

The following case is a market entry case that will involve the business situation framework. And what I want you to notice is this particular case was a fairly good one in terms of the candidate's performance, and what I want you to pay attention to is how the candidate is assessing the business situation both quantitatively, as well as qualitatively at the same time. So they're asking big picture questions as well as detailed questions simultaneously. And that's actually very important in a business situation case. You typically can't solve the case purely on the numbers, and you typically can't solve the case just by asking very general conceptual questions without any numbers. You really do have to do both. And the reason I mentioned this in advance, in this case, is I find a lot of candidates have trouble doing both quantitative and qualitative at the same time.

So please pay attention to that as we enter this case, and also the one thing that this candidate probably could do a little bit better job of doing, is as the person was transitioning between the various analyses, they could have done a slightly better job in terms of synthesizing the working conclusion and refining the hypothesis as we went along. In my commentary you'll notice that I sometimes restated the hypothesis or restated the synthesis in a better way, so I did want to make sure that you pay attention to that. Thanks and let's go ahead and get started with this case.

Interviewer: This company that we're working with, the client, is a company that is in the garbage hauling industry. They're a \$4 billion a year company, and the company primarily works with industrial and commercial buildings. So those big, very large trash dumpsters behind the building is what they would come for every day and pick them up, and dump it into the truck, and basically haul that trash away.

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They are considering starting a new business, a new division of the company, and they're thinking of entering the moving industry. Their idea is that if you take a trash dumpster, you make it bigger, you put a padlock on it, you could put furnishings inside of it, boxes, and move it from point A to point B, which the rest of the industry would call "moving." They think of it as just moving stuff, and they are very good at moving stuff, is kind of what they think. So they've asked you to come help them figure out whether this would be a good idea or not, and to figure out: if it is a good idea – why; and if there are any issues that are of concern, what those issues might be.

Candidate: Okay. Just to ask some background questions before I get started.

Interviewer: Sure.

Candidate: This company is basically planning to move into moving, like they're going to move anything, but it's not necessarily garbage.

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Interviewer: Correct.

Candidate: Or is it they're going to be moving garbage in larger quantities?

Interviewer: No, this would be things people want to keep. So boxes of goods, furnishings... Their idea is to take large steel containers, probably close to the size of a small truck, and move those from one point to another, as a new business.

Candidate: And their existing business is just to take the garbage, move it away and dispose and get rid of it.

Interviewer: Correct.

Candidate: Okay. Do you mind if I take a minute to structure my thoughts?

Interviewer: Sure, no problem.

Candidate: Okay, so I think in order to understand whether this would be a good idea or not, we need to look at four areas: customers, and the product, the company itself, and the competition.

Interviewer: Okay.

Candidate: So, I'd like to start with customers. I understand that currently they're serving the industrial and commercial sectors. If they decide to move, go ahead with this new project, would they be only looking at industrial and commercial customers, or do they want to expand into other customer segments as well?

Interviewer: Actually they were thinking of making a move into the residential moving market.

Candidate: Okay, so they're going to have a focus on the residential moving market?

Interviewer: Correct.

**00:04:00**

Candidate: Okay, do we have any information about the residential moving market? In particular, what are the segments and growth rates for the segment?

Interviewer: Let's see, we do have some information on that. There are three major segments in the market place. There is what we call the "full service" segment, which is typically: a moving truck and two movers will come and pack everything up, put it in the truck, drive it to the new home or location, unpack it – we call that "full service." That currently represents 20 percent of the market. And the other segment we call "do-it-yourself" movers, where you provide your own labor, and

you simply rent the truck like a U-Haul truck, and that comprises today about 80 percent of the market.

Candidate: Okay. It seems that “do-it-yourself” is the larger market. Do we have any information about the profitability of each of these segments, what is each customer segment willing to pay for this service?

Interviewer: So in terms of pricing, the typical pricing for a truck rental, we’ll say, is probably \$100 to \$200. And for a “full service” move, if it’s local, it might be \$1,000 to \$1,500. If it’s long distance, it might be up from \$5,000 to \$10,000, depending on the distance.

Candidate: Okay. Alright, that sounds good. What distribution channels do each segment prefer?

Interviewer: The channels are both similar, most of the customers will typically do some research online or through the yellow pages, that’s fairly popular. They will get information via word of mouth, but generally the actual transaction takes place—in this “do-it-yourself” segment, they will go to a physical location to go rent the truck, and using a retail point of presence, retail-type facility. And then for the professional movers, that’s usually done by phone, perhaps an estimator might come out to do an estimate of the size of the move to provide a quote. But those are the two most common ways that these particular transactions are conducted.

Candidate: Okay, and just to ask a little further about the segmentation, where are the customers located mostly, in terms of geographic location? Do we have any information on that, or do we assume that it’s homogeneous?

**00:06:08**

Interviewer: We can assume it’s pretty homogeneous, there is an even mix of both types of customers throughout the particular region that this company does business in, or is considering doing business in, rather.

Candidate: Okay, sounds good. It seems like— that this “full service” segment is – for moving, is a higher-priced segment.

Interviewer: That’s correct.

Candidate: And however, it’s only 20 percent of the market. I’d like to now move to the company and understand more the company capability, and then I can better understand what makes more sense for the company, if they choose to go into – in terms of this segment.

Interviewer: Okay.

Candidate: So can you tell me a little bit about what are the strengths and capabilities of the company at the moment?

Interviewer: Sure, the company is fairly large; they do \$4 billion a year in sales, with all that in their core business of moving trash. And they are in the majority of the states, here in the United States. And the company, they always think of their expertise as: they are very good at moving stuff from point A to point B (generally it's stuff that people don't want). It starts in point A, and they move it to point B to get rid of it. And they have a large fleet of trucks, thousands of trucks. They are very good at building systems to lift heavy objects such as trash dumpsters, so they have the capability to engineer these types of devices. And they have a fair amount of cash, they're very successful in the trash business and they have several hundred million dollars in available cash to invest, and this is one of the areas they were considering investing in.

Candidate: Okay, and just to understand the technical capability required to move into this new segment – the trucks that they are currently using, would they be able to be utilized in this new segment, or do they have to invest in new trucks and equipment?

**00:07:56**

Interviewer: I think their initial assessment is that there was a particular part of the “do-it-yourself” segment that they found interesting, which is sort of, rather than rent a truck or hire a team that has a truck to move, there's this new emerging segment that's very, very small, where basically the customer rents a container that is placed on their property, and then that container is then moved whenever they would like it to be moved. The company or client have— they think that the raw technology behind lifting a trash container would be very similar to a system designed to lift a packing container. But that would be new technology, it would be on new trucks, and the existing trucks would not be able to accommodate this particular purpose.

Candidate: Okay, just a clarifying question: the “do-it-yourself” segment relates to the moving stuff, not necessarily waste?

Interviewer: Correct, the “do-it-yourself” segment refers to moving of objects people would like to keep, that's correct.

Candidate: Okay, so this is something that they are currently doing in their business, or are they contemplating to? Because you said that 80 percent of the market is “do-it-yourself” in the movers' market. And they are thinking that this “do-it-yourself” is a kind of a new growing market, or maybe I just misheard. Can you clarify on that, please?

Just a quick note here, the candidate here is asking some clarifying questions because the person doesn't understand or perhaps is concerned they may be misunderstanding the case, and I want to mention that this is actually a very smart thing to do. Sometimes you just misunderstood something, you didn't hear it quite right, or the way the interviewer presented something could be interpreted in multiple different ways. It is very important that you actually understand the case, because it's pretty much impossible to solve a case that you misunderstood at the outset. So if there are details you misunderstand, please ask clarifying questions.

Also very important, early in the case, at the beginning, it is very much worth clarifying what the question the client is asking you to solve *is*. Are they trying to improve sales, or are they trying to improve profits? They are different; they're subtly different. Is there a time frame involved? The more specific you can be in terms of the objective, the much easier it is to solve a case. And so asking clarifying questions along the way is extremely appropriate, and you shouldn't hesitate to do that in the slightest.

**00:10:22**

Interviewer: Yes, I'm not sure what your question is, but let me try to take another stab at it. The new market they are considering entering would be the "do-it-yourself" part of the moving industry, which is not a market they have currently participated in. And in particular, there is a sub-segment of that that they think would be interesting (which would be a new innovation), is to rather than rent a truck or rent a team, to have some sort of middle ground opportunity that they think they could facilitate.

Candidate: Okay, that sounds good. So it seems that the "do-it-yourself" segment seems more applicable to what they are thinking of doing in the movers' market.

Interviewer: That's correct.

Candidate: So then let me just ask a few more questions about the company. What's their current cost structure? Are they more fixed cost or variable cost?

Notice how this candidate is asking what I would consider an "order of magnitude" type question. So is the company more of a fixed cost business or more of a variable cost business? This is useful because sometimes you want to start with just having a general idea, some set of numbers, rather than the specifics. Sometimes I find that when candidates ask a very specific question involving numbers and I give them very, very precise numbers like \$3,282,000,000, they tend to get bogged down in the numbers and haven't yet determined whether the numbers are actually important or not.

So in this particular case, the candidate is trying to get a general idea of what kind of business this is. Is it a high fixed cost business or more of a

variable cost business? And that is a useful question to ask. And the purpose of asking, generally, is just to get a feel and determine if a more precise number is necessary. And that's useful because as you get more precise, it takes more time and it's a lot more work to compute very specific numbers. So that's a smart question to ask, and I wanted to make sure you were aware of that.

**00:12: 22**

Interviewer: It is probably evenly split. So let's say on \$4 billion in sales– let's say that on \$4 billion in sales, they have \$3.5 billion in costs per year, with \$2 billion in capital investment in equipment and physical facilities, and perhaps \$1.5 billion a year in variable operating costs.

Candidate: Okay. You mentioned before that the company has cash; the financial situation is good, so it can invest some more into this business.

Interviewer: Yes, it certainly has lots of cash, but is not sure what to do with it.

Candidate: Okay. Finally, about the company in terms of its intangibles, does it have any brand recognition in the residential market?

Interviewer: It has no brand recognition whatsoever in the residential market.

Candidate: Okay. Yeah, I think that could be a concern. If they were to move into this new market, they have to start from scratch. And they would develop these capabilities internally. Okay, so I would like to now move on to the competition.

Interviewer: Okay.

Candidate: Since the company is contemplating moving into the “do-it-yourself” segment, I'd like to look at the competition in that segment. Do we have any information about the competitive concentration and structure?

Interviewer: Sure, the competitors primarily consist of truck rental companies. There are several of them, U-Haul, Budget, Ryder and Penske – those are four company brand names. They all have very similar businesses – they typically have very large parking lots filled with trucks, and they rent them out typically by the day, with some sort of mileage fee. The various companies are, let's assume they are all comparably sized, so let's say they all have a quarter of the market apiece, roughly speaking, and they've had that particular concentration that's been fairly constant over the past couple of years.

**00:14:08**

Candidate: Okay. And this market, has it been growing?

Now with this particular question, the candidate is asking if the market has been growing. And that is technically a question that falls within the ‘customer’ portion of the business situation framework. And you’ll notice that in this particular dialogue and conversation that this candidate has already moved on to the ‘competitors’ section, and this is not ideal. It’s not a deal breaker, but it is better to get the right information late than never. So I think in this case, this person realized that they did not ask if the market was growing under the ‘customer’ section, and in the midst of talking about competitors, realized this mistake and went back and tried to get that information. Again, it’s better if you get it the first time around, but it is not the end of the world if you end up asking the question later.

That being said, I think it is useful to say and announce that you’re jumping back for a second, so say something along the lines of, “You know I just realized, before we get more into competitors, I forgot to ask a question about customers from earlier. I wanted to know if this market is actually growing or not. Do we have any information about that before I continue with competitors?” And this way, it allows the interviewer to follow your train of thought, to realize you are jumping back temporarily just to fill in some gaps in the information, before continuing with your structured problem solving approach. That is okay. You don’t want to do it too much, and when you *do* do it, you want to announce you’re doing it, so that the interviewer can follow and is aware that you’re actually deviating from the structure. Which is, again, okay, as long as you make sure that others are following you, and understanding what you are doing.

Interviewer: The “do-it-yourself” market actually has been growing the past two years. It has grown from 70 percent of the market to what is now 80 percent of the market.

Candidate: Okay, and the absolute amount, I believe, is growing as well, right?

**00:16:01**

Interviewer: The market overall or that particular part of the market?

Candidate: They have grown from 70 percent to 80 percent. Is this because the “full service” segment is shrinking?

Interviewer: Yes, that’s where it’s coming from, correct.

Candidate: Okay. So overall then in actual dollar amount, there is not that big growth in this “do-it-yourself” segment either. Is that fair to say?

Interviewer: Actually, the industry overall has not changed, but the “do-it-yourself” segment has been growing.

Candidate: Okay. So that's good because the company is thinking of going into the "do-it-yourself" market, which is growing. Okay, and what would be the barriers to entry into this segment?

So you noticed that in the previous comments, I mentioned that the industry overall has not changed much, but the "do-it-yourself" segment has been growing. And so the candidate realized this, but the appropriate response should have been – and I'm nitpicking a little bit here – should be: "Great, the "do-it-yourself" segment has been growing, but by how much?" Whenever you see a trend or a change, you want to quantify the magnitude or size of that change. So this candidate now understands that particular segment is growing, but doesn't really understand by how much.

So I don't think that was a problem in this particular case, but as a habit, it is useful to constantly ask by how much – plus or minus, roughly speaking, ball park estimate – of how much something has changed by. So that's a good habit to develop, and something I would encourage.

Interviewer: For whom?

Candidate: Obviously the "do-it-yourself" segment – you mentioned there are four competitors, each has almost equal market share, and they have been investing into marketing and building their brand, their networks. What are some of the barriers of entry into this segment?

Interviewer: Generally capital equipment is very...one big one. So to be effective in one particular region or local market, you need a certain number of trucks with a certain amount of coverage. In terms of the various parts of that particular community, that is one sizeable one. What barriers to entry do you think that might be a factor (that you would be curious to look into more)?

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Candidate: Obviously, the distribution channels that the customers prefer and the brand recognition. Obviously U-Haul and other companies like that have a strong brand recognition, and that's important, because I hypothesize that the customers are concerned about the safety of their product and the good execution of this moving from their location to their new home.

Interviewer: I would say that the client's data suggests that those would be issues of their concern as well. So certainly brand recognition, distribution, or physical locations, which involves real estate as well as the capital equipment, are all potential concerns.

Candidate: Okay, just to summarize the information I received so far, just want to check some things with you.



Interviewer: Sure.

Candidate: So our company is good at just lifting the box into their trucks and moving it to the next location. So, but in addition, they have to invest in new trucks. They have the technology to lift the boxes, but they would need new trucks. Do we have any information on how much capital equipment investment this new business would require?

Interviewer: Yeah, sure. So each truck requires probably about a \$200,000 capital investment, and the R&D needed to design the trucks has already been funded, so that would not be an incremental cost (they know how to do it if they wanted to do it). But the actual building cost is about \$200,000. What they have in mind is rather than rent out trucks, they would actually rent out containers that these trucks would then lift and move. And the containers are typically, let's say, about 8 feet tall, 8 feet wide and 16 feet long, so sort of like a small-sized U-Haul truck, in terms of the actual space. And the cost to create and build one of these containers is about \$10,000 in capital.

Candidate: Okay, just staying with the competitors, do any of the competitors have this rent-out container service?

**00:20:03**

Interviewer: Now there is one company out in the west coast of the United States that has started to do this – they are only a regional player. There is no national player who is providing this particular service.

Candidate: Okay. So it seems... it's favorable that none of the competitors are in this segment. This is good news for the company, if they want to get into this rent-out container business. But just one question, how easy is it to develop this capability for the existing competitors, such as U-Haul?

Interviewer: I would say this would be extremely difficult, because the trucks that U-Haul will typically buy – they're manufactured by third parties, sort of like Ford industrial trucks (companies like that). And this sort of technology would be a new design, and is not currently available in the public markets, and would end up being a proprietary design. These companies typically do not have an R&D department. They're accustomed to buying their trucks and then renting them. They're not really used to inventing anything new.

Candidate: Okay, so that sounds interesting. And do we have any information about— how has the west coast company that rents out containers done so far in this business? Was it able to capture customers?

Interviewer: Yeah, in its local market, it is growing at 100 percent per year, as far as outsiders can tell. And it is very small, it's only in one city and it is a very small local

business. Instead of steel containers, they're using containers made from wood, so they are using sort of a very low-tech way of transporting those small containers. And the containers are much smaller – typically about 6 feet tall and 4 feet wide and 4 feet long.

Candidate: Okay. And do we have any information about how many trucks they have currently, and how many households are they able to serve?

Interviewer: We think that in the market that they are in of 100,000 households, they are probably able to serve – perhaps in any given week – 50 to perhaps 100 households at most, at any given time.

**00:22:01**

Candidate: Okay. And how many trucks do they have?

Interviewer: They have two.

Candidate: They have two trucks. Okay, it seems from this information that with two trucks... and they were able to serve a city with 100,000 households. And with \$200,000 each per truck, it seems that our company cannot— does not have the financial resources to at least start this service in a few cities or in a larger region.

Interviewer: Okay.

Candidate: With its higher technology, it could offer more than what this new west coast company can do; however, since there are no other competitors, I don't think they would need to develop this business in the location where this west coast business is doing its business. So far it seems, even though the competitive landscape for "do-it-yourself" segment is quite difficult to get into, due to the brand recognition issues, and the existing competitors, this new top segment, which is the rent-out containers – that seems quite promising. And one existing player is just a very small player, but has been growing by 100 percent so that, so far from a competitive perspective, it seems favorable to me.

What you notice here is that the candidate did what I would consider a "synthesis," which is really a preliminary or interim conclusion as to what we now know about this particular situation. And that is a very good habit to develop. Any time you do a set of analysis that leads to some sort of discovery, it is useful to summarize what you have learned and, when appropriate, to refine your hypothesis, indicating how you will proceed with the remaining of the analysis. So in this particular case, the candidate did a summary, or "synthesis," of what can be concluded so far, and it would be better to say, "and with the remaining information I'm looking for, I will look for it under the idea that perhaps this is a favorable market to go after and pursue, and I want to look for this additional information to validate whether that's actually true or not."

So refining your interim conclusions— stating your interim conclusions and then refining your hypothesis is a good habit to get into any time you transition between frameworks, or when you transition between parts of the framework and get to some sort of natural transition point.

**00:24:29**

Interviewer: Okay.

Candidate: Now I'd like to understand, although we've spoken about it, but I'd like to understand more about the product or maybe I'll just summarize what I know so far, and if there are any additional things, then I will ask you.

Interviewer: Okay.

Candidate: So this product is rent-out containers, basically the customers just need to put the stuff in the container, and then we take it and move it to the location that they want us to. The substitute product obviously would be, in this case, the “do-it-yourself” traditional way of doing it – they would rent a truck and then do it like that. Obviously a “full service” operation, but we are not really interested in that. What are some of the trends, or are there any complementary goods that would drive this rent-a-container business more, going forward in the future?

Interviewer: Well, I think one complementary service that the client company does not have the ability to offer today is the labor portion of the move. So once the container is there, some customers prefer that someone else lift some of these heavy objects, particularly people who live by themselves (it's kind of hard to move, say for example, a sofa, by yourself). Or certainly households that are heavily skewed towards women, who typically aren't as strong, would tend to favor more of a “full service” offering or something, or at least consider that a little more often than some of the other types of customers.

Candidate: Okay, I would like to just move to the company. Do you think the company could develop this capability of providing a labor service, along with the rent-out containers?

**00:26:03**

Interviewer: Well, what do you think?

Candidate: It seems that they could, they just have to maybe reorganize themselves, and since this is going to be focused initially on a certain region, I don't think it would be a big problem to have a labor force to help these people put stuff in the containers. But, obviously we have to look at the cost structure of that as well.

Interviewer: Okay.

Candidate: So, so far it seems that the company has experience in moving things, and has developed the technology to move these containers, and the competition is not that strong in this new top segment of the “do-it-yourself” segment, and customers would be willing to pay for this service because it is convenient for them, especially if there are people helping them move the stuff into the containers. I’m not exactly sure about the return on investment that this service would generate, so I would like to dig deeper into understanding that.

Here is another example of a transition point in the case, where the candidate has synthesized the latest information, and what we currently know about the case. And is indicating they want to go in a different direction, so it’s a transition, and the transition is perfectly appropriate. I would, however, rephrase the transition a little bit. So the candidate said: “I’m not exactly sure about the return on investments the service would generate, so I would like to dig deeper into understanding that.” That’s fine. What the candidate should do ideally, and again this is being nitpicky, is indicate what specific information you would need to determine the return on investment.

So for example, I might say, “This opportunity looks extremely favorable for these two or three reasons,” which the candidate did say, “and now I want to understand if the return on investment in entering this market is favorable. There are three things I’d like to look at: one is revenue, annual revenues per truck; the second is operating costs on an annual basis for per truck; and then the third is startup costs involved per truck. And I’d like to get a feel for how those compare, to see if it actually is a worthwhile investment opportunity for this particular client.” Something along those lines, hopefully stated a little bit more eloquently, would be a better transition, and a better set up for the remainder of the analysis.

**00:28:28**

Interviewer: Okay.

Candidate: Obviously there is no other competitor out there that the company can buy at the moment for this service; it’s an innovation in the industry, so they will definitely develop it internally. So I think it makes sense to try this out, given that it’s a growing segment, and they have the capability. Let’s maybe focus more on the overall investment, and calculate the return on investment.

Interviewer: Okay.

Candidate: So just to summarize the data I have so far, each truck costs \$200,000 and each container costs \$10,000.

Interviewer: Yes.

Candidate: And let's say, let's take the example of a small city with 100,000 households. And the only other competitor in this top segment was able to serve 50 to 100 households, just to clarify, was this per week?

Interviewer: They were able to serve about 50 households in a particular week.

Candidate: In a particular week, in a week, okay. So what I'm going to do is just to calculate expected revenue and profit in a given city. So we need two trucks for a growth city like this, which is going to cost us \$400,000, and then in a typical week we serve 50 households.

Interviewer: Well that particular company serves 50 households.

Candidate: Okay, so I would benchmark it against that company, and what do you think the company can serve each week? Is it fair to assume that they would be able to serve about 50 customers per week?

**00:30:06**

Interviewer: How would you estimate – that's a great question actually – How would you estimate what kind of volume the company could expect in a market size of 100,000 homes?

You will notice here that I have asked the candidate an estimation question, and this is actually not that unusual. It was not my intention to ask an estimation question, but the reality is: in a case interview as well as in real life consulting engagements, we sometimes need to estimate things; that's just sort of the reality of it.

And so what I thought I'd do now is suggest that you hit the "pause" button on your recording, and actually do the estimation question, and I'll repeat it here in a second, and see how you do. It is good practice. "How would you estimate what kind of volume the company could expect in a market size of 100,000 homes?"

So why don't you hit "pause," walk through that logic, and then compare your answer to what the candidate said. The specific numbers don't need to be the same, but the general approach should be similar or comparable. And I will also mention that you should be prepared to do an estimation question in the middle of a case for precisely this reason. You know you're trying to solve a problem, is this opportunity going to work? You do a quick estimation to get a rough idea, and if we're in the right ballpark in terms of numbers. And so an estimation question is fair game, and something you ought to anticipate and be prepared to do, even within a more formalized case interview.

Candidate: In 100,000 homes, I need to estimate what percentage of people move in a given year, percentage of people moving a year. If people buy, well obviously it

depends per city, if it's a more rural area, I would imagine people move less, and if it's more like a bigger city, people move more, but let's assume that —

**00:32:02**

Interviewer: Actually, I have some data on that that might help the process. We do know that nationally, 15 percent of people move in a given year.

Candidate: Okay, that's good. So that would be (in a 100,000-household city, 15 percent of that is going to be) 15,000 households move in a year. And do we have any information on what the company is expected to charge for this service?

Interviewer: Yeah, I think their sense is... for one particular client, when you add in all the services, probably somewhere in the neighborhood of around – let's call it \$350 per customer.

Candidate: \$350, okay. So the expected revenue would be \$350 times 15,000. Obviously this is assuming that this is for the general moving market, then we will talk about what percentage of that we are expected to capture.

If you're paying close attention to this case and actually computing the numbers as you go, you will notice that the candidate actually made a numerical error. They're trying to ask me the revenues from the market place for this particular company potentially, and there are 100,000 households in the market, 15,000 move in a year, but only 80 percent will move on the "do-it-yourself" basis, and this candidate forgot to multiply by 80 percent.

Now what's useful and interesting with this particular example is: in the live interview, I didn't catch this mistake, and so the candidate actually got away with it, which I think does happen from time to time. But in case you're tracking and wondering if this was a mistake, I think in hindsight it was a mistake, but hey, interviewers are people too – we get sloppy. This I think was my eighth hour of case interviews that particular day, and so I did not do the math as diligently as I would if I were the interviewee, and so this person got away with it. So I just wanted to make sure you were aware that this was a mistake. (A very minor one, but still a mistake nonetheless.)

Interviewer: Okay.

Candidate: So that's \$5.25 million in revenues a year. And let's assume that since this is a new service, not everybody will be willing to initially try it maybe, so in a given year, do we have any data on what their market share would be?

**00:34:16**

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Interviewer: They think that this market, over time— they think they are aiming for perhaps between 10 to 20 percent of the “do-it-yourself” segment as being a reasonable target for this particular business.

Candidate: Okay, 10 to 20 percent, and so given that the “do-it-yourself” market is 80 percent (at the moment) of the overall market, I’m assuming 10 percent —

Interviewer: Let’s say 20 percent to keep it easy, 20 percent.

Candidate: Twenty percent, I’ll keep twenty percent of five—it’s about \$1 million a year revenue potential.

Interviewer: Okay.

Candidate: And then, now let’s look at the cost side. Do we have any information on the variable costs that the company expects to pay for the service?

Interviewer: Yes, so they expect variable cost to be about— for every active truck, they expect let’s call it \$200,000 a year in operating expenses per active truck.

Candidate: Okay so \$200,000 a year per active truck. And then we said they would need two trucks to serve, and the competitor is using two trucks to serve a segment with 100,000 households, so that would be about \$400,000 if you use two trucks in this area. That’s going to be \$400,000.

Interviewer: And is two trucks enough, or do they need fewer, or do they need more? How do you know?

Here is another estimation question that just sort of naturally popped up in this particular case (not really my plan to ask this question at the outset of this case, but it did seem like a natural question). So, are two trucks enough for this company? Given this market size, do they need fewer, or do they need more, or do they have the right number of trucks? So why don’t you— I would suggest hitting the “pause” button, and trying to estimate and determine whether two trucks is enough for this particular situation. Go ahead and hit “pause” now, thanks.

**00:36:10**

Candidate: I took what the competitor used, but maybe let’s go into more detail about how many trucks they would need.

Interviewer: Okay.

## Case 1 – Moving – Ex 1 – Transcript

Candidate: So we have— so in this case, it would be— 15 percent of households to serve in a year is 15,000. But in a day, we would need to serve about 50 households, and let's say that each truck could serve —

Interviewer: And you're assuming 100 percent market share, correct?

Candidate: Yes, that's right.

Interviewer: Is that a reasonable assumption, do you think?

Candidate: No, we actually – good point – we said that we're going to capture 20 percent of that market. So it's going to be ten households a day.

Interviewer: So why don't you walk me through the numbers that you are using, just so I can follow along, in terms of the math?

Candidate: Okay, so we have a city of 100,000 households. Fifteen percent of the people move, so that's 15,000 households moving, and we captured 20 percent of the market share, which is going to be 3,000 households.

Interviewer: Actually, 20 percent of the “do-it-yourself” market.

Candidate: Oh, okay. So that's going to be then 16 percent.

Interviewer: Okay.

Candidate: Eighty percent times 20 percent is 16 percent. So... 16 percent of the 15,000.

Interviewer: We'll just call it (for even numbers) say 2,500.

Candidate: Okay, so 2,500 households in a year and in a given day, let's say you work for 300 days, that's about eight households a day that we have to serve. I think a truck could serve about four households a day, let's say each household takes two hours to serve, so I believe two trucks is a good estimate.

Interviewer: Okay.

Candidate: So, but if we can maybe push it further, we might say maybe one truck would be enough for eight households, but I would go with two to be more comfortable.

Interviewer: Okay, great, let's go with that.

Candidate: Okay, so two trucks yearly variable cost we set at \$200,000, so that's a \$400,000 cost.

**00:38:07**



Interviewer: That's right.

Candidate: And when we calculated this from earlier, that was still \$1 million revenue we can expect to generate, so our operating profit would be \$600,000 a year. And then we need to calculate, obviously, the investment cost.

Interviewer: Sure.

Candidate: So two trucks would cost us \$400,000 (\$200,000 each). \$400,000, and then we have to pay for the containers. Each container is at \$10,000, so if we serve about eight households, let's say we leave the containers three days before or a week before, we would need about 50 containers to serve the city. So 50 times 10,000 is \$500,000.

Now in this particular estimation/calculation, the candidate actually forgot that the trucks will actually visit the premises of a new client two times, one time to go and drop off the containers, and come back again to pick them up. So the precision and the estimate was a little off. It probably wouldn't have made that much of a difference in the grand scheme of things, but it would be useful to at least say that we know that each truck will visit two times, and we think that perhaps in total that will take maybe two to three hours for both trips combined.

To simplify the calculation, I'm just going to assume it's one trip, and make it a longer trip, under the idea that perhaps they pick up these empty containers on the way back from dropping one off from somebody else (something along those lines). So it's important, when you notice there is a subtlety in there, to actually state that there is. It is more than appropriate to make a simplifying assumption for simplicity, and for the sake of making the calculations easier, but you do get sort of points for acknowledging there is a subtle nuance there. And if the candidate had done that, I would have given that person points for that, and accepted the simplifying assumption, because we're just trying to get a rough estimate, which is fairly typical.

**00:40:12**

Interviewer: Okay.

Candidate: And then do we have any additional investment costs?

Interviewer: Let's assume that's it.

Candidate: Okay, so \$900,000 investment cost, and then we're getting profits of \$600,000 a year assuming that the market has matured.

Interviewer: Correct.

Candidate: So this seems like a high rate of return for our investment.

Interviewer: Great, so let's say that you're talking or working, and the CEO of the client happens to be walking down the hallway and says, "I'm about to head off on an airplane flight, but what have you discovered so far? What do you think, or any conclusions of what you've found so far, or anything else I need to worry about?"

Candidate: Sure, based on the initial analysis, the company should enter into this new segment because there is no competition, at the moment, in the rent-a-container sub-segment, and the existing player has been growing 100 percent. Also, the investment return is high (well above 50 percent a year), and we have the financial resources to be able to invest in this new segment.

Interviewer: Okay, great. Let me give you some suggestions. Overall, I think you did very well, no really glaring errors or anything like that. A couple of minor things that you might want to work on, but they are fairly minor. One is on the closing, on your synthesis. I like that you led with a conclusion that "yes, they ought to enter the market." Some people will typically go through all the data first, before announcing the conclusion, so nice job in terms of starting with the conclusion first. I think in terms of your supporting data, it's useful to number how many pieces of supporting information you have, so "I think we should enter this market for" three reasons, five reasons, two reasons, whatever the number is. And that's easier for someone to follow: reason number one, reason number two, reason number three – easier for them to follow.

And I think in terms of your choice of reasons, I probably would have suggested mentioning the customer side – the market is growing, for example, and there is a shift in terms of demand. I think you did mention the competitor side and the return on investment. So it's useful to think about, is that all the major factors? Are those the most important ones? And make sure that your supporting data is comprehensive. You did get the right analysis, but in the closing you didn't reference some of that. Also again, relatively minor, not a deal breaker by any means.

**00:42:25**

Candidate: Okay.

Interviewer: The other thing is (I think it would be useful): in the middle of the case, you did do a good job, in terms of summarizing what we already know. I think you could do a small improvement there by summarizing what you think we know, and then I would actually suggest explicitly refining the hypothesis. So it would be along the lines of... so after you did the customer analysis, for example, the conclusion I think you said was: "It sounds like this market is in fact growing, this portion of the market rather, is growing, which would be favorable," which is what you said.

You could say something along the lines of, “I’m going to refine my hypothesis, my hypothesis now is that this is a good business to enter because of the strong market demand, but it’s still a little unclear. We still need to figure out whether this makes sense from a competitive standpoint and a company capability standpoint. But my working hypothesis is that this is a good business, and we can address these other issues. Now I want to shift gears, and talk about these other issues, and figure out and drill down further.”

Candidate: This is something I could have done after I asked my questions about the customers?

Interviewer: Yeah, generally anytime you switch gears, or you change from one part of a framework to another. People usually do that because they’ve exhausted the questions they have to ask or they wanted to ask, and they’ve reached some sort of preliminary conclusion. And I think you had that sense (after you asked questions about customers) that it seemed likely that customer demand was favorable for this particular business.

Candidate: Okay.

Interviewer: Was that what you were thinking? I don’t want to put words in your mouth.

Candidate: Oh yeah, that was what I was thinking.

Interviewer: Now you should say that. You should say it out loud, so: “Given what we know, it sounds like this so far; this sounds like a great opportunity. So my hypothesis is that we should enter this market” – not if we should – but the hypothesis is we should. “But in order for that to be true, we have to feel comfortable that the competitive situation would allow for that, the product actually is what customers want, and the company is actually capable of executing that. So I’d like to look at these remaining areas next, to further test this particular hypothesis.”

**00:44:19**

Candidate: Okay, yeah.

Interviewer: So on the same lines, generally when you start with a business situation type framework, usually it’s frankly a little bit exploratory because the question was, “Should they enter the market, yes or no?” And you have no facts, no data, so it’s really – you have no idea. And generally I would say – I would set the expectation that – if you’re going to go start with a business situation framework, which you did (which was appropriate), that really by the time you finish one of the four areas, you really should have a more refined hypothesis. Well actually, you should have a hypothesis if you didn’t start with one. And I think you did have one in your head, but I think it would be useful to actually convey that to the interviewer, that this is your hypothesis.

Candidate: Okay. Yeah.

Interviewer: So again, very subtle, it wouldn't have stopped you from sort of getting a "thumbs up" or a positive assessment, from my standpoint as the interviewer. So I thought overall, you did that pretty well. And from a time management standpoint, my comments aside, you did it probably in about 35 to 40 minutes, which is right on track. You got quite a lot done, so it was a very efficient use of time. So overall, I think you did a good job on that one.

Candidate: Thank you.

Interviewer: Any questions you have on any part of that or any of my remarks?

Candidate: No, it's all clear. Just maybe one question... I had to ask some clarifying questions along the way.

Interviewer: Yes.

Candidate: Essentially, it took me some time to understand the difference between "do-it-yourself" versus "do-it-yourself" for containers business. Do you think that was appropriate for me to ask more questions along the way, or did it ever seem like I wasn't really paying attention to what you were saying?

Interviewer: No, I thought it was very reasonable. It's very important that you actually have a conceptual, qualitative understanding of the business, and if you did feel like you did not have that, it's very appropriate to ask. And frankly, I forgot to mention some things, earlier on in my discussion of introducing the case that might have saved you some time. But that was my mistake, not yours, and you were perfectly appropriate for asking clarifying questions if you were not clear on that.

Candidate: Okay.

Interviewer: And also, just a general rule of thumb too is, would you feel comfortable asking clients to clarify what their product offerings are? And if you would, then that's fair game in a case interview. That's the standard we typically use.