London School of Business

Case Interview Study Guide

IV. Sample Cases

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Telecoms Licence

Case Details

You have been given a telecommunications licence in a market that has only just been deregulated.
What types of services do you provide first? *I said mobile phones, but there were other possibilities.*
How would you forecast your market penetration? In particular, if you did a linear regression across three independent variables over several countries that have mobile phones, which three variables should you use?
How would you work out who the customers were?
What price structure would you use?
What is the cost structure?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __ Other: x Not applicable	x Market Research (How attractive is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy x New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach!

There are 4 main parts to this question.

Part 1 - identifying the three variables:

Price is a dependant variable, and was therefore my first mistake. There must be a million answers to this, but mine focused around three reasons why you would buy a mobile;

- Average weekly wage. You can only buy it if you can afford it.
- Car registrations per capita. You buy a mobile phone because you want mobility. Car registrations are a good indicator of the mobility of the population.
- Advertising expenditure of mobile phone company. You have to know about it to buy it.

Part 2 - identifying the customer base

The customer base should be largely those with a high need for mobility, but the best way to find out is ask the phone retailers, relevant govt department (they want deregulation, so therefore want you to succeed) and look at your competitors customers.

Part 3 - pricing structure

Pricing has 3 main components, which may be weighted to focus on different types of customer.
The three components are:

- initial cost of the phone
- monthly or quarterly fixed charge
- Cost of calls made

Typically the companies subsidise the cost of the phone as people cannot use their system if they have chosen to buy someone else's phone ie the cost must be competitive up front. The remaining 2 elements can be used to get low usage, "emergency " type customers (low fixed charge, high call charge) or high usage customer (low call charge, high fixed charge). Often a mobile phone company will have different pricing programmes suited to catch different types of customers.

Part 4 - Cost structure

The cost structure follows in part from your answer to part 3. If the cost of the phone is subsidised, the company will incur a lot of cost to phone manufacturers and retailers before any revenue is received. Other major cost components include base stations and the interconnect cost to the BT network (or other national carrier).

Additional information The guy was pretty tough and not afraid to say 'No, you're wrong.' I have heard this is not unusual for BCG, but don't let it throw you.	
Case given at LBS interview in '96	Yes

Going Up

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<u>Case Details</u>
An elevator manufacturer is experiencing profitability erosion. How would you begin to analyse the company's situation.

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<u>Frameworks</u>
__Porter's Five Forces
x Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Cost revenue
__Not applicable

</td><td>

<u>Category</u>
__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :

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<u>Possible Approach</u>

- INITIAL APPROACH
- Sales trend? Declining over recent years
- Market share / position? Second largest domestic player
- Cost structure? Product costing to date indicates that large portion of costs are fixed
- NARROWING
- Given that large part of costs are fixed, economies of scale may be a factor.
    - *demand /revenue side* - costs are truly fixed, and increased sales with low marginal costs will drive profitability
    - *cost/supply-side* - company's process is fundamentally uncompetitive and benchmarking / re-engineering work will be of more impact
    - *NOTE* it is often better to establish two paths and let the interviewer choose; however if the interviewer is not obviously more excited about your pursuit of one or the other, pick the one you feel is more robust and pursue it. Return to the other path if there is time or for unanswered questions at the end.
- DEMAND SIDE - MACRO
- What drives demand? New construction obviously
- Who are the customers? Contractors
- Have the underlying economic trends changed? No, commercial construction remains flat in the company's geographic areas
- MICRO
- What are the decision factors for customers? [customer interviews] Turns out that along with price / performance, reputation and availability of service is key factor.
- How is the product priced? How much does this influence the purchase decision [price quotes, surveys]. Product is competitively priced, and actually represents relatively small share of average project cost for contractor.
- How is the product perceived in the market? [market research] Service reputation is low in many markets relative to competitors.

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<u>Additional Information</u>

- None

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<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
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Cafeteria Services

Case Details

An institutional food service company has a contract to provide catering and cafeteria services to an office building in Denver, Colorado. This business unit is losing money. Why?

Frameworks

__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
x Financial statement / industry average analysis
__Other:
__Not applicable

Category

__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :

Possible Approach

- The most important information was what services were being provided, and what were the economics driving each part of the business.
- In fact there were four separate food service functions provided for under the contract:-
    - Employee cafeteria
    - Open-to-the-public restaurant
    - Catering service for in-house functions
    - Coffee wagon set up in the lobby
- Under further questioning the profitability of each part of the business could be assessed and decisions about what to do with each could be made.
- Consider cost and revenue dynamics of each business separately:-
    - Fixed and variable costs
    - Minimum turnover required to break even
    - The extent to which the businesses result in cross sales (to justify cross subsidisation)
    - Are the same skill sets required to run each of these businesses
    - Can joint purchasing mean that food costs are lowered by eligibility for greater bulk discounts?
    - What are the exit costs for each business
    - Would terms of the contract permit providing some but not all of the business?
- Key insight - the business was not a monolith and that each of the four parts had different economic profiles. Despite bad overall management, there were some highly attractive businesses mixed in with some awful money losers. The only insight was to make the appropriate breakdowns and determine the attractiveness of each sub-unit on a disaggregated basis.

Additional Information

None

Case given at LBS interview in '96	No

Heathrow Passengers

Case Details

How many passengers go through Heathrow each year?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: Logical thinking __Not applicable	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis x Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach!

Interviewer not looking for the real number, but the process through which you arrive at it! Therefore you make assumptions. I assumed:

- People going through Heathrow = Arrivals and Departures
- Assume 1 plane lands and 1 plane leaves every 30 seconds
- Assume airport is operational 365 days a year, and for 21 hours a day
- Ask the interviewer what is the average passenger capacity of the planes (both arrivals and departures). eg 200
- Ask if, for example, 75% load rate is a fair assumption
- You can then calculate the number

I also checked to ensure that air crew would be excluded, and that we ignored the double-counting issue of transient passengers (i.e. the same passengers both arrive and leave the airport - the interviewer hadn't considered this).

Keep the numbers simple when doing this - the actual number does not matter as much as the process

Additional information

None

Case given at LBS interview in '96	Yes

US Gas Stations

Case Details

How many gas stations are there in the US?

Frameworks	Category
__Porter's Five Forces	__Market Research (How big/good is the market for X?)
__Three P's and the D (Product, Price, Promotions and Place / Distribution)	__ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis
__Three C's (Company, Competitors and Customers)	x Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__Financial statement / industry average analysis	__ Business (SBU) Strategy
x Other: Transparent thinking	__ New product introduction
__Not applicable	__ Academic (eg derive theory of comparative advantage)
	__ Other :

Possible Approach

There are two ways I thought of to approach this question:

- Population theory - In say Menlo Park / Atherton, there are about 15 gas stations for about 40,000 people. In urban areas, there are many more people per gas station (say 150 in San Francisco for 700,000 people), while in rural areas, there are fewer people per station (in my hometown, there were 3 gas stations for about 5,000 people). Add in a fudge factor for truck stops in the middle of nowhere, and let's guestimate that the average nation-wide (I know one isn't supposed to average averages, but this is consulting) is around as populated with stations as Menlo park. This is a ratio of 1 station per 2,667 people. There are 250 million people in the US so that's around 90,000 stations.
- Note - one could just have used Menlo Park from the start,, but the idea is not to get the answer but to think transparently. I threw in things like urban areas, people without cars, commercial transport etc to show that I was casting a net to test the reasonableness of my assumptions, regardless of the fact that I finished where I started
- 2 - Patterns of demand and a little knowledge - My idea of the average gas station has 8 pumps. I have observed that, on average, 4 pumps are in use during the 14 hours a day the station (average station) is open. Let's guess that the average station sells (14 hours x 6 fills / hr x 4 pumps x 10 gallons of gas). ie 3,360 gallons of gas / day. That's around 1.2 million gallons per year. Now, I know that all of the US could fit into the front seats of all of the cars in the US, so lets assume there are 125 million cars on the road. If each car is driven for 12,000 miles at 20 miles per gallon, that implies (125 million x 12,000 miles/20mpg) i.e. 75 billion gallons of gas are consumed each year. Therefore 75 billion gallons / 1.2 million gallons / station / year = 62,500 stations.
- Note - I know that this is convoluted but more elegant solutions are available.
- Last I heard 80,000 or so. Remember the idea is not to get the right answer but to think logically, in a linear fashion, and get to a reasonable answer. That is 1 million stations is obviously too many, where 1,000 is probably the number you personally have been to in your life

Additional information

- Given the interview conditions, it is worthwhile picking relatively easy numbers to work with rather than getting caught up in some highly complex mental arithmetic.

Case given at LBS interview in '96	No

Cholesterol Meter

<table>
<tr><td colspan="2"><u>Case Details</u>
A client company has patented a cholesterol meter which can be used in the home. It is designed for patients who have a history of high cholesterol and are controlling their cholesterol levels through medication. How should they introduce this new product.</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
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(Product, Price, Promotions and Place / Distribution)
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__Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
• There was no blinding insight necessary, only the acknowledgement that marketing consumer medical devices was unusual because neither the decision makers (doctors) nor the end users (patients) were actually paying for the product.
• Ideally insurance companies would be paying for the meter under general health coverage.
• This divergence between decision, use and payment is critical to developing a marketing plan and gaining acceptance.
• The obvious precedent (and the basis for this case) was the introduction of blood glucose metering devices for diabetics.
• The desired answer included acknowledging the unusual structure of the purchasing decisions, delineating the various key steps (insurance company acceptance, doctor acceptance, regulatory acceptance, patient training and support) and determining if the economics of the product were attractive.</td></tr>
<tr><td colspan="2"><u>Additional Information</u>
• Strength of patenting and possibility of competition
• Costs of production
• Size of potential market
• Client's existing distribution channels for home use medical devices
• The efficacy and ease of use of the product
• The client's existing reputation
• Whether insurance companies would pay for the product</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
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50 year Light Bulb

Case Details
You are an inventor. You have invented a light bulb that lasts 50 years. You want to market it and, in order to secure the finance, you need to prepare a 10 year plan for the bank.

Frameworks	Category
x Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __ Other: __ Not applicable	__ Market Research (How attractive is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis x Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy x New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach!
Started out by:

- Gauging market size, comparative costs (cost of light bulb x no. of times you have to replace it), and distribution channels.
- Assess at what level you can sell it for - and thus estimate revenues
- Use of 3 Cs - Customers (who are they), Competition (what do they have), Capacity (what is it and could you be undercut or undercut them?)
- Explore opportunities for light bulbs of differing lengths less than 50 years as you may end-up cannibalising your own market.

Conclusion

- If your light bulb lasts for 50 years you pose a real threat to the current manufacturers. Why not assess their level of profitability and, assuming they are not likely to quickly discover this technology, offer to sell them the patent for the light bulb as you could otherwise destroy their market (replacements would only then be needed every 50 years - good business for a few years only, for 10 years - unlikely you'll have a market for that length of time!). If they refuse to buy it, or offer too low a price then start production and earn your money that way

NOTE to establish a business plan, you need to cover:-

- initial capital investment required
- fixed and variable cost elements of running costs
- capacity and expected level of utilisation
- Level of working capital required for day to day operation
- Expected sales - Initially, and the expected growth over the 10 years
- Given the issue of cannibalisation, you should address the question of whether the machinery can be used for other purposes, once sales reduce.

Additional information
Some companies may not like the approach if too aggressive - they may also ask you what you would do in this situation.

Case given at LBS interview in '96	Yes

Italian Pet Food

Case Details

While leaving his office, a partner at McKinsey tells you: 'Tomorrow I have a meeting with a new client. I would like to see an estimate of the potential Italian market for animal food on my table by tomorrow morning.'.
You cannot access any data.
How would you approach this request?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __ Other: x Not applicable	x Market Research (How attractive is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach

Step 1
Start segmenting the 'animals': domestic, for 'production' (e.g. .cows), for entertainment (zoo, circus)
The interviewer narrows the analysis to 'domestic'
Start segmenting by family: mammals, fish, birds → mammals are selected
Segment by species: cats, dogs, rabbits, → dogs are selected.
Step 2
Estimate the number of domestic dogs (for example as a percentage of total number of families)
Estimate the total calorific need of the Italian domestic dogs per year by assuming the weekly food intake of a dog. → assume **15 million families x 33 %** (who own dogs) **x 4kg** (weekly food intake) **x 50 weeks**
= 1,000 million kg per annum
Step 3
Estimate which percentage of food intake is covered by products bought in the market (assume 80% is purpose bought dog food, the rest being scraps)
Consider the products available in the market (wet food, dry food)
Assume Kg sold inversely proportional to price (typical downward sloping demand curve - question whether this is valid - what substitutes exist? To what extent is demand price elastic or inelastic?)

Take the volume estimated in step 2 and multiply by the price (estimated) to get the potential market for the Italian dog food

Additional information

None

Case given at LBS interview in '96	Yes

New Can

Case Details

Drink cans were traditionally made from three separate pieces of metal (Top, bottom, and side). A new technology known as the two piece tin is now in use at many canning facilities in the US. I want you to imagine that you are in the executive conference room of a large US canning facility that is considering transferring to the two piece technology. Please take on the role of each of the vice-presidents of the facility and present to me what you think each of them would have to say about the decision to stay with the three piece or move to the two piece.

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	__Market Research (How big/good is the market for X?) x Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other :

Possible Approach

An impressive way to start this answer would be to ask if the factory was organised by function or process. Since factories are typically functionally organised. I would start by saying something like: "Why don't we go along the value-chain and explore the benefits and advantages for a manager responsible for each segment of the chain?"

Using a framework ensures that you are in McKinsey speak MECE (Mutually exclusive and collectively exhaustive), otherwise you might bounce around for 10 minutes and forget operations!

This is not an exhaustive list, but it serves to give you some ideas.

Procurement
- Lower metal content reduces raw materials inventory, freeing up space and cash.
- Identify new suppliers for high tech materials or work with existing to change material specs.

Human Resources
- Downsizing from increased automation
- Retraining lead-times

Information Technology
- Probably plug and play with legacy systems

Infrastructure (Finance, accounting, quality…)
- Where is the money coming from?
- We should be able to sell the three piece line to a subsidiary or company operating in a developing country

Operations
- Change-over options (Pilot or parallel run unnecessary unless we are an early adopter, more likely a shut down / start-up implementation utilising around the clock vendor technicians and our engineers.
- Large positives with new machinery: lower maintenance, better control interfaces, high volumes and

tolerances, less staff but more highly trained.

Distribution
- Infrastructure compatibility (pallet sizes, stacking height, handling ease…)

Sales and marketing
- Customer reaction - are we an early adopter - if not - no issues, if yes, some education required. E.g. cost and environment - less waste, ring pull stays with the can, so less litter.

Service
- non issue?

One problem with this case and many in general is that it parallels a HBS case - Crown Cork & Seal. If the interviewer knows that it is taught in your core strategy class he / she may expect:
1. A much richer answer
2. You to reveal that you are familiar with the case - I wouldn't tell them before starting since this will raise expectations. Since I was not interviewing with other students from the same school, I kept my mouth shut
3. However it may be that the interviewer can tell that you have done the case before, because you answer too quickly and in too much detail for it to be spontaneous. If this is the case it is better to be open about your familiarity with the case.

Additional information
- None

Case given at LBS interview in '96	No

Anti Depressant

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Case Details

A leading pharmaceutical company specialising in anti-biotics and decongestants has developed a new product - an anti depressant. This is a new area for the company and the MD wants to know which one of the following options to take:

1. Sell the patent
2. Go ahead with the launch
3. Co-market the product with another company which has experience in this channel

Which one will you take?

This is a 'me too product' with two other established brands commanding 15% and 10% of the total psychiatric market. An improved product was launched by another company last year which has already taken 20% of the market But your product is the old technology. In the long run the new technology will replace the old one

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Frameworks
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
__ Other:
x Not applicable

</td><td>

Category
x Market Research (How attractive is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
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__ Academic (eg derive theory of comparative advantage)
__ Other

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Possible Approach!

Go for co-marketing since:

- company has no previous experience in the psychiatric market
- although GP's (our existing customers) buy 80% of the anti-depressant and Psychiatrists buy 20% - GP's are followers and the Psychiatric's are thought leaders. So it pays to capture their market.
- The cost structure of the pharmaceutical industry is such that every incremental sale will increase profits. It's cost of sale is only 20% of total revenue.
- Full scale launch is too expensive
- Patenting will still give a loss since R&D cost is so high

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Additional information

Note - in problems such as this, a good logical approach is to take each alternative separately and for each one, look at the main pros & cons (using a framework if there is one which fits). Also identify the critical success factors. This analysis can therefore be used as the basis for making the choice of a preferred alternative. Be sure to tell the interviewer exactly what approach you are planning to take, in answering the question.

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<tr><td>Case given at LBS interview in '96</td><td>Yes</td></tr>
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Aluminium Ingots

Case Details

Your client makes aluminium ingots. Your client's major competitor has recently introduced a new process technology that reduces its costs by 50%. What are your client's options

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: Logical thinking __Not applicable	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other :

Possible Approach

Your first question should be: "Are aluminium ingots a commodity product?" The answer is yes. Remember that the lowest cost producer wins in a commodity industry. (The producer with the lowest costs can charge the lowest price.)

Your client's options are:-

1. Invent around the patent.
2. Exit the industry.
3. Try to differentiate itself. For example, offer better service (eg faster shipments). (Remember your client cannot differentiate its product because the product is a commodity)

Additional information

- None

Case given at LBS interview in '96	No

Pizza Market

Case Details
The client, a small pizza chain, is concerned that Pizza Hut's market share is increasing, and that Pizza Hut also has bigger margins. How do you find out if this is true.

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __ Other: __ Not applicable	__ Market Research (How attractive is the market for X?) x Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach!
There are two different dimensions to this question. You should approach each separately:-

1 Market Share

I used the three C's to analyse costs (effecting margins), customers (effecting revenues) and competitor analysis.

- Oven manufacturers can give information on the number of ovens Pizza Hut is purchasing, indicating any new/larger stores and therefore reflecting market share. Also check the phone book for new stores.
- Customer surveys can give an indication of restaurant preferences, (note you're looking for changes in taste). The questionnaire should be divided by time periods. (eg: have you visited Pizza Hut in last 6 months? last 12 months?) This will give you an historical database as well, from which to analyse trends. Also, competitors are burger chains, chicken shops etc... Customer survey should include these to determine who is loosing out to Pizza Hut.
- Have a meal in Pizza Hut to see what's different. eg: prices, customer turnover speed, size of restaurant, what's on the pizzas, new products (eg: salad bar) etc...

2 Bigger Margins

This will be based upon a Cost & Revenue analysis

Revenue - consider whether prices on Pizza Hut menus have gone up

Cost - talk to staff who may have worked there

Have Pizza Hut recently changed suppliers etc

Additional information
BAH seem to love customer surveys

Case given at LBS interview in '96	Yes

China Co.

Case Details

The CEO of a large diversified building products company has asked us to help him examine the operations of his china products division. China products include tubs, toilets, and urinals. Specifically, he wants to know if he should approve a $200 million capital expenditure for new manufacturing facilities.

The company is:-

- One of seven producers in the United States: largest producer has 20%, our client is number three with 15%
- Prices for the client's products have been flat
- The two largest competitors appear to earn a small return; our client is break even
- The largest competitor has just announced plans for a major modern plan

What issues must be considered?

Frameworks	Category
x Porter's Five Forces	__Market Research (How attractive is the market for X?)
__Three P's and the D	__Cost / revenue (Cost structure of producing X / sales)
(Product, Price, Promotions and Place/Distribution)	x Industry Analysis
x Three C's (Company, Competitors and	__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
Customers)	x Business (SBU) Strategy
__Financial statement / industry average analysis	__New product introduction
__Other:	__Academic (eg derive theory of comparative advantage)
__Not applicable	__Other:

Possible Approach!

Marketing

- How rational has pricing been in the industry
- Have competitors ever announced capacity expansions before and then not implemented them?
- Are there opportunities to rationalise the product line?
- Does the new finish that will result from the investment "pay for itself" with higher prices?

Competitive Position:

- How important is the product line to each competitor?
- Are the products sold in combination (with each other or with other products such as fittings)
- Would exiting this business affect the sales, profits or cost of the other business units?
- Are there advantages to plants being located in specific places due to high transportation cost
- If the competitor's new plant is built, will other competitors exit?

External environment

- Is regulation important?
- Are there changing demographics that will affect demand?

Customer

- Do customers demand a full line supplier (for example if other building products are required)
- Is any significant portion of sales to single customers (eg Sears)

Barriers to entry or exit

- What is the minimum efficient size for the new plant?
- How expensive is entry or exit? Has there been a history of change in the industry players?

Manufacturing

- Do the plants produce other products or contribute to overhead?
- Are there ways in which costs can be substantially lowered?

Clarify

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- Is the planned investment expected to lower costs? (Yes but not substantially, because the new process will result in a better finish)
- Does the company rely on a limited source of raw materials? (No, as the materials are easy to get)
- Has the market been growing? (Market is linked to new housing)
- Is there over-capacity in this market?
- What are the competitors' relative cost positions?
- Market segmentation - residential vs. industrial vs. commercial
- Price points - cheap vs. expensive / quality

</td></tr>
<tr><td colspan="2">Additional information
None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Europhone

Case Details

Our client is a European pay telephone manufacturer. They are experiencing sharp decreases in profitability after a history of strong, consistent earnings. Their competitors are facing similar problems. What should they do?

Frameworks	Category
x Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	x Market Research (How attractive is the market for X?) __Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

Questioning the interviewer using an approach driven by the 5 forces and the 3 C's elicits the following information:-

- The buyers of the equipment are either large private telephone companies or state-owned agencies.
- Not all equipment is interchangeable, depending upon switching devices, etc. however, most companies can produce variant systems to comply with large market requirements (accepting different coins, ability to connect to different switching equipment etc).
- The adoption cycle for underdeveloped countries is somewhat odd. The typical network economics operate - if you are the only one with a phone, who do you call? After the first movers make purchases, the installed base increases until the initial saturation level is achieved. At the same time, private phone purchases increase, somewhat offsetting the need for further purchases of pay phones. Once phones become ubiquitous, the final saturation point is achieved. From this point forward, a replacement cycle begins in periods of about five years.
- At the time of the case, credit card public phones were vastly increasing in demand. Most markets had experienced aggressive programs to replace the old coin phones with this new product

Conclusion

- The recent wave of large credit card phone installations meant that the old phones were being replaced before physical obsolescence. The entire industry will experience a downturn until the newly installed base in the large markets needs replacement. They have no choice but to wait for this next wave of replacement purchases.

Additional Information

None

Case given at LBS interview in '96	No

Hunt & Fish Magazine

<table>
<tr><td colspan="2"><u>Case Details</u>
Our client is a media conglomerate that owns a hunting and fishing magazine. Profitability has fallen. What can they do to improve profitability?</td></tr>
<tr><td><u>Frameworks</u>
__ Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__ Three C's (Company, Competitors and Customers)
x Financial statement / industry average analysis
__Other:
__Not applicable</td><td><u>Category</u>
__ Market Research (How attractive is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
• Explore both the cost and revenue portions of the profitability equation.
• Find out what has changed to cause profitability to fall and then see what might be done to improve profitability
Costs
• These have not risen dramatically
• There is no opportunity to reduce costs further
Revenue
• What components make up revenue:-
    • Circulation (subscriber) revenue
        • Circulation has increased and the goal is just to break even with subscription revenue
    • Advertising revenue
        • This has fallen dramatically
        • With the increase in number of subscribers, there has been a change in the composition of the subscriber base
        • The audience is now more general, but the advertisers were targeting the hunting and fishing market specifically. They have stopped advertising as they no longer reach the same audience
Recommendation
• Cut back circulation and focus on a specialised group</td></tr>
<tr><td colspan="2"><u>Additional Information</u>
• Understand the components of revenue
• Understand what is important to the advertisers</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Bicycles Ltd

<table>
<tr><td colspan="2"><u>Case Details</u>
Your client designs, manufactures, and markets a full line of bicycles. The company had been growing in sales and profits when its profitability flattened, then began declining 3 years ago.</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__ Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Components of cost
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
1st analysis - Assess whether revenues, expenses, or both are the source of decreasing profits
Revenues growing at roughly the same rate as before the down-turn
Expenses increasing disproportionately
(Would use financial statements to assess this data)
2nd level analysis - Analyse source of increasing expenses
Operating/Administrative? Administrative costs growing, but operating costs appear to account for bulk of increased expenses.
Components of Operating Cost - Fixed/Variable: Fixed costs growing but variable costs appear to account for the bulk of increased expenses
Components of variable cost - direct/indirect: Both have been growing. Bicycles have become more sophisticated, with better materials and components. (However, the increasing cost/bike has been comparable to the growing price/revenue per bike). Indirect costs are increasing disproportionately.
Components of Indirect Variable Cost - Materials, Labour : Allocations of indirect material about the same. (Loss of bikes about the same). However, allocation of indirect labour appears to be the big problem.
Why is indirect labour increasing? Examine WIP: increasing. Look at the factory floor, many bikes waiting around. What are the bottlenecks? Not capacity related - plenty of throughput available. Much time appears to be spent now-a-days in set-up - resetting paint booths, welding jigs, dies and presses, etc.
Why has set-up time increased - either by increasing the number of set-ups of bikes or increasing the set-up time.
⇒ Increased set up time? No, It has actually decreased as the workforce have improved set up tools/jigs etc. Workforce turnover, labour relations, etc. are all fine.
⇒ Increased Set ups? Yes
Conclusion
At the time of the profit decline, the industry had been trending towards increased specialisation in bicycles: touring/mountain/racing/hybrid/etc. This company had responded with rapidly proliferating product lines, leading to increased number of set-ups and lower volumes per assembly run.
Solution: To rationalise product lines, and try to increase shared components across model lines.</td></tr>
<tr><td colspan="2"><u>Additional information</u>
The key to this case is to methodically dissect the cost structure for the company, and knowing what the components of cost are (i.e. cost accounting).</td></tr>
<tr><td>Case Given at LBS Interview in 96</td><td>No</td></tr>
</table>

Retail Chain

Case Details

Our client: A big Canadian Retail chain

Problem: Wal Mart has just bought a retail chain in Canada. Should we be worried? Why? What can we do?

Frameworks

__ Porter's Five Forces
__ Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__ Three C's (Company, Competitors and Customers)
__ Financial statement / industry average analysis
x Other: Competitor analysis
__ Not applicable

Category

__Market Research (How big/good is the market for X?)
__Cost / revenue (Cost structure of producing X / sales)
__Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
x Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :

Possible Approach

- Data: We own 20 stores, Wal Mart just bought 50. We sell more or less the same as them, and their stores are close to ours. Therefore, they can be a threat to our operations.
- Are they a threat? Check the financial data:

	Us	Wal Mart
Revenue	100%	100%
COGS	50%	53%
Store Operations	20%	22%
Corp. Overheads	20%	20%
Operating Profit	10%	5%

- This data doesn't mean anything: our higher profits could come from higher prices, which we wouldn't be able to maintain once we had to compete face-to-face with Wal Mart. Therefore, the next thing to do is to compare their prices to ours. How?
- Easiest way (what they actually did): go through a Wal Mart store, and take notes. Compare a set of their products with ours.
- Once they did this, they found that Wal Mart was 10% cheaper. What does this mean?
- It means that if we are forced to match their prices, we will have an operating profit of around 0%.

Conclusion

What should the company do?

- Lower costs. Problem: Wal Mart are exceptionally good in this area, and we will probably be unable to match their costs.
- Sell them our chain, give in.
- Try to differentiate us: appeal to the Canadian's sense of patriotism (buy Canadian). Will probably not work in the long run, because eventually people will get tired of this and just buy where it is cheaper.
- Use our better knowledge of the Canadian customer to optimise our product line, targeting Canadian tastes and preferences.
- Change our product line: Sell some products that Wal Mart does not offer, products that can be sold at high margins

Additional information

None

Case Given at LBS Interview in 96	No

Replacing Aluminium

Case Details
The client is in aluminium production. The market for aluminium is declining slightly. The client has a new technology to use plastic in place of aluminium in some products. The competition is 6 months behind in developing plastics. Should the client pursue plastics or stay with aluminium?

Frameworks	Category
x Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy x New product introduction __ Academic (eg derive theory of comparative advantage) __ Other :

Possible Approach

ENVIRONMENT
- Explore the reason for the decline in aluminium market: is plastic replacing aluminium?
- What about cannibalisation of existing products?

COMPETITION
- Expected actions of competitors - not a co-operative oligopoly - high rivalry in declining aluminium industry will lead to price wars and declining profits.

PLASTICS MARKET:
- Profitability in relation to aluminium
- **Customer** desires / needs satisfied by plastic - does plastic offer significant benefits? Is it inevitable that the aluminium producers will shift towards plastic?
- New **competitors** in the plastic market?
- **Costs of entry** - minimum efficient scale for plastic is 10% of the volume of the aluminium market
- Fit with current production (use excess capacity or must build new plants?) and **distribution**
- Are there other **substitutes** for aluminium and plastic?

KEY ISSUES
- Potential cannibalisation
- High rivalry in a declining industry (aluminium) will lead to price wars and declining profits

Additional information
- None

Case given at LBS interview in '96	No

Speciality Labels

<table>
<tr><td colspan="2"><u>Case Details</u>
Our client was a division of a large company that produced speciality labels, like this one here (the interviewer pulls a lipstick container out of her purse for a dramatic flare). They have been experiencing losses for the last couple of years. The client wants to know two things: 1) what is the most reasonable way to quickly improve the financial results? And 2) is this a good industry to be in, in the long run</td></tr>
<tr><td><u>Frameworks</u>
x Porter's Five Forces
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(Product, Price, Promotions and Place / Distribution)
x Three C's (Company, Competitors and Customers)
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__Cost / revenue (Cost structure of producing X / sales)
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__ Business (SBU) Strategy
__ New product introduction
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<tr><td colspan="2"><u>Possible Approach</u>
• We explored the entire manufacturing cost detail. The factory was run efficiently and labour costs were just slightly higher than industry average. Apparently this division was the largest player in the market, which was composed primarily of "mom and pop" operators located in close proximity to cosmetic factories.
• A new label necessitated some significant up-front costs in matching colours etc, to artwork.
• Exacting detail was needed since product appearance is a key purchasing criteria for the consumer of the final retail product. The client had implemented an activity based costing system, but it could not provide precise data for individual orders. We pursued the factors affecting the unit costs of various order sizes and came upon two points
    • The artwork caused the per unit costs to soar for small orders.
    • Some orders would recur with only slight variations from season to season, thus saving artwork matching costs
• A further analysis of order / customer profitability in the industry was in order. The "mom and pop" operations had a slight advantage over the client for small orders in that they required little co-ordination between "engineering" functions for the matching and products.
• One line of action was to analyse the process / interface between engineering and production to look for ways to streamline the process. Further invoicing and other set-up costs might be further analysed for reduction. This was correct, but only a partial answer.
• We also noted that small competitors sometimes quoted poorly, but could still generate enough income to provide a living (but not enough to surpass hurdle investment rates of a subsidiary of a larger company).
• Barriers to entry were low, so the small companies could be expected to exist in the future.
• Another key fact that emerged was that the colour matching ability of our client was more reliable than that of competitors. Thus, high-end cosmetic lines would pay a slight premium; this was not entirely a commodity business.
RECOMMENDATION
• The company needed to rationalise its customer base. The small customers / small orders needed to be eliminated (except for small orders for large customers who refused to divide their business), The client also needed to eliminate some capacity; a partial sell-off of equipment was possible with the reduced volume levels.</td></tr>
<tr><td colspan="2"><u>Additional Information</u> - None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Eye Sight Drug

Case Details

A marketing vice-president of a major pharmaceutical firm, is working on a business plan for a new revolutionary product. The researchers have developed eye drops which completely eliminate near sightedness in 60% of the cases (the cases caused by eye strain rather than irregularly shaped eye lenses) if the drops are used twice a day.

Part I

Problem: The client has been working on a business plan but is having a difficult time with one piece of information. The client needs a directional estimate of the retail price they should set for the drops so that he can complete the business plan. How would you help the client structure his thinking on the price and what is your back-of-the-envelope estimate on the price that he should use in the business plan?

Part II

Problem: After talking through the pricing issue, the price of drops of $200 per year approx. is agreed with the client. The client now wants to discuss another issue. The client needs to complete his baseline business plan within an hour and share it with the management committee later in the afternoon. He wants to produce a ballpark estimate of the market of the product. Specifically, what dollar level of sales might he be able to expect per year in the long run in the US market?

Frameworks

__Porter's Five Forces
__ Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__ Three C's (Company, Competitors and Customers)
__ Financial statement / industry average analysis
x Other: Pricing analysis
__ Not applicable

Category

x Market Research (How big/good is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :

Possible Approach

Part I

- One rough cut pricing analysis would determine the market price for the product that is being replaced ... in this case eyeglasses or contact lenses. For example, if eyeglasses cost $120 and last on average 2 years, then a two-year supply of drops could be sold for $120.
- A more advanced analysis might determine that eye drops are simple to use and completely trouble-free so that they should replace the most expensive option including all the costs associated with that option. For example, this may include $100 per year in optometrists fees, $180 in contact lenses ($120 per pair plus on average each user loses one lens in a year) and $25 in contact lens cleaning solution and other supplies, for a grand total of $305. Using this example, the retail price of the one year supply of drops should sell for $305.
- The most advanced issue will include the fact that this new product is actually much better than the alternatives, issues such as dynamics of pricing strategies (e.g., start high and reduce over time to best understand elasticities), and pricing so that marginal revenue equals marginal cost.

Part II

Because you have already estimated a reasonable price, you must now estimate the number of yearly supplies that the client can reasonably expect to sell in the US One possible organising structure (with estimates) is:

1.	Estimate the number of people in the US	250 million
2.	Estimate the percentage of (1) using corrective eye wear	20%
3.	Estimate the percentage of (2) that are nearsighted	70%

4. Use the client's figure for the percentage of (3) that will be helped 60% 5. Estimate the percentage of people that will adopt the new product 40-60% 6. Put it all together: (250*(.7)(.2)(.6)(.5) = 10.5 million Multiply by price per unit (10.5)($200 per unit) = $ 2.1 billion	
Additional information None	
Case Given at LBS Interview in 96	No

Plugs etc

Case Details

We were doing work for a consumer electronics firm (eg Federated, Silo, Circuit City) who had experienced losses for the previous several years and was in a difficult financial position. How would you have approached this case?

Frameworks	Category
x Porter's Five Forces x Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) x Financial statement / industry average analysis __Other: __Not applicable	x Market Research (How big/good is the market for X?) x Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

- ECONOMIES OF SCALE
- The client had a number of stores that were simply not large enough to reap the economies of scale necessary for this business.
- This was not reflected in the cost information provided as this was in a format which gave averages per store.
- The economies of scale were important because of a number of large fixed costs, including advertising and rent.
- They needed to rationalise their retail outlets.
- NB the company as a whole, did achieve economies of scale in purchasing; their product margins were similar to competitors.
- COMPETITIVE NICHE
- The company wanted to be a high service company, but their payroll averages were below that of competing firms (some of which were competing on the same basis)
- Advertising expenses were well below industry average - not a good idea in this line of business (often impulse buys at seasonal sales)

Additional Information

Provided with income statements for the average store both for the client and some competitors (expressed as a percentage of sales)

Case given at LBS interview in '96	No

Co-Branded Credit Cards

Case Details

An oil company has its own credit card that many of its customers use when they fill up their car with gas. Recently, other companies have begun entering into agreements for co-branded cards (ie Amoco + Visa). This company wants to know if it should do the same. Either way, should it continue to offer its own credit card?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	x Market Research (How big/good is the market for X?) __Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

CUSTOMER

- Do current customers value the card - do they use it? About 20% use it and like it.
- Would a co-branded card draw new customers or increase loyalty? Yes, people indicated they'd be more likely to visit our stations if we had the co-branded cards. However convenience is the main consideration when selecting a location.

COMPANY

- Is the company currently performing the processing in house - is it profitable? Yes they're doing it in house but are not making much money on it.
- Would the co-branded card processing be outsourced - does it offer attractive margins? That's an option; the margins appear to be better if processing is outsourced.

COMPETITORS

- How many competitors have co-branded cards? Only 1 but others are looking
- If they don't move now, would their choice of partners be limited? Probably

RECOMMENDATION

- Offer the co-branded card, but outsource it. Given that existing customers use and like the company card, they should continue offering it, but attempt to shift customers to use the co-branded card.
- The data processing operations for it should also be outsourced. They should research marketing (co-marketing) tactics that could improve the attractiveness of the card to the company's customers - with the intent of increasing the number of customers.

Additional Information

- Considered the marketing research that had been conducted
- Explored the focus of the company (they had no business trying to run credit card processing).

Case given at LBS interview in '96	No

Yellow Pages

<table>
<tr><td colspan="2"><u>Case Details</u>
The client is a printing company (books, magazines, etc.). It wants to make more money from a phone customer for which it prints yellow pages. The client is in the 2nd year of a 10 year contract. How do we increase the profitability of the customer?</td></tr>
<tr><td><u>Frameworks</u>
__ Porter's Five Forces
__ Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__ Three C's (Company, Competitors and Customers)
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__ Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
To increase profitability we can look at decreasing costs and increasing revenue.

Look at costs first:
After exploring a number of possible ways to reduce cost, it was clear that only a minor adjustment was possible on the cost side.

Then look at Revenue:
Revenue is based on the number of pages printed. The client can't legally increase the price because of the contract. Therefore an increase in the volume of pages printed is needed.

Conclusion
To increase the volume of pages printed, the client can encourage the phone company to sell more phone books by including smaller geographical areas in each phone book</td></tr>
<tr><td colspan="2"><u>Additional information</u>
Other answers were also acceptable. For example, the volume of pages printed could be increased by increasing the amount of advertising in the book. Ideas include bundled ads for smaller retailers, discounts on purchases of multiple ads in multiple books etc.</td></tr>
<tr><td>Case Given at LBS Interview in 96</td><td>No</td></tr>
</table>

Australian Ski Sales

<table>
<tr><td colspan="2"><u>Case Details</u>
A ski manufacturer (snow-skis) has developed a revolutionary new ski technology. You, knowing very little about skis, have stumbled across them, and have seen a chance to become the Australian distributor for the product. You are meeting them in 30 minutes, and have to come up then with an estimate of the number of skis sold in Australia annually</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
__ Other:
x Not applicable</td><td><u>Category</u>
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__ Business (SBU) Strategy
x New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other</td></tr>
<tr><td colspan="2"><u>Possible Approach!</u>
• Since there are roughly 5 major Australian ski resort areas, estimated capacity at about 5000 skiers each, season is about 12 weeks, most ski for 1 week, total is about 250000 skiers.
• Estimated ski life is 5 years, therefore 50000 skis/year sold in Australia
• Hiring vs. owning makes little difference.</td></tr>
<tr><td colspan="2"><u>Additional information</u>
None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>Yes</td></tr>
</table>

Intra-Ocular Lenses

Case Details

The client produces intra ocular lenses. It is known for premium quality and used to be the market leader, but the overall market and the client's market share have declined. What should be the strategy to become the market leader again?

Frameworks	Category
x Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	x Market Research (How big/good is the market for X?) __Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

What has changed since the time of market leadership?:-

COMPANY

- Product, prices, sales/marketing changes? Nothing significant

CUSTOMER

- Have customer wants / needs changed?
- Have buying / usage behaviour changed?
- Are there new buyers?
- Customers have become more price sensitive and the type of buyer has changed. The new buyers are institutional buyers rather than doctors.

COMPETITORS

- New entrants, new products, different positioning, new substitutes? The product has become more standardised, more of a commodity product

RECOMMENDATION

- A new distribution system to target institutional buyers rather than doctors and a low cost product are key to selling to new buyers in this commodity market
- Cost leadership is important because of the commodity nature of the product.

Additional Information

- You can change the frameworks to be more useful to you and to be less obvious to the interviewer. Here the 3 C's framework was used, but many of the Porter concepts were also adopted in the questioning.

Case given at LBS interview in '96	No

Pharmacy Outlets

Case Details

Major discount retailer with over 1300 pharmacies. Pharmacy operations has had flat sales in a growing industry. Profitability is very poor relative to industry. Chain has history of decentralised pricing and promotion for pharmaceuticals, leading to strong autonomy in field operations, as well as wildly inconsistent pricing. Customer pricing complaints and customer attrition is chronic. New head of pharmacy operations has engaged us to "solve" the pricing issue. How should we proceed?

Frameworks	Category
__Porter's Five Forces x Three P's and the D (Product, Price, Promotions and Place / Distribution) x Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	x Market Research (How big/good is the market for X?) __Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) x Other : .Pricing

Possible Approach

CUSTOMERS

- Customers are generally older, repeat, discount-sensitive shoppers (as opposed to convenience-oriented shoppers).
- Customers may initially select a pharmacy on referral, location or price.
- Tend to build strong loyalty to pharmacy due to personal relation with pharmacist and high switching costs (transfer of records etc).
- Price tends to be a major factor, particularly given nature of customer (usually pay in cash from fixed income) and trust relationship (ie price fluctuations acre very damaging).
- Inconsistent pricing on a given item may lead to price shopping, exposing all purchases to scrutiny, and losing the customer.

PRICE

- The client recommends a standard mark up from cost, with price matching to be determined by the pharmacist at the store. As mentioned before, this leads to wildly different pricing from store to store, as different pharmacists are vigilant to different degrees, regarding optimal pricing strategies.

COMPETITORS

- Three main groups - chain drug stores, independent pharmacies, and discount chains with pharmacy operations (Wal-Mart, Kmart). Client is in the "discount" group but competition is fierce between groups. No pricing studies have been done.

NARROWING

- *Do a pricing study* - How
- *Select a market basket of items in commonly dispensed quantities, and call for prices from a selection of competitors and our stores from across the country.* Fine - it turns out that prices on high-volume items are very erratic: from our prices at the higher end to well below cost at some discounters. Less common items display more consistent pricing across chains, with our pricing more or less in line.
- Which items displayed the most aggressive pricing? Heart, diabetes, cholesterol and the like - basically higher cost, "maintenance" medications - those that someone has to take for the rest of their lives. Turns out, customers are very sensitive to pricing on these items, as they represent a

significant, unavoidable expense. These are the items industry experts say are price shopped most commonly by customers.

- **NOTE** - here the interviewer might suggest you design a pilot program to improve pricing, or you might be prompted to give your insight on the information gathered to this point.

RECOMMENDATION

- Test a pricing program where prices are set centrally for a number of stores in different markets. In this test, set prices very aggressively for items identified as key items, and try to make up margins on non-key items. Monitor results and adapt, and roll out if volume, profit warrant.
- This is how most (good) retailers price. The hot items serve as loss leader, drawing traffic into the store for general purchases, where money is made. In pharmacy in particular, it is important to be priced aggressively in situations when many of your customers use cash (vs. insurance) and where the item is used by the customers with other health care needs. Hence, heart and diabetes medications tend to be sold at or below cost in many cases.

Additional Information

Case made up by someone who gave consulting interviews. Given the amount of information missing from the initial set up and discussion, there is a premium placed on logical leaps and some intuition about customer behaviour.

Case given at LBS interview in ‘96	No

Petrol Stations

<table>
<tr><td colspan="2"><u>Case Details</u>
A large oil company with nation-wide retail petrol stations wishes to evaluate the competitiveness of its outlets. What would you want to look at, how would you look, and what would you hope to find out?</td></tr>
<tr><td><u>Frameworks</u>
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__Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
What drives customer preferences? (subjectively and empirically)
If the client has enough stations, consider the different stations in similar customer situations (traffic flows, population, competition) and understand how differences in format, pricing and services affect volumes. - this is a convenient point to apply the 4 Ps framework
Where good peer groups are not available, it is possible to pilot changes in certain aspects of the store's situation to understand what effect these changes have. This may then generate follow up questions about how to design and ensure the reliability of such tests.
Market research to understand subjective customer preferences. A survey combined with demographic profiles. (This is a good point to cover things you think might be important about gas stations such as price, convenience store, service, paying at the pump, easy entrance and exit, well lit, design aspects, ease of credit card payment etc). It would also be appropriate to compare with industry averages.
Brand loyalty - if the good locations in a market are foreclosed to me, does it matter how competitive my stores are? Will customers switch stations - what switching costs are involved and what type of benefits do I have to impart to win volume?
Consider both content issues (such as using the 4 P's framework) and the process issues (i.e. how to get the required information - as covered in the points above)</td></tr>
<tr><td colspan="2"><u>Additional Information</u>
None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Payroll Processing

Case Details

A client company is very successful in the payroll processing business, allowing employers to out-source their payroll function. The client is considering an expansion into the processing of pension cheques for financial institutions. Does this product extension make sense for a low-cost producer, and how can they best penetrate this market?

Frameworks	Category
x Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __Other: __Not applicable	__Market Research (How big/good is the market for X?) x Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy x New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

- The crucial question is how the cheques are currently being processed (in-house by fund managers and banks or outsourced to other providers) and why?
- It turns out that virtually all financial institutions which disburse cheques on a regular basis process them in-house and are relatively cost inefficient in doing so. This however, does not necessarily present a market opportunity on the basis of cost reduction. The cheque processing fees are an attractive profit centre for all but the smallest financial institutions because they can pass the costs (plus a huge margin) on to their clients. Since the cheque processing fees are a relatively small part of the total fund management expense, the margins can be very large without customer complaints. This makes the sub-business of in-house cheque processing very attractive to many of the potential customers of the outsourcing business.
- Another factor which makes this product extension unattractive is the importance of accuracy and timelines in cheque disbursement. The financial institutions would lose a great deal of goodwill if their "outsourced cheque" processor screwed up, and they had to explain to thousands of upset pensioners that it was another company's fault. Spending a little more to have it done in house was considered prudent by many fund management institutions.
- Note - the cheque processing business is not always cost driven (i.e. low cost might be critical to small employers, but quality may be more important to fiduciary service providers) and that a cost centre for some potential clients (businesses) might be a profit centre for others (financial institutions).

Additional Information

- None

Case given at LBS interview in '96	No

Hospital Payment System

Case Details

A non-profit hospital wants help to reduce the $10 million loss that the organisation has been experiencing in the last 3 years. If the hospital continues this level of loss for more than 2 years, then the hospital endowment would be completely gone and the hospital would need to close its doors.

Problem: It is realised that the hospital's loss was due to a new law which basically fixed hospital prices because of the new DRG (Diagnosis related groups) hospital payment system in New York State (i.e. price per unit could not be changed). What profitability improvement levers should the team focus on first if the team wants to quickly reduce the hospital's loss? What would you expect to find?

Frameworks	Category
__Porter's Five Forces __ Three P's and the D (Product, Price, Promotions and Place / Distribution) __ Three C's (Company, Competitors and Customers) __ Financial statement / industry average analysis x Other: Cost analysis __ Not applicable	__Market Research (How big/good is the market for X?) x Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other

Possible Approach

A good approach to this issue might be to discuss the different costs associated with performing the hospital's services and the current capacity vs. demand for the hospital. The correct conclusion is that it is quicker and easier to change the cost structure and capacity of an organisation than to change the demand for the hospital's service (remember the price per unit is fixed so the revenue lever remaining is increasing the units of service). Reducing the capacity and shifting some costs from fixed to variable would help restore the hospital's profit.

Conclusion

A more complete answer would discuss some of the revenue levers even though they may take longer to work. The team could explore some of the marketing issues such as :

- What draws physicians and patients to a hospital and where do the patients come from? (It turns out that most patients come from local communities surrounding the hospital and that focusing efforts on the local neighbourhoods that are under represented by the hospital can increase patient volume.)
- How does the client hospital compare to the competitors along service dimensions that are important to patients and admitting physicians? (The hospital was outstanding at patient care but lacked convenience).

What are the trends in patient care and how should the hospital change to exploit the opportunities? (Recent trends are towards out patient services and away from admitting patients for long periods of time. For example, cataract surgery used to be in-patient procedure requiring a hospital stay of three days or more. In the last few years, most of the cataract procedures performed require no hospital stay. there seems to be an opportunity providing a very convenient out-patient facility to the community).

Additional information

None

Case Given at LBS Interview in 96	No

Company Acquisition

<table>
<tr><td colspan="2"><u>Case Details</u>
A client of mine approached me with a very open ended question. He owns a large branched bank in Texas and wants to reduce his exposure to the banking business. With $100 million in losses, he hopes to find a new business to acquire, against which he can off-set these losses. If the transaction is executed properly, you can carry forward losses from the banking business, over the next 15 years, reducing / eliminating the taxes you'd pay on the profitable business that you have acquired.</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Analytical considering objectives and identifying possible strategies.
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__Academic (eg derive theory of comparative advantage)
x Other : Acquisition - open ended</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
Does he have any particular area of interest or expertise? No, except in banking which he specifically wants to avoid.
Given the substantial size of the losses, he needs to find a company that will generate almost immediate profits on a rather grand scale. This pretty much rules out any start-ups.
From the IRS perspective, can the new business be a foreign one? Good question, I haven't explored that route yet.
It would be great if he could use the bank as an advantage - leverage it. What about hooking up with some multi-media company - the whole banking at home concept? Interesting
Microsoft would be great - I doubt Bill Gates would sell. But that company offers him what he needs: profits on a big scale, future growth, something new and different. He could also look at Mortgage Backed securities… a firm like Freddie Mac with profits in the tens of millions.</td></tr>
<tr><td colspan="2"><u>Additional Information</u>
The interviewer had just been asked the question earlier that week. I don't think he had a company in mind. He was just looking for how you'd narrow the alternatives.</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Banking Customer Service

Case Details

A bank wanted to re-engineer their customer service function. Recently, complaints had increased (long waits on the phone, being transferred to multiple branches, separate accounts requiring multiple calls, etc)

The customer service function was currently decentralised - with tellers at each of the 4 branches answering calls from customers. If the account was opened at a different branch, they did not have the info to assist the customer.

Should they centralise? What else would they need to do? How would you go about the task?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: Re-engineering - best practices, improve efficiency and effectiveness of operations via technology, new approaches to work. __Not applicable!	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __Academic (eg derive theory of comparative advantage) x Other : Re-engineering

Possible Approach

- First, gain a basic understanding of the current operations - number of calls received at each branch, % of calls transferred, impact of calls on teller's other work (like assisting in branch customers)
- Next look at best practices - how do other banks, customer service organisations (Federal Express, airlines, software companies) handle calls?
- Investigate how technology can help - database systems, on-line search / retrieval, touch tone technology. etc
- A few basics:-
    - Centralise the function and staff it with dedicated personnel
    - Give customers a toll-free number to call
    - Develop a system based on an integrated database
    - Provide a front-end, touch-tone system (callers get an automated system in which they enter their account number and password and can get an array of information or be transferred to a customer service representative)
    - Train the staff and educate the customer

Additional Information

- General discussion about the current operations - picturing the operation with the phones ringing, frustrated clerks, annoyed customers etc.
- Think broadly - consider what other firms do even if they operate in a different industry

Case given at LBS interview in '96	No

Island Puzzle

Case Details

There are two islands:-

Island A: Takes 100 hours to make 5 bikes and 100 hours to gather 20 bushels

Island B: Takes 100 hours to make 4 bikes and 100 hours to gather 100 bushels

Frameworks	Category
__Porter's Five Forces	__Market Research (How big/good is the market for X?)
__Three P's and the D (Product, Price, Promotions and Place / Distribution)	__ Cost / revenue (Cost structure of producing X / sales)
__Three C's (Company, Competitors and Customers)	__ Industry Analysis
__Financial statement / industry average analysis	__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__Other:	__ Business (SBU) Strategy
x Not applicable	__ New product introduction
	x Academic (eg derive theory of comparative advantage)
	__ Other :

Possible Approach

- What are transportation costs? Ignore transportation costs
- Island A: 1 bike = 20 hours
  1 bushel = 5 hours
- Island B: 1 bike = 25 hours
  1 bushel = 1 hour
- Each island should do what it does best. Island A should make bikes and Island B should gather bushels.
- Then Island A could trade 5 bikes for 100 bushels (one of several possible answers, but one that keeps the number of hours worked equal).
- If each works for 200 hours then with this trade each would get 5 bikes and 100 bushels. Island A saves 400 hours or gets 80 extra bushels and Island B saves 25 hours or gets 1 extra bike)
- Any price in the range of 4 bushels per bike (A's lowest price) up to 25 bushels per bike (B's highest price) would be an acceptable answer.
- A specific answer was required not just a theoretical answer. Feel free to write and draw in this type of case

Additional Information

- None

Case given at LBS interview in '96	No

Electricity Pool

Case Details

Our client is a major British electricity utility. Currently, rates and returns are regulated, but there is a new proposal that will change the system to a more market based pool system. The mechanics (simplified for case use) are as follows:-

- Rather than each utility producing electricity for the use of its customers only (with excess or shortage made up for in short-term contracts with other utilities or independent power producers), all utilities and power producers will bid into a pool for power supply.
- Bidding for the purpose of this case can be assumed to (somehow) occur continuously - that is, if a supplier decides to produce an amount of electricity (kilowatt-hours) at a certain, time, he bids that amount into the pool.
- Bids will be arranged according to price, that is, the producer who bids in a the lowest price will have his power used first, then the next highest price power will be used, etc.
- Demand will determine how much power gets taken from the pool at any time
- The last unit of power purchased will be bought at the price it was bid into the pool at. All power sold at that time will be sold at the price set by the last unit. This can be thought of as a market clearing price.

How would you evaluate this situation? At what price will / should people bid into the pool? What non-competitive aspects might you expect from this system?

Frameworks

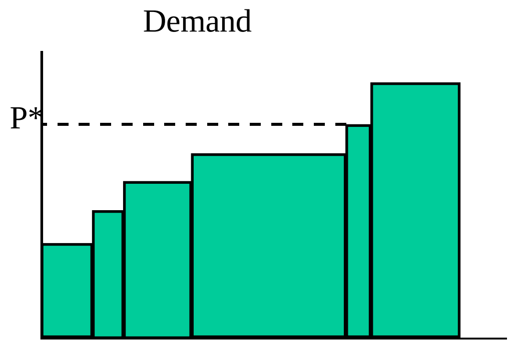
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Microeconomics
__Not applicable

Category

__Market Research (How big/good is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
x Academic (eg derive theory of comparative advantage)
__ Other :

Possible Approach

As with all economics questions, draw a graph first!
A supply / demand graph works quite nicely.



The demand side reflects the instant nature of demand - remember, the case said so. Keep in mind, power can be thought of as pretty inelastic at any given point in time. The supply curve should be thought of as chunks of power being bid into the pool at different quantities and prices.
The market clears at P*, as you might think, but keeping the mechanism of the pool in mind, the last guy

only sells part of what he bid in, and the next guy sells nothing. Note the massive producer surplus for the guys who bid in low. This is basically the only model you need to get all of the following points:- • First, as in theory, the market price is set by the high-cost producer. This would obviously raise concerns of price fixing and collusion among few competitors. Lets put that aside for now and think about some other key points • People will bid in at their marginal cost of production. If you end up being the last guy in the pool who sells power, you at least break even on a short run basis. If you turn out lower than anyone else, then you make some money. I would propose that this equilibrium isn't sustainable over the long haul, unless demand shifts up and down enough to bring high-cost producers into the pool so I can get more than LRMC on average (else I will shut down in the long run) • Also, this system places a huge premium on owning both high- and low-cost resources. Likewise, you must understand patterns of demand. If you know a demand peak is coming up, bid both your high cost resource (to set the price) and you low-cost resources (to make profit) into the pool. Which brings in obvious collusion issues • The extent to which the market disciplines gamesmanship and collusion depends to a large extent on those strategic management issues we all forgot or didn't have as first years - number and size of competitors, trade associations, degree of communication, signalling mechanisms, and the like. • One might propose that the airline industry provides a good, similar model of deregulated industry (with consumers getting all the benefits of an industry that bids SRMC for prices and loses money o the long haul on huge fixed costs). On the other hand, telecommunications deregulation has produced huge profits. • Overall, the pool favours those with low cost resources. The wrinkle in electricity production is that the lowest cost resources do not tend to be dispatchable, that is you have to run them all day long if you run them at all. (Hydroelectric ad Nuclear plants are like this). Implications? Many, including the fact that all bidders know that you have to run your resource, and will assume you bid into the pool at zero. Also, if everyone has these resources, during periods of slack demand, there will be no one to sell to at any price, and the pool will clear at or near zero. This is why understanding (and modifying, if possible) demand is so critical…	
• None	
Case given at LBS interview in '96	No

Fridge Light

Case Details

Tell me all of the ways, practical or not, which you could use to determine whether the light goes off in a refrigerator, when you close the door.

Frameworks

__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Free form brain teaser
__Not applicable

Category

__Market Research (How big/good is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
x Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other :-

Possible Approach

A random list of answers that ended up working

- With the door open, press the button that makes the light go on and off.
- Drill a hole in the door so that you can see inside when the door is closed
- Find out the mean time to failure for these bulbs, close the door and open it after the expiration time to see if the light is burned out.
- Go to the production line, and perform a statistically valid test (appropriate number of samples) to determine whether the light always goes off (by pressing the button etc)
- Hook wires to the socket and perform a similar test when the door is closed
- Place a sensitive thermometer (chilled to the refrigerator's temperature before testing) near the light bulb and close the door.
- Place some light sensitive material in the refrigerator to see if it is activated.

Additional Information

- After I came up with about 5 responses, the interviewer actually said that my performance was adequate (of course implying that he'd recommend me for the next round) however he wanted to continue searching for answers "just for fun"
- When we were done, I asked him if anyone else came up with interesting answers that I didn't mention: he gave two
    - Pick up the phone, dial the manufacturer and ask if the light goes off when you close the door
    - If no one is in there to see the light go off, does it matter? (for those of you unfamiliar with this philosophical angle, it was originally stated as "if a tree falls in the forest and no one sees or hears it, did it really fall?") I commented that I wouldn't have thought of that one in a million years, but it definitely shows some tremendous creativity. He agreed
- This was also a great test of how well one responded under pressure; there were definitely a number of silent pauses while I racked my brain.

Case given at LBS interview in '96	No

Small Bank

Case Details

Our client: A small national bank

Its competitors: Regional banks and big national banks

Problem: Profits are smaller than those of their competitors. Why? What can the company do?

Frameworks

__ Porter's Five Forces
__ Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__ Three C's (Company, Competitors and Customers)
__ Financial statement / industry average analysis
x Other: Competitor analysis
__ Not applicable

Category

__Market Research (How big/good is the market for X?)
__Cost / revenue (Cost structure of producing X / sales)
__Industry Analysis
__Brain Teaser /Creative bullshit! (How many rats in Chicago?)
x Business (SBU) Strategy
__New product introduction
__Academic (eg derive theory of comparative advantage)
__Other :

Possible Approach

Why do their competitors earn higher profits?

- **Big Banks:**
  - Enjoy economies of scale (same centralised services, more offices to allocate their costs to)
  - Size allows them to profitably use processes and technologies that smaller banks cannot implement.
  - Large amounts of available capital allow them to accept/attract bigger clients.
- **Regional Banks:**
  - Size and geographic concentration: lower overheads (less hierarchy, less paper shuffling, smaller distances to be travelled).
  - Brand name: customers may feel represented by 'their' local bank, preferring it to the rest.
  - Better knowledge of the client base: ability to choose the best clients.

Conclusion

What can the company do:

- Grow: mergers/acquisitions
- Rationalise: sell some offices and acquire new ones in a profitable region (probably a bad idea)
- Specialise: offer some services that the big banks don't want to offer and that the regional banks cannot afford to offer (if there are any services like these).

Additional information

None

Case Given at LBS Interview in 96	No

Mail Order

<table>
<tr><td colspan="2"><u>Case Details</u>
You are a consultant advising the manager of the customer service department for a mail order company. You just got the case assignment an hour ago. Along with the assignment, you got a black book of data about the customer service department. As you flip through the book you notice that the costs have skyrocketed over the past three months. There are two major components of costs, people and the phone lines they use.

What will you discuss with your client when you meet with her for the first time this afternoon.</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other:
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
You know costs have been skyrocketing.
Ask about revenues. You'll find out they've been skyrocketing, too. In fact, revenues have increase at a faster rate than costs. This means that profits have increased. So there is no problem.</td></tr>
<tr><td colspan="2"><u>Additional information</u>
This case is DECEPTIVELY simple. Don't worry if you missed this. You won't make the same mistake twice! Just remember that Revenue - Costs = Profits
What not to do - Ask about how the components of costs have been changing over time. How fast? Has the company changed its accounting or information systems. Ask about costs relative to competitors
Note - It's your first client meeting, so you don't want to dive into a discussion about data right away. If revenues haven't been rising along with costs, for example, this could be a very difficult discussion. You have to introduce yourself, explain your purpose etc.</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

School Cafeteria

Case Details

When the school cafeteria workers went on strike a few years ago, the school union experienced a significant increase in sales. However, when the financial for the quarter were reported, the union discovered the profits actually decreased. What happened?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: __Not applicable	__Market Research (How big/good is the market for X?) x Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other :

Possible Approach

- Did they lower prices? No
- Did their costs go up - paying staff overtime or extra to obtain raw materials at the last minute? No
- Did overhead costs increase significantly? No
- Did they introduce new items? No
- So prices did not change and costs did not change… did the overall mix of what they were selling change? Yes

The union sold more sandwiches and drinks than before. Upon further investigation, they discovered that they were actually losing money on each sandwich they sold (selling them below cost)

Additional information

- The interviewer then asked me how - without him present and assuming no computer generated date - I would have gone about discovering that they were losing money on sandwiches. On a practical basis, you'd have to look at the cost in aggregate. Perhaps how much they spend in an week on sandwich ingredients, the hours spent making sandwiches, and the number of sandwiches sold and scrapped. Then you'd calculate a cost per sandwich and compare it to the selling price. You'd also want some overhead allocation but this would be a good start.

Case given at LBS interview in '96	No

Piston Production

<table>
<tr><td colspan="2"><u>Case Details</u>
You are a car manufacture and is planning to outsource piston production. What variables you would consider?</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other: Costs (fixed and variable)
__Not applicable</td><td><u>Category</u>
__ Market Research (How attractive is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
__ Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
x New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other</td></tr>
<tr><td colspan="2"><u>Possible Approach!</u>
Analyse all the cost issues, fixed, variable and mainly OVERHEADS to minimal details (space used, accounting dept, light and security costs).
• Strategic issues about sharing technology, dependability and quality control</td></tr>
<tr><td colspan="2"><u>Additional information</u>
None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>Yes</td></tr>
</table>

Taiwan

Case Details

You are a consultant advising the government of Taiwan. Government officials want to move form low value-added products, like textiles, to high value-added products, like aerospace.

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: __Not applicable	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) x Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other :

Possible Approach

- What are Taiwan's resources?
    - Labour? Skilled workforce?
    - Capital?
    - Infrastructure?
    - Components? Supplier industries?
- What does the industry look like on a global basis?
    - Is it profitable? Is it growing?
    - Who are the players / competitors? What are their competencies
    - Can we find a niche?
- Who would the buyers be?
    - Can we serve them?
- Also, what will the country lose by moving away from low value-added products, like textiles?
    - Dislocation of workers

Additional information

What not to do -

- Forget about profitability and competitors
- Ask about Taiwan's history and culture without addressing the issues in the case.

Case given at LBS interview in '96	No

Airline Industry

<table>
<tr><td colspan="2"><u>Case Details</u>
What is wrong with the airline industry?</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
__Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
x Other:
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
__ Cost / revenue (Cost structure of producing X / sales)
x Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
• High fixed costs
• Low variable costs
• Firms price at marginal cost.
• There is excess capacity
• American has tried and failed to discipline the other players. Firms in bankruptcy (eg TWA) undercut the major players' prices.</td></tr>
<tr><td colspan="2"><u>Additional information</u>
NOTE-
• The majors are losing money (negative profits), but they have strong cash flow (there's lots of depreciation.
• Some firms, like Southwest, are profitable. Why? Southwest is a regional, low cost player. It is not a full service carrier</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Recycled Aluminium

Case Details

You are in a meeting with a client who mentions that she is considering building a new plant. The new plant will require 100 million tons per year of recycled aluminium as an input. Your client turns to you and asks you if there are 100 million tons of recycled aluminium available in the US on a yearly basis. You do not have that information of the top of your heard. How can you answer the question on the spot?

Frameworks	Category
__Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis x Other: Logical thinking __Not applicable	__Market Research (How big/good is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis x Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy __ New product introduction __ Academic (eg derive theory of comparative advantage) __ Other

Possible Approach

- I know that soda cans are made of aluminium. Let's assume that soda cans are the major source of recycled aluminium. Also, let's ass8ume that people drink 5 cans of soda per day.
- 350 days / year x 5 cans / day / person = 1,750 cans per year per person
- Let's assume there are 17.5 cans in a pound of aluminium.
- That means there are 100 pounds of aluminium per year per person
- There are 250 million people in the United States
- That means that there are 25,000 million pounds per year.
- Since 2,000 pounds = 1 ton, there are only 12.5 million tons of recycled aluminium available per year.

Thus there is not enough recycled aluminium available per year in the United States

Additional information

WHAT NOT TO DO-

- Make the maths too difficult for yourself. It is acceptable and very wise to round off. For example I used 17.5 cans in a pond and 350 days in a year as they are close enough and they make the calculations easier.
- Forget to state your assumptions - there are several assumptions you'll have to make to come to an answer. Make sure you state what they are. It is better to make an assumption that your are not sure of than to stop and not to get to an answer. Once you have an answer, it is perfectly acceptable, and advisable to say "I've made several assumptions to come to this answer. One I am not sure of is my assumption about how many cans make up a pound. I said 17.4 cans are in a pound. If there are really twice tat many, I would have to adjust my number as accordingly. Of course that would not change my bottom line answer. There would still not be enough recycled aluminium

Case given at LBS interview in '96	No

Fast Food Chain

<table>
<tr><td colspan="2"><u>Case Details</u>
Your client has just bought a 30 unit regional fast food chain. Profits of the chain are negative. What could be wrong?</td></tr>
<tr><td><u>Frameworks</u>
__Porter's Five Forces
__Three P's and the D
(Product, Price, Promotions and Place / Distribution)
x Three C's (Company, Competitors and Customers)
__Financial statement / industry average analysis
__Other:
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
x Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
1. Revenues - Costs = Profit
2. Revenue = Price x Quantity

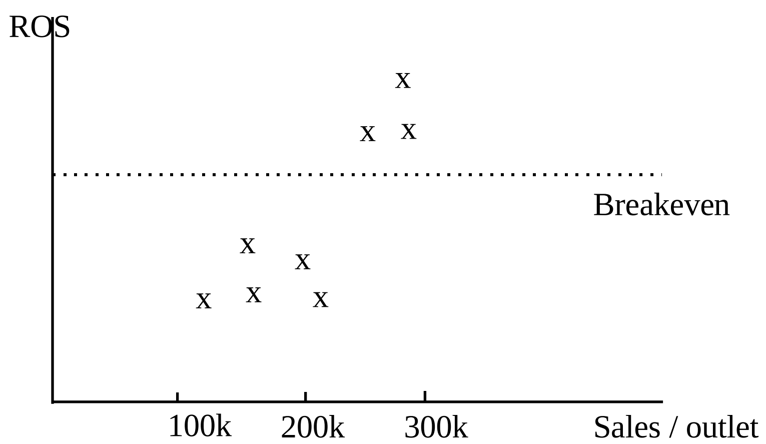
What could be wrong:
• The regional economy is in a recession
• The units are below minimum efficient scale
• Competition has increased (more Taco Bells) - now our price is too high, so customers go to competitors who offer better value for the money (ie our quantity is low)
• NB - Each store has its own story - you will probably have to move to the store level to understand what is going wrong</td></tr>
<tr><td colspan="2"><u>Additional information</u>
• None</td></tr>
<tr><td>Case given at LBS interview in '96</td><td>No</td></tr>
</table>

Long Life Bulbs

Case Details A light bulb manufacturer currently sells light bulbs for £1 that last 1 year and cost 50p to produce. There are three other competitors, and each of the 4 producers have 25% market share. They develop a new light bulb which lasts 10 years and costs £1 to produce. You can produce either the old or the new bulb. Which one do you decide to sell?	
Frameworks __Porter's Five Forces __Three P's and the D (Product, Price, Promotions and Place / Distribution) __Three C's (Company, Competitors and Customers) __Financial statement / industry average analysis __ Other: x Not applicable	Category x Market Research (How attractive is the market for X?) __ Cost / revenue (Cost structure of producing X / sales) __ Industry Analysis __ Brain Teaser /Creative bullshit! (How many rats in Chicago?) __ Business (SBU) Strategy x New product introduction __ Academic (eg derive theory of comparative advantage) __ Other
Possible Approach! Produce the new light bulb, because; • Company must have low variable costs and high fixed costs, so you want volume. • While the bulb could be sold at a price where consumers are indifferent between the two types, a lower price could lead to increased market share. • Just because it lasts for 10 years, it will not ruin the industry. The higher price should compensate producers for reduced overall volumes. • A potential problem with increased production is that if your competitors develop the new bulb and regain their market share, you will be left with excess capacity	
Additional information None	
Case given at LBS interview in '96	Yes

Sales Outlets

<table>
<tr><td colspan="2"><u>Case Details</u>
Below is a graph showing sales per outlet versus return on sales (ROS). (Each x represents one store.) What hypotheses can you come up with for why some points are below the break-even line.</td></tr>
<tr><td><u>Frameworks</u>
__Porter’s Five Forces
__Three P’s and the D
(Product, Price, Promotions and Place / Distribution)
x Three C’s (Company, Competitors and Customers)
__Financial statement / industry average analysis
__Other:
__Not applicable</td><td><u>Category</u>
__Market Research (How big/good is the market for X?)
x Cost / revenue (Cost structure of producing X / sales)
x Industry Analysis
__ Brain Teaser /Creative bullshit! (How many rats in Chicago?)
__ Business (SBU) Strategy
__ New product introduction
__ Academic (eg derive theory of comparative advantage)
__ Other :</td></tr>
<tr><td colspan="2"><u>Possible Approach</u>
Hypotheses
• These are new stores
• They are below minimum efficient scale
• They are in bad locations</td></tr>
<tr><td colspan="2"><u>Additional information</u>
• None</td></tr>
<tr><td>Case given at LBS interview in ‘96</td><td>No</td></tr>
</table>



Book Publisher

Case Details

A strategy to help a major book publisher explore new strategic opportunities and risks.

Frameworks	Category
x Porter's Five Forces __ Three P's and the D (Product, Price, Promotions and Place / Distribution) __ Three C's (Company, Competitors and Customers) __ Financial statement / industry average analysis __ Other: Competitor analysis __ Not applicable	__Market Research (How big/good is the market for X?) __Cost / revenue (Cost structure of producing X / sales) __Industry Analysis __Brain Teaser /Creative bullshit! (How many rats in Chicago?) x Business (SBU) Strategy __New product introduction __Academic (eg derive theory of comparative advantage) __Other :

Possible Approach

- Buyer power has been increasing due to the movement away from the corner book store towards the large chains that give discounts to readers off the publisher's price.
- Increasing substitutes caused by video games, books on tape and video on demand.
- Increasing competition between publishers causing reduced margins (buyer power) and saturated market (increasing substitutes) and proliferation of titles. Also no real branding among publishers that published the last book that you read?)
- Increasing competition leading to higher advances to well known authors (millions of dollars in many cases).

Conclusion:-

- Become a market leader by announcing new terms and conditions for the large book retailers. If the other major players in the industry follow the lead, the industry may become more profitable as a whole. If not, the client may need to move back to the old terms in the industry.
- Focus on the books or types of books that have an expected positive NPV. The proliferation of books probably has caused many unprofitable titles.
- Forward integrate into bookstores

Additional information

None

Case Given at LBS Interview in 96	No

V. Index for Sample Cases

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