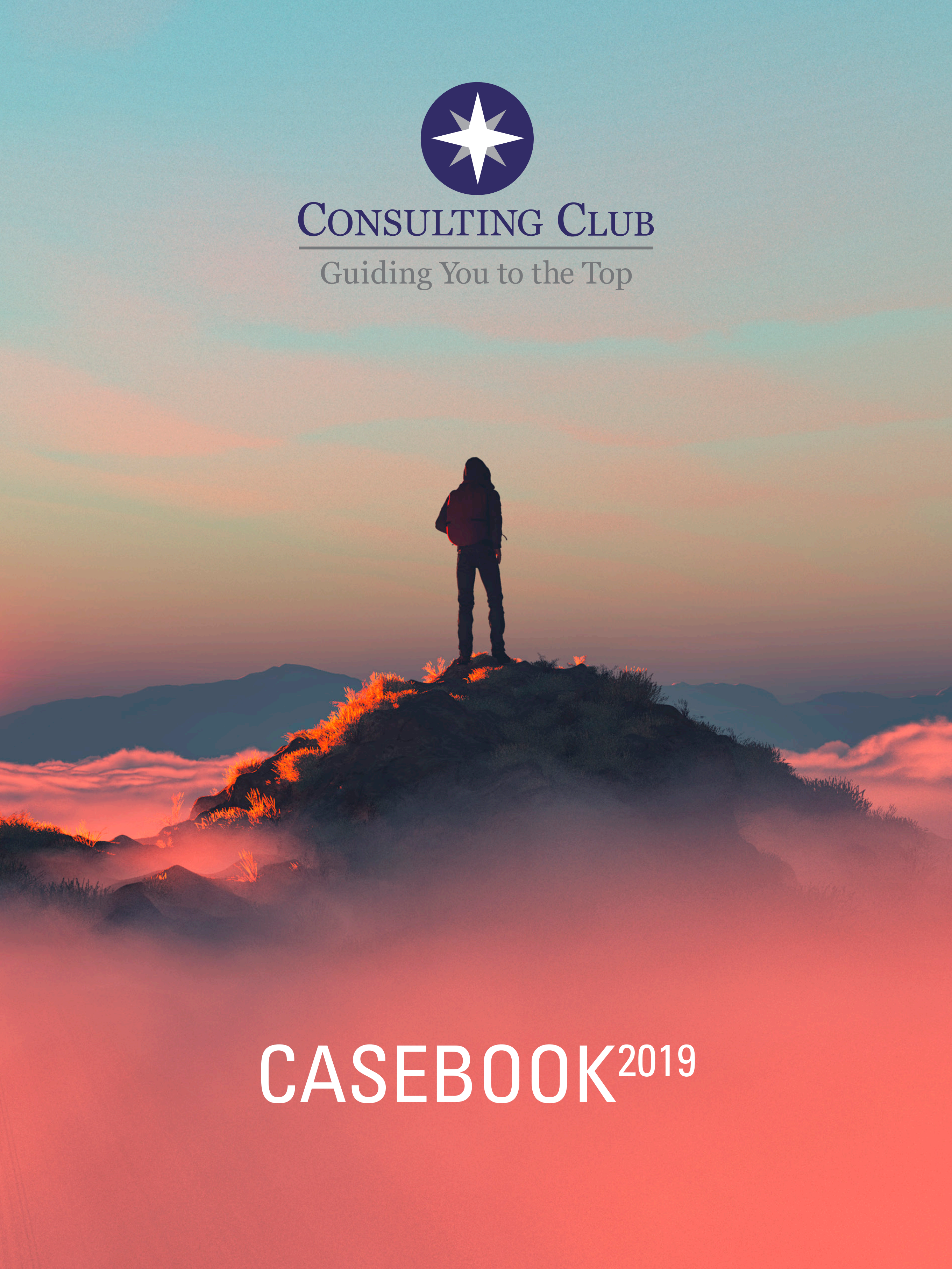
CONSULTING CLUB
Guiding You to the Top
CASEBOOK 2019

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PART I

INTRODUCTION

1. STRATEGIC CONCEPTS

2. FINANCIAL CONCEPTS

The first part covers the most essential theoretical concepts and frameworks used in many daily business functions. On the one hand, these concepts provide the foundation for the understanding of the effective strategic and financial levers within a firm. On the other hand, many frameworks will aid you when required to structure a complex problem.

Naturally, our compilation of concepts is not exhaustive. We therefore recommend you consider additional materials and resources for your training and research.

Keep in mind, strategy development is about being innovative and resourceful. Having a large pool of theoretical and practical resources will give you a leading edge against your competitors.

PART I

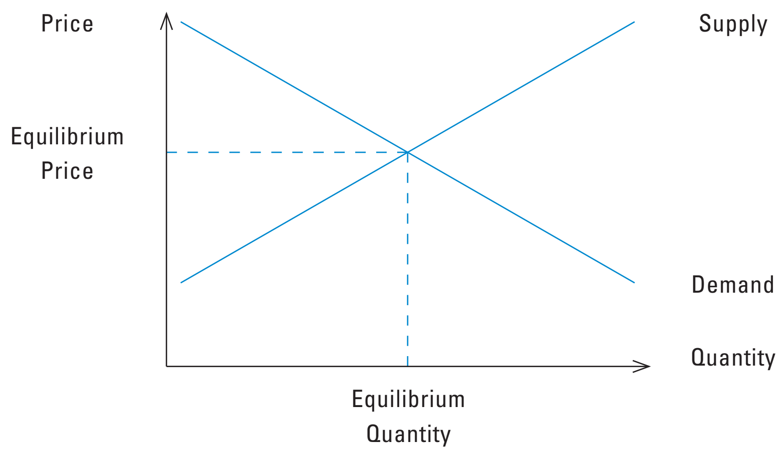
I.1
STRATEGIC CONCEPTS

I.1. STRATEGIC CONCEPTS

1.1 SUPPLY AND DEMAND FRAMEWORK

The supply and demand framework is probably the most basic framework in economics. It can be used as a starting point for many business case analyses, such as pricing analysis, supply shifts, demand shifts et cetera. In the following the standard linear supply and demand framework is depicted.

FIGURE 1: Supply and demand framework (own graph)



It shows, that if prices increase, more suppliers are willing to produce a certain good while fewer consumers are demanding a certain good, and vice versa.
At the point where demand and supply intersect, we will find the theoretical price and quantity equilibrium, also known as market price and quantity.

1.2 STEP ANALYSIS

The STEP framework is a strategic tool to evaluate a firm's macro environmental factors. STEP stands for Social, Technological, Economic, and Political. As a top-down approach, it can prove to be useful as a structured starting point in many case interviews. Each of the four elements can be further broken down for a more in-depth analysis of each factor (Huff, Floyd, Sherman & Terjesen, 2009).

Social

Social factors include population growth rate, age distribution, religion, ethnicity et cetera.
In case interviews, one might want to conclude that an aging population requires certain adjustments to a firms product line, or that an aging population implies an increase in healthcare cost.

Technological

Technological factors include things such as R&D activities, production standards, and innovation ability.
Technological factors might also be relevant in a market entry case, where those factors can also be seen as entry barriers. Moreover, technological factors might effect the outsourcing decision of a firm.

Economic

Economic factors include interest rates, growth rates, and exchange rates. Those factors might strongly influence a firm's cost of capital, but also its outsourcing and expansion plans.

Political

Political factors include things such as tax rates, government interference, labor laws, but also infrastructure and education issues. Again those factors might be relevant in a market entry and/or expansion decision case.

1.3 SWOT ANALYSIS

By combining the internal (strengths and weaknesses) and the external view (opportunities and threats) of a company the SWOT model represents an integrative analysis tool. Opportunities and threats are always factors which are dictated by the environment. Strengths and weaknesses, on the other hand, depend on internal determinants. Following we will give you some examples for opportunities and threats as well as for strengths and weaknesses.

Opportunities: Growing markets in Asia offering new potentials to the company.
Threats: Increasing political pressure (consider your company being active in the field of upstream oil exploration. An increasing environmental awareness within a society will lead to higher political pressure on your

company to act in an environmental friendly manner).
Strengths: Unique processes which provide the company with a cost advantage over its competitors.
Weaknesses: Low innovativeness and empty product pipelines.
The model differentiates between four types of strategies:

FIGURE 2:
SWOT analysis

	Opportunities	Threats
Strengths	SO-Strategies	ST-Strategies
Weaknesses	WO-Strategies	WT-Strategies

- SO strategies use the existing strengths within a company to take advantage of the chances existing in its environment.
- ST strategies use existing strengths to neutralize or at least mediate threats (an example would be to use a good network to reduce political pressure).
- WO strategies try to take advantage of an opportunity in order to eliminate an existing weakness.
- WT strategies are targeted to the reduction of internal weaknesses to mediate threats in the environment.

WT strategies represent a very unfavorable constellation for a company. Therefore management should pay close attention to these type of strategies and give them a high priority on the management agenda (Müller-Stewens & Lechner, 2005).

It is important to consider the macro environment of a company as a source of both competitive advantage (opportunities) and threats.
The following figure indicates the relationship between the SWOT analysis and the STEP analysis. You should always keep in mind that firm specific strengths can only be defined within a specific environment.

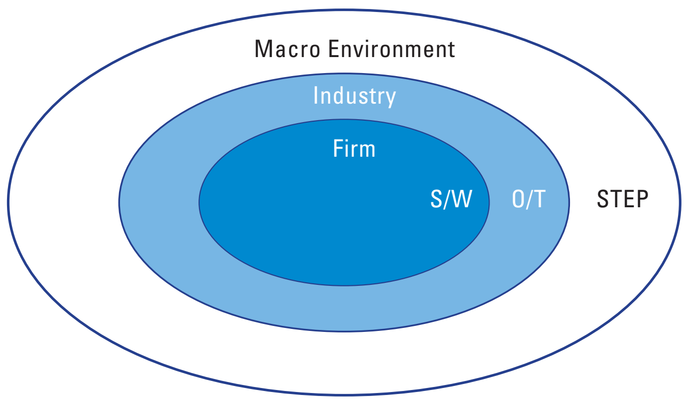


FIGURE 3:
Relating STEP and SWOT analysis (Huff et al., 2009)

1.4 MARKETING MIX, 4Ps

Probably the most famous marketing framework involves the 4Ps of marketing. "Price", "product", "place" and "promotion" are the four main drivers when confronted with a market positioning case. Each of the 4Ps can be actively controlled by the marketing manager and therefore are essential marketing levers.

TABLE 1:
Marketing mix

Price	Product
▪ Retail price	▪ Name
▪ Price flexibility	▪ Styling
▪ Price discrimination	▪ Functions
▪ Seasonal pricing	▪ Quality
▪ Discounts	▪ Packaging

Place	Promotion
▪ Distribution channels	▪ Advertising
▪ Distribution centers	▪ Sales promotions
▪ Transportation	▪ Marketing budget
▪ Market coverage	▪ Public relations
▪ Order processing	

1.5 4Cs-ANALYSIS

The 4Cs stand for “customer”, “competition”, “cost” and “capabilities”. In case interviews, the 4Cs-Analysis is a useful framework for any product introduction case and its market analysis.
Each C should be considered in the context of several questions, which provide a more in-depth analysis of the problem.

Customer
- Based on which criteria does a customer purchase our product?
- How is the market segmented?

Competition
- Who is our competition?
- What is our market share?
- What is our strategy towards our competition and vice versa?

Cost
- How are our costs composed (proportion fixed to variable cost)?
- What does our learning curve look like?
- What are our opportunities to realize any economies of scale?

Capabilities
- What is our core competence?
- What resources are available?
- What does the organizational structure look like?

1.6 STAKEHOLDER ANALYSIS

Stakeholders can be defined as groups that are affected and influenced by the objectives of certain organizations (Freeman, 1994).

Usually one distinguishes between internal and external stakeholders, or primary and secondary stakeholders. Primary stakeholders are absolutely necessary for a firm to maintain the status quo. Secondary stakeholders are defined as groups that are not crucial for the existence of a firm in the current form but have a potential to impact business in the future.

Being knowledgeable about their stakeholders is essential for firms because without knowing the specific interests and needs of each stakeholder, an effective coordination and classification of their objectives would not be possible.

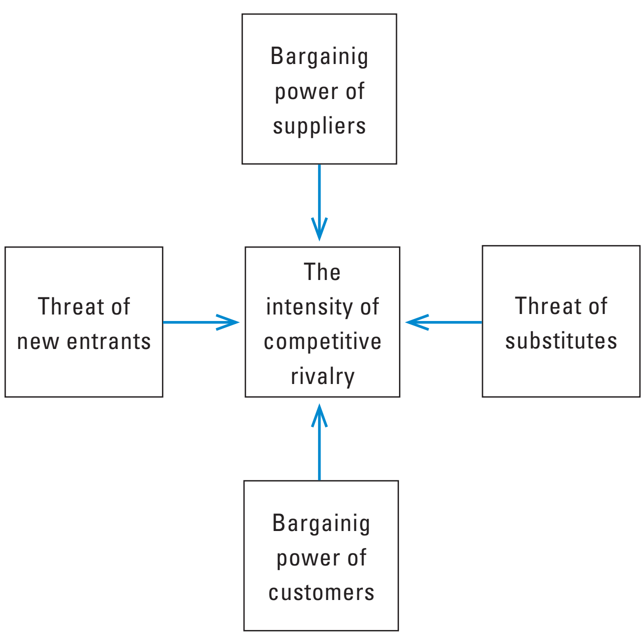
The following graphic includes all general stakeholders of a firm.

TABLE 2:
A firm's stakeholders

Internal Stakeholders	External Stakeholders
▪ Management	▪ Customers
▪ Employees	▪ Suppliers
▪ Shareholders	▪ Community
	▪ Government
	▪ Public
	▪ Creditors
	▪ Unions

1.7 PORTERS FIVE FORCES (INDUSTRY ANALYSIS)

FIGURE 4:
Porter's Five Forces



Porter's Five Forces is a frequently used tool to assess the attractiveness of an industry. According to Huff et al. (2009), all actors who participate in an industry compete for the profits which are available from providing customers with goods and services (these profits are the so called industry profits). For a company a setting of different actors is especially attractive when these forces have relatively little power to capture the available industry profits. Where one of the actors (or forces) is powerful, it will be the role of the strategy to mitigate or reduce that power (Huff et al., 2009). However, one should be conscious not to fall prey to the assumption that a certain industry is per se attractive or unattractive, respectively. The following part will shortly present these five forces and indicate factors which have an impact on the extent of each force.

Bargaining power of suppliers

The supplier power refers to the ability of the suppliers to dictate prices. In other words, it represents the negotiation power of the suppliers. Examples for factors which influence this force:

- Number of suppliers (concentration ratio)
- Degree of specialization
- Size of the buyer relative to the other buyers
- Switching costs for the buyer
- Ability to vertically integrate forward
- …

Bargaining power of customers (buyers)

This force represents the ability of buyers to set the company under pressure, which is often reflected in the ability to influence the selling price of a good. Examples for factors which influence bargaining power:

- Buyer's size (perhaps the buyers are organized and bundle their demand)
- Number of buyers (buyer concentration will increase bargaining power because the supplier heavily depends on you)
- Low switching costs (low switching cost will increase power)
- Ability to vertically integrate backward
- …

Threat of substitutes

Substitutes are different goods which are able to satisfy a given set of customer needs. The impact of such goods on profitability is especially high when they offer a solution to the same set of needs at a significantly lower price. Firms that offer substitutes come from outside the competitive environment that is being analyzed and are therefore especially difficult to identify (Huff et al., 2009). Examples for factors which influence this force:

- Buyer's willingness to switch

- Ease of substitution
- Relative price performance
- …

The threat of new entrants

Industries that promise a high return will lure new entrants. These entrants will most likely reduce the profits for incumbent companies in the market, especially when the market is not growing at high rates. Examples for factors which influence the threat of new entrants:

- Barriers to entry (such as patents, technological requirements or political restrictions)
- Capital requirements
- Economies of scale
- Access to resources
- …

The intensity of competitive rivalry

The intensity of rivalry depends mainly on the above mentioned forces. Therefore it is situated in the center of the figure. Besides these four forces the intensity of rivalry is among others also influenced by the following factors:

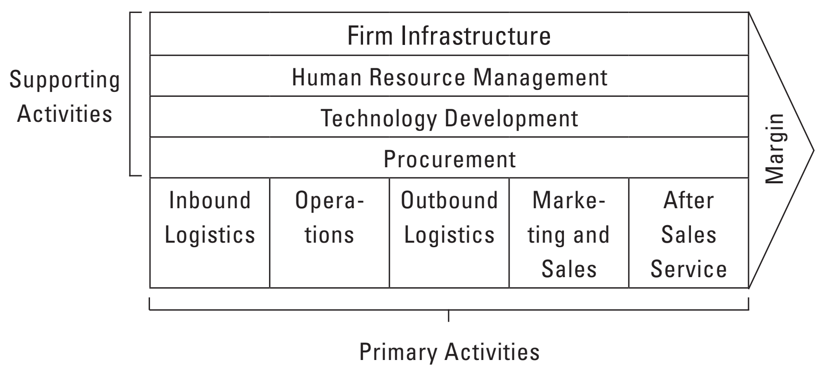
- Market growth (in a stagnating market competitors will steal market shares from each other, which leads to fierce competition)
- Potential for product differentiation
- Barriers to exit
- …

1.8 VALUE CHAIN

Looking at a business as a whole often makes it difficult to spot potential for competitive advantage. Porter's Value Chain concept therefore suggests splitting the business up in its strategic important parts. In a second step these parts are then analyzed based on their value adding potential. The business will realize a positive margin when it manages to achieve a price higher than the costs. When either the price decreases or the costs increase the margin becomes lower (Müller-Stewens & Lechner, 2005). A systematic value chain analysis makes it possible to identify potential competitive advantages and disadvantages. In addition, it will help to identify areas where the business is comparably cheaper or has a higher quality in providing a certain activity within the value chain, than its competitors

(Müller-Stewens & Lechner, 2005). When a company identifies areas where it has a competitive disadvantage it can either try to improve in this area or outsource this activity. In turn, when a company identifies an area in which it is able to realize a competitive advantage it may be possible to leverage this activity in other businesses and to capitalize on this advantage.

FIGURE 5: Value Chain (according to Porter, 1995)

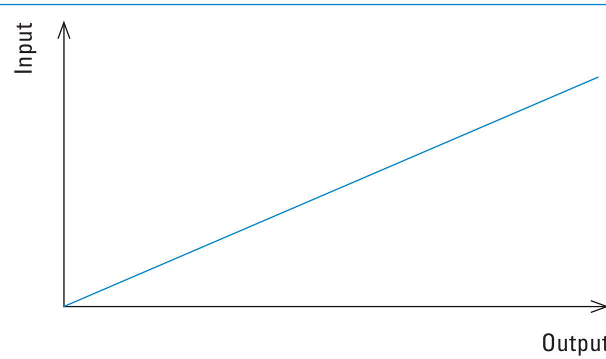


1.9 LEARNING CURVE AND ECONOMIES OF SCALE

Economies of scale refer to the cost advantages a firm can realize per unit due to an increase in output. Usually one differentiates between three types of economies of scale (Cabral, 2000).

- **Constant economies of scale**
  When costs increase linear to produced output. Thus, constant economies of scale exist if increasing outputs by some proportion requires increasing input by the same proportion.

FIGURE 6: Constant economics of scale



- **Positive economics of scale**
  When costs increase proportionally less than the output does, when production is increased. In other words, positive economies of scale exist if an additional unit of output can be produced for less than the average of all previous units.

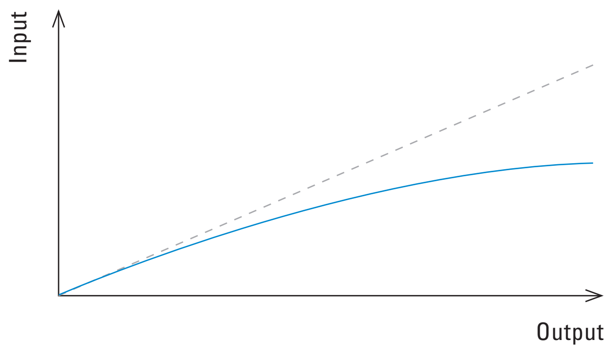


FIGURE 7: Positive economics of scale

- **Negative economics of scale**
  When costs increase proportionally more than output does. Thus, negative economies of scale exist if an additional unit of output can only be produced at costs higher than the average of all previous units. Hence, it is not, from a cost perspective, advisable to increase output.

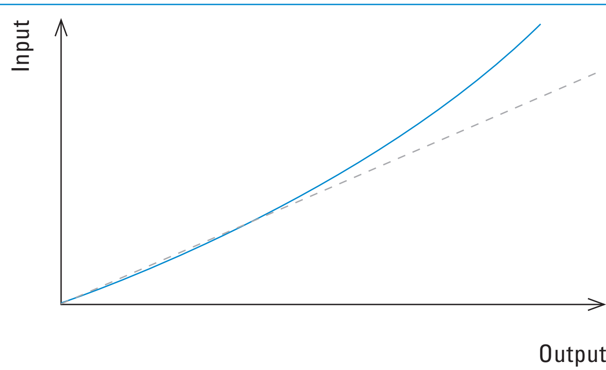


FIGURE 8: Negative economics of scale

In case-interviews regarding mergers & acquisitions (M&A) it is often useful to remember the concept of economies of scale because scale advantages are usually one of the major reasons an M&A deal is implemented.

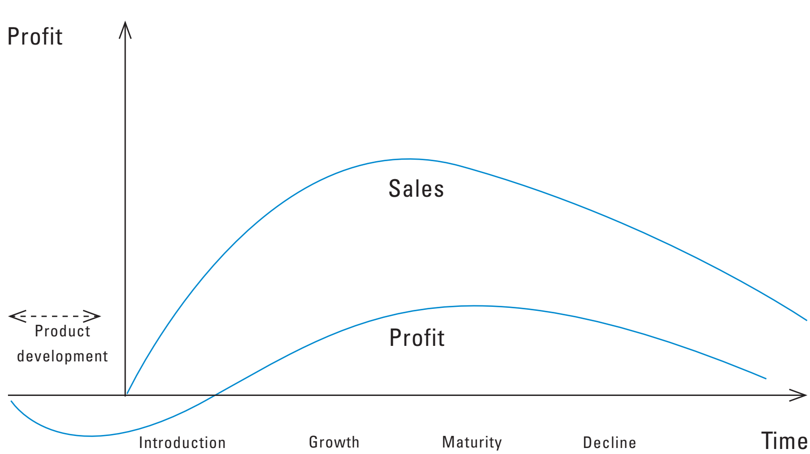
The concept of learning curves describes the positive effects a firm/employee gains from doing a certain task several times. In the beginning more errors are made and hence production is less efficient as compared to a later point in time (Cabral, 2000).

This concept might be useful to explain why a firm increased its efficiency without changing anything in the production process. For instance, in production facilities with assembly lines, one often recognizes an efficiency increase within the first months after a certain product is introduced because the assembly line employee gets more familiar with the production process and therefore the assembly line speed can be increased, resulting in more output per time period.

1.10 PRODUCT LIFECYCLE

Products, as well as markets, follow a certain lifecycle. Although it is important to recognize this fact, it is often very difficult for a firm to identify the exact position of a product in this lifecycle. The following figure indicates a generic lifecycle with its typical phases (introduction, growth, maturity, and decline). Each of these phases has different characteristics which demand specific behavior of the company. For example it is important to use high earnings from a product which is in a phase of growing sales, to develop new products (or launch new products).

FIGURE 9: Product lifecycle (according to Müller-Stewens & Lechner, 2005)



One should be aware that a product does not necessarily go through these phases in a sequenced way. Furthermore, it is not possible to predict the duration of a phase in advance. Sometimes it might be possible to prolong a certain phase by marketing measures.

During development the company has to invest heavily into the product, therefore profits will be negative for this period. By launching the product this phase will end. The following table will give you a short overview on some characteristics of the different phases. Please keep in mind that this represents only a simplified reality. Furthermore, it is not always possible to adapt the given generic strategies to the real situation. It will, for example, also depend on your chosen product and overall strategy.

	Introduction	Growth	Maturity	Decline
Competition	None of importance	Some emulators	Many rivals competing for the same piece of the pie	Few in numbers with a rapid shake out of weak members (oligopolistic market)
Price	Either high to recover some of the excessive costs of launching or low in order to gain high market penetration	High prices to take advantage of increasing demand	High pressure on prices due to high competition	Prices will further decrease due to declining demand
Profits	Negligible due to high production and marketing costs	Reaches peak due to high demand, high prices and decreasing costs (economies of scale and learning effects)	Increasing competition cuts into profit margins and into total profits	Decline in volumes pushes the costs up, which cuts profits until they are completely eliminated

TABLE 3: Characteristics of lifecycle phases (according to Dhalla & Yuspeh, 1976)

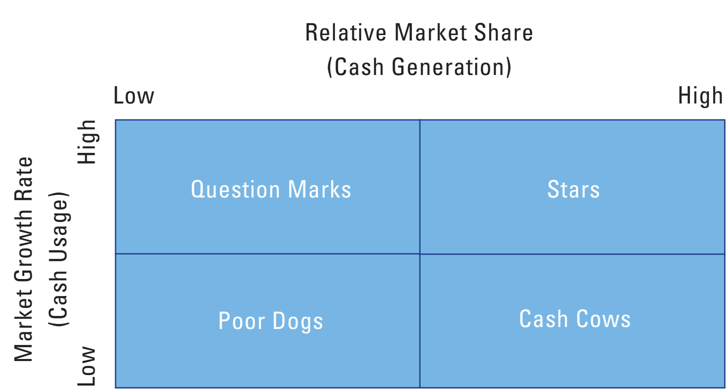
Overall Strategy	Market establishment; persuade early adopters to try the product	Market penetration; persuade mass market to prefer the brand (product)	Defense of brand (product) position	Preparation for removal

The idea behind the concept is that the companies should actively manage their lifecycles and aim at having already new products in place when others begin to decline in sales. This also indicates the importance of a well managed product pipeline. In how far a company is capable of launching new products depends on its innovative power.

1.11 PORTFOLIO ANALYSIS (BCG MATRIX)

The framework most commonly used to analyze the product or business portfolio of a company is a two by two matrix developed by The Boston Consulting Group, that is based both on the product lifecycle and the economies of scale / learning curve concept. According to the two axes (relative market share and market growth rate) of the matrix the businesses will be grouped into four categories (for each of these categories the framework offers generic strategies).

FIGURE 10:
BCG – Matrix



Poor Dogs: Companies have little market share and the market is not expected to grow in the future. Poor dogs tie up money which could be better used in other businesses (or products). Therefore it makes sense to divest these businesses (often seen as pure cash burners).

Cash Cows: High market share and low growth rate. Companies should try to at least hold their respective share in this market and to absorb profits as long as possible. Cash cows provide the cash which is needed to turn question marks into potential future stars.

Question Marks: Have a high market growth rate but the company still has to build its market share (position). Therefore investments are needed and the company has to selectively decide in which question marks to invest. By doing so the company hopes to create a future star.

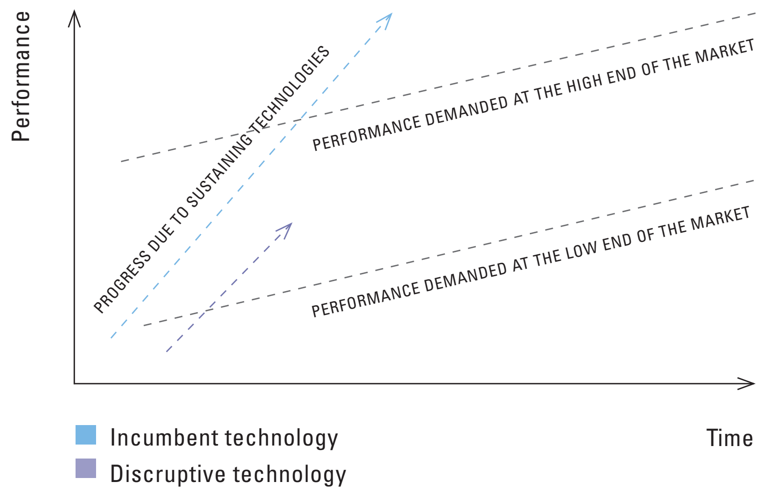
Stars: High market share and high market growth rates. These businesses normally produce the same amount of cash as they consume (in order to grow further).

The goal of this analysis is to get an overview of your corporate portfolio. Ideally a company disposes of a well balanced portfolio. Balanced meaning that a company should have enough cash cows delivering cash to invest into question marks, in order to finance their development to become a future star. The BCG Matrix is partially based on the concept of product and business lifecycles, respectively.

1.12 INNOVATOR'S DILEMMA

Dominant competitors in the market are often targeting the most sophisticated customers. With ongoing innovations these market players add more and more features to their products and charge increasing prices. The majority of customers will never use these additional features and are therefore not willing to pay for them. This phenomenon is depicted in the graph below as overshooting the market. Thus, established market players will create an ideal environment for the entrance of new market players, which enter the market with disruptive technologies. In the beginning, these technologies seem to be inferior to the existing solutions. Therefore the incumbent market players discredit these new technologies and do not perceive them as a real threat. Trapped in their mindset (of ongoing innovation and of producing even more sophisticated solutions), established players will then be forced out of the market when the disruptive technologies pass the performance demand at the low end of the market and therefore, fit with the features expected by the consumers at a lower price.

FIGURE 11: Innovator's dilemma (Christensen, 1997)



1.13 DIFFERENT KINDS OF INNOVATION

We can differentiate between three basic groups of innovation. "Product-", "process-" and "business model-innovation" represent these basic categories.

Product innovation: This category of innovation is probably the most common and easiest to spot. Take for example Samsung, a company that produces not only cell phones but also televisions, computers, and many other products. In 2010 Samsung registered 4,551 patents and thereby ranked second just behind IBM[1].

Process innovation: Take for example just in time or lean manufacturing. Both represent ways to manufacture differently and to increase efficiency within a company.

Business model innovation: An often cited example for business model innovation is Dell. Dell started to sell computers which were assembled

1 http://www.theregister.co.uk/2011/02/09/samsung_ibm_patent_deal/

only after payment was received from the customer. Before, computer manufacturers produced a certain supply, which, subject to quickly changing technology, quickly became outdated and therefore had to be sold on discount (that naturally was not in the interest of the producers). To understand what business model innovation implies one has first to understand what a business model is. According to Lindgardt, Reeves, Stalk, & Deimler (2009) a business model consists of two elements - the value proposition and the operating model. Each of them consists of three sub elements.

The value proposition answers the basic question: What are we offering to whom? To answer this question, choices for the following three sub categories are needed:

Target segments: Which customers and which needs of these customers do we seek to serve?

Product/service offering: What are we offering to these customers in order to satisfy their unsatisfied needs?

Revenue model: How is our product or service offering compensated by our customers?

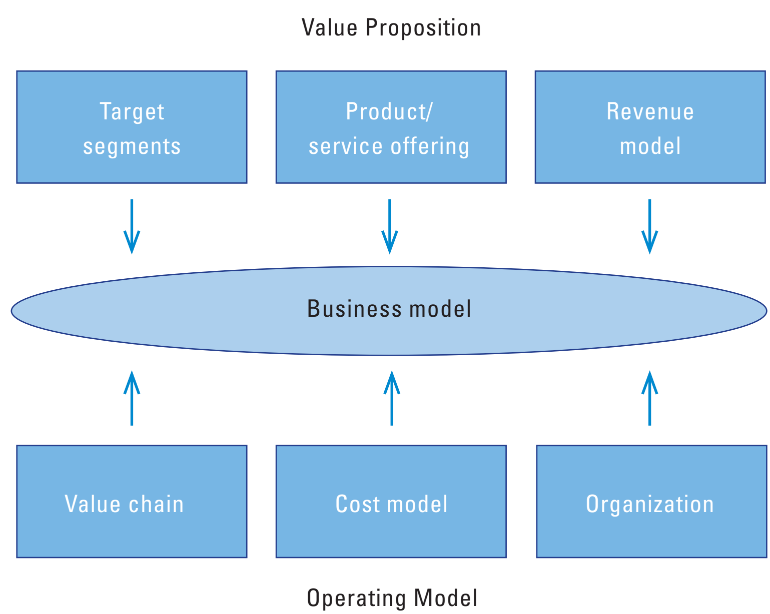
The operating model instead answers the question on how the company will profitably deliver the offering to the customer. Again, it encompasses decisions on three areas:

Value Chain: How is the company configured to deliver its offering? What is done in house and what is bought from a supplier (make or buy)?

Cost Model: How are assets and costs configured in order to deliver the offerings profitably?

Organization: How are the people of the company deployed and developed to sustain the competitive advantage?

FIGURE 12:
Six business model components (Lindgardt et al., 2009)



Often it is not clear, to which of these three categories an innovation belongs to. With its Nespresso system, Nestlé serves as a sample case for both product and business model innovation. The product innovation in this case represents the low maintenance of the coffee machines as well as the single dose coffee system. The club concept as well as the premium strategy and the retailer network can be seen as business model innovations.

Most of the innovations still occur in the category of product innovation. What is remarkable though is that the innovations with the highest potential to add value are not product, but rather business model innovations. Business model innovators were able to earn a premium that was four times higher than that earned by process or product innovators (Lindgardt et al., 2009).

1.14 PRODUCT / MARKET MATRIX (ANSOFF MATRIX)

The Ansoff matrix helps companies to think about their growth strategies. A company can either venture into new markets (with old or new products) or grow by launching new products (into new or old markets).

Taking these two dimensions, Ansoff's Matrix reveals four generic ways on how to grow your company.

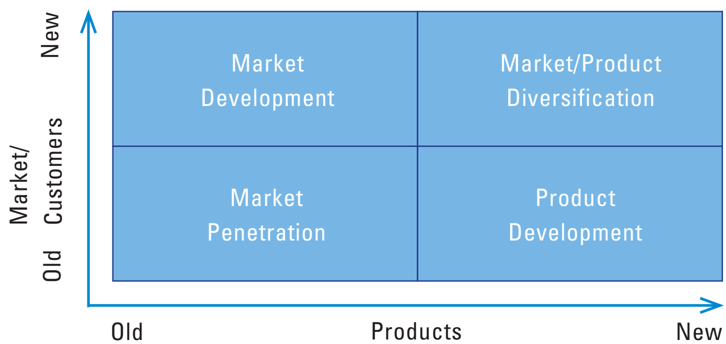


FIGURE 13 : Product / market matrix (Ansoff matrix)

Market Penetration: Increase sales of present products in existing markets. This implies that you either increase sales to current customers or that you acquire new customers. It is a very promising strategy for strongly growing markets. If you apply the market penetration strategy in matured markets (which grow at small number or even shrink) it will always impact the market share of your competitors and will most probably lead to fierce competition.

Market Development: Enter new markets with existing products. The company has three possibilities to grow this way (Müller-Stewens & Lechner, 2005):

- Adapt products to serve new customer segments
- Venture into geographically new markets
- Adapt products to other customer needs (e.g. the GPS system was initially used for military services, but today one can find it in almost every commercial car)

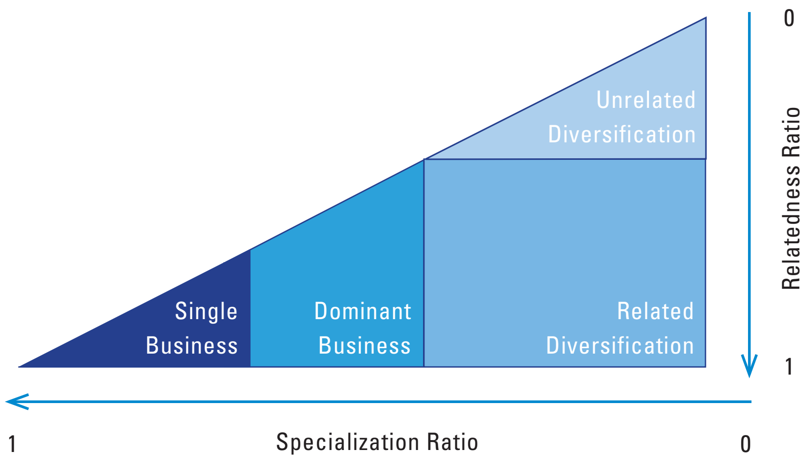
Product Development: It can be as simple as adapting or improving an existing product or as complex as a new product innovation. One should never forget that many new product innovations do not live up to their expectations and therefore will not break even (Müller-Stewens & Lechner, 2005).

Market/Product Diversification: This topic will be discussed in the following section.

1.15 DIVERSIFICATION STRATEGIES (RELATED VS. UNRELATED)

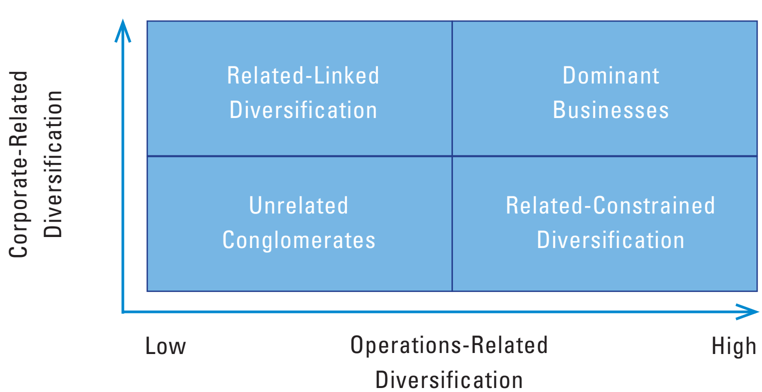
To measure the degree of diversification one can use the specialization ratio (share of total revenue generated by the largest product) and relatedness ratio (share of total revenues by businesses related to the core business).

FIGURE 14: Levels of diversification (Zimmermann, 2010)



Another useful differentiation between different forms of diversification is done by Huff et al. (2009). It shows a similar relationship as the figure above but rearranged in a four by four matrix. This matrix sometimes makes it easier to think about the different sources of relatedness (related linked as well as related constrained).

FIGURE 15 : Diversification strategies (Huff et al., 2009)



These four types of diversification which were identified based on relatedness are outlined below (for example by vertical integration) (Huff et al., 2009):

Dominant Businesses: Most or all of the revenues come from one industry.

Related-Constrained Diversifiers: Corporations that compete in a set of industries where they can leverage a common pool of competencies.

Related-Linked Diversifiers: Corporations that compete in industries that are somehow linked to one another (often along the value chain).

Unrelated Diversifiers (or Conglomerates): Corporations which have businesses in different industries, that are neither related by a common set of competencies nor along a value chain.

1.16 GENERIC STRATEGIES (DIFFERENTIATION VS. COST LEADERSHIP)

When a company defines its strategy it is important to make a two dimensional choice. Porter's generic strategies framework suggests, that a company should be clear about its strategic scope and its strategic strength. Taking these two dimensions into account a company can follow three generic strategies: Differentiation, Cost Leadership and Focus strategy. The strategic scope defines whether a company targets a whole industry or a selected segment within this industry. Strategic strength defines whether the focus lies on differentiation or overall Cost Leadership.

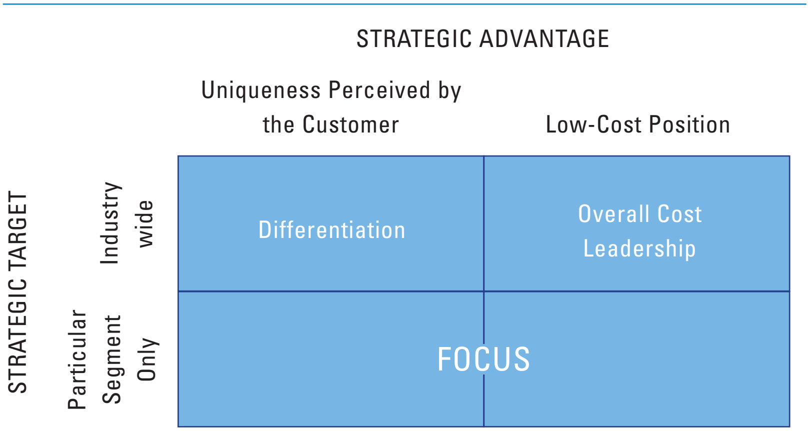


FIGURE 16: Michael Porter's generic strategies framework (Porter, 1980 cited in Huff et al., 2009)

Differentiation
The goal is to create an offer with unique features or characteristics which the customer values and is willing to pay a price premium for. Sources of differentiation include: Brand image, technology features, customer service, dealer networks (Huff et al., 2009).

The differentiation strategy is also well suited for offerings with high complexity, and therefore not easy to standardize. Take for example the consulting industry where companies offering similar services try to position themselves differently. Accenture for example concentrates on combining strategy with information technology whereas The Boston Consulting Group strongly focuses on its capability to creatively develop strategies (Müller-Stewens & Lechner, 2005).

Cost Leadership
With the cost leadership strategy, a firm attempts to achieve a cost advantage relative to its competitors. A successful cost leader is aware that he must be more productive and efficient than his competitors in order to be able to offer a product to its customer with (at least) the same benefit they get from the competitor's product but at lower cost (this sometimes requires more spending in some areas) (Huff et al., 2009). Easy Jet for example does not buy used airplanes (although the initial investment would be lower), instead it operates a fleet of new airplanes which are all of the same type. This decision leads to the fact that the company can realize a high volume when purchasing new planes, lower the maintenance costs, lower costs for pilot training, etc.

Focus
A focus strategy narrows the strategic scope. The firm concentrates its efforts to serve a unique segment of the overall market. These segments ideally represent customer groups with distinct needs which are not sufficiently served by the market. Focusing only for the sake of limitation of your market does not represent a viable strategy. The firm needs to create a unique value (either by differentiation or cost leadership) for the chosen segment.

Although Porter corroborates the importance of these choices for a company to avoid being stuck in the middle, there is also a possibility to successfully follow a hybrid form (differentiation and cost leadership). Nonetheless, literature suggests to not follow these strategies simultaneously (otherwise you would be inconsistent) but rather to take a sequenced approach. This kind of strategy is the so called outpacing strategy (see below).

Outpacing
The outpacing strategy represents a hybrid form of strategy. The company either starts with a cost leader or differentiation strategy (depending on the capabilities and the industrial environment of the company) to achieve a competitive advantage. As soon as the competitive environment changes, the company switches to the other strategy to outpace its competitors. In order to make such a switch of strategies possible it is crucial to invest early into the formation of new capabilities which are necessary to adopt the new strategy. Müller-Stewens et al. (2005) give the example of the Japanese automotive industry. During the 1980s, manufacturers such as Toyota and Honda took advantage of low wages and adopted a low cost leadership strategy. However, they started to invest in the development of highly sophisticated engines early on. Nowadays, these engines give them an interesting differentiation advantage, for which they can charge a price premium (for example Toyota Hybrid cars).

1.17 DIFFERENT MARKET ENTRY MODES

When companies try to get a foothold in new geographic areas, they have to consider at least the following questions:

- Where to enter (which markets are attractive)?
- When to enter (first mover vs. follower)?
- How to enter these markets (different market entry modes)?
- How to organize the international activities (what kind of internationalization strategy the company should choose)?

A company can basically choose among five different entry modes (these are just five stereotypes; in reality companies often use combinations of these types). To reach a decision concerning the "ideal" entry mode a company has to be aware of advantages and disadvantages of each mode. The following shall give you a short summary of some of these advantages (in terms of potential for returns and level of control) and disadvantages (in terms of level of risk and required investment) respectively.

Exporting: Companies can start their international endeavor by selling their products into neighboring countries. This entry mode allows the company to learn more about a potential market before committing additional resources. Low investment and low risk are among the advantages whereas low control and low potential return represent potential disadvantages.

Licensing and franchising: An agreement where the licensor grants the right to intangible rights to a licensee in exchange for royalties. This mode allows for fast expansion at low cost, low investment and low risk, but also yields a low return. One of the most famous licensors is Mc Donald's.

Joint Venture: A joint venture is a firm owned by two or more partners. The founding firms share ownership (can be equally as well as unequally) and contribute resources, such as knowledge, managerial resources, etc. The advantages of a joint venture are based on this shared ownership. It reduces risk (because of limited investment) and it allows taking advantage of your partner's skills. Despite these advantages companies engaging in joint ventures also face several disadvantages. Ironically the disadvantages also stem from shared ownership. It can be very challenging to integrate different business strategies, management styles, and cultures represented within the partner companies. It is also, for example, possible that your partner will act opportunistically and use his learning and his insights from shared knowledge to compete against your company (which would create a new competitor).

Wholly owned subsidiary (Greenfield or Acquisition): In the case of a wholly owned market entry mode, the parent company owns 100 percent of the subsidiary. The parent can either acquire an existing firm (Acquisition) or build a new firm from scratch (Greenfield) in the targeted country. The Greenfield approach requires a larger amount of investment in terms of money and time than acquiring existing operations. However, it also allows for a higher degree of freedom to design the operations (Huff et al., 2009).

As you can see it is very important to weigh advantages and disadvantages of each single entry mode, before deciding which one to choose.

I.2
FINANCIAL CONCEPTS

2.1 COST ACCOUNTING

In case interviews it is often required to alter the product portfolio of a company, in order to maximize the profitability of the company as a whole. Hence, you should be able to evaluate the profitability of individual products, which basically results from the selling price of a product and the costs associated with it. Let's start by defining the most important types of costs.

2.1.1 TYPES OF COSTS

While there are many different types of costs, the following two terms are the most commonly used and should therefore be well understood.

- **Variable costs:** Those costs that are directly associated with the product and hence with the production volume. Examples are material costs and energy costs. In a case interview it is often important to remember that for a short term decision only variable costs should be considered, because only they are flexible on a short term basis.
- **Fixed costs:** Such costs that occur on a regular basis, for instance, rent, administrative costs, depreciation, etc. Fixed costs are independent of the production volume and would even occur if the production volume would be zero. In the long run all fixed costs will become variable costs.

For a case interview, it is important to keep in mind that companies with a high proportion of fixed costs are more vulnerable to sales declines than other firms because they cannot reduce fixed costs as revenues decline. This means falling sales will produce major profit declines in businesses with high fixed costs.

2.1.2. PROFIT FUNCTION

Making a profit (or breaking even for nonprofit organizations) is the most general and common goal of a company. Hence, the following profit framework will be the single most important framework in most business cases. It is the starting point for many more advanced frameworks and therefore an essential concept in every interview.

	Profit	=	Revenue	–	Cost
Whereas	Revenue	=	Price	*	Quantity
And	Cost	=	Fixed Cost	+	Variable Cost
And	Variable Cost	=	Unit Cost	*	Units

This can be summarized as

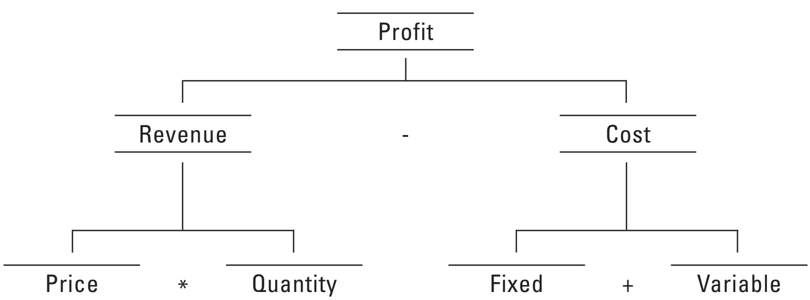


FIGURE 17:
Profit function
(own graph)

2.1.3 COST-VOLUME-PROFIT-ANALYSIS

The Cost-Volume-Profit-Analysis (CVP) examines the effects that changes in the variables selling price, units sold, variable cost or fixed cost have on total revenues, total costs and operating income. The following table shows an example of how these variables are connected (based on Horngren et al., 2009):

TABLE 4:
Contribution Income
Statement

Contribution Income Statement (Exemplary)						
		Number of Units Sold				
		0	1	5	25	40
Revenues	$ 4 per unit	0	4	20	100	160
Variable Costs	$ 2,4 per unit	0	2,4	12	60	96
Contribution margin	$ 1,6 per unit	0	1,6	8	40	64
Fixed costs	$ 40	40	40	40	40	40
Operating income		(40)	(38,4)	(32)	0	24

- **Revenues:** Revenues are calculated by multiplying the price per unit by the number of units sold.
- **Variable Costs:** Variable costs are calculated by multiplying the variable costs per unit by the number of units sold.
- **Contribution Margin:** The term "contribution margin" is new. As it is a useful measure in various cost-related calculations, we will briefly discuss it. The unit contribution margin is defined as follows:

$$\text{Unit Contribution Margin} = \text{Unit Revenue (Price)} - \text{Unit Variable Cost}$$

$$\text{Total Contribution} = \text{Unit Contribution Margin} * \text{Number of Units Sold}$$

The *Contribution Margin Ratio* is the percentage of contribution over total revenue. It is calculated by dividing the unit contribution margin by the unit price, respectively by dividing the total contribution by total revenue.

$$\text{Contribution Margin Ratio} = \frac{\text{Unit Contribution Margin}}{\text{Price}} = \frac{\text{Total Contribution Margin}}{\text{Total Revenue}}$$

In our case that is 1,6 $/4 $ = 0,4 = 40 percent.
The contribution margin is the fraction of sales that contributes to the offset of fixed costs and – if fixed costs are covered – to generate profits. Having determined the contribution margin per unit, it is very easy to find the break even point of a product (that is, the number of units sold at which costs and revenue are equal and therefore, the minimum number to be sold in order to make the product profitable).

$$\text{Break Even Point} = \frac{\text{Total Fixed Costs}}{\text{Contribution Margin per Unit}}$$

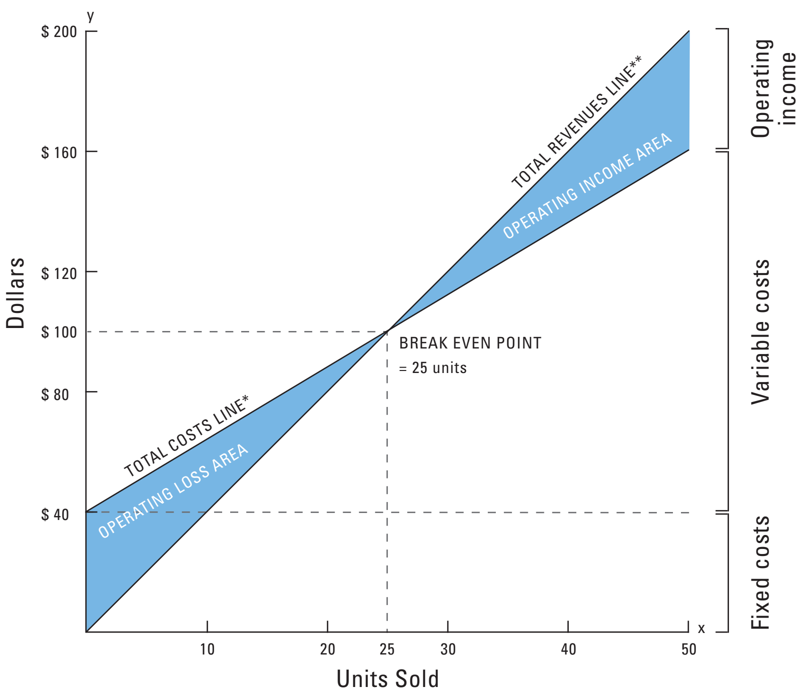
In our case that is 40 $/1,6 $ = 25 units.
Beyond the break even point, the marginal profit (the profit of a further unit sold) equals the unit contribution margin.

- **Fixed Costs:** As fixed costs are independent of the production volume, they are the same for every number of units sold (within the relevant range of production).
- **Operating Income:** Calculated by subtracting total variable costs (= variable costs per unit * number of units sold) and fixed costs from total revenue (= price per unit * number of units sold).

$$\text{Operating Income} = \text{Total Revenues} - (\text{Total Variable Costs} + \text{Total Fixed Costs})$$
$$= \text{Total Contribution} - \text{Fixed Costs}$$

Graphically, the connection can be depicted in the following way (based on Horngren et al., 2009):

FIGURE 18: Cost-Volume Graph



* SLOPE OF THE TOTAL COSTS LINE IS THE VARIABLE COST PER UNIT = $ 2.4
** SLOPE OF THE TOTAL REVENUES LINE IS THE SELLING POINT = $ 4

The total costs line is the sum of fixed costs and variable costs. Fixed costs are $ 40 at all quantities of units sold. The total revenues line can be derived by multiplying the number of units sold with the unit price.

Profit or loss at any quantity of units sold can be determined via the vertical distance between the two lines at that number. For quantities fewer than 25 units sold, the company makes operating losses. At 25 units sold, total revenues equal total costs. For quantities greater than 25 units sold, the company generates operating income.

2.1.4 PROFIT MAXIMIZATION

Of course the goal in doing business is not merely to break even, but rather to maximize profits. In case of a fixed sales price per unit (given by the market), the connection between total revenues and number of units sold is linear. Given a linear cost function with a slope smaller than the slope of the total revenues line, maximizing profits means to sell as many units as you can. You can see from Figure 18 that, due to decreasing fixed costs per unit sold, the profit (vertical distance between total revenues and total costs lines) increases with the number of units sold.

However, the correlation of total revenues and number of units sold is only linear in a perfectly competitive market, that is, if a single company has no influence on the market price (no oligopolistic or monopolistic power) and therefore, acts as a price taker. Setting a price above the market price leads to a demand equal to zero. Theoretically, it would be possible for a company to set a price below the market price. However, every other company immediately would do the same until the market price equals the marginal unit costs for every company (if cost structures of all companies are equal) or the company with the most advantageous cost structure has squeezed out all other companies. Note that, in the long run no profits can be made in perfectly competitive market with equal cost structures in all companies.

In reality, companies often have monopolistic or oligopolistic power and therefore, some freedom to increase or decrease the price of a product[1]. In this case, the number of goods sold correlates negatively with the unit price.

1 Note that this is not only the case when a company is the only one to supply a product. Pricing power also arises when customers prefer the product of a specific company over the same product provided by another company (e.g. due to a strong brand).

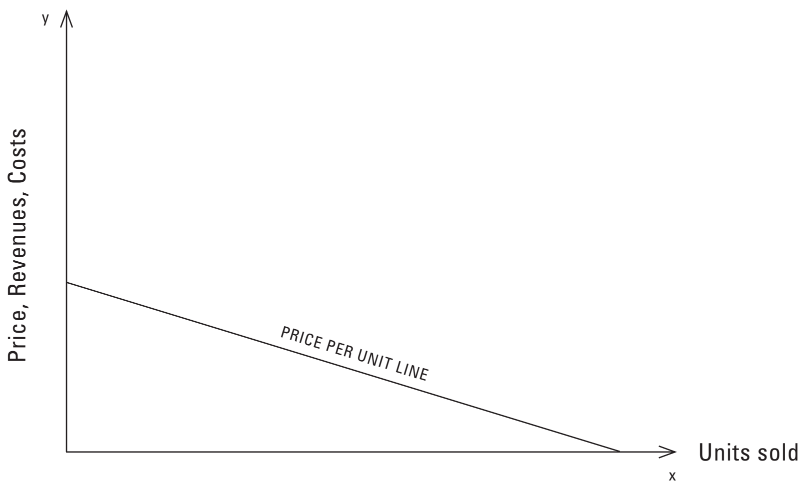


FIGURE 19: Profit maximization in imperfect markets 1

The total revenues line can be derived by multiplying the price per unit line by the number of units sold:

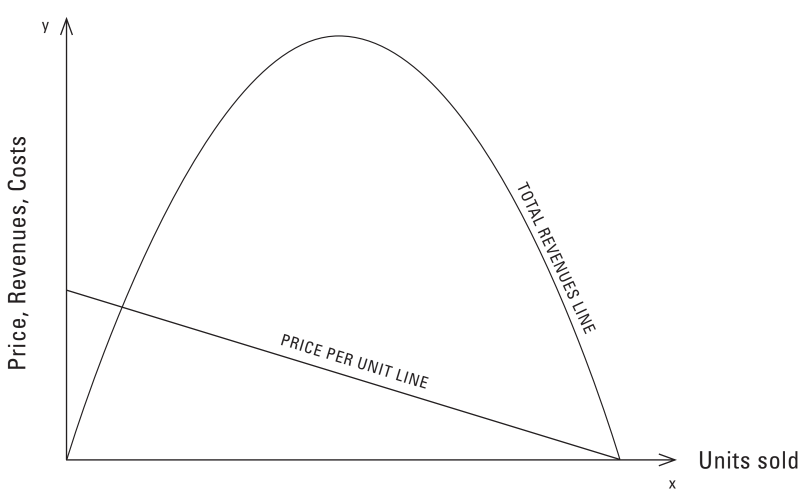
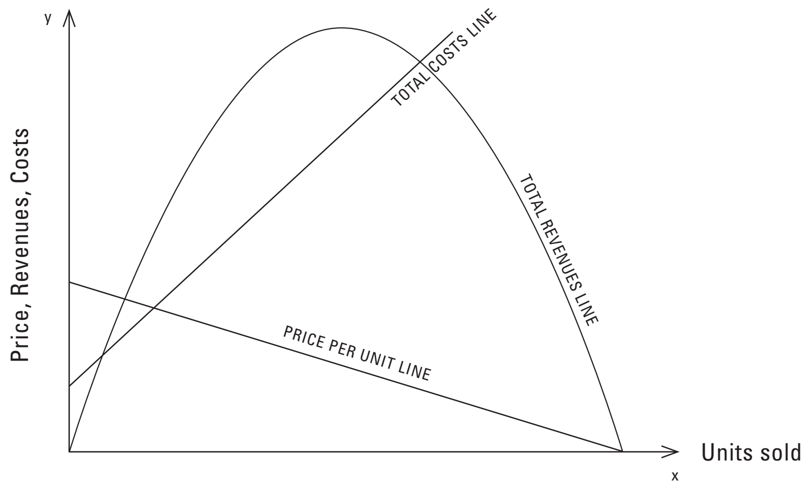


FIGURE 20: Profit maximization in imperfect markets 2

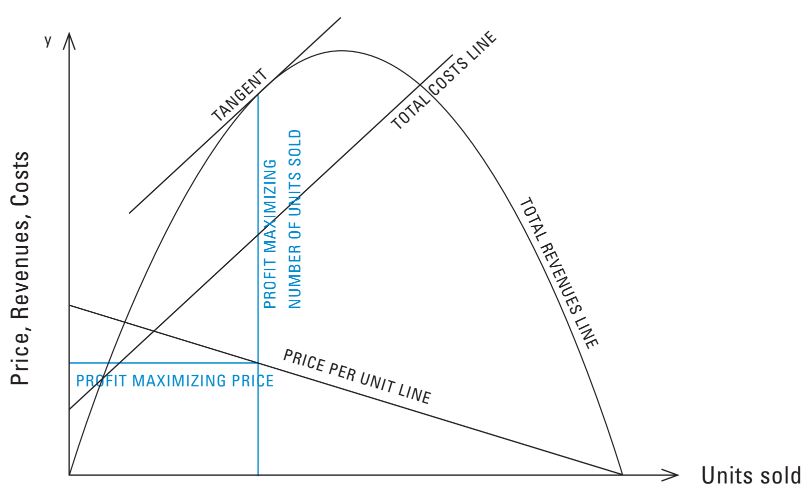
Adding the total costs line to the figure above we get the following:

FIGURE 21: Profit maximization in imperfect markets 3



Just like in the case of perfectly competitive markets, profits are maximized by maximizing the vertical distance between the total revenues- and total costs line. In order to determine the profit maximizing number of units sold just shift up the total costs line until it tangents the total revenues graph and draw a vertical line through that point. The corresponding unit price can be determined from the intersection of the vertical line and the price per unit line.

FIGURE 22: Profit maximization in imperfect markets 4



Contrary to the scenario with perfect competition, in the case of imperfect markets there is a finite number of units sold that maximizes profits. This optimum can also be derived from the intersection point of the marginal costs- and marginal revenue function. Hence, profits are maximized when marginal costs equal marginal revenues:

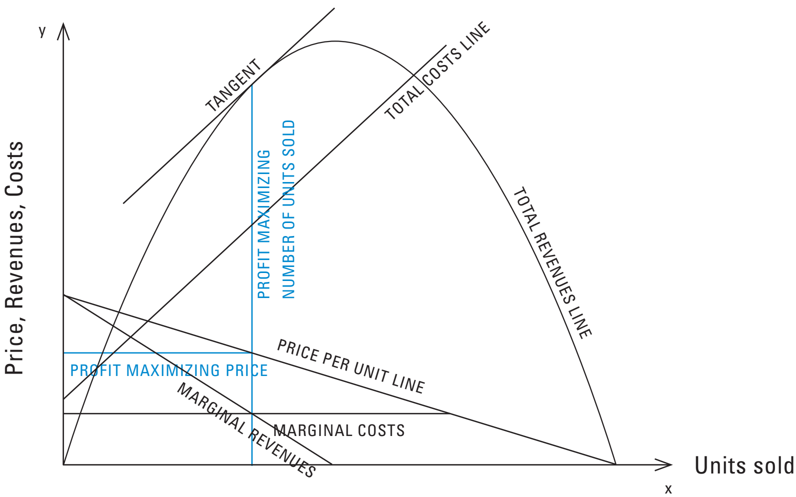


FIGURE 23: Profit maximization in imperfect markets 5

2.2 ACCOUNTING AND FINANCE

This chapter briefly discusses the three basic financial statements you will find in any annual report of any large company: The balance sheet, the income statement and, lastly, the cash flow statement. As there are many different accounting standards and it is not necessary to know how to account for every single activity of a company in order to succeed in a case interview, the purpose of this chapter is to help you understand how a company generally functions in financial terms.

2.2.1 BALANCE SHEET

The balance sheet is the most basic financial statement of a company. It lists all assets a company owns and accounts for the sources of their funding. Therefore, the balance sheet is divided in two separate parts.

TABLE 5:
Balance Sheet As of Dec. 31, 20xx (TCHF)

Assets		Liabilities and Owner's Equity	
Cash and Equivalents Accounts Receivable Inventory	6.567 12.820 14.368	Accounts Payable Short Term and Current Portion of Long Term Debt	5.582 10.746
		Total Current Liabilities	16.328
Total Current Assets	33.755	Long Term Debt	26.948
Property, Plant & Equipment Intangible Assets Accumulated Depreciation	56.492 8.641 (11.345)	Total Liabilities	43.276
		Common Stock Retained Earnings	33.983 10.284
Net Fixed Assets	53.788	Total Shareholder's Equity	44.267
Total Assets	87.543	Total Liabilities and Owner's Equity	87.543

In order to facilitate a comparison to previous periods and to maintain clarity, even when the balance sheet is extensive, in official annual financial statements of companies the balance sheet often is depicted in the following way:

TABLE 6:
Balance Sheet as of Dec. 31, 20xx (TCHF)

Assets	20xx	20xx-1
Cash and Equivalents Accounts Receivable Inventory	6.567 12.820 14.368	9.756 7.787 19.874
Total Current Assets	33.755	37.417
Property, Plant & Equipment Intangible Assets Accumulated Depreciation	56.492 8.641 (11.345)	50.924 8.294 (8.843)
Net Fixed Assets	53.788	50.375
Total Assets	87.543	87.792
Liabilities and Owner's Equity	20xx	20xx-1
Accounts Payable Short Term and Current Portion of Long Term Debt	5.582 10.746	5.453 9.938
Total Current Liabilities	16.328	15.391
Long Term Debt	26.948	29.349
Total Liabilities	43.276	44.740
Common Stock Retained Earnings	33.983 10.284	33.983 9.069
Total Shareholder's Equity	44.267	43.052
Total Liabilities and Owner's Equity	87.543	87.792

As you can see from the tables above, the balance sheet is divided into two separate parts – "Assets" and "Liabilities and Owner's Equity". In the following we will briefly discuss the most important items of these parts.

Assets

- **Cash and Equivalents:** Assets that are cash or readily convertible into cash (e.g. bank accounts or marketable securities).
- **Accounts Receivable:** Money owed by customers to the company for products or services that have been delivered or used but not yet paid for.
- **Inventory:** A company's assets that are ready or will be ready for sale (raw materials, work-in-process goods and completely finished goods).
- **Property, Plant & Equipment (PP&E):** Assets of a company that cannot easily be liquidated and usually stay within the company for a longer time (e.g. buildings, machinery and office equipment).
- **Intangible Assets:** Non-monetary, identifiable assets without physical substance that are able to generate economic benefits to the company (e.g. goodwill, knowhow, customer lists, licenses, patents). Note that it is in general not allowed to activate self-generated intangibles in the balance sheet. Hence, the balance sheet only lists purchased intangible assets. As the expenses of generating an intangible asset are not capitalized but expensed out in the profit and loss account (and therefore reduce profit), a company might prefer to buy intangibles to generating them by itself.
- **Accumulated Depreciation:** Longest-term (fixed) assets usually stay within the company for more than one period. In order to depict a true and fair view of profits rather than just cash flows (see Cash Flow Statement), their costs are allocated over their useful life.

  Example: A company purchases a machine for 100.000 $, that will stay within the company for the next 5 years. In order not to distort this year's profits, the company capitalizes the 100.000 $ in the balance sheet rather than expensing them out in the income statement. The income statement only is affected by the depreciation over the next 5 years (100.000 $/5=20.000 $ each year). The value of the machine in the balance sheet declines by 20.000 $ each year. That is, after two years the machine is worth 60.000 $ and accumulated depreciation is 40.000 $.

As you might have realized, assets in the balance sheet are sorted by their liquidity. Current assets are usually held for sale or consumption within one accounting period and typically can be converted to cash very quickly.

Fixed assets are held for more than one accounting period. It usually takes longer to convert them to cash.

Liabilities and Owner's Equity

- **Accounts Payable:** As counterpart to accounts receivable, they arise when a company receives a product or a service before it pays for it.
- **Short Term and Current Portion of Long Term Debt:** Liabilities representing the payments on a company's loans that are due within one period.
- **Long Term Debt:** Loans and financial obligations, which have maturities greater than one period.
- **Common Stock:** The equity ownership of a company. Holders of common stock "own" the company and exercise their control by electing the board of directors and voting on corporate policy.
- **Retained Earnings:** Sum of the shares of previous net incomes (see income statement) that have not been distributed to the company's shareholders. Retained earnings can be used to reinvest in the company or to pay off debt.

The "Liabilities and Owner's Equity" is divided into a debt- and an equity-section and is sorted by date of maturity. It depicts the capital structure (composition of debt and equity) that is used to fund the assets on the balance sheet.

Capital Structure

You should note that borrowing money in itself is not necessarily a sign of financial weakness. From the company's perspective, debt is less expensive than equity. Why is that?

In case of liquidation, common shareholders have rights to a company's assets only after debt holders, who have a so-called senior claim, have been paid out full. Hence, shareholders are subject to a significantly higher risk than debt holders and consequently require a higher return on their capital to compensate for this risk.

Furthermore, interest paid is tax deductible (i.e. interest expenses lower taxable income), whereas dividends to shareholders are considered after tax and a lower tax bill means more profit for the company.

The fixed nature of returns to debt holders has yet another implication: the more a company is funded by debt, the smaller the base of equity holders that profits (and losses) have to be shared with. Hence, returns are proportionally larger as compared to a company with greater share of equity financing. This constellation is referred to as the "leverage effect".

*Example: Consider a company that has no debt and total assets of 10. If it earns an annual profit of 1, the return on equity (ROE) therefore is 10%. If the company borrows 10 (interest rate 5%) and invests the capital in a way that brings an additional 1 in profit, the company can increase its ROE to 15% ((original profit (1) + profit from investment (1) – interest expenses (0,05*10=0,5))/ equity (10))*
Note: Increasing the debt ratio of a company leads to an increase in ROE, only as long as the return on assets (ROA) is higher than the interest rate. Therefore, as interest rates could increase or return on assets could decrease over time, higher return on equity always goes hand in hand with a higher risk.
*Example: Think about what happens, if the company has the same characteristics but an annual profit of only 0,4. The ROE therefore is 4%. In this case, borrowing an additional 10 in capital leads to a decline in ROE ((original profit (0,4) + profit from investment (0,4) – interest expenses (0,05*10=0,5))/ equity (10))=0,03=3%*

Contrary to the income statement, the balance sheet is a depiction of a company's financial situation at a particular moment in time.

2.2.2 INCOME STATEMENT

The income statement depicts the financial performance of a company over a specific period of time and allows investors to analyze the company's profitability by identifying the components and sources of net earnings.

Income Statement as of Dec. 31st	20xx	20xx-1
Revenues	120.847	101.942
Cost of Goods Sold (COGS)	50.917	42.837
Gross Profit	69.930	59.105
Selling, General & Administrative (SG&A)	45.937	39.001
Research & Development (R&D)	11.543	9.182
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	12.450	10.922
Depreciation & Amortization	2.502	2.091
Earnings Before Interest & Taxes (EBIT)	9.948	8.831
Interest Expense	3.249	3.182
Income Tax Expense	1.356	1.012
Net Income	5.343	4.637

TABLE 7:
Income Statement

- **Net Revenues:** Income that a company receives from the sale of goods or services to customers.
- **Costs of Goods Sold (COGS):** Direct (i.e. attributable to a specific product) costs of the manufacturing of goods that a company has sold during the depicted period of time. It includes the costs of the materials used, as well as the direct labor costs arisen to produce the sold goods or services. However, it does not include indirect costs such as SG&A and R&D costs. Note that costs of goods produced but not yet sold are capitalized in the account "Inventory" of the balance sheet.
- **Gross Profit:** Profit before deducting costs that cannot immediately be associated with the sold products or services as well as taxation and interest payments.
- **Selling, General & Administrative:** Operating costs that cannot directly be attributed to the production of products and services, such as indirect labour costs, travel, advertising and marketing expenses.
- **Research & Development:** Any costs associated with the research and development of a company's goods or services. Note that development, as opposed to research, under some circumstances can be capitalized as an intangible asset in the balance sheet. Why would a company even want to capitalize such expenses? We will return to this later.
- **Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA):** Measure, that reverses out interest payments, tax, depreciation and amortization from the net income. As it depicts operating profit before deducting non-cash-effective depreciation and amortization expenses, EBITDA often comes close to the operating cash flow of a company (see Cash Flow Statement). Furthermore, it cancels out tax-jurisdictional effects and abstracts from the capital structure of a company (interest to be paid for lending is not considered). Hence, EBITDA is a good tool to compare companies that operate in the same business, but have different capital structure and/or are located in different countries with different tax laws.
- **Depreciation & Amortization:** We already discussed depreciation and amortization in the balance sheet section. Note that in the income statement only the depreciation/amortization of the current reporting period is depicted, whereas the balance sheet shows the accumulated deprecation of all periods the assets have been within the company.
- **Earnings Before Interest & Taxes (EBIT):**

$$\text{EBIT} = \text{EBITDA} - (\text{Depreciation} + \text{Amortization})$$

Just like EBITDA, it cancels out tax-jurisdictional effects and abstracts from the capital structure of a company.

- **Interest Expense:** Expenses for borrowed money. It is calculated as a percentage of the amount of debt for each period of time.
- **Interest Income:** Revenues from interest-bearing assets (e.g. bonds).
- **Income Tax Expense:** Tax levied on the income of a company. It is calculated by multiplying the income before tax number by the appropriate tax rate.
- **Net Income:** Residual income of a company after subtracting all expenses of the reporting period from revenues. It can be distributed among shareholders as a dividend or retained by the company as an addition to the account "Retained Earnings" in the balance sheet. Note that an increase in retained earnings also means an increase in the equity base of the company.

2.2.3 STATEMENT OF CASH FLOWS

Due to the accrual basis of accounting in the income statement[2], net profit does not necessarily equal the cash increase/decrease of a period. Revenues or expenses reported in the income statement may not have caused an in- or outflow of cash (e.g. depreciation) and cash flows may have occurred without being reported on the income statement (e.g. investments). Contrary to the income statement, the statement of cash flows depicts the cash actually generated and used during the reporting period and therefore is useful to evaluate the liquidity of a company. Why is this important?

Example: Imagine a situation, in which a company is highly profitable according to its income statement (lets assume net profits of $ 10 mn with a revenue of $ 60 mn), but made investments in Property, Plant & Equipment much higher than the depreciation depicted in the income statement (lets say $ 100 mn). Remember that investments in machinery are not being expensed out in the income statement, but capitalized in the balance sheet and depreciated over time (lets assume a useful live of 20 years). Hence, in the reporting period the investment only influences the income statement through its depreciation (= $ 100 mn/20= $ 5 mn), although the $ 100 mn cash have been paid in full. In terms of cash, the company did not make a profit of $ 10 mn, but rather a loss of $ 85 mn (assuming that apart from depreciation and investments no other non-cash-affective expenses are reported and no other cash payments occurred, that are not expensed out in the

2 Accrual basis accounting reports income when earned and expenses when incurred, whereas cash basis accounting reports income when received and expenses when paid

income statement). Whether this is a problem or not depends on the cash situation of the company. Imagine the company has cash of $ 85 mn at the beginning of the reporting period. In this case, the company is illiquid at the end of the reporting period, although it is highly profitable according to the income statement.

The depiction of profits in the income statement is based on accounting principles that may differ among jurisdictions and industries and are subjects to change over time. Furthermore, accounting principles often leave freedom for the account of a company's financial performance. For example, some accounting standards allow companies to choose accelerated instead of linear depreciation in order to lower taxable income or choose linear over accelerated depreciation in order to impress investors with higher profits. Another example is the right to choose either to capitalize certain expenses in the balance sheet (to increase profits) or to expense them out in the income statement (to lower taxes).
In- and outgoing cash flows, on the other hand, are non-interpretable facts. Hence, the depiction of cash flows does not depend on the intentions of the company's management and is less susceptible to distortion or manipulation. It is for this very reason that investors often use cash flow statements rather than income statements to analyze the financial performance of a company.
We now know that a cash flow is a revenue or expense stream that changes a cash account over a given time. In the following we will briefly discuss the structure of a cash flow statement and how it is derived.
Cash in- or outflows usually occur as a result of one of the following three activities: Operations, investing or financing. Hence, a statement of cash flows contains three categories and is arranged in the following manner:

TABLE 8:
Cash Flow Statement

	Cash Flow from Operating Activities
+/-	Cash Flow from Investment Activities
+/-	Cash Flow from Financing Activities
=	Net increase/decrease in cash

- **Cash Flow from Operating Activities:** Cash flows arising from core business activities. Measures how much cash is generated from a companies products or services. The cash flow from operating activities is usually positive.
- **Cash Flow from Investment Activities:** Arises from changes in equipment, assets or investments. As a profitable company will usually invest rather than divest, cash flow from investment activities will usually be negative.

- **Cash Flow from Financing Activities:** Flows of cash between the company and its investors (equity and debt holders). They arise from changes in loans, the sale of new stock or the payment of dividends. Note that the payment of interest is included in cash flow from operating activities. Cash flow from financing activities can be positive (if the company issues new stock or borrows new money) or negative (if the company services its debt or pays out dividends).
- **Net increase/decrease in cash:** Is reflected by the change in the "Cash and Equivalents" account of the balance sheet.

The cash flow statement can be derived by adjusting the net income for all expenses that have not caused an outflow of cash and for all cash flows, that haven't been considered as expenses in the income statement (indirect method). The following example uses the numbers of the income statement and balance sheet in the preceding chapters.

TABLE 9: Cash Flow Statement as of Dec. 31, 20xx (TCHF)

Cash Flow from Operating Activities		
Net Income	5.343	
+ Depreciation	2.502	
- Increase/+ Decrease in Accounts Receivable	(5.033)	
- Increase/+ Decrease in Inventory	5.506	
+ Increase/- Decrease in Accounts Payable	129	
Cash in- or outflow from Operating Activties		8.447
Cash Flow from Investment Activities		
- Increase/+ Decrease of Property, Plant & Equipment and Intangible Assets[3]	(5915)	
Cash in- or outflow from Investment Activities		(5915)
Cash Flows from Financing Activities		
+ Increase /- Decrease in Short Term and Long Term Debt	(1593)	
+ Increase/- Decrease in Common Stock	0	
- Dividends paid out	(4128)	
Cash in- or outflow from Financing Activities		(5721)
Increase / Decrease in Cash		(3189)
Cash, 31.12. 20xx-1		9.756
Cash, 31.12.20xx		6.567

3 Do not forget to adjust for depreciation of the reporting period to calculate change in Property, Plant & Equipment and Intangible Assets

2.2.4 FINANCIAL RATIOS

Financial ratios are a tool to evaluate the performance of a company and to understand the different levers a manager has in controlling the firm. In many case interviews, one will come across financial ratios, either having to calculate, to interpret or to explain them.
Typically, one distinguishes between five categories of financial ratios

- Profitability ratios
- Liquidity ratios
- Efficiency ratios
- Leverage ratios
- Market ratios

In the following we will focus on the most important financial ratios. For a more in-depth discussion of financial ratios we recommend Higgins (2009).

2.2.4.1 PROFITABILITY RATIOS

Return on Equity (ROE)
The ROE is one of the most commonly referred to ratios and measures the efficiency with which a company employs its owner's resources, hence the percentage return to owners on their investment.

$$\text{ROE} = \frac{\text{EBIT}}{\text{Shareholder's equity}}$$

It can also be written as:

$$\text{ROE} = \frac{\text{EBIT}}{\text{Sales}} * \frac{\text{Sales}}{\text{Assets}} * \frac{\text{Assets}}{\text{Shareholder's equity}}$$

Leading to:

$$\text{ROE} = \text{Profit margin} * \text{Asset turnover} * \text{Financial leverage}$$

This is important because now it becomes obvious that ROE is influenced by exactly three levers (profit margin, asset turnover, financial leverage).

Return on Assets (ROA)
The ROA measures the efficiency with which a firm allocates and manages its resources. Unlike the ROE, it measures profit as a percentage of the

money provided by owners and creditors as opposed to only by owners. It is calculated as:

$$ROA = \frac{\text{Net Income}}{\text{Assets}}$$

This can also be written as:

$$ROA = \text{Profit margin} * \text{Asset turnover}$$

Gross margin

The gross margin indicates how much of a dollar in sales is available to pay for fixed costs and to contribute to profits after incurring the direct costs associated with the goods sold (COGS). It is calculated as:

$$\text{Gross margin} = \frac{(\text{Sales - Cost of goods sold})}{\text{Sales}}$$

Example: Gross Profit (Sales - COGS) is CHF 1.200 and Sales are CHF 2.700, then

Gross margin = 1.200 / 2.700 = 0.44 = 44%

This means 44% of sales can be used to pay off fixed costs and also to contribute to profits.

2.2.4.2 LIQUIDITY RATIOS

Current Ratio (Working Capital Ratio)

The current ratio compares the assets that will convert into cash within a year and the liabilities that will (must) be paid off within the same time frame. Hence, it measures the ability of a firm to meet its short-term obligations. It is calculated as:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Quick ratio (Acid test)

The quick ratio also compares the assets that will be converted into cash within a year and the liabilities that must be paid off within a year, however it is a more conservative ratio as compared to the current ratio because it does not include inventory. This is because inventory is often considered to be illiquid and usually pays less than the book value. Hence, the quick ratio is calculated as:

$$\text{Quick Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

2.2.4.3 EFFICIENCY RATIOS

Inventory Turnover

The inventory turnover ratio measures how many times per period (usually one year) the inventory is turned around, meaning sold or otherwise used. It is calculated as:

$$\text{Inventory Turnover} = \frac{\text{Cost of goods sold}}{\text{Ending Inventory}}$$

Example: Cost of goods sold is CHF 1.870, average ending inventory is CHF 280

Inventory turnover = 1870 / 280 = 6.7 time

Hence, the inventory is turned over 6.7 times per year. Or else, one could say that every item needs on average 365 / 6.7 = 54.5 days before being sold.

Collection Period

Another important efficiency ratio is the collection period because it is one major lever to influence the cash flow and frequently used in case interviews. It simply measures the average number of days a firm needs after the sale until actual cash is received.

$$\text{Average Collection Period} = \frac{(\text{Average Accounts Receivable} * 365)}{\text{Credit Sales}}$$

Instead of "total sales" only "credit sales" are used, since one can assume that the difference between the two will be sales that were paid cash.

Payables Period

This ratio basically does the same as the collection period, it measures the average number of days a firm needs between receiving a good/service and actually paying for it.

$$\text{Average Payable Period} = \frac{(\text{Average Accounts Payable} * 365)}{\text{Credit Purchases}}$$

2.2.4.4 LEVERAGE RATIOS

Debt to Assets

The debt to assets ratio is the most common ratio to measure financial leverage. It measures how much money (in percentage terms) came from creditors when a firm purchased its assets.

$$\text{Debt to Assets Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Debt to Equity

The debt to equity ratio measures how many CHF (or any other currency) are supplied by creditors for every CHF supplied by shareholders.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

2.2.4.5 MARKET RATIOS

Earnings per share

Earnings per share is an indicator of a firm's profitability and measures the proportion of a firm's profits allocated to each share outstanding. Frequently, people use average number of shares outstanding in the denominator to calculate earnings per share because the number of shares outstanding during the period of a year might change.

$$\text{Earnings per share} = \frac{\text{Net Income}}{\text{Outstanding shares}}$$

P/E ratio

The P/E ratio measures how many CHF someone is willing to pay for one CHF of a firms earnings. Hence, it does not indicate much about the current performance of a firm, but rather tells you what investors believe future earnings will be.

$$\text{P/E ratio} = \frac{\text{Price per share}}{\text{Earnings per share}}$$

2.3 NET PRESENT VALUE

The Net Present Value Method is a very important tool to evaluate and compare different investment opportunities to one another, especially when they have different payback periods. What is most important about the method is that it accounts for the time value of money. This means that a Dollar today is worth more than a Dollar tomorrow. There are at least three reasons why a future Dollar is worth less: Inflation will reduce the purchasing power of the future Dollar, risk surrounding the receipt of the Dollar and the investment's opportunity cost which is equal to the return one could earn on the next best alternative investment.

To account for the before mentioned time value of money and to make future cash flows resulting from different investments comparable, the model uses the idea of compounding and discounting.

Compounding describes the process of determining the future value of money. Suppose you have a deposit of 10 $ in a bank account with an annual interest rate of 10%. After a year your deposit will be worth 11 $. These eleven Dollars represent the future value of your ten Dollars, which you have today.

The method of discounting is similar to compounding but in the opposite direction. You start with a future value and end with the present value.

Suppose you would receive 10 $ in one year. Now you ask yourself: What is the value of these 10 $ today? Of course it is not 10 $. Let's assume you have a bank account that pays you 10% interest then the present value of these 10 $ is 9.09 $.

Now we come to the arithmetics underlying such present value calculations. To derive the formula to calculate the present value of a future cash flow we once again consider the method of compounding.

- K_0 = present value
- K_n = future value in n periods
- r = interest rate (or discount rate). This rate is very critical for the outcome of the present value calculation and equals the cost of capital of a company.
- n = number of periods

The formula to calculate the future value of money (compounding) would therefore be:

$$K_n = K_0 * (1 + r)^n$$

This formula can now be rearranged in order to derive the formula for calculating the present value (discounting):

$$K_0 = \frac{K_n}{(1 + r)^n}$$

If we want to calculate the present value of a payment stream which lasts for more than one year, we simply need to discount the future value of each payment and then sum up all resulting present values.

$$K_0 = \frac{K_1}{(1 + r)^1} + \frac{K_2}{(1 + r)^2} + \ldots + \frac{K_n}{(1 + r)^n}$$

To calculate the net present value (NPV) of an investment one needs to deduct the present value of cash outflows (for example the initial investment) from the net present value of cash inflows.

$$\text{NPV} = \text{Present value cash inflows} - \text{Present value cash outflows}$$

Another important term to remember is the so called internal rate of return (IRR). The IRR represents the discount rate at which the investment's NPV is equal to zero. The IRR can often be very helpful because of the difficulties to derive the "correct" discount rate.

Sometimes investments do not have a maturity date (for example government bonds) and therefore pay the promised interest rate every year until eternity. These payments which last forever are so called perpetuities. To calculate the present value of such a perpetuity one has to use the following formula:

- PV = present value
- A = annual payment
- r = discount rate

$$PV = \frac{A}{r}$$

For company valuation (e.g. in M&A transactions), one often discounts the cash flow for the first five years and assumes that the cash flow of the sixth year will last forever (estimate that the sixth cash flow represents a perpetuity and calculate its present value which will then be discounted and added to the present value of the other five cash flows).

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The second part contains actual case studies and teaching solutions by courtesy of our partners, Bain & Company, The Boston Consulting Group, McKinsey & Company, Roland Berger Strategy Consultants, Accenture, EY and Horváth & Partners. Hence, You are the privileged to get an insight into what these firms expect and value in an interviewee's response. From shoes to ships, from an orchestra to a bank, you will be confronted with complex situations that can but be abstracted to a degree where the previously covered theories can be applied for a comprehensible solution.

PART II

II.1

BAIN & COMPANY

1.1 COMPANY PROFILE

BAIN & COMPANY:

Bainies machen den Unterschied. Wir reden Klartext. Und sind konsequent ergebnisorientiert. Der Erfolg gibt uns Recht: als eine der drei weltweit führenden Managementberatungen mit über 8'000 Mitarbeitern in 57 Niederlassungen und 36 Ländern gewinnt Bain & Company seit Jahren kontinuierlich Marktanteile. Was für uns zählt, ist der messbare Erfolg für unsere Klienten. Dafür tun wir alles. In einem Team herausragender Köpfe, die nicht über einen Kamm zu scheren sind. Gemeinsam mit dem Topmanagement unserer Klienten arbeiten wir konsequent für ein Ergebnis: klare Wettbewerbsvorteile für unsere Kunden und eine nachhaltige Steigerung des Unternehmenswerts. Darüber hinaus ist Bain in Europa führend bei der Beratung von Private-Equity-Gesellschaften

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ENGINECO

1.2 CASE

Situation

Our client is EngineCo, an engine manufacturer. They have multiple business units. Among other things, they produce starter motors and generators, which are critical components of traditional car engines.

Complication

Management is considering selling off the starter motor and generator business, since the market may not be very attractive in the future. However, they still believe their current position in the market is very strong, driven by their high customer satisfaction.

Key questions

- How quickly is the market for starter motors and generators likely to peak, given the underlying trends in the industry?
- What challenges could they encounter in attempting to sell the business? What kind of buyer may be most interested?
- How could they maximize profit if they choose not to sell?

Potential Solution and Teaching Guidelines

The following is one way of analyzing the problem and arriving at a solution. We describe the rationale and the key insights. Teaching notes are written in italics. These notes are to be used by the interviewer to guide the interview and accommodate different solutions by the interviewee.

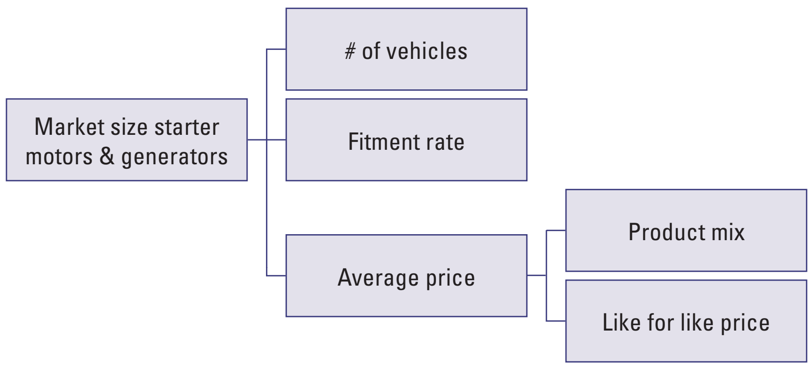
One key skill tested in this case is the ability to effectively identify required key pieces of information and goal-oriented questioning. Thus, the introduction will be very brief and many pieces of information will only be revealed as the candidate progresses through the case.

In order to understand how quickly the market is likely to peak, we first need to understand the key drivers of the starter motor and generator market. In a next step, we have to consider which trends influence these drivers and finally think about how these trends are likely to evolve over the next 5 years.

Drivers of the starter motor and generator market are

- Vehicle demand: Number of vehicles sold
- Fitment rate: Proportion of vehicles with generators and/or starter motors
- Product mix: Proportion of higher vs. lower value components in fitment
- Like for like price: Price development for the same component

FIGURE 1
Drivers of the starter motors and generator market



Before moving on to trends, ensure the candidate has identified all dimensions of Figure 2. When talking about fitment rates, the interviewee should notice that she[1] needs to take into account that the market consists of different (and differently priced) products. If she does not suggest herself to split average price into product mix and like for like price, suggest that she thinks about how we can better understand the evolution of the average price over time.

The automotive market is currently facing change from multiple directions – technological, regulatory and also cultural. Not all trends are however equally relevant for a supplier of engines. The most relevant trends include:

- Car sharing, Uber (impact on vehicle demand)
- Environmental regulations (impact on vehicle demand)
- Increasing wealth in China/ emerging markets (impact on vehicle demand)
- Electric vehicles (impact on fitment rates)
- Development of higher tech components (impact on product mix)

1 Throughout this case we use the female form to refer to both genders: «she» refers to «he or she», «her» refers to «his or her» etc.

There is no right or wrong answer for this question. What you should look out for here is that the candidate demonstrates business judgement and has a rationale why a certain trend may be relevant for the client. For example, self-driving cars is a major trend but probably less immediately relevant for a supplier of starter engines and generators.

You should then guide the conversation to how the market will evolve over the next 5 years.

In order to assess the evolution of the drivers over this timeframe and to deduce how fast the market will peak, the interviewee will require more information about EngineCo and the market environment in general. The key point to watch out for is a structured and focused approach to identifying the most critical pieces of information and effective questioning. Requests should be specific, e.g. "I would like to understand in which segments EngineCo is active to see whether a rise of electric vehicles will be a threat or rather an opportunity". If an interviewee makes a general request, ask her to clarify and probe further.

Good candidates will have a hypothesis of the direction of the impact per driver early on and use their questions to confirm or refute their hypothesis and gain an understanding of the order of magnitude of these effects.

Background on EngineCo for assessing the relevance of the different trends

- **Geography:** EngineCo has a global footprint but is strongest in the US market. They have only a minimal presence in China, via a partnership *Interviewee should use the simplifying assumption of a single global growth rate*
- **Segments:** The client mainly produces basic starter motors and generators as well as start/stop systems. The product portfolio does not include many components for fully electric vehicles but some for hybrid cars. In general, fully electric is a difficult segment to enter, as it requires very different products and many players come from the tech rather than the automotive side
- **End-customers:** The products are mostly used in small to mid-sized vehicles
- **Innovation and customer orientation:** EngineCo has high expenditure on R&D and customer service. Customer satisfaction is high due

to the quality of the engineering team. Support is very important and hence the client often has imbedded teams at key customers.

Market background

- **Margins:** Very tight margins (+/- 1% is significant)
- **Growth:** Personal vehicle market growing fast now but expected to slow and eventually decline over the coming years

Again, for the next part there is no right or wrong answer. The interviewee should, based on the collected information and business judgement, come up with a reasonable estimate of how each of the drivers will develop over the next 5 years and then add these to arrive at net growth figures. Ask for a rationale of the numbers that she should link to the discussion about trends as well as general industry knowledge and business judgement. If estimates are off, try to identify the source of the over-/ underestimation and either correct directly (if based on lack of industry knowledge) or challenge the candidate to think about what you discussed with her before/ whether this makes sense. For example, the information that this is a very thin margin industry should give the candidate a hint regarding the order of magnitude of price effects.

Vehicle demand will continue to grow but growth is progressively weakening, while fitment rates drop, driven by the rise of electric and hybrid cars, from about 60% today to about 45% in 5 years' time. Due to technological innovation, the product mix will continuously shift to higher value products. On the other hand, like for like prices will fall, due to commoditization and as production efficiency increases with greater experience. The net effect is that the market will already reach its peak in two years.

FIGURE 2
Annual growth rates

	Year 1	Year 2	Year 3	Year 4	Year 5
Demand	5%	4%	3%	2%	1%
Fitment rate	-5% annually (equates roughly to a drop from 60% to 45%)				
Product mix	3% annually				
Like for like price	-2%	-2%	-2%	-1%	-1%
Net growth	**1%**	**0%**	**-1%**	**-1%**	**-2%**

The interviewee should proactively use this information to draw conclusions and discuss the implications what this means for EngineCo. If she does not, ask her what she would tell the CEO if she met him in the elevator and turn this into a small role play.

Given that the market will peak very soon, EngineCo should definitely consider selling the business if they can find a buyer who is willing to pay an attractive price. An attractive price would be the Net Present Value[2] of the business to EngineCo minus any complexity costs incurred by keeping the business – a sale would reduce complexity and allow EngineCo to focus on future growth businesses.

However, finding a buyer might be difficult as a standalone business is potentially worth less than it is as part of EngineCo because as such it benefits e.g. from the brand in customer relationships and synergies in R&D. Hence, a likely buyer could be a competitor who could combine the business with its own and leverage own synergies. Another type of buyer for whom the business could be worth more than it is for EngineCo, is a player that is strong in similar products for electric vehicles and would benefit from the customer relationships with the main car manufacturers that are also increasingly active in the electric vehicle space.

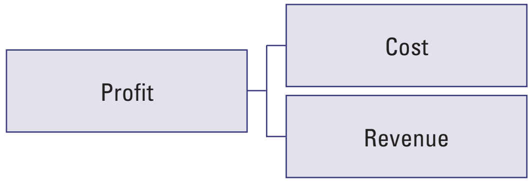
You might have to prompt the candidate to discuss what an attractive price would be and whether a standalone business is worth more or less. This is also a good place to discuss which types of buyers might be most interested.

If they cannot find a suitable buyer, the recommended course of action is to harvest the business for cash, i.e. maximize profits.

Move the case along by asking the candidate how EngineCo could maximize profits. She should draw on what she has learned before and put it into context of the finding that the market will peak in two years.

2 Net Present Value (NPV), a calculation that takes into account not only the expected cash flows from a project but also the cost of capital. For candidates who are not familiar with the concept of NPV it is sufficient to discuss that the expected future returns from the business should be compared with the opportunity to invest the money elsewhere.

FIGURE 3
Maximizing profit



Profit can be maximized by reducing cost and by increasing revenue, ideally both at the same time.

The main levers for cost reduction are to cut R&D and customer service spending. However, before such a decision is made, a careful analysis on the potential impact on the position as market leader will be required.

Reducing customer service spending is likely going to lead to loss of business and market share as having embedded teams and a high level of customer service is expected in the automotive industry. However, the car manufacturers are also aware of the trends in the industry and have an interest in keeping a range of suppliers. Thus, it might be possible to negotiate a reduced service level to ensure the business remains profitable.

The candidate should give a structured overview of the pros and cons of reducing R&D and customer service investments and her recommendation. There is no right or wrong here, as interviewer you want to watch for structure, logic and communication skills (is she to the point or rambling, does she take you along in her argument, …). You could also do this part as a role play. Depending on the role you assume (e.g. Head of R&D, CFO, CEO), she should tailor her communication accordingly.

It is likely that the candidate also comes up with general cost reduction levers, such as manufacturing effectiveness, supply chain optimization etc. These are very valid points that show business judgement. However, based on the information given when determining the growth rates, the candidate should realize that R&D and customer service should be a particular focus here.

On the revenue side, one lever is to focus on certain geographies that balance attractiveness (market size and growth) with ability to win (relevance of the products, level of competition). A second lever is to focus on specific products, e.g. more advanced technology. However, the rapid commoditization, as reflected in the like for like price decreases (cf. Figure 3) and a generally high price sensitivity in the automotive market will warrant further analysis.

Good candidates will offer the caveat proactively. If they do not, ask them what risks they see.

Ask the interviewee to summarize our key findings and what challenges the client is facing going forward – tell her to imagine being at the client site and running into the CEO who has two minutes and wants to know what the team has found so far and that the top priority challenges are going forward.

Key case insights summary
- While some trends are impacting the market positively, overall the market is expected to peak in two year's time

Key challenges summary
- Finding a suitable buyer
- If no buyer can be found, focus on profit maximization
  - Assess to which degree R&D and customer service spend can be reduced without harming the business
  - Assess attractive geographies and products which will allow to grow revenues, which could be challenging given the environment of commoditization and price sensitivity

1.3 CASE

BUSINESS TRAVEL SPEND

Situation

Our client is a Swiss industrial SME, which has the goal to reach double digit EBIT by 2020. Bain was hired to help ClientCo conduct a performance improvement program.

Complication

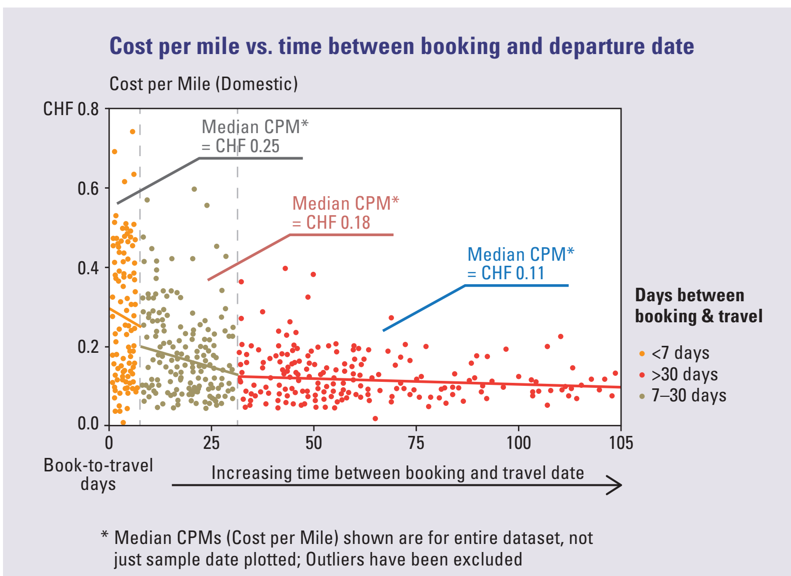
Following initial analyses, the team identified business travel as an area where spending is significantly above benchmarks.

Key questions

- What are the main cost drivers for business travel?
- How can the client save costs in this area?

Additional information to be distributed during the case

FIGURE 1
Cost per mile vs. time between booking and departure



Potential Solution and Teaching Guidelines

The following is one way of analyzing the problem and arriving at a solution. We describe the rationale and the key insights. Teaching notes are written in italics. These notes are to be used by the interviewer to guide the interview and accommodate different solutions by the interviewee.

One key skill tested in this case is the ability to structure the problem and break it down into subcomponents (e.g. number of trips x cost per trip). This case also contains several arithmetic problems and requires the candidate to demonstrate a nose for value and drive to results by focusing on the areas with the biggest potential.

In the beginning, ensure the candidate understands that the expectation is to find an appropriate structure to break down travel costs and then discuss improvement potential per driver. Ideally, the candidate will proactively suggest to address the problem in this way.

There are two general levers in procurement:
- Buy better, e.g. negotiating prices, bundling volumes
- Spend better, e.g. reducing demand

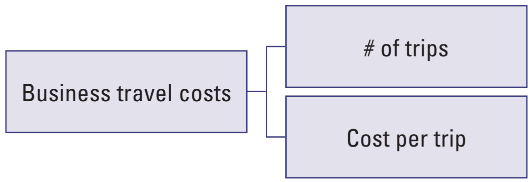
Especially for candidates without a business background, it is not expected that they use these exact words but a good candidate should take a wider lens to this problem and consider not only how much is spent on travel but also the demand side, i.e. whether travel in general can be reduced.

Specifically in business travel, there are two fundamental drivers of business travel costs (cf. Figure 1):
- Number of trips
- Cost per trip

It is possible that the candidate, having taken some time to structure the problem, already further detailed out the types of costs. In this case, you should suggest to first look at the number of trips.

A main lever will be to reduce the number of trips by applying bigger scrutiny whether trips are truly necessary. In many cases it is possible to replace a trip with a telephone or video conference, especially if participants already know each other reasonably well. Replacing trips with video or telephone conference also improves employee productivity by eliminating unproductive travel time.

FIGURE 2
Drivers of business travel costs



Following the qualitative discussion, tell the candidate that the client is interested in seeing how much could be saved by limiting travel.

Question: Assuming total travel costs of the company are CHF 30M, split 50/50 between internal and external meetings. How much could be saved by reducing internal travel to reach a ratio of 40/60 (internal/external)?

Currently the client spends 50% of CHF 30M on external meeting, i.e. 15M. In the future, this should amount to 60% of total spend. This means that the total future spend should be

CHF 15M x 100/60 = CHF 25M
Hence, the saving potential is CHF 5M (or 16.7%).

Ideally, after finishing the calculation, the interviewee draws the conclusion that these are indeed significant potential savings.

Now move the discussion on to cost per trip. If she[1] *has not done so before, ask the candidate to elaborate on what she regards as the major cost types in this area. Ensure she covers at least flights, hotels and booking fees before moving on. If necessary, prompt her to think through the steps involved in organizing and taking a business trip. The different cost types can be discussed in any order but make sure you do not run out of time. Hotel and ground transportation will be discussed qualitatively, while flights and booking fees involve calculations.*

1 Throughout this case we use the female form to refer to both genders: «she» refers to «he or she», «her» refers to «his or her» etc.

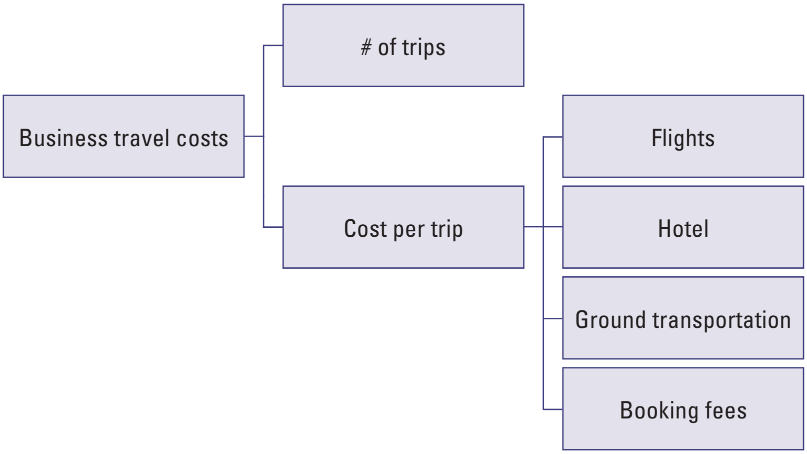


FIGURE 3
Drivers of business travel costs and costs types incurred per trip

Costs per trip are typically flights, hotel and ground transportation. In addition, there are also booking fees charged by the travel agency.

For **flights**, ways to decrease costs include:

- Booking class: Book a cheaper class (economy vs. business)
- Carrier: Choose a cheaper airline (low cost carrier vs. "normal" carrier)
- Price negotiations: Negotiate discounts with the airlines (either blanket discounts or for most important routes)
- Timing: Book sufficiently early

Ensure the candidate has identified these levers, especially the timing, as she will be quantifying this one next. Hand out Figure 1 to the candidate.

Question: What is the message of this slide?

Timing of the booking has a significant effect on cost especially within the last 30 days before departure. Costs decrease by about a third (28%) when booking more than a week in advance.

Caveat of this slide is it does not differentiate by booking class. If business class flights tend to be booked on shorter notice, then this would increase the median cost per mile for the 0-6 and potentially also the 7-30 day timeframes.

It is likely the candidate will not notice this caveat herself. In this case, prompt her what could be potential caveats with the data.

Question: Assuming a CHF 4M spend on flights for each of the three timeframes, what are the potential savings if 10% of flight miles that are currently booked 0-6 days in advance instead get booked 7-30 days in advance?

We first have to determine the total number of miles booked 0-6 days in advance. We can do so using the total spend and the median cost per mile:

CHF 4,000,000 / CHF 0.25 = 16,000,000

The next step is to determine the savings potential by reducing the median cost per mile from CHF 0.25 to CHF 0.18:

10% x 16,000,000 x CHF (0.25 – 0.18) = CHF 112,000

This is significantly less than the savings from avoiding travel all together. Whether implementation makes sense will depend on the circumstances – if implementation results e.g. in additional bureaucracy and high cancellation fees due to unavoidable regular short-notice changes in travel plans, then costs will likely outweigh benefits. However, booking early can also catalyze positive change, for example corporate culture (planning meeting well in advance) or redesigned processes (faster travel approval).

A good candidate will discuss implications and caveats proactively. If not discussed early, this would also be a good point in the discussion to ask the candidate where there could be potential errors in the calculation (-> no differentiation by business class in the data).

For **hotels**, there are several levers:
- Room price: Define a maximum allowable room price (likely going to differ by geography)
- Choice of hotel/ bundling: Limit choice of hotels and use collective volume to negotiate better rates
- Timing: Book sufficiently early

For **ground transportation**, levers include:
- Public transit: Use public transit instead of taxis
- Proximity: Encourage booking hotels that are close to where meetings take place

- Train: Assess economics of rebate cards (e.g. half-fare card in Switzerland) and incentivize travelling by train vs. airplane on short distances
- Rental cars: Limit permissible classes (compact standard vs. luxury/ SUV/ sport car)

For hotels and ground transportation, the candidate should be able to provide a clear and to the point explanation how these (and/or additional) levers decrease costs. There is no single right answer here. Not every interviewee will come up with all levers but that is okay.

To allow employees to focus on their core tasks, most companies use travel agencies to make travel arrangement. These agencies charge booking fees for their services, which usually vary depending on whether the employee contacts the agency online or via telephone.

That the agency offer on- and offline booking for different fees is a piece of information that the interviewer will likely have to give to the candidate.

Question: So far, many bookings (70%) at the client are still made via the phone. How much could be saved by increasing the online share to 40%, assuming 32,000 bookings per year and a fee of CHF 30 for an offline and CHF 10 for an online booking?

Increasing the share of online booking by 10% means that for 10% of bookings the fee decreases by CHF 20:

(40% – 30%) x 32,000 x CHF (30–10) = CHF 64,000

The resulting savings are not particularly high, especially given the required behavior change. However, the effect would become significant if all bookings could be switched to online (7 x CHF 64,000 = CHF 448,000).

Following the detailed analysis of the drivers, the next questions are an opportunity to test the business judgement of the candidate. There is no right or wrong answer but the interviewee should be able to clearly and logically communicate where she sees risks and why.

Question: In which areas do you expect most resistance in the company against the identified cost saving measures?

Employees may resist replacing meetings with video or telephone conferences when they do not know their counterparts very well and feel they are missing an opportunity to build personal relationships.

Also, measures which reduce the comfort level while travelling, particularly on longer trips, are likely to be met with resistance:

- Flying economy class instead of business class
- Flying low cost carriers (which usually offer less amenities not just in the air but also on the ground)
- Having a limited choice of hotels
- Not being able to take taxis anymore

Question: What do you think will be key success factors for implementation of the identified measures?

In any change process, but particularly when employees feel they are asked to make sacrifices, it is important that management is fully behind the change and also role modelling it.

Other success factors include:

- Proper planning and tracking of the measures
- Adjusting and enforcing the travel policy
- Communication of the policy changes and their rationales
- Necessary infrastructure to replace in-person meetings is in place, easily accessible, reliable and user-friendly
- Creating incentives (e.g. green team awards, financial incentives to travel less)

The candidate should raise the point that the new measures have to be codified in corporate policy. If necessary, prompt "So how would you deploy these measures in the organization?" This is also a good point for a follow-up question:

Question: What would you do if someone breaches the new travel policy?

Again, there is no right or wrong answer. But the candidate should come up with a differentiated answer that takes into account different motivations for acting against the policy and corresponding sensible actions.

Ideally, violations and breaches will be dealt with in a differentiated matter. Sometimes the reason policies are breached is that they are seen as unfair and unreasonable. This can be prevented by allowing exceptions (e.g. higher booking classes) but only in special circumstances or following manager approval. For a first violation of the travel policy, the employee should be given the benefit of the doubt and just receive a reminder to follow the policy in the future. If an employee repeatedly breaches the travel policy, finance could for example inform the manager of the employee and/ or not reimburse the corresponding expense claims.

Ask the interviewee to summarize our key findings – tell her to imagine being at the client site and running into the Head of Procurement who has two minutes and wants to know what the team has found so far.

Key case insights summary

- The main lever, accounting for up to CHF 5M (or 16.7% of the budget), in reducing travel costs is to reduce travel itself, especially for internal meetings
- Additional opportunities exist in reducing the actual cost of travel, we looked at the main cost types (flights, hotels, ground transportation and booking fees) and found optimization potential in all of them, although usually in the order of 100,000 CHFs
- We will need to quantify all levers to see where the benefit is worth the cost of change, in some instances (for example when it comes to booking online) only high adoption will lead to significant effect
- Implementation will require proper planning and full support of the management team which will be expected to role model the change

II.2

BOSTON CONSULTING GROUP

2.1 COMPANY PROFILE

BOSTON CONSULTING GROUP:

Boston Consulting Group (BCG) ist eine internationale Managementberatung und weltweit führend auf dem Gebiet der Unternehmensstrategie. Wir entwickeln in partnerschaftlicher Zusammenarbeit mit weltweit führenden Unternehmen, staatlichen Institutionen und Non-profit-Organisationen individuelle Lösungen für ihre grössten Herausforderungen und helfen ihnen trotz rasanter Veränderungen wettbewerbsfähig zu bleiben. Zu unseren Kunden zählen Unternehmen aller Branchen, beispielsweise Banken, Versicherungen, Pharmaunternehmen, Konsum- und Industriegüterhersteller sowie Unternehmen aus dem Gesundheitswesen, dem Technologiesektor und der Telekommunikation.

Bei BCG erhältst Du Die Möglichkeit, viele Industrien kennenzulernen und internationale Erfahrungen zu sammeln (Projekteinsätze im Ausland, temporärer Officewechsel). Wir bieten Dir ein Umfeld, in dem Du Dich sehr schnell weiterentwickeln und viel bewegen kannst. Was uns auszeichnet ist das kontinuierliche Streben nach neuen Erkenntnissen, der Wille zum Erfolg und die Entschlossenheit, sich ständig weiter zu verbessern.

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GROWTH FOR BESTRIDES

2.2 CASE

Situation
Two of your friends own and manage a sports start-up providing guided bike tours throughout Switzerland. Customers can book fully organized bike holidays either self-guided or guided. Their tours focus on more difficult trails and are less suited for beginners and are currently centered around the regions of Valais and the Grisons.

Your friends have been quite successful in establishing a strong social media presence incl. an Instagram account of over 30k followers and the number of customers booking their tours has been continuously growing yet they think they are far from reaching their potential.

Your friends have now asked you, an experienced BCG Consultant, to give them some insights into the market, help them estimate the market size and identify how to grow their business as a whole.

Key questions
1. What are key characteristics of the mountain bike market (in particular tours)?
2. What is the approximate market size for mountain bike tours?
3. What are growth opportunities bestrides should focus on in the short-, mid- and long-term?

Guiding instructions for the interviewer
The case is to be solved along an interactive discussion between interviewee and interviewer with the interviewee in the driver's seat.

The additional information presented below should not be distributed up front but used to confirm assumptions made by the interviewee or to help the interviewer steer the discussion if necessary. During interviews a good candidate will always back his assumptions with sound reasoning.

Additional information to be distributed (optional)

Data collected through market surveys

Travellers' composition	
% of solo tours	47
% of 2-person tours	33
% of groups of more than 5	6
% Male	71
% Female	29

Tour length	
% Half-day	56
% Full-day	31
% Multi-day	13

Demographics	
Strongest age demographic	30 – 44 years old
Income level	High
Education level	High
% of revenues generated by international guests	2.5

Bike sales data by year and model size (in #)

Model	2013	2014	2015	2016	2017
26'' Model	87'304	50'954	32'818	17'957	16'694
27.5'' Model	2'993	31'866	45'267	54'202	52'976
29'' Model	22'887	34'260	34'159	30'942	31'672
Total	**113'184**	**117'080**	**112'244**	**103'101**	**101'342**

Revenues generated by Swiss mountain cableways (indexed with 2008 = 100)					
Season	**2013**	**2014**	**2015**	**2016**	**2017**
Summer	141.1	147.7	173.8	173.8	171.6
Winter	87.1	85.2	81.6	74.4	74.9

Overall approach structure

As a first step it is important to understand and define the situation or the problem properly in order to be able to assess the potential solution approach.

Bestrides is a small start-up in a very seasonal niche market. Accordingly, they are strongly dependent on trends in tourism, are likely cash-strapped and growth through large volume is relatively hard to achieve. Given that this is a growth case, cost considerations are not of primary concern, but solutions should reflect potential budgetary constraints.

Overall, the solution should follow the sequence of the guiding questions. In the following some key insights a good interviewee should discuss are highlighted for each guiding question.

1 Key characteristics of the mountain bike market

It is important to note that this is a tourism and leisure case. In the following, key characteristics are elaborated. The candidate is not expected to touch upon all of the listed but a good candidate will follow a structured approach and start by identifying broad characteristics and then drill down into the customers.

A possible structure for the discussion may be structured as follows:

Market characteristics

- **Seasonality:** Mountain bike season runs from late April through October.
- **Dependency on climate:** Most tourists will prefer good weather for their tours, hence rainy, cold or even very hot summers may significant-

ly reduce the number of tourists. Likewise, early or late snowfall may cause damage to trails or cover them in snow preventing the trails from opening.
- **Niche market:** Mountain biking requires an elevated degree of fitness as well as a willingness to take certain risks and remains relatively pricy, narrowing down the number of potential customers.

Growth drivers
- **Market growth:** The development of mountain biking is often tracked through customer surveys and available data is scarce. However, in order to identify possible trends, several proxies can be used such as:
  - *Sales of mountain bikes*
  - *Mountain cableway revenues in summer*

On the one hand, the available data shows a strong increase in cableway revenues generated in summer, indicating a growing interest for the summer season in the mountains, while winter has continuously decreased. It is important to note that all figures are indexed and do not give any indication for the relative size of the revenue pools. On the other hand, sales data for mountain bikes has remained relatively steady except for the newly introduced 27.5” model which gained great popularity after Nino Schurter, a Swiss mountain biker, placed 2nd in the 2012 Olympics on a 27.5” model.

No statement can be made as to whether customers substitute rentals for purchases or whether tour frequency has increased.

Overall, with sales remaining steady and tourists flocking into the mountains in summer and growth only slowing recently, there is (still) revenue potential in bringing people onto bikes.

Customers
- **Customer needs:** Mountain biking being an outdoor sport, most customers will be looking to be in nature, stay in shape and experience some adrenaline. Given the mobility a mountain bike brings, cableways may not be of relevance to everybody but some customers may appreciate unobstructed landscapes.

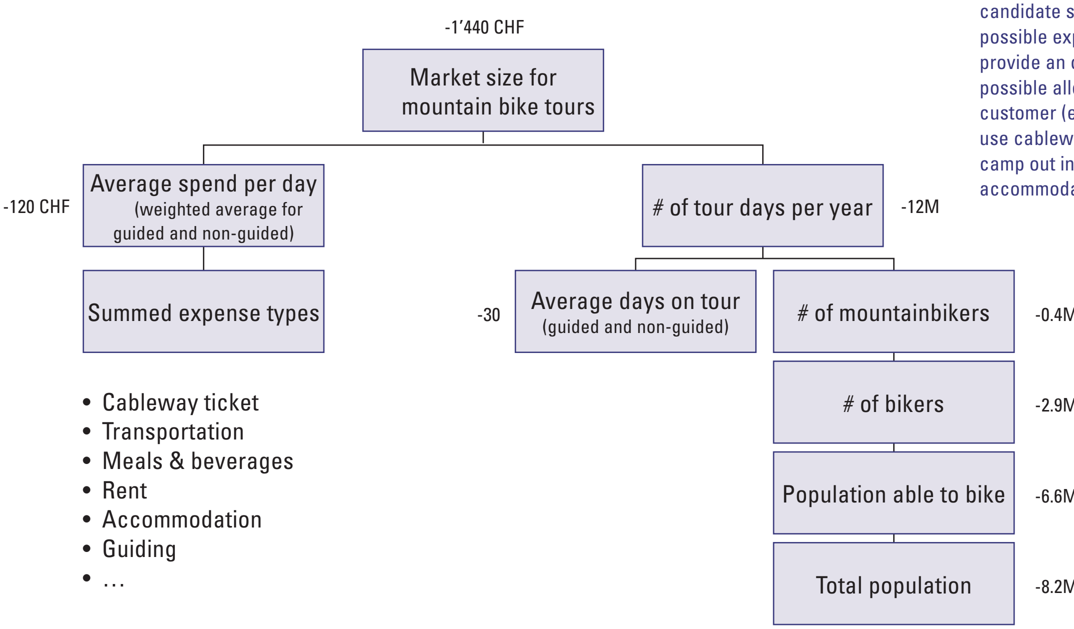
- **Customer demographics:** Mountain biking is generally a more expensive activity with customers requiring a full set of equipment (bike, protection such as helmet, knee protectors, gloves, shirts and shorts) usually costing between 3'000 CHF and 10'000 CHF as well as a means of transportation to the desired destination. Accordingly, most customers will most likely exhibit a high level of income as well as the required age and level of education to earn such an income. In addition, much like many other extreme sports the majority of customers is still male.
- **Customer behavior:** Given the physical and time requirements of mountain biking, most customers will be doing either half- or day-tours with only a smaller percentage going on multi-day tours. Also, as mountain biking is often done on narrow trails (so called single-trails) in particular when including downhill sections, groups of more than 5 people may be unlikely.

2 Sizing the market for mountain bike tours

A general approach to a possible market sizing for Switzerland is outlined below. In the interview, the candidate is expected to elaborate on his/her assumptions and demonstrate sound business judgement.

NOTE 1:
Population able to bike assumes an age bracket of 15 to 74 years old.

NOTE 2:
When calculating the average spend per day, the candidate should state possible expense types and provide an opinion on the possible allocation per customer (e.g. some may not use cableways at all or camp out in the open as accommodation etc.)



3 Deriving recommendations for growth

In order to be able to derive suiting and feasible recommendations it is first essential to obtain more information about the company you are consulting. The following information should be actively sought out by the interviewee:

Bestrides

Employees: 2 (the founders)
Founded: 2015
Revenue: 300'000 CHF
Profit: 50'000 CHF
Prices: Self-guided packages start at 490 CHF p.P. for four days/three nights and a one week pack-age incl. guiding and transportation is set at 1990 CHF p.P. Prices may vary depending on the type of accommodation chosen.

How the offering works: Customers can book tailored mountain bike tours as a flexible package (incl. public transportation, accommodation and guiding if needed) with a four day/three night minimum. Tours may be guided or self-guided and be designed to the customers' needs. One of bestrides key offerings is the possibility to change itineraries and trail recommendations on a daily basis (e.g. moving the base from Davos to St. Moritz to explore more of the country). Bestrides takes a booking and service fee for each tour and the owners do as much guiding as they can themselves and organize certified guides for the rest of the customers.

Partnerships: In parts thanks to their increasing social media presence, bestrides has been able to get sponsorship deals and partnerships with selected resorts as well as gear and bike brands. Currently those provide the founders with free equipment and accommodation but no additional fees are paid or other supporting services rendered.

Key recommendations

A strong recommendation should include short-, mid-, as well as long-term measures. In the following possible recommendations are outlined. It is to be noted, however, that these are not exhaustive and strong candidates may also develop more or other recommendations but will present a coherent set as all recommendations cannot be implemented at once.

To structure different growth initiatives, short-, mid- and long-term initiatives can be designed around three key levers:

A. Leverage existing assets and channels to increase revenue
B. Increase awareness with existing and new target groups to win new customers
C. Expand offering to create new revenue streams and smooth seasonality

A. Short-term: Leverage social media presence and charge for advertisements

Bestrides' social media presence is currently an underused asset. Cooperating with suitable partners such as hotels, tourism organizations or bike and apparel companies may bring in significant revenues as, these days, accounts with more than 10'000 followers on Instagram can earn more than 100$ per sponsored photo. Similarly, bestrides could post selected advertisements of partners to further boost their revenues.

B. Mid-term: Launching marketing campaigns and foster cooperation with tourism organizations

Looking at the market data presented previously, international guests are disproportionally underrepresented, in particular when assuming the overall percentage of international guests is much higher than those opting for mountain bike tours. Thus, large opportunity lies in addressing foreign travel agencies or local tourism organizations to increase popularity among international guests.

Similarly, the data shows that most of the mountain biking guests are male and ride alone. Hence, offering tailored couples packages coupled with a respective advertising campaign would bring new guests but also allow for cost-savings in room-bookings. Finally, with women still being underrepresented, targeting women directly or offering girls' tours could also bring in new guests.

C. Short- and long-term: Expanding the offering

1. As can be taken from the previous market discussion, most mountain bikers take half- or one-day tours but bestrides does not provide such an offering. Accordingly, it is recommended to expand the offering to one-

day tours and advertise so. Thereby, it will be essential to target customers where they are and cooperate with local tourism organizations to place the offering.

2. One of the key challenges bestrides is facing is the seasonality of their business model. Currently the company only generates revenues during 6 months out of the year. Hence in order to enable long-term growth other sources of income are essential. As one of the key value proposition of their offering is the ability to flexibly alter your travel itinerary, a comparable offering for guided ski-tours in winter may be lucrative. Through potentially existing relationships to the stations they serve in summer, a winter-offering could be set-up within an 18-24 month window.

Other recommendations to possibly be elaborated could include:

Hiring a coordinator and administrative support:
With the owners currently handling all processes in their entirety, administration is an opportunity cost to exploring new routes, negotiating partnerships or guiding. Hence, hiring a (part-time) administrative support to coordinate requests and arising issues centrally would allow the owners to put more time into developing their business.

Establishing a rental service:
As one of the large barriers to mountain biking is the expensive equipment, international guests in particular would likely appreciate the opportunity to have rentals included in the package. Existing partnerships could be used to build a rental service. Coupled with a marketing campaign targeted at international customers, rental shops in Geneva and Zurich would provide guests with on-arrival equipment, making for a hassle free ready to go experience. Given the lead-time required for negotiations and for marketing campaigns to come into effect, this measure would require a window of 12–24 months.

Expanding the depth of the offering:
Additional revenue generating measures could be built around offering more tours targeted at beginners, trying to pool solo riders into groups by offering multi-day bike camps or offering on-tour photoshoots for a fee to give guests something to remember the trip by.

Expanding into neighboring countries:
Finally, part of Switzerland's appeal also lies with its proximity to France, Italy or Austria with the Alps building a large connecting mountain range. Operating tours to or in neighboring countries provides an attractive expansion of the current offering for Swiss guests as well as international guests coming into Switzerland while also allowing to target guests in neighboring countries.

Wrap-Up
To conclude the interview, the candidate should provide a short and concise summary of the case. A strong summary will briefly touch the initial situation, summarize the main findings of the market discussion as well as the market sizing and conclude on the key recommendations.

II.3

MCKINSEY & COMPANY

3.1 COMPANY PROFILE

MCKINSEY & COMPANY

McKinsey ist die weltweit führende Topmanagement-Beratung. Seit fast einem Jahrhundert greifen Führungskräfte auf unsere Expertise zurück. Wir sind darauf spezialisiert, in enger Zusammenarbeit mit unseren Klienten praxisnahe Problemlösungen zu entwickeln. Der Beratung von McKinsey vertrauen 90 der weltweit 100 grössten Firmen gemäss der Forbes Global 2000 Liste. Das Spektrum an Klienten reicht von internationalen Spitzenunternehmen über Regierungsstellen zu öffentlichen und privaten Organisationen.

In den vergangenen zehn Jahren hat McKinsey seine Expertise in Gebiete wie digitale Transformation, Advanced Analytics, Design und Implementierung erweitert, um unsere Klienten auch in einer sich rasch verändernden Zeit optimal unterstützen zu können. McKinsey ist in 65 Ländern mit 129 Büros präsent und zählt heute nahezu 30'000 Mitarbeitende. In der Schweiz ist McKinsey mit Büros in Zürich und Genf vertreten.

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DICONSA

3.2 CASE

Client goal

The Gates Foundation is a private organization with vast ambitions; one of its goals is to reduce extreme poverty worldwide. In this case study, the foundation asked McKinsey to design a basic financial-services offering for inhabitants of remote communities in Mexico.

Description of situation

The majority of Mexico's rural inhabitants are relatively poor, relying in part on government benefits for their livelihood. As they tend not to have bank accounts, they usually collect government benefits in cash from a limited number of state-bank branches. These branches are often a long way from where the recipients live, so it can take a lot of time and effort for them to collect their benefits. In addition, traveling to the branches can sometimes expose benefit recipients to crime along the way.

The Mexican government also owns and operates a chain of 22,000 stores, throughout Mexico, called Diconsa, which provide basic food, clothes, and other essential goods to the rural population. These stores are supplied via a network of central and regional warehouses and several thousand delivery trucks.

McKinsey study

McKinsey has been asked to investigate and assess the possibility of using the Diconsa network to provide a basic set of financial services to supplement the limited number of state-bank branches. The offer would start with dispensing government-benefit payments and move progressively to include savings accounts, bill payment, insurance, credit, and other financial products.

Helpful hints

Write down important information.

- Feel free to ask the interviewer for an explanation of any point that is not clear to you.
- Remember that calculators are not allowed - you may write out your calculations on paper during the interviews.

Question 1:
What should the team investigate to determine whether the Diconsa network could and should be leveraged to provide a range of basic financial services to Mexico's rural population?

Helpful hints
- Take time to organize your thoughts before answering. This will help show your interviewer that you have a logical approach and can think in an organized way, regardless of the "accuracy" of the outcome.
- Develop an overall approach before diving into details.

A good answer might include the following:
What are the benefits that might come from providing financial services via the Diconsa network?

For the Mexican rural population
- How much time, effort, and expense would the benefit recipient save through the Diconsa network (for example, through shorter travel time)?
- Beyond what was stated in the summary, what would be the benefits to the rural population of access to a broader range of financial services? (for example, better security for their money)?

For the government, state bank, and Diconsa network
- Would there be benefits for the government in terms of increased compliance/collection of benefits (for example lower administration costs)?
- Would these financial services result in better financial management among the rural population (for example, more business for Diconsa stores)?
- Would this alternative model reduce pressure and increase efficiency for the bank branches that are currently distributing benefit payments?

What are the risks that could occur from the venture? Some examples follow:
- Lack of capacity or ability of the Diconsa network to deal with financial payments and products
- Lack of capacity of state bank to operate financial services across a much greater network of outlets

- Greater risk of fraud or theft due to less centralized control of benefit payments

A very good answer might articulate some less obvious benefits or risks to be investigated, such as the following example:

- The possible benefit of less cash being transported within the Diconsa network because stores are now receiving cash and paying some of that cash out again, so cash balances may be lower and less cash needs to be transported to and from the warehouses. This may result in a lower cost as well as lower security risk for the Diconsa network.
- Benefits for the Gates Foundation of potentially providing a model that may be replicable in other countries
- Benefits to the government in proving a model for distribution of a broader range of services (for example, telecommunications or healthcare).

Question 2:

The team has estimated that it currently costs a family 50 pesos per month in transportation and food to make the journey to collect their benefit payments. The team also estimates that if benefits were available for collection at local Diconsa stores, the cost would be reduced by 30 percent.

Twenty percent of Mexico's population is rural, and of this number half currently receive state benefits.

If all families could receive state benefits at their local Diconsa stores, how much in total per year would be saved across all Mexican rural families receiving state benefits?

Your interviewer can provide you with the following information if requested:

You can assume that Mexico has a population of 100 million.

You can also assume that families in Mexico have four members, on average, and that this does not differ by region.

Helpful hints

- Don't feel rushed into performing calculations. Take your time.
- Talk your interviewer through your steps so that you can demonstrate an organized approach.

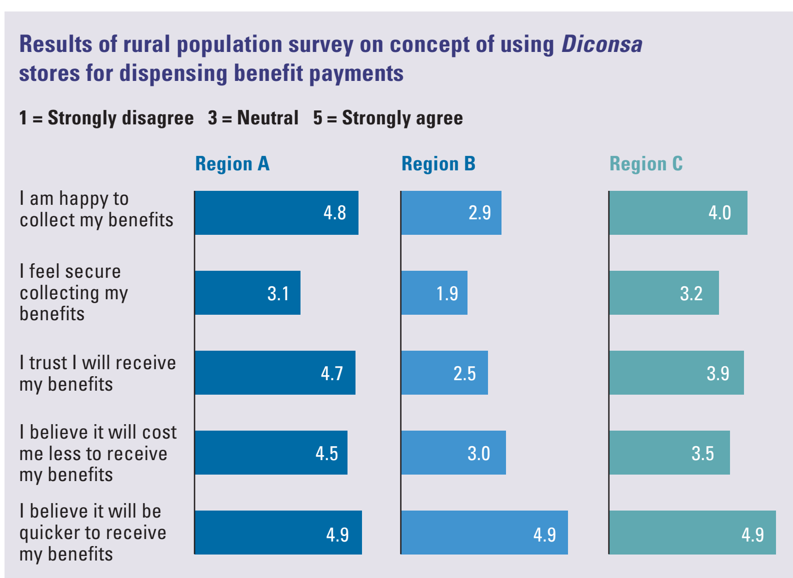
A good answer to this question would involve the following steps:

- There are 5 million families in rural Mexico (20% x 100m ÷ 4 per family).
- There are 2.5 million families receiving benefits (50% x 5 million families).
- Each family currently spends 600 pesos per year to receive their benefits (50 pesos per month x 12 months).
- In total 1.5 billion pesos per year is spent by families in receiving their benefits (600 pesos x 2.5 million families).
- 450 million pesos could be saved (30% x 1.5 billion pesos).

A very good response might note that these potential savings could be redirected to enhance the benefit system further, and that there may be other costs that could be saved also, such as the cost of lost working time in making the journey to collect benefits (that is, opportunity costs).

Question 3:

The team conducted a survey on a sample of the rural population in three different regions of Mexico. These populations were given a number of statements about the concept of collecting their benefits at the nearest Diconsa store and asked how much they agreed with each statement. The average response to some of the questions by region is shown below:



Results of rural population survey on concept of using *Diconsa* stores for dispensing benefit payments

What are your observations about this information, and how would you explain these trends?

Helpful hints

- Take some time to look at the information and note down any observations you have.
- Challenge yourself to identify trends that are not immediately obvious in the data.

A good answer might include the following:

- There are significant differences by region on how interested people are in collecting their benefits at their nearest Diconsa.
- All people have a security concern about collecting their benefits at a Diconsa, but this is particularly the case in Region B.
- People are not so concerned about whether they will receive their benefits, except in Region B.
- Not everyone is completely convinced that it will cost them less to collect benefits from their nearest Diconsa, despite the fact that they all agree it will save them time.
- Broadly speaking, security, trust and cost effectiveness all seem to influence whether someone is interested in collecting their benefits at a Diconsa. People's perception of these seem to differ by region, with Region B being a particular issue.

A very good answer to this question might also suggest possible reasons for the observations above:

- One potential explanation for the results of Region B is that this region has significantly greater levels of crime and corruption, which means that people are less convinced that they will receive their benefits or that they can keep them secure once received.
- Security overall is the issue that is consistently lowest rated across the regions which may indicate that there is a relatively high degree of crime in all these areas.
- Even though everyone agrees that this idea would save them time, there is disagreement that it would save them money. This might indicate that certain stores are distrusted more than others. For example, store proprietors may not be happy to just dispense cash without the recipient making a purchase. This is supported by the fact that the responses on

‘trust’ and ‘cost’ are correlated. This might have implications for the compensation/incentive model of managers of the Diconsa.

Question 4:
In a meeting with representatives of the state bank, they express concern about how challenging it will be to offer basic financial products to the rural population.

One of the representatives mentions that these are regions where people are poorly educated and unfamiliar with banking products, and where there is a high degree of crime and fraud. He asks for the team’s thoughts about how the bank could sell these services effectively to this population given the challenges.

Helpful hint
- Consider the issues raised in the question, and group your thoughts around them. This will ensure that you are giving the most relevant answers.

A good answer to this question might include:
If available, examples of how basic financial services have been successfully introduced into other poor populations, and how that learning could be leveraged in this case.

Suggestions for how to overcome the lack of education and familiarity with banking products, for example:
- Pilot some products in certain regions where the population might be more receptive, so that less receptive people can see that they are already being used by others in similar situations.
- Arrange in-store talks and demonstrations, focusing on educating people on what the products are and how they can be used, and dispelling common causes of distrust.
- Partner with brands or organizations that are already well known and trusted by the rural poor.
- Advertise using individuals who have benefited from similar products, for example, people who have made successful insurance claims, or who managed to save money for a specific need.
- Motivate Diconsa employees to encourage take-up of the products.

- Offer promotions to encourage initial take-up, for example, pay 50 pesos when the first savings deposit is made

Suggestions to overcome crime and fraud could include the following:

- Increase security in Diconsa stores.
- Impose daily or weekly limits on transactions.
- Introduce technology such as chip cards to reduce fraudulent activity and to discourage crime through less use of cash.

A very good answer may involve suggestions that can address all of the concerns together such as the following:

- Introduce compulsory secure chip cards for all benefit recipients to verify their identity when collecting benefits which can help.
- These chip cards can be designed to handle financial-services transactions such as savings accounts or bill payment, and the fact that the population is already familiar with the technology can make them more open to the new services.

3.3 CASE

ELECTRO-LIGHT

Client goal

Our client is *SuperSoda*. *SuperSoda* is a top-three beverage producer in the United States and has approached McKinsey for help in designing a product-launch strategy.

Description of situation

As an integrated beverage company, *SuperSoda* leads its own brand design, marketing, and sales efforts. In addition, the company owns the entire beverage supply chain, including production of concentrates, bottling and packaging, and distribution to retail outlets. *SuperSoda* has a considerable number of brands across carbonated and non-carbonated drinks, five large bottling plants throughout the country, and distribution agreements with most major retailers.

SuperSoda is evaluating the launch of a new product, a flavored sports drink called *Electro-Light*. Sports drinks are usually designed to replenish both energy (sugars) and electrolytes (salts) in the body. However, *Electro-Light* has been formulated to focus more on the replenishment of electrolytes and has a reduced sugar content compared to most other sports drinks. The company expects this new beverage to capitalize on the recent trend away from sugar-rich products.

McKinsey study

SuperSoda's vice president of marketing has asked McKinsey to help analyze the major factors surrounding the launch of *Electro-Light* and its own internal capabilities to support the effort.

Helpful hints

- Write down important information.
- Feel free to ask the interviewer for an explanation of any point that is not clear to you.
- Remember that calculators are not allowed - you may write out your calculations on paper during the interviews.

Question 1:
What key factors should SuperSoda consider in deciding whether or not to launch Electro-Light?

Helpful hints

- Take time to organize your thoughts before answering. This tells the interviewer that you think about the problem in a logical way.
- Develop an overall approach before diving into details.

A good answer would include the following:
Consumers. Who drinks sports drinks? Are there specific market segments to address?

Cost/price. Is the sports drinks market more profitable than those markets for *SuperSoda's* current products? Is it possible to profitably sell (at a price set by the market and internal production costs) Electro-Light? Given the fixed costs involved, what would be the break-even point for *Electro-Light?*

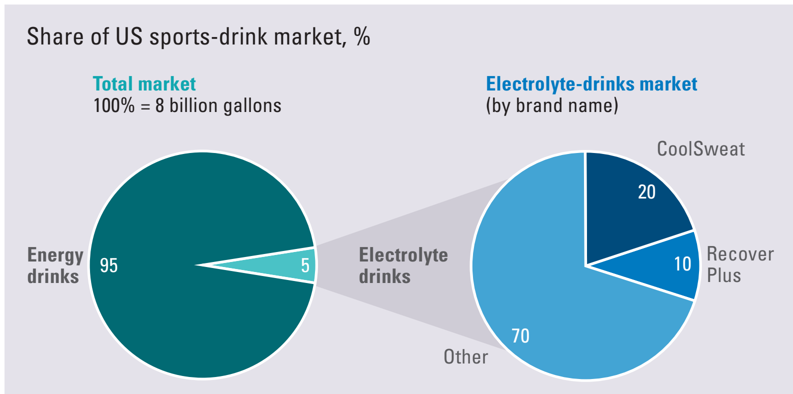
Competitors. Which products will Electro-Light compete with? Which companies are key players and how will they react?

A very good answer might also include multiple additional key factors SuperSoda should consider. For example:
Capabilities and capacity. Are the required marketing and sales capabilities available within SuperSoda? Does the product require specialized production, packaging, or distribution? Is it possible to accommodate *Electro-Light* in the current production and distribution facilities? What impact does geography have on the plant selection?

Channels. What is the ideal distribution channel for this product? Are current retail outlets willing to add Electro-Light to their product catalogue?

Question 2:
After reviewing the key factors *SuperSoda* should consider in deciding whether to launch *Electro-Light*, your team wants to understand the beverage market and consumer preferences to gauge potential success of Electro-Light.

Your team has gathered the following information on the US sports-drink market. The information shows an estimate for the share of electrolyte drinks, as well as the current share for the two main electrolyte products: *CoolSweat* and *RecoverPlus*.



Based on the target price and up-front fixed costs, what share of the electrolyte drink market would *Electro-Light* need to capture in order to break even? Here is some additional information for you to consider as you form your response:

- *Electro-Light* would launch in a 16-ounce presentation (one-eighth of a gallon) with a price of $2 to retailers.
- In order to launch *Electro-Light, SuperSoda* would need to incur $40 million as total fixed costs, including marketing expenses as well as increased costs across the production and distribution network.
  The vice president of operations estimates that each bottle would cost $1.90 to produce and deliver in the newly established process.

Helpful hints

- Ask for clarification of information.
- Take notes of the numbers, and don't be concerned if the units are unfamiliar to you.
- Take time to plan out how to approach the calculation.
  Describe your approach and talk the interviewer through your calculation. The more you talk the easier it will be for your interviewer to help

you.

A very good answer would include the following:

Electro-Light would need to capture a 12.5 percent market share of electrolyte drinks in order to break even. Therefore, Electro-Light would need to be the number-two product in the market:

1. *Electro-Light would* need to sell 400 million units in order to break even:
   - Variable profit per unit = $2.00 – $1.90 = $0.10
   - Break even units = Total fixed costs/Variable profit per unit = $40 million/$0.10 per unit = 400 million units

2. *Electro-Light* would need to capture a 12.5 percent market share:
   - Electrolyte drinks market = 5% x 8,000 million gallons = 400 million gallons
   - *Electro-Light* sales in millions of gallons = 400 million units/8 units per gallon = 50 million gallons
   - Market share = 50 million gallons/400 million gallons = 12.5%

Question 3:

SuperSoda executives believe that the company's position as a top three beverage company gives them strategic strengths toward achieving the desired market share. However, they ask the team to outline what would be needed to achieve the target of a 12.5 percent share of the electrolyte-drinks market. What would *SuperSoda* need to do to gain the required market share for *Electro-Light* following its launch?

A very good answer would include the following.

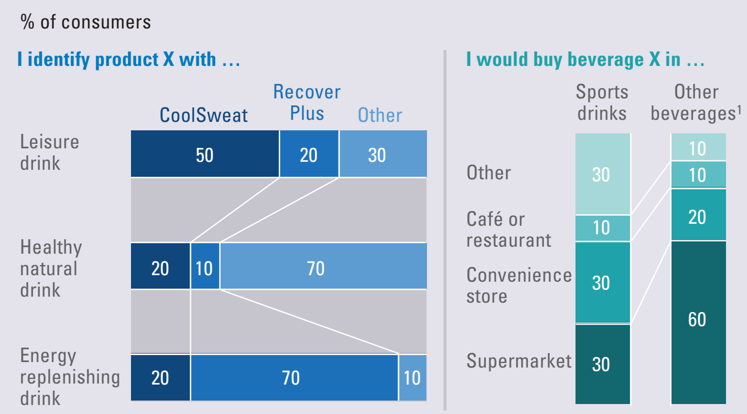
Match with consumer preferences. Ensure product image, attributes, and quality fulfill the needs of all consumers or niche segment, reaching desired market share. Ensure target price is consistent with other products in the market and the consumer's expectations

Strong branding/marketing. Create a successful introductory marketing campaign, including advertising, pricing, and bundling promotions. Leverage top-three producer status and limited market fragmentation in order to position *Electro-Light* brand within top three in the market segment. Anticipate response from competitors (for example, advertising, pricing, distribution agreements). Ensure product positioning does not cannibalize on other, more profitable *SuperSoda* products. *(Note: in marketing, the decreased demand for an existing product that occurs when its vendor releases a new or similar product is called "cannibalization." It is not important for you to use this business terminology.)*

Operational capabilities. Ensure access to preferred distribution channels. Ensure sales-force capabilities to sell the new product. Ensure production ramp-up that allows response to increased demand.

Question 4:

To help *SuperSoda* determine how best to launch the new *Electro-Light* product, the team conducted a consumer-research study. The following information shows results from the study. What can you conclude from this regarding how the new *Electro-Light* product should be launched?



[1]For example other *SuperSoda* products.

A very good answer would include the following insights:

Branding should emphasize "healthy natural" identity. "Leisure drink" identity is dominated by *CoolSweat* product, "energy replenishing" by *RecoverPlus*, and "healthy natural" fragmented in other products. There is a clear niche within the "healthy natural" identity, with top-two brands currently occupying only 30 percent of share of mind. "Healthy natural" branding should also determine thinking around the sales channels (for example, sales through health and nutrition outlets, health aisles at supermarkets).

Distribution differs from current outlets and needs new agreements/research. Major shifts compared to current distribution model required in "supermarkets," "other," and "convenience stores." Agreements with major retail players may accommodate product introduction, with *SuperSoda* managing mix across channels. "Other" channels need further research, since they are a major component of the sports-drink segment.

Marketing message to emphasize identity and availability. Marketing campaign should be built around the currently unaddressed market need for "healthy natural" drink in order to connect with customers in that segment. Given required changes in distribution channels, *Electro-Light* messaging should clarify new distribution strategy.

3.4 CASE

GLOBAPHARM

Client goal

Our client is GlobaPharm, a major pharmaceutical company (pharmaco) with $10 billion a year in revenue. Its corporate headquarters and primary research and development (R&D) centers are in Germany, with regional sales offices worldwide.

Description of situation

GlobaPharm has a long, successful tradition in researching, developing, and selling "small molecule" drugs. This class of drugs represents the vast majority of drugs today, including aspirin and most blood-pressure or cholesterol medications. GlobaPharm is interested in entering a new, rapidly growing segment of drugs called "biologicals." These are often proteins or other large, complex molecules that can treat conditions not addressable by traditional drugs.

R&D for biologicals is vastly different from small-molecule R&D. To gain these capabilities, pharmacos have three options: they can build them from scratch, partner with existing start-ups, or acquire the start-ups. Since its competitors are already several years ahead of GlobaPharm, GlobaPharm wants to jumpstart its biologicals program by acquiring BioFuture, a leading biologicals start-up based in the San Francisco area. BioFuture was founded 12 years ago by several prominent scientists and now employs 200 people. It is publicly traded and at its current share price the company is worth about $1 billion in total.

McKinsey study

GlobaPharm has engaged McKinsey to evaluate the BioFuture acquisition and to advise on its strategic fit with GlobaPharm's biologicals strategy. Our overall question today, therefore, is "Should GlobaPharm acquire BioFuture?"

Helpful hints

- Write down important information.
- Feel free to ask the interviewer for an explanation of any point that is not clear to you.
- Remember that calculators are not allowed - you may write out your calculations on paper during the interviews.

Question 1:
What factors should the team consider when evaluating whether GlobaPharm should acquire BioFuture?

Helpful hints
- Take time to organize your thoughts before answering. This tells the interviewer that you think about the problem in a logical way.
- Develop an overall approach before diving into details.

A good answer would include the following:
- The value of BioFuture's drug pipeline, number of drugs currently in development, quality of drugs (likelihood of success), potential revenues and profits
- BioFuture's R&D capabilities (future drug pipeline), scientific talent, intellectual property (for example, patents, proprietary processes or know-how for biologicals research), and buildings, equipment, and other items that allow BioFuture's R&D to operate.
- BioFuture's marketing or sales capabilities. Especially how promotional messages will be delivered, for example, relationships with key opinion leaders that can promote biologicals; key opinion leaders can come from the academic arena, like prominent medical school professors, or from the public arena, like heads of regulatory bodies or prominent telejournalists.
- Acquisition price.

A very good answer might also include multiple additional key factors GlobaPharm should consider:
- BioFuture's existing partnerships or other relationships with pharmacos.
- GlobaPharm's capability gaps in biologicals, R&D, sales and marketing, etc.
- GlobaPharm's alternatives to this acquisition. Alternative companies GlobaPharm could acquire. Other strategies for entering biological segment, for example, entering partnerships rather than acquiring, and pursuing other strategies than entering the biological segment

Question 2:
The team wants to explore BioFuture's current drug pipeline. The team decides to focus first on evaluating the value of BioFuture's current drug

portfolio. What issues should the team consider when evaluating the value of BioFuture's existing drug pipeline?

Helpful hints

- Be sure to mention a range of potential issues to explore instead of immediately diving very deep into one issue. Then ask your interviewer if he or she wants to go deeper on any of them specifically

A good answer would include the following:

- Further cost of R&D until each drug is ready to be sold.
- Potential value of selling each drug.
- Market size, for example, size of patient population, pricing
- Market share, for example, number of competitive drugs in R&D or on the market; different side effects, convenient dosing schedule (that is, patients are prescribed to take a drug at regular intervals that are easy to remember such as once a day or every 12 hours)
- Costs to manufacture and sell, for example, marketing, distribution
- Press about these drugs, for instance, have famous doctors called for this kind of drug? Is it only slightly improving on what is on the market already?

A very good answer would also include the following:

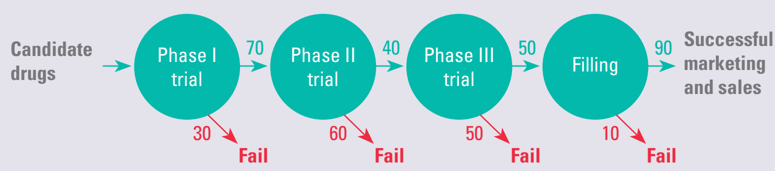
- Risk level
- Likelihood clinical trials of a drug will prove effective
- Likelihood that a drug will win regulatory approval
- Side effects and potential legal exposure, for example, potential law suits due to unexpected side effects
- Emergence of substitutes: are competitors working on substitutes already? Is it about speed and does BioFuture have enough researchers working on the respective drugs?
- Strength of underlying patents, that is, how likely is it that a competitor can successfully copy BioFuture's drug?

Question 3:

Below is a description of expected probability of success, by stage, in the Pharma R&D pipeline.

Note: "Filing" is the process of submitting all of the clinical and safety evidence from Phase I, II, and III trials, and asking for regulatory approval to actually sell the drug.

Expected probality of success, by stage of research and development, %



GlobaPharm believes that the likelihood of success of BioFuture's primary drug candidate can be improved by investing an additional $150 million in a larger Phase II trial. The hope is that this investment would raise the success rate in Phase II, meaning that more candidate drugs successfully make it to Phase III and beyond. By how much would the Phase II success rate need to increase in order for this investment to break even?

The interviewer would tell you to assume that if the drug is successfully marketed and sold, it would be worth $1.2 billion (that is, the present value of all future profits from selling the drug is $1.2 billion).

Helpful hints

- Ask for clarification of information if necessary.
- Take notes of the numbers.
- Take time to plan out how to approach the calculation.
- Describe your approach and talk the interviewer through your calculation.

A very good answer would include the following.

Investment would need to increase the probability of success in Phase II from 40 to 80 percent (that is, increase of 40 percentage points). There are multiple ways to approach this calculation. One method is shown here:

- If a candidate drug passes Phase II, then it has a 50% x 90% = 45% chance of being successfully marketed and sold. Since a successful candidate drug is worth $1.2 billion, a candidate drug that passes Phase II is worth 45% x $1.2 billion = $540 million.
- To break even (that is, to make the $150 million investment worthwhile), the value of the candidate drug that passes Phase II would need to increase to $540 million + $150 million = $690 million. This means, the probability of combined success in Phase I and II would need to increase by (150/540) = 28 percentage points.

- So the current probability of Phase I and II, that is, 70% x 40% = 28% would have to increase by 28 percentage points, to 56%. In order to come up to 56%, Phase II probability would have to increase from 40% to 80% (70% x 80% = 56%).
- This seems like a very big challenge, as an increase by 40 percentage points means that the current probability of 40% needs to double.

Helpful hint

It is always good to provide a "sanity check" on your numbers and to provide common-sense commentary and insights on the implication of your calculations.

Question 4:

Next, the team explores the potential setup with BioFuture after the acquisition. Although BioFuture's existing drug pipeline is relatively limited, GlobaPharm is highly interested in its ability to serve as a biological research "engine" that, when combined with GlobaPharm's existing R&D assets, will produce many candidate drugs over the next 10 years.

What are your hypotheses on the major risks of integrating the R&D functions of BioFuture and GlobaPharm?

A very good answer would include the following:

- Scientists do not have overlapping disease (therapeutic area) interests or expertise and are unable to materially collaborate.
- Integration into the process-driven GlobaPharm culture kills the entrepreneurial culture at BioFuture that has been key to its success.
- Language barriers severely hinder communication and sharing of information.
- Poor management and sense of community as a result of R&D operations that might come with a time difference of 9 hours.
- Key scientific talent leaving BioFuture after the acquisition – either because acquisition makes them independently wealthy or because they don't want to be a part of the new big GlobaPharm pharmaco.

Helpful hint

- Recognize the "human element" of organizational change is always a key component of our work. Don't forget to include these types of insights in your answers.

TRANSFORMING A NATIONAL EDUCATION SYSTEM

3.5 CASE

Client goal

Loravia is a fictional country located in Eastern Europe with a population of 20 million. The government of Loravia wants to achieve major improvements in both the quantity and quality of education for its children. Because McKinsey has great deal of global knowledge and expertise in the education sector, the Loravian Department of Education has asked McKinsey to provide advice on how they can achieve this transformation in its school system.

Description of situation

Loravia's free-market economy is still developing, having emerged from many decades under communism. Recently, the government of Loravia put in place a new economic plan, with aspirations to transform its economy and "turbocharge" its development so that it is well positioned to compete with its European neighbors. The government of Loravia realizes that the education of its children is a critical factor in meeting its economic-development goals. It intends to transform its school system over the next 10 years so that it is able to support its economic aspirations.

Schooling in Loravia is completely public, and is provided by a network of government-run schools, which admit children from ages 5 through 18.

The first stage of this effort is to diagnose the current state of education in schools in Loravia to determine how best to meet the government's future aspirations.

McKinsey study

McKinsey has been asked to support the Loravian Department of Education in diagnosing the condition of its current school system, and in identifying the most important areas for improvement.

Helpful hints

- Write down important information.
- Feel free to ask the interviewer for an explanation of any point that is not clear to you.
- Remember that calculators are not allowed - you may write out your calculations on paper during the interviews.

Question 1:

What are the issues you would want to investigate in diagnosing the condition of the current school system in Loravia?

Helpful hints

- Take time to organize your thoughts before answering. This tells the interviewer that you think about the problem in a logical way. Develop overall approach before diving into details.

A good answer might consider both the quantity and the quality of available education and how these influence key education outcomes, such as performance in key assessments. Such an answer might also suggest comparisons with other countries (such as regional neighbors, or comparable countries in size or economic output).

Issues related to **quantity** might include:

- access to education and how this differs by age, region and demographic groups
- supply of teachers and education resources both at a national level and a regional or local level
- spend on education nationally and regionally/locally

Issues related to **quality** might include:

- quality of the current curriculum, for example the subjects taught in schools and the attainment/knowledge objectives
- quality of teaching, for example the qualification level of teachers, results of teacher assessments
- A very good answer might acknowledge a need to consider Loravia's broader economic objectives in the diagnostic or the current overall structure of its school system, for example:
- What industries and sectors will be a priority for Loravia in the future and what skills will be needed?
- How well does the current education system develop these skills?
- Should alternative models to a public education system be considered, for example, independent or private schools?

Question 2:

The chart below shows some important education-related measures for Loravia, and also for some comparison countries. Three sets of comparison countries have been used. In the first set are some of Loravia's neighboring countries in Eastern Europe. In the second set are some of the most developed economies in Europe. Finally, in the third set are some countries that have similar sized economies to Loravia on a per person basis (similar GDP per capita).

What can you observe from this chart?

	Students per school	Students per teacher	Government spending education per student (US$)	Average international assessment score
Loravia	500	18	5,000	41
Close neighbors				
Neighbor A	400	16	3,000	38
Neighbor B	700	20	4,000	43
Neighbor C	800	20	5,500	48
Developed EU economies				
Neighbor A	500	21	8,000	54
Neighbor B	350	23	8,500	55
Neighbor C	400	20	9,000	53
Similar economies				
Similar A	600	22	3,500	45
Similar B	500	20	4,000	44
Similar C	300	19	4,500	46

Helpful hints

- Take some time to look at the information and note any observations you have.
- Challenge yourself to identify trends that are not immediately obvious within the data.
- If you need to, ask your interviewer some clarifying questions. For example, your interviewer can tell you that a higher score indicates a higher level of average student achievement in the international assessment.

A good answer might include the following observations:

- Loravia spends a higher amount on education compared to the majority of its neighbors and its economic peers.
- Loravia also has a lower student/teacher ratio compared to the majority of its neighbors and its economic peers.
- Despite both of the above, Loravia has one of the lowest international assessment scores.
- Broadly, there seems to be no direct relationship between student to teacher ratio and education outcome as measured by the international assessment.
- Developed countries clearly spend more per student on education and have better outcomes as measured by the international assessment. However, among Loravia's peers and neighbors there is no clear relationship between spending and education outcomes.

A very good answer might suggest some reasons for the trends observed, draw some conclusions and/or refer back to the initial aims of the work:

- The variation in the number of students per school is likely to reflect the geographical distribution of the populations of the countries.
- While student/teacher ratios and per student funding are levers that could be considered important in improving education quality, the data here indicates that these may not in themselves provide the sought for improvement. Issues such as teacher quality and curriculum content should be investigated.
- The international assessment may not be the best measure of the skills that will be needed in the future Loravian economy. Further research on the international assessment would be needed to determine how seriously its results should be taken. For example, if language abilities or technology skills are important for the Loravian economy, what are the best assessments/measures of these?

Question 3:

One of the clients at the Loravian Department of Education mentions the example of neighbor country C, which outperforms all of Loravia's economic peers and neighbors in the international assessment. She believes that the more concentrated school structure in this country is a big reason for its better outcomes in the international assessment. She suggests that having larger, less fragmented schools allows for more effective selection and training of teachers, leading to improved education outcomes for the students.

What would be the reduction in the total number of schools in Loravia if it were to reach the same average school size as neighbor country C?

Your interviewer can provide you with the following information if requested:
- 15 percent of Loravia's population are currently attending school.

Helpful hints
- Don't feel rushed into performing calculations. Take your time.
- Talk your interviewer through your steps so that you can demonstrate an organized approach.

A good answer to this question might involve the following steps:
- There are 3 million school children in Loravia (15% x 20 million).
- There are currently 6,000 schools across Loravia (=3 million school children divided by 500 per school).
- Assuming the same school size as neighbor C would give 3,750 schools across Loravia.
- Therefore, 2,250 schools would be closed (or 37.5% of schools).

A very good answer to this question might acknowledge that this is probably an unrealistic target. Although some consolidation of schools may be possible in certain areas, a wholesale restructure could be counter-productive, given that many students and teachers would now have to travel much longer distances to school. This could generate other problems such as staff shortages or poor attendance, and could create much higher financial burden on the government and families.

Question 4:
Based on the issues and information discussed so far, what further issues would you want to investigate as part of the diagnostic of the current education system in Loravia?

Helpful hints
- Take some time to consider what has been investigated in previous questions and what the conclusions have been.
- Summarize for the interviewer what has been determined so far. What

further investigations might be necessary?

- Keep your eye on the overall objective. Refer back to the set of issues that were outlined in question 1 as you answer this question.

A good answer to this question might outline what issues we have attempted to investigate thus far and what has still to be investigated:

- We have looked mostly at quantity issues (for example, teacher and school supply, education spend) and how these relate to a single education outcome.
- We could continue to investigate these issues, and there are likely to be other measures of education outcomes that could be considered, such as alternative assessments, progression to post-secondary education or employment outcomes.
- We have also yet to investigate the quality issues, such as the quality of the curriculum and of the teachers.

A very good answer might "color" these issues with the conclusions from earlier questions, for example:

- Care should be taken not to address the problem purely with "quantity" measures (for example, improving student/teacher ratios or increasing spend per student) as there is no clear indication so far that these would necessarily result in significant improvements in the situation.
- Quality issues are likely to be important. We saw previously that, despite higher spending compared to its economic peers and a lower student/teacher ratio, Loravia was still underperforming in the international assessment. This indicates that the quality of teaching and the content of the curriculum are important issues to investigate thoroughly.

II.4

ROLAND BERGER

4.1 COMPANY PROFILE

ROLAND BERGER

Wir sind ein weltweit führendes Beratungsunternehmen

Roland Berger, 1967 gegründet, ist eine der weltweit führenden Strategieberatungen. Mit 50 Büros in 36 Ländern ist das Unternehmen erfolgreich auf dem Weltmarkt aktiv. Die Strategieberatung ist eine unabhängige Partnerschaft im ausschliesslichen Eigentum von rund 220 Partnern.

Unsere Mitarbeiter sind die Grundlage unseres Erfolgs

Roland Berger berät die Vorstands- und Geschäftsführungsebene. Als Partner des internationalen Topmanagements ist uns kein strategisches Thema fremd: Unsere Projekte drehen sich um Wachstums-, Internationalisierungs-, Marketing- und Markenstrategien; strategische Allianzen, Unternehmensakquisitionen und Post Merger Integrations; Restrukturierungen, Portfolio- und Prozessoptimierungen sowie wertorientiertes Management.

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MARKTEINTRITTS-STRATEGIE

4.2 CASE

Ausgangslage & Zielsetzung
Ein führendes Schweizer Confiserie Unternehmen will wachsen –
Der CEO bittet Sie um Ihre Unterstützung

Ausgangssituation

- Einer Ihrer *langjährigen Schweizer Klienten* kommt auf Sie zu und bittet Sie um *Ihre Meinung*
- Es handelt sich um den CEO der *Schoki AG* – Schoki AG hat zwar in den letzten Jahren *solide Geschäftsergebnisse* erzielt, will nun jedoch in der 2020–2025 Strategieperiode *deutlich wachsen*
- Da der *Schweizer FMCG-Markt gesättigt* ist und nicht mehr wächst (trotz Produktinnovation), will Ihr alter Freund und Geschäftspartner ins *benachbarte Ausland expandieren*
- Schoki AG ist für ihre *feine Schokolade* mit unterschiedlichen Geschmacksvariationen bekannt – Die Firma wird in *fünfter Generation geführt* und bekennt sich ausdrücklich zu *hohen Qualitäts- und Umweltstandards*
- Der *CEO* wurde 2014 und 2016 zum *Top-CEO* der Schweiz im Hinblick auf *Nachhaltigkeit* gewählt

Zielsetzung

- Der CEO will, dass Sie ihn bei der Entscheidungsfindung unterstützen – Er erwartet *klare Handlungsempfehlungen*
  - *Ermitteln* Sie die *Marktgrössen der Nachbarländer* (Frankreich, Deutschland und Italien) und identifizieren Sie das *Umsatzpotenzial* für die Schoki AG
  - *Zeigen Sie unterschiedliche Möglichkeiten auf,* wie die Schoki AG in den neuen *Markt expandieren* könnte. Was sind *Vor- und Nachteile?*
  - *Bewerten* Sie die *Übernahmekandidaten* und geben Sie eine *abschliessende Handlungsempfehlung* ab

ABSCHÄTZUNG MARKTGRÖSSE UND UMSATZPOTENZIAL

Schweizer Schokolade ist besonders in den drei Nachbarmärkten beliebt – Welcher Markt bietet das grösste Potenzial für Schoki AG?

Fragestellung 1: Markt- und Umsatzpotenzial

Kennzahlen	Frankreich	Deutschland	Italien
Einwohner (Mio.)	65	82	59
BIP (Mrd. EUR)	2‘460	3‘470	1‘850
PKK[1] (kg)	6.7	11.7	3.4
Anteil Ausgaben für Lebensmittel (%)	16.4	12.8	19.5
Produktion[2] (t)	439‘000	1‘366‘000	312‘000
Ø Preis je Schokoladentafel (EUR)	2.50	1.90	2.15
Marktanteil des grössten Herstellers (%)	45	13	32
Produktionskosten je Tafel (EUR)	0.35	0.30	0.40

[1] Pro-Kopf-Konsum an Schokolade pro Jahr
[2] von Schokoladenwaren je Jahr

Quelle: Roland Berger

- Schweizer Nachbarländer sehr unterschiedlich hinsichtlich Schokoladenkonsum
- In **Frankreich** wird Schokolade tendenziell als **Genuss** gesehen – Confiserien sind sehr beliebte Anlaufstellen von vielen Franzosen
- In **Deutschland** gibt es eine **Vielzahl** an unterschiedlichen Schokoladenherstellern – Tendenziell wird **Schokolade als „Snack“** konsumiert und ist **günstiger**
- In **Italien** gibt es hauptsächlich **Schokolade zum Café**

MARKTEINTRITTS-OPTIONEN

Deutschland wurde als Expansionsmarkt ausgewählt – Wie soll Schoki AG in den Markt eintreten?

Fragestellung 2: Markteintrittsoptionen

- Welche Möglichkeiten bestehen für Schoki AG nach Deutschland zu expandieren?

- Was sind Vor- und Nachteile der unterschiedlichen Expansionsstrategien?
- Welche würden Sie der Schoki AG empfehlen? Wieso?

Der Vorstand will durch eine Unternehmensübernahme in den deutschen Markt expandieren

Fragestellung 3: Unternehmensbewertung

New Chocholate Germany (NCG)			Exclusive Food Germny		
Erfolgsrechnung	**2017**	**Δ%2016**	**Erfolgsrechnung**	**2017**	**Δ%2016**
Umsatz	576.0	8.7%	Umsatz	557.0	-11.6%
COGS	298.0	10.4	COGS	301.0	-15.4%
Bruttomarge	**278.0**	**6.9%**	**Bruttomarge**	**256.0**	**-6.6%**
in %	48.3%		in %	46.0%	
Vertriebsaufwand	207.0	11.9%	Vertriebsaufwand	178.0	-16.4%
Verwaltungsaufwand	44.0	7.3%	Verwaltungsaufwand	44.0	-15.4%
EBIT	**27.0**	**-20.6%**	**EBIT**	**34.0**	**277.8%**
Finanzerfolg	3.0	0.0%	Finanzerfolg	2.0	-200.0%
Steueraufwand	3.0	0.0%	Steueraufwand	3.0	200.0%
Jahresgewinn	**27.0**	**-20.6%**	**Jahresgewinn**	**33.0**	**450%**

Quelle: Roland Berger

- Vorstand hat entschieden, dass ein **Direktinvestment** in Deutschland zur **Expansion** bevorzugt wird
- Umfangreichen Analysen haben zwei potenzielle Übernahmekandidaten identifiziert: **New Chocolate Germany (NCG)** und **Exclusive Food Germany (EFG)**
- NCG durch Investments in erfolgreiches Pralinengeschäft in den letzten Jahren stark gewachsen, dennoch ist die Produktionsauslastung sehr gering (~55%)
- EFG mit ähnlichem Produktportfolio wie die Schoki AG, hat sich aufgrund von Produktionsengpässen von Segmenten getrennt (z.B. Bitterschokolade)

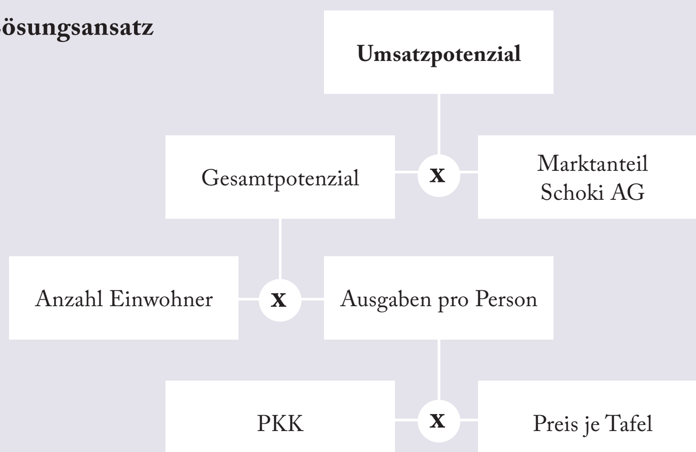
> **Zeigen Sie unterschiedliche Unternehmensbewertungsmethoden auf und ermitteln Sie den Kaufpreis beider Unternehmen. Unterstützen Sie die Unternehmensbewertung mit qualitativen Argumenten.**

LÖSUNG: ABSCHÄTZUNG MARKTGRÖSSE UND UMSATZPOTENZIAL

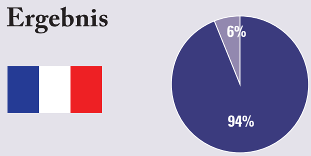
Deutschland als attraktivster Markt für Schoki AG basierend auf möglichem Umsatzpotenzial

Lösung 1: Markt- und Umsatzpotenzial [beispielhaft]

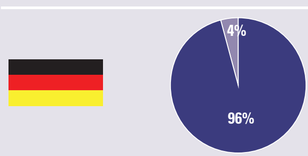
Lösungsansatz



Ergebnis

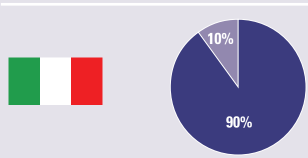


Gesamt: 10.9 Mrd. €
Schoki AG: 653 Mio. €



Gesamt: 18.2 Mrd. €
Schoki AG: 729 Mio. €

Deutschland mit grösstem Umsatzpotenzial für Schoki AG



Gesamt: 4.3 Mrd. €
Schoki AG: 431 Mio. €

Quelle: Roland Berger

> Das Ergebnis ist für den Interview Case normalerweise irrelevant. Zeigen Sie, dass Sie die Zahlen logisch herleiten können. Hilfreich sind hierfür Logikbäume (siehe beispielhaften Lösungsansatz).

Annahmen: In Frankreich sehr kleinteiliger Markt, der hauptsächlich aus Confisserien besteht, die aufgrund ihrer Exklusivität keinen grossen Marktanteil gewinnen können. Deutschland kleinster Anteil aufgrund intensiver Konkurrenz und gesättigtem Markt; Italien grösster Marktanteil möglich, da Markt von Ferrero nur in Milchschokolade dominiert

Vier gängige Markteintrittsoptionen bestehen – Direktinvestment in bestehendes Unternehmen als beste Option identifiziert

LÖSUNG: MARKTEINTRITTS-OPTIONEN

	Exportieren	Lizenzvergabe	Joint Venture	Direktinvestment
	> Produkte werden in der Schweiz hergestellt und nach Deutschland exportiert	> Lizenz zur Herstellung und Vertrieb der Schoki AG Produkte wird einem dritten Unternehmen gewährleistet	> Produktion und/oder Vertrieb wird gemeinsam mit einem Partner organisiert	> Investment in eigene Produktion/ Vertriebskanäle oder Übernahme eines Schokoladenherstellers
Vorteile	> Geringe Upfront Kosten > Bestehende Produktionsanlagen können optimal ausgelastet werden	> Keine Investitions- und Vertriebskosten > Geringer Managementaufwand aufgrund Beteiligung von Drittunternehmen	> Teilung von Investitionskosten mit Partner > Zugang zu neuem Knowhow und Vertriebswege	> Volle Kontrolle über Expansionsvorhaben > Keine Umsatzteilung
Nachteile	> Hohe Zollabgaben und Steuern > Produktionsstückkosten deutlich höher in der Schweiz als in Deutschland	> Wenig Einfluss auf Kundenwahrnehmung > Geringe Profitmarge > Weniger Kontrolle über Qualität und Branding	> Verlust von Kontrolle und eventuell Knowhow (z.B. Spionage) > Wenig potentielle Partner	> Hoher Investitions–bedarf > Hohes Risiko aufgrund geringem Knowhow (z.B. bei Aufbau eigener Fabrik) oder unzureichenden Informationen (z.B. bei Unternehmenskauf)
Einsichten RB	> Aufgrund hoher **Steuern und Zollabgaben** sowie **nachteilhaften Kostenverhältnis** wird der Export nach Deutschland **nicht empfohlen**	> Vergabe von Produktions- und Vertriebslizenzen **nicht empfohlen**, aufgrund **geringer Profitmarge** und deutlich geringerer **Einflussnahme** durch Schoki AG im **Tagesgeschäft**	> **Joint Venture** nicht empfohlen, da **Zugang zu Knowhow nicht besteht** und Partner mit gutem Vertriebsnetz nicht mit Schoki AG kooperieren würden	> Aufgrund hohem **Qualitätsanspruch** der Schoki AG und **ausreichendem Investitionskapital** wird eine Direktinvestition in eine bestehende Firma empfohlen **Empfehlung**

Quelle: Roland Berger

> **Auf die Empfehlung kommt es nicht an – Der Interviewer will sehen, dass Sie ein gewisses betriebswirtschaftliches Grundwissen mitbringen und Ihre Empfehlung gut begründen können.**

LÖSUNG: BEWERTUNG VON KAUFOPTIONEN

NCG zeichnet sich als attraktiver Übernahmekandidat ab – Kaufpreis zwischen ~510 und 690 Mio. EUR realistisch

Lösung 3: Unternehmensbewertung [beispielhaft]

Stark vereinfacht

	Quantitative Bewertung		Qualitative Bewertung
New Chocolate Germany	**Discounted Cashflow**[1] ~510 Mio. EUR	**Multiples** (hier Umsatzmultiple) ~690 Mio. EUR	> Gutes Wachstum in den letzten Jahren, dennoch sinkende Profitabiliät, da Aufwände stärker gestiegen sind > Produktionsauslastung gering, keine hohen Investitionen bei Verlagerung der Schoki AG Produktion notwendig > Praliniensegment ergänzt sich gut zu bestehendem Portfolio
Excellent Food Germany	**Discounted Cashflow**[1] ~633 Mio. EUR	**Multiples** (hier Umsatzmultiple) ~620 Mio. EUR	> Umsatzrückgang in den letzten Jahren, dennoch hohe Profitabilität, da Aufwände stärker reduziert wurden > Hohe Auslastung der Produktionsstätten – Neuinvestitionen notwendig > Sehr ähnliches Produktportfolio wie Schoki AG
Annahmen	> Wachstum P1-5 von 3% > Wachstum P6-E von 2% > WACC von 10%	> Marktübliche Umsatzmultiples von ca. 1.1-1.4 des jährliches Gesamtumsatzes	**> NCG attraktiver Übernahmekandidat aufgrund Umsatzwachstums und Möglichkeit Produktionskapazitäten auszuweiten ohne weitere Investments**

Quelle: Roland Berger

1) Net Debt wird vernachlässigt, weil hierzu keine Informationen gegeben sind

> **NCG sollte hier das Ergebnis sein, jedoch sind die Berechnungen und Argumente beispielhaft und können weitere umfassen. Wichtig ist die Begründung, weshalb das Unternehmen die Schoki AG in ihrem Wachstum unterstützt.**

II.5

EY

5.1 COMPANY PROFILE

EY

The global EY organization is a leader in assurance, tax, transaction and advisory services. We leverage our experience, knowledge and services to help build trust and confidence in the financial markets and in economies all over the world. We are ideally equipped for this task – with well trained employees, strong teams, excellent services and outstanding client relations. Our global mission is to drive progress and make a difference by building a better working world – for our people, for our clients and for our communities.

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Careers EY
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+41 58 286 3529

Location:
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Homepage:
www.ey.com/ch

B & B HOTELS
ASTOGETHER WE MAKE DREAMS HAPPEN

5.2 CASE

Introduction

Situation:

- You work as an EY consultant at the Stockholm office. Your project leader calls you up and tells you that she has been contacted by Svenne Svensson, the new Swedish CEO of B & B Hotels AS. B & B is one of the largest and most successful hotel chains in Norway. Svenne, with a successful career specializing in international market entries, wants to expand B & B hotels to Stockholm.
- Your project leader gives you the responsibility to conduct an initial assessment of the given market entry options that B & B Hotels want to pursue and also provide an initial risks and opportunities analysis.
- You are allowed to combine the information given in this case with relevant assumptions based on your knowledge and expertise.

Questions:

- Evaluate B & B Hotel's market entry options in Stockholm given the alternatives and data in this case.
- Identify risks and opportunities with your recommendation(s).

The B & B Hotels AS history

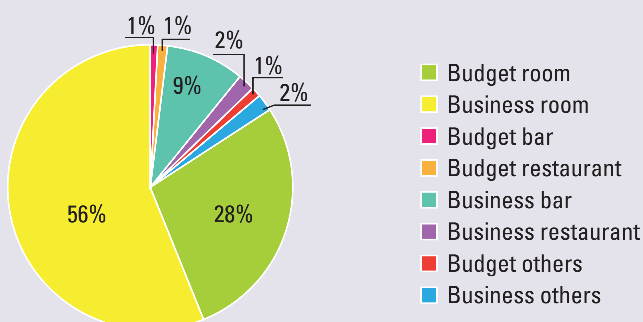
- B & B Hotels AS is a Norwegian hotel chain that was founded by the Bredstrup Family in Bergen. The first hotel was a small-sized Bed & Breakfast where they rented out some spare rooms to local fishermen arriving in Bergen for the seasonal fishing. Little could they possibly have known then, that their family business over the next 70 years would grow to become one of the largest and most successful hotel chains in Norway.
- In late 2013, the hotel chain of B & B Hotels AS consisted of 15 hotels spread out from the snowy mountain villages in the north, to the southern cities at the coasts of Skagerrak.
- The last member of the original founding family to be the CEO of the company, Kjettil Bredstrup, came up with the concept of focusing espe-

cially on two different concepts – a simple concept and a more high-end one. The simpler concept, B & B "Budget", focuses on keeping the costs down, on basic materials, self check-in and a strict minimum of extra facilities such as room service and fancy restaurants. The more high-end concept, B & B "Business", offers exclusive material selections in everything from the artistically designed rooms to the amenities in the relaxation area.

- The Bredstrup family sold the company in 1998. In 2013 Svenne Svensson was appointed the new CEO of B & B Hotel's AS. Svenne has a long career of international expansions and now his desire is to expand B & B Hotels international footprint with a start in his home-town Stockholm, Sweden. The expansion should be fully operational as of January 2014.

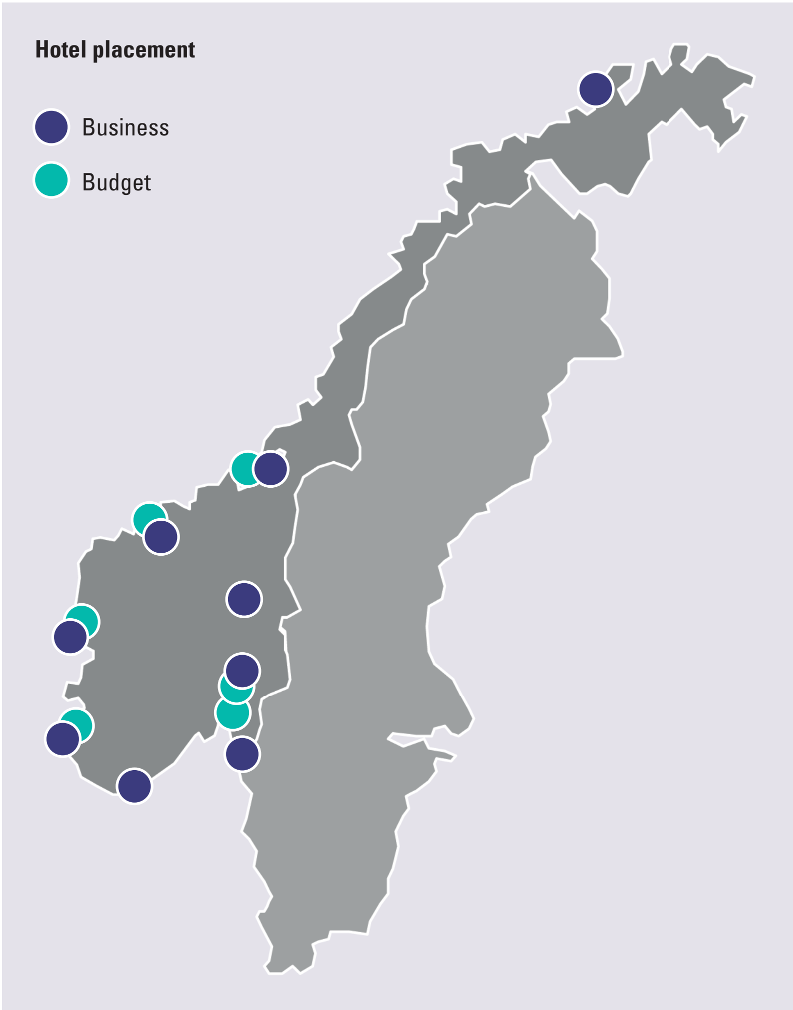
B & B Hotels AS overview

Revenue stream (FY13)



Key facts B & B Hotels AS FY13

# of employees	498
# of hotels in total	15
# budget hotels	7
# business hotels	8
# of budget hotel guest	67 068
# of business hotel guest	43 803
Avg. Hotel utilization	75%



B & B Hotels AS overview

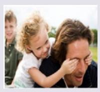
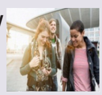
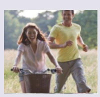
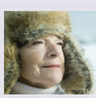
- B & B Hotels AS has always maintained a strong belief in some ground rules that apply across all investments and operations:
  - All investments must break even within five years of operations.
  - The company's historically good reputation, brand and concepts must be followed and valued.
  - There should never be a mix between the hotel's historical concepts, i.e. a B & B Hotel is purely a Business or a Budget concept hotel.

- B & B always relies on internal due diligence in order to find suitable investment. The company does not believe that an external resource could achieve the same results as an internal expert. However, the company strongly believes that business cases should be provided by external experts such as EY consultants.
- B & B is always hiring local employees to their hotels excluding top site management for which the company is exporting from the company Headquarters in Oslo, Norway.
- B & B company culture strongly supports an “out of the box” mindset but only if it can be supported by a strong analysis, clear recommendations, reliable data and reasonable assumptions.

Stockholm tourism

- Stockholm is truly a trendy city to visit and a recent study conducted by the Swedish tourism center clearly states that the strong trend is growing further. The museums scattered around the city are especially popular says Mats Polle, head of the Swedish tourism center. The amount of tourists in Stockholm is constantly hitting new record numbers.
- The study conducted by the Swedish tourism center also states that close to three quarters of a million tourists visited the Swedish capital during 2013. The majority visited Stockholm during high season which, according to Mats, counts for around 30% of the year, but there is an increasing trend towards traveling during the low season in the winter as well, especially in December for Christmas shopping.
- According to the study, the number of visiting tourists will increase by 20% annually the next five years, clearly making Stockholm the most visited city in the Nordic region. The study also concluded that the tourism industry has much to thank the large number of businessmen and women who spend an increasing amount in local hotels, shops, restaurants and bars.

The Stockholm visitors

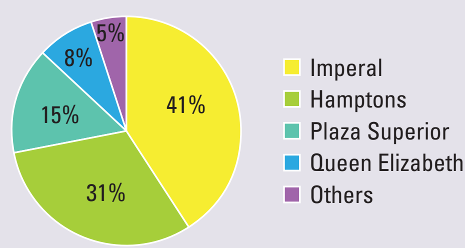
Visitor group		# of visitors 2014 (expected)	# of nights spent	Avg. total spend per visitor group/24hrs	Preferences
Family		250 000	4	4 000	Easy, Practical, Family friendly
Business traveler		235 000	1	4 500	Quality, Good food, Relaxation, Near business office and airport
Backpacker/ Student		155 000	2	1 000	Cheap, Central, Easy, Simple
Couples >25 Y old		140 000	3	3 500	Trendy, Luxurious, Central, Quality
Senior citizen		120 000	3	1 500	Simple, Cheap, Practical

The Stockholm hotel market

Business segment

- The market is heavily consolidated and dominated by four major international hotel chains.
- Customers in this segment are very brand loyal mainly due to frequent stay programs and partnerships with corporations and travel agencies.
- Hotel guests demand premium in-hotel restaurants and cocktail bars. This is an important revenue stream for the hotels.

Business segment market share [%]

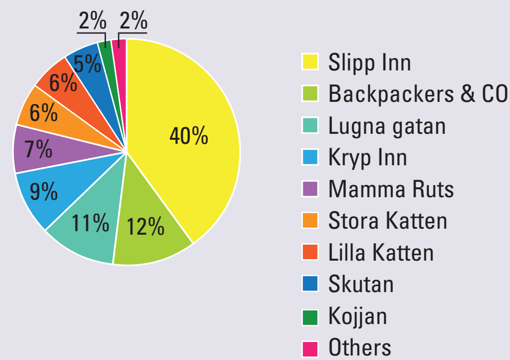


The Stockholm hotel market

Budget segment

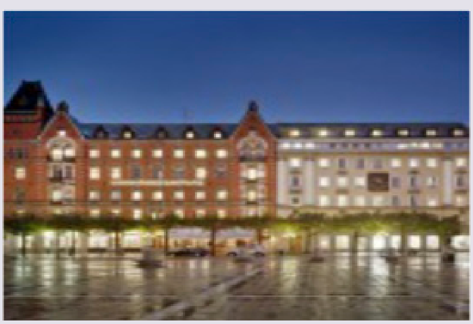
- The market is non-consolidated with many local small players.
- Customers are always looking for the cheapest alternatives with very low brand loyalty.
- Hotel guests usually prefer hotels or hostels in the city.

Budget segment market share [%]

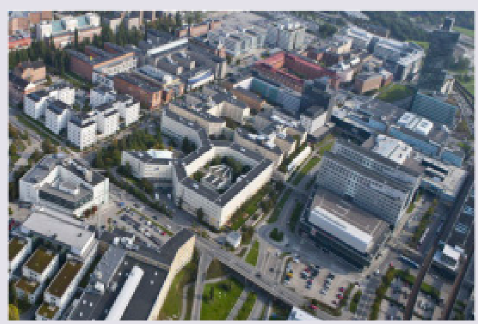


The investment alternatives

Alternative one:
Norrmalmstorg 2, Stockholm City



Alternative two:
Torshamnsgatan 23, Kista



B & B Hotels AS is willing to support investments in Stockholm up to 125 000 000 given that the investments are in line with the company's expansion strategy

Investment alternative one:
Norrmalmstorg 2, Stockholm City

- The property is situated in downtown Stockholm, ideal for both business and leisure travelers with numerous business offices, shopping, restaurants and bars just outside the front door.

Business concept (Fully operational Jan'14)	
Initial investment	40 000 000
Number of rooms	15
Yearly operational cost	12 000 000
Avg. room rate per night (Low season)	3 000
Avg. room rate per night (High season)	6 000
Restaurant	Yes
Bar	Yes
Gym	Yes
Spa	Yes
Other	24H open reception and room service, Free Wi-Fi, Laundry service

Budget concept (Fully operational Jan'14)	
Initial investment	23 000 000
Number of rooms	35
Yearly operational cost	5 950 000
Avg. room rate per night (Low season)	850
Avg. room rate per night (High season)	1 700
Restaurant	No
Bar	Yes
Gym	No
Spa	No
Other	Self check-in, Free Wi-Fi, 2 2 Vending machines, Pet friendly

Investment alternative two:
Torshamnsgatan 23, Kista

- The property is situated in Kista just north of central Stockholm. Kista is home to many IT companies and therefore ideal for business travelers. Downtown Stockholm is only 20 min away with the metro making this ideal for leisure travelers looking for a bargain.

Business concept (Fully operational Jan'14)	
Initial investment	42 000 000
Number of rooms	20
Yearly operational cost	8 000 000
Avg. room rate per night (Low season)	2 600
Avg. room rate per night (High season)	5 200
Restaurant	Yes
Bar	Yes
Gym	Yes
Spa	Yes
Other	24H open reception and room service, Free Wi-Fi, Laundry service

Budget concept (Fully operational Jan'14)	
Initial investment	24 000 000
Number of rooms	35
Yearly operational cost	4 200 000
Avg. room rate per night (Low season)	700
Avg. room rate per night (High season)	1 400
Restaurant	No
Bar	Yes
Gym	Yes
Spa	No
Other	Self check-in, Free Wi-Fi, 2 Vending machines, Pet friendly

Possible solution

SOLUTION

- The candidate should be able to calculate the break even point for each alternative. This should act as the basis for the candidates recommendation. The Hotel utilization percentage is the variable with highest impact on the calculations. Therefore, based on what utilization percentage is used, the possible solutions varies.
  - 50% utilization: No investment alternative reached break even within five years
  - 75% utilization: Budget Hotel Norrmalmstorg and Business Hotel Kista reach break even within 5 years. Business Hotel Kista is more profitable than budget hotel on Norrmalmstorg
  - 100% utilization: All investment alternatives reach break even within five years. Business Hotel in Kista is by far the most profitable

- The candidate may include revenue streams from hotel restaurant and bars as well in the calculations
- 14% of the revenue came from hotel restaurant and bars during FY13

- Based on the calculations and evaluations, the candidate may recommend B & B to:
  - Not invest
  - Invest in one property building (Central Stockholm or Kista)
  - Invest in both properties (Central Stockholm and Kista)

Alternative one: Norrmalmstorg 2 – Budget concept

- The break even point is heavily dependent on which utilization percentage the candidate is using. The candidate should assume a utilization percentage between 50–100% or use the provided data
- Using 75% utilization (given in the case), break even is reached within the fifth year

Input data

Initial investment	23 000 000
Yearly operational cost	5 950 000
Number of rooms	35
High season room rate	1 700
High season nights	110
Low season room rate	850
Low season nights	255

Revenue = (Utilization[%] x Number of rooms) x ((Room rate low season x Low season nights) + (Room rate high season x High season nights)

50% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 950 000	5 950 000	5 950 000	5 950 000	5 950 000
Revenue	7 065 625	7 065 625	7 065 625	7 065 625	7 065 625
Operational profit	-21 884 375	1 115 625	1 115 625	1 115 625	1 115 625
Total investment	-21 884 375	-20 768 750	-19 653 125	-18 537 500	-17 421 875

75% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 950 000	5 950 000	5 950 000	5 950 000	5 950 000
Revenue	10 598 438	10 598 438	10 598 438	10 598 438	10 598 438
Operational profit	-18 351 563	4 648 438	4 648 438	4 648 438	4 648 438
Total investment	-18 351 563	-13 703 125	-9 054 688	-4 406 250	242 188

100% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 950 000	5 950 000	5 950 000	5 950 000	5 950 000
Revenue	14 131 250	14 131 250	14 131 250	14 131 250	14 131 250
Operational profit	-14 818 750	8 181 250	8 181 250	8 181 250	8 181 250
Total investment	-14 818 750	-6 637 500	1 543 750	9 725 000	17 906 250

Alternative one: Norrmalmstorg 2 - Business concept

- The break even point is heavily dependent on which utilization percentage the candidate is using. The candidate should assume a utilization percentage between 50–100% or use the provided data
- Using 75% utilization (given in the case), the investment does not reach break even within five years

Input data

Initial investment	40 000 000
Yearly operational cost	12 000 000
Number of rooms	15
High season room rate	6 000
High season nights	110
Low season room rate	3 000
Low season nights	255

Revenue = (Utilization[%] x Number of rooms) x ((Room rate low season x Low season nights) + (Room rate high season x High season nights)

50% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	52 000 000	12 000 000	12 000 000	12 000 000	12 000 000
Revenue	10 687 500	10 687 500	10 687 500	10 687 500	10 687 500
Operational profit	-41 312 500	-1 312 500	-1 312 500	-1 312 500	-1 312 500
Total investment	-41 312 500	-42 625 000	-43 937 500	-45 250 0000	-46 562 500

75% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	52 000 000	12 000 000	12 000 000	12 000 000	12 000 000
Revenue	16 031 250	16 031 250	16 031 250	16 031 250	16 031 250
Operational profit	-35 968 750	4 031 250	4 031 250	4 031 250	4 031 250
Total investment	-35 968 750	-31 937 500	-27 906 250	-23 875 000	-19 843 750

100% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	52 000 000	12 000 000	12 000 000	12 000 000	12 000 000
Revenue	21 375 000	21 375 000	21 375 000	21 375 000	21 375 000
Operational profit	-30 625 000	9 375 000	9 375 000	9 375 000	9 375 000
Total investment	-30 625 000	-21 250 000	-11 875 000	-2 500 000	6 875 000

Alternative two:
Torshamnsgatan 23, Kista – Budget concept

- The break even point is heavily dependent on which utilization percentage the candidate is using. The candidate should assume a utilization percentage between 50-100% or use the provided data
- Using 75% utilization (given in the case), the investment does not reach break even within five years

Input data

Initial investment	24 000 000
Yearly operational cost	4 200 000
Number of rooms	35
High season room rate	1 400
High season nights	110
Low season room rate	700
Low season nights	255

Revenue = (Utilization[%] x Number of rooms) x ((Room rate low season x Low season nights) + (Room rate high season x High season nights)

50% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 200 000	4 200 000	4 200 000	4 200 000	4 200 000
Revenue	5 818 750	5 818 750	5 818 750	5 818 750	5 818 750
Operational profit	-22 381 250	1 618 750	1 618 750	1 618 750	1 618 750
Total investment	-22 381 250	-20 762 500	-19 143 750	-17 525 000	-15 906 250

75% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 200 000	4 200 000	4 200 000	4 200 000	4 200 000
Revenue	8 728 125	8 728 125	8 728 125	8 728 125	8 728 125
Operational profit	-19 471 875	4 528 125	4 528 125	4 528 125	4 528 125
Total investment	-19 471 875	-14 943 750	-10 415 625	-5 887 500	-1 359 375

100% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	28 200 000	4 200 000	4 200 000	4 200 000	4 200 000
Revenue	11 637 500	11 637 500	11 637 500	11 637 500	11 637 500
Operational profit	-16 562 500	7 437 500	7 437 500	7 437 500	7 437 500
Total investment	-16 562 500	-9 125 000	-1 687 500	5 750 000	13 187 500

Alternative two:
Torshamnsgatan 23, Kista – Business concept

- The break even point is heavily dependent on which utilization percentage the candidate is using. The candidate should assume a utilization percentage between 50-100% or use the provided data
- Using 75% utilization (given in the case), break even is reached within the fourth year of operations

Input data	
Initial investment	42 000 000
Yearly operational cost	8 000 000
Number of rooms	20
High season room rate	5 200
High season nights	110
Low season room rate	2 600
Low season nights	255

Revenue = (Utilization[%] x Number of rooms) x ((Room rate low season x Low season nights) + (Room rate high season x High season nights)

50% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	50 000 000	8 000 000	8 000 000	8 000 000	8 000 000
Revenue	12 350 000	12 350 000	12 350 000	12 350 000	12 350 000
Operational profit	-37 650 000	4 350 000	4 350 000	4 350 000	4 350 000
Total investment	-37 650 000	-33 300 000	-28 950 000	-24 600 000	-20 250 000

75% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	50 000 000	8 000 000	8 000 000	8 000 000	8 000 000
Revenue	18 525 000	18 525 000	18 525 000	18 525 000	18 525 000
Operational profit	-31 475 000	10 525 000	10 525 000	10 525 000	10 525 000
Total investment	-31 475 000	-20 950 000	-10 425 000	100 000	10 625 000

100% Utilization

	Y1	Y2	Y3	Y4	Y5
Costs	50 000 000	8 000 000	8 000 000	8 000 000	8 000 000
Revenue	24 700 000	24 700 000	24 700 000	24 700 000	24 700 000
Operational profit	-25 300 000	16 700 000	16 700 000	16 700 000	16 700 000
Total investment	-25 300 000	-8 600 000	8 100 000	24 800 000	41 500 000

Follow-up questions

Question	Suggested Answer
What are the risks associated with the suggested market entry? Can they be mitigated?	Possible risks involved with entering new markets: sales do not take off as planned, marketing too expensive, business partner risks (if partnership/joint venture), legal obstacles/differences prevents entry, contractual risks, cultural differences etc.
How would you advise B & B Hotels to enter the suggested market, through organic growth or a joint venture?	The candidate can for example present the advantages/disadvantages with the two alternatives: **Pros and cons with organic growth:** control over business (marketing, staff, distribution), higher margins. Slow and more expensive expansion (hiring new staff, new investments, setup of contractual agreements), the company will bear the whole risk, etc. **Pros and cons with a joint venture:** fast and inexpensive expansion, lower investment requirements, access to strong local partners, use of existing solutions, risk is shared with other company. It takes time to build a relationship, requires negotiations with your partner, lower margins, etc.
In order to make a more sound and thorough recommendation, which type of information would you require?	E.g. prices, costs, market surveys and research, more information on the set up-process, the financial and managerial situation of B & B Hotels e.g. can they afford a market expansion, are there any legal obstacles etc.
B & B Hotels decides to go forward with your recommendation. Can you present the action plan for the next steps?	Step 1; more detailed market study / survey (market assessment), step 2; prepare a market entry implementation plan (evaluation and selection of alternatives, market positioning, internal capability assessment, risk analysis), step 3; implementation and roll out (e.g. organic growth/partnership, negotiations, sourcing, marketing, personnel recruitment, purchase of real estate, re-modeling etc.)
What are B & B market share potential for each concept?	The business market segment has few players with large market shares, thus it might be difficult initially to take a large market share. The budget market segment has many smaller players which might make it easier to take a market share – but they will have to differentiate
What variable in your break-even calculations has the biggest impact on the result? How will it impact your result if it would change?	The candidate should be able to provide a sort of sensibility check for his/her calculations. The most uncertain variable is utilization, but other examples could be room rates, other revenues, low/high season etc.

Opportunities

Key Opportunities

	Company	Competition	Consumer	Collaborators	Context
Norrmalmstorg 2, Stockholm City					
Business	The company is large and has experience and expertise in the Business hotel market	Market is growing. Even though establis-hed players exist, there is room for new entrants with a possibility to brand themselves	Central location with many companies and restaurants nearby Meeting all customer preferences	The company could investigate if a partnership or joint venture is an alternative	Similar market structure to Norway, easy to adapt Revenue stream from in-house restaurant, spa and bar
Budget	The company is large and has experience and expertise in the Budget hotel market	Shattered market with many small local players Possibility to leverage scale	Central location close to places to visit Meeting all customer preferences	The company could investigate if a partnership or joint venture is an alternative	Similar market structure to Norway, easy to adapt
Torshamnsgatan 23, Kista					
Business	The company is large and has experience and expertise in the Business hotel market	Market is growing. Even though establis-hed players exist, there is room for new entrants with a possibility to brand themselves	Close to airport and with many companies nearby Meeting all customer preferences	The company could investigate if a partnership or joint venture is an alternative	Similar market structure to Norway, easy to adapt Revenue stream from in-house restaurant, spa and bar
Budget	The company is large and has experience and expertise in the Budget hotel market	Shattered and growing market with many small local players Possibility to leverage scale	Big potential customer base Meeting most customer preferences	The company could investigate if a partnership or joint venture is an alternative	Similar market structure to Norway, easy to adapt

Risks

Key Risks

	Company	Competition	Consumer	Collaborators	Context
Norrmalmstorg 2, Stockholm City					
Business	Lack of market entry experience	The market is heavily consoli-dated by 4 dominant players	The customers are very brand loyal and switching cost is therefore high	Might be skepticism towards a non-established player	Located too far away from Kista and the airport
Budget	Lack of market entry experience	Many competi-tors, difficult to differentiate	Customers are very price sensitive	Might be skepticism towards a non-established player	Higher price than a Kista alternative
Torshamnsgatan 23, Kista					
Business	Lack of market entry experience	The market is heavily consoli-dated by 4 dominant players	The customers are very brand loyal and switching cost is therefore high	Might be skepticism towards a non-established player	Located too far away from the city
Budget	Lack of market entry experience	Many competi-tors, difficult to differentiate	Customers are very price sensitive	Might be skepticism towards a non-established player	Located too far away from the city

5.3 CASE

DIRTY BUSINESS AB
DIRTY BUSINESS ABCLEANING OUT THE BUSINESS

Introduction

Situation:
- Dirty Business AB is a Swedish soil producer that produces and sells soils for both private and professional customers all across Sweden. The company was founded by Sven-Erik Dahl who has now retired and his daughter Elin, former EY consultant, has assumed the position of CEO.
- Elin has realized that the company's profitability has been declining for several years. She has therefore contacted EY Advisory in Stockholm to understand the reasons behind the declining profitability and how she and the company can improve it.
- You work as a consultant at EY in the Stockholm office and have been assigned by your project manager to conduct an initial analysis. You will present your findings to your EY project manager on why the company's profit is declining and your suggestion on actions the company can take to improve it.
- You are allowed to combine the information given in this case with relevant assumptions based on your knowledge and expertise.

Questions:
- Explain the main drivers behind the declining profitability of Dirty Business AB given the data in this case.
- Suggest clear actions on how the profitability can be improved.

Company overview

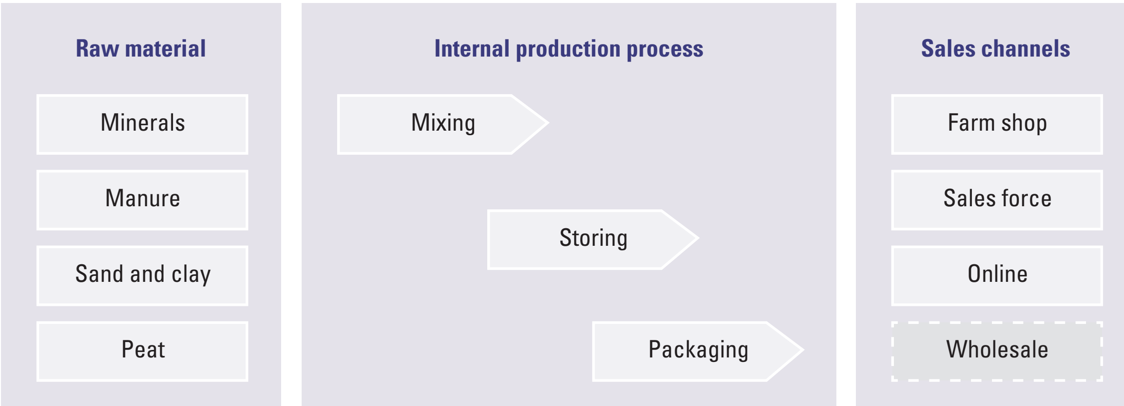
- Dirty Business AB is a Swedish soil producer that produces and sells soils for both private and professional customers all across Sweden. The name of the company origins from the first production run that the company ever had where the founders wife cried out that she would have nothing to do with this "Dirty Business".

- The company was founded in 1973 by Sven-Erik Dahl on the family farm just outside Helsingborg in southern Sweden. Sven-Erik and his family started producing soil suitable for farming which was sold to their nearby farmer neighbors. The reputation of Dahl's fine quality soil quickly spread and the business rapidly started growing. In 2013, Sven-Erik decided to retire and his youngest daughter Elin overtook the role as CEO of Dirty Business AB. Elin realized that Dirty Business was struggling with a declining profitability. She has contacted EY to help them understand why the company's profit is declining and how to turn things around.
- Dirty business has historically been very good at responding to market trends that the family has picked up from television shows like "Äntligen Hemma" and "Vilse i min trädgård" as well as numerous gardening expos. Current trends on the market show that the professional agricultural industry is heavily declining in Sweden driven by the much increasing trend of importing plants and flowers and "plant @ home". The increasing eco-mindset is also a very hot topic in the industry.

Dirty Business AB is founded	Opening of the farm shop	Company sales force started	Wholesale production started	Company goes live with online sales	Elin Dahl takes over as CEO
1973	1982	1989	1989	2009	2013

Supply chain

- Raw materials are procured on an ad-hoc basis from external suppliers in the surrounding area of the production site outside Helsingborg. The company has several suppliers for each raw material type with long standing business relationships. Transports of the material are carried out by the suppliers and included in the list price.
- The production processes are performed on the family farm production site and are carried out in three steps as illustrated below. The production process is similar for all products with the exception of packaging as the product sizes and packaging material differ.
- Sales are managed by four different sales channels. The final product transportation is carried out by 3rd party suppliers on the customer's expense.



Product portfolio

- Dirty Business' product range is divided into products targeted to either private consumers, professional consumers as well as wholesaler brands such as Plantagen, COOP, ICA and others.
- All product formulas are internationally certified by Swedish, EU and international agricultural agencies. The Premium and Super-ECO products are also eco-certified by international environmental associations due to eco-friendly packaging material and all-natural product mixes. These certifications are requirements for customers purchasing premium soil products.

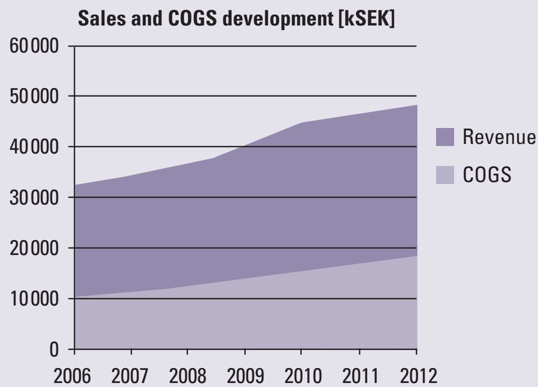
	Private consumer products			Industrial products		Wholesale Products
Name	**Basic**	**Premium**	**Super-ECO**	**X-1000**	**X-2000**	**Wholesale base**
Description	Soil with loose structure and nutrition from both manure and mineral fertilizers	Soil with good structure and micro life balance for root development	Soil containing only the best natural material for very healthy and natural looking plants	Professional soil with both manure and mineral fertilizers	Professional soil for demanding plants. Suitable for watering from above	Soil with loose structure and nutrition from both manure and mineral fertilizers
Size	15 L	10 L	10 L	1000 L	1000 L	15 L

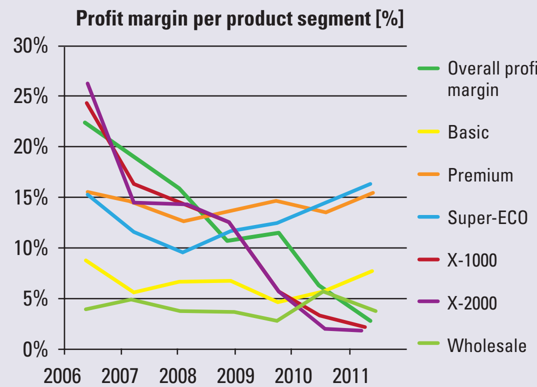
Sales channels

	Farm Shop	Sales Force	Wholesale	Online
Overview	The farm shop opened 1982 on the Dahl family farm. Sven-Erik and his wife were operating the store with opening hours every afternoon and weekend. There is currently no storage for the farm shop since the production storage is leveraged.	In 1989 Sven-Erik realized the need for a dedicated sales force to handle the increasing demand for the professional industrial products. Kurt and Ann-Louise was hired on full-time basis and have been in the company since.	In 2002 Dirty Business started producing wholesaler branded products for several customers. This enabled Dirty Business to offer their products in the many wholesaler stores across Sweden. The products are often sold on discount due to poor negotiation skills in the company.	The company web shop was launched in 2009. Sven-Erik's son Johan was hired on an hourly basis to handle the operations. There is currently no storage since the production storage is leveraged.
Operational cost / Y*	75 000 SEK	1 200 000 SEK	5 000 SEK	20 000 SEK
Product offering	• Basic • Premium • Super-ECO	• X-1000 • X-2000	Wholesaler Base	• Basic • Premium • Super-ECO • X-1000 • X.2000
Popular products	Super-ECO Premium	X-1000	Wholesaler Base	1. Super-ECO 2. Premium

* Including cost related to sales and marketing within each sales channel such as labor, marketing material, maintenance, etc.

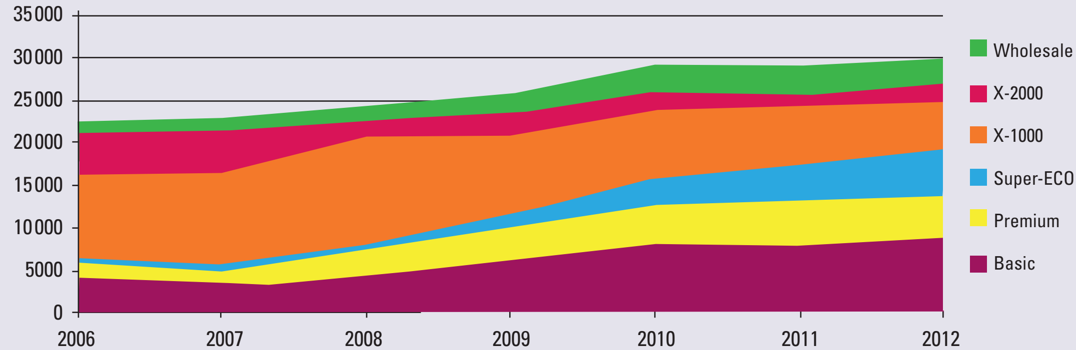
A history of revenue growth





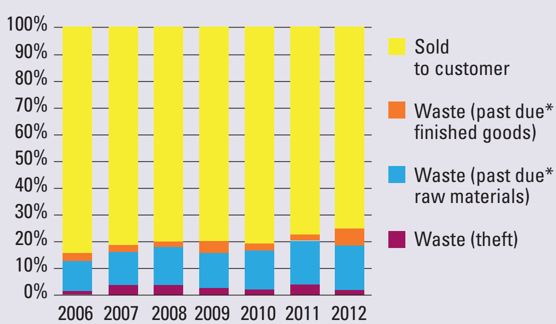
Sales by sales channel kSEK							
Sales channel	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Farm shop	5 029	5 458	5 921	6 345	8 160	8 543	8 778
Sales force	14 278	15 782	14 312	11 784	10 109	8 467	7 894
Online				1 578	2 568	3 458	6 319
Wholesale	3 302	1 728	3 965	5 971	8 130	8 553	6 789
Total	**22 609**	**22 968**	**24 198**	**25 678**	**28 967**	**29 021**	**29 780**

Product mix



2012's production cost per product segment [kSEK]							
Production	**Basic**	**Premium**	**Super-ECO**	**X-1000**	**X-2000**	**Wholesaler**	**Total**
Mixing	566	315	314	365	125	166	**1 851**
Storing	211	117	117	136	47	62	**689**
Packaging	749	418	443	2 259	775	219	**4 863**
Total	**1 525**	**851**	**874**	**2 760**	**947**	**446**	**7 403**

Procurement of goods



Product packaging cost/m3 [SEK]				
	Pack. Mat**	**Labor**	**Others*****	**Total**
Basic	2,3	1,9	1,1	**5.3**
Premium	3,7	1,9	1,1	**6,7**
Super-ECO	5,1	2,1	1,1	**8,3**
X-1000	7,5	11,7	2,3	**21,5**
X-2000	9,3	11,7	2,3	**23,3**
Wholesale	2,1	1,9	1,1	**5,1**

* Products past their expiry date
** Packaging material
*** Others include but not limited to: in house production transportation, storage and overhead costs

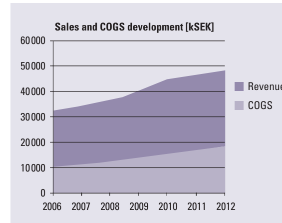
Profit & Loss statement

kSEK	2006	2007	2008	2009	2010	2011	2012
Revenue	22 609	22 968	24 198	25 678	28 967	29 021	29 780
COGS (Cost of Good Sold)	10 280	11 308	12 578	14 189	15 722	17 231	18 508
Grossprofit	**12 329**	**11 660**	**11 620**	**11 489**	**13 245**	**11 790**	**11 272**
Marketing Expenses	109	115	120	126	130	137	144
Administrative Expenses	273	281	295	310	326	342	359
Personnel Expenses	2 078	2 121	2 308	2 675	2 897	3 012	3 309
Rent	1 586	1 586	1 586	1 586	1 586	1 586	1 586
Depreciations	750	755	995	1 235	1 485	1 935	2 080
Write Downs*	541	747	1 004	1 571	2 030	2178	2 297
Other Operating Income	11	11	11	11	11	11	12
Other Operating Costs	623	635	654	661	674	694	701
Operating Profit (EBIT)	**6 358**	**5 410**	**4 647**	**3 314**	**4 106**	**1 894**	**784**
Financial Income	26	27	29	31	32	34	36
Financial Expenses	50	54	60	67	76	85	95
Other Financial Income	3	3	3	4	4	4	4
Other Financial Income	13	14	14	14	15	15	16
Profit after financial items	**6 266**	**5 312**	**4 541**	**3 198**	**3 979**	**1 756**	**633**
Taxes	1 253	1 062	908	640	796	351	127
Profit/loss for the year	**5 013**	**4 249**	**3 633**	**2 558**	**3 183**	**1 405**	**506**

* Write-down due to wastage of production material and goods 501

SOLUTION

There are three main suggested reasons the for profitability decline



The reasoning and possible solutions listed below are merely examples. There are many more good examples that the candidate can suggest that are not highlighted in the suggested solutions, e.g. significant increase in depreciation.

Dirty Business' revenue is increasing steadily, however, the COGS are increasing more rapidly leading to a declining profitability. The main reasons behind the increase in COGS are:

1. Sales channel inefficiency

- The Sales force has high operational costs and sells industrial products, whilst the overall business trend is going in another way, thus the sales have been declining rapidly.

Possible solutions

- Review the sales strategy
- Reduce the operational costs / terminate the sales force

2. Product portfolio and mix

- The packaging cost is very high in relation to the other products
- The profit margin and sales volume for these products are declining

Possible solutions

- Re-balance the product portfolio
- Divert from the industrial product segment

3. Inefficient sourcing resulting in waste

- Waste is very high and increasing
- The sourcing strategy of Dirty Business AB is not sufficient

Possible solutions

- Optimize the procurement process
- Review the sourcing strategy and decrease wastage

1. Possible solutions (1/3) – Sales channel inefficiency

- The table below clearly states that the sales force is rapidly declining.
- The sales force sells the industrial products of Dirty Business, whilst the overall market trend shows that the soils trend is increasing towards private and eco-friendly options instead.
- The sales force organization is very expensive in relation to the other sales channels.
  - *Sales contributes to 26,5% of overall sales but 92,3% of the operational cost.*
- Online sales are rapidly increasing and the operations cost is low in relation to the other sales channels.
- The candidate should suggest actions in order to reduce the operational cost of the sales force:
  - *Reduction*
  - *Reshuffling*
  - *Termination*
- The candidate should be able to provide some risk and opportunities given each action

Sales by sales channel kSEK							
Sales channel	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Farm shop	5 029	5 458	5 921	6 345	8 160	8 543	8 778
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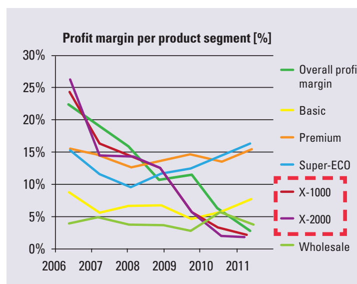
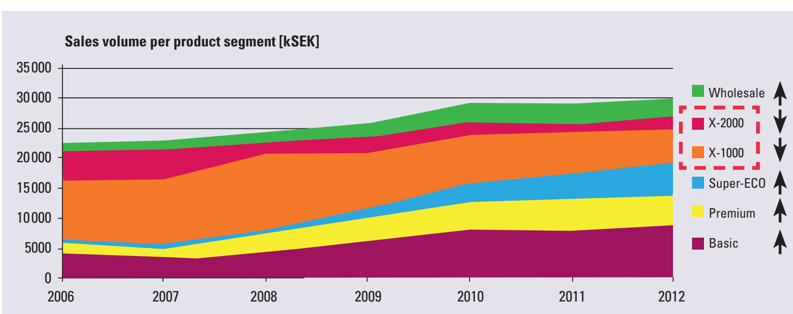
Total	**22 609**	**22 968**	**24 198**	**25 678**	**28 967**	**29 021**	**29 780**

2. Possible solutions (2/3) – Product portfolio and mix

- The packaging cost for the industrial product segment (X-1000 and X-2000) is very high in relation to the other products which is clearly stated in the product packaging cost and production cost per product segment.
- The overall profit margin is declining due to the decline in profit margin for the industrial products. All other products are stable or increasing.
- The candidate should conclude that industrial products are negatively impacting the company's profitability and provide clear actions (e.g. discontinue production of industrial products).

Product packaging cost/m3 [SEK]				
	Pack. Mat**	Labor	Others***	Total
Basic	2,3	1,9	1,1	**5.3**
Premium	3,7	1,9	1,1	**6,7**
Super-ECO	5,1	2,1	1,1	**8,3**
X-1000	7,5	11,7	2,3	**21,5**
X-2000	9,3	11,7	2,3	**23,3**
Wholesale	2,1	1,9	1,1	**5,1**





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Production	**Basic**	**Premium**	**Super-ECO**	**X-1000**	**X-2000**	**Wholesaler**	**Total**
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Storing	211	117	117	136	47	62	**689**
Packaging	749	418	443	2 259	775	219	**4 863**
Total	**1 525**	**851**	**874**	**2 760**	**947**	**446**	**7 403**

3. Possible solutions (3/3) – Inefficient sourcing resulting in waste

- The company's waste from theft and past due is very high and increasing. This is a result of an inefficient sourcing building up high inventories and therefore waste.
- The candidate should be able to discuss possibilities behind these issues such as for example an inefficient sourcing and provide actions for the company to take in order to make the procurement process more effective and reduce inventory and waste levels.

kSEK	2006	2007	2008	2009	2010	2011	2012
Revenue	22 609	22 968	24 198	25 678	28 967	29 021	29 780
COGS (Cost of Good Sold)	10 280	11 308	12 578	14 189	15 722	17 231	18 508
Grossprofit	**12 329**	**11 660**	**11 620**	**11 489**	**13 245**	**11 790**	**11 272**
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Rent	1 586	1 586	1 586	1 586	1 586	1 586	1 586
Depreciations	750	755	995	1 235	1 485	1 935	2 080
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Profit/loss for the year	**5 013**	**4 249**	**3 633**	**2 558**	**3 183**	**1 405**	**506**

* Write-down due to wastage of production material and goods 501

Follow-up questions

Examples of questions	Suggested Answer
What do you think the main reasons are for the decreasing profitability?	• The Sales force is underperforming and driving high operational costs • The industrial product segment is not performing • Waste and inventory levels are too high due to ineffective procurement
What do you think about the future for Dirty Business AB?	• They have taken actions to investigate the declining profitability which is the first step to turn the business around. Hopefully they have a better future ahead
What actions would you recommend for Dirty Business AB to turn the business around?	• Re-balance the product mix away from the industrial product segment • Discontinue the sales force • Increase marketing • Shift managerial focus from growth to operational efficiency • Reduce waste • Reduce operating expenses • Focus on premium and eco-friendly products • Continue to be responsive to market needs
Is Dirty Business AB selling the right products?	• Yes and no. Yes to the private and eco-friendly product segments, but no to the industrial.
What would you recommend Dirty Business AB to do about their marketing?	• Advertise in the commercials during the gardening TV-shows • Attend more gardening-expos • Advertise in gardening magazines
How can you help prioritize what actions Dirty Business AB should focus on?	• For example, structure the actions in a diagram showing the benefit of each action and what efforts that are needed to implement the suggested action.
What are the risks for Dirty Business AB when implementing your suggested actions and how can they be prevented?	• The candidate can present likely risks and reasonable actions that can be taken to prevent them.

5.4 CASE

FERRY LINE AB

Introduction

Situation:

- Ferry Line is continually looking to increase profitability and has found a potential business case in outsourcing their harbor operations. They have, with EY as their outsourcing advisor, designed and sent out a request for proposal* (RFP) to which they have received several offers. There was one offer which was deemed better than the rest and has thus been chosen for final evaluations.
- Your assignment as a consultant at EY is now to evaluate whether Ferry Line should move ahead with this offer, or if it for any reason is unfavorable and should be turned down or renegotiated. You will present your evaluation to your EY colleagues (15 min).
- You are allowed to combine the information given in this case with relevant assumptions based on your knowledge and expertise.

Questions:

- Evaluate whether Ferry Line should move ahead with this offer, or if it for any reason is unfavorable and should be turned down or renegotiated. Use both qualitative and quantitative reasoning to support your arguments. The motivation should cover the following aspects:

  1. Profitability
  2. Risks

  Try to use quantitative reasoning wherever possible.

* RFP – Is a document sent from a procurer to potential suppliers with a request to submit business proposals, usually including a specification of the product / service in addition to price.

Introduction to Ferry Line

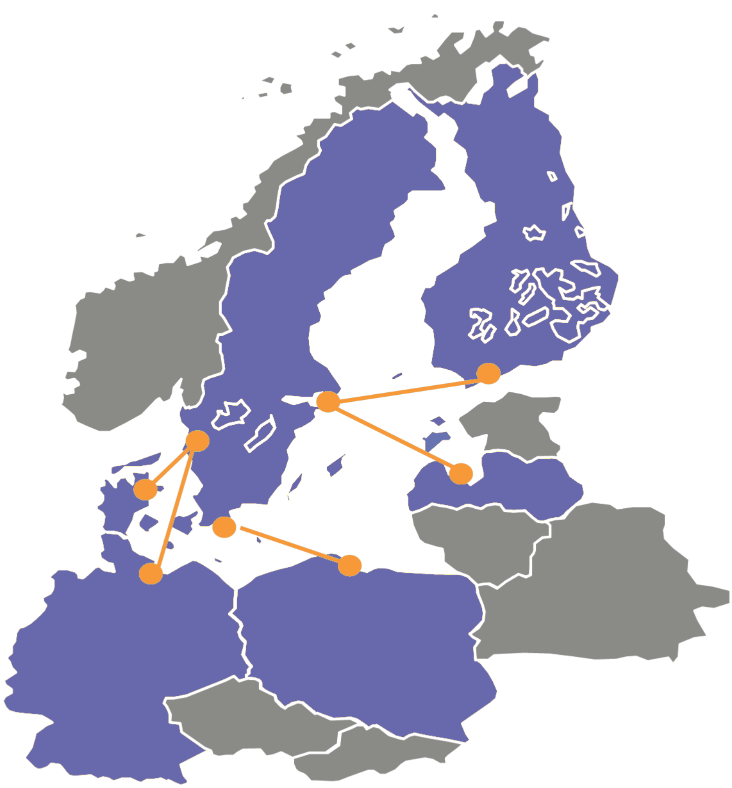
Ferry Line is a Swedish freight and passenger transport company with with their Headquarter located in Stockholm. Their core offering is quick, comfortable and effective voyages.

Ferry Line was founded in 1892 by Ferman Ryck, who initially transported fresh produce between the Swedish mainland and Åland.

Ferry Line operates five routes to and from their home harbors which they operate themselves, located in Stockholm, Gothenburg and Trelleborg. The routes are exclusively operated by RoPax ferries, which transport both passengers and rolling cargo.

- 40% of total revenue is generated by freight transport
- 40% of total revenue is generated by passenger ticket sales
- The remaining revenue is generated by onboard sales

Ferry Line had 1351 employees as of December 31, 2013.



Specification of offer

Scope

Kaj AB will take over Ferry Line's dock operations starting on January 1st of next year. All operations relating to loading and unloading of ships as well as general harbor operations will be included.

Services included in harbor operations are

- Handling and temporary storage of goods to be sold onboard and consumables on ferry
- Facilities management of waiting area and offices
- Lighter repair to equipment and installations

Loading and unloading covers

- Guiding cars and trucks onto ferry
- Loading consumables onto boat
- Inspection of tickets

Terms and pricing

The deal will be priced with one fixed component and two variable components.

The fixed component is 29 million SEK per harbor and year, with an annual adjustment for inflation.

Kaj AB will also be paid 10 SEK per loaded vehicle and 3 SEK per passenger arriving by foot.

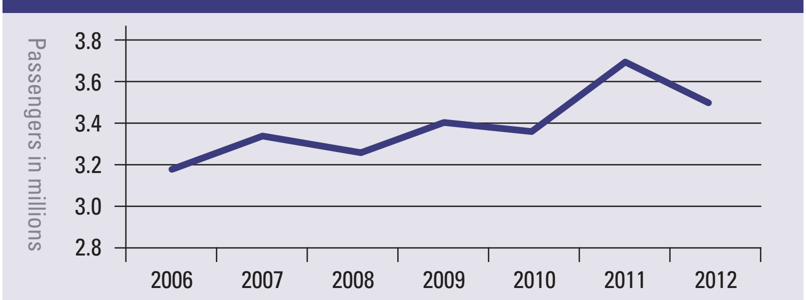
The deal will be valid for five years after which it can be renegotiated or terminated. Termination will have to be done with a six month notice, or the deal will automatically be renewed for an additional year.

Passenger statistics

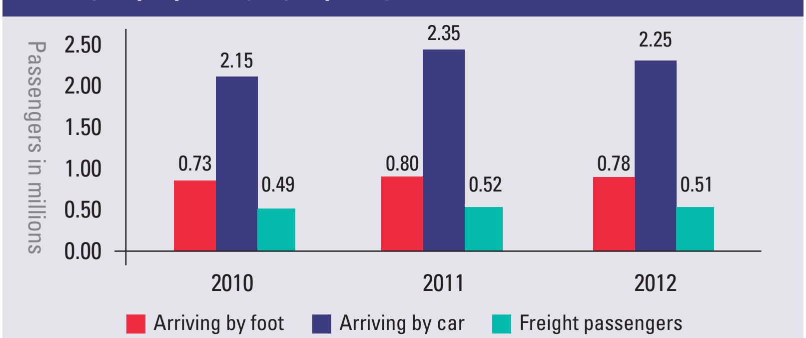
Passenger facts

- Ferry Line's passengers come from all age groups, there is no age group that doesn't travel with Ferry Line
- There are on average 3 passengers in each car travelling with Ferry Line
- Freight passengers almost exclusively travel alone, shipping goods to or from continental Europe
- Most of the passengers arriving by foot are couples looking for a romantic getaway
- One quarter of all car passengers are travelling with Ferry Line for the sole purpose of buying cheap alcohol
- A majority of families travelling with Ferry Line are on a road trip to continental Europe for vacation
- The average passenger eats lunch or dinner on the ferry, depending on departure time
- The average night cruise passenger spends 300 SEK on alcoholic beverages in one of the bars on the ferry

Total passengers per year



Passengers per passenger group and year



Ferry Line’s harbor operations

- Ferry Line’s harbor operations are divided into several work stations.
- Each work station has a fixed work force that primarily works with tasks related to its own work station.
- Employees from one work station can help other work stations if the work load is uneven, but this rarely happens.

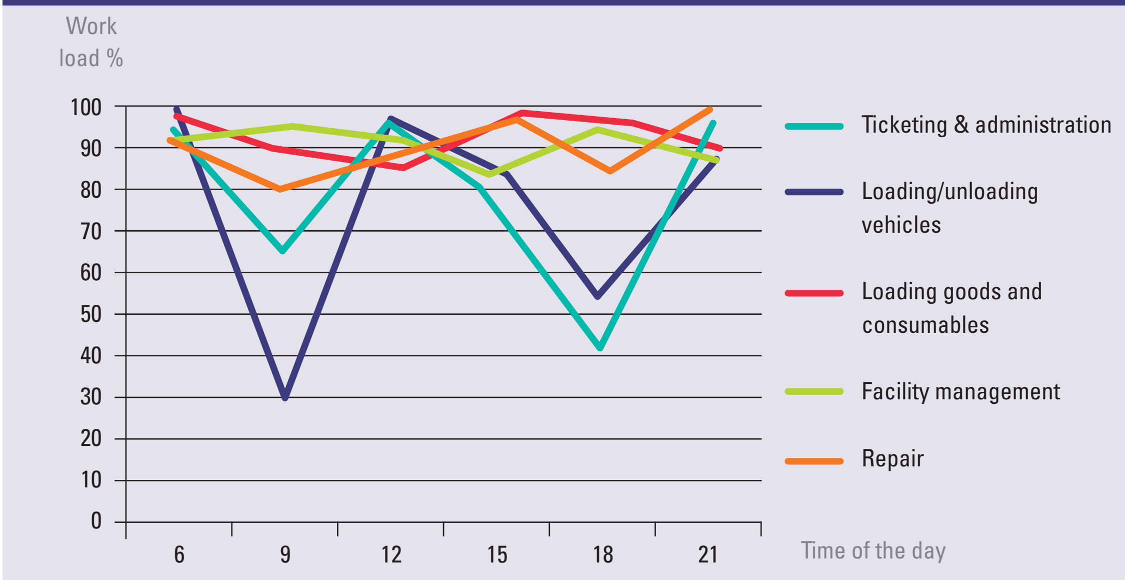
Employees per work station

Work station	Number of employees
Ticketing & administration	25
Loading/unloading vehicles	21
Loading goods & consumables	12
Facilities management	15
Repair	4
Total per harbor	**77**

Passenger facts

- The *Ticketing and administration* department is 100% dedicated to checking tickets before departure. Administration of the harbor is handled during the calm periods between departures.
- *Loading/unloading vehicles* helps guide cars and other vehicles on and off the ferry in order to ensure quick loading and a stable ferry.
- The *Loading goods & consumables* work station handles receiving, storage and loading of consumables and goods to be sold onboard.
- *Facilities management* takes care of cleaning as well as light maintenance of harbor facilities.
- The *Repair team* focusses on the repair of harbor equipment such as fork lifts, cranes and certain types of fixed inventories.

Work load per work station and hour*



Salaries and employee benefits

Salaries at Ferry Line are in line with market averages. They have previously had salaries that were very competitive and made Ferry Line a very attractive employer, but were reduced to more sustainable levels because of cost issues.

To keep their position as an attractive employer, Ferry Line introduced a program with employee benefits other than salary, designed to be cheaper but highly valued by employees. These benefits are listed below:

- Free membership at Ferry Line's gym, located in connection to every Ferry Line office.
- As an effort to simultaneously improve health and wellbeing, all employees are offered free vacation in exchange for all time spent at the gym. Employees receive 6 minutes vacation for every completed 30 minutes of exercising.
- Free travel aboard Ferry Line ships. This offer is limited to transportation and other services such as access to cabins have to be paid for.
- Employee discount in onboard shops. All employees pay only the procurement cost for each item purchased in the onboard shop. This benefit does not include alcoholic beverages of any kind.

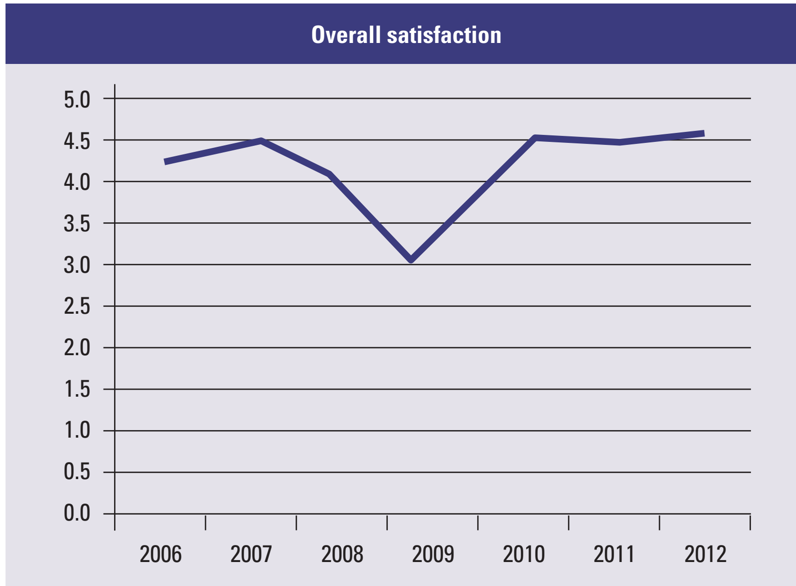
Yearly salary per employee and work station

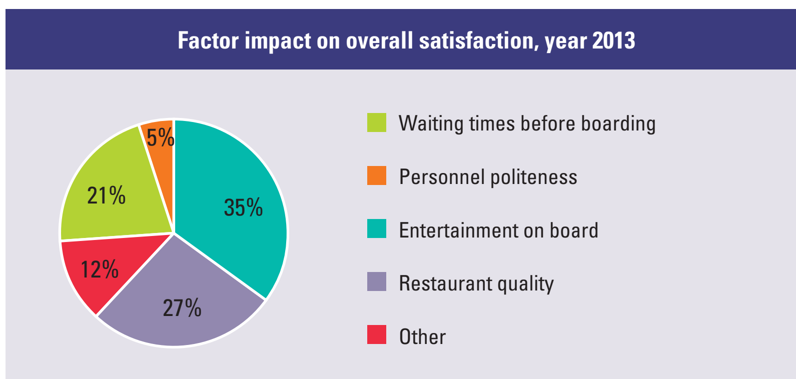
Work station	Salary (SEK)
Ticketing & administration	357 000
Loading/unloading vehicles	334 000
Loading goods & consumables	319 000
Facilities management	324 000
Repair	369 000

Customer satisfaction & expectations

Customer satisfaction is very important to Ferry Line, and has a large impact on how many people choose to travel with them. Because of this, Ferry Line perform a customer satisfaction poll each year, measuring overall customer satisfaction as well as asking what customers deem to be the most important factor affecting their satisfaction.

A sizable dip can be seen in the overall customer satisfaction for year 2009. Ferry Line had due to the financial crisis made large cutbacks in personnel. This turned out to be a big mistake in the way that it caused great frustration and very large waiting times in connection to boarding.





Kaj at a glance

Kaj AB specializes in harbor operations management and have been in the business since 1975. The business started in Gothenburg during the Swedish shipyard crisis. Harbors were bought from failing shipyards and space rented out at these harbors. Since then, Kaj AB has expanded and now handles the day to day operations of 13 harbors in the Baltic sea area.

During the late 1980s and early 1990's, Kaj was one of the most profitable and fastest growing harbor operators in Sweden. Upper management had plans of expanding to northern Europe and further away, into the Mediterranean sea. These ambitious growth plans unfortunately had to be put on hold due to increased competition at home, which lowered prices and margins in the whole market.

Quick facts

- Kaj was founded in 1975, by Kaj Svensson
- Kaj currently operate 13 harbors situated around the Baltic sea and at inland ports, such as Karlstad
- Kaj's harbor outsourcing contracts have a remaining validity period of on average 3,5 years, with the longest being 5 years
- Kaj had 1038 employees as of 31 December 2013
- Kaj has a high employee retention rate of around 80 percent annually
- Load and unload 5,23 million vehicles per year, including cars, busses and trucks
- Manage a total of 14,9 million passengers per year
- 9,67 million passengers annually arrive by foot
- Kaj works very hard to improve the environment and therefore contributes greatly to WWF's work in the Baltic sea

Kaj's credentials

Harbor:	Karlskrona harbor
Years at harbor:	3
Vehicles per year:	249 thousand
Passengers per year:	702 thousand
Customer satisfaction*:	4,4
Passenger satisfaction:	4,5

Harbor:	Oxelösund harbor
Years at harbor:	16
Vehicles per year:	521 thousand
Passengers per year:	1 087 thousand
Customer satisfaction*:	2,4
Passenger satisfaction:	4,5

Harbor:	Oslo harbor
Years at harbor:	2
Vehicles per year:	718 thousand
Passengers per year:	2 133 thousand
Customer satisfaction*:	3,9
Passenger satisfaction:	3,5

Harbor:	Gävle harbor
Years at harbor:	14
Vehicles per year:	396 thousand
Passengers per year:	1 150 thousand
Customer satisfaction*:	2,8
Passenger satisfaction:	4,3

Harbor:	Ystad harbor
Years at harbor:	5
Vehicles per year:	198 thousand
Passengers per year:	596 thousand
Customer satisfaction*:	3,1
Passenger satisfaction:	4,1

Harbor:	Luleå harbor
Years at harbor:	17
Vehicles per year:	404 thousand
Passengers per year:	1 207 thousand
Customer satisfaction*:	2,7
Passenger satisfaction:	4,2

* Customers to Kaj AB, i.e. ferry operators.

Ferry Line's income statement

MSEK	2012	2013
Sales	2467	2412
Other operating income	12	2
Consumables	314	298
Cost of goods sold	254	261
Personnel costs	945	968
Other operating costs	53	45
Depreciation	427	412
Operating profit	486	430
Financial income	35	46
Financial costs	133	121
Profit before tax	388	355
Tax	116	107
Profit for the year	**272**	**249**

Ferry Line's balance sheet

As per 31 December, MSEK	2012	2013
Fixed assets		
Intangible fixed assets	31	44
Intangible fixed assets	3811	3986
Long-term financial receivables	25	73
Deferred tax receivables	99	153
Total fixed assets	**3966**	**4256**
Current assets		
Inventories	715	765
Accounts receivable	901	839
Current tax receivable	41	50
Other operating receivables	159	203
Short-term financial receivables	26	15
Liquid funds	316	410
Total current assets	**2158**	**2282**
Total assets	**6124**	**6538**
Equity		
Share capital	1173	1271
Other contributed capital	81	83
Reserves	53	44
Profits brought forward incl. profit for the year	507	576
Total equity	**1814**	**1974**
Long-term liabilities		
Long-term financial liabilities	1341	1422
Pension provisions	193	209
Other provisions	226	205
Deferred tax liabilities	824	976
Total long-term liabilities	**2584**	**2812**
Short-term liabilities		
Short-term financial liabilities	489	477
Liabilities to suppliers	674	701
Current tax liabilities	4	5
Provsions	80	36
Other operating liabilities	479	533
Total short term liabilities	**1726**	**1752**
Total liabilities	**4310**	**4564**
Toal equity and liabilities	**6124**	**6538**

Kaj AB income statement

MSEK	2012	2013
Sales	437	441
Other operating income	6	5
Consumables, spare parts etc.	22	24
Cost of goods sold	12	14
Personnel costs	372	374
Other operating costs	8	9
Depreciation	14	8
Operating profit	15	17
Financial income	8	7
Financial costs	5	6
Profit before tax	18	18
Tax	6,48	6
Profit for the year	**11,52**	**12**

List of possible observations/solutions

SOLUTION

Profitability aspect

- Offer is profitable when comparing in-house with outsourcing costs
- No costs for outsourcing are mentioned, these could potentially make the deal unprofitable

Risk aspect

- Kaj's profitability has been very low for both 2012 and 2013 (which can be seen from the income statement). Margins are low, increasing the risk of bankruptcy or a credit event
- Harbor operations could be considered core or close to core operations and Ferry Line looses control of this if outsourced
- Customer satisfaction is negatively correlated with how long operations have been outsourced suggesting that Kaj AB's offers might be unsustainable and that they have to raise prices or take measures to lower costs as time passes
- Prices could increase when deal is renewed
- Extra costs incurred with insourcing, if needed
- Ferry Line looses control over many factors affecting customer satisfaction
- Customer satisfaction is not very good if one looks at Kaj's credentials

Feasibility aspect – Bonus part

- *This aspect is not part of the core case and is only listed here as a way for candidate to receive bonus points if he / she decides to investigate this aspect of the deal*
- *Kaj AB's costs are on the same level as revenue for the deal which leads to negligible profit. This is not sustainable for Kaj*

Calculations
Profitability of deal (1/2)

In-house cost

Step 1 - Calculate wage/worker
- Salary * 1,4 – which is a rough estimate of cost for social security. Employer fee plus additional pension.

Step 2 - Calculate total wage cost
- Wage cost per worker * number of workers
- Sum over all work groups

Step 3 – Calculate cost of consumables, spare parts and cost of goods sold
- No facts about these costs exist for Ferry Line's harbor operations and they have to be estimated. This can be estimated in two ways:
- Calculating harbor operations percent of revenue and averaging the costs from Ferry Line's balance sheet.
- Looking at Kaj's costs and rescaling them from Kaj's 13 harbors to Ferry Lines 3 harbors.
- The latter is the best alternative because consumables are mostly used on the ferry.

*Calculations are made in excel without rounding, meaning that these numbers probably will deviate slightly from the candidate's numbers.

Work station	Number of employees	Salary	Wage cost/ worker	Wage cost per harbor
Ticketing & administration	25,00	357 000,00	499 800,00	12 495 000,00
Loading/unloading vehicles	21,00	334 000,00	467 600,00	9 819 600,00
Loading goods & consumables	12,00	319 000,00	446 600,00	5 359 200,00
Facilities management	15,00	324 000,00	453 600,00	6 804 000,00
Repair	4,00	369 000,00	516 600,00	2 066 400,00
Sum				**36 544 200,00**

Total wage cost
109 632 600

Cost of consumables, spare parts and goods sold
8 769 231

Total in-house cost
118 401 831

Costs for all three harbors

Calculations
Profitability of deal (2/2)

Outsourcing cost

Step 1 - Calculate number of vehicles
- There is on average one passenger per truck and three per car
- Number of vehicles = 510 000 trucks + 2 250 000 / 3 cars = 1 260 000

Step 2 - Calculate cost of outsourcing fee
- Outsourcing fee = fee per harbor * number of harbors + fee per vehicle * number of vehicles + fee per passenger arriving by foot * number of passengers arriving by foot

*Calculations are made in excel without rounding, meaning that these numbers probably will deviate slightly from the candidate's numbers.

	Harbors	Vehicles	Arrivals by foot
Units	3	1 260 000	780 000
Cost per unit	29 000 000	10	3
Cost	87 000 000	12 600 000	2 340 000

Total cost of outsourcing
101 940 000

Deal profitability

Profit
- Reduction = In-house cost – Outsourcing cost = 118 401 831 - 101 940 000 = **16 461 831 SEK**
- Reduction percentage = Reduction / In-house cost = **13,9%**

Calculations
Feasibility – Bonus part

This aspect is not part of the core case and is only listed here as a way for candidate to receive bonus points if he / she decides to investigate this aspect of the deal.

Step 1 – Calculate Ferry Line's percentage of Kaj's revenue

- Ideally, the candidate should draw the conclusion that revenue as well as cost for a given harbor is correlated to the amount of passengers and vehicles transported
- There are multiple ways to approximate Ferry Line's cost as a percentage of Kaj's total costs – and percent of passengers handles is a good a proxy as any
- Percent of total passengers = Ferry Line's passengers / Total passengers handled by Kaj = 23,72%

Step 2 – Calculate Kaj's total operating costs and scale to size of Ferry Line deal

- Total operating costs = 429 000 000 SEK
- Cost for Ferry Line deal = Percent of total passengers * Total operating costs = 101 779 532 SEK

Step 3 – Compare cost of Ferry Line deal to revenue from deal

- Kaj will make an estimated profit of 160 468 SEK
- The candidate should realize that this profit is very low and leaves little margin for unexpected costs

* Calculations are made in excel without rounding, meaning that these numbers probably will deviate slightly from the candidate's numbers.

Follow-up questions

Question	Suggested Answer
What are the risks for Ferry Line when outsourcing its harbor operations?	• The candidate should mention some of the risks found in the list of possible observations/solutions. For example • Prices could increase when the deal is renewed • Extra costs incurred with insourcing, if needed • Ferry Line looses control over many factors affecting customer satisfaction • Kaj has a very strained income statement with low margins. The risk of bankruptcy or a credit event is elevated
Could harbor operations be considered a core operation? Why/why not?	• Yes, harbor operations can be considered a core operation. One of the reasons for this is that customers come in close contact with these operations which could potentially affect their view of the company/customer satisfaction
Is it possible that Kaj AB's are making an unsustainably low offer in order to get Ferry Line on the hook?	• The candidate is expected to reason about bidding/pricing strategy. There is always the possibility that a bidder makes a low bid with the intention to somehow raise prices later
Could there be hidden costs with outsourcing that are not explicitly stated in this case? Which ones?	• Yes, there is for example a one time cost of transferring harbor operations from Ferry Line to Kaj AB. Costs could also arise in the form of increased administration regarding follow-up on Kaj's work and possible contractual disputes

II.6

HORVÁTH & PARTNERS

6.1 COMPANY PROFILE

HORVÁTH & PARTNERS

Horváth & Partners ist eine international tätige, unabhängige Managementberatung mit über 900 hochqualifizierten Mitarbeiterinnen und Mitarbeitern. Das 1981 in Stuttgart gegründete Unternehmen ist mit eigenen Standorten in Deutschland, Österreich, der Schweiz, Ungarn, Rumänien, Saudi-Arabien und den Vereinigten Arabischen Emiraten vor Ort vertreten. Unsere Mitgliedschaft im internationalen Beratungsnetzwerk „Cordence Worldwide“ verstärkt unsere Fähigkeit, Beratungsprojekte in wichtigen Wirtschaftsregionen der Welt mit höchster fachlicher Expertise und genauer Kenntnis der lokalen Gegebenheiten durchzuführen.

Die Kernkompetenzen von Horváth & Partners sind Unternehmenssteuerung und Performanceoptimierung – für das Gesamtunternehmen wie für die Geschäfts- und Funktionsbereiche Strategie, Innovation, Organisation, Vertrieb, Operations, Einkauf, Controlling, Finanzen und IT. Horváth & Partners steht für Projektergebnisse, die nachhaltigen Nutzen schaffen. Deshalb begleitet Horváth & Partners seine Kunden von der betriebswirtschaftlichen Konzeption bis zur Verankerung in Prozessen und Systemen.

Ausgezeichnet u. a. mit den Preisen “Great Place to Work - Deutschlands beste Arbeitgeber”, “TOP 100 Innovatoren im Mittelstand”, “Best-of-Consulting der WirtschaftsWoche” sowie “Die Hidden Champions des Beratungsmarkts: Nr. 1 im Controlling”.

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PAYMENTS AG

6.2 CASE

Situation:
Our client Payments AG is a well-established international financial services provider.

The company is owned by a consortium of mid-sized universal banks. It's services comprise of the business areas consumer finance, (cashless) payments and data analytics. The contact person at the client is the head of the payments division. Payments AG offers its customers everything they need for "Payments without limits" (company slogan):

- Credit cards for private individuals and SMEs (in cooperation with InterCard and WordEx)
- Payment terminals for retailers and gastronomy
- Loans and leasing for private individuals and companies

The leading banks in Payment AG's home country have formed an alliance to launch a mobile payment app for quick and easy processing of small payments via mobile device. You have been asked by our client, Payments AG, to analyze the market of cashless payments in Switzerland and develop a future-fit strategy for this growing segment.

Task
Assess the internal situation of the Payments AG as well as the market for cashless payments. Summarize the results of your strategic analysis using a suitable but simple framework.

Which strategic goals should be pursued by Payments AG? Can you help Payments AG to transform these ideas into measurable goals? What initiatives or actions could help to reach these goals?

Additional information
(share with interviewee only upon request)

- There are a high number of competitors with similar product and service offerings.
- Subsequently, margins in most business areas of the industry have declined.

- Smaller companies have been forced out of the market or have been taken over.
- At the same time, specialized providers like MoreCashLess and Cryptologix are leveraging peer-to-peer, distributed ledger and other methods.
- These innovators are pushing into the market of payment solutions.
- As a consequence, existing cashless means of payment are replaced and conventional payment terminals become redundant.

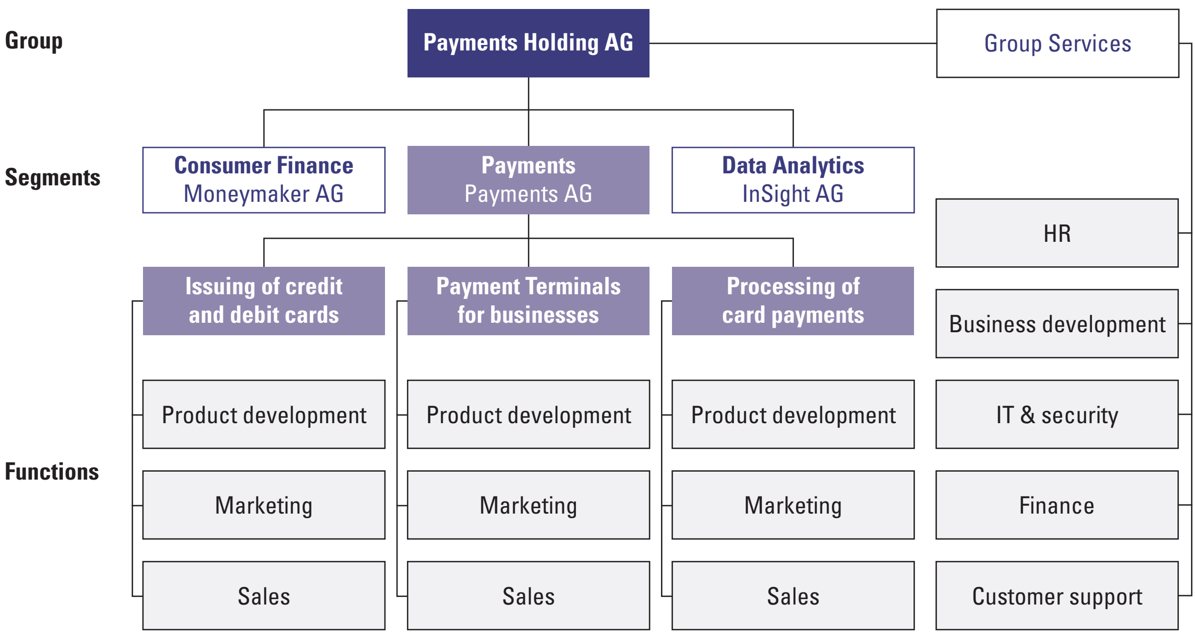

Figure 1: Organizational structure of Payments Holding AG.

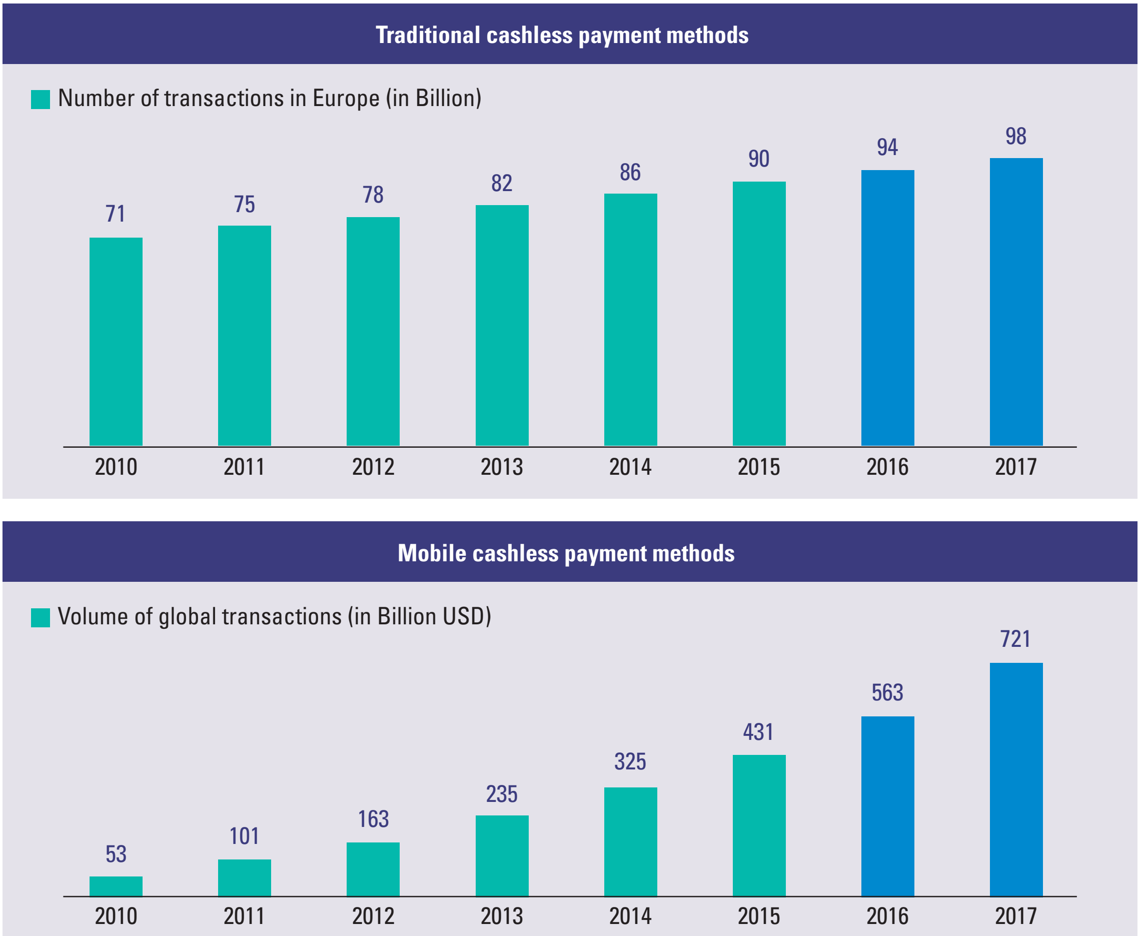

Figure 2 and 3: Trends in traditional and mobile cashless methods.

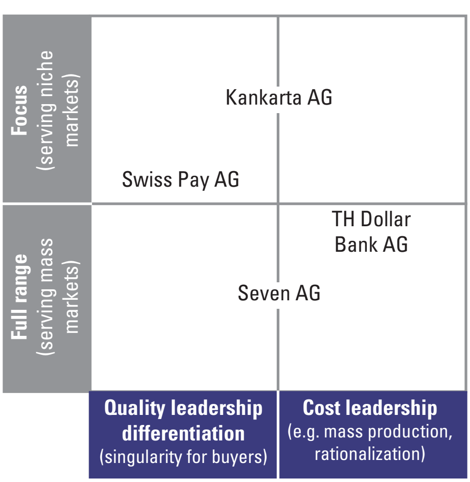

Figure 4: Positioning of competitors.

II.7

ACCENTURE

7.1 COMPANY PROFILE

ACCENTURE

Accenture ist ein weltweit führendes Dienstleistungsunternehmen, das ein breites Portfolio von Services und Lösungen in den Bereichen Strategie, Consulting, Digital, Technologie und Operations anbietet. Mit umfassender Erfahrung und spezialisierten Fähigkeiten über mehr als 40 Branchen und alle Unternehmensfunktionen hinweg – gestützt auf das weltweit grösste Delivery-Netzwerk – arbeitet Accenture an der Schnittstelle von Business und Technologie, um Kunden dabei zu unterstützen, ihre Leistungsfähigkeit zu verbessern und nachhaltigen Wert für ihre Stakeholder zu schaffen. Mit rund 469.000 Mitarbeitern, die für Kunden in über 120 Ländern tätig sind, treibt Accenture Innovationen voran, um die Art und Weise, wie die Welt lebt und arbeitet, zu verbessern.

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BRILLEN AG

7.2 CASE

Situation:
- Brillen AG has a 25% market share in corrective eyeglasses in Germany
- The company is selling its products in Germany and some other European countries
- It is targeting lower price segments but selling selected designer brands as well
- Current revenues are ~€1bn per year

Complication

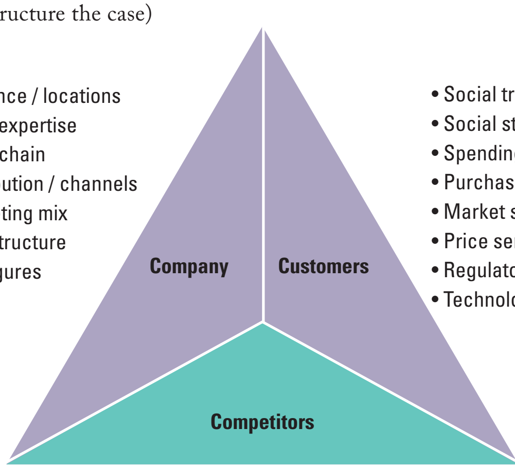
Your client, Brillen AG, is an eyewear manufacturer headquartered in Germany. It was founded in 1995 and is a family-owned business. The company employs 1'200 people. On average, its employees are above 40 and predominately male. Due to the success in Germany in the recent years, the company is considering expanding to other countries in Western Europe to further increase their revenues over the next years.

Therefore, Brillen AG asked you to identify potential growth opportunities and evaluate a possible expansion strategy.

1. **In one minute, please briefly sum up the received information.**
2. **What key information do you need to be able to help your client?**

   (Comment by Accenture: The proposed 3C Model is only one possible approach amongst others. In general, the interviewee is expected to use a common framework to structure the case)

- Presence / locations
- USP / expertise
- Value chain
- Distribution / channels
- Marketing mix
- Cost structure
- Key figures



- Social trends
- Social structure
- Spending capacity and willingness
- Purchase behaviour and preferences
- Market size / growth
- Price sensitivity
- Regulatory developments
- Technological trends

- Number of competitors
- USP / expertixe of competitors
- Target groups of competitors
- Sales approach and channels

3. Based on the received information, the client asked you to identify potential growth opportunities. How could Brillen AG grow its revenues?

(Comment by Accenture: The proposed Ansoff's Matrix is only one possible approach amongst others. In general, the interviewee is expected to use a common framework to structure the case)

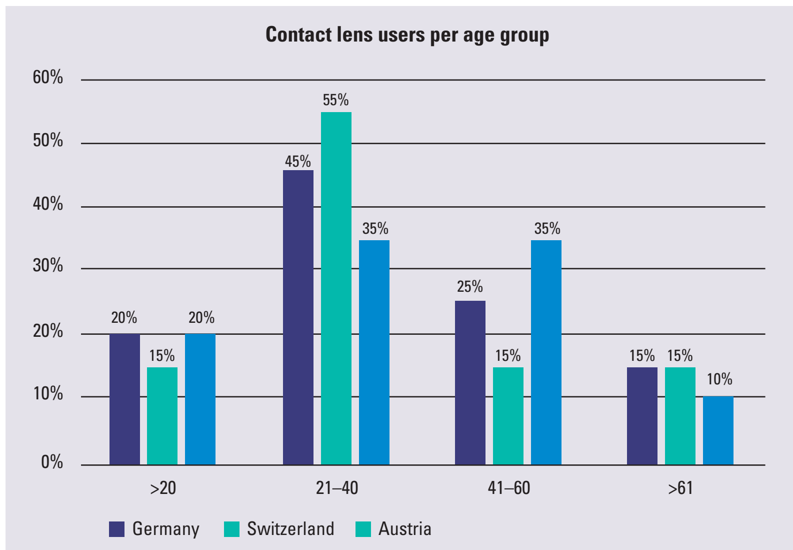
Exemplary answer (not exhaustive) based on Ansoff's Matrix:

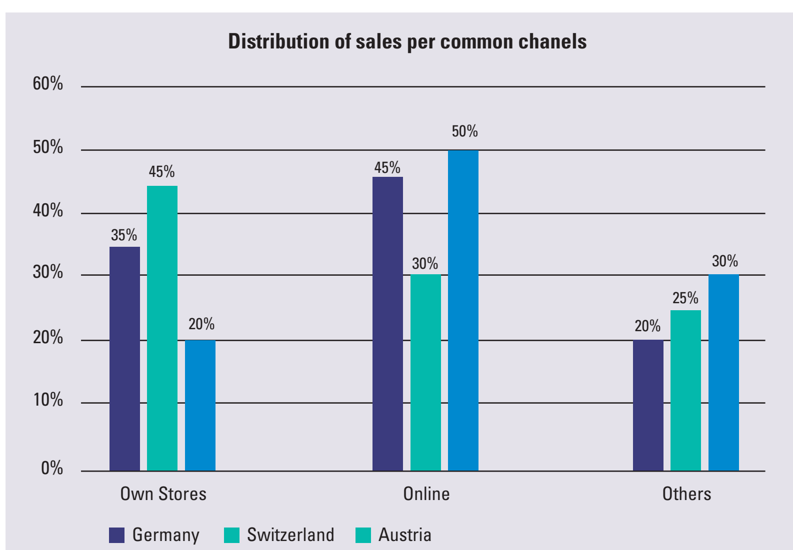
	Existing Products & Services	New Products & Services
New Markets	**Market Development** • Expand to other countries (e.g. Austria, Switzerland) • Use different sales channels (e.g. online, shop in shop) • Use Market Segmentation (e.g. middle segment, different age)	**Diversification** • Horizontal Diversification (e.g. partnering up with an insurcance) • Concentric Diversification (e.g. offering VR-Glasses) • Conglomerate Diversification (e.g. start selling PC monitors which are good for the eyes)
Existing Markets	**Market Penetration** • Introduce a loyalty program (e.g. every second pair of glasses 25% off) • Launch special offer promotion (e.g. 50% off promotion for 1 week) • Increase margin by optimizing cost structure (e.g. just in time delivery to lower inventories)	**Product Development** • Extend your product by different variants or repackage existing products (e.g. different colours, sunglasses) • Improve customer service (e.g. free shipping service for broken glasses) • New glass abonnement (e.g. option to change every 3 month glasses)

4. **Based on the suggested options, the client decides to expand into a new market with the new product "contact lenses": Which market and which strategy would you suggest based on the available figures/graphs below?**

   (Comment by Accenture: Interviewee should clarify the axis)

Available graphs for interviewee:





Average expenditure per age group		
Age	**Germany**	**Switzerland**
>20	€ 10.00	CHF 45.00
21–40	€ 19.00	CHF 66.00
41–60	€ 14.00	CHF 88.00
>61	€ 29.00	CHF 22.00

(Comment by Accenture: At this point, the Interviewee would have 2 minutes to study the received graphs and should then pro-actively ask for some more information/data that is missing; interviewee should be able to assume that Austria has the same prices as Germany and clarify the timeframe of those expenditures, which is "per months")

Summary of selected additional information:
(Comment by Accenture: The following information is only available on request by interviewee – in case no information is specified below, the interviewee is expected to derive an assumption)

Dimension 1 – Company:

- Presence / locations: In which countries is Brillen AG present?
  - Germany, Poland, Czech Republic, Hungary
- USP / expertise: What is Brillen AG famous for?
  - Good value for money, wide choice of glasses
- Value chain: Which steps in the value chain are delivered by Brillen AG, which are outsourced? Where are they located?
  - Brillen AG produces glasses in Poland and sells them to the end-consumer
- Distribution / channels: Which selling channels does Brillen AG use? What is each share of wallet?
  - Shops owned by Brillen AG (75%), online shops (25%)
- Marketing mix: How is Brillen AG communicating?
  - Traditional channels like TV (30%), magazines (30%), Facebook (10%), others (30%)

Dimension 2 – Competitors:

- Number of competitors?
  - In Switzerland: A competitive market with multiple competitors selling in the same market segment; In Austria: Only one competitor with the same target group

- USP / expertise of competitors
  - They have better communication and marketing mixes in social media and make good progress with digital offerings and solutions

Dimension 3 – Customers / Market:
- Social trends
  - Switzerland: Sustainability trend; Austria: Individual design trend
- Purchase behavior and preferences
  - Shift towards online shopping and pop up stores
- Market growth
  - Switzerland: 2%; Austria: 5%
- Price sensitivity
  - Switzerland: low; Austria: middle

Conclusions / possible results:
- **Option 1:** Given the available figures and due to the fact that the company is targeting the lower price segments, it would be more promising focusing on the Austrian online market because of the following reasons:
  - 55% of the population is below 40 and 50% of these customers buy their product online
  - Focusing on the online store, but also opening a few flagship stores in the biggest cities in Austria to make the brand visible and create first touch-points in the old analog world. Working together with social media influencers to further shape the digital awareness of the brand, especially for the younger target clients
  - At the moment, there is just one competitor in the same segment, leading to less competition in the market
- **Option 2:** As the company is also selling designer products, it could be interesting to focus on the Swiss retail market because of the following reasons:
  - Customers are willing to pay more for the same product and there are already multiple competitors in the market for low-cost lenses (comment by Accenture: It is important that the interviewee notices that labor cost and rent cost are higher in Switzerland and that these factors need to be considered as well)
  - 55% are below 40 and 45% of the customers buy their product in stores (comment by Accenture: Further analysis would be necessary in order to get to know which other selling channels exist and what their growth potential might be)

  - Focusing on few flagship stores to analyze the willingness of customers to change their supplier (comment by Accenture: Interviewee should use the market penetration approach which he has worked out at the beginning of the case)
- **Option 3** – non-traditional (out of the box) approach: The client should focus on youngsters and implement a loyalty program with the goal to keep them loyal to the brand (e.g. every fifth lens 25% off; lenses are produced out of recycled materials; lenses are sold in pop up stores, etc.)

5. If the interviewee has not chosen the option 3 approach – Let's provoke some out of the box thinking: What revolutionary product/service could Brillen AG develop as well instead of selling lenses? How could technology trends help to make this new idea a success?

Exemplary Evaluation Criteria:

Question 1:
- The summary is short (max. 1') and capturing only the relevant information
- The interviewee is speaking clearly and free

Question 2:
- Interviewee does not already adhere to evaluate the options (description only; no evaluation)
- Uses adequate visualization to help structuring and communicating his/her ideas

Question 3:
- Completely structures expansion options covering new products & markets (e.g. Ansoff)
- Introduces a strong set of standard criteria to evaluate each different option rather than evaluating each option differently
- Quickly separates new market expansions into new customer segments, increasing penetration in current segments, expansion into new geographies or similar
- Uses adequate visualization

Question 4:

- Follows, communicates and shows a tree structure throughout the entire analysis
- Introduces a strong set of standard criteria to evaluate each different option rather than evaluating each option differently
- Is able to read the available data and identify and ask for further information to come up with a comprehensive solution
- Clearly articulates specific recommendation and reasoning
- Uses useful visualization
- Understands and mentions implications of recommendations (e.g. cannibalization through contact lenses)
- Is a creative thinker that comes up with new revolutionary products, well-founded in facts: e.g. based on social trends
- In general: There is not only one solution possible, it is always a question of arguing. The focus is not on coming up with the perfect solution but rather on structuring the solution path, gathering and assessing the right information and bringing clear and true arguments during the solution development process

IMPRINT

Casebook
The Students' Consulting Club

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