McK Full Case Example: Catalog Furniture Retailer

Summary

This is an example of a full Case Interview from the Case Prompt, through the Quantitative piece of the Case, and concluding with the summary. Questions or statement from the interviewer begin with "**[Q]**". High quality responses are on the following page and begin with "**[A]**". Use a sheet of paper to write out your responses and any diagrams, and then review the responses on the following page.

The purpose of this example is to show you what a full case looks like from start to finish, including the Quantitative piece.

Question: Case Prompt

[Q] Your client is a family owned catalog furniture retailer. Historically they have been profitable for many years, but in the last few years they have seen their profitability decline in recent years. What areas would you look at to determine what the problem is and develop recommendations to restore profitability?

Note on Structure

This is where you should provide a **Structure** for how you will go about approaching this Case. There are many approaches to structuring a case. In my experience, many of the candidates who have been successful in interviews at the selective management consulting firms like McKinsey, Bain, BCG (MBB) have taken the following type of approach. Don't memorize a number of canned frameworks and try to apply one that may not fit.

Think of the Structure as providing the list of areas or **Categories** you would look at to try to identify the problem. You are essentially providing a list of questions you would ask, and a set of data you would gather to try to identify the problem, and organizing those questions and pieces of information in an intelligent way. This corresponds to how a consulting case will proceed: the client will present a problem, and the first thing you would do is gather data to try to diagnose the issue. Only once you get the information, can you analyze it and determine if that's where the problem lies.

I strongly recommend against being "Hypothesis Driven" at first, without having any information. Don't say you have a "hunch" that it's because Costs have gone up, unless you have the data. This is because you can have different Cases that have a very similar opening (profitability is down) and have very different underlying reasons.

The Structure is really a set of **Hypotheses** (plural), and you will test each one by gathering the appropriate data. Remember, these cases are based on real consulting engagements, and the firm believes they properly identified the issue and made appropriate recommendations. If you list one of the appropriate categories that the firm identified as being relevant, the interviewer will guide you down that path, and provide more detailed information. The other areas, which you still need to list for completeness, will usually be ignored. Note that in reality, the consulting team probably gathered all that information and after analyzing it, found those areas weren't causing the problems.

Again, the Structure is a list of data you would gather (questions you would ask) organized intelligently into Categories. You want to look in the Categories that have the highest probably of having the problem. You also want the Categories to have minimal overlap between them. I recommend 3–6 category and multiple data points within each category. Two or less often won't cover all the necessary Categories, and more than six often reflects unstructured thinking, and can devolve into a laundry list of data. I often call refer to these Categories as "**Buckets.**"

Note, that sometimes your initial structure will not cover the problem area for this case. The interviewer will likely tell you to think of other things to look into. You then have another chance to identify the problem area. If you don't identify the problem area, in a McKinsey (or interviewer led case) the interviewer will tell you that the problem was in a specific area and guide you to the next phase of the case. With other firms, you may get stuck in the first phase of the case until you identify the issue.

MECE

MECE stands for Mutually Exclusive and Collectively Exhaustive. Ideally most structures are MECE, in that the different Categories don't overlap (Mutually Exclusive) and cover all the relevant scenarios or problems (Collectively Exhaustive). However, there are many BAD MECE frameworks. For example, in mock case interviews, when given a similar scenario, some candidates have said they would look at Internal Factors, and External Factors, and then listed things in these categories. The idea being that any problem would likely fall into one of these areas and so they were coverall all possibilities. From my perspective, this isn't a useful framework because it doesn't tell a Consultant specifically where to look, and what information to gather to try to solve the problem. For consulting cases, think about identify the specific areas that are **most likely** to be the problem, and identifying what information you would gather to prove or disprove that the problem was in a particular area. Your goal is to be Collectively Exhaustive with high probability.

Response: Structure

All this being said, here is what I think is a good structure for this case.

[A]

Industry

- Profit margins: industry and firm over time
- Revenue growth: industry and firm
- Firm market share over time

Competitors

- E-commerce
- Retailers: national and regional
- Catalog retailers
- Competitor market share, revenue and profit margin over time by category

Products

- Changes in customer taste?
- Do products match consumer taste?
- Have we added new products that aren't selling
- Changes in product mix?

Marketing / Customers

- Demographics of mailing database: age, income, married
- Average time person has been in database
- How does company source new customers for mailing database?
- How does company decide when to stop mailing catalogs to a customer
  - When customers furnish a house, do they need more furniture?
- Do demographics match product line?

Costs

- Increases in Costs?
  - COGS
  - Labor
  - Distribution
  - Catalog Operations
  - G&A

[Note] When providing your structure, I recommend going **broad**, then **deep**. That is, list (write) out all the categories in order of most important. Then list specific bullet points, or pieces of information you would gather in each category. This allows the interviewer to see the breadth of your thinking early. Write out words or phrases for sub-bullets and verbally give more detail on the information you would gather for each sub-bullet or the question you are trying to answer — don't write out everything you see in the diagram above.

Be sure to organize the information you recommend gathering into categories as otherwise it can appear as a laundry list of data — this is known as your **Structure**.

[Discussion] Checking the industry information should be included in many cases where the client has low or declining profits in order to determine if the industry overall is healthy. In Case Interviews, this is usually not where the problem lies, but this should still be included for completeness. This is the first thing you should check — kind of like checking that a computer or appliance is plugged in if it isn't working.

Competitors, Costs, and Products are also a pretty standard places to check when facing low or declining profits. Since this is a catalog operation, the category Marketing/Customers deals specifically with how they target and market to customers as they incur costs for sending catalogs and that is the beginning of their purchase “funnel.”

Question: KPIs

[Q] What are the Key Performance Indicators (KPIs) you would look at to evaluate the health of this type of business?

[Hint] Try to write a mathematical expression for the profits this company would generate, and what that would depend on.

Answer — KPIs

[A] Overall profits would be determined by the following formula:
- Number of people who receive catalogs
- Response Rate for people who receive a catalog
- Average order size
- Average order profit margin

The overall profit (before overhead) will be the product of all of these variables. Of these, the number of people in the mailing database isn't really a KPI, it's simply the number of people they choose to send mail to. The other factors are things that can be controlled based on what the catalog retailer does, and in my opinion are the important KPIs. In fact, the Response Rate, is the most important KPI because it will drive the overall health of the business (considering that they are printing physical catalogs which has a cost.)

Question: Response Rate

[Q] You mentioned Response Rate, which is an important Key Performance Indicator. What is the break-even response rate?

It costs the catalog retailer $2 to print and mail each catalog. On average, orders have $105 of profit on merchandise. In addition, the catalog retailer bears the shipping cost which is on average $21 per order.

FAST MATH
ACE THE CASE

Answer: Response Rate

This calculation is covered in detail in the video lesson **Response Rate Analysis**. View that lesson for a thorough explanation of this quantitative calculation.

[A] The net profit per order is $84 ($105 – $21). Since it costs $2 to print and mail each catalog, a single person making an order can pay for sending 42 catalogs: ($84 ÷ $2 = 42). Therefore the Breakeven Response Rate is $(1/42) \approx 2.4\%$.

[Note] If you return to the original structure, the information in the "Products" and "Marketing / Customers" buckets will affect the Response Rate. The category "Products" essentially asks: "are we selling the right stuff?" The category "Marketing / Customers" asks: "are we selling it the right way?" Marking changes in each of these categories could affect the response rate. Note, two categories are somewhat qualitative in that there aren't specific factual pieces of data you can look at, like an industry profit margin.

Question: Competitive Response

[Q] Your client as seen competition from Big Box furniture retailers, in the last few years. Your client serviced the lower end of the furniture market. Recently, more customers have been going directly to retailers to purchase furniture, low cost furniture and assembling it themselves. It turns out that their response rate has declined so that it is near the Breakeven Response Rate you just calculated which is why the business has been struggling. What are some ideas you have for ways the can respond to Big Box Retailers and increase profitability?

FAST MATH
ACE THE CASE

Answer: Competitive Response (Brainstorming)

Since catalogs aren't working for this company, the company should explore what other channels can they use to market furniture. This is could be considered a **Brainstorming** section as you are thinking of potential solutions. Most of these recommendations are relatively straightforward so this brainstorming example does not involve a high degree of creativity.

[A] Certainly, the company should look at improving the operations of their catalog business. Things they can do are stop sending catalogs to people with low Response Rates (or try to identify characteristics that predict a low response rate), refresh the marketing database with people more likely to buy, modify the product line etc.

If that doesn't work, they should channels they can explore are:
- E-commerce site
- Partner with retailer who doesn't have catalog and become their catalog operations
  - Or sell their company for their expertise in catalog retailing to such a retailer.

Question: Partner Characteristics

[Q] You mentioned partnering with a company to be their catalog operations — what characteristics would you look at to identify the best potential partners?

Answer: Partner Characteristics

Think of the question this way: out of all the retailers in the world (or the US), how would select the ones that you think would make the best partners? How would you filter the list of retailers and stack-rank them?

[A] I would use the following criteria to select potential partners or potential acquiring firms:

1. First, you want a retailer that is profitable, and can investment in starting their catalog operations
2. Next, I would look at retailers that don't have a catalog operation, or don't have mature catalog operations.
3. Then, I'd look at retailers that have similar or complementary product line to the catalog firm — i.e. their existing product line fits well with what we have experience selling
4. Retailers that have similar customer demographics or segments to the catalog firm
5. Retailer that has geographic overall with catalog firm (either same region or potentially national retailer).

Question: Summarize

[Q] Great, please summarize your findings.

Answer: Summarize

[A] The client is a family owned catalog furniture retailer that has historically been profitable, but in the last few years has seen declining profits and financial losses. We have identified the customer Response Rate (percentage who order of those who receive a catalog) as being a Key Performance Indicator (KPI) for the company. Their Response Rate has declined recently because of competition from Big-Box retailers and is near the Breakeven Response Rate for printing and mailing catalogs.

The company should research ways to boost the response rate, such as updating their product line, updating their marketing database, and modifying their targeting criteria for printing and mailing catalog. In addition, they should research establishing an e-commerce site, and finding a physical retailer they can partner with to provide catalog mailing expertise. Such a retailer should be financially healthy, not have existing catalog operations, and have complimentary product lines and customers.