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Management Consulting: Principles & Practices

SGM 5133-401
Instructor: Araceli Guenther

Case Framework

Using frameworks to solve cases will allow you to quickly bring up areas that need to be explored. Use logic and sense and use a framework that you can remember. The starting point to solving a case is the frameworks that you will use as you start to shape how you solve the case.

Keep in mind that you can't always fit certain frameworks into a case, if you insist on doing this you will completely miss the main point of the case. Practice solving cases and when you are faced with a case interview you will be prepared.

Use frameworks that will cover the overall elements as you come up with a plan for attacking the case.

There are many business analysis frameworks and a framework for approaching case interviews. As an example:

If your plan is to investigate profit drivers first, then customer segments, supplier relations, and finally competition, using Porter's Five Forces as a way to synthesize your findings into an analysis of the attractiveness of the industry would be completely appropriate. But using Porter's alone would completely miss the profit drivers and thus might miss the key to cracking the case.

Finding where problems lie, or opportunities for the company in question is easily approached if you quickly develop at least 4-5 major areas of the business to investigate:

Drivers:

1. **Profitability**
2. **Cost**
3. **Sources or competition**
4. **Changes in customer needs**

Major Topic	Possible Drivers
Revenue	Volume Price Product
Cost	Variable Costs Fixed Costs
Competition	Rivals New Entrants Substitutes
Customers	Market Size Segments Needs
Supply Chain	Suppliers Distributions
Processes	Manufacturing Marketing Sales Distribution Customer Service
Company	Core Competencies Cost of Capital Brand Organization / Incentives Controls
Macro	Legislation Unions Technology Economy International Issues

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General Framework: Profitability

Area	Key Drivers
Revenue	• Volume (Affected by: Price, Customer Service, Distribution/Inventory/Capacity, Demand, Competition, Substitutes, Market Forces) • Price (Affected by: Competition, Elasticity, Differentiation, Segments/Price Discrimination) • Product Mix
Costs	• Fixed Costs (Affected by: Overhead, Marketing, IT, SG&A, PP&E) • Variable Costs (Affected by: Inputs, Labour, Distribution, Maintenance, Packaging) • Other considerations that could affect costs: Accounting (allocations), foreign exchange, regulations

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General Framework: Business Situation

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Topic	Key Drivers
Customers	Market Size Segments Needs Purchase Drivers Price Elasticity Retention/Loyalty
Product	Nature (benefits, why someone would use it) Commodity vs. differentiated Substitutes Lifecycle Packaging/bundling
Company	Capabilities Distribution channels Cost structure (mainly fixed vs. variable) Intangibles (brand) Organizational structure/incentives
Competition	Concentration and structure Best practices Barriers to entry Potential reactions

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General Framework: Value Chain

Inbound Logistics

- Collection Service
  - Time
  - Request Processing
- Self Return
  - Plant Scheduling
  - Plant capacity
  - Proximity to plant

Operations

- Product Quality
- Quality Expectation
- Order fulfillment
- Customer Visit

Outbound Logistics

- Ordering
- Order Fulfillment
- Emergency Load
- On Time Delivery
- Customer Pick Up
- Inventory Management
- Transaction Management
  - Reporting
  - EDI
  - Reconciliation
  - Audit
  - Invoice Accuracy

Marketing & Sales

- Account Management
- Pricing
  - Pricing Structure
  - Total Cost of Acquisition
- Invoicing
- Credit process
- Understanding the value of our product
- Understand what customer needs

Services

- Customer Call Center
- Problem resolution
  - Speed
  - Solution
- Customer Survey
- Audit variance reconciliation
- Customer Location Audit

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Marketing Concepts: 4 P's

4 P's	Considerations
Product	Features and capabilities Quality and reputation Service and warranties Packaging and size Positioning and market segmentation
Promotion	Consumer awareness Loyalty Advertising medium Buying process Trial/repurchase
Price	Perceived value Willingness to pay Retail/discounts Economic incentives Skimming
Place (distribution)	Channels Coverage Inventory Transportation

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Marketing Concepts: 3 C's

3 C's	Considerations
Company	Strengths/Weaknesses/Opportunities/Threats Strategy and vision Available resources/capacity Experience/Learning curve Culture
Competition	Industry Size/Number/Market Share Economies of Scale/Scope Capabilities/Experience Resources
Customer	Perceptions Loyalty Switching Costs Purchase Behaviour Segmentation Market characteristics/trends

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Economics Review

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Concept	Definition
Adverse Selection	Situation in which an individual's demand for insurance is aligned to their risk of loss (i.e. people with the highest expected value will buy insurance) and the insurer cannot account for this correlation in the price • Restrict choice • Equalize information • Signaling
Consumer Surplus	Economic gain achieved when consumers purchase a product for a price less than their willingness to pay • Consumer Surplus = Willingness to Pay - Price
Economies of Scale	The average cost per unit for a business entity is reduced by increasing the scale of production.
Economies of Scope	The average cost for a business entity is reduced by producing two or more products
Elasticity	• If $E>1$, decrease price to increase revenue • If $E<1$, decreased price leads to lower revenue
Insurance	Form of risk management used to hedge against the risk of a loss in which the cost is equal to expected loss.
Law of Diminishing Returns	At some point in the production process, the addition of one more unit of output , while holding everything else constant, will eventually lead to a decrease in per unit returns.
Marginal Cost	Cost of one more unit of output.