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CONSULTATHON TRAINING MODULE 1

FOR CASE PROBLEM 1 AND 2

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INTRUCTIONS

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1. Learning materials are for your reference and a supplement to the case study. We strongly advise to read all of these frameworks carefully. You have to apply these frameworks in the case problems.
2. These are pretty much in a concise form, so you can Google the same topics or watch videos for better understanding.
3. For any queries in these frameworks, you can post in the doubt forum.

HOW TO APPROACH A CASE PROBLEM

1. Examine the case thoroughly. Highlight relevant facts and underline key points. This is very important so as to not steer away from what has been asked.
2. Focus your analysis on the key points. Evaluate your understanding of the case again keeping in mind the key points,
   (a) to get an overview
   (b) to check if you haven't missed anything. After this research for external data points/or make assumptions.

HOW TO APPROACH A CASE PROBLEM

3. Structure the problems and identify ways to approach them. Iterate your solutions and check if it's focused to your problems.

4. Review and select the best solution with all the available data and assumptions. Consider pros and cons to it. Is your solution feasible? Will the management of the company like it? How will you present it to them?

5. Finalize your solution and present it well. Presentation is key. An average solution with brilliant presentation of it outweighs a good solution without a mediocre presentation.

1. MECE APPROACH

MUTUALLY EXCLUSIVE COLLECTIVELY EXHAUSTIVE

MECE (pronounced "me see") is principle often used by management consulting firms such as McKinsey to describe a way of organizing information that is "Mutually Exclusive, Collectively Exhaustive".

When considering solving any business problem, such as "What are this company's options for growth?", "How can we cut costs?" or "How can we increase units sold?", the MECE principle suggests that all the possible causes or options to be considered in solving these problems be grouped and categorized in a particular way.

MUTUALLY EXCLUSIVE COLLECTIVELY EXHAUSTIVE

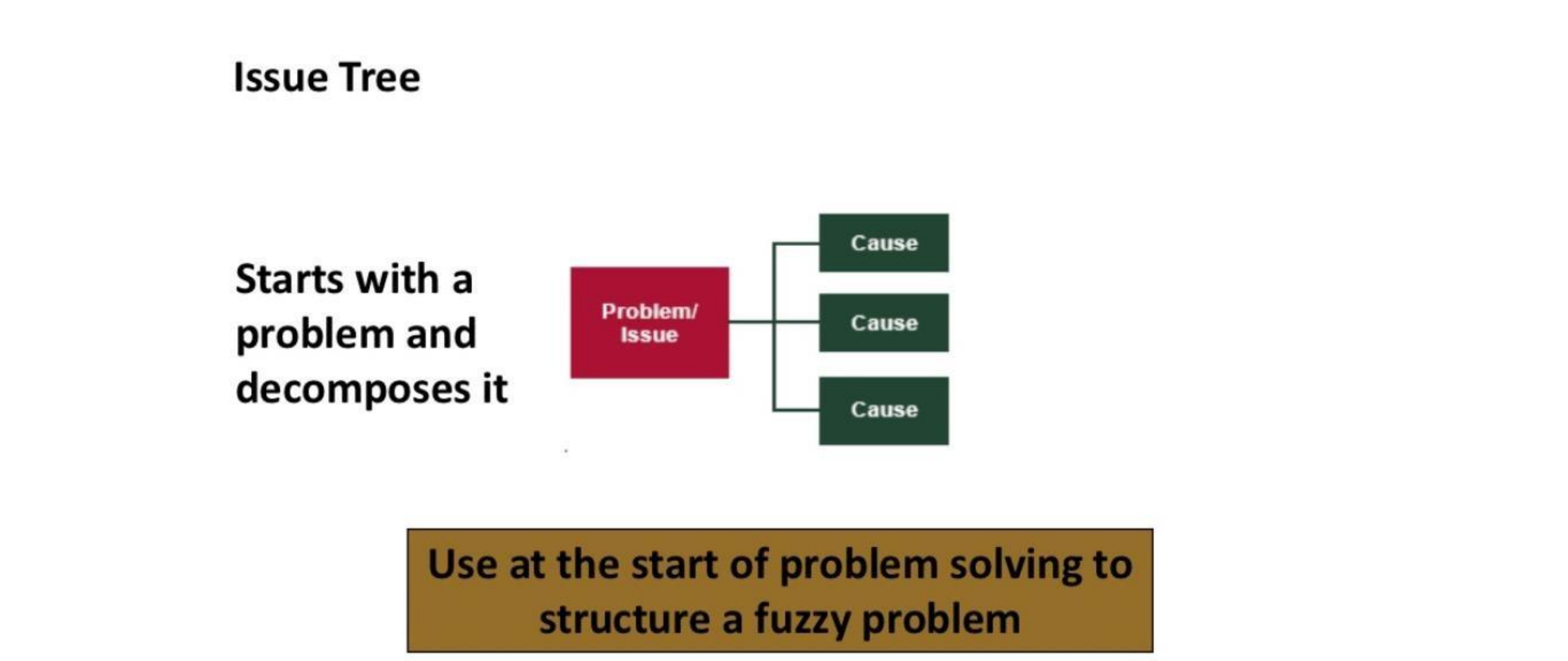
Specifically, all the information should be grouped into categories where there is no overlap between categories (mutually exclusive) and all the categories added together covers all possible options (collectively exhaustive).

Here's an example,

Not MECE	MECE
Grouping customers by their hobbies	Grouping customers by age group
Why? Single individual customer may appear under more than one hobby category	Why? No individual can appear twice Age grouping cover entire population

ISSUE TREE

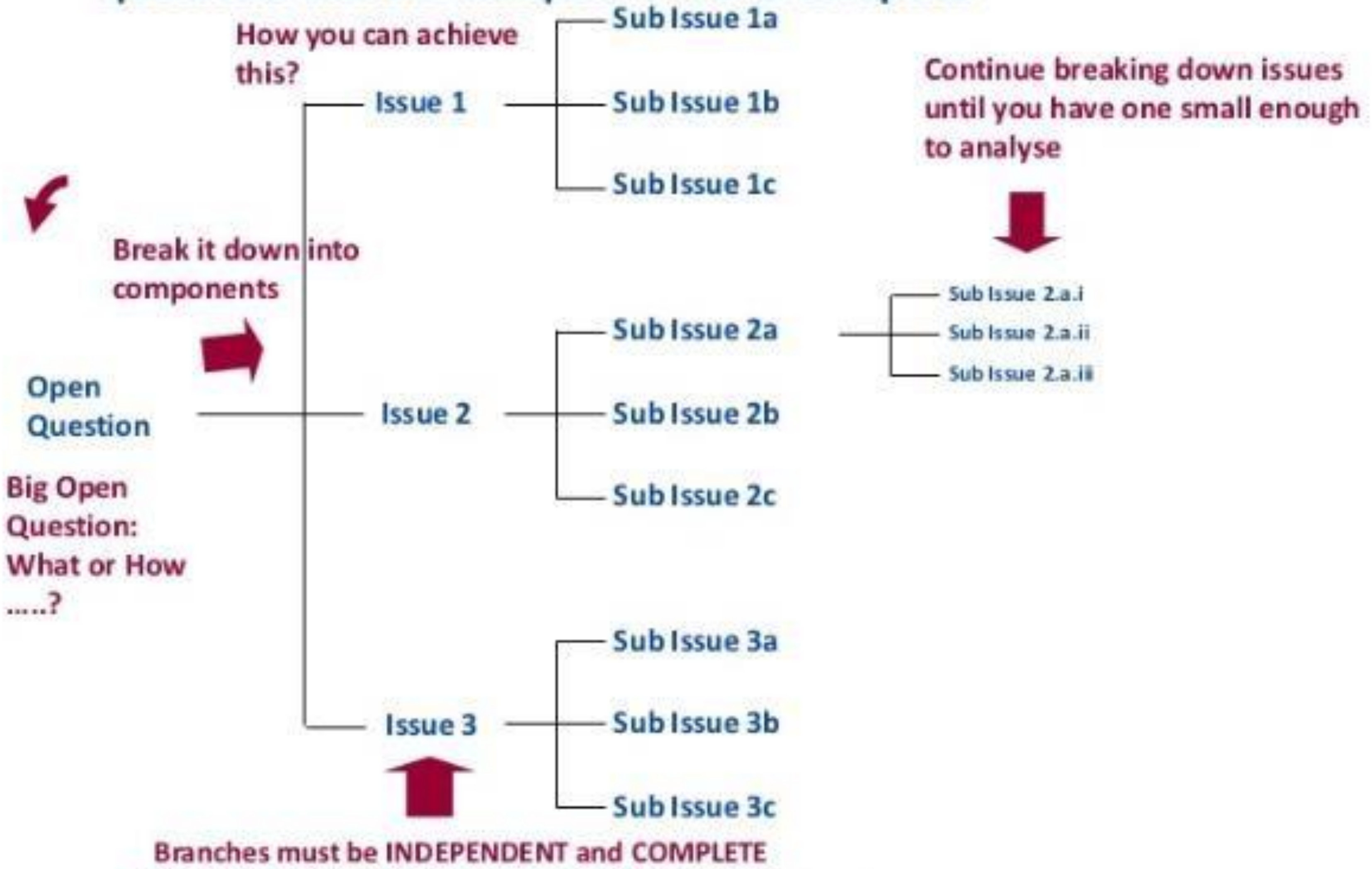
An issue tree is a useful tool to break down problems into chunks small enough to manage



An issue tree has three purposes:

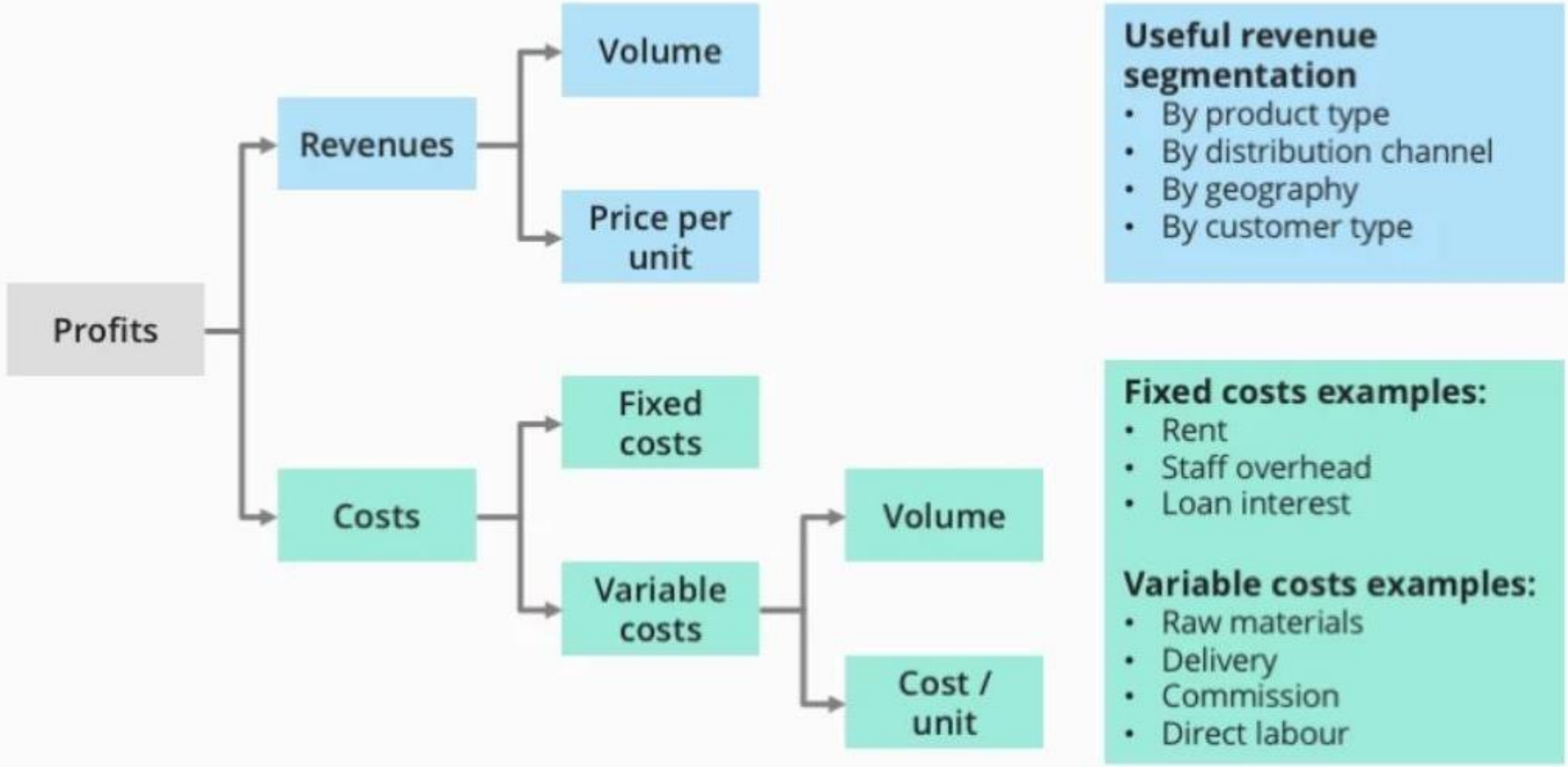
1. Break a problem down to small enough chunks analysis to answer the smaller question.
2. Open up the solution space to help you see new angles to the problem.
3. Get Everyone up to speed quickly on the problem.

To create an issue tree, you break down a question into smaller questions that are independent and complete



MECE(Mutually exclusive collectively exhaustive)

Profitability framework



MAKING ISSUE TREES

Now that you know what framework to use for profitability cases, let's discuss **HOW** you should use this framework. In our experience, the following 3-step approach works really well:

Step #1: Pick a branch. The first thing you need to do in a profitability case is to pick a branch of your framework and to make a hypothesis. For instance, you could say: "My initial hypothesis is that the profitability issue is driven by a revenue problem."

NOTE: Always state your hypothesis before starting out a case interview. (Within first 4-5 minutes)

MAKING ISSUE TREES

Step #2: Compare to past performance. Once you have picked a branch, you then need to validate if it is the root-cause of the issue or not. The right way to do this is to compare the numbers to the past performance of the company. For instance, profits might have gone down because revenues have decreased by 10% compared to last year. Another comparison that's sometimes useful to make is to competitors.
(This can be done if you have been given some data already)

MAKING ISSUE TREES

Step #3a: Right branch, continue drilling. If you have picked the right branch, you need to continue drilling down until you find the root-cause of the profit decline.

For instance, if you established that revenues have gone down, you need to start looking at **volume** and **price per unit**. A useful thing to do when you drill down is to segment the data (e.g.: by product, geography, etc.) This will enable you to diagnose the exact business reason for the troubles experienced by the company.

MAKING ISSUE TREES

Step #3b: Wrong branch, switch to another one. If you have picked the wrong branch, you need to switch to another one. Don't worry, you can be wrong!! (Your hypothesis is meant to be wrong initially)

For instance, if you established there has been no revenue decrease, **you need to update your hypothesis** and look at costs. You are then back to step #1 of this approach and can follow the same logic.

LET’S SOLVE A CASE

PROFITABILITY CASE

Situation: "Your client owns a movie theatre in London. The profits of the theatre have been going down over the past 12 months and your clients wants your help to find out why."

Q1: How would you adapt the profitability framework to this case? What are the revenue sources for a movie theatre? And what are the main fixed and variable costs?

Q2: You decide to explore the **revenue branch of the framework** and the interviewer gives you the data points below. What's your conclusion and what would you do next?

- Profits have gone down from ~£550k last year to ~£400k this year.
- Revenues have gone up from ~£1,400k last year to ~£1,900k this year.

PROFITABILITY CASE

Situation: "Your client owns a movie theatre in London. The profits of the theatre have been going down over the past 12 months and your clients wants your help to find out why."

Q3: The interviewer provides you with the cost information below. What's your conclusion and what would you do next?

- Costs have gone up from ~£850k last year to ~£1,500k this year.

This was mainly driven by an expansion project. Your client started renting an adjacent building to double the capacity of the movie theatre.

PROFITABILITY CASE

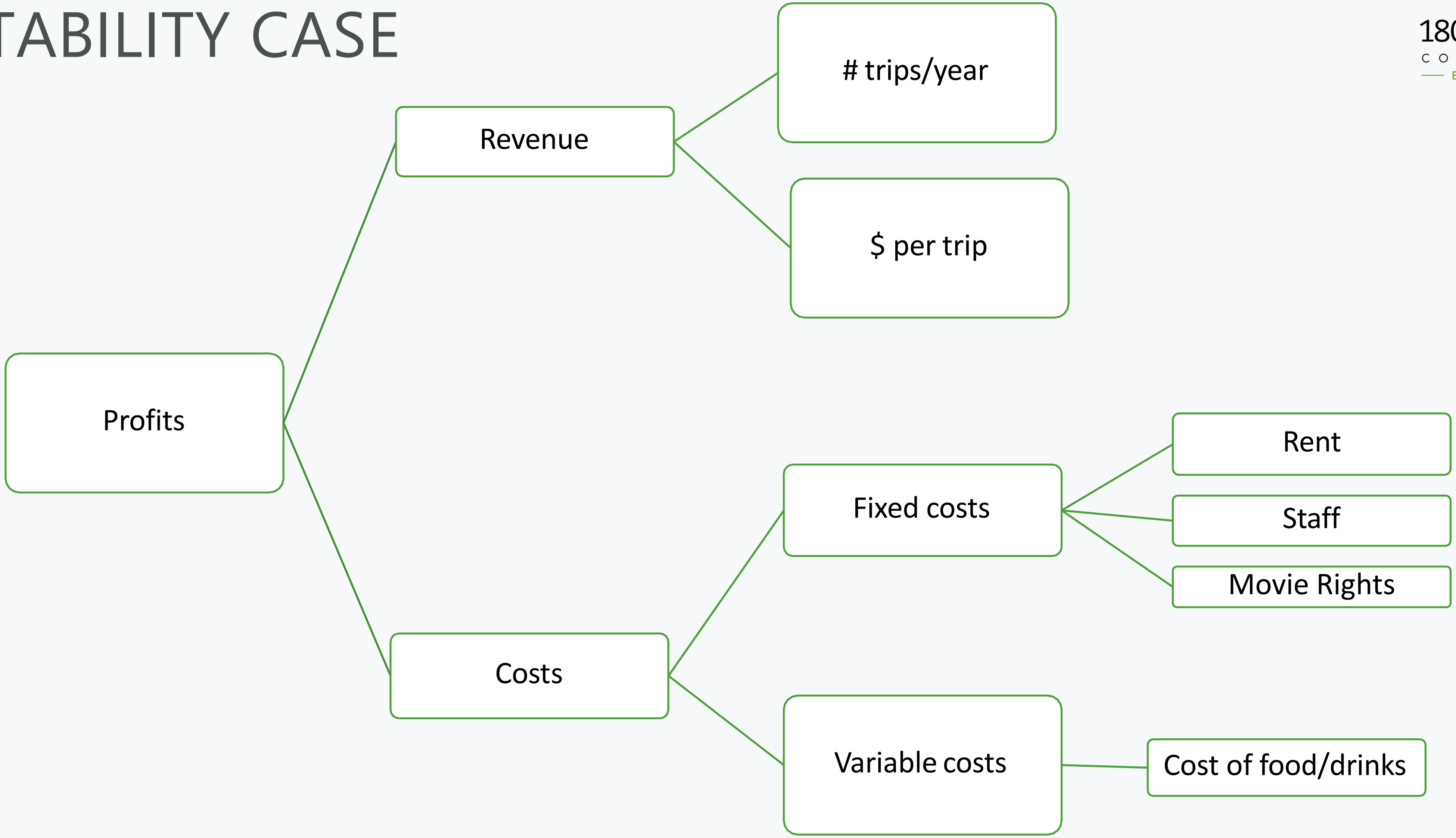
2

Profitability case example

Cinema	Last year	This year
Profits	***£552,000***	***£404,000***
Revenue	***£1,400,000***	***£1,900,000***
# trips per year	100,000	150,000
£ spent / trip	£14	£13
£ spent per ticket	£10	£10
£ spent on food	£4	£3
Costs	***£848,000***	***£1,496,000***
Fixed costs		
Rent	£120,000	£240,000
Staff	£288,000	£576,000
Movie rights	£240,000	£480,000
Variable costs		
Food costs	£200,000	£200,000

This is the data you're able to collect.

PROFITABILITY CASE



PROFITABILITY CASE

- Based on the information provided, it looks like **revenues have gone up while profits have gone down**. At this stage, a natural hypothesis would therefore be that the profits issue experienced by the company is **driven by costs**.

We can draw the following conclusions from the data provided:

Reason 1: Although the capacity of the movie theatre has doubled, the number of trips seems to only have increased by 50% compared to last year. Here are a few reasons why this might be the case:

- The cinema might not have scheduled enough screenings to attract sufficient demand
- The cinema might not have advertised its increased capacity sufficiently
- There might not be enough demand in the area where the movie theatre is located to cover for the doubling in capacity

PROFITABILITY CASE

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Reason 2: The average spend per trip for food and drinks seems to have gone down by about 25% compared to last year, from £4 per trip to £3. In addition, the cost of the food seems to have remained the same. Here are a few reasons why this might be the case:

- It looks like the additional visitors are not buying as much food. This could be because there is no food bar in the new extension the cinema is renting
- The decrease might also be driven by a change in the type of food and drinks offered at the movie theatre

- All fixed costs seem to have doubled which would make sense as doubling the capacity would be expected to roughly double the rent, the number of staff needed to manage the theatre and the number of movies projected.

To conclude this case, you would then look at why the number of visitors hasn't increased as much as expected and why the average spend on food has gone down over the period in which we are interested.

2. MARKETING STRATEGY

STRATEGIC TOOLS

WE WILL BE NEEDING FEW FRAMEWORKS AND STRATEGY TOOLS TO GET COMFORTABLE WITH SOLVING CASES.

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Solving Cases		
	Strategic Tools	**4Ps**
		3C1P
		SWOT
		PORTER'S 5 FORCES
		PESTEL
		DEMAND AND SUPPLY
	Frameworks	**Declining Profits**
		Increasing Profitability
		New Product Launch
		Customer Acquisition
		Competition Response
		Expansion
		M&A

4P MARKETING MIX

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MARKETING MIX

WHY 4P?

The 4 Ps are used by businesses to identify key factors such as

- What **consumers** want from them.
- How their product or service meets or fails to meet those needs.
- How their product or service is **perceived** in the world.
- How they stand out from their **competitors**.
- How they interact with their customers.

This framework is often used specifically whenever there is a **marketing component** involved in a case.

The “4 Ps” approach is to address a **marketing-oriented Case situation** by assessing the:

- **P**roduct (the good or service)
- **P**rice (what the consumer pays)
- **P**lace (the location where a product is marketed)
- **P**romotion (the advertising)

PRICE

Marketers must link the price to the product's real and perceived value, but they also must consider supply costs, seasonal discounts, and competitors' prices.

Key points for Analysis:-

- What is the value of the product or service *to the customers*?
- Are there established price points in this area?
- Are the customers *price-sensitive*?
- How is your price compared to your *competitors*'?

PRODUCT

Product should fulfill a certain consumer demand or be so compelling that consumers believe they need to have it!

Key points for Analysis:-

- What do your customers need and *want* from your product or service?
- What features does it have to meet these needs and wants?
- How is it *differentiated* versus the competitors?

PLACE

Place decisions outline where a company sells a product and how it delivers the product to the market.

Key points for Analysis:-

- *Where* do the customers look for your product or service?
- How can you access the right distribution channels?
- How do your competitors distribute their products?

PROMOTION

Promotion includes advertising, public relations, and promotional strategy. Promoting a product shows consumers why they need it and should pay a certain price for it.

Key points for Analysis:-

- Where and when you can get across your marketing messages to your target market?
- How do your competitors do their promotions?

LET’s APPLY 4P’s OF MARKETING FOR A “TOOTHPASTE MANUFACTURER”

Product

Does your toothpaste have the specific qualities that your ideal buyer persona is looking for (decay prevention, tooth whitening, etc.)?

Price

Is the price of your product comparable and/or cheaper to other similar products? If not, does it have additional features that your target buyer will spend a premium on it for?

Place

Most people typically remember to buy this from the supermarket - so this could be one of your placements for your product.

Promotion

Promotion for this kind of product could be a discount when you buy multiple products (buy 5, get 1 free).

3. PESTEL ANALYSIS

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PESTEL - OVERVIEW

An overview of the external factors which factor into a company's market research and strategic planning in the short and medium term

Political

How the government's policies could impact the company both now and in the foreseeable future

Economic

How current and expected economic trends (e.g GDP growth, wage growth, inflation, etc) could impact operations

Legal

How legislation, could affect the organisation's operations and financials

Social

Cultural and societal attitudes, as well as demographic trends

Environmental

Trends in Corporate Social Responsibility and other ecological factors

Technological

Technologic trends, recent innovations and the potential impacts on the company and industry

OVERVIEW

P	E	S	T	E	L
- Government policy - Political stability - Corruption - Foreign trade policy - Tax policy - Labour law - Trade restrictions	- Economic growth - Exchange rates - Interest rates - Inflation rates - Disposable income - Unemploy-ment rates	- Population growth rate - Age distribution - Career attitudes - Safety emphasis - Health conscious-ness - Lifestyle attitudes - Cultural barriers	- Technology incentives - Level of innovation - Automation - R&D activity - Technological change - Technological awareness	- Weather - Climate - Environmen-tal policies - Climate change - Pressures from NGO's	- Discrimina-tion laws - Antitrust laws - Employment laws - Consumer protection laws - Copyright and patent laws - Health and safety laws

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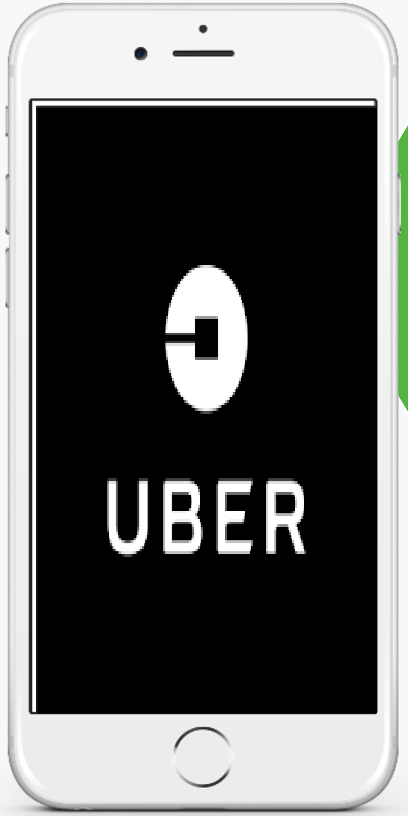
EXAMPLE PESTEL ANALYSIS

Taking Uber as an example we can understand PESTEL Analysis in depth.



UBER

POLITICAL FACTORS

- Need to make its stand clear about driver's insurance
- Have to follow minimum wage rules
- Have to deal with bans in many countries

ECONOMIC FACTORS

- Easily accessible
- Affordable fare charges
- Offers job opportunities, but pay may not be convincing

SOCIO-CULTURAL FACTORS

- User friendly
- Quick pick up
- Gives better ride experience than taxis.

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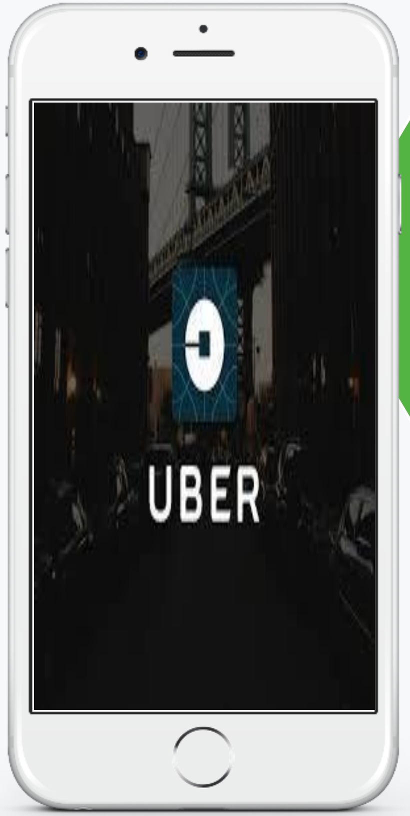
EXAMPLE PESTEL ANALYSIS

Taking Uber as an example we can understand PESTEL Analysis in depth.



UBER

TECHNOLOGICAL FACTORS

- Excellent mobile app for users
- Using social media and other electronic media well for promotion.

LEGAL FACTORS

- Need to prevent ban in many countries.
- Need to follow labour and employee safety laws
- Copyright laws need to be looked at.

ENVIRONMENTAL FACTORS

- Fuel usage may increase
- Traffic congestion is a concern.

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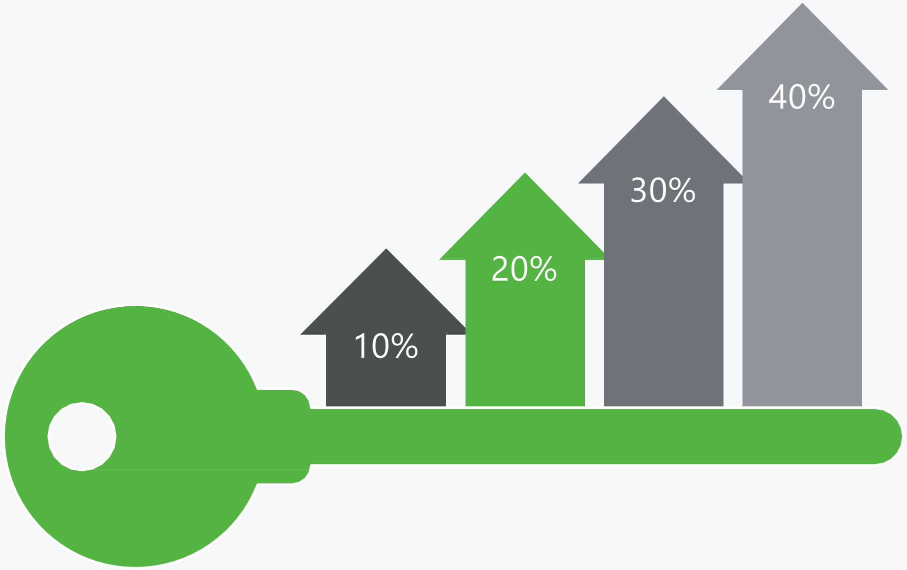
Why do we need PESTEL ANALYSIS?



PESTEL Analysis helps us identify the EXTERNAL factors that affect a company or organisation

01 **METHOD TO EXPLOIT OPPORTUNITIES**

Salesforce acquires Tableau in lieu of the growing admiration for Machine Learning and Artificial Intelligence.

02 **AWARENESS OF RISKS**

Huawei stocking chips and ICs to continue production after the emergence of trade war between India and China.

03 **GOOD BUSINESS PLAN**

Amazon plans of using drones for delivery of their product.

04 **PROPER MARKETING**

Doritos making ads without their logo to suit the ad-free movement.

4. PORTER'S FIVE FORCE MODEL

PORTER'S 5 FORCES MODEL - OVERVIEW

What is it: A tool to understand the business's microenvironment by analysing the close competition a business faces in their industry. It encourages firms to not only look at the actions of competitors, but the wider industry context, both currently and in the foreseeable future.

Threat of new Entrants
The easier it is to get into the market, the weaker the company's position will be

Existing Competitive Rivalry
Number of competitors and their threat to the firm. Higher rivalry = less firm power

Threat of Substitutes
The more substitutes available, the less power the firm has to increase their prices.

Bargaining power of customers
The ability of customers to go to competitors or otherwise force the firm to reduce their prices in some ways

Bargaining power of suppliers
How easily can suppliers for the company change prices of their inputs, as well as if the company can easily switch suppliers if needed

WHEN IS PORTER'S 5 USED?

The goal is to assess whether a company **should enter/exit the industry** or find a position in the industry where it can best defend itself against these forces or can influence them in its favor.

Let's understand the framework with an Airline example!

THREAT OF NEW ENTRANTS

THREAT OF NEW ENTRANTS

Is it easy or difficult to enter the market?

- New entrants in an industry bring new capacity and the desire to gain market share. The seriousness of the threat depends on the barriers to enter a certain industry.
- The higher these barriers to entry, the smaller the threat for existing players.
- Examples of barriers to entry are the need for economies of scale, high customer loyalty for existing brands, large capital requirements (e.g. large investments in marketing or R&D), the need for cumulative experience, government policies, and limited access to distribution channels.

THREAT OF NEW ENTRANTS

EXAMPLE:

- The bargaining power of suppliers in the airline industry can be considered very high.
- When looking at the major inputs that airline companies need, we see that they are especially dependent on fuel and aircrafts. These inputs however are very much affected by the external environment over which the airline companies themselves have little control.
- The price of aviation fuel is subject to the fluctuations in the global market for oil, which can change wildly because of geopolitical and other factors.
- In terms of aircrafts for example, only two major suppliers exist: Boeing and Airbus. Boeing and Airbus therefore have substantial bargaining power on the prices they charge.

THREAT OF SUBSTITUTES

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THREAT OF SUBSTITUTES

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Is there any alternative of your product?

- The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives. In order to discover these **alternatives** one should look beyond similar products that are branded differently by competitors.

- Instead, every product that serves a similar need for customers should be taken into account.

- Energy drink like Redbull for instance is usually **not considered** a competitor of coffee brands such as Nespresso or Starbucks. However, since both coffee and energy drink **fulfill a similar need** (i.e. staying awake/getting energy), customers might be willing to switch from one to another if they feel that prices increase too much in either coffee or energy drinks.

- Another example: Yoga classes as a substitute (Not competitor) of Karate classes. Both fulfill similar needs

- XYZ Yoga Class, ABC Yoga Class = Competitors. But XYZ Yoga Classes & Karate Class = Substitute

THREAT OF SUBSTITUTES

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EXAMPLE:

- In terms of the airline industry, it can be said that the general need of its customers is **traveling**.
- It may be clear that there are many **alternatives** for traveling besides going by airplane. Depending on the urgency and distance, customers could take the train or go by car. Especially in Asia, more and more people make use of highspeed trains such as Bullet Trains and Maglev Trains.
- Furthermore, the airline industry might get some serious future competition from Elon Musk's Hyperloop concept in which passengers will be traveling in capsules through a vacuum tube reaching speed limits of 1200 km/h. Taken this altogether, the threat of substitutes in the airline industry can be considered at least medium to high.

BARGAINING POWER OF SUPPLIERS

BARGAINING POWER OF SUPPLIERS

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How easy it is for suppliers to drive prices?

- This force analyzes how much power and control a company's supplier (also known as the market of inputs) has over the potential to raise its prices or to reduce the quality of purchased goods or services, which in turn would lower an industry's profitability potential.

- The concentration of suppliers and the availability of substitute suppliers are important factors in determining supplier power. **The fewer there are, the more power they have.**

- Businesses are in a better position when there are a multitude of suppliers. Sources of supplier power also include the switching costs of companies in the industry, the presence of available substitutes, the strength of their distribution channels and the uniqueness or level of differentiation in the product or service the supplier is delivering.

- Always remember: Less in number = More power

BARGAINING POWER OF SUPPLIERS

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EXAMPLE:

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BARGAINING POWER OF BUYERS

BARGAINING POWER OF BUYERS

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How easy it is for buyers to drive prices?

- The bargaining power of buyers is also described as the market of outputs. This force analyzes to what extent the customers are able to put the company under pressure, which also affects the customer's sensitivity to price changes.

- The customers have a lot of power **when there aren't many of them** and when the customers have many **alternatives** to buy from.

- Moreover, it should be easy for them to switch from one company to another. Buying power is low however when customers purchase products in small amounts, act independently and when the seller's product is very different from any of its competitors. The internet has allowed customers to become more informed and therefore more empowered.

- Customers can easily compare prices online, get information about a wide variety of products and get access to offers from other companies instantly. Companies can take measures to reduce buyer power by for example implementing loyalty programs or by differentiating their products and services.

BARGAINING POWER OF BUYERS

EXAMPLE:

- Bargaining power of buyers in the airline industry is **high**.

- Customers are able to check prices of different airline companies fast through the many online price comparisons websites such as Skyscanner and Expedia.

- In addition, there aren't any switching costs involved in the process. Customers nowadays are likely to fly with different carriers to and from their destination if that would lower the costs.

- Brand loyalty therefore doesn't seem to be that high. Some airline companies are trying to change this with frequent flyer programs aimed at rewarding customers that come back to them from time to time.

RIVALRY COMPETITION

RIVALRY COMPETITION

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How intense is the competition in the market?

- This last force of the Porter's Five Forces examines how intense the current competition is in the marketplace, which is determined by the number of existing competitors and what each competitor is capable of doing.

- Rivalry is high when there are a **lot of competitors** that are roughly equal in size and power, when the industry is growing slowly and when consumers can easily switch to a competitors offering for little cost.

- A good indicator of competitive rivalry is the **concentration ratio** of an industry. The lower this ration, the more intense rivalry will probably be. When rivalry is high, competitors are likely to actively engage in advertising and price wars, which can hurt a business's bottom line.

- In addition, rivalry will be more intense when barriers to exit are high, forcing companies to remain in the industry even though profit margins are declining. These barriers to exit can for example be long-term loan agreements and high fixed costs.

RIVALRY COMPETITION

EXAMPLE:

- When looking at the airline industry in the United States, we see that the industry is extremely competitive because of a number of reasons which include the entry of low cost carriers, the tight regulation of the industry wherein safety become paramount leading to high fixed costs and high barriers to exit, and the fact that the industry is very stagnant in terms of growth at the moment.

- The switching costs for customers are also very low and many players in the industry are similar in size (see graph below) leading to extra fierce competition between those firms. Taken altogether, **it can be said that rivalry among existing competitors in the airline industry is high**.

ANOTHER EXAMPLE: MCDONALDS

Threat of new entrants:

- Low switching costs – Strong Force
- Highly variable capital cost – Moderate Force
- High cost of brand development – Weak Force

Threat of substitute products/services:

- High substitute availability – Strong Force
- Low switching costs – Strong Force
- High performance-to-cost ratio of substitutes – Strong Force

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Bargaining Power of Suppliers:

- Large number of suppliers – Weak Force
- Low forward vertical integration of suppliers – Weak Force
- High overall supply – Weak Force

Bargaining Power of Buyers:

- Low switching costs – Strong Force
- Large number of providers – Strong Force
- High availability of substitutes – Strong Force

Bargaining Power of Suppliers:

- Large number of suppliers – Weak Force
- Low forward vertical integration of suppliers – Weak Force
- High overall supply – Weak Force

5. COST AND BENEFIT ANALYSIS

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COSTS AND BENEFITS

A simple concept to understand What goes in and What comes out

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FEATURES:

To understand How much you spend on a campaign and how much you get back as returns

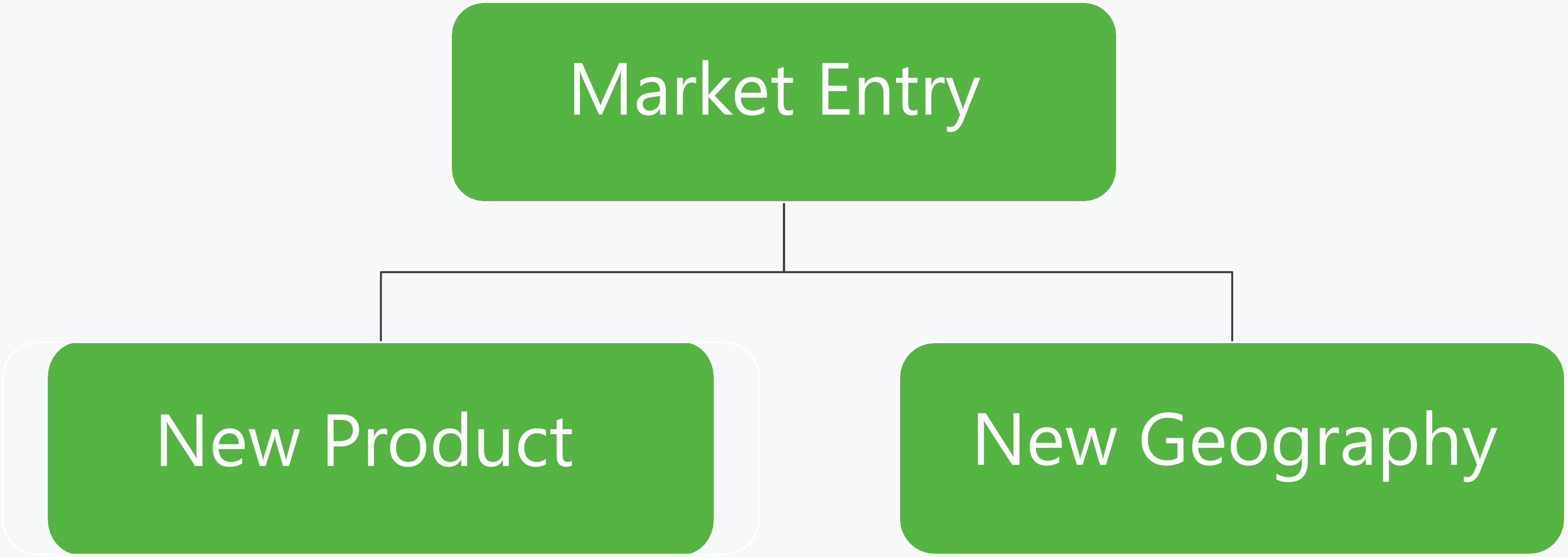
COSTS AND BENEFITS

Costs are things the company spends on

Benefits are the things that can be achieved by the company

- **Straight Forward**
- **User Friendly**
- **Turn it into a discussion with the intervier**
- **Pros Cons list in proper Consulting terms**

6. MARKET ENTRY


Market Entry
New Product
New Geography

MARKET

The first area consultants typically analyze in market entry cases is the market. This is extremely important because a big part of the success or failure of the new venture will depend on broader market dynamics.

Key points for Analysis:-

- Who are the customers? And what products do they buy today?
- How big is the market? And how fast is it growing?
- How profitable is the market? And is its profitability stable?
- How intense is the competition? Are there more and more players?
- How heavily regulated is the market? Are there barriers to entry?

CAPABILITIES

Second, once they understand the market in detail, consultants typically try to figure out how hard it will be for their client to win in that market. This is important because a market can be very attractive but the company might not have the required capabilities to succeed in that market.

Key points for Analysis:-

•What are the main differences between the company's current market and the new market? How difficult is it for the company to develop / hire new capabilities to adapt to these differences?

•Has the company ever done any new market entries in recent years? If so, how successful was it and what has it learned?

•Have other people similar to the client tried to enter the new market in the past? Is there anything we can learn from their attempt?

FINANCIALS

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The third important area to analyze is the financials. Your objective here is to understand how attractive it is financially to enter this new market.

Key points for Analysis:-

•What's the current financial situation of the client? Does it have spare financial resources to invest?
•How much will it cost to enter the new market (e.g.: setting up new factories, recruiting a team, etc.)?
•What will be the ongoing costs once the market is entered (e.g.: variable cost of manufacturing, advertising to build brand, etc.)?
•What are the expected revenues from the new market? Through which channels / customers will they be achieved?
•What is the overall Return on Investment we can expect from the market entry?

ENTRY STRATEGY

The last area consultants typically analyze is **HOW** to enter the market. Planning the exact operational mechanics that will be used is key in order to succeed.

Key points for Analysis:-

•When should the company enter the market? Is there a first mover advantage or is it better to wait for a few competitors to try first?

•At what speed should the company enter the market? Test a region first, or enter the whole market at once?

•Should the company establish its own entity and have full control? Or should it buy / build a Joint Venture with a competitor?

•Should the company control the market entry from its head office? Or should it give a lot of freedom to the new country manager?

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