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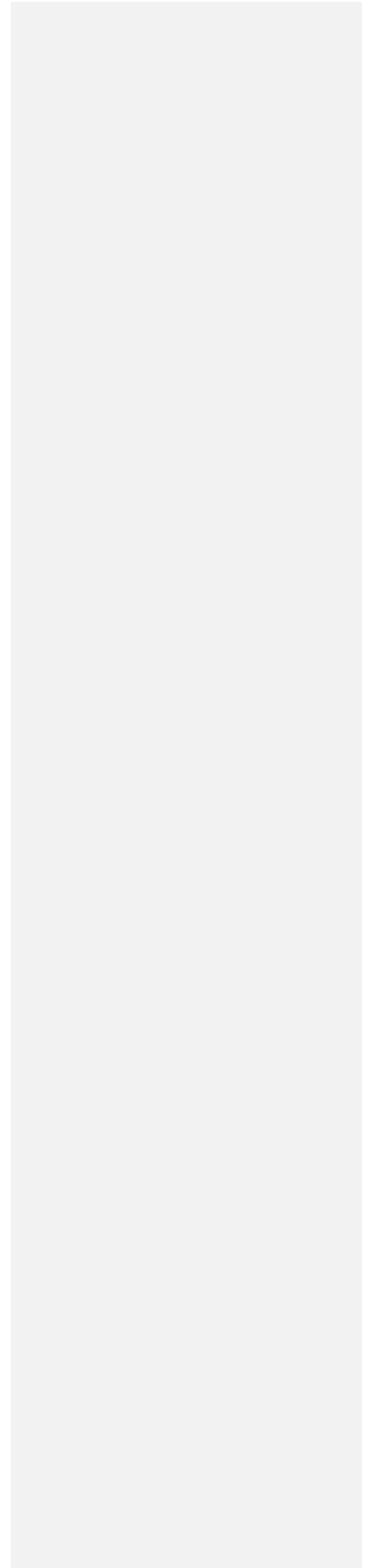

Stern School of Business
New York University

Case Interview Preparation Guide

INTRODUCTION

A consulting interview can be among the most intellectually challenging interviews you face while at Stern. A typical interview consists of both behavioral and case type questions. You can prepare for the former by carefully reviewing your resume and developing good answers to the questions most commonly asked. The latter, on the other hand, requires more rigorous preparation and is the focus of this guide. As the case interview measures your ability to assess an unfamiliar situation, uncover and address relevant details, and arrive at a conclusion while clearly communicating all these steps in a structured fashion, you cannot prepare your answers in advance of anticipated questions. That is not to say that you cannot prepare for the cases. If you learn basic frameworks and practice applying them to various business situations, your skill level will improve, as will your chances of impressing your interviewer with your business acumen. We hope you find this book a useful resource for your consulting interviews.

Of course the most important aspect of readying yourself for the case interviews will be practice. You will gain far less value by simply reading the cases than by having a classmate case you. Be forewarned that while most successful (and unsuccessful) interviewees will state that a certain amount of casing is essential, too much can lead you to look for typical responses in situations that require original approaches. Case practice should help you think openly in a structured fashion.

Good luck!

Management Consulting Association
Stern School of Business
New York University

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We hope to refresh the cases in the book on a regular basis. To do this we need your help. Please email us your cases at mca@stern.nyu.edu. Please be as detailed as possible. Every additional good case we get helps later classes prepare for their interviews.

AN APPROACH TO THE CASE INTERVIEW

The following is a suggested approach to the case interview:

A. *Understand the question*:

i. Be absolutely sure that you understand the question. If you do not, then ask for more information. There's nothing worse than an exquisitely structured analysis of the wrong question.

ii. Ask the interviewer additional questions to add information as you flesh out the problem. Do not assume the first question the interviewer asks is the topic of discussion. Rarely does an interviewer state the entire problem at the start. Part of what is being tested is your ability to ferret out information.

iii. Interviewers generally will lead you down a path towards the answer they want. Be open to hints they might be providing.

iv. Be careful about assumptions. Don't make any that aren't necessary. If you must make assumptions, communicate to the interviewer that you are making the assumptions and state why you are making them.

B. *Choose a framework*:

i. Choose an appropriate model. Don't try to match a complex product/market expansion matrix to a question that is easily answered with a simple SWOT analysis.

ii. Stick to models that you know well. No one knows every model in existence. Learn a few models very well that you can keep in your tool bag.

iii. Have a passing acquaintance with the most popular frameworks. On occasion an interviewer will ask you to use a particular framework to analyze the scenario.

iv. Once you've chosen a framework, don't announce your model to the interviewer. It is expected that the interviewer will understand what you are doing, and telling the person that you are using, for example, a value chain analysis will not help your case. This is the exception to the 'more communication is good' rule.

C. *Analyze the case:*

i. This is the meat of the matter. Using the framework you've chosen, conduct an analysis.

ii. Ask questions to get more information. This cannot be overemphasized. Communicate your thought process throughout the whole interview. Many interviewers are very helpful and will assist you if they see you stray from the path.

iii. Be willing to change tack. Sometimes it turns out that you chose an unsuitable framework for the analysis. Communicate to your interviewer what you're doing and that a different type of analysis is warranted. You might get dinged but you might also survive and get points for being flexible.

D. *Arrive at a conclusion*:

i. Consultants don't do much good if they can't come up with an answer at the end of an analysis. Be sure to arrive at some type of conclusion even if it is a framework to further evaluate the problem.

ii. Include real recommendations for the company as applicable. Concrete actions are much more impressive than vague strategies.

iii. Do a "sanity check," i.e., address or consider any key variables where changes could significantly impact your analysis and conclusion. Also ask yourself, "Does this answer make sense?" Use common sense.

CASE INTERVIEW TOOLS

Once you have assessed the situation by gathering information, the next step is to determine what framework you will use to structure your analysis. To begin, it is important to keep in mind that for any case there is no 'correct' answer. Some models work better for specific situations than others, but more important than choosing the very best model is demonstrating your ability to use models. The interviewer will examine the process by which you arrive at your final answer more than the final answer itself. Having said that, it is also critical that at the close of the interview you do formulate a final answer to conclude the process.

What follows are a number of popular case models. This list is not meant to be an exhaustive compendium of all the analytical models available to consultants. It is a list of models that we've found useful in the confined scenarios of case interviews. Models chosen are fairly straightforward, flexible, and applicable to a large array of situations. It is not important to try to memorize them, but rather to understand a few different types and be able to use them well. Have a passing acquaintance with the models you choose not to use.

I. Porter's Five Forces

Porter wrote the book on strategy. Some say it is dated, but for industry analyses the five forces approach still carries a great deal of weight. The appendix has more information.

- Customers: The relative bargaining power of customers and other buyers
- Suppliers: The relative power of vendors and other suppliers
- Competitors jockeying for position: Competitive environment in the industry
- Threat of entry by new participants: Barriers of entry and current profitability of the industry compared to other industries
- Threat of substitutes: The degree to which the firm differentiates its product

This framework is extremely flexible and can be used for cases involving almost any industry. It is best applied to cases that involve corporate strategy and new opportunity questions. By analyzing each of the five forces and their related areas, you should be able to come up with insight as to what course of action should be taken for the company in question. Be careful though--don't spend too much time dwelling on any one force, because you could easily use up a whole hour. Keep your goal in mind and drive towards a solution to the question at hand.

A major limitation of the Five Forces Model is that it does not take several important market forces into account: Government (Regulation/Tax), Technological Change, and Alliances (Partners). Whenever appropriate try to include these issues in your analysis.

Pertinent case question: Should a cable news channel enter the new magazine market to leverage its sales?

Once you establish whether or not they can enter the market, you have to judge the profitability of the magazine industry. How competitive is it? Are Internet sites a substitute? Are there any barriers to entry?

II. The Three Cs

This is an excellent model for analyzing strategy problems involving new opportunities. Be sure to include a fourth C--What is the impact if anything *changes*?

Company

- What resources does your firm have?
- What are your firm's strengths and weaknesses?
- What is your firm's value proposition to the customer?

Customers

- What is your market?
- What are the customer needs?
- How will we satisfy those needs?

- How much are customers willing to pay?

Competitors

- Who are your competitors and what are they doing?
- What are their strengths and weaknesses?
- How are they meeting the customer's demands?
- What is their cost structure?

Pertinent case question: Should an entertainment company put all its movies onto a digital medium instead of using reels of film?

Can the company do this? Will it increase profitability and value to the consumer? Will the theatres, your customers, use the digital medium? Do they need to be incentivized in the short term? What is everyone else doing? Will there be competing standards? Can we improve value and/or reduce cost relative to competitors if we do this?

III. Profitability Analysis

Remember managerial (cost) accounting? Little did you know it was providing you with useful case analysis material! One type of analysis involves the go/no-go decision. Should a company agree to fill a special order? Is it even worthwhile for a company to stay in business? These types of questions can be answered with quick and dirty profitability analysis calculations. Don't get out Excel for this. All the interviewer wants to see is that you can do some quick but marginally accurate back-of-the-envelope calculations. Here are the basic components for those of you who don't remember managerial accounting:

- Revenue = Price x Quantity
- Total Variable Costs = Quantity x Variable Cost per unit
- Total Costs = Fixed Costs + Total Variable Costs [Fixed Costs = Equipment, Administrative, etc.]
- Profits: = Revenue – Total Costs

Don't forget issues related to opportunity and sunk costs.

Pertinent case question: A gas station/mini-mart has increasing revenues but decreasing profits. Explain.

Is the revenue increase based on an increase in unit sales or price increases? Is there a changing product mix towards higher sales of lower margin items? Have fixed costs increased? Has labor and marketing become more expensive? Has COGS increased? What accounts for the increase?

IV. The Four Ps

This model is useful for marketing and new product development case questions. Each P describes a different set of issues to be addressed when analyzing a marketing question. The four Ps are:

- *Product*: Product design features, product differentiation, product quality, and product packaging. Also includes warranty and service issues.
- *Price*: Product cost, product price (and contribution margin), discounts, and profit margin for retailers.
- *Promotion*: Advertising, reputation, consumer awareness, and special promotions.
- *Place*: Distribution, time to market, and product positioning.

Pertinent case question: We want to introduce a DVD writable machine. What approach do you recommend?

Try to understand what the product does, especially relative to what else is out there. How do you want to price it: cost plus pricing, cream skimming or market saturation? Will you have behavioral or fact-based advertising? Will you sell the product in stores or directly to consumers via the Internet?

V. The Value Chain

Value chain analysis is an excellent tool for analyzing value-added processes. The idea is to analyze the entire chain of events through which a product travels to get to the customer. A twist on this is to analyze how a new system—automation, for example—will affect a product's value chain. This tool is best applied in operations-type questions and can be changed to fit the particular situation. In other words, don't get stuck on the five categories listed here--for your case, maintenance or R&D, for example, might be pertinent categories. One of the most important qualities to display in interviews is the ability to adapt the tools you have to the situation at hand.

- Inbound Logistics: Receiving and processing of incoming raw materials and supplies.
- Operations: Describes the core function of the company. This could be anything from data input to manufacturing, depending on the nature of the company.
- Outbound Logistics: Delivery to customer. This can include categories like packaging, storage, and installation, depending again on the nature of the company.
- Marketing and Sales: If you need this explained to you, don't bother interviewing.
- Service: This includes items from maintenance contracts to customer handholding.
- Support: This includes finance and accounting, human resources, etc.

Pertinent case question: A beer company wants to sell bottled water. Is this a good opportunity?

Do they have access to clean water at a reasonable price? Do they have the ability to bottle the product at a cost comparable to others in the industry? What is their existing distribution system/marketing? How strong is their sales force? Is it useful for selling bottled water? How much strain does their existing back office operations experience?

VI. SWOT

This is an acronym for:

- **S**trengths: These include advantages arising from the objectives, values, mission, resources, and systems of your company and of your competition.
- **W**eaknesses: The opposite of strengths.
- **O**pportunities: What are your markets? How are they developing? What are your likely avenues for growth? Are there any industries related to yours that may offer greater revenue, economies of scale, or economies of scope?
- **T**hreats: Industry trends, outside constraints, trade unions, regulations, competitor activities.

SWOT is a quick-and-dirty type analysis tool that is easily applied in numerous situations. It is best used in shorter cases that don't require a complex analysis.

Pertinent case question: See Southwest Airlines.

VII. Matrices

Try to gain familiarity with these and others. Matrices are like heroin to an industry addicted to PowerPoint. Some of the more familiar ones are shown here. Don't be afraid to make up your own.

A. A. BCG Matrix

One of the tools from Boston Consulting Group's bag of tricks, the 2x2 BCG Matrix is excellent for acquisition analysis and portfolio management questions. The matrix is broken into four quadrants based on market share and industry growth rate.

Industry Growth Rate	Market Share: High	Market Share: Low
High	Star	New Venture
Low	Cash Cow	Dog

The ideal mix for a conglomerate is to hold stars and cash cows in its portfolio while unloading any dogs it owns and nurturing promising new ventures. When the case question involves a company looking to grow through acquisition, the ideal candidates are stars or new ventures depending on available resources and the company's intentions. A company would most likely not want to expand into a market that has a low growth rate, eliminating cash cows.

B. **Product/Market Expansion Matrix**

A good tool for marketing and competition questions, the product/market expansion matrix analyzes your product and market in a 2X2 matrix. Products and markets are differentiated as existing or new. By analyzing market and product status, the appropriate strategy is determined from the matrix. If you use this framework, you might consider drawing the matrix for the interviewer. Matrices impress the hell out of people.

Market	Products: Existing	Products: New
Existing	Market Penetration	Product Expansion
New	Market Development	Diversification

C. **Porter's Generic Strategies**

This matrix provides a visual representation of Porter's Generic Strategies with respect to corporate strategy for individual products. The cost of the product and the scope of the market drive strategy. If your market scope is broad, then your product strategy depends on product cost. If your product cost is less than the competition's product cost, then you can differentiate your product through low-cost leadership and win market share that way. If your product cost is high, then you must differentiate the product in another way, such as high quality or superior service. In the case of narrow market scope, the company is best served by focusing on its niche, possibly by finding ways to raise entry barriers.

Strategic Target	Strategic Advantage: Lower Cost	Strategic Advantage: Differentiation
Broad	Cost Leadership	Differentiation
Narrow	Cost Focus	Differentiation Focus

VIII. Synergies

This approach can be used in many situations, but is especially useful in analyzing the potential benefits of mergers or acquisitions. Synergies can come in many forms, but these are the most common:

- Spreading fixed costs over greater production levels
- Gaining sales from having a larger product line and extending brands
- Better capacity utilization of plants
- Better penetration of new geographic markets
- Learning valuable management skills
- Obtaining higher prices by eliminating competition

Always consider synergies as part of a larger profitability or five forces analysis. Does this acquisition/divestiture make me more/less profitable? Does a vertical acquisition create a barrier to entry or reduce the power of suppliers?

IX. Internal/External Analysis

This framework is used in organization versus environment cases where the internal portion of the analysis refers to the organization and the external portion refers to the environment. Including other tools on the internal and external sides can then expand the analysis. Internally, for example, a value chain analysis and externally, Porter's Five Forces.

Alternatively, for a simpler case question, merely listing internal and external factors may be preferred. For example, when asked the cause of a company's success you could list internal and external factors.

X. Supply/Demand Analysis

As Professor Silber would say, supply and demand is the right answer 95% of the time. We all have the basics of supply and demand curves down. This simple model can be very useful so don't overlook it.

Pertinent case question: Taxi cab drivers want to limit the number of medallions issued. Passengers claim there are not enough taxis on rainy days or during rush hour. Explain.

The supply of drivers is high during off-peak and the demand for service is high during peak times creating two markets. Can we supply a tax or subsidy to increase drivers during peak times and decrease cars during off peak times? (Maybe draw a graph—again, consultants love eye-candy.)

XI. Cost-Benefit Analysis

Cost-benefit analysis is one of the best ways to get a quick idea of whether an opportunity makes financial sense or which way to go when facing a business decision. Start by identifying your options and your opportunity costs. Once you have determined your alternatives, list the costs and benefits for each. This analysis generally uses the same ingredients as profitability analysis.

XII. Market Sizing

Market sizing questions can be part of larger case questions and can also be stand-alone problems. These are designed to get an idea of how you understand a market, but also to test your quantitative skills. Undergraduate liberal arts majors should expect to perform a market sizing in their interviews. Nothing requiring a calculator, but you should be comfortable with basic addition, percentages, etc. In trying to size a market remember the following framework:

- What is it used for?
- Who uses it?
- How often is it used?

The salient idea is to keep it simple and not make the problem any more complicated than it needs to be. Use round numbers, estimate, and, especially if you are uncomfortable doing math by hand, stay relaxed. Do not give the impression that you are afraid of numbers!

Some Handy Rules of Thumb for Market Sizing Questions

- US population = 300 million (easier to work with than 250 million or 275 million)
- Average number of people per US household = 3
- Number of US households = 100 million

Pertinent case question: How many eggs are produced annually in the United States?

What are eggs used for? (cooking, baking) Who uses them? (300 million people in US) How many do they use per week? (a couple for breakfast and some more in bread, pasta, etc.) Do the math!

SAMPLE CASE QUESTIONS AND SUGGESTED ANSWERS

The following section consists of actual questions recently asked to Stern students. We note the firm that asked the question, if known. The actual candidate wrote the suggested answer and any editorial that appears. You will find a variety of questions.

Q: A British insurance company is facing two issues. New legislation will require all insurance companies to disclose their cost structure and management fees to the public. Secondly, new, smaller competitors have emerged that sell directly to the end user. These companies are able to underprice the client and they have gained market share. How would you advise the company to respond? (Booz•Allen)

My response: I would first want to know how this client competed in the market place. Does the client offer a differentiated product for which it is able to sell at a premium price, or does the client sell a commodity product that must sell at the market price?

If the CEO of the company is concerned enough to call in a consulting company, then the new competitors have taken enough market share to be considered dangerous. Therefore, I would want to examine the cost structure of the client.

Interviewer: How would you do that?

I would start by mapping out the processes involved with writing a policy, beginning with a phone call or a letter that requested a policy to be written, and continuing with order entry, policy writing, credit approval, final construction of the physical product, and mailing or faxing the document to the customer for approval.

I would attempt to calculate capacity utilization for all the functional areas. If utilizations were too high in some departments and too low in others, I would look at training people in the less utilized areas to do be able to do the work in the higher utilized areas. If too many or all departments were underutilized, I would look at staff cuts and/or consolidating different functional areas. Perhaps some work that formerly justified its own department has become automated and no longer justifies employing specialists to perform the work.

I would also look at how much time it took for the request to make it through the system. Perhaps the hand-offs between departments are not smooth. Maybe documents sit in an out box for a day or two before being passed on to the next department.

Interviewer: OK, that sounds good. This client also ran an in-house data center that was largely constructed in the 60s and 70s. The client was concerned that this might be a large cost that justified attention.

I would first try to measure the percentage of overall costs for which the data center was responsible. If this was a large percentage relative to other cost centers, then I would want to investigate this sooner rather than later. Let's assume that it is a large expense and deserves some attention. I would look at a few possible solutions.

The system has been around for a long time. Perhaps additional capabilities have been added over time. If some parts of the system are not compatible with other parts, or if there are redundancies in the system, I might suggest eliminating the redundancies and ensuring that all parts of the system were able to share the same data.

I would also investigate whether new technology was available that could be used to replace the legacy system. The cost of a new system might be justified when balanced against the maintenance costs of the old system. Additionally, if the new system could speed up response time or reduce errors, then these benefits should be factored in to the equation.

Finally I would look at outsourcing the entire data center.

Interviewer: How would you go about that?

I would use cost/benefit analysis. I would attempt to measure the cost savings from eliminating the data center. These would include salaries, the energy costs associated with running the system, and the overhead cost of the space that the data system occupied. I would measure these against the price to be paid for outsourcing the data center.

Interviewer: Good, let's stop there. There is no right answer of course, but for this particular project we did end up eliminating several departments and cutting jobs. We also looked at best practices in the industry to help us in determining these reductions. Additionally, we suggested outsourcing the data center, but there was strong resistance to this by the individual who ran the data center. He was able to defeat the proposal and we ended up patching up the old system and expected this to be a short- term (2-3 year) solution.

Note: The interviewer mentioned the he did not expect me to know about best practices. I responded that I was aware of best practices and that I should have mentioned it. In general, the case discussion lasted for perhaps 20-25 min.s of the 45 min. interview.

Q: I have a business opportunity. I can import a product from Europe for $20/unit. The shipping rates are as follows: $10/unit for the 1st 100 units, $20/unit for the next 50 units, and $30/unit for all units above 150. I have fixed overhead expense of $1000. I can sell the product for $45/unit and I can sell as many as I import. Can you draw me the marginal cost-marginal revenue graph and the total cost-total revenue graph? (Booz•Allen)

Answer: MC - $30 for 1st 100 units, $40 for next 50 units, $50 for units above 150.
MR - $45 for all units.

Ideally you would want to produce at the point where MR=MC. In this case however, MR is greater than MC for the 1st 150 units. ($45 > $30 and $45 > $40) At unit #151, however, MC = $50, which is greater than MR = $45. In this situation, then, 150 units is the number that you would want to sell.

The TR-TC graph: TR starts at the origin and is a straight line increasing by $45/unit. TC starts at $1000 for 0 units. It is a straight line from 0-100units, increasing by $30/unit. It then increases by $40/unit between 100-150 units, and $50/unit above 150 units.

Note: Being an economics major in college, I placed out of microeconomics at Stern. I was definitely shaky on the graphs, but the interviewer helped me through them, rather then letting me drown.

Q: The client is a major commercial airline manufacturer. An individual in the IS department suggests that a new virtual reality technology can replace the current CAD-CAM system for designing airplanes. How would you frame your analysis in trying to come up with a recommendation for the company? (Booz•Allen)

I tried to structure this using the 3Cs - customer, company, and competition.

Customer - Our clients are people who buy commercial aircraft. They are likely concerned with price and with quality. They would also likely be concerned about how long it takes us to respond to design change requests and new designs for airplanes as well.

I would ask the following questions. Will this new technology save us in production costs, allowing us to sell planes for less money while making more money? Will the new technology allow us to bring planes to market with fewer bugs/defects, improving quality in the eyes of our clients? Will this technology enable us to shorten our production cycle and bring a product to market faster?

Company - Is this technology viable today or in the near future? Are there competing technologies? Will the companies that we will be buying the new technology from be around next year or in five years? How reliable is the technology? Can we produce the new system in-house? Can we produce a small scale, less expensive model first to see if we can really make this work? Will this technology be able to be copied rather easily by our competitors? Can we make this a proprietary technology and hold on to this competitive advantage longer?

Is the market for commercial aircraft stable or unstable? If it's stable then there may be no need for new aircraft designs in the near future. Our capital might best be used elsewhere if this is the case.

Competition - How will our competitors respond? Will they hire their own consulting company and produce a competing system? How long will this take them to do? Are they focusing on different issues such as fuel consumption or weight and strength of the metal alloys used to manufacturing? Are these more appropriate places for us to focus our attention?

After answering and quantifying these questions, I would look at the cash flows resulting from this project. I would come up with a best-case scenario, a worst-case scenario, and a likely scenario.

Interviewer: How would you incorporate risk into the equation?

In the interest rate that I would use to discount the future cash flows.

Interviewer: Could you be a little more specific about how you would go about determining the proper discount rate?

Sure. If the company had alternative uses for the capital, I would analyze those alternatives. Let's say the alternatives are investing in treasury bonds at 7% or investing in additional parts and labor to help reduce our production backlog. Let's say we calculate that this second alternative would return 11% over the same time horizon as the new technology project. I would use 11% as the discount rate.

Interviewer: Good. Can you foresee any problems with the company's suppliers if we decide to go with this project?

Thanks for the help. If we are going to dramatically reduce our cycle time in bringing new designs to market, we will require our suppliers to design and produce the necessary parts more quickly as well. Perhaps we could share our technology with our suppliers in an effort to help them do this. If ultimately our suppliers could not respond to the new time frame, then we might be investing in great technology that will yield us no benefit whatsoever. This should certainly be considered when analyzing the options.

Interviewer: Good. Let's stop there.

Q: Assume that I have no mathematical ability. How would you explain net present value to me? (Booz •Allen)

First I would take a $100 bill out of my pocket. Well, actually, more like 3 $20s, 1 $10, 1 $5, a bunch of $1s and some laundry change that equaled $100. I would give you an option of taking the $100 now or a year from now. Most people would want the money now rather than wait for it. The idea of forgoing current consumption is the 1st principle of NPV.

Next I would try to get you to put a value on having the $100 today vs. a year from now. I might tell you that there is one investment opportunity that, if you had the $100 today, would enable you to turn the $100 into $200 by the end of the year. There is also a 2nd opportunity where you could turn the $100 into $1000 at the end of the year. Under which investment scenario would you be willing to pay more for the $100? The idea of opportunity cost, what you could do with the $100 if you had it today, is the 2nd principle of NPV.

Interviewer: If I had two boxes on my desk and I told you that the NPV inside of both boxes was the same, what else would you want to know before selecting a box?

I would want to see the cash flows. I would prefer to get more money sooner rather than later.

I would also want to know the time horizon of the two projects/investments. A shorter time horizon is preferable.

I would also want to see how you incorporated risk into your NPV calculations. Did you do this in the cash flow calculations, attempting to attach probabilities to the cash flows or perhaps calculating best case, worst-case, and likely case scenarios, or did you do this in the discount rate by assessing your next best investment opportunity? In either case, if I thought that you had underestimated the risk in one of the NPV calculations then I would recalculate the NPV, revising it downward.

Q: You have been hired by a client, Quotron, which makes and sells systems that deliver financial news to brokerage houses via computer terminals that the clients purchase and pay for on a yearly basis. Their largest client, Merrill Lynch, has decided not to renew their contract. Citibank has recently purchased Quotron. Quotron thinks that Merrill has discontinued the contract because a competitor now owns Quotron. Nevertheless, they are concerned and want your advice. What would you do?

First I would want to test Quotron's assumption that the reason behind Merrill's decision to not renew the contract stems from the recent Citibank acquisition.

Interviewer: How would you go about that?

I would try to find out whom the person(s) at Merrill is who made the decision and talk to him about this.

Interviewer: Let's say I am that person and I have agreed to be interviewed by you. What do you want to ask me?

I would ask questions about what the reasons for the decision were and how Merrill intended to use the new software that they were going to develop. (Strictly for internal use? Or would they also try to sell the service to other brokerage houses?)

It turned out that Merrill required some additional services that Quotron did not offer. Merrill had approached Quotron about customizing the product, but Quotron seemed uninterested. Merrill then researched the possibility of building their own system. They now think that they can build a system internally for less than what Quotron currently charges them. They intend to use the system internally only. The issue of Quotron recently being purchased by Citibank was never mentioned.

Interviewer: Good. What would you do next?

I would tell my client, Quotron the results of my interview. I would then try to figure out if Merrill really could develop a system today that would do everything that they want it to do, for less than Quotron currently charges.

Interviewer: Good. That's exactly what we did. Once we researched the issue, here is what we found. (He drew a graph with # of branches on the vertical axis, and # of people/branch on the horizontal axis, and a slightly downward loping line that represented the 'equilibrium line' where the costs of building the system would exactly match the benefits.) Merrill was the only company above the line (meaning it did make economic sense for them) and all other brokerage houses fell below the line. What would you tell Quotron?

First, in the immediate term it looks like Merrill is the only customer who is likely to defect, which is good. However, Merrill, having canceled their contract for next year, apparently thinks that they can build their own system from scratch in less than a year, which, if true, is worrisome. I would be concerned that Merrill will, in fact, go into direct competition with Quotron.

I would also be concerned about consolidation in the brokerage industry that might bump some of the smaller houses above the line where it would make sense for them to build their own systems rather than buy from Quotron.

Additionally, the costs of building a new system from scratch may go down quickly in the near future as hardware and software costs continue to decline rapidly from year to year. This would shift the equilibrium line on the graph downward, bringing more brokerage houses above the line.

So Quotron needs to begin researching ways to improve the quality of their system and lower their cost structure if they want to continue to be an attractive option for brokerage houses in the future.

Interviewer: Great. Let's stop there.

Note: My Booz•Allen interviewer did a good job of making the interview, especially the case part of it, seem less formal and intense than I might otherwise have expected. They emphasized that there is no correct answer and that they simply want to see how I would work my way through a problem. This, while not completely eliminating the pressure I felt going into the interviews, did help.

Also, I never got the impression that my interviewers were not taking me seriously because I was from NYU. (I was participating in an interview schedule consisting of MBA1s from Columbia and Yale. My interviewers were predominantly from Columbia as well.) One interviewer even complemented the NYU program. Another asked if there were other NYU people on the schedule. He asked this in an inquisitive manner, not a suspicious one.

Q: Your client produces one commodity chemical product. They experienced a sharp decline in profit this past year. The CEO of the company has hired you to find out what happened. (BCG)

I first stated that Profit = Revenue – Cost. So I would look at both the cost and revenue sides. First, on the cost side, I would examine every step along the value chain and determine if its cost structure is above the industry average.

Value Chain: R&D - Raw Material - Production - Distribution - Sales/ Marketing

At this point, the interviewer said that I could assume unit cost remained constant. There is no significant change in output volume (economies of scale). He also suggested that I move on to the revenue side.

I chose the Five Forces Model to analyze the market. After several questions, I found the following information:

- There are four players in the market, each of which has a similar market share
- Overall market demand declined slightly
- There was no addition to production capacity during the last year
- Our client has gained market share during the last year
- There was no new technology or replacement product developed last year

At this time, the interviewer asked for my best guess.

My solution: Our client has been gaining market share at the expense of other competitors. Since this is a commodity product, price is a major factor. It looks like our client has been cutting price to buy market share. While its cost remained the same, its profit suffered.

Next, the interviewer asked me, given what I know about the market, who sets the market price?

First I assumed that the market has perfect competition, and demand is fixed at any given time. Then I arranged the capacity of the four firms according to their cost and indicated these on a graph.

Q: Estimate how many Mazda dealers there are in the US. (BCG)

1. 10 million new cars/light trucks are sold in the US every year
2. Japanese makers have 25% market share
3. Toyota, Honda, and Nissan each have 25% of that; five secondary manufacturers, including Mazda, have 5% each
4. So Mazda sells about 125,000 cars in the US per year
5. Assume profit for each car is $400 for the dealer, so total dealer profit is $50 million
6. Assume normal profit margin is about 10%, i.e., total dealer cost is about $500 million
7. Assume operating cost for a dealership is $2.5 million/year

8	So there should be around 200 dealers

Next, the interviewer stated that Mazda North America wants to know why certain dealers have a much higher profit than other dealers do.

I used the Five-Forces model to analyze the market. Issues covered included:

- Difference in consumer taste in different regions
- Difference in household income in different regions
- Different levels of competition
- Consumer buying habits
- Different dealer size (scale of economies)

Then the interviewer asked what if there are two dealers located close to each other and everything else is very similar, except one dealer is a lot more profitable than another.

The solution is that the one with high inventory turnover would be much more profitable.

Finally, the interviewer asked me to list all sources of dealership revenue and rank them by profitability:

- Parts - it is a captive market where dealers can charge high prices. Also, once the dealership is set up, there is no fixed cost. And dealers buy on credit, so very little working capital is required.
- Accessories, add-on insurance, and others - same reason as above.
- Car sales - high competition and high fixed cost prevent dealers from making economic profit.
- Services - high competition and high fixed cost prevent dealers from making economic profit.

Q: A consumer product manufacturer has a factory in China to supply the local market. It has been losing money for the last 10 years. You are hired to find out why. (BCG)

I used a Cost/Revenue analysis. The only question the interviewer had on the cost side was how would I determine if their cost is high. I would compare the cost structure of this plant in China with other plants in the US or other countries.

One the revenue side, I used the Five Forces model. Issues covered:

Consumer buying habits
Level of competition
Market positioning
Raw material supply
Consumer education
Market segments
Distribution

Then the interviewer said that their consumer survey indicated that their price was too high. However, in reality, that was not true. Among the three foreign brands, the client's product was priced in the middle. So why is this and how can the client correct it?

The reason was that their package size was slightly larger, so they charge more for their products. But consumers think that they are more expensive. To correct that, I suggested they change their package size, and lower their price to be the lowest, since the prices of the three foreign brands are very close.

Finally, the interviewer asked me how to estimate the overall market size for this client in China. After a few different suggestions, he bought the idea that consumers start buying certain types of products when their disposable income reaches certain levels. And data on disposable income is available in China.

Q: How would you determine the costs of messages (email, voice mail, faxes)? (AT Kearney)

I spoke about investment in infrastructure; ongoing maintenance, which is primarily labor (e.g., email requires a lot of maintenance and voice mail does not); and marginal costs (e.g., paper for fax machine, minimal for digital transmission). I discussed how all these costs must then be divided by the number of messages sent via each medium to determine the cost per message. We went on to discuss whether it is possible to influence messaging behavior so that a greater proportion of messages are sent digitally, which would reduce costs per message.

I was doing some work on a related topic and the interviewer chose to use my experience for the case portion of the interview. She approached the case in a discussion-like manner. It was very casual and interactive.

Q: A diversified company is considering merging two consumer product divisions. One of them is very innovative and the other is not. Should the two firms be merged? (AT Kearney)

I first asked what was the impetus for considering the consolidation. I then explored some of the potential synergies of a merger (e.g., eliminating redundant operations). I also asked about the firm's history of similar types of mergers. I talked about the potential opportunities for increasing the level of innovation of the less creative division but also about the potential concern of just the opposite, the watering down of the more creative organization.

The interviewer was interested in having me go down the innovation path and he asked me how would I go about transferring the innovation of one firm to another. I first attempted to define what made up innovation and I mentioned product development (R&D) and marketing. I discussed the need to explore the processes involved within these functions (some reengineering-type issues) and also about having the leadership for these responsibilities transferred to the more creative firm. He further probed about "processes" and I discussed cycle time and project management in the R&D department.

In general, the approach of the interviewer was to ask very broad questions, listen to my big-picture response, then quickly choose one path and go down it in detail. The tone of the interview was very conversational.

Q: Analyze American Expresses retail brokerage offering. Details are as follows:

- **Free trading if you have an account balance of over $100,000**
- **If balance is between $25,000 and $100,000, customers have to pay for sell side only (purchase is free)**
- **For balance less than $25,000, customer needs to pay both buys and sells ($14.95 flat payment)**
- **Free trades are only valid if the position is held overnight. (Booz•Allen)**

I structured this based on the economics of the situation and the strategy. Economics include operational costs of clearing, which was already built for their retail base. Issues include scalability, cannibalization, and economies of scale. The second issue was regarding strategy. The strategy seems to have a cost focus and increase market share. AMEX is a late entrant and their pricing policy clearly indicates their target customer segment. How will they generate additional revenue – the holy grail of cross selling (interviewee should come up with this one)? Is this feasible? Be ready to defend your answer. Do not forget to mention brand value.

Q: Why is there no light beer in the UK?

Suggested Framework(s):

This problem does not fit a common framework, but can be approached by simply dissecting the alternative reasons for each component of the issue. Here is one approach:

The reason there is no light beer in the UK could be that (1) consumers do not demand it; (2) producers are not producing it, despite consumer demand; or (3) some outside influence, such as government, will not permit light beer in the country. Following the producer option, one can subdivide the problem as nobody wants to sell light beer in the UK or somehow, light beer producers are blocked out of the UK.

Q: A major airline is considering acquiring an existing route from Tokyo to New York. How can it determine whether acquiring the route is a good idea?

Suggested Framework(s):

Profitability analysis looks like the best approach. Simply determine if revenue is greater than the costs. Analyze the factors that go into revenue and the factors that go into cost and come to a conclusion.

Notes:

- Occupancy and expected prices will determine revenues. Expected demand, the competitive environment, and the extent to which our client could win over passengers from competitor routes will determine both of these.
- Operating costs will depend on expected fuel costs, incremental landing rights, etc. It is also very important to estimate the cost of cannibalization of existing Tokyo to Los Angeles and Los Angeles to New York routes. And last but not least, it is important to note that losing passengers to cannibalization is better than losing them to competitors.

Q: How would you determine whether a location in New York City has enough banking demand to warrant opening a branch?

Suggested Framework(s):

Because this is a demand-oriented question, one could consider a marketing framework, such as the Three Cs. To bring your case to a conclusion, consider the Four Ps.

Notes:

- The demographics of the area surrounding the prospective branch should be examined. Population, business concentration, income levels, etc. should be compared with those of historically successful branches.
- Competitive reactions could easily make this venture unprofitable, so it is essential to anticipate them. These will depend on the importance of the area to competitors (in terms of profits, share, etc.).
- The client will have to match competitors' incentives to customers and should estimate the cost of these.
- The client must examine whether the new branch would complement their existing competence and strategy (retail or commercial; high growth or high profitability, etc.) and what purpose it would serve. If the need focuses on deposits and withdrawals only, maybe a cash machine would suffice.

Q: How would you compare the airline industry with the baby food industry? In which would you invest your own money?

Suggested Framework(s):

This is a classic industry attractiveness question. Use Porter's Five Forces, or even better, create your own framework for analyzing the suitability of an industry for investment.

Notes:

- It turns out that competition in the airline industry is intense. Fixed costs are high and competitors keep cutting costs till they shave margins to the very bone. Customers are price sensitive. Brand equity is virtually non-existent.
- Using a microeconomics argument, you see that airlines will keep cutting prices as long as they are covering variable costs. Since fixed costs are high and probably financed with debt, these companies can end up defaulting on interest payments.
- On the other hand, the baby food industry is less competitive. There are two or three large players who do not indulge in cutthroat pricing. Products are well differentiated. Customers are quality conscious: they will pay a premium for quality.
- To invest your own money, baby food is better than airlines due to higher profit potential.

Q: A newspaper publisher has been experiencing declining readership and as a result, decreasing profitability. What should it do?

Suggested Framework(s):

First, use the profitability analysis framework to isolate the problem. It's clear from the question that the number of units sold is too low. From here, further analyze exactly what is happening to revenues. Make sure to consider all sources. Once you have determined the core problem with revenue, and then use a marketing framework such as the Three Cs to understand what is happening and the Four Ps to structure a solution.

Notes:

- It is important to recognize that advertisements are the major source of revenue for newspapers. But these revenues are totally dependent on readership.
- It turns out that all newspaper publishers share the same plight and TV is the main culprit. To fight this, the client can, at best, study other markets where TV is prevalent but newspaper readership is high (*e.g.,* Japan) and use any knowledge they gain to promote readership in the U.S. They could share costs via newspaper publisher associations.
- To compete with other newspapers and periodicals, the client can determine customer preferences and tailor contents to them. But any differentiation created will quickly be neutralized by the competition.
- The best course of action is to build mechanisms to continually adapt to changing reader tastes. This could be accomplished by market studies, flexible and versatile staff, etc.
- Also, the client should focus on cost rationalization to increase profitability. This would mean consolidating operations and reengineering them. Consolidation would help in deriving economies of scale, whereas reengineering would increase operational efficiencies.

Q: Your client is a large hardware chain. Develop a growth strategy.

Notes:

- 50% of the market is in the hands of small independent retailers, some of them in cooperatives such as True Value, and the other 50% is held by large chain stores. The share of large chain stores has been growing rapidly.
- The market is expected to grow slowly.
- Customers are primarily consumers, and can be segmented as advice seekers and price seekers. The former make up 40% of the market and the latter 60%.
- There are four large national hardware store chains.
- Chain stores compete among themselves based primarily on price and selection.
- Primary costs consist of COGS, rent, and inventory holding costs.
- A community of 50,000 people in a 5-mile radius around the store can sustain one large hardware store.

Q: Your client operates a steel mill and is concerned about vulnerability to market cycles. What should it do?

Notes:

- Fixed costs are 50% of total costs.
- Demand for steel is highly cyclical. Demand in the trough of a recession can be as low as 70% of the demand at the peak of the business cycle.
- The market pressures the company to pay out excess cash in the form of dividends during upturns in the economy.
- Labor unions are inflexible with regard to work rule changes.
- There is increased competition from mini-mills and foreign competitors.
-

Q: The CEO of a large international manufacturer of aircraft engines wants long-term strategic recommendations. What do you tell him?

Notes:

- The market is an oligopoly with four major engine producers.
- The market consists of civilian passenger and cargo airlines and governments who purchase planes for their militaries.
- Aircraft engines are typically purchased separately from aircraft. The buyer of the aircraft specifies the engine, purchases it, and has it delivered to the aircraft manufacturer for installation.
- The civilian airline industry has approximately 30% over-capacity at this time. 10% of this capacity is not fuel-efficient enough to operate at current average load factors.
- Demand for flights in the civilian airline industry is expected to grow by 8% per year for the next 15 to 20 years as more and more third world countries grow their economies.
- Demand for military use is expected to decline by 2% per year for the next 5 years as the result of the end of the Cold War, and then grow by 3% per year thereafter.
- The economic life of an engine is approximately 15 years while the physical life is 25 years.
- Engines represent 20% of the cost of a new aircraft.

Q: You are the head of a large car manufacturer in Europe. All cars are produced in one major plant and are distributed all over Europe. You have the choice of transporting the cars by train or by truck. Which mode of transportation do you choose? Why?

Notes:

- Cars are currently shipped by train to central distribution points in the different European countries. From there, they are shipped by truck to the various car dealerships.
- The manufacturer owns the distribution points.
- Trains require a minimum load of 100 cars.
- The cost of shipping one car by train to a distribution point is $100.
- Trucks have no minimum load and can transport up to 10 cars at a time.
- The cost of transporting one truckload to any point is $1500.
- Trucking costs from the distribution point to the dealerships are $200 per load of up to ten cars.
- The average truckload shipped to a dealer is 6 cars.
- There are 10 European countries including the one where the factory is located. The factory also serves as a distribution point for that country.
- Operating expenses of a distribution point are $1,000,000 per year.
- Total demand for the manufacturer's cars is 1 million vehicles per year
- 50% of car buyers do not take delivery from dealer stock, but wait for factory delivery.

Q: A U.S. auto-part manufacturer plans a market entry in Europe. How would you go about it?

Notes:

- A typical car manufacturer uses 5,000 different suppliers. The trend is to reduce this number, and work closer with the suppliers.
- Purchase decisions are based on price, ability to adhere to quality standards, and speed and reliability of delivery.
- Car makers are dispersed over Europe, with most of the plants located in Germany and France.
- Your company has a reputation for high quality. Your pricing is competitive, but at the high end.
- Governments offer tax incentives to locate manufacturing plants in their countries. All your manufacturing capacity is currently located in the U.S.
- Exporting products would be 50% cheaper than setting up new manufacturing sites as a result of avoiding fixed costs, increasing economies of scale, and exploiting learning curve opportunities.
- Car sales are expected to grow modestly over the next 10 years, while being subject to fluctuations in the economy.

Q: You are the head of a large steel group. You notice that one of your five product lines is losing market share. What are the possible causes? What would you do?

Notes:

- All of your five product lines are sold to car manufacturers. The products are: thin plate steel for body panels, beams used for structural supports in car doors, bumper attachments, steering column parts, and engine attachments. The decline in demand is for the structural beams.
- Low cost mini-mills are taking over market share.
- It would be extremely difficult for our client to match the cost structure of the mini-mills.
- Mini-mills are only able to manufacture lower-grade steel. They would be able to manufacture any of the five products mentioned above with the exception of the thin plate body panels.
- Car manufacturers are trying to reduce the number of part suppliers and forge closer ties with suppliers.
- In addition to price, quality as well as speed and reliability of delivery are important purchasing decision factors.

Q: A paper producer is contemplating adding capacity. Is this a good opportunity?

Notes:

- The manufacturer is currently operating at 90% of capacity.
- The industry is operating at 80% capacity.
- Demand for paper is expected to grow by 4% per year and is very inelastic.
- The total paper market is 100 million tons per year.
- The minimum scale for a new plant is 1 million tons of productive capacity.
- The company currently sells 9 million tons of paper per year.
- A new plant comes on-line two years after the decision to build it is made.
- Competitors are contemplating adding 10 million tons of capacity in two years and have committed to 5 million of this already.
- The break-even operating capacity of a new plant is at 70% of capacity.

MORE CASE QUESTIONS

See if you can apply a framework to the following questions.

Q: A company has just developed an electronic prescriptions system that allows doctors to directly enter a prescription over a computer system. This prescription is directly transmitted to the pharmacy and can then be picked up by the patient. The company needs money to commercialize this product. What does the success of this company depend on? Should you fund this company? This case had an embedded market sizing question. If they make 25 cents per prescription, what is their potential revenue stream (estimate the number of prescriptions in the U.S. per year)? (McKinsey)

Q: Your client is a satellite company that leases transponders to broadcasting companies. They have only sold three out of ten transponder leases in the last three months. What are they doing wrong and what should they do in the future? (McKinsey)

Q: Your client is a regional Bell Atlantic company. Long distance companies like AT&T now have the power of moving into the space of local telephone service and regional companies can move into the long distance world. In addition, we are seeing consolidation in the industry with AT&T buying up cable companies and we are also seeing some specialized players emerging in the market. What should we do? (Booz•Allen)

Q: You work for a venture capital company and have just been approached by a person who claims he/she has a great idea. This person wants to start a dotcom company for "good food". This site will sell everything from gourmet cookbooks to videos on cooking, gadgets, advertising, and various special cooking events. You have 10 minutes to decide if you should pass this thick business plan on for detailed analysis. What questions will you ask? (Booz•Allen)

Q: Your client sells gourmet food and gift items over the web (online gift retailer). It just went public last year. It is a virtual e-tailer, i.e. fulfillment and distribution is outsourced. They have been expanding and have alliances with some partners for fulfillment. 30% of their orders are from previous customers. They have 20% growth. Their online business is growing faster than their traditional telephone line business. Their goals going forward are to 1) Focus on customer relationships, 2) Expand product lines into other businesses 3) Increase online business and 4) Create better fulfillment. The questions they are looking for you to answer are 1) How should we develop a one-to-one marketing strategy and what are the key metrics we should use to measure performance in this area? 2) What different things can they do to improve order fulfillment and customer satisfaction? and 3) What specifically can they do on their website to improve order processing and fulfillment? (AT Kearney)

Q: Analyze the car collision market to see if it can benefit from consolidation like Home Depot. (McKinsey)

Q: Your client is an asset management firm and is being able to generate gross margins of only 3-4%. Your competitors have gross margins of about 20%. What is going on? (McKinsey)

Q: Your client is Citibank and is evaluating the option of starting a credit card that gives airline miles. Work out the economics to see if this is something that they should pursue. (McKinsey)

Q: Your client is a Japanese pharmaceutical company that has traditionally had an agreement with a U.S. company. The U.S. company would market and distribute their products in the U.S and they would do the same for them in Japan. Now they want to start a formal joint venture with this U.S. company and start an independent company. They want to get this new company up and running as soon as possible. What are the various components/divisions of this new company and which components should be outsourced and why? (Deloitte)
Q: You are consulting a new cable firm introducing a new TV-satellite system in Australia that will compete with the new cable system being developed. We know that satellite will be introduced 6 months before cable. What price should you set? (Booz•Allen Asia)

Q: Your client is building a new office tower in Jakarta. How many floors should it be? (Booz•Allen Asia)

Q: You are consulting a Thai bank that is interested in improving its mortgage business. What would you look at? (Booz•Allen Asia)

Q: You are consulting a Southeast regional bank that is thinking about going into the Northwest. What would consider? (McKinsey)

Q: Estimate the number of cars in California. (McKinsey)

Q: How much does a Toyota Camry weigh? (McKinsey)

Q: You have a 10x10 Rubik's cube. If you dip it into a bucket of paint, how many surfaces will be painted? (AT Kearney)

Q: How many sodas are sold annually in the US? (Mitchell Madison Group)

Q: What metrics would you use to analyze the management consulting industry? (Mitchell Madison Group)

Q: You are consulting a full-service brokerage firm that is concerned about the competition from discount brokers. What analysis would you do to help them understand their situation? (McKinsey)

Q: How would you estimate the number of gas stations in the US? (Booz•Allen)

Q: Estimate the number of Porsches sold this year in the US. (McKinsey)

Q: You have been hired by the New York Rangers, who have been approached by Continental Airlines Arena about moving the team to New Jersey. What would you look at and how would you advise the Rangers?

Q: Explain to your grandmother why the price of her bonds goes down whenever interest rates go up.

Q: You have been hired by a major credit card issuer who wants to grow their card business. Without changing fees or interest rate structures, how would you go about this?

Q: How would you compare the success of two retailers? What may explain differences in per store sales in the office superstore retail business?

Q: You are hired by the National Ski Industry to do a study on why industry performance has been flat. What would you look at to improve the industry's overall profitability?

Q: How do you determine the efficiency of a chicken farm? (McKinsey)

Q: How do you go about estimating the market share of a telecommunication company in an underdeveloped country with no public information? (McKinsey)

Q: Your client produces sugar at a cost higher than the world price and he wants to compete in the world markets. What do you recommend? (McKinsey)

Q: How do estimate the cost structure of the steel industry in Latin America? (McKinsey)

Q: The world pulp market is composed of 10 producers. Because of intense competition, margins have disappeared, so they decide to create a secret cartel and fix the price. The group finds consensus at a 50% increase, but two producers are concerned with the potential decrease in volume. They hire you to estimate

the impact of a price hike in the world demand for pulp and to advise them in their actions. What do you do? (McKinsey)

Q: The publisher of "the cross-effects of US drugs book" has experienced a reduction in profits over the last three years. Drug manufacturers are publishing the cross-effects of their drugs on their web sites and your client is worried that this could be affecting his product. What do you recommend? (McKinsey)

Q: Estimate the total sales of the soap market in Ecuador. (Booz•Allen)

Q: If you have an appointment with the CEO of a $500 million conglomerate in Latin America, and you only have one chance to tell him that he has very serious problems and that you can help, what would you say? (Booz•Allen)

Q: You are considering starting a dog sharing service in Manhattan. Customers wish to adopt a dog for one month per year. Estimate the size of the market you would expect to serve and how many dogs you would need. (Mitchell Madison Group)

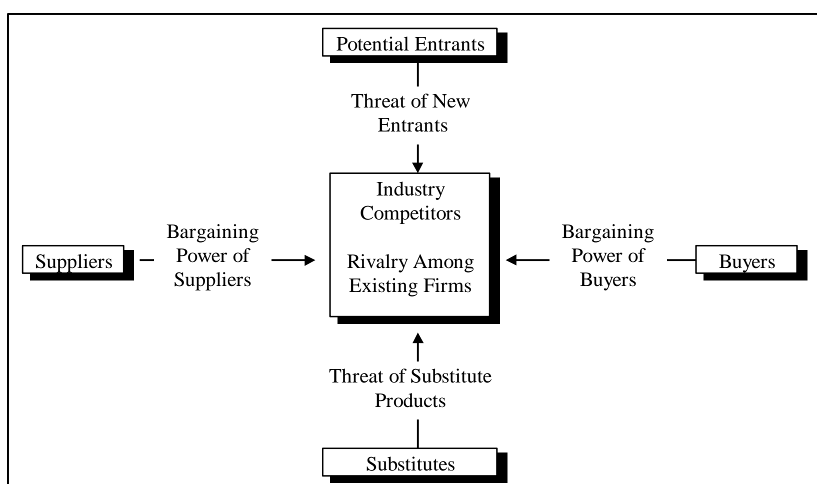
APPENDIX

Porter's Five Forces

The nature and degrees of competition in an industry hinge on five forces:

A. The threat of new entrants
B. The bargaining power of buyers (customers)
C. The bargaining power of suppliers
D. The threat of substitute products or services
E. Changes in relative standing or positioning among current competitors

The strength of these threats determines the profitability of the market:



i. Intense competition allows minimal profit margins
ii. Mild competition allows wider profit margins

The goal of the strategist is to determine whether a firm should enter/exit the industry or to find a position in the industry where the company can best defend itself against these forces or can influence them in its favor. *It is not a strong enough goal to simply find an ideal market position.*

A. There are several sources of barriers to entry:
   i. Economies of Scale
   ii. Product Differentiation - Established firms have brand identification and customer loyalties
   iii. Capital Requirements
   iv. Switching Costs - One-time costs facing the buyer when switching from one supplier's product to another's
   v. Access to Distribution Channels
   vi. Cost Disadvantages Independent of Scale
      a. Proprietary product technology
      b. Favorable access to raw materials
      c. Favorable location
      d. Government subsidies
      e. Learning and/or experience curve
   vii. Government Policy

viii. The newcomer's expectations about likely retaliation of the incumbents or the slow growth of the industry

B. A buyer group is powerful if:
   i. It is concentrated or purchases large volumes relative to seller sales
   ii. The product it purchases from the firm represents a significant fraction of the buyer's costs or purchases
   iii. The products it purchases from the industry are standard or undifferentiated
   iv. It faces few switching costs
   v. Buyers pose a credible threat of backward integration
   vi. The industry's product is unimportant to the quality of the buyer's products or services
   vii. The buyer has full information

C. A supplier group is powerful if:
   i. It is dominated by a few companies and is more concentrated than the industry it sells to
   ii. It is not obliged to contend with other substitute products for sales to the industry
   iii. The industry is not an important customer of the supplier group
   iv. The supplier group's product is an important input to the buyer's business
   v. The supplier group's products are differentiated or it has built up switching costs
   vi. The supplier group poses a credible threat of forward integration

D. Substitute products that deserve the most attention are those that:
   i. Are subject to trends improving their price-performance tradeoff with the industry's products
   ii. Are produced by industries earning high profits.

E. Rivalry among existing competitors increases in the presence of:
   i. Numerous or Equally Balanced Competitors
   ii. Slow Industry Growth
   iii. High Fixed or Storage Costs
   iv. Lack of Differentiation or Switching Costs
   v. Capacity Augmentation in Large Increments
   vi. Diverse Competitors
   vii. High Strategic Stakes
   viii. High Exit Barriers:
      a. Specialized assets
      b. Fixed costs of exit
      c. Strategic interrelationships
      d. Emotional barriers
      e. Governmental and social restrictions

		Exit Barriers	
		Low	***High***
Entry Barriers	***Low***	*Low Stable Returns*	*Low Risky Returns*
	High	*High Stable Returns*	*High Risky Returns*

The following is a brief summary of Kenichi Ohmae's book <u>The Mind of the Strategist</u> (1982).

Corporate strategy implies an attempt to alter a company's strengths relative to its competitors in the most efficient way. "Strategy" concerns actions aimed at directly altering the strength of the enterprise relative to that of its competitors. Four ways of strengthening a company's position relative to that of its competitors are:

1. Business strategy based on identifying the key factors for success in the industry concerned and injecting a concentration of resources into a particular area where the company sees an opportunity to gain the most significant advantage over its competitors.
2. Business strategy based on relative superiority. Make use of the technology, sales network, profitability, and so on, of those of its products which are not competing directly with the target competitors, or make sure of any other differences in the composition of assets between the enterprise and its competitors.
3. Business strategy based on aggressive initiatives. In a mature and slow-growth industry sometimes the only answer is to upset key factors for success on which the competitor has built an advantage, *i.e.,* changes the rules of the game or upset the status quo.
4. Business strategy based on strategic degrees of freedom. In cases of intense competition within the same industry, opening up new markets or developing new products can achieve success.

The principal concern is to avoid doing the same thing on the same battleground as the competition. First gain relative advantage through measures a competitor cannot follow, and then extend that advantage still further.

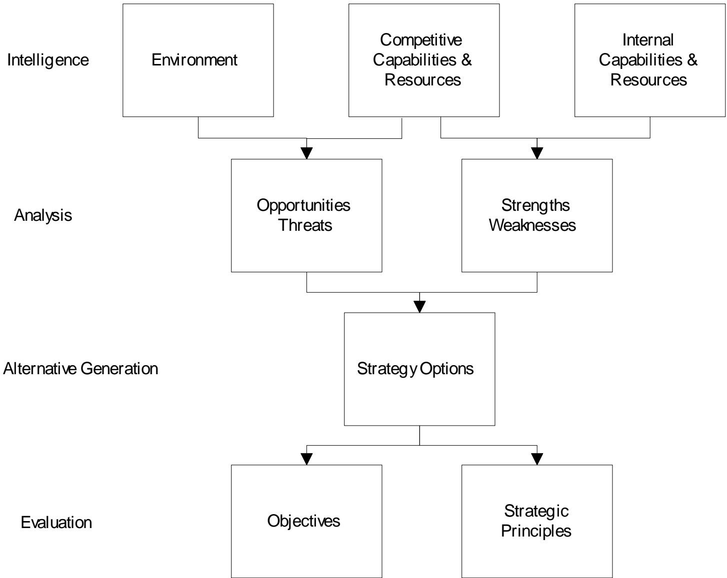
Ohmae's Strategic Triangle:

The strategic triangle consists of three players: the corporation itself, the customer, and the competition. The job of the strategist is to achieve superior performance, relative to the competition, in the key factors for success of the business while matching the strengths of the corporation with the needs and objectives of clearly defined markets. The three different business strategies are:

1. Customer-Based Strategies – This strategy attempts to establish a strategic edge over the competition by segmenting the market and focusing on one or more subsets where it can have an advantage. There are two basic modes of market segmentation: (a) segmentation by objectives, *i.e.,* in terms of the different customers' use of the product and (b) segmentation based on the enterprise's own ability and resources.
2. Corporate-Based Strategies – This strategy aims to maximize the enterprise's strengths relative to the competition in the functional areas that are critical to success in the industry. The enterprise must maintain a positive differential in key functional strengths to retain an advantage in profit performance and market share. The other main advantage of functional strategies is to design and deliver cost-effective functions. This can be done in three ways: (a) reduce cost more effectively than the competition, (b) exercise greater selectivity in terms of orders accepted, products offered, or functions performed, and (c) share certain key functions across the enterprise's other businesses or even with other companies
3. Competitor-Based Strategies – This strategy tries to find possible sources of differentiation in functions ranging from purchasing, design and engineering to sales and servicing. The main point is that any difference must be related to profit, volume, and/or cost.

There are three major constraints which affect strategy: (a) reality – the strategist must always be aware of the customer, the competition, and the company's field of competence, (b) ripeness – the strategist must determine that the time is ripe for the proposed strategy, or else it will fail, and (c) resources.

Strategy Generation Model



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I. Internal (the POPO model)

A. **P**roduct
   1. Portfolio makeup (a BCG-type matrix might be helpful here)
   2. Market share of each product
   3. Revenue growth rate of each product
   4. Total market growth rate for each product
   5. Percent of company's total revenue for each product
   6. Competitive strategy for each product (e.g. price for differentiation)
   7. Volume of each product (i.e. scale economies)
   8. By-product? (important issue for chemicals)
   9. Technology
   10. Raw materials

B. **O**perations
   1. Product/service flow
      a. R&D
         1) Expenditures
         2) Process vs. product
         3) Effectiveness (e.g. number of patents per year)
      b. Engineering
         1) Product design
         2) Process design
      c. Inbound logistics
         1) Raw material acquisition (advantages over competitors?)
         2) Scheduling
         3) Transportation (e.g. mode)
         4) Consolidation of orders
         5) Volume discounts
         6) Use/costs of distributors and redistributors
         7) Receiving processes
         8) Warehousing
      d. Operations (e.g. manufacturing, assembling, etc)
         1) Capacity utilization (THIS ISSUE COMES UP QUITE OFTEN)
         2) Bottlenecks
         3) Quality (e.g. number of defects per product produced)
         4) Capacity constraints
         5) Flexibility of capacity (can company easily reduce capacity during down cycles?)
         6) Economies of scale (THIS ISSUE COMES UP QUITE OFTEN)
         7) Learning curve/experience curve effects
         8) Type of manufacturing (e.g. batch, mass customization, assembly line, etc)
         9) Ability to meet orders on-time
      e. Outbound logistics
         1) Scheduling
         2) On-time record (to customer)
         3) Transportation (e.g. mode)
         4) Consolidation of orders
         5) Volume discounts
         6) Packing
         7) Storage
         8) Installation of product
      f. Marketing and sales
         1) Place
            a) Physical distribution methods
            b) Distribution channels of company

c) Outlet locations
d) Sales territories
e) Warehousing system
f) Distribution channels of competitors
g) Cost of the different distribution channels

2) Price
a) Allowances and deals
b) Distribution and retailer markup
c) Discount structure
d) The price customers will pay
e) Pricing strategies (loss leaders vs. traffic builders)
f) Elasticity of demand
g) Long-term effects
h) Competitive response (e.g. game theory, tit-for-tat)
i) Price comparison with other similar products
j) Segmentation strategies (e.g. demographic, psychological, use, whatever)
k) Monopoly vs. oligopoly vs. perfect competition
l) Penetration strategy

3) Promotions
a) Advertising
b) Sales promotion
c) Personal selling
d) Publicity
e) Methods vs. competitors

4) Product
a) Quality (i.e. value proposition)
b) Models and sizes
c) Packaging
d) Brands
e) Service
f) Stage of life cycle

5) Economies of scale
6) Economies of scope
7) Communication with customers (ARE YOU PRODUCING WHAT THEY WANT?)
8) Communication with R&D and engineering (DO THEY KNOW?)
9) Communication with manufacturing (promising shipment dates)

g. Customer service
1) Response time to customer requests
2) Maintenance contracts
3) Maintenance costs
4) Warrantees
5) Return policy
6) Customer representatives

h. Support functions
1) Finance
a) Budget
b) Cost of capital
c) Leverage (debt to equity ratio)
d) Cash flow

2) Accounting
a) Return on Investment
b) Inventory bookkeeping methods (LIFO vs. FIFO)
c) Cost accounting procedures (e.g. ABC)
d) Problems with allocating overhead (causing removal of products from portfolio)
e) Income statement

f) Balance sheet
g) Depreciation methods
3) Human Resources

C. **P**eople
1. Culture (e.g. strong vs. weak, entrepreneurial)
2. UNIONS, UNIONS, UNIONS
3. Skilled vs. highly trained
4. Level of wages
5. Temporary vs. permanent
6. Fixed vs. variable (i.e. can be hired and fired)
7. Indirect vs. direct

D. **O**ther
1. Strategy
   a. Overall cost leadership
   b. Differentiation
   c. Focus
   d. And other various strategies
2. Goals and mission
3. Strengths
4. Weaknesses
8. Organizational structure issues (Flat vs. hierarchical, simple, functional, divisional, matrix, etc.)
5. Revenue
   a. Price
   b. Volume
   c. Product mix (don't forget about this issue)
   d. Subsidies
6. Costs
   a. Producing costs (direct)
      1) Fixed (high fixed costs and low variable costs means that company is desperate for volume)
         a) Labor
         b) Depreciation
         c) Rent/leases
      2) Variable
         a) Raw materials
         b) Shipping
         c) Energy
         d) Labor (sometimes)
         e) Holding costs
   b. Overhead (indirect)
      1) SG&A
      2) Interest
      3) Taxes

II. External (an Eight Forces Market Analysis model)

A. General upfront issues (questions you may want to ask before getting down and dirty)
1. What are the relevant markets?
2. What has been the nature of growth of these markets?
3. What does demand look like?
4. What is the future market potential?
5. What does capacity look like (over/under)?
6. What does supply look like?

Competitors
1. Number
2. Relative size (i.e. market share, resources, etc)

3. Growth rate of industry
4. Growth rate of each competitor
5. Profitability of each competitor
6. Relative cost positions of competitors
7. Extent of fixed costs
8. Value proposition of each competitor (i.e. value/price)
9. Product/service differentiation
10. Product positions (i.e. market segments of each competitor)
11. Relative capacity of each competitor
12. Importance of products to competitors (i.e. competitor diversity)
13. New product or substitute introductions
14. Strengths
15. Weaknesses
16. Exit Barriers – high if:
    a) Specialized assets
    b) Fixed costs of exit (e.g. buildings, labor, etc)
    c) Strategic interrelationships
    d) Emotional barriers
    e) Government/Social restrictions

B. Barriers to entry – high if:
   1. Economies of scale
   2. Product differentiation (e.g. brand name)
   3. Capital requirements
   4. Switching costs
   5. Access to distribution channels
   6. Other cost disadvantages
      a) Proprietary product technology
      b) Favorable access to raw materials
      c) Favorable location
      d) Government subsidies
      e) Learning and/or experience curve
   7. Government policy
   8. Competitor retaliation

C. Buyers – significant power if:
   1. Concentrated or purchases large volumes
   2. Purchased product significant portion of cost
   3. Purchased product is undifferentiated
   4. Few switching costs
   5. Threat of backward integration
   6. Purchased product quality unimportant

D. Suppliers – significant power if:
   1. Concentrated
   2. No substitutes for its products
   3. Industry not important customer of supplier
   4. Purchased product is important input
   5. Purchased product is differentiated
   6. Threat of forward integration

E. Substitutes (SEE COMPETITORS – essentially the same thing)

Technology

1. New process (e.g. manufacturing) technology
2. New product technology
3. Possibility of obsolescence

Government

1. Regulation
2. Deregulation

3. Subsidies
4. Tax breaks
5. Tariffs
6. Other legal issues

Other Forces

1. Changes in customer demands (VERY IMPORTANT IN TREND-DRIVEN INDUSTRIES)
2. Effects from other industries (e.g. the effect of steel industry on auto industry)
3. Economic (both domestic and international)
4. Consumer groups
5. Environmentalists
6. Financial community
7. Investors