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Ace Your Case® IV: Business Strategy Questions

Chapter 1

Ace Your Case® IV: Business Strategy Questions

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Ace Your Case® IV at a Glance
AT A GLANCE

CASE-BY-CASE RULES FOR BUSINESS STRATEGY QUESTIONS
• Think frameworks
• Ask questions
• Work from big to small

BUSINESS STRATEGY FRAMEWORKS
• Internal/External
• Cost/Benefit
• Supply/Demand
• 2x2 Matrix
• Strengths, Weaknesses, Opportunities, Threats (SWOT)
• Company, Customers, and Competition (3Cs)
• Product, Price, Promotion, and Place (4Ps)
• Porter’s Five Forces
• Firm Analysis
• Cultural, Administrative, Geographic, Economic (CAGE) Analysis

KEY BUSINESS STRATEGY ISSUES
• New products
• New markets
• Market change
• Acquisitions
• Divestitures
The Interview
Unplugged

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OVERVIEW

› BUSINESS STRATEGY IS the fun stuff. As a strategy consultant, it's your job to come up with new, interesting ideas that imagine the market as it could be, not as it is today. Your solutions, not just your approach, can be creative and even a little far-fetched. Yet the stakes are high. Make the wrong choice, and you can do some serious damage to a company.

Strategy covers cultural issues and competitive advantages to help a company prepare for the future. When you tell the client to take action, it will probably be suggesting next steps toward a goal rather than a checklist for what to do now.

This guide is all about business strategy cases, and it is designed to be a companion volume to **Ace Your Case®, Ace Your Case® II, Ace Your Case® III, and Ace Your Case® V**. Ace Your Case® and Ace Your Case® II cover case interviews in general, offering an overview of the process, a guide to common frameworks for analysis, and information on how to solve just about any case that comes your way. Ace Your Case® III specializes in market-sizing problems, while Ace Your Case® V covers business operations cases.

A word about how to use this guide: We strongly recommend that you try to solve the questions first, without looking at the answers. After you've given them your best shot, go ahead and check out our recommended answers. If you find that our “good answer” differs from yours, see if there's something you can learn from our suggestions. But don't panic—there are usually numerous ways to answer any case question. It's far more important to note the approach, as well as the interviewer's likely responses, which obviously won't be included in your own answers. As you sharpen those skills, keep thinking to yourself, “I love these case questions!” Pretty soon you’ll find yourself talking like a consultant!

THE WETFEET WAY
OF CRACKING A CASE QUESTION

W hat is the interviewer asking?
E verything there?
T hink before you speak
F rameworks!
E xplain your thinking
E valuate your case so far
T ake action

› SO HOW EXACTLY does one ace the case? Although the specifics of each case question will be different, we've devised an approach that, if used correctly, will go a long way toward giving the consulting interviewer what he wants. It's a mnemonic device: Simply think of the word “WetFeet.” Those seven letters will help you ace your case.

WHAT IS THE INTERVIEWER ASKING?

Listen carefully, and take notes if necessary. Make sure you know what the interviewer is seeking. It's important to keep this objective in mind as you work your way through the dense forest of detail that may be coming your way. Stick to the question, too. If the interviewer asks for two recommendations, you won't impress her if you give six—you'll come off as someone who can't follow directions and who's likely to get too bogged down in minutia to deliver an organized report to a client.

EVERYTHING THERE?

Determine whether you've been given the whole picture. If the question is unclear, it's probably unclear for a reason. The interviewer may be testing whether you realize that there are missing pieces to the puzzle. Ask your interviewer for clarification. In particular, if there seems to be a gaping hole, ask about it. He may be holding back a key piece of information to see if you
ask for it—or if you are paying enough attention to listen for hints. When you hear a hint, a suggestion, or additional information, use it. Interviewers know what they’re looking for and will usually try to steer you in the right direction.

**THINK BEFORE YOU SPEAK**
During an interview, any pause will feel like an eternity, so your impulse will be to blurt out the first things that come to mind. Instead, take a moment to think through your ideas and how to present them. That moment won’t seem long to your interviewer, and it will give you the time to make a stronger impression.

**FRAMEWORKS!**
Identify a framework, or a combination of frameworks, to help you structure your answer. Be sure to inform your interviewer how you plan to proceed. Remember, choosing a framework isn’t the goal of the exercise—it’s supposed to help you structure an answer to the question. Your choice of framework won’t impress the interviewer, but your ability to come up with a clear, logical answer will.

**EXPLAIN YOUR THINKING METHODICALLY**
Work from big to small, starting with the most important issue first, and tell the interviewer why you think that point is so important. If you run out of time part way through, you want to have already delivered your most important insights.

**EVALUATE YOUR CASE SO FAR**
As you go, think about your answer. Is it something that a business might logically do? Is there another way to approach the problem? Don’t just ask yourself—ask your interviewer if you’re on the right track.

**TAKE ACTION**
Wrap up your case by briefly summarizing how you’ve approached the problem and noting where you’d go if you had more time. The goal of consulting isn’t just analysis. Usually, a consultant is looking for solid, data-driven recommendations that the client can use.

### THE BUSINESS STRATEGY CASE, ANALYZED

› **A BUSINESS STRATEGY** case is the most venerable (and demonized) of the case question arena. Consultants love to use these questions because they touch on so many different issues. A good strategy question can have a market-sizing piece, a logic puzzle, multiple operations issues, and a major dose of creativity and action thrown in for good measure. Moreover, a complex strategy question can go in many different directions, allowing the interviewer to probe the candidate’s abilities in a variety of areas. Strategy case questions can run the gamut from a complex, multi-industry, multinational, multi-issue behemoth to a localized question with a pinpoint focus.

### THE SCORECARD
Depending on the nature of the question, the interviewer can assess anything and everything from your skill in handling numbers to your ability to wade through a mass of detailed information and synthesize it into a compelling business strategy. Case questions are also the most similar to the actual work you’ll do on the job (at least at the strategy firms). One other thing the interviewer will be checking carefully: your presentation skills.

### WHEN TO EXPECT STRATEGY QUESTIONS
Strategy case questions are fair game for any type of candidate. For undergraduates, they will often be two-dimensional and straightforward. For MBA candidates, they frequently have several layers of issues, and perhaps an international or other twist to boot.
Although most strategy boutiques will use this kind of case as a mainstay in their recruiting efforts, firms with more of an operations focus may rely more heavily on operations questions.

### SUCCEEDING AT THE STRATEGY STUMPERs

Because business strategy questions can involve many different elements, they may provoke fear in the weak of heart. But fear not. Although strategy questions can be the most challenging, they can also be the most fun. This is your opportunity to play CEO, or at least advisor to the CEO. You have the opportunity to put all your business intuition and your hard-nosed, data-driven research to work and come up with a plan that will bring a huge multinational corporation into the limelight. Does it matter that you just crafted a story about why a credit-card company should go into the Italian market when your best friend who interviewed just prior to you recommended against going Italian? No, not really—unless your friend did a better job of exploring the case question. By going through this book (and the other WetFeet Ace Your Case guides), you’re already ahead of the game. Here are some rules to keep in mind as you tackle your strategy case questions.

### Rule 1: Think frameworks.

While analyzing a juicy strategy question, you might be able to draw information and jargon out of almost every course in your school’s core business curriculum. Don’t succumb to temptation! Your interviewer will be much more impressed by a clear and simple story about how you’re attacking the question and where you’re going with your analysis. The best way to accomplish this is to apply a framework to the problem. As with operations questions, this means setting a plan of attack up front and following it through to conclusion. Plus, having a clear framework will help you organize your analysis.

### Rule 2: Ask questions.

Successful consulting is as much about asking the right questions as it is about providing a good answer. Likewise, your solution to a strategy case will be stronger if you’ve focused your energy on the right issue. To help you get there, don’t hesitate to ask your interviewer questions. It can help you test your hypothesis and avoid a derailment; at worst, he’ll understand your thought process as you plow through the analysis.

### Rule 3: Work from big to small.

Even though the strategy case you’re examining was the subject of a study that lasted several months, you probably have about 15 minutes to provide your answer. So it’s essential to start by looking at the most significant issues first. Besides, this is a great discipline for future consultants; the client may be paying for your time by the hour, so you’ll want to make sure that you really are adding value.

### Key Business Strategy Frameworks

- **Business problems are** easier to solve when you start with a framework. A framework is simply a structure that you use to organize your thoughts and help you analyze the critical issues of a sample case. It gets you started, and then you finish it in your own personal style. Think of it this way: Every shirt must have a way to get your head and arms through, but a trip to the mall will show you thousands of options using the simple shirt framework. It’s the same for business. A framework can help you break a case into two, three, or five components. With those down, your brilliant intellect will shine through.

  Although you’re free to use any logical approach to solve a case question, some frameworks will prove to be more useful for business strategy cases. These help you break down complex and vague problems—Should we...
expand into China? How can we sell to today’s young people? Where did all of our customers go?—into smaller pieces that you can understand and address, leading to a solution. For a more thorough explanation of frameworks and how they work, see the first book of this series, Ace Your Case! Consulting Interviews.

**Internal/External**

The internal/external framework is a good starting point for case questions that ask you to look at a firm and its environment or market. For example, if you were asked to explain why a transportation client’s capacity utilization was down, you might start off with something like, “I’d want to look at both internal factors affecting the company’s performance and the external environment in which it found itself. On the internal side, I’d analyze the company’s operations, including its scheduling and routing systems, its sales efforts, and its capacity-management processes. On the external side, I’d want to analyze what was going on in the marketplace. Perhaps the industry is suffering from chronic overcapacity, or perhaps competitors have adopted a new pricing structure that is affecting demand for the client’s services.” In general, try to present a balanced equation—three external factors and three internal factors.

**Cost/Benefit**

A cost/benefit framework can be used to evaluate many different business questions. In particular, if you’re asked to make a strategic recommendation for a hypothetical client, you might begin with a list of the costs and benefits for a given action. This is often a good way to start if you aren’t sure up front what the best approach is to answering the question.

For example, let’s suppose the case interviewer says you’re working for a brokerage house and it’s considering expansion into India. “A brokerage house,” you think to yourself, “I don’t know anything about the securities industry!” Don’t panic—the trusty cost/benefit framework will set you on your way.

You might start by saying something like, “To assess this opportunity, we’d have to look carefully at the costs and benefits of the proposal and try to quantify them wherever possible. For example, some of the key costs of an international expansion would probably involve the acquisition or startup of the division, legal costs for getting set up in a new environment, and training on cultural and business issues in that market. On the benefit side, we’d want to look not only at the current revenue potential in the market, but also the growth prospects over the long term. We’d also want to examine the potential of our growing international expertise to enhance our domestic brand.”

**Supply/Demand**

The supply/demand framework is the granddaddy of economics frameworks. Keep this one handy for many of your business-strategy questions. It will also work well in combination with a number of other frameworks. Supply/demand will help you explain how actions that affect price or supply might have an impact on market equilibrium (and vice versa).

So how does it work? Well, economists usually graph it. Pull out any of your economics texts, and you’ll see a zillion supply-and-demand curves. But here’s the crux of it: Anything that increases supply will decrease prices. Anything that increases demand increases prices. And anything that increases prices increases the supply and decreases the demand, while anything that decreases prices decreases the supply but increases the demand. Whew!

Just remember: the cheaper it is, the more you want it, at least until you’re sick of it.
The Good Old 2x2 (That’s Two by Two)
Take it from us—your consulting friends can explain everything they see in terms of a 2x2 matrix. A good matrix can communicate a difficult concept in a clear and compelling manner. However, even if it doesn’t communicate a particularly exciting message, a good matrix always has the power to wow an unsuspecting client—and consultants love to do that. One of the most famous consulting matrices is Boston Consulting Group’s Cash Cow 2x2, which is used as an analytical tool in product portfolio analysis. It’s designed to position a group of products into one of four distinct quadrants:

<table>
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<tr>
<th>High Market Share</th>
<th>Low Market Share</th>
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<tr>
<td>High Market Growth</td>
<td>Low Market Growth</td>
</tr>
<tr>
<td><strong>STAR</strong></td>
<td><strong>PROBLEM CHILD</strong></td>
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<tr>
<td><strong>CASH COW</strong></td>
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The beauty of this matrix is its simplicity. By selecting two measures of product performance (market share and market growth rate) that can run in parallel or opposite directions, we have a visual tool for evaluating all sorts of things, like the attractiveness of going into a new market or acquiring a target company. CEOs aim to establish product portfolios chock full of Stars (high market share and high growth) and Cash Cows (high market share, low growth) while divesting themselves of the low-share, low-growth Dogs—and hiring consultants to help them figure out what to do with the low-share, high-growth Question Marks.

Now, no matrix is perfect, and the BCG matrix has been criticized by some theorists as leading in certain circumstances to the wrong conclusions (for example, some high-growth markets are not attractive for certain businesses). Nevertheless, as a quick-and-dirty tool to analyze market opportunities and product portfolios, it serves its role with flying colors.

The 2x2 matrix is a good starting point for analyzing a marketplace, assessing competitors, evaluating product portfolios, or sorting out a complex pile of data. And the good news is that not every matrix needs to be as sophisticated as the BCG matrix—even if you’re interviewing with BCG!

**SWOT: Strengths, Weaknesses, Opportunities, Threats**
SWOT analysis is an oldie but goodie. It can be used to set up the basic operating environment for almost any company in almost any industry.

It’s simple: Every business has strengths, weaknesses, opportunities, and threats. Lay them out, and then move on to the next part of the case. Take Microsoft, for instance. Its strengths include dominance of the desktop computing software market and a huge cash balance. Its weaknesses include buggy software and a lack of Web-based applications. Its opportunities include enterprise software, entertainment systems, and moving its software applications to the Web. Its threats come primarily from Web-based competitors, like Google. Voilà! The SWOT team has done its work.

**The 3Cs: Company, Customers, and Competition**
The famous 3Cs stand for company, customers, and competition. These will often be the most critical factors to consider when you look at a strategic, marketing, or performance question. If you’re asked to figure out how an automaker should assess its opportunities in a foreign market, you might start by analyzing what kinds of customers it will find in the new market.
You’d probably want to analyze both the individual characteristics of the customers as well as trends in the marketplace. A look at the competition would include both an analysis of the new market’s competitors as well as those in the client’s existing markets and how all competitors would respond to your client’s expansion plans. Finally, the company analysis would likely include a look at the client’s strengths and weaknesses, its internal resources, its long-term strategy, and how well situated it is to handle the issues you identified in the customer and competition pieces of your answer.

The 4Ps: Product, Price, Promotion, and Place

Here’s a favorite one from the Marketing Hall of Fame. The 4Ps are product, price, promotion, and place (distribution). The idea here is that these 4Ps are the four major knobs you can turn when trying to market a new or existing product. The product factor incorporates everything about the design of the product; its features; how it is different from competing products and substitute goods; its packaging; reputation, service, and warranties; and what the strategy for the product is in the future. The price factor includes retail prices and discounts, as well as economic incentives to the different channels (commissions and margins) and the strategic elements of the pricing decision. Promotion involves everything from marketing and advertising to customer education, public relations, and franchise or reputation development. The fourth P, place, is really a “D” in disguise. It stands for distribution, and covers such things as choice of channels, cost and duration of distribution, and positioning strategy. Here’s an example of a case question for which a 4Ps framework would come in handy: “Our client plans to introduce a solar-powered room air conditioner. What are some of the issues we should examine?”

Porter’s Five Forces

Porter’s Five Forces theory is probably the best-known industry analysis framework. It’s a little old-fashioned, but it’s still a logical way to figure out the dynamics of almost any industry. You can use it to answer case questions about competitive strategy or forays into new markets. Here’s a review:

1. **Barriers to Entry**
   (ease with which new firms can enter the industry).
2. **Bargaining Power of Buyers**
   (relative power of customers and other buyers).
3. **Bargaining Power of Suppliers**
   (relative value of vendors and other suppliers).
4. **Availability of Substitute Products**
   (uniqueness of the industry’s products).
5. **Nature of the Rivalry among Firms**
   (rationality of competition in the industry).

Analysis of each of these categories and their relevant subcategories should give you a good idea about whether the opportunity looks positive or negative. It will also potentially fill up the entire interview hour, which is not necessarily a good thing for your career interests. However, the key insights this analysis will often provide include the idea that an industry is more attractive if there are significant barriers to entry; neither buyers nor suppliers have great power over the industry players; there are few adequate substitute products; and the firms are not engaged in an insane competitive rivalry that depresses profits.
**Firm Analysis**

Porter’s Five Forces theory looks at industry factors, while Firm Analysis takes strategic analysis down a notch to look at the company. It’s a robust consulting framework that will often prove helpful in answering case questions, especially for strategic shifts that might affect firm culture. The foundation of the Firm Analysis framework is the identification of the internal (company) and external (market) factors, which both come together to influence a company’s competitive strategy.

*Internal factors* influencing a corporate strategy include a company’s:
- Goals and values
- Resources and capabilities
- Structure and management

*External factors* influencing a corporate strategy include the industry and operating environment.
- Industry trends
- Outside constraints (governmental, societal, legal)
- Competitor activities

The business strategies that will likely prove most successful for the firm are those that find a close fit between the internal (company) and external (market) factors. This framework can be applied to many types of strategy questions, especially those involving a new opportunity, a new market, or changing circumstances in the industry. For example, if you’re looking at the opportunity for a medical device manufacturer to set up a new production facility in France, you might start by looking at internal factors related to the company’s strategic objectives and resources, and then move on to the external factors it will face as it explores the market opportunities in Europe.

**CAGE Analysis**

Chances are, an interviewer is going to ask you about international issues at some point. If you get a question about international strategy, you’ll need a logical way to think about the issues. Good thing Pankaj Ghemawat, a professor at Harvard, developed a framework you can use. He suggests you consider the amount of distance that exists between two cultures when deciding whether and how it makes sense to change business strategy overseas. And, it comes with a handy mnemonic:

- **Cultural distance**: What are the differences in the religious beliefs, race, social norms, and languages between the target country and the country of the company considering expansion?
- **Administrative distance**: What are the differences in the ways the countries are governed? Are there colonial ties, a common currency, and trade arrangements in place?
- **Geographic distance**: What’s the distance between the countries in terms of miles? What is the size of the target country? What about its infrastructure features, like ports, transportation systems, and communications networks?
- **Economic distance**: Do the two countries have similar wealth and consumer income? Are financial resources similarly available?

If you get a case about outsourcing to the Philippines, acquiring a company in Germany, or investing in Venezuela, think about how the markets are similar in terms of culture, administration, geography, and economics. How do these factors affect the strategy?

For that matter (because frameworks in consulting interviews are tools, not tests), you might be able to apply CAGE to other business decisions, such as regional expansion or the acquisition of a competitor. Would you recommend that News Corp. acquire Google, given the cultural, administrative, geographic, and economic factors involved?
The Practice Range: Key Strategic Issues

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STRATEGY PROBLEM CATEGORIES

Although strategy can be broad and far-reaching, most corporate strategy problems fall into a few categories. The more you know about these categories, the better able you’ll be to handle different case questions.

Don’t memorize sample questions. Instead, use these examples to get comfortable with the business strategy format and how to construct an answer.

A word of caution: Your case interview won’t be one of our questions, nor will it be one from the firm’s sample guide. Don’t spend your time memorizing answers, because it won’t help you. Instead, use all of these samples to get comfortable with the format and to learn the concepts that go into developing answers. Then, you can work through any question with confidence, even if your interviewer throws out some weird brainteaser strategy question like, “Microsoft comes to you looking for a strategy to sell software to the people of Mars. What would you recommend?”
NEW PRODUCTS

BUSINESSES COME OUT with new products all the time, but some introductions carry greater stakes than others. A company isn’t going to hire a consulting firm to help with a line extension or a new-and-improved feature (although a consumer products company might ask you a case question about this—case interviews aren’t just for consultants). But it might hire a consulting firm if a new product would require a major investment or take it in a new strategic direction. It would also bring in a consultant to help solve problems with botched product introductions.

In these cases, you need to think about the costs and benefits of the product at hand. You should also consider how the product fits with the company’s core business, how it positions the company for future growth, and how it fits with customer expectations.

Remember the Rules for Business Strategy Questions:
1. Think frameworks.
2. Ask questions.
3. Work from big to small.

CASE 1

Your client is a large passenger cruise line. It’s considering whether to invest $250 million in a new, 1,500-person passenger ship. The CEO has recently declared publicly that he hopes to deliver 10 percent return on all major investments. Help the client determine if this is a good investment.

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
You’ve just joined a sportswear clothing company with a long tradition of making short-sleeve polo shirts and casual button-down, long-sleeve shirts. Let’s call this company Eli’s. The division within Eli’s that you’ve joined was formed six months before your arrival. This new division designs and manufactures shirts for hip, young, fashion-forward urbanites, made in a similar style to those of several other smaller shirt makers that have burst onto the fashion scene in recent years. Your division is losing a significant amount of money, and your manager has assigned you to determine what should be done. What do you need to know, and what would you do to assist your new division at Eli’s?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
NEW MARKETS

> WHEN A COMPANY is considering a new market or a new way of doing business, it’s looking for a way to reduce some of the tremendous risks. Executives know they must take risks in order to generate returns, but they want to know what those risks are up front (executives hate negative surprises). Your job with these cases is to balance the risks with the opportunities, so the company can take an informed risk when it pursues new ways to grow.

CASE 3

Your client is a publisher of romance novels that it sells to retail bookstores, which are allowed to return unsold inventory. This practice is wreaking havoc with the publisher’s cash flow, so it’s considering abandoning bookstores and selling its books directly to consumers by subscription. Would you recommend pursuing this strategy?

KEY QUESTIONS TO ASK


BASIC NUMBERS


TRACK THE NUMBERS DOWN


The marketing VP of a successful minor league baseball team would like to attract more kids to attend games. He has proposed to the team’s general manager that kids’ tickets be discounted 50 percent for all upcoming season games. Your firm has served the team previously on an unrelated matter, and now the GM is calling you as a trusted advisor to get your point of view before he makes a decision on the kids’ marketing plan. What are some of the issues he should consider?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
Your client, Rick’s Kicks, is a manufacturer of mid-range and high-end athletic shoes. The company has been faltering in recent years and is under significant shareholder pressure to grow its business. A major mass merchant has expressed interest in launching an offering from your client in all of its stores. (The company currently does not sell to mass merchants.) Should your client go ahead with the launch? If so, how?

KEY QUESTIONS TO ASK


BASIC NUMBERS


TRACK THE NUMBERS DOWN


Your client is a major branded skateboard manufacturer that has decided to enter the Brazilian market. Should it license its brand or manage the entry in-house?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
CASE 7

Your client is a major car manufacturer with significant sales and brand equity. Though the company is doing well, the CEO is looking for incremental opportunities. A major area of concern is that customers’ positive interactions with the brand are largely limited to the car-buying experience, which occurs on average every three years. How would you increase customers’ positive interactions with the brand?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
You own a microbrewery in Seattle. What are some of the issues to consider if you were interested in expanding your brand nationally?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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MARKET CHANGES

Companies often face circumstances beyond their control situations when their market changes, and often consultants are brought in to help deal with these situations. So, a market change question may very well show up in a case interview.

No one likes change, and even the savviest businessperson can be in denial about change that’s happening to her company or division. But at some point, she may realize something is going wrong, and she may call in a consultant to help her. A consultant is likely to be more objective than a staff member who might be at fault, and a consultant might be in a better position to be the bearer of bad news, even if no one is to blame.

CASE 9

The general manager of a popular ski resort has called on you to help her figure out why her resort has been experiencing declining profits over the past three years. How would you help her?

KEY QUESTIONS TO ASK

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BASIC NUMBERS

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TRACK THE NUMBERS DOWN

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A nonprofit in Baltimore runs two separate after-school clubs for children. Although the organization has been in existence for more than a decade and is considered to be an important part of its community, it is suffering financially in a struggling economy and fears that it will soon need to cut services and programs in order to continue operating. What steps should it consider taking?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
Your client is a large regional grocery store, with most of its stores in suburban strip-mall locations. But that market is almost completely saturated, and competition in the grocery industry is fierce, especially with Wal-Mart aggressively expanding its supercenters. The client is looking for new growth options. One idea in front of the CEO is to expand into inner-city communities that have typically been underserved by retailers. How might you evaluate this strategic option?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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CASE 12

The No. 3 gardening supply manufacturer has hired your consulting firm to determine why its profits are declining while the profits of its two competitors are growing. Where do you start?

KEY QUESTIONS TO ASK

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BASIC NUMBERS

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ACQUISITIONS

ACQUISITIONS ARE THE bold, glamorous business moves that get CEOs on the cover of BusinessWeek and Fortune. Research shows that most of these moves prove to be bad decisions (AOL-Time Warner, anyone?). Regardless of its track record, an acquisition is often the best way for a firm to enter a new market or gain the critical mass it needs to grow. So consultants are frequently engaged to help consider new acquisitions. Consider the costs and benefits carefully in these cases, especially on the matter of cultural fit.

CASE 13

A major carbonated soda manufacturer is interested in acquiring a bottled water company. It doesn’t trust its investment bankers, who just want fees, so it’s hiring your firm to help it assess the opportunity. How would you proceed?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
DIVESTITURES

› SOMETIMES YOU NEED to change direction: When an acquisition goes wrong, a market is no longer a good strategic fit, or a product doesn’t make any sense given the company’s current direction, a divestiture is in order. The division that’s being sold off might not have any operating problems. A handful of companies, like Limited, are really good at developing brands, then turning them over (at a nice profit) to another company that’s better at operations than development. Such retail chains as Abercrombie, Lane Bryant, Limited Too, and New York & Co. spent time under the Limited umbrella. In other cases, a number of company divisions may be underperforming or facing other problems, so a consultant may be brought in to figure out which one needs to be dumped.

CASE 14

A large integrated steel manufacturer is contemplating selling its specialty stainless-steel division. Should it? What factors should it consider before making its decision?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
Comparing Your Answers

Now let’s walk through sample answers to each of the questions from the previous section. Although we believe our recommended answers are good, we know there are many equally good and even better answers out there. Remember, the destination is often less important to your interviewer than the road you take to get there. With that in mind, smooth sailing! A quick note on the layout: Each question is followed by bad answers (which are admittedly a bit far-fetched in some cases) and a good answer. The questions and dialogue between the hypothetical recruiter and candidate appear in roman type; the WetFeet analysis and commentary appear in italics.

Case 1

Your client is a large passenger cruise line. It’s considering whether to invest $250 million in a new, 1,500-person passenger ship. The CEO has recently declared publicly that he hopes to deliver 10 percent return on all major investments. Help the client determine if this is a good investment.

The fact that this question is peppered with numbers implies that the interviewer is looking for a quantitative answer.

Bad Answer

Candidate: Let’s see … $250 million investment, 10 percent return. This means you must make $25 million on the investment. Let’s say that the CEO needs 10 percent return over ten years—that’s $2.5 million a year—about $1,500 in profit per passenger.

That sounds like a pretty hefty profit per passenger, so I don’t think it’s a good investment.

The candidate has certainly shown an ability to make assumptions, but he wildly oversimplifies the case and, in doing so, loses serious credibility.

Good Answer

Candidate: Interesting question. I can already tell there’s going to be quite a bit of math involved here, so would you mind if I took a couple of minutes to write some things down?

Interviewer: No problem. Take your time.

There is no downside to taking a few minutes (though no longer) to gather your thoughts. Write down all of the factors to consider. In this case, the factors include price per passenger, margins, cost structure, capacity utilization, and number of trips per year. Make sure you organize these types of things in a logical fashion so your structure becomes apparent to the interviewer.

Candidate: Okay. Thanks for your patience. I have a clarifying question to start off with: When you say that the CEO needs a 10 percent return on investment, this means the total return needs to be $250 million plus 10 percent, or $275 million. Does the CEO have a time frame for this payback?

A good start: What’s the question, and is everything there? The interviewer might be expecting the MBA student to calculate a return based on the time value of money (so the discounted return would be higher than $275 million in today’s dollars, factoring in the client’s cost of capital).

Interviewer: The CEO is looking at a five-year payback period.
**Candidate:** So $275 million over five years is equivalent to $55 million in profit per year from the vessel. For simplicity’s sake, can we make it $50 million a year?

> Yes, you need to THINK, but you don’t need to do all the math in your head. Do the math on a piece of paper, or ask if you can use a calculator. Also, it’s acceptable to make the numbers you’re working with very simple. The candidate has shown a facility with math, which is the most important skill to demonstrate on this case.

**Interviewer:** No problem. So what we’ve determined is that the ship must generate $50 million in income per year in order to break even.

**Candidate:** Let’s start out with the revenue side of the equation, and then move to costs. Revenue is going to be a function of price and volume. Volume is going to be equal to the number of passengers multiplied by the number of trips per year. So, for example, if the ship does ten trips per year, its total capacity is 15,000 passengers. How many trips does a ship like this typically take in a year?

> The candidate has a FRAMEWORK. She has broken down the revenue portion of the income statement logically and asked a very targeted question that will allow her to continue her diagnosis.

**Interviewer:** A vessel like this does about 40 trips per year—40 weeklong cruises with about 12 weeks for maintenance and repositioning (which means moving from one vacation spot, such as the Caribbean, to another vacation spot, such as Alaska).

**Candidate:** So this means that the total number of potential passengers is $40 \times 1,500$, or 60,000. However, the ship will not always be full, so the actual load will be less than 60,000. Let’s assume that, on average, the boat is 75 percent full; this means the actual number of passengers is $60,000 \times 75\%$.

> This is not easy math to do in your head. Again, take your time and do the math on paper if you don’t have a calculator handy.

**Candidate:** $60,000 \times 75\% = 45,000$.

**Interviewer:** Why did you choose 75 percent as your capacity figure?

> Interviewers will often challenge you on your assumptions to make sure they are backed by sound business logic.

**Candidate:** My logic was this: At key times, for example during the holiday season and the summer, the ship is likely to be at full capacity with vacationers. Let’s say that this covers about one-third of the year. At other times—during the off-season—the ship is not going to be full; let’s say it will be at about 60 percent capacity. The weighted average is about 75 percent.

**Interviewer:** Sounds like good logic to me. So now what do we do with this 45,000 figure?

> The candidate EXPLAINS her logic. Satisfied with the response, the interviewer wants to move on.

**Candidate:** We need to multiply it by a price per passenger figure to get total revenue. I haven’t gone on a cruise lately, so let me ask what’s included in the price in order to get a sense of what the fee might be.
Interviewer: The price includes all lodging, food and beverage (except for alcohol), and onboard entertainment activities such as movies, shows, and dancing.

Candidate: Got it. Since I imagine that different cruises target different consumer segments—and charge different prices—I need to know what type of cruise ship this is.

> The candidate is seeking a key piece of information. Always remember to inquire about the customer.

Interviewer: This is a high-end cruise ship, targeting an upper-income bracket.

Candidate: To come up with an estimate, I’m going to use a benchmark—how much a consumer in this demographic might spend for a week’s lodging and food on a noncruise vacation.

> The candidate is now showing her logic before presenting a conclusion. This marks a shift in the approach she used earlier in the interview (when she used the 75 percent figure without giving any background). The interviewer will note this as a positive change made by the candidate.

Candidate: Let’s say this consumer, while on vacation, is accustomed to paying $200 per night and spending $50 per person per day on food, and $50 per person on entertainment. So the consumer is paying $300 per person per day, or $2,100 per week. It’s conceivable that the cruise could then charge in the range of $2,000 per person.

> The candidate makes a subtle error in judgment. See if you can determine what it is before you proceed.

Interviewer: Actually, this isn’t totally accurate. How would it change your math if I were to tell you that the typical consumer for a high-end cruise is an older couple who, of course, shares a room?

> The interviewer is letting the candidate evaluate and correct her own error. As a general rule, an interviewer will not ding a small mistake in a long—and quantitative—case, as long as the candidate recognizes the error, corrects it, and doesn’t show signs of frustration.

Candidate: Oops, my mistake. I assumed the consumer was a single traveler, not a couple. This means the hotel costs should be divided by two to get to a per-person figure. So, the number would be more like $200 per person per day, or $1,400 per week.

> Good recovery.

Interviewer: Do you think the $1,400 per week is reasonable? What factors might increase or decrease the price relative to a “plan your own vacation” scenario?

Candidate: You’d be able to charge a small premium on a cruise relative to a “plan your own vacation.” On a cruise, everything is accessible, and all services are taken care of in advance. Convenience is likely of great value to the older consumer. To make the math easy, let’s assume that a cruise can charge a $100 premium, so the price per person, per week would be $1,500. If you multiply this by the 45,000, you get roughly $70 million in annual revenue.

> The candidate has wrapped up the revenue portion of the equation. Even if this number is wildly off—which it very well may be—the interviewer is going to be far less concerned with the final answer than with the logic involved in getting there.

Interviewer: Okay. So, getting back to our initial analysis, you said that the ship would have to generate about $50 million per year in order to break even.
Given the revenue analysis you just did, do you think this is possible?

**Candidate:** This would imply that the cost of maintaining the vessel is only $20 million per year. Stated another way, the margins in this business would need to be really favorable to generate $50 million in income on only $70 million in revenue. I don’t know a lot about the specific economics, but this seems really high relative to most industries.

» The candidate is using sound business judgment to assess the situation, speaking in terms of margin, and comparing the very high margin required to justify this investment against other industries.

**Interviewer:** You’re right. The margins do seem too high. Do you have any ideas as to how the cruise could increase its revenue stream in order to justify the investment?

**Candidate:** One option, of course, would be to increase the price, but this might force many consumers to substitute other types of vacations for cruises. Other ways might include providing revenue-enhancing options on the ship, such as classes, a casino, skeet shooting, or special restaurants where guests would be asked to pay additional fees. You also mentioned that the ship does quite a bit of repositioning. Perhaps the client could increase the number of overall paying passengers if it offered discounted fares during these times as well. But, still, I don’t see how the client can justify this investment.

» The candidate TAKES ACTION. She comes up with several creative solutions and then assesses the impact of these possibilities on the economics.

**Interviewer:** Good job! I bet you never thought you’d be discussing skeet shooting during a case interview.

**CASE 2**

You’ve just joined a sportswear clothing company with a long tradition of making short-sleeve polo shirts and casual button-down, long-sleeve shirts. Let’s call this company Eli’s. The division within Eli’s that you’ve joined was formed six months before your arrival. This new division designs and manufactures shirts for hip, young, fashion-forward urbanites, made in a similar style to those of several other smaller shirt makers that have burst onto the fashion scene in recent years. Your division is losing a significant amount of money, and your manager has assigned you the project to determine what should be done. What do you need to know, and what would you do to assist your new division at Eli’s?

» This company tried a new product line and ran into problems, and now it’s a case focused on a classic strategy problem—one similar to any number of business strategy problems you’d likely face on a typical management consulting project or within many types of manufacturing and marketing organizations in a competitive marketplace. There are one or two pieces of important information that the candidate should be able to infer from the interviewer’s description, or set-up, of the case problem. However, most of the information the candidate needs to properly analyze the strategy issues at play here requires further probing on the candidate’s part. This case tests the candidate on both his ability to acquire the proper information to identify the nature of the business strategy problem and his ability to develop one or more potential solutions and communicate them as options (rather than answers) for the interviewer to consider. Strive for simplicity with these types of strategy case questions by thinking of them as having two parts: one part information discovery and synthesis, and the other analysis and development of recommendations.
**Bad Answers**

**Candidate:** Well, I’ve already identified the main problem: Eli’s must have bad shirt designers who just don’t know what kids want these days. I would fire all of my designers and hire new ones. Problem solved, profits up and to the right on the graph for next quarter, baby!

**TIP**

Strive for simplicity with these types of strategy case questions by thinking of them as having two parts: one part information discovery and synthesis, and the other part analysis and development of recommendations.

**TIP**

Avoid definitive language, such as “always” or “never,” while working through your case. Instead, indicate that you’re approaching the problem with an open mind by using probing language such as “could” and “might.”

**This answer is facetious, as no candidate in his right mind would take such a curt and arrogant approach to answering a potentially complex business problem. However, it’s meant to illustrate a key point: In 99 of every 100 strategy case interview situations, you will not have enough information in the case setup to be able to provide a recommendation. Instead, always consider the many areas you could or would investigate to gather more information before jumping to conclusions or answers to the case problem. Answers like this one demonstrate that the candidate thinks he knows enough to handle any business problem, no matter how foreign the subject matter. Short and quickly considered responses that jump directly to the recommended course of action—without any probing or consideration of alternative strategies to address the problem—are among the worst things you can do in a strategy case interview.**

**Candidate:** I’m not so interested in the fashion and retail industries. As my cover letter indicated, I’m really interested in finance, so I’m not sure I’d have very good ideas about how to help a company like Eli’s—the kind of place I’m never going to work at anyway. Can we talk about a problem that an investment bank might have? I know a lot about how to deal with problems in finance.

**Even if you’ve indicated a preference for a specific type of functional role, industry affiliation, or the nature of work you’d like to do if hired by the company interviewing you, this is not the time to reinforce what you are and are not interested in doing. The interviewer is not seeking an answer on or insight into how much personal knowledge, research, or interest you have in the fashion industry. Indeed, the candidate’s background, previous knowledge of a specific industry, and career interests are all almost entirely irrelevant to a successful performance in the strategy case interview. Instead, these cases allow the interviewer to gain insight into the candidate’s general knowledge and application of generic business strategy principles. Some firms intentionally ask questions that are unrelated to their business to test your poise and creativity. Do a good job in the interview, get the job offer, and only then talk details with the company about what you’d like to work on when you join them.**

**Candidate:** It’s probably just that people don’t like the new shirts Eli’s is designing, or they must be priced too high. Or maybe they’re made in the wrong sizes, or the color scheme isn’t right for the season. Do you have pictures of Eli’s shirts and some of the other more stylish shirts that I can look at?
Interviewers will only rarely have visual aids, graphs, or numbers for what's going right and wrong in the situation with which you're presented. And when they do, they'll provide them to you during the setup. So, don't ask.

The candidate makes another misstep by using definitive language such as “must” and “isn’t right.” Let the interviewer use this type of language in describing the problem—those are the facts. The candidate should instead use open, probing language that indicates his mind remains open to many possibilities until he has gained enough information to begin formulating possible recommendations for action; such words include “could,” “might be,” “perhaps,” and so on.

Finally, the candidate is already pigeonholing the problem as being focused on the consumer demand side of things. In so doing, he is closing himself off to the possibility that supply-side or operational problems might be the cause for higher costs and lower potential profits, rather than a drop in demand for Eli’s shirts. A strong candidate keeps his options open in the first half of the case, during information discovery and consideration.

**Good Answer**

**Candidate:** An interesting situation, and one in which I imagine many new hires are thrown into, since companies often like to have fresh ideas and approaches applied in lower-performing divisions. Before I begin thinking about how I might respond to this issue, I need to find out more information. So that I can understand the nature of the marketplace and competition, can you tell me if Eli’s competitors in the hip, stylish shirt market are also struggling or losing money?

**Interviewer:** Good question. Yes, Eli’s competitors in the market for hip, stylish shirts are all doing quite well. They are profitable, popular, and all growing effectively. Only Eli’s seems to be having problems making money, despite all of the demand out there for these kinds of shirts.

**Candidate:** Okay. Based on the information you’ve just provided, it sounds like the problem is not on the consumer-demand side. It sounds like there’s interest and demand for these kinds of shirts and that the market is expanding. There are competitive threats to Eli’s offerings, but that’s natural in a profitable market. I’d like to know more about the reason Eli’s believed it could compete against the smaller designers. Did Eli’s hire away a particularly talented designer from a competitor?

**Interviewer:** Yes, in fact your division has hired several designers away from competitors in the last six months, but that hasn’t helped. You might want to try something else.
Hmmm. The candidate had a theory, and tested it, but was quickly rebuffed by the interviewer, who basically tells him to avoid wasting any time on the “design and aesthetics” aspect of the case.

Candidate: I know from my sister, who works at Nordstrom’s, that certain styles take off in a particular season and then everyone wants them. Maybe Eli’s just hasn’t hit the right style of shirt yet and needs to try more designs until one turns into a hit?

Interviewer: That’s not it at all. You’ll need to think about other things if you want to make any progress.

Yikes. The interviewer is communicating very clearly that he thinks the candidate is off-track and should switch course. There’s obviously an element of role play at work here, so don’t freak out if you meet a tough interviewer or find yourself hitting on a false assumption or down a blind alley. Clients can be tough too, and the interviewer is likely just testing your ability to handle confrontation and direct challenge.

Candidate: Okay, I’d like to learn more about other potential strengths and weaknesses of Eli’s that may be impacting its performance in the marketplace. Does the company have efficient production and operations capabilities? Are its existing distribution partners all on board to distribute its new as well as traditional designs? Has this division had access to a marketing budget to let the marketplace know that these new shirt designs are being sold?

Interviewer: Good questions. As I mentioned before, Eli’s is an established and large, well-known shirt maker. Eli’s has a strong and fast production setup, and all of its distribution partners are stocking the new shirt designs in the right areas of their stores. They’re just not selling so far. And yes, Eli’s has been marketing its new shirts in a splashy ad campaign running on television and in print.

Good. The interviewer seems to have mellowed out a bit and is sharing some useful information.

Candidate: Okay, that’s helpful. So it sounds like the problems are not on the fulfillment and operations side of things, since Eli’s is such a mature organization and has some great assets in the form of its distribution partners and marketplace reputation for high quality. I wonder if the problem could be with Eli’s marketing campaign—was it too costly or confusing? How are Eli’s competitors advertising their products to the marketplace?

Well done. The candidate has implicitly demonstrated knowledge of a useful important FRAMEWORK for evaluating strategic business problems: the SWOT analysis. The candidate has already learned enough about Eli’s threats, has probed somewhat on its weaknesses, and has acknowledged that the interviewer has confirmed numerous strengths and opportunities for Eli’s. However, the interviewer has not explicitly identified any key weaknesses that could explain Eli’s profitability problems in this new division. So, the candidate should probe further to try to discover one or more key additional pieces of information. This is what the candidate has done with his line of questioning about Eli’s marketing campaign.

Interviewer: It’s interesting you should ask that. In fact, Eli’s marketing campaign was very expensive, even compared with several of its more successful competitors. Unfortunately, it hasn’t worked to
stimulate demand. The target audience just doesn’t want to buy Eli’s new shirt styles. Why do you ask?

> The interviewer didn’t divulge much here, except for setting up the conundrum of lots of marketing focus but little demand generation. This usually indicates either off-target marketing or ineffective marketing messaging. The “Why do you ask?” from the interviewer may indicate that the candidate is getting warmer.

**Candidate:** I’m wondering whether Eli’s might have made some tactical errors in marketing the new shirts—for instance, marketing to the wrong target audience using the wrong channels or perhaps using more traditional messaging about the new shirts that doesn’t match up with their real benefits and attributes?

> The candidate continues to push on an area that seems promising, but without seeming too insistent. This is an effective way to test the waters on a new theory and acquire incremental information and direction from the interviewer, if he’s willing to supply it.

**Interviewer:** It’s prudent of you to ask for greater detail about how Eli’s is marketing its new line. I can tell you that Eli’s used broad-based television and print ad channels, so you can be sure its target audience is being reached. And while the company did try to spice up its messaging and the images used to promote the new line, it decided to stick with its original brand name for these new shirts—the same brand name it’s used to sell its more traditional sport shirts and button-down casual shirt lines.

> The interviewer continues to dish out subtle but helpful hints. It seems the candidate is finally getting somewhere.

**Candidate:** That’s good to know. Let me just ask one or two more questions, and then I think I’ll have enough to pull together a complete picture of what Eli’s new shirt division is facing. Then I can start thinking about potential recommendations to address it. Are Eli’s shirts significantly more expensive than those of its competitors? Or are they significantly less expensive?

> The candidate is starting to become comfortable with where things are heading. However, just to be sure he’s covered all of the bases, he’s probing on one last issue—price—to determine if simple economics is impacting demand. The candidate was right to preface this additional question by indicating that she’s close to being ready to move on to the second part of the interview: the development of potential recommendations to address the problem. If he hadn’t, the interviewer might tire of the situation.

Collecting some information shows a balanced approach to evaluating the problem. But endlessly pursuing all information in ever-increasing detail can be overkill and may indicate “analysis paralysis”—that is, the inability to leave the pursuit of new information in order to move on to the more valuable, and ultimately more important, part of a strategy case scenario: synthesis of available information into a plan of action to resolve the problem. In this case, the candidate has shown both the desire to move forward soon as well as the inclination to leave no obvious stones unturned. This is a sign of patience coupled with action on the candidate’s part—the right balance of thinking skills for a successful business strategist.
Interviewer: No, price isn’t an issue here. Eli’s new shirts are somewhat more expensive than its more traditional offerings, but so are those of its competitors. The pricing is appropriate to the more hip, status-conscious consumers of these new shirts. That said, you might be on to something with the marketing approach. What are your thoughts on what the problem might be based on what I’ve told you so far?

Candidate: Well, given what you’ve told me, I have two theories about what the source of the problem might be. My first theory is that Eli’s has made a mistake in using the same brand name with these new shirts; this may be putting off its target customer. You implied that buyers of these shirts are paying a premium for a luxury item. Maybe there isn’t enough luxury and hipness attached to Eli’s brand to justify the higher price. My second theory has to do with the marketing images and messaging: Perhaps Eli’s target customer isn’t interested in wearing shirts that everyone knows about. It may be that the broad-reach marketing campaigns have backfired by giving the impression that these new shirts are just as common and widely available as its more traditional styles. In other words, perhaps these shirts need to appear less widely available and well known and instead appear more exclusive or harder to get in order to appeal to the target audience.

Interviewer: Good thinking. In fact, most candidates I talk to about this case guess a variation on either one or the other of these problems and go straight to a recommendation from there. But you were right on both counts: Eli’s problems are both with its brand choice and with its choice of an overly broad marketing campaign. What would you suggest this division do to address these issues and get Eli’s new shirt division on the road to success?

Candidate: I have a few ideas. I’ll present them separately so they match up to the different problems Eli’s is facing. With regard to the Eli’s brand, I don’t believe it would be in the company’s best interest to shift its core brand identity to match up more closely with the hip, stylish, fashion-forward identity desired by the target audience for these new shirts. I’m assuming that Eli’s traditional shirts are still the cash cow of its business. As such, Eli’s wouldn’t want to do anything to potentially threaten or erode this revenue stream. I’d recommend that Eli’s consider using a new brand to sell its new shirts—a brand that’s sufficiently different from the core brand. Eli’s can create a new, more appropriate brand identity from the ground up, one that’s more appealing to the hipper, status-conscious target audience.

Interviewer: Interesting idea. However, starting a new brand for this new division is a costly endeavor. Do you have any other ideas on how Eli’s might accomplish this goal?

Candidate: The candidate has put somewhat of a stake in the ground, EXPLAINING two potential theories as to why these new products aren’t selling as well as competitors’ offerings. If one or both of these theories is correct, then the candidate should be thinking about how to address it.
to EVALUATE other options and move on to addressing problem No. 2 (rather than ignoring the request or suggesting in any way that there are no alternatives to the recommendation he’s already supplied—a move that would be very close-minded).

**Candidate:** Well, now that I think about it, I might recommend one other way to address the brand problem Eli’s is having with its new shirts: It could acquire one of its successful competitors in the fashion-forward shirt industry and continue marketing shirts under this established, and hip, brand.

**Interviewer:** An interesting alternative. You’re right. Eli’s is facing a classic “make vs buy” decision; it must decide whether a new brand for its new shirt line is the way to go. Well done. Those are enough ways to address the problem. How about your recommendation for the marketing campaign failing in its first incarnation?

The interviewer is indicating that he’s just about satisfied with the course this case interview has run and just wants to hear a little more out of the candidate before concluding. When you hear these kinds of leading indicators—that the interviewer is short on time and about ready to wrap up—you should respect these clues and move to closure. Even if you’re excited with new ideas and have lots of additional recommendations, you should wrap it up. Again, the case interview is as much about how the candidate handles the situation and reacts to the direction provided by the interviewer as it is about what the candidate says and thinks—just as the successful practice of business involves a combination of good thinking and tact when it involves executives or clients.

**Candidate:** I’ll be mindful of our time, since we’ve spoken at length today about this particular case, and I’ll wrap up quickly with one recommendation for how Eli’s could address its marketing missteps—though I could develop a few alternatives if I had more time. My initial recommendation would be for Eli’s to learn from its competitors’ successes and in some respects mimic the marketing approaches they’re using to convince the same target audience of its value. If Eli’s can adapt its marketing images, messages, techniques, and channels to more closely map those being used by its competitors, Eli’s would most likely see a better response from its target audience. And Eli’s would get a better return on its marketing investment by being more tactical and focused in its marketing expenditures.

Well done. The candidate TAKES ACTION with a recommendation and closes quickly while still indicating that he has the flexibility and skills to be able to consider other options if time permitted. This is a successful navigation and effective closing to the case, acknowledging the nuances and complexity of the problems that Eli’s faces. Complex business problems rarely have singular or simple solutions.
CASE 3
Your client is a publisher of romance novels that it sells to retail bookstores, which are allowed to return unsold inventory. This practice is wreaking havoc with the publisher's cash flow, so it's considering abandoning bookstores and selling its books directly to consumers by subscription. Would you recommend pursuing this strategy?

Bad Answer
Candidate: Romance novels? Shouldn't you save this question for a female candidate?

Where do we begin? Yes, yes, the modern American corporation is not as enlightened as its glossy recruiting brochures would have you think, but it's not a good idea to show off your sexism at the start of an interview. Besides, this is a great question covering some interesting business issues.

Good Answer
Candidate: I've never read a romance novel, but this question covers a key change in distribution channels, doesn't it? That would be a major strategic change for a traditional publisher. The first thing I'd want to know is if the firm's readers are interested in a subscription. Would they want that many romance books to make it worthwhile?

The candidate checks on WHAT the question is and if EVERYTHING is there. He understands that this is a big change in the company's business model that could affect its relationship with its readers.

Interviewer: In fact, the publisher has done extensive market research on its readers. Fifty percent of its books are sold to people who read three books per month. The remaining books are sold to buyers who read three books per month. The remaining books are sold to those who are not regular readers.

The rewards of persistence! It's a good idea to keep checking on the availability of data. Your interviewer may well have some to share, or he will give you direction on how to handle the case without hard data. In this case, though, there is plenty of information to get started, so the candidate takes a moment to THINK, pull out a pen and some paper, and arrange the data in an orderly fashion.

Candidate: So the monthly sales distribution looks something like this:

<table>
<thead>
<tr>
<th>100,000 books sold per month</th>
<th>Percent</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular readers (3 per mo.)</td>
<td>50%</td>
<td>50,000</td>
</tr>
<tr>
<td>Heavy readers (&gt;3 per mo.)</td>
<td>5%</td>
<td>5,000</td>
</tr>
<tr>
<td>Light readers (1 per mo.)</td>
<td>20%</td>
<td>20,000</td>
</tr>
<tr>
<td>Other buyers</td>
<td>25%</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Do these numbers include the returns from the booksellers?
The candidate remembers that he doesn't have everything, so he asks again.

Interviewer: Those numbers do not include returns. On average, 10 percent of the books are returned each month.

Candidate: So the publisher actually sells 90,000 copies at retail, and it would only sell about 15,000 to other buyers. Do I understand that correctly?

Interviewer: Yes.

Candidate: So what does it do with the returns?

Interviewer: Some are donated to libraries and literacy programs; some are sold to used bookstores, although they aren't exactly used; and some are recycled. The company estimates that it breaks even on its returns on a profit basis, but it loses money on a cash basis.

Candidate: Yes, I can see that, it makes the inventory investment, but the revenue from the used-book sales and the tax deduction from the donations probably don't offset the costs of handling the inventory and managing the disposal.

Interviewer: Exactly.

Candidate: All right, then. Here's what I'd like to do to. I'd like to consider the costs and benefits of changing the distribution system. But first, I have one more question: How much do the books cost at wholesale, and how much at retail?

Interviewer: The books have a cover price of $6 and the standard markup is 50 percent.

Candidate: Okay, so right now, the publisher has net revenues of $270,000 per month, which would be the 90,000 copies actually sold at $3 per copy wholesale.

Interviewer: Yes.

Candidate: Now, thinking about the costs of the subscription model, the company loses the 15,000 in sales to the sporadic customers. It will also have to launch a new marketing program to turn sporadic readers into subscribers, and it will need to find a way to manage the subscriptions and ship the books. The publisher will have to find a fulfillment house to do this. On the benefit side, moving to a subscription model lets the publisher capture at least some of the markup. It gives it a more predictable revenue stream, and it eliminates the cash-flow drag and the operational challenge of dealing with returned inventory. It also has benefits for the customers, making it more convenient for them to get the books they want.

The candidate explains his thinking in a logical fashion.

Interviewer: So what would you recommend to the client?

Candidate: Well, I don't feel that I have enough information to make a recommendation yet. How are we doing for time? Should I continue with the analysis, or should I tell you what I think I'm missing?

Ah, a framework, and a great insight. The candidate remembers that the bookstores are getting a markup. If they get cut out of the equation, then the retailer can capture some of the profit. And the candidate is also guessing that the interviewer has all this information, because he had so much to share already.
profitability and current marketing expenditures, as well as on the costs of managing the subscription fulfillment.

Interviewer: You still have time. Please, continue.

Candidate: All right. I need more information on the company’s current cost structure. Is it profitable right now?

Interviewer: Yes, it’s profitable, but it’s not growing.

Candidate: And what are its marketing programs? How does it reach customers?

Interviewer: Most of its marketing programs are aimed at bookstores. It runs ads in trade magazines, attends BookExpo, and provides posters, bookmarks, and postcards that stores can use to help promote the publishing house and its titles. On average, the company spends 3 percent of revenue on marketing.

Candidate: So in a given month, let’s see, it spends 3 percent of $270,000 on marketing, and that works out to about $8,000. That’s not very much.

The candidate didn’t do this in his head. Remember, he had paper in front of him, because he drew up the little chart to help him organize his data.

Interviewer: Yes.

Candidate: What about fulfillment? Has anyone done any research on that?

Interviewer: The publisher has reason to believe that fulfillment can be done within the $3 per book retail markup, but it doesn’t yet know if it can be done for less than that.

Candidate: All right. Here’s the challenge, as I see it. The subscription model makes a great deal of sense, given the loyalty of the customer base and the poor economics of the bookstore business. I’d recommend that the publisher pursue it, but under one condition: that it increase its marketing expenditures in the near term, in order to ease the transition and grow the market. Many customers will be frustrated when they can’t find the books at their local bookstore, and they won’t know how to sign up for a subscription. Many potential heavy readers won’t know about the publisher’s books if it can’t find them in the bookstores. That’s a tremendous challenge to overcome. Would you like me to explore some ways to address that?

The candidate recommends TAKING ACTION, and that’s good. The case isn’t quite wrapped up, as this is a complicated issue, but the candidate recognizes that and checks to see if he should continue.

Interviewer: No, I think you summed up the concerns nicely. And now we are almost out of time, so thank you so much for coming in.

CASE 4

The marketing VP of a successful minor league baseball team would like to attract more kids to attend games. He has proposed to the team’s general manager that kids’ tickets be discounted 50 percent for all upcoming season games. Your firm has served the team previously on an unrelated matter, and now the GM is calling you as a trusted advisor to get your point of view before he makes a decision on the kids’ marketing plan. What are some of the issues he should consider?

Bad Answer

Candidate: Is this an easy question, or what? I thought your firm was known for asking really tough questions, and you give me this?
The question may seem easy because you haven’t yet gotten into it and haven’t found out about some of the nuances. Or maybe it’s easy because the interviewer is nervous and didn’t fully prepare—they’re human beings, too. Your task is to be polite and answer the question.

Good Answer
Candidate: Does the GM want a marketing plan, or does he just want a sounding board as he runs through the issues?

Right off the bat—no pun intended—the candidate starts by checking on WHAT the question is. No sense rattling off a series of ideas on ad campaigns or promotional events if the client doesn’t want that. Besides, you’re pretending to be a management consultant, not an advertising guru.

Interviewer: At this point, the client just wants some assistance in thinking about the key issues.

In a short interview, you might get a partial case like this. The interviewer doesn’t have time for you to go through a multilayered case solution; she just wants a sense of your logic and judgment.

Candidate: The first thing I’d want to know is the average attendance at each game. Does the stadium have excess capacity that the team wants to fill? Then I’d want to know the mix of day games and night games, because that might affect how the team promotes itself to children.

The candidate is checking to make sure EVERYTHING is there.

Interviewer: What do you mean?

Candidate: The data would help me figure out if the motivation is attendance and revenue, or if it’s to develop new markets over the long term. And it could help me recommend different tactics. For example, if the team has a lot of day games and wants to fill the stadium then, it might want to think about ways to attract school groups and day-camp groups. In the evenings, it might want to find ways to bring in families.

Interviewer: The team had near-sellout attendance last year because it had one Japanese star being readied for the majors, and it had a major league star pitcher recovering from an injury. On top of that, the team had a winning record, and those factors drove attendance. This year, attendance is down, but the owner doesn’t have any exact figures.

The candidate now knows that this is a case without data, so it’s futile to ask for more. However, the interviewer does have an idea about what the case is all about, so it may be worthwhile to ask questions to keep the conversation going. It’s time to take a moment to THINK. Is there a good way to structure this case so that he doesn’t wander off on random tangents? How about looking at the team’s product, price, promotion, and place—the 4Ps FRAMEWORK?

Candidate: What I’d like to do is come up with a way for the team’s owner to think about the marketing situation by having him think about the product, its pricing, its promotion, and its position in the marketplace.

Interviewer: You paid attention in marketing class, I guess.

Candidate: Of course! Okay, the product is the tickets, but it’s also the entertainment experience of being at the ballpark. And along with that product are things like concessions and souvenir sales. The team is selling the entire atmosphere of being at the game. I’d ask the owner to get information on the ratio of total revenue...
to ticket sales, because that would show what his total product revenue is. Then I’d want to find out if children in the community know what it’s like to attend a baseball game.

**Interviewer:** Okay.

**Candidate:** If the product is the entire game experience, then the ticket is only part of the price. It gets people through the gate, but what happens once they get there? I think the team owner’s research should look at the total cost of attendance, including parking and food, and compare that to the costs of other forms of child and family entertainment. Maybe parents are scared off by food costs, or maybe they don’t know that an evening at the ballpark is a better value than an evening at the movies.

**Interviewer:** So are you saying that the movies are competition for a sporting event?

**Candidate:** Yes, because it’s something else that families can do with their time. And that gets into the issue of how the team promotes itself. It may not need to cut ticket prices to get children in the stands. Has the team run ads for children and families? Does it have promotional giveaways for children? If a beer company sponsors the giveaway, for example, then it can only go to people over age 21. Does it have good crowd control or do parents have to worry about their kids sitting next to drunken fans? And are there things for the kids to see and do besides the game if they get bored? Thinking about the promotions may allow the team to get more kids in the door without discounting.

**Interviewer:** Very good. Anything else?

**Candidate:** Well, I’d also want to look at the team’s market position. Do people care when the team isn’t winning? What do the adults in the community think of the team?

**Interviewer:** Why is that important?

**Candidate:** It affects the buzz surrounding the team as well as the need for a promotion aimed at children. If the team is already a big draw that gets near-capacity crowds, just not children, then the team owner should approach the problem differently than if the team is not popular with anyone and if the stands are empty.

**Interviewer:** Anything else?

**Candidate:** Well, at this point, no. I’ve talked about considering the baseball experience, not just the ticket sales; the cost of attendance, not just the ticket price; suggested looking into promotions to see how the team is reaching fans; and asked about the team’s overall position in the market, not just with children. The team owner may know these factors now or he may need to do more research, but this approach would help him determine if he needs to reach children and if cutting ticket prices is the best way to do it.

>> The candidate EVALUATES his case to show that he did answer the question, and he TAKES ACTION of a sort. He doesn’t recommend a marketing strategy, but he does show what issues the team owner needs to consider. This type of question would typically be asked of an undergraduate candidate in an early round. It doesn’t require fancy calculation, but it does show if the candidate can figure out a logical way to solve a problem.

> The candidate stays logical and sticks to the framework, EXPLAINING what’s going on every step of the way. Of course, you don’t always have to stick to the framework, but in this example, the candidate is being asked to set up a structure for analysis rather than to make a recommendation.
CASE 5

Your client, Rick’s Kicks, is a manufacturer of mid-range and high-end athletic shoes. The company has been faltering in recent years and is under significant shareholder pressure to grow its business. A major mass merchant has expressed interest in launching an offering from your client in all of its stores. (The company currently does not sell to mass merchants.) Should your client go ahead with the launch? If so, how?

**Bad Answers**

**Candidate:** Mass merchants can be too big and too demanding to do business with. They’re almost as likely to drive Rick’s Kicks out of business as they are to improve profitability. Many brands have been driven into serious trouble by mass merchants, given their market power and aggressive discounting. If it were my company, I’d focus on growing the brand in current channels of distribution.

**Good Answer**

**Candidate:** A new market entry is fascinating, and it challenges a lot of brands. Broadly speaking, I see two buckets of issues: the quantitative and the qualitative. Within the first bucket, I’ll want to tackle the drivers of Rick’s Kicks current performance, channel dynamics in the marketplace, cost issues surrounding a potential mass channel entry, and the competitive landscape. On the qualitative side, if we assume for the moment that Rick’s Kicks ultimately enters the mass channel, the fundamental issue to consider is branding as it relates to the existing brand, a potential new brand launch, and cannibalization.

**Bad Answers**

**Candidate:** I’m fully convinced that there’s a significant market opportunity with mass merchants. No argument there. It’s the brand I’d be primarily concerned about. Nonetheless, if the alternative is letting the business slowly slide away, then I think Rick’s Kicks needs to take the leap and see what happens.

**Good Answer**

**Candidate:** To start, let’s talk about Rick’s Kicks’ performance in recent years, and the performance of key channels in the market in total. I’m guessing that Rick’s Kicks is currently distributed most broadly in chains and department stores—has it been losing share in those channels? What have been the recent trends surrounding its channels of distribution? How understanding of how Rick’s Kicks could confront the brand risk in a thoughtful way.

**Good Answer**

**Candidate:** The candidate dives right in and tells the interviewer **WHAT** the question is and lays out a qualitative and quantitative **FRAMEWORK** for answering it. The components of the framework roughly parallel the 4Cs (in this case, channel, cost, consumers, and competition), and the candidate has indicated that he intends to address at least the most relevant elements in the context of this case. The point is, use whatever structure makes sense to you in the context of the problem you’re trying to solve. Don’t force business school frameworks if you don’t need to—you risk coming across like you’re trying too hard and not thinking for yourself. Interviewers will be impressed by your ability to think in a structured and creative way—not by a knack for regurgitating frameworks.
has the mass channel been performing in the footwear segment?

**TIP**

Use whatever structure makes sense to you in the context of the problem you’re trying to solve. Don’t force B-school frameworks if you don’t need to—you’ll risk coming across as if you’re trying too hard and not thinking for yourself.

The candidate is checking to see if EVERYTHING is there. He is asking questions aimed at determining the root cause of Rick’s Kicks’ poor performance in recent years and the channel dynamics at work in the market.

**Interviewer:** Good questions. You’re correct in that the brand is primarily distributed in chains and department stores, which currently comprise about 40 percent of total unit sales in the market, and about 50 percent of dollar sales. Four years ago, however, those numbers were 50 percent and 60 percent, respectively. The company’s core channels have taken a hit in recent years, in large part due to the growth of the mass channel, but its brand has managed to hold its own in terms of market share. It is exactly where it was four years ago, as are almost all of its competitors. The mass channel now accounts for 30 percent of total shoe sales, though that’s only 25 percent of sales in dollars. The mass channel has been growing at about a 10 percent CAGR (compound annual growth rate) over the past four years, and going forward, this trend is expected to continue.

The interviewer is divulging a lot of information quickly, which may indicate that you’re on the right track and that there’s a lot of subject matter to cover.

**Candidate:** Rick’s Kicks, then, is holding ground on market share, but is losing sales due to a declining market. In addition, the mass channel is big, and will continue to get bigger. My first reaction is that this opportunity will be a difficult one to pass on. First, though, let’s talk briefly about cost. The mass channel is obviously a lower-cost alternative to the company’s current channels, and consumers have clearly been migrating to mass retailers. Is Rick’s Kicks capable of competing in the mass channel from a cost point of view?

The candidate has put forth a preliminary hypothesis, but has stopped short of a recommendation. The candidate is probing on the “final C” of the framework he laid out at the outset: competition.

**Interviewer:** Yes, it can compete from a cost point of view. To begin with, mass merchants require less margin than its current customers, which helps. In addition, the products it currently sells are largely high-performance shoes. I think it could readily value-engineer its current product to a lower cost. Not to mention the fact that all of its competitors from its current channels have been able to make the economics work.

Again, the interviewer seems to be leading the candidate down a path. Be wary of following blindly into a trap, but if you have the facts to make a recommendation, go for it.

**Candidate:** That leads me to my next questions around the competitive landscape. What’s the composition of the mass channel today from a competitive point of view?

The candidate is probing on the “final C” of the framework he laid out at the outset: competition.

**Interviewer:** The competitive landscape in the mass channel is as follows: About 40 percent of the shoes sold there are private-label brands produced by the retailers themselves. They’re the lowest priced shoes on the floor. About 25 percent of the shoes are sold by brands that operate only in the mass channel, and the
other 35 percent comprises competitors’ brands and sub-brands. In fact, this company is the last remaining major brand not selling in the mass channel.

> Again, the interviewer has offered some very powerful information regarding the client’s situation.

**Candidate:** The erosion of Rick’s Kicks core channels, combined with the ongoing growth of the mass market, Rick’s Kicks’ stated ability to manufacture to mass-channel cost requirements, and competitors’ early and seemingly successful forays into the channel, lead me to believe that Rick’s Kicks must enter the mass channel. The next logical question is, how to accomplish this. What are the right pricing and branding strategies, and how can Rick’s Kicks best minimize cannibalization risk? First, how is Rick’s Kicks currently positioned in its core channels of distribution?

> The candidate has put a stake in the ground on entering the mass channel. He EXPLAINED the issue from three points of view, and the facts overwhelmingly supported channel entry. Not one to rest on his laurels, the candidate is forging ahead on part two.

**Interviewer:** In chain stores, Rick’s Kicks is a premium offering, priced about $5 to $10 above its closest competitors. In department stores, which are a bit more upscale, the brand is somewhat more midrange, but still a favorite of many consumers.

**Candidate:** Clearly, there are always risks to taking any brand down-market. Given this brand’s position in its current channels, however, and the facts that private label and mass channel-only brands are prevalent in the mass channel, there seems to be room for this brand at the top end of the spectrum within the mass channel. I see a couple of benefits to such a position. First, it would continue to command a relative price premium, which would help keep margins healthy and put less pressure on its sourcing and supply chain. Second, it will mitigate, though by no means eliminate, the risk to the brand in its core channels.

> The candidate is diving into the critical “how” portion of the question. Given the relative ease with which the interviewer dished out the data earlier, the candidate should expect to invest a good amount of time in this more tactical part of the question.

**Interviewer:** Okay, so maybe it can carve out a premium positioning. But how does it ensure that it doesn’t lose that position in its core channels when it enters the mass channel? The company definitely doesn’t want to swap units channel for channel, particularly given that mass channel units are less profitable.

> For the first time, the interviewer is challenging the candidate a bit. Perhaps the interviewer has intentionally lured the candidate into thinking the interview would be somewhat of a cakewalk and has now changed tack to test the candidate’s cool under fire.

**Candidate:** Certainly, cannibalization is a serious concern. Is entering the mass channel with an entirely different brand a possibility for Rick’s Kicks?

> The candidate is not flustered. He EVALUATES his work so far and decides to use a tried-and-true strategy. When you sense defensiveness or aggression from the interviewer, asking a question will often help deflect those feelings more effectively than replying with a statement.

**Interviewer:** Good question. Actually, it depends on what you mean by “entirely.” The company is free to create a new brand offering, but the retailer is requiring that its name contain the words “Rick’s Kicks.” The firm negotiated hard on that point, but the retailer won’t budge. It’s a deal breaker.
The interviewer is back in nice-and-helpful mode again.

**TIP**

One strategy for diffusing an aggressive interviewer is to ask more questions rather than to make more statements.

**Candidate:** So the retailer obviously sees a lot of value in the brand equity of Rick’s Kicks, and from what I know, it would seem that consumers see that value as well. Given the retailer’s conditions, we still have some options. I don’t believe that launching the current Rick’s Kicks line in the mass channel is a good option. The risk to the brand is too high, current retail customers would likely retaliate, and the price points wouldn’t translate anyhow. Instead, Rick’s Kicks should consider a sub-brand of some kind. One option would be something like “Rick’s Kicks Olympian,” which leverages heavily off of the core brand name but also creates differentiation with the “Olympian” addition. However, I’d be more comfortable with a brand name like “Swift by Rick’s Kicks,” or “Fleet Feet, from the makers of Rick’s Kicks.” These endorsed brands still confer some of the equity of the Rick’s Kick’s brand, but without leading off with the Rick’s Kicks name. Over time, this may allow the company to establish a separate brand identity for the mass-channel line, and even to drop Rick’s Kicks from the name altogether.

**Interviewer:** That’s extremely helpful; we hadn’t thought through the branding options in detail to date.

**CASE 6**

**Your client is a major branded skateboard manufacturer that has decided to enter the Brazilian market. Should it license its brand or manage the entry in-house?**

> This is a common new markets/expansion strategy question, though the licensing element is somewhat of a twist.

**Bad Answer**

**Candidate:** I’ve heard about a lot of companies trying to do business in South America that have lost their shirts down there. The economies are unstable, and the currency is unpredictable. If the company really must enter the Brazilian market, I’d license the business, without a doubt. In any event, my background is in down-in-the-details manufacturing and operations stuff, not in these fluffier strategy cases.

**Interviewer:** You mentioned other companies that have failed in South America. Maybe we can use them as a starting point to determine if there are applicable lessons from their experiences?
Ahh, what a friendly interviewer. This candidate may have more than one life.

**Candidate:** Actually, I read about a few in *The Wall Street Journal*, but I don’t have a ton of details. Can we talk about throughput instead?

The only throughput measure that’s relevant to this candidate is the rate at which his body is about to move through the exit.

**Good Answer**

**Candidate:** This is an interesting one. I can’t say I’m too familiar with skateboarding personally, but I’m sure I can ask some questions to sort through the issues. This case ultimately hinges on the benefits of licensing versus keeping the business in-house for entry into the Brazilian skateboarding market; the decision to enter the market has already been reached. Therefore, it seems that my first step should be to weigh the relative economics of licensing versus the in-house scenario, and see how that comes out. If that’s not clear-cut, then we’ll want to consider some qualitative issues that may affect the decision, but I think I should hold off on those to see if they prove necessary. To begin with, could you give me a sense of how a licensing arrangement would work, both organizationally and financially? I want to make sure I’m clear on that before we jump in.

**Interviewer:** In a licensing scenario, the client would choose a third-party vendor that would manage the production and sales of its skateboards in Brazil. The client would retain responsibility for designing the product and would have full authority over the use of its brand. Presumably, the vendor the company selected would be one that has deep familiarity and competencies in the Brazilian marketplace. From a financial standpoint, the client would collect a 6 percent royalty on gross sales.

**Good start. The candidate knows WHAT the question is, has a FRAMEWORK to work through the problem, and is checking to see if EVERYTHING is there. The candidate has clearly spelled out her approach to the case, and has started with the big picture. She’s not afraid to ask a question about licensing arrangements, a very specific area with which she’s not familiar. It’s always better to ask the question than to pretend you know things that you don’t.**

**Candidate:** Thank you. That’s helpful. Next, can you please tell me a bit about the U.S. skateboard market? How big is the market, and what is the client’s market share?

**Interviewer:** I don’t see why that would be important. The question is about the Brazilian market, not the U.S. market. Did you mean to say Brazil?

**TIP**

It’s okay to ask questions about areas you’re unfamiliar with. Just make sure your questions help lead toward a recommendation.

**Good start. The candidate knows WHAT the question is, has a FRAMEWORK to work through the problem, and is checking to see if EVERYTHING is there. The candidate has clearly spelled out her approach to the case, and has started with the big picture. She’s not afraid to ask a question about licensing arrangements, a very specific area with which she’s not familiar. It’s always better to ask the question than to pretend you know things that you don’t.**

**Interviewer:** I don’t see why that would be important. The question is about the Brazilian market, not the U.S. market. Did you mean to say Brazil?

**Candidate:** Thank you. That’s helpful. Next, can you please tell me a bit about the U.S. skateboard market? How big is the market, and what is the client’s market share?

**Interviewer:** I don’t see why that would be important. The question is about the Brazilian market, not the U.S. market. Did you mean to say Brazil?

**TIP**

The interviewer issues a little bit of a challenge, possibly to test the candidate’s persistence, or possibly to signal that she’s on the wrong track.

**Candidate:** I should clarify. I think that understanding just a couple of quick facts about the U.S. market will help me make some assumptions later on about how well the client can expect to do when it enters Brazil.

**TIP**

The candidate holds her ground, sensing that the interviewer is testing her a bit.
Interviewer: Fair enough—that makes sense. I can tell you that the company’s U.S. market share is about 5 percent of total units, making it the No. 3 or 4 player in the market. Unfortunately, I don’t have the client’s sales data in front of me, so I can’t tell you offhand what the total market size is. You’ll have to make an assumption.

So, the interviewer seems to have been testing the candidate’s resolve on the previous point. But now a small hurdle has arisen: It seems that a market-sizing question has reared its head inside this broader strategy question. This is not at all uncommon. Just as with the market-sizing questions you’ve already practiced, make good assumptions, use round numbers, and move on. It’s your method, not your number, that counts.

Candidate: Okay. Let’s assume that of a total U.S. population of 300 million, about 70 million are age 25 and under, which I imagine is the demographic of most skateboarders. Of those, let’s assume that one in seven owns a skateboard, or about 10 million people. My guess would be that most of these people own one skateboard, but that there is a more serious contingent of skateboarders who own several. If we assume that it averages out to 1.5 boards per person, the total number of skateboards would be 15 million. In addition, I think it’s fair to assume that a skateboarder might upgrade his board once a year, making the annual U.S. market for skateboards 15 million.

Fair enough. When a market-sizing question is embedded in a broader case, it’s usually best to move through it quickly without getting tangled in too many detailed assumptions. After all, it’s just one piece of a much bigger puzzle, so don’t get bogged down.

Interviewer: Sounds reasonable to me. Let’s keep moving.

Candidate: Okay, so if the U.S. market for skateboards is 15 million, and the client has a 5 percent share, this would mean that its annual sales are 750,000 boards. I think that will be a helpful reference point when I begin to think about what the company’s “fair share” might be in the Brazilian market. Turning now to …

Interviewer: Fair share? What does that mean? Do you mean that the client will be entitled to the same share in the Brazilian market that it has in the U.S.? But aren’t the markets different?

Another challenge—but this candidate seems up to the task. She THINKS for a moment, then answers.

Candidate: I mean to say that the client’s share in the U.S. market may serve as a helpful proxy for thinking about how it will perform in Brazil. But in order to validate that hypothesis, I do need to ask a couple of questions about the Brazilian market. How big is that marketplace right now? I imagine it’s less mature than the U.S. market. In addition, what does the competitive landscape look like? Are the same brands that compete with the client in the U.S. also selling in Brazil? Knowing that will help me to figure out whether the “fair share” assumptions I plan to use are valid.

The candidate calmly responds to the interviewer’s challenge and clearly EXPLAINS where she’s headed.

Interviewer: The market for skateboards in Brazil is indeed smaller than in the U.S., as you say. Last year, about 1 million boards were sold in Brazil. The market, however, is projected to grow very quickly, which is one of the reasons why the company is interested in it. To your second question, the top two brands in the U.S. are also the top two in Brazil. Much of U.S. skate culture has made its way to Brazil, and kids there have latched on to the same brands.
The candidate has done a bit of math that has led her to hypothesize that the size of the Brazilian business may warrant licensing. But she’s not yet sure enough to draw a line in the sand and has opted to dig a bit deeper. Floating an initial hypothesis to evaluate your interviewer’s response can be a smart way to test ideas. Just be careful not to appear like you’re fishing for validation; this could signal a lack of confidence.

Interviewer: Good questions. From a capability and relationship standpoint, the client won’t have the benefit of very much leverage. The retail landscape in Brazil is very different from the U.S., but just as fragmented. So a new sales force would definitely be needed. And you’re correct: Retail prices in Brazil are about half of what they are in the U.S., so production would need to be cheaper. The company couldn’t afford to make the boards by hand as it does domestically. And lastly, I do know that the No. 1 one competitor in Brazil licenses its brand to a third-party vendor.

Candidate: Given what I know, my preliminary recommendation would be in favor of licensing due to the small size of the business and what would seem to be the hefty investment required. From an investment standpoint, I’d be particularly concerned that the client would need to dramatically alter its production process to value-engineer the boards for Brazil. Making them by hand would be difficult to sustain in a substantially lower-priced market. In addition, licensing would potentially mitigate some of the risk of entering a market in a country that has been economically volatile in the past. On the other hand, there are some arguments to be made in favor of keeping the business. For example, if my fair-share assumptions actually proved to be conservative, licensing the business could prevent the client from realizing some of its upside. Nonetheless, based on what I know, licensing seems the better approach.

Candidate: Great. So Brazil is a small but growing skateboard market that looks a lot like the U.S. market from a competitive standpoint. Let me apply a bit of fair share logic here and see what it tells us. Let’s assume that the client could achieve the same 5 percent share in Brazil. That would imply annual sales of 50,000 skateboards, a pretty small number, especially in comparison with the U.S. business of 750,000. You did mention that the market in Brazil was growing rapidly, but even at a compound annual growth rate of 20 percent, sales would grow to only about 100,000 units in four years, assuming steady market share of 5 percent. In addition, I assume that the retail price of skateboards in Brazil would be substantially lower than in the U.S. and would therefore dictate that the skateboards made for sale in Brazil be produced far more cheaply.

So, my initial hunch is that the Brazilian business is a strong candidate for licensing, given its relatively small size in the near term and my assumptions about the amount of investment that would be required for the client to manage the entry in-house. To my last point, are there any existing capabilities or relationships that the client would be able to leverage in entering the market? For example, are there distribution relationships that span both the U.S. and Brazil? Would the client need to add employees to manage the new business? In addition, I’m wondering whether you know if the company’s competitors in Brazil have decided to license their businesses there. That would be interesting to know.

>> Here, the interviewer seems to validate much of the candidate’s approach, offering some helpful hints.

>> The candidate has done a bit of math that has led her to hypothesize that the size of the Brazilian business may warrant licensing. But she’s not yet sure enough to draw a line in the sand and has opted to dig a bit deeper. Floating an initial hypothesis to evaluate your interviewer’s response can be a smart way to test ideas. Just be careful not to appear like you’re fishing for validation; this could signal a lack of confidence.
The candidate successfully builds on her previous hypothesis and uses the new information to TAKE ACTION. She also wisely acknowledges a potential counter-argument, which is a great way to demonstrate a command of all of the issues surrounding a case.

Interviewer: That seems like a reasonable conclusion. One last question: If this were an actual project, is there anything else you would do before coming to a decision?

Candidate: Good question. The answer is yes. In a real project, it would be critical to build a detailed model to understand the relative economics of licensing and keeping in-house. My analysis was admittedly high-level, and any actual consulting team would need to dive much deeper into the numbers. I would envision building a few potential fair-share scenarios for licensing, and run a sensitivity analysis. Ultimately, we’d need to compare the NPV (net present value) of each scenario, using a 6 percent royalty rate for the licensing scenario, and using smart assumptions based on what we know about the market for the in-house scenario.

The candidate acknowledges the limitations of her analysis, which are to be expected in the context of a short case. But she has a clear point of view on what would be required in an actual project scenario. In this part of the case, an MBA candidate would be expected to have a firmer grasp of the economic decision points than an undergraduate or advanced degree candidate.

Case 7

Your client is a major car manufacturer with significant sales and brand equity. Though the company is doing well, the CEO is looking for incremental opportunities. A major area of concern is that customers’ positive interactions with the brand are largely limited to the car-buying experience, which occurs on average once every three years. How would you increase customers’ positive interactions with the brand?

This question is part marketing strategy, part growth strategy. Initial indications are that it is a primarily qualitative case that will require some creative, though fact-based, thinking.

Bad Answer

Candidate: With the last car I bought new, the negative interactions began as soon as I drove the thing off the lot. After a transmission overhaul and a brake replacement, I decided to unload it.

This guy is clearly a joker, but his ridiculous response does raise one point: Try not to let your personal perceptions of a product or marketplace influence your handling of a case. If you have relevant knowledge or expertise, use it, but stay objective and clearheaded.

Good Answer

Candidate: My initial feeling is that this case will prove to be about marketing and customer relationship management. It makes sense to start by mapping out a typical buyer’s current experience with the brand, from research to purchase to ownership, and then on to the next purchase cycle. I may even sketch that cycle on a piece of scratch paper. If I can understand what the customer’s current relationship with the brand looks like, hopefully I’ll uncover potential points of improvement.
Great start. It’s a wide-open case, so there’s a risk of jumping into the fray with a bunch of ideas that aren’t well founded. The candidate wisely proposes a FRAMEWORK and has chosen to start by taking a look at the brand through the customer’s eyes. After all, this case is about the customer’s experiences, so starting from that perspective seems like a sound approach.

Interviewer: Sounds okay to me. Let’s get started and see where it leads.

Candidate: There is a lot about the experience of buying and owning a car that is universal across brands. Beginning with the research process, a consumer might start out talking with friends to get their opinions and read publications like Consumer Reports to get a feel for what’s available. I’m sure the Internet is also a key channel for car research these days. I imagine that most consumers narrow down their list of potential cars in these ways, and then once they have a manageable list, begin to visit dealerships and test-drive cars. Outside of online research and third-party reviews, this is likely the customer’s first meaningful interaction with the brand. After coming to a decision and navigating what can be a difficult and confusing negotiation and purchase process, the customer buys the car and drives it home. Given the frustration many customers feel during the sales process, there may be some opportunities for improvement here, but from your question it seems that the case is focused largely on the post-purchase phase.

Interviewer: Yes. What happens then?

Candidate: Once the customer is off the lot, there can be significant gaps in what I’ll call “customer touch points” with the brand. Sure, the customer is driving the car every day, and there’s probably some loyalty to the brand that is reinforced each time the driver gets behind the wheel, but it’s a much different kind of interaction than being at the dealership. And there are plenty of opportunities for negative interaction, and—reading between the lines—I imagine that this is one of the things the client is concerned about. For example, every six months or so an expensive insurance premium comes due. In addition, things go wrong with cars, and anything from a minor fix to a major repair can have a damaging effect to the brand. So this is the area I need to focus on. A couple of questions that come to mind: Can the company somehow transform experiences like insurance and repair into more positive ones? Are there new touch points in the cycle that it can insert to create more positive relationships with the consumer?

Interviewer: Okay. But how are you going to make insurance and repair positive experiences? That seems like a bit of a stretch.

Candidate: True, it’s difficult to imagine. And I’m not sure that insurance and repair would ever be truly positive experiences, but maybe they could be less negative for starters. For example, what if the company offered free or discounted vehicle checkups at their dealerships every 25,000 miles? Customers might save some money through preventive maintenance, and the program would give the company an opportunity to
reinforce its relationship by bringing customers back to its dealerships. Or it could affiliate itself with selected insurance and repair companies and offer incentives to its customers through a joint partnership. Customers could earn points by using these partner providers, and apply those points toward the purchase of their next vehicle, or toward accessories for their current cars.

The candidate does a good job of responding to the challenge from the interviewer and explaining his logic. This is a case about your ability to generate ideas and back them up with reasonable assumptions and assertions. Of course, any of these ideas would need to be carefully analyzed before the company would implement them, but that’s not what you’re here to do. Be creative, and ground your creativity in credible assumptions.

Interviewer: Those are interesting ideas. It sounds like you’re talking about some kind of loyalty program. If so, what would you envision some of the guiding principles of the program to be? How else might you promote the program?

Positive sign—the interviewer has latched on to the candidate’s ideas and is probing a bit further.

Candidate: You’re right; I am talking about a loyalty program, which has proved to be successful in other industries—airlines come to mind. Not that they don’t have problems of their own, but their mileage programs are good models for loyalty programs. In terms of guiding principles, a loyalty program should create a self-reinforcing cycle. That is, the points a customer earns should become “currency” that encourages a future transaction with the parent brand or one of its key partners. If the company were to create such a program, the customer should be able to apply his points to the purchase of a brand product.

In terms of other ways to promote the program, I’d encourage the company to consider a credit card as a part of the loyalty offering. I personally have a gas card and an airline card in my wallet, and I know cards like these have been quite successful in recent years. A branded credit card would reinforce a positive experience with the brand as consumers earn points and increase the likelihood of a repeat purchase.

Interviewer: A credit card is a good idea. Is there anything else?

Candidate: I’m also thinking about the day-to-day driving experience—this is the most substantive and significant part of the brand relationship. As I said earlier, there’s some benefit each time the customer drives the car, but in-car options like the OnStar system, for example, could enhance the quality of the brand relationship. Value-added services like roadside assistance and driving directions go above and beyond the typical expectations of a vehicle experience, and so could become an ongoing source of positive reinforcement.

Interviewer: Those are all reasonable ideas. There’s just one more thing. I mentioned at the outset that this is a brand with considerable equity and is, in fact, doing quite well. Would those facts lead you to consider anything else?

The interviewer seems to have something in mind that the candidate didn’t touch on. This is likely one of those areas that would be considered “extra credit,” and a potentially important differentiator from the pack. Nail these parts of the interview, and you’ll be in good shape.
Candidate: Now that you mention it, the company could probably put its strong brand equity to work by exploring opportunities in other markets, either directly related to cars or even somewhat further afield. My own credit-card example calls to mind financial services. I can see where the brand attributes that serve a car company well—reliability, trust, safety—would also be transferable to financial services. Whatever the potential markets might be, the company’s strong financial position coupled with its powerful brand could make it a candidate for product-line expansion.

> Excellent! The candidate has seized on a path that flows directly from the interviewer’s last question. This guy may be cut out for consulting after all.

Interviewer: Great job on a tough, open-ended case.

CASE 8
You own a microbrewery in Seattle. What are some of the issues to consider if you were interested in expanding your brand nationally?

> This question would be fair game for undergrads, MBAs, or non-MBAs. Naturally, the interviewer would expect the MBA to offer more detailed, sophisticated answers and insights by drawing on that core operations course.

Bad Answer
Candidate: I would never expand nationally. There are way too many beers on the market today, and microbrews are out of style anyway. Maybe the client should acquire Pabst. That’s the in thing to drink around here, you know. We had a really interesting case about Pabst in my Corporation Finance class. It was so cheap in 1984, I could have bought it!

> Lots of insight, but nothing relevant to this particular question.

Interviewer: Well, yes, but let’s back up for a moment. Are you saying you’d think about the market context before you would expand nationally?

> The interviewer has to stick this out, and he’s trying to be professional about it. Hint: Talk about the market context. This may or may not be what the questioner was looking for, but it’s at least a start. From here you could work your way back to the operations issues inherent in this growth question.

Candidate: No—I said I wouldn’t expand nationally. Seattle is such a great town! I’d stick to the knitting, you know, do what I do best in my own backyard. I probably have a big local following, so why play around with a good thing?

Interviewer: So would you be interested to know whether you could attract a national customer base?

> The candidate has probably already blown his chances. The specifics of the discussion aren’t so important here. What is important is that the interviewer often will offer an out for a misguided answer. Taking the interviewer’s hint, the candidate could have switched back to a discussion of the market potential and the difficulties of taking a local brand national.

Candidate: No. I said I’m not interested in a national customer base.

> Okay, so this guy’s not a consultant. Maybe he’s an entrepreneur. That’s okay, consulting isn’t for everyone.
**Interviewer:** Okay. Well, let’s move on. It says on your resume that you like sushi. Any good restaurants around here?

**Good Answer**

**Candidate:** A microbrewery—cool. Well, what kind of a microbrewery is it? I mean, am I thinking about taking a retail concept (restaurant and bar) national, or am I a local beer manufacturer wondering whether to distribute my brand across the country?

>> There are a couple of good things about this response. The candidate shows that she’s interested in the topic and has at least a spark of enthusiasm. Then she gets down to business by defining the problem further—is EVERYTHING there? Alternatively, she might have chosen just one course: “I assume we’re talking about taking a local beer and distributing it nationally, rather than taking a retail/brewery concept national.”

**Interviewer:** So if your assumptions are true, what would be your take on the competitive environment—favorable to your going national or unfavorable?

>> You should always be prepared to draw partial conclusions or insights from information or assumptions you offer in your answer. Interviewers will frequently ask this to see if there is a method to your answer or if you’re just spouting whatever comes into your head.

**Candidate:** It likely means that it’s unfavorable—the big guns could eat me for lunch.

**Interviewer:** How could they “eat you for lunch”?

>> You can also expect most interviewers to push you to explain the thinking behind your response, especially when you offer up a short answer.

**Candidate:** I think competition in the beer industry is driven by marketing. The big players have both marketing expertise and deep pockets, which presumably I don’t have. I wouldn’t be able to compete with them head to head, so I would probably have to are looking to enter this segment either with new labels or through acquisitions.
target a different customer base to be successful, maybe not quite pursuing a national strategy, but a strategy of targeting specific markets nationwide, and drumming up a local following within those markets.

The candidate shows that she has a bit of business intuition. Understanding the market opportunity involves understanding the numbers: Is the market growing and, if so, in what segments? But it also involves understanding the competitive landscape and the likely response of existing players. Here the candidate points out a key challenge: maneuvering around the big players, who have deep pockets, experience, and competitive instincts. She then jumps into a possible strategy that differs from a national rollout. Before offering up this possible strategy, she might have discussed the competitive advantages of the microbrewery. These might include differentiated product, off-brand appeal, loyal customers, and guerrilla marketing experience.

Interviewer: I see. So more of a “multilocal” strategy. What kinds of markets would you want to target?

Again, the interviewer is not satisfied with a general answer. You should always be prepared to take your analysis to the next level.

Candidate: Well, college towns come to mind. And other markets with attractive demographics—young, urban, disposable income, affinity for beer, and so on. I’d probably have the most success in bars and restaurants in those markets, so I think I’d start there instead of trying to fight for shelf space in liquor stores. I’d try to make a name for myself, and if successful, I would use a “pull” strategy to get shelf space.

Note: A “pull” strategy focuses on getting customers to ask for the brand. It differs from a “push” strategy that would use incentives and other things to get distributors and retailers to offer the product.

On to operations issues! Many strategy cases are part of bigger cases, especially at the MBA level or in later rounds of interviews.

Candidate: Let’s see. Well, I’d need to make sure I could manufacture the stuff to meet increased demand. What is the capacity of my current facility? Am I currently operating at capacity with my Seattle area sales? If so, then I’d have to think about adding capacity, which raises another set of issues. Where do I build the new plant? And how do I pay for this additional capacity? Presumably I’m not terribly cash-rich right now.

The candidate focuses on production capacity issues—a perfectly reasonable path. She might also have talked about distribution issues or any of a number of other systems-related growth issues, including accounting systems, inventory controls, financial management, and even product quality control or staffing. If you brought up productions...
scale when talking about the competitive dynamic, kudos to you!

**Interviewer:** Let’s say you’re at capacity in your existing facility, so you need to add capacity to expand your business. What are some of the issues around plant location? How would you think about making that decision?

**Candidate:** Well, there are a couple of options. One is to simply increase capacity at my existing plant. We already have brewing expertise in Seattle, and we could probably enjoy significant economies of scale in purchasing and in brewing bigger vats of beer. But on the other hand, beer is heavy and therefore costly to transport. And it has a shelf life. These factors make it more difficult to manufacture product on the West Coast and ship it across the country. Depending on where my new markets are, I may want to add capacity closer to them. But then I’d have to build a new plant, train a new workforce, and spend large amounts of capital. Another option is to increase capacity in Seattle, transport the product in bulk, and hire a bottler in my new markets. Any decision to increase capacity would require significant capital outlays, which I would only pursue after I had established significant demand in the new markets, of course.

**Interviewer:** You said yourself that you weren’t cash-rich. So where would you get the capital, assuming you had proof of concept in a few target markets?

**Candidate:** Well it depends on whether I’d be willing to give away a part of the company. If so, then it seems like a job for the venture capitalists. If the valuation were favorable, then it might not be so bad to give them a piece of the action. If not, then I’d try for bank debt. For example, maybe a local Washington bank would be willing to help a small business grow into a big business.

**Interviewer:** Good. We’ve certainly covered a lot of ground. I hope this exercise hasn’t convinced you to forget consulting and go into business for yourself!

**CASE 9**

The general manager of a popular ski resort has called on you to help her figure out why her resort has been experiencing declining profits over the past three years. How would you help her?

**Interviewer:** This is a commonly asked case question about the potential reasons for and responses to a drop in profits. You’ll encounter questions like these referring to various industries, but the approach to solving them is similar.
Bad Answers

Candidate: It’s due to global warming. Ski resorts are totally dependent on getting good snow, unless they can make their own, but no one likes to ski the artificial stuff as much anyway. I think the manager should promote hiking or close up the ski resort, because the climate is changing. If he wants to stay in the skiing game, he should consider opening up a resort in Nunavut, Canada.

> Yikes! Slow down. Higher temperatures could certainly be a part of the problem, but has the candidate really asked enough questions to know the answer?

Interviewer: Actually, snowfall in the part of the country where this resort is located has been consistent in recent years, and the ski season has been no shorter than normal. So that’s not the root cause. What else could be going on here? How else could you structure the problem to get to the answer?

> The candidate has been thrown a lifeline.

Candidate: Okay. If it’s not the snow, then it’s got to be the prices. The last time I went skiing it cost me almost $100 for the day with the lift ticket and food. Not to mention beers at the end of the day. With prices that high, who can afford to go?

> The candidate has ignored the lifeline and decided to swim for it. Unfortunately, he’s sinking quickly, as he has failed to generate any kind of structure and continues to take wild, unsubstantiated guesses at the answer.

Good Answer

Candidate: If profits are down, then either costs are up, revenue is down, or both. Have costs increased in recent years?

> The candidate has successfully recognized this as a profit question, and has introduced the profit equation FRAMEWORK.

Interviewer: Actually, no. Assuming that I’m the client, I can tell you that costs have even declined a bit in recent years as we’ve improved sourcing in our food operations and decreased snowmaking.

> So it’s not costs—carry on.

Candidate: Okay, so if the problem is not fundamentally on the cost side, it must be on the revenue side. Has visitation to the mountain decreased, or have prices decreased?

> Clearly, then, since we’re not dealing with a cost issue, it’s a revenue problem. The candidate has identified price and volume as the component parts of revenue, and he’s checking to make sure EVERYTHING’s there.

Interviewer: Prices have not dropped; in fact, they’ve increased slightly with inflation. The number of visitors to the mountain has decreased, though.

Candidate: All right. Now, what’s happening in the industry at large? Are other ski resorts experiencing similar declines? If so, are their declines in profit in line with those at your resort?

> The candidate has wisely turned to understanding the current dynamics of the industry. Doing so will allow him to determine whether he’s dealing with a market share or a market-size problem.

Interviewer: Yes, other resorts are struggling as well. At a recent trade show, I spoke with executives from dozens of other resorts, and they’re all experiencing the same things I am. Visitor numbers and profits are down.
The candidate continues to make good progress working from the big picture down while identifying the forces at work in creating the profit problem. Now he’ll need to dive deeper.

**Candidate:** Right. So we’ve determined that customers are leaving, and they’re not migrating to other ski mountains, since everyone is struggling. I want to dig deeper into who exactly is leaving so we can develop some hypotheses around why they might be doing so. Are there certain types of customers who are leaving in greater numbers than others? For example, customers of a certain age, background, or geographic location?

**Interviewer:** Hmm. Unfortunately, I’m really not sure. We don’t do as good of a job as we should of tracking our customers’ profiles. So I’m afraid I can’t tell you that.

**Candidate:** Let’s try a slightly different approach. I know that you sell a range of ski tickets, everything from season passes to half-day tickets. In addition, I imagine you also generate revenue from concessions and equipment rentals. Can you tell me how the revenue decline has broken out along those lines?

**Interviewer:** That I can help you with. Our food business has declined, but no faster or slower than our visitation rate. Basically, each skier purchases an average amount of food and beverages, and those businesses have declined linearly with visitation. Tickets and rentals, however, are a different story. Revenue from rentals has declined twice as fast as visitation, and our sales of half-day and full-day lift passes have dropped more precipitously than our sales of full-week tickets and season passes.

Now we’re getting somewhere. The candidate’s persistence has paid off—clearly something is driving the disproportionate decline in the rental and short-duration lift ticket businesses.

**Candidate:** Great. That’s extremely helpful. My hypothesis is that less-experienced skiers are not coming to the mountain as frequently. I believe this because both rentals and shorter-term lift ticket sales are down; I would think that these products are purchased most often by beginning skiers. More experienced skiers are more likely to own, rather than rent, their equipment, and are also far more likely to purchase a season pass. Do those assumptions seem reasonable?

The candidate has formed a fact-based hypothesis, and has EVALUATED it with the interviewer, who is an expert in the industry, or at least plays one during interviews. So be sure to approach problems confidently but not arrogantly.

**Interviewer:** Yes, I think you’re on to something. Those assumptions do seem reasonable, and now that you mention it, it reminds me that our revenue from ski lessons is way down as well. And those services are used most by beginning skiers. So let’s assume that we’re one that may still lead him to some kind of segmentation and/or valuable information concerning the specifics of the revenue decline.
right, and that beginners aren't showing up as often. What are some ways you might go about fixing it?

>> The candidate has gotten to the bottom of the “why” behind the revenue decline—less experienced skiers are no longer coming to the mountain as often as they used to. The interviewer has decided to probe a bit around the “how”—that is, what can be done to fix the problem and restore profits.

Candidate: A few of the areas I’d begin to think about are marketing, pricing, and getting a better understanding of who that beginning consumer is and why he or she may be leaving. First, on the marketing front, how is your resort being promoted? I’m a fairly experienced skier, and I know that a lot of the advertising I see contains images of people skiing through deep powder and jumping off cliffs. Maybe that kind of imagery is a turn-off to beginners, who may be more scared than inspired by it. So a safer, less intimidating marketing approach could be more comforting to this consumer segment. I’ve also noticed that certain ski resorts have been experimenting with slow-skiing “family ski areas” on the mountain. That may be something to try.

Second, skiing is an expensive sport, and while I wouldn’t recommend a price decrease in an environment of falling profits—especially without more data—maybe we could explore some more creative pricing arrangements. For example, what about bundling free lessons with a lift ticket for first-time skiers? An offer like that could attract a reluctant first-timer to give skiing a try.

And third, in terms of understanding the consumer, I’d want to develop some ways to collect more data on the people who are visiting your mountain. I’d also hypothesize that there are a lot of activities that compete for consumers’ disposable dollars. With the explosion of all kinds of outdoor sports, customers who aren’t already hooked on skiing may be sampling a host of other sports, and you’re probably competing for a share of their wallets as much as anything else.

>> The candidate has certainly risen to the interviewer’s challenge by laying out a clear framework and proposing a host of creative ideas for TAKING ACTION. Would you be expected to come up with a list this comprehensive in a live interview? Not necessarily, and this candidate is obviously familiar enough with skiing to generate a detailed list of suggestions. But when you’re asked for potential practical solutions to a problem, be fact-based, rely on what you’ve learned in the case so far, and be creative.

Interviewer: That’s a great list. We’ve got a lot of work ahead of us, but I’m confident that we’re on the right track.

CASE 10

A nonprofit in Baltimore runs two separate after-school clubs for children. Although the organization has been in existence for more than a decade and is considered to be an important part of its community, it is suffering financially in a struggling economy and fears that it will soon need to cut services and programs in order to continue operating. What steps should it consider taking?

>> This is a turnaround question embedded in a nonprofit context. A rising number of consulting firms are serving nonprofit organizations, either for a fee or on a pro-bono basis, so there’s a good chance that you’ll end up consulting on a nonprofit project at some point. While many of the issues these organizations face are similar to those encountered by for-profit corporations, remember to be attuned to areas that may be unique to nonprofits.

Bad Answers

Candidate: The problem is that there is no profit motive, and people won’t work without it. Too many people are just looking for a handout these days. All the after-school program is doing is creating
a new generation of people who can’t take care of themselves.

>> This answer won’t cut it. The candidate is making a political argument about a legitimate case question.

**Candidate:** Even in a struggling economy, there are plenty of people out there with cash to donate to organizations like this one. Consider my buddy. He founded a software company focused on optimizing distribution networks for wholesalers of pet birds, and now he’s retired and totally loaded. But no one has called him to ask for money. So I’m sure a better fundraising and development strategy would fix these guys up.

>> Obviously, no one cares about this guy’s buddy—especially the interviewer. While the candidate has hit on one potential area of concern—fundraising—he’s done so in a wholly speculative and totally crass way.

**Good Answer**

**Candidate:** Interesting case, and definitely a fulfilling project to be a part of, I’d imagine. Although this is a case about a nonprofit, I think many of the same principles I’d bring to bear in a for-profit engagement will come into play here. To begin, I’m going to think about revenue and costs—revenue in the case of a nonprofit being fundraising and grant dollars. Has revenue been down recently?

>> The candidate has taken a logical, though simple, approach. Now on to isolating the main issue.

**Interviewer:** Revenue has been down, but it’s been down for just about everybody in the nonprofit sector. In addition, the after-school clubs each have truly best-in-class development directors on staff, and you’re not going to add much value here as a consultant.

>> Ouch. Obviously not the right path. The interviewer is slightly prickly and is sending a strong signal that revenue isn’t the issue. You’ll have to use your judgment in a situation like this: Is the interviewer trying to steer you away from a given line of inquiry, or is he testing your persistence and your willingness to push on in the face of resistance?

**Candidate:** Okay. Revenue isn’t the issue here. Let’s move on to the cost side. You mentioned that this organization has been operating for a decade, so it seems that it has fallen on hard times only recently. Have costs increased in recent years? For example, has head count or average salary increased, or have rental rates been on the rise?

>> The candidate has decided to backpedal away from the revenue issue and has moved on to the cost side.

**Interviewer:** Not really. Costs as a percentage of revenue have remained constant for pretty much the entire period the organization has been in operation. To be honest, you’re really not getting at the core issues here. Would you maybe like to know some of the basic facts surrounding the organization?

>> Yikes! The interviewer hangs tough and is clearly communicating that he thinks the candidate is off track. The interviewer may simply be acting the part of a tough client to see how you react to difficult situations.

**Candidate:** Okay, let’s back up a bit. It seems that I jumped in a bit too fast. I think I need to learn a bit more about the organization, what it does, how it’s structured, and the students it serves.

>> The candidate has calmly acknowledged that he may have leaped in too quickly and is trying out a different course. Now he wants to determine WHAT
the question really is, and if EVERYTHING is there.

Interviewer: Well, as I mentioned at the outset, the organization runs two separate after-school clubs. It owns each of its facilities, both of which are in different parts of downtown Baltimore. Each club serves about 200 unique students, and offers a variety of programs, including sports, arts, woodworking, and tutoring. There is some overlap in the programs offered at each facility, but they aren’t identical. For example, one facility offers computer-training classes, and the other doesn’t. Each facility has a staff of about 25.

Candidate: Okay, that’s helpful. I want to probe a bit more on the organizational side of things. You mentioned that each club employs about 25 people, and earlier you alluded to the fact that each club has its own director of development. Is there a central or headquarters office? What functions are shared between the two clubs?

Interviewer: There is no central office, per se, because there never really needed to be. There is an executive director who is the organization’s leader, but she uses office space in one of the two facilities. The director of each facility reports into the executive director. Why do you ask?

Candidate: It’s funny you ask that. The client explored centralizing some of its functions a few years back, but eventually decided not to. The executive director was initially interested in the idea, but she was ultimately convinced to keep things as is by the facility directors. So each facility maintains a staff of people who work with the students, as well as development, marketing, membership, and administrative staff.

Interviewer: The interviewer didn’t divulge much here, but the “why do you ask?” at the end may indicate that the candidate is getting warmer.

Candidate: That’s interesting. Given the kind of difficulty this client is facing at the moment, I think the centralization option needs to be seriously considered again. This may be presumptuous, but one could easily see why the facility directors could have a vested interest in keeping the operation decentralized. After all, they have employees to protect, and would presumably prefer to keep as much of their operations as possible under their own control. So there’s certainly a chance that their advice...
to continue operating as is was based on some strong personal biases. In addition, a few years ago, when the client last considered the possibility of centralization, the economy was quite a bit stronger, and it could probably afford to maintain separate operations. The context has shifted since then.

**The candidate has become comfortable that he has reached a point where he can start putting some hypotheses out there.** Consulting firms obviously take on a lot of cost-focused cases that sometimes result in head-count reduction, especially in tough economic times. Nonetheless, if you’re confronted by a case like this, approach the issues with sensitivity and tact.

**Interviewer:** Okay. What specifically do you mean by centralization here?

**Candidate:** I guess I’d actually consider something a bit beyond centralization. In fact, somewhat of a merger, if you could call it that, could be in order. It seems clear that functions like development, marketing, and membership could be consolidated for the two facilities. That would allow best practices to be shared across the two facilities and could generate substantial cost savings and scale opportunities. In addition, you mentioned earlier that each club supports a unique group of students. In that way, this sounds like a classic synergy opportunity. The clubs can merge their back-office operations without fear of providing redundant services to overlapping markets.

**The candidate TAKES ACTION.** Owing to what seems to be the desperate nature of the situation, he believes that bold measures are in order.

**Interviewer:** What are some of the other issues you might consider in pursuing a merger like this?

**Candidate:** I’d consider a set of both external and internal issues. Externally, I’d think first about the students, and make sure that a merger of the sort I’ve proposed wouldn’t negatively impact the level of service the organization could provide to them. Given that the consolidation I’ve suggested is limited to the back office, it seems unlikely that it would impact the students’ experiences. I’d also think about donors and grant-givers, and consider whether the merger would negatively affect their perceptions of the organization or their desire to contribute. Internally, I would explore strategic, organizational, operational, and cultural issues. Given their shared missions and unique sets of students, the facilities would seem to be strategically aligned. Are there plans to add more facilities in the future? If so, how would that affect the strategic outlook? Are there cultural differences that would make a merger of the clubs problematic?

**Interviewer:** That’s a good starting list. Nice job—that’s a tough case. There’s obviously not much data to get your hands around.
CASE 11
Your client is a large regional grocery store, with most of its stores in suburban strip-mall locations. But that market is almost completely saturated, and competition in the grocery industry is fierce, especially with Wal-Mart aggressively expanding its supercenters. The client is looking for new growth options. One idea in front of the CEO is to expand into inner-city communities that have typically been underserved by retailers. How might you evaluate this strategic option?

Candidate: Well, people do have to eat, so it might work. But there’s too much crime, and it would be hard to get the trucks in there, so it just wouldn’t be worth the hassle. I’d have to say, don’t do it.

>> Slow down! There are some decent initial points here and they will merit some additional exploration. But the candidate has jumped right to a conclusion, he’s got no framework, and he hasn’t even given himself a chance to shine.

Good Answer
Candidate: Interesting issue—expanding into the inner city. That’s a lot to think about. Let me ask a question before I dive into a plan. How exactly are you defining inner city? Is there a specific location you have in mind?

>> At last, a reasonable approach, starting with checking on WHAT the question is and if EVERYTHING is there.

Interviewer: Very good question. There are a number of ways to think about inner-city neighborhoods. This is actually an area we spent some time defining for the client. In practice, we are always considering a few specific locations, and you can probably picture a few inner-city locations that are currently not served by a grocery store, but where you could imagine one. For the purposes of this exercise, however, let’s think generically about inner-city locations. We can say a few things about them: (1) They are areas in which the median income is significantly lower than that of the metropolitan area as a whole; (2) unemployment is generally higher than in the rest of the region; and (3) there is currently a relative lack of retail options, especially large grocery stores.

>> It’s okay to ask a clarifying question up front. In this case, it was a smart move as it provided the candidate with some valuable information and gave him some time to THINK. Just don’t let your
early questions drag on too long or get you distracted from your framework and strategy for dealing with the case.

Candidate: Thanks. That’s helpful. There’s so much to think about here that I’ll try to come up with a clear plan to do so. I’ll think out loud while I jot down some notes. I’d like to think about a few things, including the size of the market in terms of both people and income; current competition as well as future potential entrants; and the challenge of doing business in this market, mostly in the area of store operations.

→ This is fine for a FRAMEWORK. The candidate could probably do a classic 3C framework with this case. Any clear framework will do, just as long as you have one.

Interviewer: That sounds good so far. Why don’t you start with the size of the market?

Candidate: It’s potentially big, right? I’d check out the actual data, of course, but can I assume that many people live in these neighborhoods?

Interviewer: Yes, that’s a safe assumption. The population in inner-city neighborhoods as we’ve defined them is quite large. In fact, more than 30 million people in the U.S. live in inner cities.

Candidate: That’s what I thought. So we know the potential market is huge in terms of people. And you’ve told me that there are few stores serving them now. I’d want to hold off on getting into the competition until later on, but let’s just say that the lack of it initially will be a good thing for us. And everyone has to eat—meaning I’d prefer to place a bet on a grocery store rather than, say, a music store.

Interviewer: Good start. Let’s throw a little wrinkle in here now. A consultant is often charged with figuring out ways to test theories and do research. You said you want to check out the data. How might you go about testing the ideas you’ve just shared regarding market size?

→ This type of question occasionally comes up, especially in later rounds when it’s already been determined that you can handle such a question. An interviewer will want to see how creative and practical you can be in thinking through how you’ll actually do the work. Sometimes you’ll even be asked to role-play.

Candidate: Hmm. Trial by fire for me today, huh? Okay, here are some ideas. I’d look at census data to get population and income levels. I’d want to get traffic patterns for cars and buses, and see how much traffic other stores are getting in the area.

Interviewer: How would you specifically do that with the traffic patterns?

Candidate: Well, it seems there are specialist firms involved in almost all types of research these days, so we could probably buy that kind of data. But if push comes to shove, we could go out and observe in person for a day.

→ You can buy all kinds of customized research these days. But often “brute force” reconnaissance is the way to go, with junior consultants performing this type of work.

Interviewer: Sounds fine. Let’s move on. I’d like to dig more into this market-sizing piece and talk specifically about income levels and whether they matter.

→ The candidate is getting a direct hint here. He’d be wise to take it. If an interviewer is this specific, she wants you to follow the lead.

Candidate: Well, as I noted before, everyone has to eat, so I’d assume there’d be some base level of sales you could
count on. But we also know that the median income is much lower than those found in typical suburbs; this is a problem. I have to think, though, that there’s an advantage being in the city because you’ve got a lot more people living in a smaller area. This has to be positive for a grocery store. From what I know of suburbs, folks will drive three, four, five, or more miles to get to a store. In the city, you’d probably have the same number of customers within a one-mile radius.

★ Eureka! This is a key point in the case. In the trade they call it “income density,” and you can think of it as dollars per square mile. If the candidate hadn’t thought of it himself, the interviewer would probably have prompted him somewhat, perhaps using data, especially since she has a follow-up question. If the candidate were very cagey, he might have mentioned early on that grocery stores have very big fixed costs since they’re large and pay high rents. Therefore, they often think of their performance in terms of dollars per square foot. This is a good example of data that you’d know if you’d ever worked in the retail field, and one that you might come up with yourself. And yet you would not be expected to know the terminology.

Interviewer: Good point. Let’s test it briefly. Suppose I showed you some limited data:

<table>
<thead>
<tr>
<th>Store</th>
<th>Cost per Square Foot ($)</th>
<th>Median Household Income ($)</th>
<th>Total $M per Square Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban store A</td>
<td>455</td>
<td>75,000</td>
<td>2.7</td>
</tr>
<tr>
<td>Suburban store B</td>
<td>639</td>
<td>95,000</td>
<td>3.5</td>
</tr>
<tr>
<td>Inner-city store A</td>
<td>812</td>
<td>40,000</td>
<td>5.8</td>
</tr>
<tr>
<td>Inner-city store B</td>
<td>711</td>
<td>35,000</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Candidate: Perfect! Just what we needed. So it looks like our theory is correct, based on this data. While average income is lower, the total dollars to be spent in a given trade area is actually higher in the inner city. In the suburbs, the average dollar per square foot is … let’s call it $450 and $650, so we’re talking roughly $550. In the city, it’s right around $760. That’s a considerable difference. And it seems to be coming from the income density you mentioned. In the ’burbs, the density is about 3.1 million per mile, while in the city it’s more like 5 million. I’d want to run a regression against more data, but this feels right so far.

★ Occasionally you will get a numbers test in the middle of a case, often a market-sizing question. Sometimes the point is to get to some case insight; other times it can just be a quick test of your math facility and willingness to engage in numbers. In this case, it was a mix of the two. The candidate used round number estimates and drew a quick conclusion. Good for him.

Interviewer: Good. Let’s briefly talk about one more issue you think is important.

★ She’s left it open for the candidate, so he can pick his favorite. She said “briefly” and “one more” so the candidate knows they’re heading toward the end. Brevity, therefore, is the way to go.

Candidate: Then let’s quickly touch on store operations. I’ll bet some things would be harder in the city. You’d have to deal with the crime issue, both in terms of theft of goods and the security of customers. And I think you might have some employee-training issues because the overall education level might be lower. I’d want to interview some successful inner-city store managers to see how they deal with these issues. And you might have differing demands for product mix because your customers could be from varying ethnic groups. In my experience, big stores like to carry all of the same
stuff. We’d have to learn more here—talk to some store managers. I might want to do a focus group with some inner-city residents to see what kind of products they like to see in their stores.

**Interviewer:** Good thoughts. And you read my mind on the follow-up tests that you’d do. I like that. This has been a good discussion so far. Let’s bring it home to an initial conclusion. Can you summarize and give me a recommendation?

**Candidate:** Now on to the cons:
- Crime or perception of crime: Perception might be worse.
- Labor supply: In inner cities, the labor pool may have less training.
- Income level: Population density argument seems real, but we’re still not sure how this will affect the product mix and margins of the store.
- Infrastructure: It could cost more to upgrade site facilities, access, and so on.
- Lack of space: It might be harder to build bigger, prototype stores.

**Interviewer:** Fine. So where do you come out?

**Candidate:** Well, there are strong arguments for both sides. But it feels like the pros outweigh the cons. Even though we’re talking broadly about the inner-city market, the reality is that you’ll be trying one or two stores at first, so the relative risk won’t be as great. If it doesn’t work, you can pull the plug. Plus, you won’t learn some of the answers unless you try.

**Interviewer:** Super. Good summary. And I’m glad you made a decision. When we did this project, that’s what we told the client. They’re still working on the first few stores, but early indications are very positive.

**Candidate:** Sure. Let me summarize some of the pros:
- Fertile new ground: We need a place to grow and this market is big and wide open.
- An edge over Wal-Mart: It’s hard to get its big stores in there.
- Population density: There are more dollars per mile, even if average incomes are lower.
- Rent: This could be lower, but we’d have to explore that more.
- Labor pool: Higher unemployment could mean a benefit for hard-to-fill retail jobs, but we must be aware of potentially higher training costs.

**Interviewer:** Pay attention to your interviewer’s prompts. The interviewer is trying to steer you in the right direction.
Well done. The candidate brought some structure to a wide-ranging case. These types of cases are not easy because there’s much to cover and the tendency may be to jump around. The candidate handled the mini-numbers section. He drew on some personal experience, which is always good. (In a case like this, you might be tempted to draw too much on personal or anecdotal experience, since shopping is so common to all of us. Just be aware of this tendency.) The candidate followed prompts well—always a positive thing. Interviewers typically base their cases on work that’s familiar to them, so they often have a few directions they want you to go. Take their prompts seriously. This was a fun case with real business and societal implications. If you liked this case, you might very well like consulting.

**CASE 12**
The No. 3 gardening supply manufacturer has hired your consulting firm to determine why its profits are declining while the profits of its two competitors are growing. Where do you start?

Here’s a solid operations question. The interviewer wants to see whether you have an understanding of basic business relationships and whether you can push through the problem in a structured manner. This question could be asked of undergrad, MBA, or advanced-degree candidates.

**Bad Answer**
**Candidate:** Well there’s obviously a reason no one’s buying gardening supplies anymore. Maybe it’s because home prices are so high these days: If people don’t own their homes, why would they bother investing in a garden?

**Interviewer:** Well, actually, why don’t we try to peel the onion here a little bit? Are profits declining because revenue is shrinking or because costs are increasing? What would you want to know to answer that question?

**Candidate:** Oh, costs! Then their costs are probably too high because they’re spending too much on advertising. All these home supply companies pay big bucks to advertise in glossy magazines, when most people don’t even look at the ads. I think this company should take a more radical approach to its advertising and market its products more like fashion items.

Although the interviewer smells trouble, she gives the candidate a gentle nudge in the right direction with the hope that he’s just nervous.

**Interviewer:** Again, a look-before-you-leap approach would have been much better. Instead, the candidate plunges right in and careens out of control, throwing up potential solutions without thinking through the problem or the answer. He’s outta there!

Okay, we now know what NOT to do. Let’s think through this problem again. Right off the bat the interviewer has told you that profits are declining, so you know WHAT the question is. The best place to start is by showing your mastery of the basic profit equation: revenue – costs = profits. Pick one factor and start there. Don’t forget that the interviewer just sets up the case; it’s up to you to ask probing questions to make sure EVERYTHING is there. A good interviewee will THINK, then start with general questions and gradually get more specific.
Good Answer

Candidate: If profits are down, that’s got to be a function of either revenue decreasing or costs increasing. Let’s focus on the cost side: Are the client’s costs in line with those of its competitors? For example, are their manufacturing costs similar? Do they manufacture and assemble in low-cost offshore locations? What about selling and distribution costs? Is the client spending too much on a dedicated sales force when its competitors use independent reps? What about G&A [general and administrative]? Does the client have flashy office space or overpaid executives?

Interviewer: Actually, yes, revenue is down 6 percent from last year, and projections show another 5 percent dip for the coming year. How would you go about figuring out why?

Candidate: If the cost side isn’t the problem, then I would look at revenue. Are sales declining?

Interviewer: Not really, most SKUs [shelf-keeping units] are actually declining at a similar rate. What would you look at next?

Candidate: If it’s not a few laggard products driving the downturn for this company, and sales are just down overall, it looks more like people have just stopped buying its products, period. We need to figure out why. Who are its biggest customers? What’s the target demographic? Are they just not buying gardening supplies anymore?

Interviewer: Those are all good questions. But the client’s costs all seem to be in line with those of its competitors. Costs don’t seem to be the problem. What would you look at next?

Candidate: If profits are down, that’s got to be a function of either revenue decreasing or costs increasing. Let’s focus on the cost side: Are the client’s costs in line with those of its competitors? For example, are their manufacturing costs similar? Do they manufacture and assemble in low-cost offshore locations? What about selling and distribution costs? Is the client spending too much on a dedicated sales force when its competitors use independent reps? What about G&A [general and administrative]? Does the client have flashy office space or overpaid executives?

Interviewer: Those are all good questions. But the client’s costs all seem to be in line with those of its competitors. Costs don’t seem to be the problem. What would you look at next?

Candidate: If profits are down, that’s got to be a function of either revenue decreasing or costs increasing. Let’s focus on the cost side: Are the client’s costs in line with those of its competitors? For example, are their manufacturing costs similar? Do they manufacture and assemble in low-cost offshore locations? What about selling and distribution costs? Is the client spending too much on a dedicated sales force when its competitors use independent reps? What about G&A [general and administrative]? Does the client have flashy office space or overpaid executives?

Interviewer: Those are all good questions. But the client’s costs all seem to be in line with those of its competitors. Costs don’t seem to be the problem. What would you look at next?

Candidate: If the cost side isn’t the problem, then I would look at revenue. Are sales declining?

Interviewer: Actually, yes, revenue is down 6 percent from last year, and projections show another 5 percent dip for the coming year. How would you go about figuring out why?

Candidate: If the cost side isn’t the problem, then I would look at revenue. Are sales declining?

Interviewer: Actually, yes, revenue is down 6 percent from last year, and projections show another 5 percent dip for the coming year. How would you go about figuring out why?

Candidate: If the cost side isn’t the problem, then I would look at revenue. Are sales declining?

Interviewer: Actually, yes, revenue is down 6 percent from last year, and projections show another 5 percent dip for the coming year. How would you go about figuring out why?

TIP

Even if a framework is very simple, go ahead and propose it. It will provide a clear method for working through a problem, which is exactly what the interviewer is looking for.
Interviewer: You’ve hit on the crux of the problem: The company isn’t sure who its customers are anymore. Formerly, its biggest customers were serious gardeners interested in professional-level equipment. But the company doesn’t know whether that’s true anymore. That’s one of the biggest pieces of value we provided for the client—we told it who is buying gardening supplies. How would you go about getting that information?

>> The interviewer reveals that the candidate has hit on a key piece of the puzzle. Without pausing for breath, the interviewer then checks the candidate’s ability to turn her insight into action.

Candidate: Well, frankly, I’d go to the nursery or home supply store. I’d stand outside the Home Depot and see who’s buying gardening supplies, check what brand they’re buying, and maybe even ask them why. By doing this, I’d be able to see what demographic group was buying the most gardening supplies and whether they were buying our client’s products. If not, I’d try to draw conclusions as to the reason. In short, I’d try to segment the gardening supply market, and figure out how to target the most attractive segments.

>> The candidate uses a common-sense approach here, which is really good. Not only is her idea practical, it would be relatively cheap and easy to implement. She also shows that she fully understands what information she needs to collect. Not only would she observe customer behavior, and ask them why, she’d also analyze the findings and try to draw general implications from them.

Interviewer: That sounds on track with what we’re thinking about.

>> Good job! The candidate sailed through this case interview. On to round two!

CASE 13
A major carbonated soda manufacturer is interested in acquiring a bottled water company. It doesn’t trust its investment bankers, who just want fees, so it’s hiring your firm to help it assess the opportunity. How would you proceed?

>> This is a standard acquisition question. Nothing sneaky here!
Bad Answers
Candidate: Sounds pretty tricky to me. I’m not sure I’d really want to buy a bottled water product from a company that makes soda. Doesn’t seem like a very logical fit to me. I think bottled water is too much of a stretch for a brand that’s fundamentally about carbonated soda.

> There’s an important issue embedded in there somewhere: the feasibility of brand extension, in this case. But the case didn’t specify that the brand name would necessarily be used for the bottled water, and the candidate has relied on a personal bias to make a broad conclusion.

Candidate: Absolutely. Bottled water is a great market. Costs are low, and manufacturers are able to command impressive price premiums by creating brands that are about status and prestige. The company should definitely enter the market.

> How does the candidate know bottled water is a great market? Is success in bottled water really as easy as the candidate suggests? Does the success of other brands necessarily mean certain profits for the company? The candidate has made too many unsupported assumptions.

Good Answer
Candidate: I know that we’re being asked to make a recommendation on the acquisition, but I want to know a few things first. Namely, does the client want us to make a valuation recommendation, or does it just want us to look at strategy? Then, I’d want to think about this acquisition from the perspective of the consumers, the competition, and the company.

> The candidate starts by identifying the scope of the question, checking on WHAT the question is and if EVERYTHING is there. And then, we get a FRAMEWORK. Frameworks don’t have to be followed slavishly, not even our very own WETFEET framework for approaching case interviews. But we’re pretty sure this candidate’s THINKING as she goes.

Interviewer: We’re just looking at the wisdom of the acquisition as a strategic move. If the client goes ahead, someone else can help it with the price. You mentioned consumers?

Candidate: Yes, consumers. I’d want to start there when evaluating the strategy. First, it would be critical to lay out the size of the U.S. market for bottled water. How much of the stuff are consumers buying each year, in units and dollars? Is there a consumer segmentation that makes sense to think about? For example, along demographic lines of gender, age, and income? Or maybe a behavioral segmentation would be helpful as well. How much bottled water is bought for casual consumption around the house or the office, versus for use in exercise or sports? And how does the market break out between personal and business consumers? That will help us determine if this is a market that the client wants to be in.

> Good start. The candidate EXPLAINS the thought process behind the choice of a framework.

Interviewer: I agree. All of that would be important to determine. Keep going.

Candidate: As for competition, I’d want to put together a market map that lays out the competitive landscape. Who are the key competitors, and what are their market shares? An assessment of the competition may also uncover some interesting insights from a benchmarking standpoint. Have other carbonated beverage manufacturers entered the bottled water marketplace? If so, what was their approach to launching a water offering? Was it successful? I think it would be interesting to include a competitive “deep dive” or two to highlight
a success case that we could learn from, and maybe a less successful case as well. My gut feeling is the competition filter will be a really important one here. Personal experience tells me there are a lot of bottled water brands out there, so the market could prove to be saturated. That remains to be seen.

**TIP**

Always keep in mind the key issues you learned in business school, such as market share and benchmarking, and apply them as necessary.

**Here, the candidate does a great job of posing some key questions around cost, which he perceives to be a critical lever. The candidate offers some reasonable hypotheses, but is careful to note that they are just that—hypotheses. All of his suppositions would of course require further data to confirm or refute.**

**Interviewer:** Okay, I agree with you on the market-share point. We'll definitely need to know that.

**Candidate:** Next, I'd want to think about cost. In the cost bucket, I'd include retail and wholesale price with an eye to trends in the marketplace. In addition, it will be important to overlay the competition and cost filters to understand price dynamics at the brand level. For instance, my hunch is that private-label brands are playing an increasingly important role in the market, particularly in grocery stores and mass merchants. Typically, the emergence of private-label competitors signals the commoditization of a marketplace and a commensurate drop in price. It seems that brands like Evian, which largely invented the bottled water category several years ago, have lost significant share and price premium as lower-priced competitors have come into play. If the bottled water market is indeed experiencing these kinds of deflationary trends, that would be extremely important to explore, as it could significantly impact the economics surrounding the company’s decision. We'd need to determine whether the company would be able to stem the tide of price pressure (if it exists) in the market and command any kind of a premium. If not, it could be in for a price war.

**Candidate:** Not necessarily. You’re right, my hypothesis is that the company may encounter some difficulties from competitive and price standpoints. But I don’t necessarily believe that those factors alone make bottled water an unattractive market. In any event, there’s quite a bit of analysis to do before any of these questions can be answered. In addition, I think the company may also have some things going for it that could counterbalance some of the potential downside of a bottled water offering. For example, let’s think about channel dynamics. We’d want to know how the market breaks out from a distribution standpoint—where is bottled water sold? How many units and dollars move through mass merchants, grocery stores, warehouse clubs, gas stations, and all the other categories of outlets through which bottled water is sold? I’d then want to overlay that information with a snapshot of the company’s current distribution model.
My sense is that there will be a good deal of overlap. I know from my own experience that the company’s product is sold through all major grocery stores and mass merchants, and my hypothesis is that those channels account for a large percentage of bottled water sales. So the company would probably be able to leverage its existing sales and distribution relationships in order to launch a bottled water product quickly and widely.

Excellent. The candidate responded in a fact-based and thoughtful way to the interviewer, who was clearly trying to push him down a particular path. Again, the candidate has made some sound assumptions based on the information available to him and has proposed some analyses that will definitely be important to the company’s assessment.

Interviewer: So distribution could be a positive. That makes sense. Is that all?

Candidate: The last area I’d look at is the company: Does this client have the ability to digest the acquisition? Acquisitions can be tough for everyone. There are cultural issues, and there may be mismatches of capabilities. Different companies have different distribution networks, information systems, and business processes. We’d need to identify all of the issues and see how the client and the target match up. And we’d need to quantify the risks, as much as possible, so that the client is prepared for bad news and can use that in the negotiations, if it decides to go ahead with the acquisition. So as I worked on this recommendation, I’d proceed using these points as an outline.

The candidate does a good job of raising questions that, while unanswerable now, would be important to address.

Interviewer: Nice job.

CASE 14

A large integrated steel manufacturer is contemplating selling its specialty stainless-steel division. Should it? What factors should it consider before making its decision?

Here’s a basic strategy question, but unlike the ones you’ve seen so far, it’s not about entering a market or improving a business—it’s about cutting back and getting rid of a product line. This question is suitable for a variety of candidates.

Bad Answer

Candidate: Specialty stainless steel sounds more expensive than regular steel. If it’s a higher-priced, higher-margin business, then I think the company should keep it.

Whoa! Here’s a shoot-from-the-hip answer. How convinced do you think the client would be with an answer like this? And how happy would the client be to pay you consulting wages for your hasty analysis?

Interviewer: What if I told you that the specialty stainless market was dominated by three large players? Would that change your answer?

Hint! Hint! The interviewer hasn’t ruled this guy out yet, but she’s throwing him a softball, and trying to watch his swing. Maybe he’s a bit nervous, or maybe he’s just clueless.

Candidate: No way. If there are three players making good money in specialty steel, then our client should be able to do it, too.

This may be true, but it’s way too early to tell. Besides, the candidate hasn’t really heard the “interviewer”. She never said the three dominant players are making money. The candidate should be asking for more data, not drawing conclusions.
Interviewer: Do you need to know anything about the customer base?

★ This is about as big a hint as you're likely to get.

Candidate: Oh, right. The customers will be happy if we expand our production in that segment because we'll increase supply, which will automatically drop the price of specialty steel for them. It's simple economics.

★ The candidate takes the interviewer's hint and runs with it—but in the wrong direction. Clearly, this person is not cut out to be a consultant. Case closed.

Interviewer: Simple economics. I see…

Good Answer

Candidate: Interesting questions. Before I start I'd like to ask you a few questions: Why is the steel manufacturer looking to get out of the market? Is this business shrinking? Is specialty stainless steel a higher-margin business? Does the company need to raise cash?

★ This is a much safer approach. Before doing any analysis, the candidate shows that he knows WHAT the question is, and he probes to get EVERYTHING—or at least as much as the interviewer will give him to get started. It's acceptable—even recommended—that you ask questions of your interviewer. In fact, it's probably a good rule of thumb to always ask your interviewer a question after hearing a case.

Interviewer: Well, yes, this business is shrinking, as is all of the client's business. The company has been selling to the appliance market, and more of that manufacture is moving overseas.

★ There's a lot of information packed into a few sentences. One key insight that comes from this new information is that the real question from the client is broader than stainless. It's about how to improve the business, and selling the stainless division might be a start.

Candidate: Who are the major players in the specialty stainless business? Is it dominated by any one company? What is the market for the products like? Is it growing, or is it at least big enough to sustain another competitor?

★ Now the candidate THINKS and starts exploring the context for the “exit stainless?” question. He still isn't giving any analysis or advice—he's just asking questions.

Interviewer: Specialty stainless steel is a $700 million market served by four main competitors who account for around 80 percent of sales. The client's division is the fourth-place firm, with about 10 percent market share. The market has been growing at about a 2 percent CAGR [compound annual growth rate] over the last five years.

★ The interviewer responds to the questions, releasing a little more information each time. She doesn't put any twist on the data—it's up to the respondent to analyze and interpret.

Candidate: It seems like this division is a laggard in a low-growth market, but I wonder what the potential would be for an acquirer. Who are the customers and what do they want? Technical innovation? Adherence to specifications? Bells and whistles?

★ The candidate makes an observation about the information he has received and then continues to ask more questions. This time, he's checking out the opportunity for entry by another player. Is there any unmet customer need that the client might exploit to get a foothold in the market?
Interviewer: Who would you guess makes up the customer base?

Finally, the interviewer stops producing data and turns the question back to the candidate. She’s looking for some intuition and insights.

Candidate: Let’s see, stainless steel. I would guess that the customers are varied. Some may use small quantities of the product as a component in a larger product—tools or medical instruments, for example—and others would use sheets of it to make kitchen appliances and things like that.

This answer doesn’t call for any mathematical gymnastics, highly analytical insights, or knowledge of the steel industry. However, it does demonstrate that the candidate can make good common-sense observations about the world around him.

Interviewer: That’s exactly right. So what does that suggest about customer requirements?

Now the interviewer pushes the candidate to take his observations a step deeper. What do they mean, and what are the implications for the client?

Candidate: It suggests that the requirements are as varied as the uses for the product, and maybe our client is in a less-attractive part of the market. Would one of its competitors be interested in the division?

Good, astute perception about the nature of the market. From here the candidate might be asked how he would determine whether there really is an opportunity to sell the division or if there are other likely buyers. Or he might be given some additional complications and asked about the implications. Note that the candidate is again asking questions.

Interviewer: That’s a good question. They are stronger than our client in most areas, but one of them in particular has almost no presence in the appliance-grade stainless sheet market. That would be the firm we would approach first.

As is often the case in real consulting projects, the questions have elicited information that contains the seeds of a solid answer to the client’s dilemma.

Candidate: Does that competitor have excess capacity? Would it be interested in buying the entire business?

One of the interesting aspects of acquisition and divestiture cases is that you have to consider not only your client’s situation, but also the situation of those companies that would be buying from or selling to your client. It’s important to understand the alternatives faced by the other side when evaluating your client’s position.

Interviewer: We’re not sure about that. We think the competitor is capacity-constrained because we know it has looked at subcontracting production to us, but we can’t be positive.

Candidate: I can see why the client wants to sell, but I think there are two issues to address. First, what happens to the business that remains? What will the client do with the proceeds of the sale? Second, what happens if the client can’t sell the stainless division for a reasonable price? What will it do? Are there union or other considerations that would make shutting it down difficult?

Interviewer: To answer your second point first, the client can’t shut down the business easily because the startup costs are enormous. It will only be able to sell the mill as an operating one. In addition, its
latest union contract calls for it to pay two years’ salary as severance if it fires any employees for reasons other than cause. As for the remaining business, the company sees opportunities in basic steel production in China and Africa, and it would like to invest there with the proceeds of the sale.

**Candidate:** All right then. I think the client needs to pursue the sale of the divestiture, approaching the second and third market-share leaders in the stainless market first. The largest company may have trouble clearing the acquisition for antitrust reasons. If the company can’t sell the business, then I recommend that it continue operations, but look to find more markets other than the sheet steel. In fact, given its high fixed costs but low incremental costs, it may be in a position to export steel to China or Africa. That way, it could achieve its long-term objectives.

**Interviewer:** I can see that. It looks like you’ve covered most of the issues. Now let me tell you what they really did …

**Candidate:** The candidate finally TAKES ACTION with a recommendation. Whew!

The candidate actually offered very little advice throughout the case. Instead, he asked a series of targeted questions. One way he might have improved his answer is to have talked up front about the framework for his inquiries. For example, he might have said that he would need to explore both the market opportunity and the client’s ability to exploit that opportunity. Such a statement would have given the interviewer a better idea about where he was heading with his questions.
The WetFeet Story
WetFeet was founded in 1994 by Stanford MBAs Gary Alpert and Steve Pollock. While exploring their next career moves, they needed products like the WetFeet Insider Guides to guide them through their research and interviews. But these resources didn't exist yet—so they started writing! Since then, millions of job seekers have used the WetFeet Insider Guides and WetFeet.com to research their next career move.

In 2007 WetFeet became part of Universum Communications, the global leader in employer branding. Thanks to the integration of WetFeet into the Universum group, WetFeet products are now used by job seekers all over the world. In addition to our Insider Guides and WetFeet.com, we produce WetFeet magazine, which features career advice tailored to undergraduate students.

The WetFeet Name
The inspiration for our name comes from a popular business school case study about L.L. Bean, the successful mail-order company. Leon Leonwood Bean got his start because he literally got his feet wet: Every time he went hunting in the Maine woods, his shoes leaked. One day he set out to make a better hunting shoe, doing such a good job that his friends lined up to buy pairs of the boots. And so L.L. Bean was born.

The lesson we took from the Bean case? Well, it shows that getting your feet wet is the first step toward achieving success. And that's what WetFeet is here for: To help you get your feet wet and take the right steps toward ever-greater career goals, whatever they may be.
For most consultants, business strategy is the fun stuff: It’s where you really get to show off your creativity along with your business savvy. But during the case interview, business strategy questions can also be the most challenging—make a bad recommendation and you could run a company into the ground. With stakes this high, you’d better start practicing. With the help of this guide, you’ll be impressing interviewers with your elegant blend of creative and practical solutions in no time.

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