



Consulting Frameworks

*De-mystifying the Ordeal of the Case
Interview*

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Agenda

- ◆ What is a case interview?
- ◆ How should I manage a case interview?
- ◆ What are some frameworks that I can use in a case interview?
- ◆ How should I determine what competitive response is appropriate?



What is a Case Interview?

- ◆ Case interviews are built around a “problem”
 - The first task will be to find the problem
 - The second task will be to develop a solution
- ◆ The format can be either a full or mini case
 - Full cases last between 45 minutes to over an hour
 - Mini-cases are typically less than 15 minutes
- ◆ The goals of the case and the depth of analysis depend on the format

All case interviews are designed to test your ability to solve problems in a structured fashion.



Why do Companies use Cases?

- ◆ Case interviews provide a way to evaluate a person's reasoning skills in a time-effective manner
 - The focus of a case interview is analysis under time pressure – can you solve a problem “under the gun”
 - A candidate can demonstrate an incredible depth of knowledge in a very short time based upon his or her analysis
- ◆ Cases provide an opportunity to give the candidate the “elevator test”
- ◆ Case interviews give an indication to the candidate's ability to pass the DTW test

Case interviews are used mostly because everybody else uses them!



Where do Cases Come From?

- ◆ Cases are typically problems the consultant has worked on and/or finds interesting
 - “You’ve just been called into the CEO’s office of a mid-size manufacturer of steel pipe in Pittsburgh...”
 - “Phil Condit calls you on the phone and would like your opinion about a new plane Boeing is considering building...”
- ◆ Cases may be “disguised” much like many business school cases
- ◆ Cases can also be made-up, on the spot, off your resume!!

Cases are not meant to test your knowledge of an industry !



Manage the Interview

- ◆ First and foremost, *relax!!*
 - Case interviews test poise and composure as well as “horsepower”
 - Would you pass the senior executive test?
- ◆ Take notes!
 - Keep track of where you are and where you are going
 - Keep a record so that you have something with which to practice
- ◆ Keep track of time!
 - You have a limited timeframe and must use it to your advantage
 - Use dead time to your advantage – silence is not the enemy



Manage the Interviewer

- ◆ Do not be afraid to ask questions
 - The “set-up” will rarely give you enough information to even begin to analyze the case
 - Ask reasoned, structured questions that benefit your analysis – do not ask for “basic” data
 - Make your assumptions reasonable and explicit – tell your interviewer what you are assuming, why you are assuming it and ask if it is reasonable
- ◆ Use your notes interactively
 - Interviewers judge what you write as well as what you say
 - A diagram can save you a tremendous amount of time

The questions you ask are as important as the answers you give – they are an insight into your analytical process



Frameworks Drive Analysis

- ◆ Frameworks provide a ready-made structure
 - Knowing these frameworks thoroughly gives you a baseline from where you can start any analysis
 - Applying basic frameworks buys you time to sort your way through a complex case
- ◆ Interviewers are already familiar with most frameworks
 - Most frameworks are well-known because they are useful in “real life” – interviewers will use them on a daily basis
 - Creating your own framework can be incredibly effective – but only if the framework itself is incredibly effective

The surest way to get dinged during a case interview is to shotgun your analysis



Types of Frameworks

- ◆ Economic frameworks
 - Supply & Demand
 - Profitability
 - Cost Structure: Variable Costs, Fixed Costs, Marginal Costs (& Marginal Revenue)
 - Operating Leverage
 - Elasticity
- ◆ Industry-level frameworks
 - 3-Cs
 - Value Chain/Supply Chain
 - Porter's Five Forces
 - Porter's Generic Strategies



Types of Frameworks (cont'd)

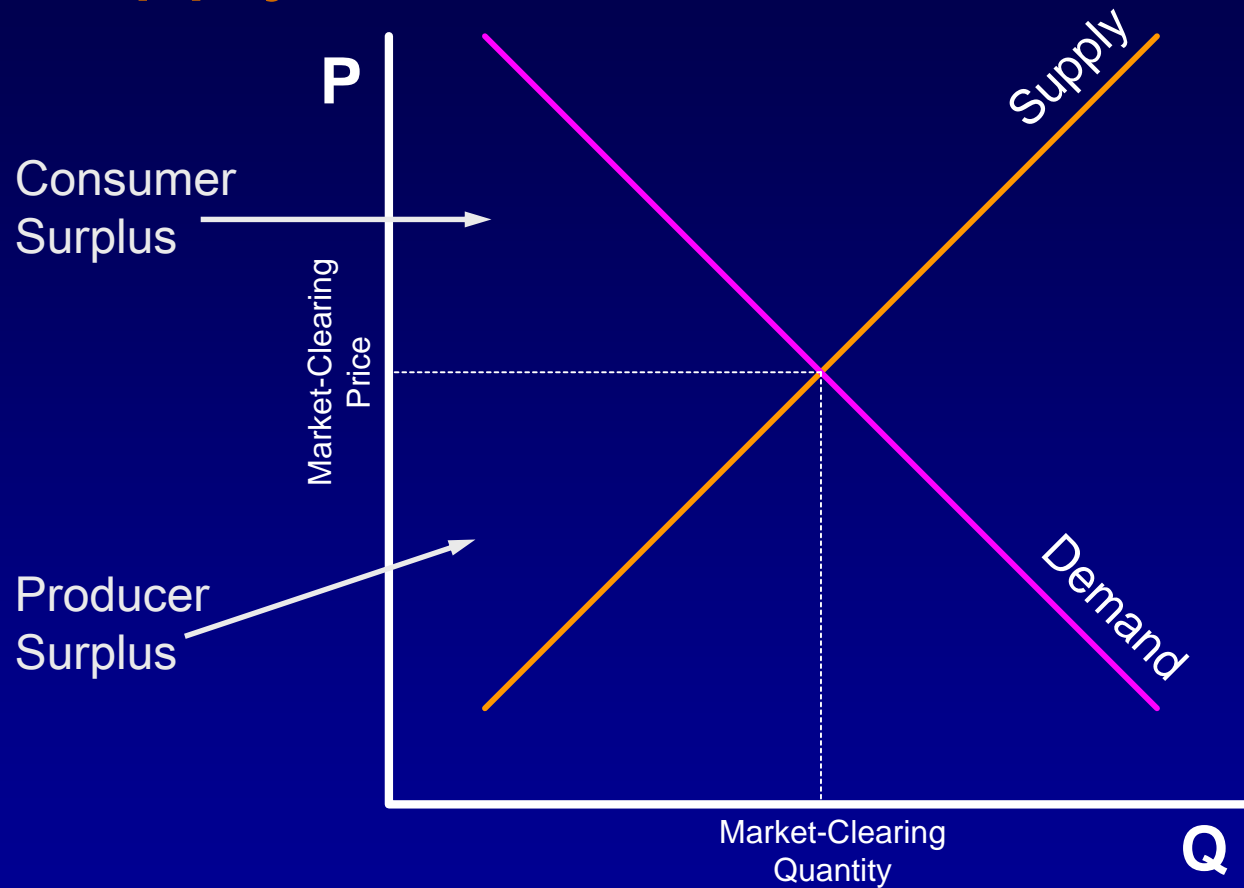
- ◆ Firm-level frameworks
 - Growth-Share Matrix
 - Marketing Frameworks: STP, 4-Ps, 5-Ms
 - Core Competencies
 - SWOT
 - Stakeholder Analysis
- ◆ Other frameworks
 - Organizational Models
 - Political Strategy
 - Macroeconomics
 - Matrices



Economic Frameworks

- ◆ 80% of all consulting cases will deal with basic economics in some fashion
 - Supply & Demand
 - Profitability
 - Demand Elasticity
- ◆ Basic economic principles also underpin many other frameworks
 - Porter's Five Forces looks a lot like the parameters for a demand curve
 - 3-Cs, 4-Ps, Value Chain, etc. are all based on one or more economic relationships

Supply & Demand



- ◆ The market-clearing price and quantity is determined by the intersection of demand curve and the supply curve
- ◆ Surpluses are determined by how much consumers and producers would have paid/charged versus what the market price

Profitability

$$\Pi = \underbrace{P \cdot Q}_{\text{Revenue}} - \underbrace{[(VC \cdot Q) + FC]}_{\text{Costs}}$$

- ◆ Profits are defined as total revenue minus total cost
- ◆ Changes in revenue are due to a change in quantity, price or both
- ◆ Total cost is the sum of variable plus fixed costs
 - Variable costs vary directly with quantity
 - Fixed costs are set for a given period

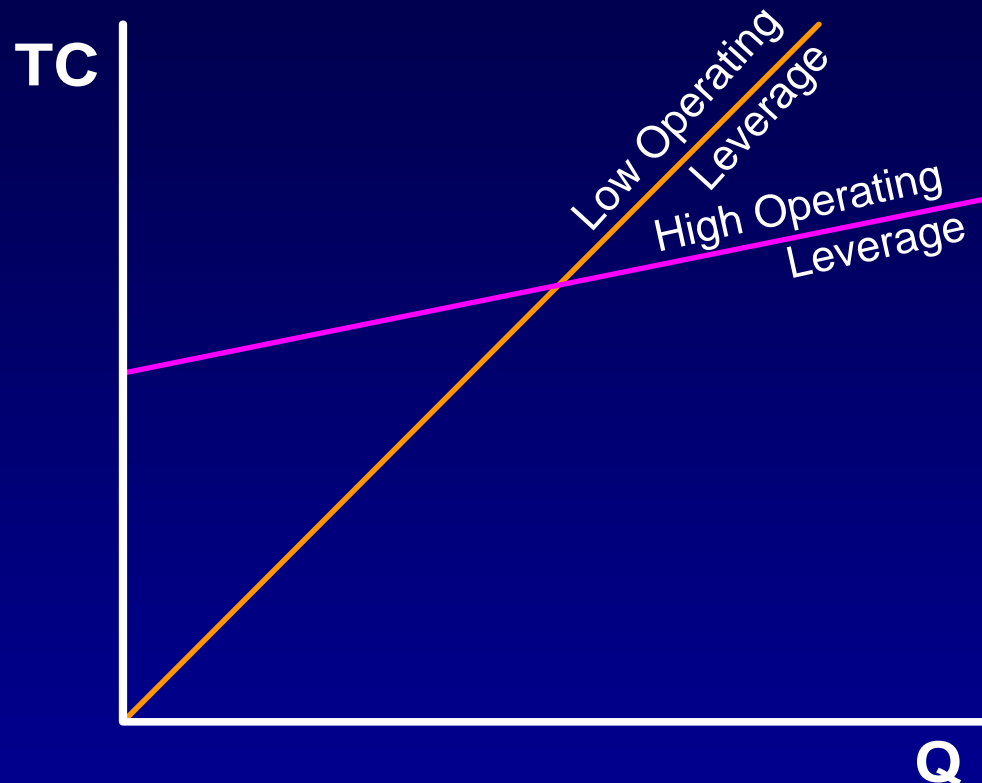
If a firm has become unprofitable, try to determine what has happened to price, quantity and costs!



Cost Structure

- ◆ Fixed costs are costs that must be incurred regardless of production level
 - Lease payments
 - Advertising
 - Salaries (?)
- ◆ Variable costs vary directly with quantity sold
 - Typically, variable costs are driven by *direct labor* and *direct materials* costs
 - Depreciation is *not* part of *economic* variable cost
- ◆ Marginal cost is the cost of producing one more unit
 - It is the derivative of the variable cost equation
 - The supply curve is the aggregation of the marginal cost curves of all market-participating firms

Operating Leverage



- ◆ Operating leverage is the ratio of fixed costs versus variable costs
- ◆ Firms with high operating leverage tend to be in industries that require massive economies of scale
 - Operating leverage is a form of risk
 - High operating leverage requires high volumes for profitability

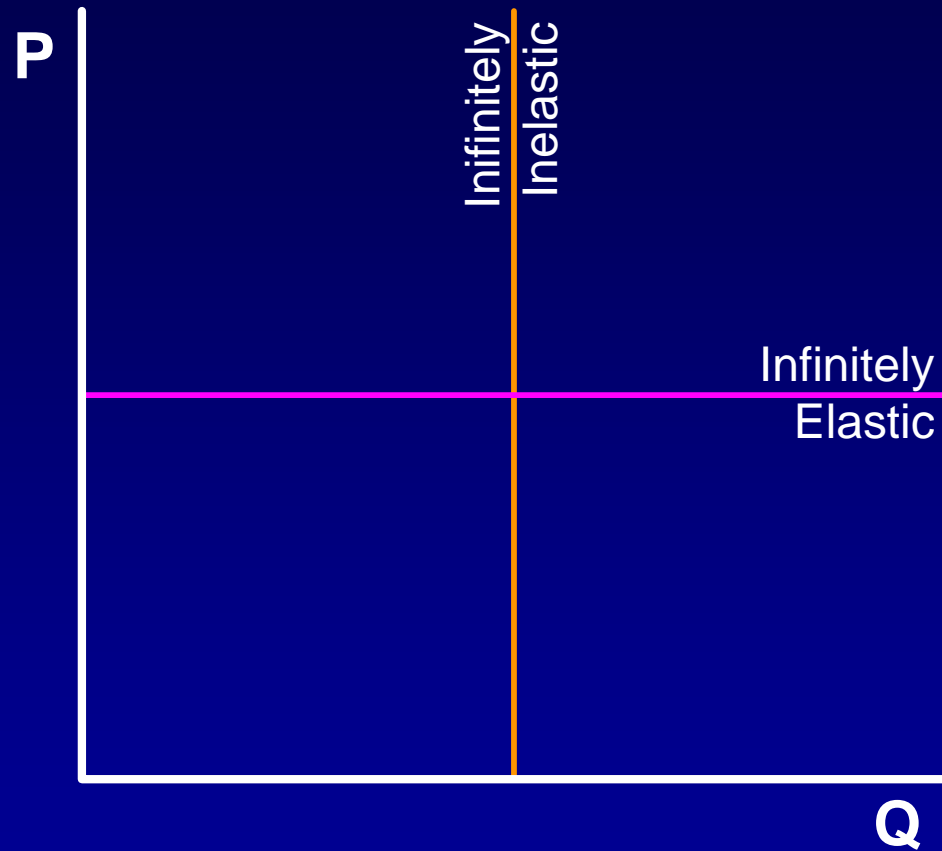


Elasticity

$$\eta = \frac{dQ}{dP} \cdot \frac{P}{Q} = \frac{\% \Delta Q}{\% \Delta P}$$

- ◆ If elasticity is “less” than one, then demand is inelastic
 - Inelastic demand implies that total revenue will increase with an *increase* in price
- ◆ If elasticity is “greater” than one, then demand is elastic
 - Elastic demand indicates that total revenue will increase with a *decrease* in price

Elasticity (cont'd)



- ◆ Infinitely elastic demand means that no firm has pricing power, i.e. it is a commodity product
- ◆ Infinitely inelastic demand means that the you are selling something you ought not to be selling...



Industry-Level Frameworks

- ◆ Industry-level frameworks are typically used to get a view of the competitive landscape
- ◆ If the case is a profitability problem, this is where you begin to search for why something has happened
- ◆ Be very careful about spending too much time on industry-level frameworks, they can take a tremendous amount of time that you will otherwise need “solving” the problem



Customers, Competitors & Company

Customers – Who are the customers? What do they want?

Competitors – Who is the competition? What have they done?

Company – Has the company changed? What is its position?

- ◆ The 3-Cs will be intimately familiar to most interviewers – you will not differentiate your analysis by using it
- ◆ You may differentiate your analysis by *not* using it!

A 3-Cs analysis is quick and effective – it should be used first when you need to examine an industry

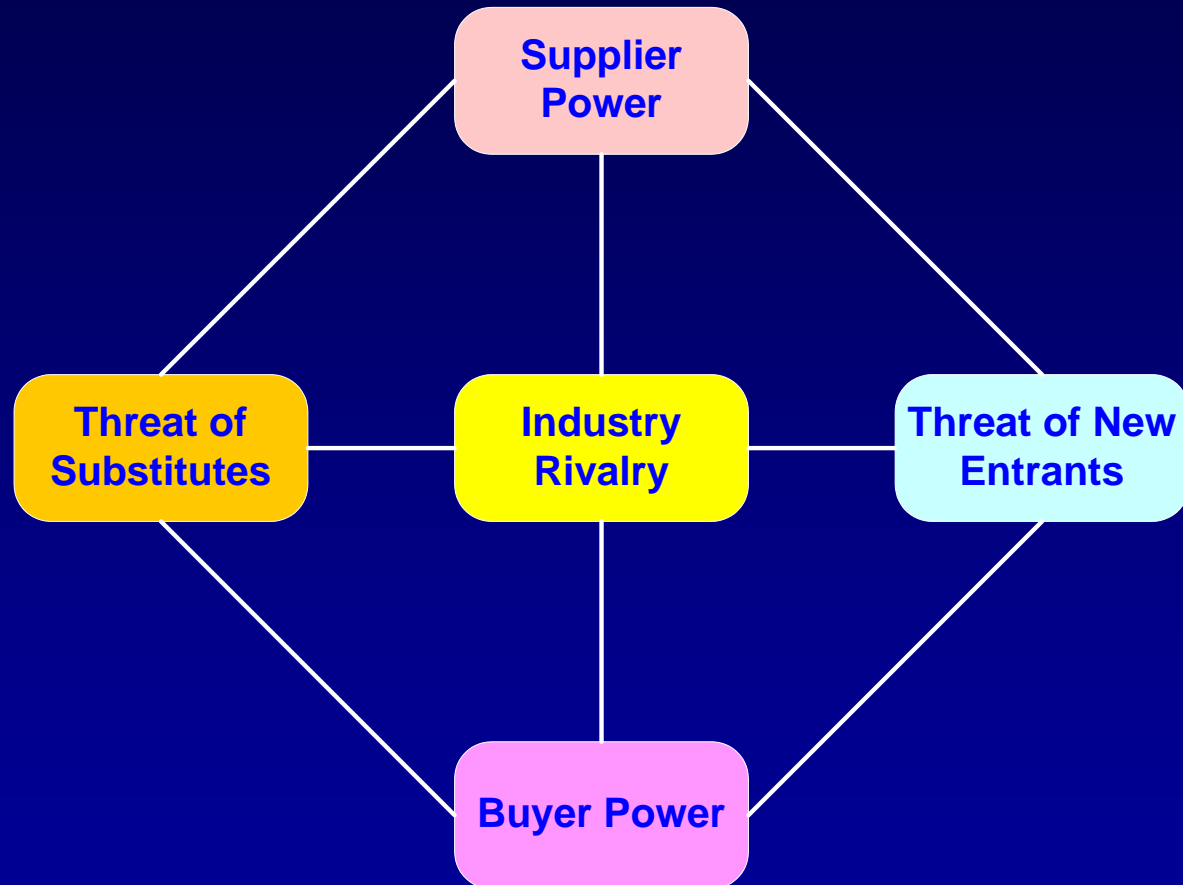
Value Chain & Supply Chain



<u>Supporting Functions</u>
Accounting
Human Resources
Information Technology

- ◆ Use a value chain or supply chain analysis when examining an industry's depth
- ◆ The emphasis of VC/SC analysis is the physical flow of goods and money
- ◆ Alternate framework: inbound logistics, production logistics & sales logistics

Porter's Five Forces



A sixth force, complementary products, can be added to better describe industry dynamics

When to Use Which?

		3-Cs: Customers, Competitors, Company
	Value Chain/ Supply Chain	Porter's Five Forces

A full Five Forces analysis is expansive, choose alternate frameworks whenever possible!

Porter's Generic Strategies

	Broad Market	Focused Market
Cost Leadership	Mass market, economies of scale dominate	Regional player, little market power
Feature Leadership	Constant cycle of innovation	Niche technology product

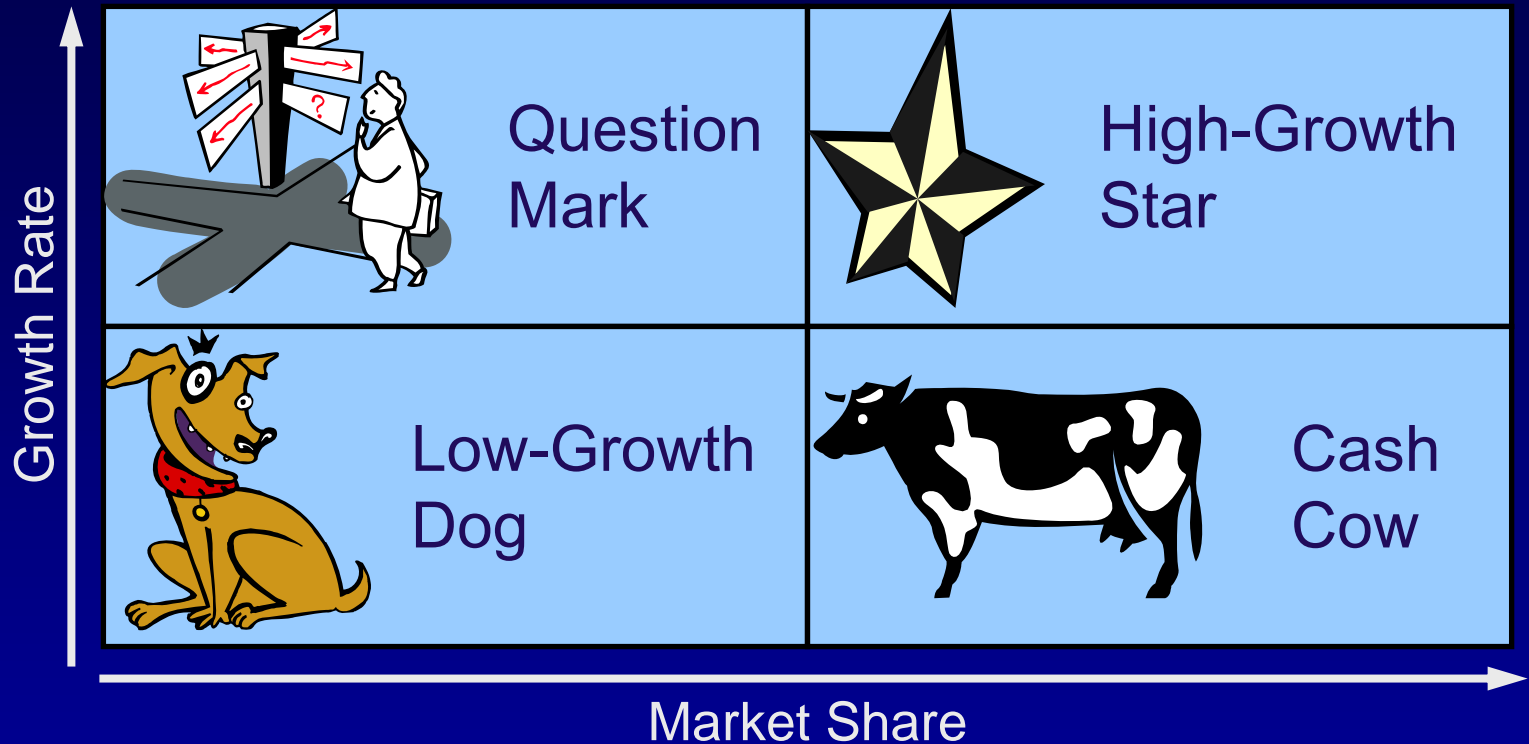
- ◆ Generic strategies are effective as “signposts” in a full case, or as the entire analysis in a mini-case
- ◆ A firm’s generic strategy can shift over time



Firm-Level Frameworks

- ◆ Firm-level frameworks are useful two-fold:
 - To identify issues within a company
 - To structure potential solutions to a firm's problems
- ◆ Firm-level frameworks:
 - Growth-share matrix
 - Marketing mix frameworks
 - Core competencies
 - SWOT
 - Stakeholder analysis

Growth-Share Matrix



- ◆ The growth-share matrix shows the desirability of a business unit in the corporate “portfolio”
- ◆ Stars are tomorrow’s cash cows
- ◆ Dogs and question marks require analysis as to whether or not they should be kept (nurtured) or sold



Marketing Frameworks

- ◆ Marketing frameworks allow you to analyze what is going on in the marketplace that may be impacting a firm
 - STP – find the right market segment
 - 4-Ps – serve the market effectively
 - 5-Ms – reach the target market and influence them
- ◆ Marketing frameworks ask these questions:
 - Has anything changed with the customers' tastes?
 - How do customers perceive the product?
 - Are there new products that have entered the marketplace?



STP: Finding the Correct Market

Segmenting – Identify distinctions between customers

Targeting – Identify the target group or groups

Positioning – Alter the product to appeal to the target market

- ◆ STP rarely comes up in a consulting case interview, but will come up during marketing case interviews
- ◆ It is not necessary to go through STP to use the core idea: is the product relevant to the marketplace? Have consumers' tastes changed?



4-Ps: Marketing a Product

Product – What are the relevant product attributes?

Price – What is the product's absolute & relative price?

Place – What are the product's distribution channels?

Promotion – How is the product being sold/marketed?

- ◆ A 4-P analysis will be required in both consulting cases and marketing cases very frequently!
- ◆ The only long-run sustainable advantage in marketing is to have a superior product
- ◆ New products typically have a trial “boost” to sales before the product settles in to its long-run market share



5-Ms: Marketing Campaigns

Mission – What is the goal of the marketing campaign?

Message – What is being said about the product?

Media – Where is the message being communicated?

Money – How much is being spent?

Measurement – How do you measure success vs. the goals?

- ◆ A consulting case will almost never get to this level of detail for a “marketing-type” case – marketing interviews might
- ◆ Measurement is the easiest to forget and the most critical – you must measure success somehow!



Core Competencies

- ◆ A firm's core competencies are the functions at which a company excels
- ◆ A firm's competitive advantage should arise out of its core competencies, but the two are not synonymous!
 - Think of a competitive advantage as answering the question “what provides the firm's major sustaining force in the market?”
 - Core competencies answer the question, “How is competitive advantage maintained?”
- ◆ Core competencies can be thought of as a firm's knowledge capital – what is the sum of what the firm knows that is valuable

Core Competencies (cont'd)

	Existing Market	New Market
Existing Competency	How can the firm improve its position in the marketplace?	How can the firm re-deploy its competencies?
New Competency	What must the firm do to acquire new competencies?	What new skills are required for the markets of the future?

- ◆ Firms must constantly re-evaluate whether their core competencies remain relevant in the market
- ◆ For firms to grow, they must expand their knowledge into new markets and new skills



SWOT is NOT Strategy

Strengths – What are the firm's strengths?

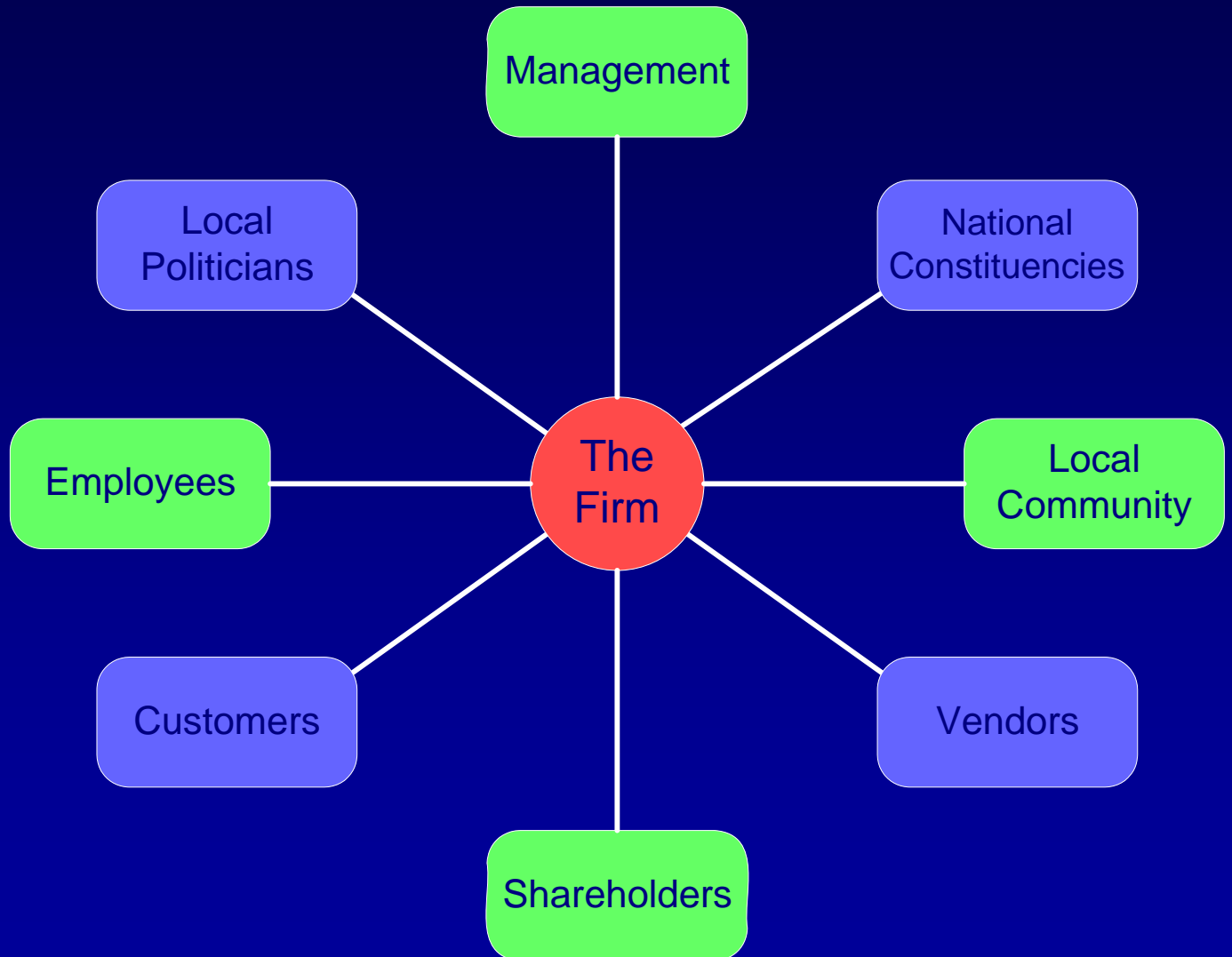
Weaknesses – What are the firm's weaknesses?

Opportunities – What opportunities are present in the market?

Threats – What might threaten the firm's position in the market?

- ◆ SWOT is a presentation framework – it is not an analytical framework
- ◆ SWOT is best used as a short-cut framework to illustrate obvious issues in a mini-case
- ◆ SWOT is generally a waste of time in a full case

Stakeholder Analysis





Other Frameworks

- ◆ First-year MBAs will typically not get case interviews that deal with these subjects, but they are fair game for second-year MBAs
- ◆ Organization frameworks identify the steps necessary to implement changes in an organization
- ◆ Political frameworks are used to develop strategies for dealing with organizations that are not profit motivated
- ◆ Macroeconomic frameworks are useful if you must work through a tough global case

“The Government of Costa Rica wants you to define & implement an industrial policy for them...”



McKinsey's 7-S Model

Strategy – What is the firm trying to accomplish?

Structure – What organization form best suits the firm's goals?

Staffing – What type of staff does the firm require?

Style – What management style does the firm utilize?

Skills – Does the firm's employees have the skills required?

Systems – What measurement systems must be put in place?

Shared Values – What is the firm's culture like?

This is an extremely important framework, but will almost never show-up in a case interview



Kotter's Change Management Model

Vision – Create a compelling vision of the future

Urgency – Create a sense that action must occur soon

Leadership – Ensure that there is clear leadership for change

Coalition – Create a coalition to spread change throughout the firm

Empowerment – Empower others to facilitate change

Communicate – Communicate the needs & actions for change

Success – Create short-term successes to sustain momentum

Consolidate – Consolidate improvements & identify future changes



Political Strategy

Identify Participant Stakes & Capabilities

Reframe the Issue

Develop a Coalition

Adjust Issue Visibility

Develop Grassroots Support

Stakeholder analysis is key – you must identify where each participant falls on the issue and what they can bring to bear



Macroeconomics

$$GDP = C + I + G + X$$

- ◆ GDP is the aggregate of:
 - Consumer spending
 - Business investment
 - Government spending (not transfer payments)
 - Net exports
- ◆ Net exports is the most volatile component of national income and is the easiest one for most governments to target for manipulation
 - Cases with international components typically include foreign exchange (FX) issues – watch out for them!



Competitive Responses

- ◆ Analyze a company's options based upon the threat level and possible resources brought to bear
 - Ad hoc matrices work well for this
 - Be careful about making assumptions early – if you assume a threat level early, this will be where it comes back to haunt you
- ◆ Many business decisions do not have good outcomes, only less bad ones
 - Look for responses that have natural stopping points
 - Marketing can be used to send competitors signals
 - Use the Prisoner's Dilemma as a starting point for understanding your possibilities



Matrices

- ◆ We have already demonstrated three key matrices:
 - Porter's Generic Strategies
 - BCG Growth-Share Matrix
 - Hamel/Prahalad Core Competency Matrix
- ◆ Matrices are an excellent way to illustrate a small number of potential scenarios or concepts
 - High impact vs. low impact
 - High market share vs. low market share
 - Broad market reach vs. limited market reach

Sample Matrices

“You are the head of R&D for a large pharma company, and a new process has been created as a result of the work done to sequence the human genome...”

	High Impact	Low Impact
Core Business	Crash program to incorporate new technology into existing processes	Evaluate relevance and switching costs
Non-Core Business	Look for possible disposition or outsourcing opportunities	Watch to see if the technology becomes relevant

Sample Matrices (cont'd)

“You are a brand manager for P&G in the Health & Beauty Aids category, and a competitor just introduced a new toothpaste that is gaining market share...”

	High Market Share	Low Market Share
Same Target Market	Identify if share loss is due to trials or switching; re-do marketing mix	Examine product's benefits; identify potential line extension?
Different Target Market	Re-examine market segmentation & potentially introduce competing product	Ignore it?

Prisoner's Dilemma

- ◆ Prisoner's Dilemma is a game theory concept that tells a tremendous story: why do sub-optimal outcomes occur?
- ◆ In a single-period model, the prisoners always defect

		<u>Prisoner 1</u>	
		Don't Confess	Confess
<u>Prisoner 2</u>	Don't Confess	Prisoner 1: 3 Prisoner 2: 3	Prisoner 1: 4 Prisoner 2: -5
	Confess	Prisoner 1: -5 Prisoner 2: 4	Player 1: -3 Player 2: -3

All business problems are multi-period games – you should always look for a sustainable answer, not the neutron bomb!



How to Choose the Right Framework

- ◆ Choosing the right framework is mostly a matter of practice
 - Know the core frameworks cold
 - Practice mixing and matching frameworks with different types of cases
- ◆ Pay attention to the problem description
 - Pick through the noise to find the critical issues
 - Do not get lost in the details – all cases are essentially generic
 - Once the critical issue is identified, the proper framework will generally select itself



Where to Find Additional Help

- ◆ Consulting club member (talk to Dymph!)
- ◆ Work with each other!
- ◆ Wetfeet's Guide to Case Interviewing
- ◆ Company web sites
- ◆ Your professors



Suggested Reading List

- ◆ Michael Porter – *On Competition*
- ◆ C. K. Prahalad & Gary Hamel – *Competing for the Future*
- ◆ Hammer & Champy – *Reengineering the Corporation*
- ◆ O'Shea & Madigan – *Dangerous Company*
- ◆ Mickelthwait & Wooldridge – *The Witch Doctors*



Re-Cap

You should now know:

- ◆ What a case interview is and is not
- ◆ How to manage a case interview
- ◆ What some of the major frameworks are for “solving” a case
- ◆ How to look for appropriate competitive responses
- ◆ Where to go to look to find additional help with case interviewing