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Top Consulting Interview Prep

UCLA Anderson
SCHOOL of MANAGEMENT

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List of Industry Overviews

This section includes brief overviews of 12 industries that are likely to come up in interviews

- Airline
- Automotive
- Commercial Banking
- Health Care
- Media and Entertainment
- Oil & Gas
- Pharmaceutical
- Private Equity
- Restaurant
- Retail
- Telecom
- Utilities

Airline

Key Ideas

- Consolidation in industry
- Low cost carriers and fare competition on competitive routes
- Online booking and check in
- Expansion of domestic and international routes
- Capacity optimization (Load Factor)

Revenue Streams

- Ticket sales to economy and business passengers
- Charges for baggage and on-board services (up selling)
- Cargo transportation
- Credit cards
- Value Added Services (food & drinks, WiFi, etc.)

Cost Drivers

- Fuel
- Labor
- Marketing
- Terminal fees
- Insurance/legal fees

Customer Segments

- Leisure travelers – (generally price sensitive)
- Business travelers – (very important to airlines due to margins and services purchased)
- Freight/Cargo Transportation

Channels

- Internet online travel sites, airline websites
- Airline sales team: call centers, online, or kiosk
- Travel management companies (TMCs) serving corporate clients, travel agents

Risks

- Changes in fuel prices have a major impact on profitability
- Macro economic conditions greatly impact amount of leisure travelers
- An intensely competitive market with many foreign airlines partly government subsidized

Key Economics Drivers

- World Price of Crude Oil
- Trips by US residents
- Optimization of capacity
- Per capita disposable income

Automotive

Key Ideas

- Automakers, Original Equipment Manufacturers (OEMs), Replacement Parts Production, Rubber Fabrication
- Highly capital and labor intensive
- Extensive competition due to foreign automakers
- Unions
- Technology innovations such as electric vehicle and autonomous driving

Revenue Streams

- New car sales
- Auto part sales
- Services offered with vehicle purchase
- Financing
- Extended warranties
- Leasing

Cost Drivers

- Labor
- Materials
- Advertising
- Financing costs
- Recall costs

Customer Segments

- Personal car buyers
- Rental car companies
- Commercial purchasers
- Government purchasers

Channels

- Automobile dealers
- Secondary automobile market
- Automotive parts/services outlets

Risks

- Globalization of the industry enables more ease of foreign competition
- Extensive competition impact on already low margins
- Changes in consumer trends and tastes

Key Economics Drivers

- GPD growth
- Income growth/disposable income
- Price of crude
- Steel prices
- Consumer confidence index
- Yield on Treasury note

Commercial Banking

Key Ideas

- Consolidation/acquisitions
- Increased mobile banking
- Channel innovation in digital and physical channels
- Customer attrition rate
- Offshoring of call centers, back office functions
- Digitization of processes
- Cross selling

Revenue Streams

- Loan interest (Loan types: Real estate, Auto, Personal, Education)
- Service Fees
- Spread between interest rate charged and Fed rates
- Credit cards

Cost Drivers

- Wages
- Bad debt expense
- Interest rates on deposits
- Branch and compliance costs
- Overhead costs: paper fee, error rate costs for manual processing

Customer Segments

- Wealth: deposit balances, income
- By lifestyle: buying behavior
- Size: small businesses and consumers
- Age: under 35 adapt to technology better

Channels

- Savings and loan
- Credit union
- Traditional checking
- Online banking
- Microfinance

Risks

- Change in savings behavior
- Loan default, interest rates and federal funds rates

Key Economics Drivers

- Consumer confidence
- Household debt
- Employment statistics
- Urbanization
- Home and car buys
- Disposable income
- Interest rate
- Government Regulation

Health Care

Key Ideas

- Affordable Care Act
- Highly fragmented: Top 50 organizations account for 15% revenues
- Employers pushing health care costs onto employees
- Aging Baby Boomer population driving increased revenues

Revenue Streams

- Hospital care
- Physician and clinical services
- Prescription drugs
- Nursing
- Dental services
- Research, Equipment, Investment

Cost Drivers

- Dependent on segment
- Significant costs related to new technology implementation
- Often inefficient organizational structures

Customer Segments

- Patients/consumers
- All generations and segments of the population require different products/services

Channels

- Hospitals
- Doctors offices
- Nursing homes
- Outpatient surgery centers
- Pharmacies
- Medical equipment

Risks

- New legislation (Impact of Affordable Care Act still uncertain)
- Funding availability

Key Economics Drivers

- Regulation for health medical insurance
- Federal funding for Medicare and Medicaid
- Aging population
- Advances in medical care and technology

Media and Entertainment

Key Ideas

- Create, license and / or distribute content (TV shows, movies, music, news, video games, books, magazines, radio shows, advertising, etc.)
- Developing and acquiring multiple brands and multiple distribution channels
- Digitalization

Revenue Streams

- Content sale/subscription
- Advertising
- Licensing/distribution

Cost Drivers

- Labor
- Marketing
- Investment in digital technologies

Customer Segments

- Individual customers segmented by:
  - Demographic
  - Age
  - Genre preferences

Channels

- Cinema
- Traditional TV and home video
- Internet advertising
- Video games and e-sports
- Book/magazine publishing
- Music & radio

Risks

- The business model is evolving
- Tech companies pose competition for online advertising
- Competition for best content

Key Economics Drivers

- The growth of streaming and mobile video
- Piracy and copyright enforcement
- Royalties and monetization

Oil & Gas

Key Ideas

- Upstream, midstream, downstream
- PV-10
- Cost per gallon
- OPEC
- GDP growth
- Renewable energy
- Fracking

Revenue Streams

- Crude oil
- Gasoline
- Natural gas
- Refining products such as lubricants
- Gas stations: gasoline, food market, car wash

Cost Drivers

- Exploration: seismic studies, drilling rigs and labor
- Production: refining
- Pipelines
- Gas station: oil, labor, insurance, licenses

Customer Segments

- Petroleum refiners
- Electricity generators
- Domestic and commercial users
- Other industries

Channels

- Retail
- Wholesale
- Commercial

Risks

- Access to reserves
- Energy policies
- OPEC decisions
- Political pressures
- Substitutes/renewable energy

Key Economics Drivers

- Government regulation
- International oil production and demand

Pharmaceutical

Key Ideas

- Affordable Care Act
- Aging population
- Patents and generics
- Research & Development
- Insurance
- FDA
- Market penetration
- Contract vs in-house salesforce

Revenue Streams

- Insurance payments
- The federal government provides certain grants to subsidize R&D
- Due to significant R&D lead times revenue is highly volatile
- Seasonality is high on certain products (vaccines and cold medicine) and low on other products (pain medicines)

Cost Drivers

- Research & Development
- Manufacturing cost
- Marketing costs
- Wages
- Liability insurance and legal fees

Customer Segments

- Medical patients
- Prescribing doctors
- Government insurance programs
- Health insurance companies

Channels

- Over the counter
- Prescription drugs: Hospitals, pharmacies
- Mail order pharmacy: Express Scripts, Walgreens

Risks

- Generic manufacturers pose a major competitive threat following patent expiration
- Tariff barriers are no longer a relevant form of protection
- Unfavorable government healthcare regulations and CMS rates

Key Economics Drivers

- Median age of population
- Research and development expenditure
- Insurance and regulatory landscape
- Patent protection

Private Equity

Key Ideas

- Value creation: selling underperforming assets, pricing optimization, diversifying customer base, operations efficiency
- Exit: strategic or IPO
- Synergies
- Stability of cash flows (IRR, NPV)
- Strong management team
- Targeted returns ~ 40%+
- Un-invested capital vs. invested

Revenue Streams

- Components of the revenue charge
  - Invested capital
  - Transaction and advisory fees
  - Carried interest
- Divestures

Cost Drivers

- Wages and profit sharing
- Administrative costs (regulatory filings, record keeping, accounting and travel)
- Outsourcing of capital-intensive IT functions for algorithmic trading

Investors

- Pension funds (largest share)
- Private investors (e.g. High net worth individuals)
- Banks, sovereign funds and life insurance companies

Averages in Industry

- Large firms focus on deals ~$1B; middle market firms cover deals between $15M - $1B
- Average holding period before sale has increased from 3 years to 6 years in the past 15 years
- Borrowing can typically range from 65% to 85% of the purchase price of the firm

Risks

- New regulation → compliance costs, Rising competition → decreasing industry fees
- Competition also exists with sovereign wealth funds and corporate buyers
- Changes in tax structure

Key Economics Drivers

- Investor uncertainty/Pension demand
- Access to credit/interest rates
- Regulations
- Exit opportunities
- GDP/Investment returns

Restaurant

Key Ideas

- Newer “ fast casual” restaurants like threaten to steal market share from both QSR and full-service restaurants
- Implementation of technology to increase profitability

Revenue Streams

- Food and beverages (usually the higher margin products)
- Merchandise
- Catering
- Franchising fees
- Licensing

Cost Drivers

- Labor
- Raw Material
- Real Estate
- Marketing

Customer Segments

- Preferred/loyal customer
- By location or neighborhood
- Purchase decision

Channels

- Dine-in
- In-house Delivery
- Outsource Delivery
- Pick up

Risks

- Maintaining a safe environment for employees, contractors, and other visitors
- Wage and hour lawsuits
- Liquor liability
- Food allergies
- Food-borne illness/contamination

Key Economics Drivers

- GDP growth
- Consumer Confidence index
- Per capita disposable income

Retail

Key Ideas

- Same store sales
- Sales per square foot
- Inventory turn-over
- Seasonality/recessions
- Trends

Revenue Streams

- Product sales (brick & mortar, online)
- Slotting fee
- Advertising
- Affiliate marketing
- Cross-selling additional products and services
- Loyalty and rewards programs

Cost Drivers

- Cost of Goods Sold (74% of costs)
- Transportation
- Wages
- Rent and utilities
- Marketing

Customer Segments

- The industry consumer oriented and, due to the spectrum of products, its markets are generally segmented into different income, demographics and age

Channels

- Department Stores/Big box retailers
- Discount retailers
- Demographic retailers
- Shopping malls

Risks

- Changes in disposable income
- Demand and supply issues
- Overstock
- Easy entry invites competition

Key Economics Drivers

- Consumer Confidence index
- Per capita disposable income
- International Export/Import
- Gross Domestic product/inflation
- Commodity prices (e.g. gold price for jewelry)

Telecommunications

Key Ideas

- Deregulation led to spur of new companies
- Bottlenecks: High capital, scarce operating skills and management experience
- Shift from telephones to internet-based services for mobile
- Bundling of services

Revenue Streams

- Voice calls
- Additional lines/family plans
- Text and image communication
- Data subscriptions
- Bundling with video, music & games content
- Value Added Services

Cost Drivers

- Infrastructure
- Frequency licenses
- Wages
- Marketing and advertising

Customer Segments

- Retail/individual customers
- Residential and Small Business (Price sensitive)
- Large multinationals (Price insensitive)

Channels

- Retail stores - carriers and mass retailers
- Direct sales force
- Online

Risks

- Rapid development of technology
- High exit barriers
- Systems not reusable across industries
- Commoditized services

Key Economics Drivers

- Investment in rising technology services
- Number of subscriptions to additional services
- Number of broadband and mobile internet connections

Utilities

Key Ideas

- Increase in energy consumption
- High investment costs and regulations
- Industry structure is disintegrating into smaller supplier segments
- Seasonality
- Gov. incentives for sustainable initiatives
- Bundling services with renewable

Revenue Streams

- Transmitted electricity: base load and intermittent electricity
- Base load (95% of industry)
- Coal, natural gas, nuclear, other
- Intermittent: renewable energy

Cost Drivers

- Purchased power accounts (nearly half of total cost)
- Infrastructure
- Wages
- Marketing
- Maintenance contracts

Customer Segments

- Commercial and Industrial
- Residential

Channels

- Transmission lines/pipelines
- Upstream electricity generators

Risks

- Clean energy threatens the future of traditional power generation methods
- Seasonal demand leads to uncertain estimates
- Energy efficient appliances decrease consumption

Key Economics Drivers

- Economies of scale
- Industrial production index
- Climate/seasonality

2 / Drug Store Profitability

- Our client is a drug store chain, similar to CVS, they have been losing profits for the last few years. **Can you help us identify the reasons and means to improve the profits?**

Overview for Interviewer	Notes
Industry: Pharma **Case Format:** Profitability **Concepts Tested:** • Product Mix • Retail • Business Operations	• **This case is done as a discussion, with the interviewer pushing the interviewee toward revelations without necessarily asking direct questions.** • **Is the loss of profitability due to product mix, store mix, increasing costs or decreasing revenue? Or a combination of all the above?** • **What can the company do to improve profits – focused discussion around one area of improvement from above list** • **This is a great case to begin incorporating some brainstorming given that most candidates are familiar with the industry. Push for candidates to draw insights out of their real world experience.**

Drug Store – Interviewer Guidance

Clarifying Answers to Provide if Asked	Interviewer Guide to Case and Handouts
Stores are typical to CVS, located in several areas. **Stores have three key business areas:** **1. Pharmacy** **2. Health + Beauty** **3. General Merchandise**	**Case Structure** The interviewee should develop a MECE framework that covers a wealth of reasons why profitability is an issue. As information on product mix, store mix and location is shared with the interviewee, the candidate should brainstorm risks and opportunities of making changes based on the information provided. **Answers** The firm is losing profits due to several reasons • Product mix • Store mix • Location Details The company should look at • Changing product mix • Closing bad stores

Drug Store – Product Mix

1 / Product mix

After structure, push candidate to identify that there could be different profitability by product.

Notes to Interviewer

Verbally provide the information in the table above to the candidate.

Product Type	Sales/Sq Ft	Profit Margin
Pharmacy	$20,000	5%
Health and Beauty	$10,000	20%
General Merchandise	$5,000	10%

Candidate should identify the profit per Sq Ft:

- Pharmacy ($1K)
- Health and Beauty ($2K)
- General Merchandise ($0.5K)

Push the candidate to identify opportunities and challenges of changing product mix:

- General Merchandise could be to gain foot traffic; Ensure it brings in those who shop Health and Beauty products
- Optimize store layout to give more shelf time to high margin products
- Backlash from suppliers on reducing size and SKUs of orders

Drug Store – Cost Management

2 / Cost improvements

Push candidate to identify ways to improve the cost side of the margins of general merchandise; in particular milk

Notes to Interviewer

Candidate should attempt to brainstorm ways to improve the cost structure of general merchandise in a structured manner.

Acquisition

- Find cheaper suppliers
- Renegotiate contracts
- Find local suppliers
- Get volume discount

Distribution

- Cost of refrigeration
- Reduce Mileage
- Outsourcing vs insourcing delivery
- Grouping of delivery with other merchandise

Retail

- Cost of refrigeration
- Cost of spoiled materials
- Improved forecasting of demand to reduce inventory

Drug Store – Store and Location Mix

3 / Profitability by store

Push candidate to recognize that profitability by store and location may be different

Notes to Interviewer

Information to provide to candidate on store mix:

- 60% of the stores are located near hospitals, in areas with heavy competition and in high crime infested areas – these stores make 10% loss
- Remaining stores make 25% profits

Candidate should identify the following:

- Stores making a loss should be closed.
- Risks of closing: Product shift could change 10% loss, Loss of key customers who are focused on health and beauty, backlash of closing stores
- Leverage lessons of profitable stores: identify common traits of profitable stores, opportunity for growth and how competition and market size in those store locations looks

Drug Store – Closing Thoughts

4 / In conclusion…

Please provide an overview of the issue at hand, and a concise recommendation as to how we should proceed.

Notes to Interviewer

Candidate should provide a crisp recommendation in under one minute.

The recommendation should provide clear and succinct guidance on why the company has been losing profits for the last few years, as well as next steps to proceed. The recommendation should also be delivered as it would be to a client, with a positive and hypothesis driven spin on the conclusion.

The firm is losing profits due to several reasons

- Product mix
- Store mix
- Location Details

The company should look at

- Changing product mix
- Closing bad stores
- Improving on location

Drug Store – Potential Structure

Revenue

- Product mix trends
- Customer segment trends
- Pricing / discount trends
- Location mix

Costs

- New stores
- Renovations
- Labor / overtime / turnover / training
- New supplier contracts
- Logistics costs

Competition

- New locations nearby
- Competitive pricing
- Product variety
- Integration of suppliers
- Online shopping

7 / UPS in Italy

Your client is a startup in a small village in Italy that provides the local delivery of packages sent to this village through UPS's next-day-delivery service. The CEO of this firm has hired you to help them decide how many trucks to lease. There are different models available, but our client has been told that they will need to have a consistent fleet (they can only lease one model type) and so we will also need to identify what model they should lease.

Let me provide a quick overview of how the company operates: (i) They receive every package at 5pm from UPS, (ii) a bunch of people then sort the packages and (iii) load them on a truck where they are stored overnight, and (iv) then deliver them starting at 9am for 10 hours. How would you suggest approaching the client's problem?

Overview for Interviewer	Notes
Industry: Logistics	• **This case is interviewer guided/lead.**
Case Format: Operations	• This case tests a candidate's ability to analyze how many packages must be delivered and to see if the bottleneck is the time or the truck size.
Concepts Tested: Bottlenecks	• Not all information is provided up front to the candidate; he/she should be aware of this and must identify additional data that will allow him/her to solve the case.

Core Case Question 1

1 / Framework

How would you go about analyzing this problem? (This is the spot for the framework – a potential answer is below)

Ideal responses

Interviewee: I'd like to understand a few things to evaluate this decision. First, I would like to start by analyzing the demand. I would like to know how many packages we have to deliver and how long, on average, it would take us to deliver a single package. Then, I would like to analyze the numbers in the context of the three truck models our client can lease.

Core Case Question 2

2 / Overview

Given the following information, which truck option should the client select and how many trucks will you need to satisfy the demand?

Notes to Interviewer

Information to be given:

- Packages delivered per day: 1,000
- Dimension of package (envelope) is 1x1x1.
- Operates five days a week.
- It takes 8 minutes, on average, to deliver a single package and to be ready for the next one ("assume they deliver one every 8 minutes").
- Drivers, fuel, etc. are not considered and do not make a material difference to the analysis (for sake of simplicity).

Truck	Cost per day	Dimensions
A	$150	3*4*5
B	$40	9*2*1
C	$130	6*8*10

Solution

Least amount of trucks needed (based on 8 min delivery constraint) needed = Time to delivery all packages / time in the day
(8mins * 1000 packages) / (10 hours * 60 mins) = 13.3 trucks

When assessing each truck, we multiply 1,000 (total packages for all trucks) by 1*1*1 (average package size) and divide by the truck capacity to determine how many trucks we will need. Given the constraint on minimum number of trucks calculated above, calculate the cost per day based on the number of trucks required and cost per truck per day.

Truck	Cost per day	Dimensions	Demand per day	Capacity / Truck	Trucks/day (rounded)	Trucks (min)	Total cost per day
A	$150	3*4*5	1,000	60	17	17	$2,550
B	$40	9*2*1	1,000	18	56	56	$2,240
C	$130	6*8*10	1,000	480	3	14	$1,820

Core Case Question 3

Question 3

Ok, it seems a good idea. Let's move on. Now imagine 6 months have passed and your recommendation was pretty successful. Now the CEO want us to investigate any potential risks that he/she should be assessing/considering.

Notes to Interviewer

Potential structure for analyzing risks

Internal

- Need for extra drivers (e.g. people get sick) – do we have enough employees
- Unionized drivers may shift labor cost up in the future
- Need to lease more trucks because trucks can break down causing late delivery
- Insurance costs
- More fine tickets than forecasted because drivers want to deliver on time

External

- Only one supplier (UPS) – we are captive to UPS
- Adoption of new technology (e-mail) might reduce the need for sending packages
- Government regulation
- New competition in the city – there are no real barriers to entry, since UPS would likely partner with any carrier who can deliver on customer service metrics at a cheaper cost
- No association with our brand, this our supplier can switch to our competitors or start its own operation

Core Case Question 4

4 / Another Scenario

Let's think of another scenario. Now we have to investigate sources for profit growth for this company with one restriction, we can neither add new truck leases nor change the existing ones. (Push for out of the box solutions – no formal wrap up here)

Notes to Interviewer

Revenue

- Extend hours: the trucks are already paid for the day, if we extend the delivery time after 7pm we can deliver more of UPS or from other companies, even local companies.
- Different packages: we may recommend to UPS to sell different (more robust) packages to some clients and get part of it.
- Pick packages: every time we leave a package we make space to pick a package and deliver it to another part of the village or to give it back to UPS to send it to another place
- Get contract with a new operator: see whether we can deliver stuff to other company who is in the delivery business but does not compete directly with UPS. Thought we can not add new trucks we can think about utilization of current trucks
- Advertisement: are the trucks painted with UPS logos? We can sell advertisement to them or to other companies. Those trucks are all day in the street.
- Insurance: offer insurance of packages to clients.

Costs

- Evaluate the route of each truck to reduce time or usage of fuel
- Improve technology usage in the sorting and loading packages; may reduce number of people at the factory
- Re-negotiate leasing terms for trucks
- Move warehouse to a cheaper place

12 / Brazil Mining

Our client is a US industrial conglomerate, with major investments in South America, India, and China. One of these investments is a mining operation in Brazil. At this mining operation, our client produces only one metal, which is considered to be an international commodity product. This metal has hundreds of applications. In Brazil there are only two other producers.

The CEO has hired us to help identify new opportunities for this business as well as understand the market dynamics. He wants to know whether he should divest the mining business or invest in an additional facility. This afternoon, the team is going to meet with the CEO to discuss our initial hypothesis.

Overview for Interviewer	Notes
Industry: Mining **Case Format:** Strategy/Valuation **Concepts Tested:** • Revenue and profit drivers • Pricing • Competitive Dynamics	• **This is a BCG style case. The interviewer should drive the case and converse with the interviewee.** • **Start by showing exhibit 1** • We have been provided the following information:

Local Players	Plant capacity (tons)	Cost/ton	Sales	
			Local	Export
Client (A)	600,000	$450	600,000	-
Competitor B	4,500,000	$420	2,800,000	1,200,000
Competitor C	3,200,000	$420	2,000,000	700,000

Interviewer Guidance

Information to Share (not just if asked)	Example dialogue
• The interviewee should provide a structure/framework that would look at the big picture then start hypothesizing. The framework should include: ○ Discuss market dynamics (local and international supply and demand) ○ Discuss the expected competitive response to any action (price war) ○ Summarize all findings in a presentation format	**This is an example. Key points have been bolded, which the interviewee should touch on.** Interviewee: (summarize the case and work on a framework) In this case it is important to look at the **competition** (specifically, understand the different cost structure of the three producers), estimate the **market demand** and discuss the **international trade environment**. We should all discuss the specifics of **the metal commercialization industry**. *Interviewer: Where would you like to start?*
• An efficient plant should have 1,000,000 ton capacity (but not all plants are operating efficiently). From this information the interviewee should be able to assume that competitors are operating more than one plant each. • The market grows with GDP • There is a strong demand for the product internationally • The competitors are probably located away from the coast, adding transportation costs	Interviewee: Clearly, the client is running on **full capacity,** but the **competitors** seem to have idle capacity. From the data provided, it looks like **the competitors' cost structure allow them to sell in the international market** while our **client does not currently export any of its products**. Our client would experience **zero margin** if it did export as the international price is $450 which is equal to our cost of production. The **local price is considerably higher than the international price**, so the producers would rather sell as much as possible in the local market. I hypothesize that there is not enough demand in the local market. **Main takeaways:** ○ Competitors would prefer to sell in the local market ($600/ton) instead of export ○ Competitors are running with idle capacity but we know demand exceeds

Conversation, Continued

Interviewer: What about the international market?

Interviewee: You did mention that there is a strong demand worldwide. We have to find out **why the competitors are not selling their full capacity**. We can think of many possible reasons. **Geographical distance, transaction costs, transportation costs, export taxes,** etc.

Interviewer: But competitors are able to export some metal right?

Interviewee: Competitors might have **operations abroad** so it makes it easier to export to international facilities. They also might produce part of their capacity **close to harbors**, which we don't. Considering that the **international price is much lower** than the local one, I would expect **some barriers for international trade**.

Interviewer: Brazil does have some taxes for foreign products and producers struggle with transaction costs. Let's look at cost structure. Why could there be a difference in costs?

Interviewee: I would consider geographic location, technology, economies of scale, supply chain synergies.

Conversation, Continued

Interviewer: Yes, enough to convince the CEO to invest in a new production facility. This would be a $400 million investment in year 0 for a capacity of 1,000,000 tons with a cost of $420/ton. How would you evaluate this investment if the new production would be traded in the international market? Would you recommend this investment?

Interviewee: The margin will be $30 per ton ($450-$420) * 1,000,000 which would be $30 Million per year. Using a 10% discount rate **(they should at least mention this and whether they will be discounting or not)** this will generate $300 million total. The $400 million investment would not be worth it.

Interviewer: So would you advise against it?

Interviewee: I would advise against it unless he is willing to engage in a price war in the local market.

Interviewer: *What would be the minimum price he could go to turn this investment profitable?*

Interviewee: We should be cautious because a lower price would **impact current** profitability. To break even the increase in annual international margin would have to equal 10 million ($100 million * 10% discount rate) plus the loss in local annual margin. Setting this up we have (($600-x) * 600,000) + $10,000,000 = ((x-$420) * 1,000,000). Solving for x we get ~$493.

Conversation, Continued

Interviewee: That's correct, but the competitor has a lot more to lose with a price reduction. In our client's case we found out that it would lose money as the margin of current production drops. However, the client only sells 600,000 tons right now while the competitors sell 4,800,000 combined. They would probably reduce their production to avoid a higher price reduction.

Interviewer: Really? So you are recommending our client to invest $800 million in a 2,000,000 tons capacity plant?

Interviewee: I haven't done the math but I guess this would be too risky. I would recommend our client to invest $400 million and see how the market reacts.

Interviewer: That is a fair recommendation. After all they will be playing a game with no real expected result.

The interviewee should now summarize the findings from this discussion for the client, highlighting the approach and key recommendations.

Exhibit 1

Local Players	Plant capacity (tons)	Cost/ton	Sales	
			Local	Export
Client (A)	600,000	$450	600,000	-
Competitor B	4,500,000	$420	2,800,000	1,200,000
Competitor C	3,200,000	$420	2,000,000	700,000

Potential Structure

Operations

- Suppliers
  - Equipment
- Transportation
  - Within country
  - Across country
  - International
- Partnerships
  - Local and International
  - Sales

Competition

- Price comparison
- Reputation
- Location differences
- Cost comparisons
- Market share

17 / Diabetes Testing Meter

- Our client is a laboratory that provides diabetes testing services to hospitals in the UK. They have developed a self-diagnosis meter that patients can use to do testing on their own. They have hired us to determine if we should take this product to market.

Overview for Interviewer	Notes

Industry: Pharma
 	
Case Format: Market Entry
Concepts Tested:
• Market Entry
• Market Sizing
• Break-Even / Profitability
	• **This case is interviewer guided/lead.**
	• This is a market entry case where the candidate is required to evaluate the feasibility of a new product in in the pharmaceutical/healthcare space.
	• The candidate should use a comprehensive framework, walk the interviewer through it, and be prepared for analytical detours throughout the flow of the case.
	• Major Buckets Include:
	  • Customer Demand
	  • Competition
	  • Costs & Revenues
	• Candidates should answer following questions during the case:
	  • Is there enough long term demand for this product given current competition?
	  • What options does the company have, in terms of taking this product to market?
	• Note: UK Population is ~60M

Interviewer Guidance

Clarifying Answers to Provide if Asked	Interviewer Guide to Case and Handouts
Demand Estimation • UK Population = ~60M • 30% of people have diabetes • 5% > 65 have diabetes • 20% population is > 65 • No growth in % or population **Competition** • 4 competitors • Market share 25%, 25%, 15%, 15% • Client has 20% share • Growth was 20% until two years ago • Growth since is flat **Revenue & Costs** • Fixed cost is $25M • Marginal Cost is $20 • Per Unit Revenue is $25 **Additional Points** • Patients could op to use both methods • Product could be promoted as a prevention device (low cost option for testing diabetes)	**Case Structure** The first question will focus on long-term demand given current competition. Candidate should first focus on break-even and profitability, and then understand the size of the total market. The remainder of the case should follow a "call and response" in which the interviewer is asking direct questions, and is looking for thorough and structured thought from candidates in each answer. **Answers** Candidates should identify the breakeven point, then recognize that even at 100% capture the firm won't be profitable. Candidate should work to use industry-specific language, and identify that there are potential cannibalization issues for the company.

Core Case Question 1

1 / Break Even & Market Potential

Is there enough long term demand for this product given the current landscape?

Notes to Interviewer

Candidate should conduct a break-even analysis here:

- Per Unit Profit = $25 - $20 (MC) = $5
- Fixed Cost = $25M / $5 = 5,000,000 units to break even

How Big is the Total Market?

- 80% pop. < 65 = 48M @ 30% Prevalence = 14.4M
- 20% pop > 65 = 12M @ 5% Prevalence = 0.6M
- Total Diabetic Population = 15M
- Client's Market Share = 20% * 15M = 3M

Assuming they capture 100% of their market share, they still won't be able to make a break even point. Given no population growth, there is not enough long term demand for a profitable or break-even product.

Exceptional Candidates Will Mention…

- This number doesn't account for canibalization, or taking market share from existing competitors. This product, if it brings positive PR and attention, could act as a loss-leader to get customers to purchase other medications from the brand. Because this is zero-sum, every customer you gain is lost from a competitor.

- Note that there could be opportunities outside of the UK, such as the USA and Mexico which are the two countries, globally, with the highest rate of diabetes.

Core Case Question 2 & 3

2 + 3 / Break Even & Market Potential	
What options does the company have in terms of taking this product to market?	Are there any cannibalization effects with regards to hospitals in terms of introducing the product?

Notes to Interviewer	Exceptional Candidates Will Mention…
This is a high-level discussion and should touch on delivery channels for the medical industry. Candidate should do best to use industry specific vocabulary, rather than speak in generic distribution methods. • Concepts should include: Through National Insurance (U.K. has nationalized insurance) Partnership (i.e. sign w/ national insurance as , partnerships w/ hospitals; door-to-door sales; doctor's offices	Giving patients capability to test glucose levels in home may remove revenue models for hospitals (no longer have patients visiting to have service performed) so revenue would decrease for hospitals from this business line and they would likely decrease orders and eat into our client's revenue from its hospital business.

Core Case Question 4 & 5

4 / Other Options

If the product can't be launched within the UK, what else can the lab do with the product?

Notes to Interviewer

Consider launching the product in other markets like the US or Mexico where diabetes prevalence is high and our client may not have hospital testing business, thereby reducing cannibalization efforts.

5 / Summary

Can you please summarize and give us your final recommendation?

Notes to Interviewer

- Due to the limited number of customers available and low future growth prospects, the product should not be launched in the UK market at this time.
- The company should look at markets outside the US, or sell it to hospitals or competitors
- Keys to a good finish: Find a way to deliver difficult news while remaining optimistic for future prospects and growth.

Potential Structure

Market

- Number of Patients
- Competitors
- Trends
- Benchmarking similar products

Customers

- Hospitals and doctors
- National Health Insurance
- Patients
- Willingness to pay
- Alternatives

Company

- Product Mix
- Cannibalization Risks
- Launch Considerations
- Break-even analysis
- Fiscal / Time Restrictions

Potential Structure

Industry

- Sales volume trends?
- % of demand for OEM
- % demand for aftermarket
- Is one better than others?

Competitors

- Who?
- Relative market share
- what are their prices?
- cost structure?
- technology?
- comp advantage?

Profit Tree

- Revenue
  - how are clients prices?
  - have competitors prices dropped also?
- Costs
  - Trends?
  - Labor costs?
  - SG&A
  - Materials


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