at the rate of GDP for the last years.

Medicine Banks
- Medicine Banks are non-profit organizations that centralize and distribute drugs to Agencies.
- Those Medicine Banks are member's of CLIENT's network, but CLIENT does not control them because they are separate non-profit organizations.
- CLIENT's network currently has one Medicine Bank in each US state.
- Although CLIENT is responsible for a significant portion of the total volume of drugs distributed by Medicine Banks, governmental programs and local donations also significant sources (65% and 25% respectively).
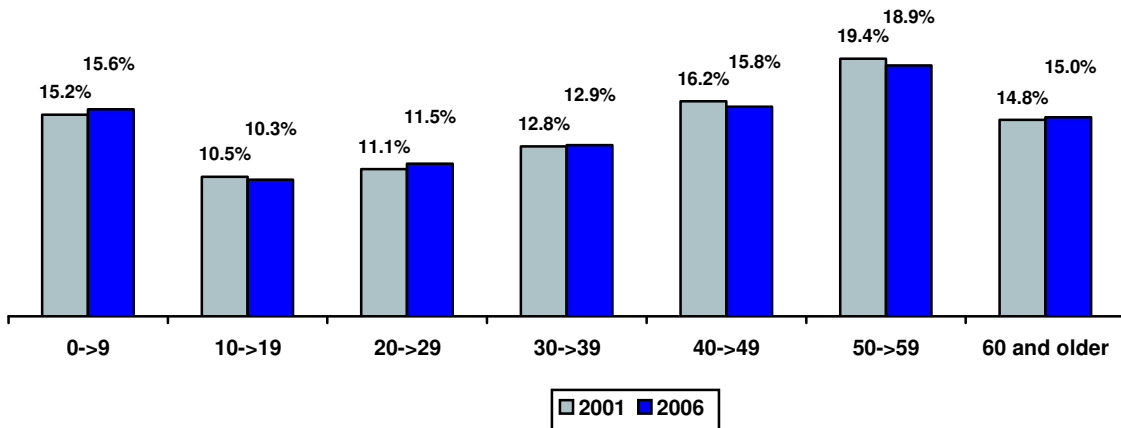
End-Users
- Recently CLIENT surveyed end-users' demographics for the second time in its history. Some of the results are the following:
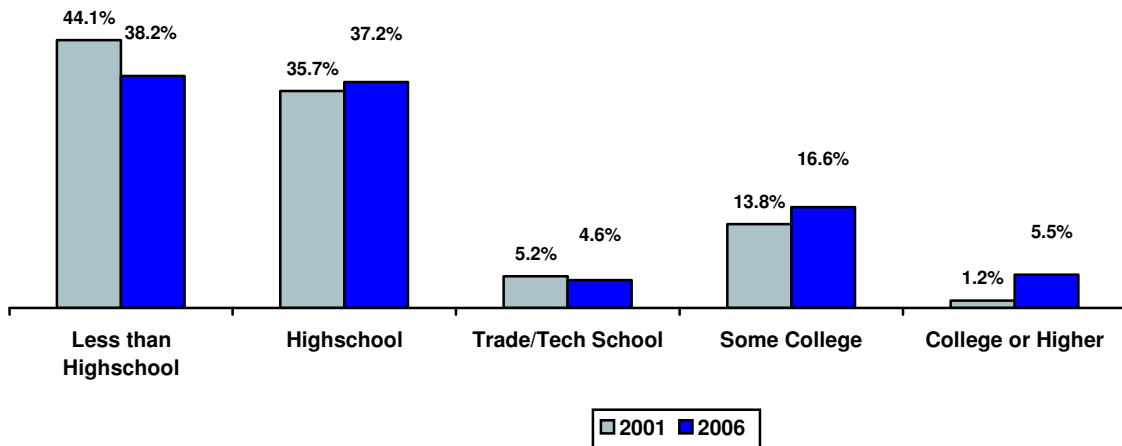
End-User Household Income

	No Inc.	$1 - $9.9K	$10K - $19.9K	$20K - $29.9K	$30K - $39.9K	$40K - $49.9K	$50K+	Unkn.
2001	7.0%	44.5%	25.6%	7.8%	2.5%	1.0%	1.2%	10.4%
2006	5.0%	37.0%	22.6%	12.6%	5.4%	4.1%	3.7%	9.6%

□ 2001 ■ 2006

End-User Age

	0->9	10->19	20->29	30->39	40->49	50->59	60 and older
2001	15.2%	10.5%	11.1%	12.8%	16.2%	19.4%	14.8%
2006	15.6%	10.3%	11.5%	12.9%	15.8%	18.9%	15.0%

□ 2001 ■ 2006

End-User Age

|	Less than Highschool	Highschool	Trade/Tech School	Some College	College or Higher
2001	44.1%	35.7%	5.2%	13.8%	1.2%
2006	38.2%	37.2%	4.6%	16.6%	5.5%

□ 2001 ■ 2006

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- *(Do not volunteer this information unless the candidate asks about the change in demographics of End-Users)* In interviews with agencies, it was discovered that processes to evaluate end-user eligibility to free medicines were banished due to the additional operational complexities that were perceived by many as unnecessary.
- It was also verified that some hospitals were using medicine sourced by CLIENT's network to fill regular inventory gaps.

Food Sourcing and Geographic Data

- Criteria for Allocation of Medicine to Medicine Banks
    - The current criteria to allocate drugs to Medicine Banks (and consequently states) is based on the number of boxes of drugs distributed to end-users in the previous month by that state/Medicine Bank
- Top and Bottom 10 states by drugs sourced by Client (adjusted to eliminate differences in state population sizes)

Top 10	Bottom 10
NY	NV
NC	WI
IL	UT
FL	PA
AK	CO
AZ	MO
KS	ND
MS	VT
SD	TX
CA	OH

- Need of Medicine by State
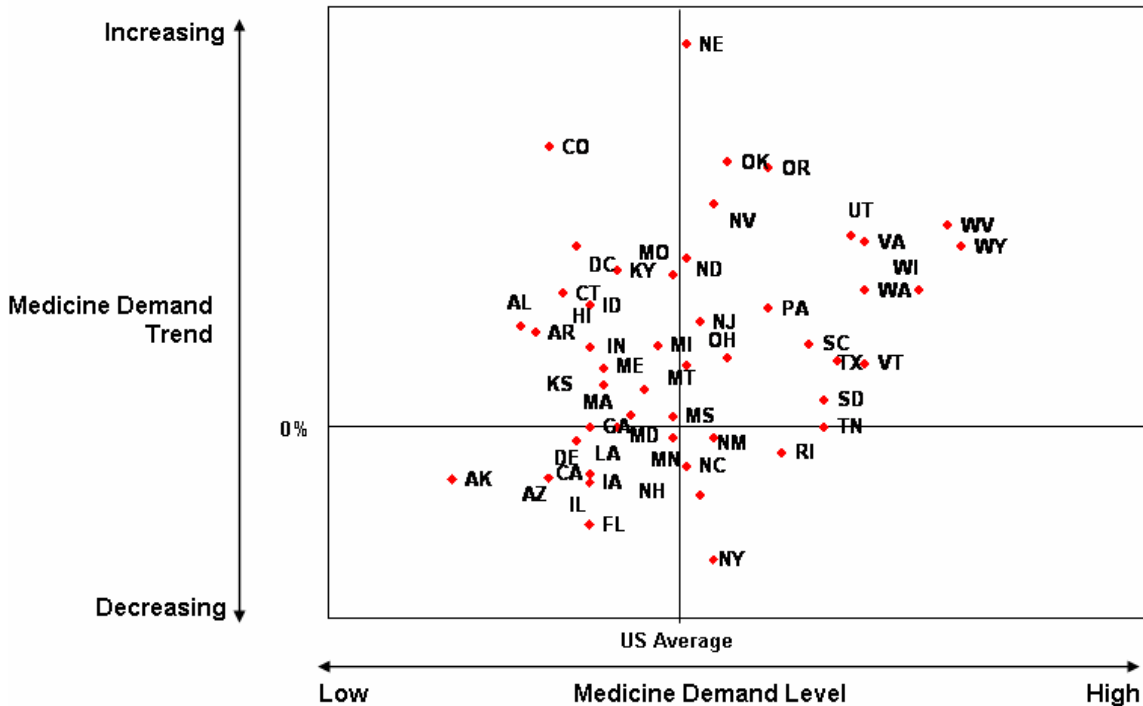
PROMPT: If the candidate does not draw any conclusion from this matrix, ask him/her which quadrant should receive more attention from CLIENT.

Suggested Answer

- CLIENT's drug allocation method to Medicine Banks is not adequate, as evidenced by the information that states in most need are also in many cases members of the bottom 10 states in terms of boxes of drugs received from CLIENT.
    - The candidate might assume that since the top 10 states are performing well and the bottom 10 states are not, then CLIENT's donations are tilting the balance and influencing how states fare. That concept can be dismissed once the candidate finds out that CLIENT sources only 10% of all donations to medicine banks
- A suggested allocation method would be to evaluate the state's total demand for drugs and its trend, and supply according to that need
- Also, since agencies eliminated end-user screening processes, more medicine is being directed to end-users who don't need that support (which can be seen in the change in end-user demographics)
- A new screening process should be instituted to guarantee that agencies are not overburden with the new process, thus directing drugs to the needy
- Finally, CLIENT should implement inspections at hospitals to make sure that source medicine is not being used to fill regular inventory gaps and impose sanctions to hospitals that adopt such practice.

10/4/2006

- An outstanding candidate would evaluate that since CLIENT is only responsible for 10% of donations to medicine banks, CLIENT should focus in public education and advocacy targeting to increase donations made by the general public and to increase funds from government programs. Lobbying could play a much larger role and should be one of the uses of liquid assets available to CLIENT.