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INSIDER GUIDE

Ace Your Case® V: Business Operations Questions

2ND EDITION
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AT A GLANCE

CASE-BY-CASE RULES FOR OPERATIONS QUESTIONS
• Isolate the main issue
• Apply a framework
• Think action!

OPERATIONS FRAMEWORKS
• Fixed Cost/Variable Cost
• Marginal Cost Analysis
• Company, Customers, and Competition (3Cs)
• Product, Price, Promotion, and Place (4Ps)
• Porter’s Five Forces
• Firm Analysis
• Cultural, Administrative, Geographic, Economic (CAGE) Analysis
• Financial Analysis

KEY OPERATIONS ISSUES
• Costs
• Distribution
• Financing
• Productivity
• Marketing
The Interview Unplugged

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OVERVIEW

- OPERATIONS CASES COVER the tactical, day-to-day, get-things-done problems that businesses face. These may be related to distribution, finances, or human resources. You may sometimes get these in conjunction with strategy cases: First you have to determine what a client should do, and then you have to figure out how the client should do it. These problems are not always as straightforward as they may seem, because political or cultural issues may keep management teams from doing what they need to do. In fact, that’s often why they bring in the outside perspective of consultants.

This guide is all about business strategy cases, and it’s designed to be a companion volume to Ace Your Case®, Ace Your Case® II, Ace Your Case® III, and Ace Your Case® IV. Ace Your Case® and Ace Your Case® II cover case interviews in general, offering an overview of the process, a guide to common frameworks for analysis, and information on how to solve just about any case that comes your way. Ace Your Case® III specializes in market-sizing problems, while Ace Your Case® IV covers business strategy cases. And if you want to learn more about operations cases, this is the guide for you.

A word about how to use this guide: We strongly recommend that you try to solve the questions first, without looking at the answers. After you’ve given them your best shot, go ahead and check out our recommended answers. If you find that our “good answer” differs from yours, see if there’s something you can learn from our suggestions. But don’t panic—there are usually numerous ways to answer any case question. It’s far more important to note the approach, as well as the interviewer’s likely responses, which obviously won’t be included in your own answers. As you sharpen those skills, keep thinking to yourself, “I love these case questions!” Pretty soon you’ll find yourself talking like a consultant!

THE WETFEET WAY OF CRACKING A CASE QUESTION

W hat is the interviewer asking?
E verything there?
T hink before you speak
F rameworks!
E xplain your thinking
E valuate your case so far
T ake action

- SO HOW EXACTLY does one ace the case? Although the specifics of each case question will be different, we’ve devised an approach that, if used correctly, will take you a long way toward giving the consulting interviewer what he or she wants. Ours is a mnemonic device for acing your case. Simply think of the word “WetFeet.” Those seven letters will help your ace your case!

WHAT IS THE INTERVIEWER ASKING?

Listen carefully, and take notes if necessary. Make sure you know what the interviewer is seeking. It’s particularly important to keep this objective in mind as you work your way through the dense forest of detail that may be coming your way. Stick to the question, too. If the interviewer asks for two recommendations, you’ll impress her if you give six—you’ll impress her as someone who can’t follow directions and who is likely to get too bogged down in minutiae to deliver an organized report to a client.

EVERYTHING THERE?

Determine whether you’ve been given the whole picture. If the question is unclear, there’s probably a reason. Ask your interviewer for clarification. In particular, if there seems to be a gaping hole, ask about it. The interviewer may be testing whether or not you realize that there are missing pieces to the puzzle. Or he may be holding back a key piece of information to see if
you ask for it—or if you’re paying enough attention to listen for hints. When you hear a hint, a suggestion, or additional information, use it. Interviewers know what they are looking for and will usually try to steer you in the right direction.

**THINK BEFORE YOU SPEAK**

During an interview, any pause will feel like an eternity to you, so your impulse will be to blurt out the first things that come to mind. Instead, take a moment to think through your ideas and how to present them. That moment won’t seem long to your interviewer, and will give you the time to make a stronger impression.

**FRAMEWORKS!**

Identify a framework, or a combination of frameworks, to help you structure your answer. Be sure to inform your interviewer of how you plan to proceed. Remember, choosing a framework isn’t the goal of the exercise—it’s supposed to help you structure an answer to the question. Your choice of framework won’t impress the interviewer, but your ability to come up with a clear, logical answer will.

**EXPLAIN YOUR THINKING METHODICALLY**

Work from big to small, starting with the most important issue first, and tell the interviewer why you think that point is so important. If you run out of time part way through, you want to have already delivered your most important insights.

**EVALUATE YOUR CASE SO FAR**

As you go, think about your answer. Is it something that a business might logically do? Are there practical, but unconventional, approaches? Is there another way to approach the problem? Don’t just ask yourself—ask your interviewer if you are on the right track.

**TAKE ACTION**

Wrap up your case by briefly summarizing how you have approached the problem and noting where you would go if you had more time. The goal of consulting is almost never just analysis. Usually, a consultant is looking for good, solid, data-driven recommendations that the client can use.

**THE BUSINESS OPERATIONS CASE, ANALYZED**

› **A FAIR NUMBER** of case questions cover operations issues. Given the existing economic environment, the mix of consulting business has shifted toward operations and process-focused cases, so be prepared for at least one of these types of questions. Broadly speaking, operations refers to everything involved in running a business and getting product out the door. In a manufacturing plant, this would include the purchasing and transporting of raw materials, the manufacturing processes, the scheduling of staff and facilities, distribution of the product, the servicing of equipment in the field, and so on. In its broadest sense, operations would even include the sales and marketing of the company’s products, as well as the systems used to track sales. Whereas strategy questions deal with the future direction of the firm (e.g., whether to enter a new line of business), operations deals with the day-to-day running of the business. It’s particularly fertile ground for consulting work, and for case questions. Some of the most typical case questions of this type are those that require the candidate to explain why a company’s sales or profits have declined.

**THE SCORECARD**

Consultants like to ask operations questions because they allow the interviewer to see whether the candidate understands fundamental issues related to running a business (e.g., the relationship between revenues and
Operations case questions are more complex than market-sizing questions. Not only do they typically require basic business knowledge (or, at the very least, a good deal of common sense), but they also frequently require the candidate to think like a detective. For example, the interviewer might ask why an airline has been losing money while its market share has increased. There could be many reasons for this: Revenue might be down (and that, in turn, might be caused by any number of things, including ticket-price wars, lower ridership, increasing accounts payable, and so on); costs might be higher (due to higher fuel costs, greater landing fees, higher airplane maintenance costs, and other factors); or the airline could be operating more inefficiently (e.g., higher passenger loads might require it to lease additional aircraft or pay staff overtime). In any case, a successful analysis of the question requires the candidate to think clearly and efficiently about the question. To help with these types of questions, here are some rules you'll want to keep in mind.

**Rule 1: Isolate the Main Issue**

Operations questions usually have lots of potential answers. The first step in identifying a good answer (and demonstrating your analytical firepower) is to separate the wheat from the chaff. Once you’ve zeroed in on the main issue, you’ll be able to apply your energy to working out a good conclusion to the problem.

**Declining profits questions are some of the most popular types of cases around, and almost all candidates can expect to face one.**
Rule 2: Apply a Framework

Frameworks were made for cracking operations questions. They will help you sift through lots of data and organize your answer. A useful framework can be something as simple as saying, “If the airline is losing money, it has something to do with either costs or revenues,” and moving on to talk about each of these areas in turn.

Rule 3: Think Action!

Unlike market-sizing questions, operations questions never end with a nice, neat analysis. Rather, the goal here is action. The hypothetical client is usually facing a critical issue: Revenues are falling, costs are rising, production is crashing. Something needs to be done. As a consultant, you will be hired to give advice. As a candidate, you should be sensitive to the fact that your analysis must drive toward a solution. Even if you need more data before you’re able to make a final recommendation, you should acknowledge that you are evaluating various courses of action. Better yet, you should lay out a plan for next steps.

KEY BUSINESS OPERATIONS FRAMEWORKS

› BUSINESS PROBLEMS ARE easier to solve when you start with a framework. A framework is simply a structure that you use to organize your thoughts and help you analyze the critical issues of a sample case. It gets you started, and then you finish it in your own great style. Think of it this way: Every shirt has to have a way to get your head and your arms through, but a trip to the mall will show you thousands of options created using the simple shirt framework. It’s the same for business. A framework can help you break a case into two, or three, or five components. With those down, your brilliant intellect will shine through.

Although you’re free to use any logical approach to solve a case question, some frameworks will prove to be more useful for business strategy cases. These help you break down complex and vague problems—Why are sales up and profits down? Do we need new accounting software? How are we going to get our products to central Africa?—into smaller pieces that you can understand and address, leading to a solution.

Fixed Cost/Variable Cost

Cost accountants rejoice! Many a case question has been clarified (if not solved) by juggling a few numbers. One thing you’ll almost always want to watch out for in profitability-type questions and operations questions is the fixed cost/variable cost dynamic. Fixed costs are those things such as rent, administrative division salaries, interest on debt, and overhead expenses that can’t really be adjusted right away. In contrast, variable costs are those costs, such as those of raw materials, which vary directly with production. These factors can also be important in assessing opportunities in new industries. If there are high fixed costs associated with a new venture, then capacity utilization will be key to making the venture work. You might face a case question along the lines of, “The largest paper manufacturer has announced plans to build a new plant. Should our client, the number three paper manufacturer, follow suit?” When you do, consider incorporating a discussion of fixed and variable costs into your response.

Marginal Cost Analysis

Marginal cost analysis is one of those nice, specialized mini-frameworks that makes an ideal add-on to a larger, more general framework such as cost/benefit analysis, especially for questions involving profits and operations issues. Marginal costs are the costs involved in producing an additional unit of something. In most cases, producing one or two more items costs very little, just the cost of materials. But at some point, your production will outgrow your machines.
and maybe even your building, so that the marginal cost of producing one more item becomes enormous. Likewise, you can have marginal costs of sales. Think of a retail store: in general, it doesn’t cost any more to have ten customers instead of one. But have too many customers, and the store gets uncomfortably crowded, fights break out in the parking lot, and people get disgusted because the checkout lines are too long. The answer is to open a new store, but that can be an expensive undertaking.

You might be asked about a situation in which sales have gone up while profits have gone down. There are many possible explanations for such a scenario, one of which is that the increased volume has caused the production to exceed the point where it is most efficient. In other words, the marginal cost (the cost of producing each additional unit of output) is going up. This could be a result of the need to purchase raw materials at a premium to get quick delivery. It could result from having to pay workers overtime to fill orders. It could result from any one of a number of things. Although you’ll probably score extra points by incorporating academic concepts in your answer, keep in mind that the real world is never as clean as the textbooks. You’ll undoubtedly want to embellish your answer with messy things like stakeholder interests and organizational dysfunction.

The 3Cs: Company, Customers, and Competition
The famous 3Cs stand for company, customers, and competition. These will often be the most critical factors to consider when you look at a strategic, marketing, or performance question. Thus, if you’re asked to figure out how an automaker should assess its opportunities in a foreign market, you might start by analyzing what kinds of customers it will find in the new market. You’d probably want to analyze both the individual characteristics of the customers as well as the marketplace’s characteristics and trends. A look at the competition would include both an analysis of the competitors in the new market as well as the competitors in the client’s existing markets and how all competitors would respond to your client’s expansion plans. Finally, the company analysis would likely include a look at the client’s strengths and weaknesses, its internal resources, its longer-term strategy, and how well situated it is to handle the different issues you identified in the customer and competition pieces of your answer.

The 4Ps: Product, Price, Promotion, and Place
Here’s a favorite one from the Marketing Hall of Fame. The 4Ps are product, price, promotion, and place (distribution). These are the four major knobs you can turn when trying to market a new or existing product. Product incorporates everything about the design of the product; its features; how it is different from competing products and substitute goods; its packaging; reputation, service, and warranties; and what the strategy for the product is in the future. The price factor deals with both retail prices and discounts, as well as economic incentives to the different channels (commissions and margins) and the strategic elements of the pricing decision. Promotion has to do with everything from marketing and advertising to customer education, public relations, and franchise or reputation development. The fourth P, place, is really a “D” in disguise. It stands for distribution, and covers such things as choice of channels, cost and duration of distribution, and positioning strategy. An example of a case question for which a 4Ps framework would come in handy is, “Our client plans to introduce a solar-powered room air conditioner. What are some of the issues we should examine?”

Porter’s Five Forces
Porter’s Five Forces theory is probably the best-known industry analysis framework. It’s a little old-fashioned, but it’s still a logical way to figure out the dynamics of almost any industry. You can use it to answer
operations questions about responding to competition. Here’s a little review:

1. **Barriers to Entry** (the ease with which new firms can enter the industry)
2. **Bargaining Power of Buyers** (the relative power of customers and other buyers)
3. **Bargaining Power of Suppliers** (the relative value of vendors and other suppliers)
4. **The Availability of Substitute Products** (the uniqueness of the industry’s products)
5. **The Nature of the Rivalry among Firms** (the rationality of competition in the industry)

Analysis of each of these categories and their relevant subcategories should give you a good idea about whether the opportunity looks positive or negative. The key insights that this analysis will often provide include the idea that an industry is more attractive if there are significant barriers to entry, neither buyers nor suppliers have great power over the players in the industry, there are few adequate substitute products, and the firms are not engaged in an insane competitive rivalry that depresses profits.

**Firm Analysis**

Porter’s Five Forces look at industry factors, while Firm Analysis takes strategic analysis down a notch to look at the company. It’s a robust consulting framework that will often prove helpful in answering operations questions, especially those where problems may be arising from a number of areas. The foundation of the Firm Analysis framework is the identification of the internal (company) and external (market) factors which come together to influence a company’s competitive strategy.

*Internal factors* influencing a corporate strategy include a company’s:
- Goals and values
- Resources and capabilities
- Structure and management

*External factors* influencing corporate strategy can include:
- Industry trends
- Outside constraints (governmental, societal, legal)
- Competitor activities

The business strategies that will likely prove most successful for the firm are those that find a close fit between the internal (company) and external (market) factors. This framework can be applied to many types of strategy questions, especially those involving a new opportunity, a new market, or changing circumstances in the industry. For example, if you’re looking at the opportunity for a medical device manufacturer to set up a new production facility in France, you might start by looking at internal factors related to the company’s strategic objectives and resources and then move on to the various external factors it will face as it explores the market opportunities in Europe.

**CAGE Analysis**

Chances are, an interviewer is going to ask you about international issues at some point. If you get a question about international strategy, you’ll need a logical way to think about the issues. Good thing Pankaj Ghemawat, a professor at Harvard, developed a framework you can use. He suggests you consider the amount of distance that exists between two cultures when deciding whether and how it makes sense to change business strategy overseas. And, it comes with a handy mnemonic:

- **Cultural distance**: What are the differences in the religious beliefs, race, social norms, and languages between the target country and the country of the company considering expansion?
- **Administrative distance**: What are the differences in the ways the countries are governed? Are there colonial ties, a common currency, and trade arrangements in place?
- **Geographic distance**: What’s the distance between the countries in terms of miles? What is the size of the target country? What about its infrastructure
features, like ports, transportation systems, and communications networks?

- **Economic distance:** Do the two countries have similar wealth and consumer income? Are financial resources similarly available?

If you get a case about outsourcing to the Philippines, acquiring a company in Germany, or investing in Venezuela, think about how the markets are similar in terms of culture, administration, geography, and economics. How do these factors affect the strategy?

For that matter (because frameworks in consulting interviews are tools, not tests), you might be able to apply CAGE to other business decisions, such as regional expansion or the acquisition of a competitor. Would you recommend that News Corp. acquire Google, given the cultural, administrative, geographic, and economic factors involved?

### Financial Analysis

Financial analysis is a cornerstone of corporate decision making. Most of it is complicated stuff, and if you don’t know it by now, hie thee to an accounting course. But there are basic relationships you can keep in mind to help you evaluate strategy decisions during case interviews.

- **Income statement equation:** Revenue – expenses = profits. And profits are good.
- **Balance sheet equation:** Assets = liabilities + equity. Or, to put it another way, equity (ownership) are the assets that are left over after all the lenders are paid off.
- **Cash equation:** Ending cash = beginning cash – cash for (from) operations – cash for (from) investing – cash for (from) financing. Cash is good, but businesses have to spend money to make money.
The Practice Range: Key Strategic Issues

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ALTHOUGH OPERATIONS QUESTIONS can be far-reaching, most fall into a few broad categories. The more you know about these categories, the better you’ll able be to handle different case questions.

In fact, here’s a word of caution: Your case interview won’t be one of our questions, nor will it be one from the firm’s sample guide. Don’t spend your time memorizing answers, because it won’t help you. Instead, use all of these samples to get comfortable with the format and to learn the concepts that go into developing answers. Then, you can work through any question with confidence, even if your interviewer throws out some weird brainteaser operations question like, “HP wants to engineer its computers to be able to get up and walk around the room. How would you set up this project?”

Test yourself on the marketing, distribution, productivity, financing, and profitability questions on following pages.
MARKETING

A camera company has stumbled on a compound that helps extend the life of cut roses. It wants to know if it should introduce the product and how to price it. The firm has collected the following data and wants your assistance in analyzing the data and making a recommendation:

- One billion roses are purchased each year in the U.S.
- The average rose costs $2
- There are 50 million unique buyers of roses
- The chemical extends the life of cut roses by one week
- There are five other products on the market that extend the life of cut roses from two to five days
- Five grams per rose of the new chemical must be present in order to be effective
- It costs $0.02 per gram to manufacture the new chemical, including fixed and variable costs

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
A small manufacturer and distributor of women’s surf clothing is considering selling to high-end boutiques and has hired you to help out. What kinds of issues would you think about to help it make the decision?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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The Director of Purchasing for the aircraft maintenance division of a major airline has asked for your help. His supplier base has grown to more than 500 vendors, who supply approximately 100,000 different aircraft parts to the airline. He has realized that his supplier strategy is suboptimal, from both a cost and efficiency standpoint. How would you help him devise a supplier strategy?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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Your client is an Internet retailer that has been plagued with service problems in fulfillment and delivery. This is leading to increased customer complaints and slow revenue growth. How would you go about assessing the problem and recommending a fix?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
CASE 5

Your brother-in-law owns a regional chain of exotic pet supply stores. He has a website that his son, who is in high school, put together. He thinks there is enormous potential for the site, because many people find it and call to place orders. However, order volume directly through the site is quite small. How can he improve his Internet business?

KEY QUESTIONS TO ASK

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BASIC NUMBERS

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TRACK THE NUMBERS DOWN

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Your client is the vice president of global sourcing for a U.S. footwear company. The company once owned seven manufacturing plants in the U.S., but now only owns a single plant. The client has brought you in to determine whether to close the final plant. What types of questions would you ask in order to assist the client in making the right decision?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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A regional bank interested in expanding beyond commercial banking services has merged with a major asset management firm. They are struggling with post-merger integration and have hired you to help them. What issues would you address?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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You have been hired by a metropolitan symphony orchestra to help it with its annual subscription drive. For years, the symphony has called ticket buyers and asked them to subscribe, and this generated 20 percent of all new subscriptions. In the last two years, however, ticket sales from the telephone campaign have fallen dramatically. What is going on?

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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Your client is a large private equity firm. It is looking into “rolling up” the tow-truck industry; that is, buying many small and midsize firms and combining them to create one, larger firm. It wants your help in assessing industry attractiveness.

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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A retail chain is having problems with cash flow. Inventory expenses in particular are increasing. What would you recommend the client do?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
PROFITABILITY

CASE 11

The food-service spice division of a major food manufacturer has had flat or declining sales and profits over the past five years. What should it do to improve its performance?

KEY QUESTIONS TO ASK

BASIC NUMBERS

TRACK THE NUMBERS DOWN
Your client is the head product manager in the sports division of a major online auction company. He has brought you in to help diagnose why his division’s profitability is declining and to determine ways to improve the performance.

**KEY QUESTIONS TO ASK**

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**BASIC NUMBERS**

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**TRACK THE NUMBERS DOWN**

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The CEO of a small to midsize sock company has hired your consulting company to assess why profits have been falling from respectable levels four years ago to declining one year ago to a projected loss this year. You have been assigned as the main business analyst on the engagement. How would you help analyze the situation and what would be your preliminary recommendations for how to address it?

KEY QUESTIONS TO ASK

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TRACK THE NUMBERS DOWN

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The COO of a business services company supplying technology consulting to Fortune 500 companies is concerned because she has noticed a downturn in overall corporate spending on consulting and other outsourced services during the trailing two quarters. Upon discussing her thoughts with some of her peers at other tech consultancies, she has learned that other companies are predicting a reduction in demand for their services as well. She is considering how to address this issue within her own company, and has asked for your help in thinking about it as well. What would you like to know, and how would you advise this COO?

KEY QUESTIONS TO ASK

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BASIC NUMBERS

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TRACK THE NUMBERS DOWN

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Nailing the Case

Comparing Your Answers........34
Comparing Your Answers

Now it’s time to walk through sample answers to each of the questions posed in “The Practice Range.” Although we believe that our recommended answers are good, we know that there are many equally good and even better answers out there. Remember, the destination is often less important to your interviewer than the road you take to get there. A quick note on the layout: Each question is followed by bad answers (which are admittedly a bit far-fetched in some cases) and a good answer. The questions and dialogue between the hypothetical recruiter and candidate appear in normal type; the WetFeet analysis and commentary appear in italics.

Case 1
A camera company has stumbled on a compound that helps extend the life of cut roses. It wants to know if it should introduce the product and how to price it. The firm has collected the following data and wants your assistance in analyzing the data and making a recommendation:

• One billion roses are purchased each year in the U.S.
• The average rose costs $2
• There are 50 million unique buyers of roses
• The chemical extends the life of cut roses by one week
• There are five other products on the market that extend the life of cut roses from two to five days
• Five grams per rose of the new chemical must be present in order to be effective
• It costs $0.02 per gram to manufacture the new chemical, including fixed and variable costs

Pricing cases are very common. It is also common for the interviewer to give you a lot of information up front. If the interviewer doesn’t give you a sheet of paper with the data, make sure you write it down. Also, understand that there is likely going to be more data that you’re going to need to gather as you go along. Because the interviewer is specifically asking for the price of the product, you’re going to need to perform a pricing analysis, based on the benefit created by the product and an estimate of how much of the benefit the company can capture.

Bad Answer
Candidate: The market is $2 billion, which seems pretty big to me. However, it’s a camera company we’re talking about, and they probably don’t have a lot of experience in this area, so maybe they should consider selling the product to someone with more experience.

Interviewer: Interesting thoughts, but I’d like to focus on the viability of the product and its price. Does the data shed any insight into whether the client should commercialize it?

The candidate is getting one more chance.

Candidate: Okay. There are five competitors out there, which is a lot, and our product is only marginally better than theirs, so it’s going to be pretty tough to get share without really lowering the price, so I don’t think that it’s going to be profitable.

Snap judgments are never a good idea. Real clients pay consultants a lot of money to be thoughtful. This interview is over.
Good Answer

Candidate: The question is about how the company should set the price of the product for its introduction, correct?

Interviewer: Yes.

Good start: asking WHAT’s the question. Some case problems are straightforward, but sometimes the issue is buried in the description of the problem. If you verify the question up front, then you are on track from the start.

Candidate: Before we get to pricing, I want to talk about market sizing: Is the market big enough to be attractive? If the market is attractive, then I’ll talk about pricing and, since you gave me cost information, we can talk about profitability. If the product is viable, then we’ll investigate what the competition looks like and whether or not the company has the capabilities to execute.

A nicely structured overview, with the candidate checking to make sure that EVERYTHING’s there. Note that there is a decision tree here: If the market is big enough and the product is profitable, then the candidate will discuss the competitive environment and implementation.

Interviewer: Sounds good to me.

The candidate takes a moment to THINK, then starts on the FRAMEWORK, a modification of the 4Ps. It’s fine to modify frameworks, by the way. Interviewers want you to answer questions logically, not through a rigid textbook checklist.

Candidate: First, the market size. The annual market size is $2 billion, which is certainly not small. Do we have any idea about growth rates?

TIP

Don’t be afraid to modify a standard framework to suit your purposes in a particular case. You’re not being tested on your ability to choose correct frameworks.

Interviewer: The cut roses market has been growing at about five percent per year and is expected to continue to do so.

Candidate: Okay, so we have a pretty large market with solid—if not spectacular—growth. Seems too big to ignore. So I’ll move onto the profitability of the product.

Unless you are being asked to determine a strategy for market exit, the market sizes in case interview questions will almost always be big enough. Otherwise, the case ends here and the interviewer will not get any real insight into the candidate’s analytical skills.

Candidate: The way I’m going to approach the pricing of the product is to assess how much value our product creates for customers, and then use the data you gave me about value capture to determine the price. The benefit that the product creates for customers is that it extends the life of cut roses by a week. To quantify the benefit, though, I need to know the percentage increase in life: What is the average life of cut roses without any chemical supplement?

The candidate is thinking out loud and EXPLAINING exactly where he’s going. This gives the interviewer a chance to see the candidate’s logic and redirect if necessary.

Interviewer: About a week.

Candidate: Okay, so we’re essentially doubling the life of the roses. I’m going to assume, therefore, that we’re...
doubling the value of the roses to the customer, though this may be overstating things because the perceived value to the customer may decrease over time. Now I need to get a sense of the current value of the roses to the customer to quantify the change. From the data you gave me, there are 50 million buyers of roses buying one billion roses, or 20 roses per buyer. Each buyer is spending $40 on roses per year, which I can equate to be the perceived value. If the chemical is doubling their value, then the new perceived value of roses per buyer per year will be $80. The value the product is creating is $2 per rose. These numbers seem a little strange—how am I doing?

**A little advice:** It’s okay if the analysis that you’re doing seems a little awkward to you and the numbers a little out of whack. The interviewer is testing your ability to manipulate a data set. But if you feel uncomfortable, EVALUATE your work and check in with the interviewer, like the candidate has done here.

**Interviewer:** I think your assumption that we’re going to double the value of the roses is a little off. The client has done some research and found out that by doubling the life of the rose it only creates about $0.50 of value per rose. Most of the perceived value to the customer is wrapped up in buying the roses and enjoying them for the first couple of days.

**Candidate:** That feels a little better to me. So the product could theoretically be priced at $0.50, assuming that the client is able to capture all of the value created by the product. But this is probably unlikely. Are there other examples of recently introduced products that could be used as benchmarks?

**Interviewer:** Products that have been priced in the manner you are suggesting—“value pricing”—have captured anywhere from 25 percent to 75 percent of the value they create.

**Candidate:** Okay, let’s take the average and assume that our product will capture 50 percent of the value. So we price it at $0.25 per rose.

**Interviewer:** And what does this imply about the profitability of the product?

**Candidate:** Well, it costs $0.02 per gram to make the chemical, or $0.10 to create enough chemical to sustain one rose. This means that our margin would be about $0.15 per rose.

**Interviewer:** Are there other costs that we need to consider?

**Candidate:** Ah, you gave me manufacturing costs. There are probably distribution costs, packaging, sales, and indirect costs that are going to be associated with the product. Do we have an estimate on what those might be?

**Interviewer:** All other costs are another $0.02 per gram.

**Candidate:** So now we’re up to costs of $0.20 per five grams. This makes our margin $0.05 per 5 grams, or 20 percent. The profitability seems viable, so now we need to consider the competitive environment. You mentioned five other competitors. Can you tell me
anything more about the individual competitors or the nature of the competition?

Candidate: Well, one idea might be to sell the product to an existing player. Another might be to go after different customers—for example, sell it to flower store owners. And a third idea might be to invest in research to see if the product has any other uses.

Interviewer: Good thinking. I think you did a fine job on the case.

CASE 2
A small manufacturer and distributor of women’s surf clothing is considering selling to high-end boutiques and has hired you to help out. What kinds of issues would you think about to help it make the decision?

Bad Answer
Candidate: Selling surf clothes in high-end boutiques seems like an absurd idea. I’ve never seen them in any boutiques I’ve been in. I’d tell the client not to do it.

Interviewer: Well, the client is fairly serious about it. The average selling price is much higher in boutiques than it is in surf shops, so it may represent an interesting opportunity.
The interviewer is giving the candidate a very clear hint, and is also providing her with some data that she will want to factor into her analysis. In these cases, take the hint and reconsider.

Candidate: Yeah, but I still don’t think that it’s a good idea. I just don’t think that surf clothes and boutiques match. I bet if I talked with a bunch of my friends, they’d all say the same things.

The candidate has not taken the hint, and the interview is essentially over. It’s important to avoid starting with a strong bias as you go into a case.

Interviewer: Oops! I forgot that I have a conference call right now. Maybe we could reschedule.

Or maybe not.

Good Answer
Candidate: As I see it, this case covers both the marketing and distribution of the product, and both of those relate to the clothing company’s strategy as well. Do you want me to address all three issues?

And this candidate is off to a good start, checking on WHAT the question really covers.

Interviewer: Well, we don’t have a lot of time here because the schedule got thrown off, so let’s concentrate on the marketing issues.

And talk about a bonus for asking—a short version of the question! Many interviewers have standard questions, but they don’t always have standard time periods to work with, especially as a day of campus interviews wears on. Someone shows up in the wrong place, the interviewer has to leave for a phone call that goes over time, lunch arrives late, and the whole schedule is shot. Still, the interviewer wants to use the limited time to see if you have the smarts and the logic to be invited back—and to reflect well upon the interviewer’s judgment if you are. Narrowing the question keeps you on track and helps the interviewer make a better evaluation in a shorter period of time.

Candidate: All right. First, I’d want to get some more information, especially about the customers. Do people who shop at surf shops also visit boutiques? Or is the client trying to attract a new base of customers by selling through boutiques? In essence, what are the target markets for both the surf shops and the boutiques and how do they overlap or differ? This would answer questions about cannibalization of the existing customer base.

The candidate checks to make sure that EVERYTHING’s there—and there is almost always more information to a case than what you are given initially. That’s because the interviewer is testing your ability to perform informed reasoning rather than just talk off the top of your head.

Interviewer: Okay, so you would want to know about who is buying the clothes. In the apparel industry, there are really two sets of customers: the retailers and the consumers. What type of information would you want to know about the retailers?
Candidate: Ah, good question, I need to consider the channel when I think about the market. First off, I'd want to know something about the size of the boutique market: Is it big enough to sustain a new product introduction? Also, what are the economics of serving the boutique market? And, perhaps most importantly, would they be interested in buying our product? Is surf wear “in”?

Interviewer: All good questions. It turns out that the average selling price of clothing at boutiques is significantly higher than at surf shops—this shouldn’t surprise anyone. Also, beachwear in general is “in” right now, and the client has a fresh, youthful brand. What concerns the boutiques, though, is price competition from other retailers: They do not want to see a piece of clothing that they sell at their store for sale at a surf shop for two-thirds the price. How does this impact the decision?

Candidate: I would want to know about the competition. What types of surf clothing exist in boutiques now? This would help the client assess wallet share at the boutiques and assist in profitability analysis. Also, what type of competition exists in surf shops? And what is the nature of that competition: is it based on price, fashion, fit, quality, or other factors? If the client is successful in moving into boutiques, who is going to follow? Can the client establish any barriers to entry?

Interviewer: What type of barriers to entry are you thinking about?

Candidate: Well, the margins seem to be pretty good at the boutiques, assuming that costs to serve are relatively similar for surf shops and boutiques. And our brand and type of clothing seem to fit with their needs. The question will be avoiding channel conflict. There are a couple of ways to get around this. One is to simply avoid geographical overlap by selling to boutiques in one geography and surf shops in another. Another is to create a new line of clothing that is branded separately from the clothing the client sells to surf shops.

Interviewer: Good. What else would you want to know?

Candidate: I am taking an active role in leading the discussion, and even brings up another of the 4Ps.

TIP
The interviewer should be your primary guide for working through a case question. Use the interviewer as a resource.

The interviewer is clearly satisfied with this line of analysis and is ready to move on. The candidate does just that, EXPLAINING her logic.
Candidate: I was thinking about things such as a strong sales force, exclusive agreements, and production scale.

- Hopefully the candidate was actually thinking about these things….

Interviewer: You mentioned the nature of the competition. How would you test whether or not the competitive environment within this new channel would be the same as the traditional surf shop channel?

Candidate: There may be examples of other channel expansions within the apparel industry that I could take a look at, but my operating assumption would be that because the same set of competitors would be involved, the nature of the competition would be the same.

Interviewer: Good. I want to touch upon how the company’s operations would change to serve this new channel. What type of new capabilities do you think they would need to add?

- The interviewer, again, is taking an active role in structuring the interview, and it’s the candidate’s role to take the lead.

Candidate: Well, I mentioned the sales force earlier. Because the buyers are likely different, the client would probably have to develop a new sales force targeted at this new channel. These sales representatives would need to have a broader understanding of fashion trends and not just specialize in surf apparel trends. In addition, design and manufacturing processes may need to change—perhaps the boutiques require a different type of merchandise with more emphasis on fashion than on function. And, the client would need to assess capacity requirements: Can existing capacity be used, or do new plants need to be built?

- The candidate TAKES ACTION by suggesting some next steps for the client. Don’t just analyze the problem, come up with a concrete recommendation, either for the client to take now, or for the consulting firm to sell more services. They did tell you that part of the job is marketing, didn’t they?

Interviewer: Good analysis. We have about four minutes left, so what questions do you have for me?

Case 3

The Director of Purchasing for the aircraft maintenance division of a major airline has asked for your help. His supplier base has grown to more than 500 vendors, who supply approximately 100,000 different aircraft parts to the airline. He has realized that his supplier strategy is suboptimal, from both a cost and efficiency standpoint. How would you help him devise a supplier strategy?

- This is a supply chain case that digs deep into how a company should optimize its inventory strategy. It is meant to assess the candidate’s business logic in a complex environment with a large supplier base, providing parts that range from the very simple to the very complex.

Bad Answer

Candidate: Handling such tremendous volume of parts and suppliers can only be managed through technology. I don’t mean this as a cop-out, but it’s true. I am sure the client has some technology in place, but they likely need to bring in an IT consulting firm to analyze and install systems to create the best overall solution. Basically, the client should try to weed out a large portion of the suppliers. If the client gives more business to a smaller number of suppliers, they will charge the client less. So it’s also about scale economics. Scale economics and technology. That really would help the client out significantly.
Careful of the technology trap. Technology is not a panacea. Aside from that, the candidate has missed the objectives behind case interviews. The interviewer wants to see a structured thought process. Sure, technology often plays a role in supply chain management, but this is not a technology question. The candidate needs to lay down a structure and then proceed with an analysis that illustrates strong business logic and demonstrates the way the candidate thinks. Scale economics is partly on the right track, but it would be more useful if the candidate elaborated with an example. Plus, scale economics may not be relevant depending on types of parts and suppliers being considered.

Good Answer
Candidate: I'll say this client needs a supplier strategy! What an interesting question.

The client verifies WHAT the question is while starting off the conversation.

Interviewer: I'm glad you think so.

The candidate takes a moment to THINK.

Candidate: The first thing I would do is make sure I have all the necessary data consolidated in a database from which I can efficiently run spend analyses. From that I would segment the vast supplier base into manageable buckets from which to establish different purchasing strategies. An airplane is mixed with parts of different levels of criticality. The first bucket could consist of highly critical items linked to safety, such as navigation equipment, flight controls, and engine components. The second bucket could cover low-tech, commodity items such as basic nuts-and-bolts hardware, paint, wire, etc. The last bucket could contain items not critical to safety, but highly important to customer satisfaction, such as interior fabrics, seats, and in-flight entertainment systems.

Remember how we said that frameworks are structures, and that you should deviate from them when necessary? Well, here's an example of just that, using our very own WETFEET case-cracking framework. The question has enough information to get started, so the candidate doesn't need to ask if EVERYTHING is there. Instead, he needs to figure out how the client should organize that data at hand. And in this question, data management is critical. The candidate shows his understanding of this by suggesting the database. He then moves into his approach by discussing segmentation, both of parts and suppliers—his FRAMEWORK, and one that is a pervasive technique in consulting for analyzing vast amounts of data. The candidate confidently settles on three “buckets” to work from and presents a logical rationale behind this segmentation. Overall, he is off to a good start by presenting a solid foundation from which to begin considering supplier strategies.

Interviewer: That seems like a good way to handle the mass of information. What would you do next?

Candidate: Once suppliers are segmented, I would establish decision criteria around what is important to the client in each of the three buckets. For highly critical items, logical criteria would be quality and reliability—cost would be secondary. Strong supplier support and priority service would also be important, so if an aircraft is grounded due to maintenance, they could be relied on to get it flying again as soon as possible. For commodity items, cost is a major concern. By definition, these items are straightforward to manufacture and can be bought from many different suppliers. The third bucket is trickier. The items are not safety critical, but will influence customers’ desire to fly the airline over competitors, thus impacting revenue. Cost is a key criteria item, while ensuring innovative design which appeals to the customer.
Excellent. The candidate has come up with a way to gather information and manage it through segmentation. He has established decision criteria to make an action recommendation. He has thus EXPLAINED a very structured approach that is logically sequenced. He has also linked supply-based decisions to the impact on revenue, namely grounded planes and customer choice.

**Interviewer:** That makes sense. Now what would you do?

**Candidate:** In each bucket I would next analyze the spend profile. Specifically, I would see how total costs are distributed across different parts and suppliers to understand what is driving the majority of my costs. This would allow me to focus my effort efficiently and not chase down cost reductions or quality enhancements for every part and every supplier, but rather just the primary ones.

**TIP**
The Pareto Principle is the business observation that 80 percent of the value can be found in 20 percent of the factors.

Always be prepared to elaborate with an example and to illustrate with numbers. You might not know the names of the parts, but you should know enough about airplanes to make guesses as to what those names might be. This candidate is using numbers to help describe his logic, and interviewers love it. It demonstrates further analytical horsepower.

**Interviewer:** That seems logical. Could you provide an example?

**Candidate:** Sure. Let’s take the commodity bucket. Let’s say that of 1,000 parts, I notice that 50 percent of total cost is spent on fuselage rivets, versus 1 percent on three-inch washers. I would thus scrutinize the suppliers of fuselage rivets and not washers. Then let’s say that I see that 80 percent of the total spent on fuselage rivets goes to one supplier, whereas 20 percent goes to a remaining 24 suppliers of rivets. I may then focus any negotiating effort for a price reduction on the primary supplier and not all suppliers. An alternative strategy would be to tell all 25 suppliers that I am going to consolidate down to one primary and one secondary supplier of rivets. This would create a competitive bid situation, which will likely yield better pricing for our client. There would be great incentive for the suppliers to drop prices as they could not only win a large piece of our business, but also lower their manufacturing costs by increasing capacity utilization and spreading out fixed costs. I should note that the actual analysis would likely be more complex due to suppliers spanning several different commodity types. Such a strategy may not work in other buckets if suppliers are differentiated, there are few suppliers, or switching costs are high for our client.

These kinds of cases are very much about sifting through lots of data to pinpoint where the leverage is. His technique is correct. He is suggesting further segmentation within each parts category to identify the leverage. It is called the Pareto Principle—or more commonly, the 80/20 rule—and it refers to the common business observation that 80 percent of the value can be found in 20 percent of the factors. In this case, it regards suppliers and parts.

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interviewer wants more on that added complexity, he will ask for it and it won’t be a strike against the candidate. Finally, he clearly points to drivers of the buyer-supplier balance of power, recognizing that strategies will differ depending on that balance.

**Interviewer:** You seem to have a good grasp of controlling supplier costs. You have laid out a good “buy for less” strategy for commodity suppliers. What other strategies might you consider to improve efficiency and cost across all buckets?

**Candidate:** Inventory management is a critical factor across all buckets. If our client is out of stock of parts when it needs them, it could result in costly grounded planes. Additionally, having too much inventory on hand results in high carrying costs. I would work closely with primary suppliers to ensure that the latest inventory management techniques, such as just-in-time and vendor-managed inventory, are in place. Technological tools can also be leveraged to improve coordination with suppliers, demand forecasting accuracy, logistical flows, and transactional efficiency. Also, if our client is part of an airline consortium, it would be valuable to leverage their overall buyer power and share best practices regarding supplier management. Lastly, I would involve suppliers in future solution design decisions to drive toward more standardization, simplified specifications, and rationalized requirements.

**Interviewer:** A solution that TAKES ACTION! A discussion around supply chain is not complete without some mention of controlling the flow and timing of goods to the buyer. This candidate seems to have an additional grasp of some of the techniques out there. If you are an experienced hire, you would be expected to know the jargon; if you don’t have matching work experience, the interviewer won’t hold it against you as long as your logic is good. Complex supply chains will undoubtedly rely on effective use of technology to manage them. The candidate sees this, which will score him points. Finally, the candidate goes above and beyond by speaking to the potential advantages of leveraging airline consortiums and involving suppliers as partners in design decisions—again a win-win perspective.

**TIP**
Always be prepared to elaborate with an example and to illustrate with numbers.

**TIP**
The interviewer EVALUATES the question and seems content with the one strategy example for a specific bucket. He now wants to push the candidate’s thinking further on general supplier optimization strategies that span all buckets.

**CASE 4**
Your client is an Internet retailer that has been plagued with service problems in fulfillment and delivery. This is leading to increased customer complaints and slow revenue growth. How would you go about assessing the problem and recommending a fix?

**Bad Answer**
Candidate: There are fulfillment companies that handle this. Just send out an RFP and evaluate the bids. I don’t see what the big issue is.

**Interviewer:** Good job.

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**TIP**
Always be prepared to elaborate with an example and to illustrate with numbers.
know about—and that this candidate will never get to see.

**Good Answer**

**Candidate:** So the assignment is to help the client identify the problem, then come up with a solution based on that, yes?

» The candidate checks to make sure he knows WHAT the question is.

**Interviewer:** Right.

**Candidate:** All right, then. Can you tell me something about this company? Who are its customers, and what kinds of products are they buying? That way, I can get a sense of the complexity of the shipment process, in case that’s an issue, as well as of how easy it would be for the customers to go elsewhere.

» The candidate knows that EVERYTHING is not there, so he asks for more information to help him answer the question and understand the interviewer’s expectations. He shows his thought process, so that the interviewer knows that he’s not just killing time, he has a reason for wanting the information.

**Interviewer:** The client’s product is food. It makes what are said to be the best lemon meringue pies in the country, and it’s been featured in all the big lifestyle magazines and on food television shows. Supposedly, Oprah sent their pies as a corporate holiday present last year. The company has been expanding its product line and adding new types of gift packaging but, obviously, people can buy pies anywhere or make their own. Furthermore, the owner is the wife of the town’s mayor, so outsourcing is not an option.

» Oh, this is a wealth of information: a perishable product with distinctive features that help it stand out in a crowded market, but that market sure is packed! Furthermore, the problem requires an internal solution. The candidate takes a moment to THINK, and then realizes that he needs more information.

**Candidate:** Very interesting. I’d guess that after the pies are made, they are cooled and packaged in some protective packaging, like Styrofoam, probably with ice packs to help maintain temperature, and then they are put in larger boxes and sent off, right?

**Interviewer:** Yes.

**Candidate:** Does the client know where in the process the problem is?

**Interviewer:** Not yet.

» No more hints. The interviewer expects the candidate to work on this problem some more. It’s time for a FRAMEWORK. Instead of a textbook-worthy one, he thinks about the steps in the process.

**Candidate:** Okay. As I see it, there are a few steps here where something could go wrong. First, the customer places the order online, and it’s sent off to the pie company. Next, the pie company bakes the pie. Then, someone packs the pie. A shipper like UPS comes in and picks up the pie, and then the shipper gets it to the customer’s door. That’s four steps. But first, I need to back up a little to know what the customers’ complaints are. Do you have that information?

**Interviewer:** Yes. Approximately 20 percent of customers are getting the wrong pies.

**Candidate:** All right. Assuming that no one is willfully ignoring the orders, I see two places where a problem could occur. The first would be the online ordering system. Is it relaying the orders accurately to the
kitchen? The second would be during the packing process. Is the staff keeping the pies and the labels together when they put them into the boxes? I’d focus my initial analysis on those two areas. I’d start by testing the website, to make sure that it is easy to use. It’s entirely possible that customers are ordering the wrong pies by mistake. Then I’d want to check to see if the orders are being transmitted correctly to the kitchen, to make sure that there’s not a problem in the website’s database that’s scrambling the orders.

The candidate EXPLAINS his thinking so that the interviewer can see that he approaches the case with care. He isn’t charging in with a recommendation until he has all of the facts.

Interviewer: Well, it so happens that the client has tested that already, and the website is working fine.

Candidate: So my next step would be to look at whether there’s a problem with the packing system. That would certainly explain why the orders are going out incorrectly, and it would be a problem that we could solve for the client.

The candidate EVALUATES his work so far, and he’s hoping for a hint that he is on the right track.

Interviewer: Exactly.

Candidate: Is it easy for the packers to tell which pies are which? Would all meringue pies look the same to them?

Interviewer: The pans have labels attached to them, but the labels often come off or are obliterated during baking.

Candidate: Based on this information, I believe the problem is that the packers often don’t know which pie is which. I suggest that the bakery come up with a marker for the pie flavors that is incorporated into the pie. I’m thinking of something along the lines of the different shapes and swirls used for chocolates. Maybe it could be as simple as a little piece of dough, shaped to reflect the filling, like a lemon shape for the lemon meringue pie. This would be relatively simple to develop and test, but it would make a dramatic improvement in packing accuracy and customer satisfaction.

And our candidate TAKES ACTION. Let’s give him a slice à la mode for all of his hard work, shall we? Would a real consultant get a small business case? Probably not, although some firms may take them on through small-business incubator programs or as favors to much larger clients. But again, it’s all about the thought process, not the details of the question.

CASE 5
Your brother-in-law owns a regional chain of exotic pet supply stores. He has a website that his son, who is in high school, put together. He thinks there is enormous potential for the site, because many people find it and call to place orders. However, order volume through the site is quite small. How can he improve his Internet business?

Bad Answer
Candidate: Wait, what decade are we in? No one should be having these problems now. I think I’d start by telling my sister to dump this ferret-loving weirdo.

Yes, yes, the client should be able to figure this out, but not everyone is as savvy as you are, dear candidate. That’s why consultants exist. And sometimes, consultants do favors for relatives who need help. And sometimes, interviewers ask cases about really basic problems to see if you are logical—and if you can come up with an elegant solution.
**Good Answer**

**Candidate:** So my brother-in-law needs to beef up his Internet business, does he? I imagine it’s a great strategy, reaching people who have exotic pets and who find it hard to get supplies. There must be a need because people are taking the time to call him up rather than use the website. That probably means that people are trying to order on the Web and then giving up. So how do we get them to use the site?

>> *The candidate shows that she understands WHAT the question is. This isn’t about strategy; it’s about how to make the strategy work.*

**Interviewer:** Exactly. Right now, he’s getting about three phone calls and two online orders each week.

**Candidate:** Wow, that can’t be covering his investment, can it?

**Interviewer:** His investment is relatively low. He pays for the domain name and the hosting, which combined are only about $50 per year, and his son designed and maintains the site in exchange for his cell phone service.

**Candidate:** All right. May I ask a few more questions?

>> *She’s checking to make sure EVERYTHING is there.*

**Interviewer:** Sure.

**Candidate:** Thanks. Do you have information on the number of SKUs on the site? Does the site carry any brand names? Does my dear nephew use any search engine optimization techniques? And are the retail stores doing well?

>> *The candidate takes a moment to THINK.*

**Interviewer:** The site carries 500 SKUs, and the retail stores—which are very profitable—have about 3,000. The site includes brand information on all items, but it does not have any logos on the site. The shop gets some co-op money from the manufacturers for its local print ads and for posters and displays inside the stores, but gets nothing from them for the website. Also, your nephew is obsessed with search engine optimization, so the site is highly ranked when people use relevant search terms.

>> *Yes, it’s a FRAMEWORK! A nice, simple one, too. Simple is okay. And even with a problem that seems to have an obvious solution, like this one, you need to go through the process to show the interviewer what you are thinking. Of course, if the interviewer nudges you along, follow the interviewer’s lead.*

**Interviewer:** That sounds fine. So what do you think?

**Candidate:** I’ll start on the internal side. This retailer has a good business, but is not doing well with its website. I haven’t seen the site, but I’m assuming that the design is not as professional as it could be, nor does it show off the depth of the product line. I’m also
wondering if the low number of inquiries from the site mean that current customers don’t know about it. However, the search engine optimization of the site is working very well, and that alone might be worth the cell phone bill. On the external side, we have people who want to buy the products, but they want a site that’s easy to use and where they trust that the information will be secure. They also want to receive their items in a timely fashion. Tell me, how are orders fulfilled now?

The candidate explains her case, and she realizes that there is another piece of information that she is missing.

Interviewer: The shop owner has been researching this because he expected to see a lot of orders coming from the site. For now, though, the clerks at the store closest to headquarters simply pick items off of the shelf and package them for shipment. I have some data on the alternatives:

Employee: The current system. Labor costs average $12/hour, and an employee can handle about six packages per hour for a handling cost of $2 per package. Uses current corporate inventory; shipping company picks up packages daily.

TownShip: A local pack-and-mail center has approached your brother-in-law with a joint venture proposition. He’s noticed that a few businesses in the area are doing more direct sales, and the exotic pet shop has the greatest potential. His proposal calls for a 50-50 split on space near the pet shop’s largest store (which is also its headquarters) and on the shelving and equipment. Then, each retailer would bring in inventory to be shipped. He anticipates that the cost of handling each package would be about $1.50 per package and anticipates being able to ship 200,000 packages per year.

Brown Shippers: Sets up secure space in its warehouse for the pet shop’s inventory, which the shop provides. Brown Shippers then fills the orders and ships them through its own network. This costs $1.50 per package, plus the inventory investment.

And now our candidate knows something else: This case isn’t about simply recommending an investment in professional website design, because if the site improves, then so does the order volume, possibly beyond the ability of the company to handle it using their current systems. Case interviewers sometimes hold on to data to see how you do. In a strange way, getting information and a new part to the question is a reward for good work on the case so far.

Candidate: Well, that changes the case a little. I want to start with my answer to the first question, because it’s relevant to this part. My brother-in-law should keep his son on for search engine optimization, because he’s great at that, but the company needs to invest in a professional website with enhanced e-commerce capabilities. It can start with only a few SKUs and add more as its business expands. Fortunately, the firm is profitable, so it can do this. But improving the website should lead to expanded volume, and the current shipping system will be rapidly outgrown. If the firm starts getting more than about two dozen orders a day, it will be too much for the current system, if only because order fulfillment might start getting in the way of serving regular customers on the shop floor.

She evaluates her progress and stays on track, even with the new information. She manages to tie both pieces of the case together.

Interviewer: Interesting. So, what to do?

Candidate: Well, I’d want to know more about the business opportunity. First, the pet shop owner needs to determine if he has the capacity to handle a side business. If so, then he needs to determine if the pack-and-mail store owner is someone he trusts to be in business with. And then, the two of them need to sit down and draw up a business plan. I suspect it’s feasible, if the space is available and depending on the amount of capital investment needed. And
you know what? I’d throw in the nephew—he can provide his search engine optimization skills to the other retailers as a marketing advantage. Of course, he might want more in compensation than just his cell phone!

>> A decent answer. If the candidate had the time, she could draw up a sample income statement to show the key issues that needed to be addressed.

Interviewer: Yes, the son could be an issue. Relatives have to be taken into consideration in family business problems.

>> Score one for the candidate!

Candidate: The Brown Shippers option looks interesting, but the upfront inventory investment could be daunting. One advantage of having a local shipper is that if a Web customer orders something that’s out of the direct-sales inventory, someone could always run it over from the store.

Interviewer: You have about a minute left. Do you want to wrap this up?

Candidate: Out of time already? Okay. The pet shop has a unique business and seems to be meeting a market need. It needs to upgrade its website, though, and should hire professional help for that. Once that happens, orders should begin to outstrip the firm’s capacity to handle them, so it needs to find an alternative. The manager should concentrate on the inventory and facilities investment and handling speed, not on per-package handling costs, as most of those costs are passed on to customers anyway—and direct-sales customers expect to pay them.

>> Whew! The solution is still a little loose—there are many more issues to investigate here—but in the short space of an interview the candidate has summed everything up in a way that helps the brother-in-law TAKE ACTION.

CASE 6

Your client is the vice president of global sourcing for a U.S. footwear company. The company once owned seven manufacturing plants in the U.S. but now only owns a single plant. The client has brought you in to determine whether to close the final plant. What types of questions would you ask in order to assist the client in making the right decision?

>> This is a relatively straightforward operations case that discusses the timely business subjects of offshore manufacturing and outsourcing. Most interviewers will expect the candidate to be reasonably well versed in the basic tradeoffs between domestic versus international sourcing and manufacturing.

Bad Answer

Candidate: I am getting sick of companies moving offshore and taking away jobs from American workers. It’s companies like these that are responsible for the loss in manufacturing jobs.

>> It’s stating the obvious, but we’ll do it anyway: Make sure not to make your political views blatantly evident in your interviews. It can do nothing but harm your chances of getting hired. Keep your emotional opinions about critical issues in check and focus on the task at hand: tackling a case interview in a logical and structured manner. Your interviewer will be looking equally at the manner in which you address the case and at the methodology you use to crack it.

Good Answer

Candidate: A plant-closing decision raises a lot of concerns, so this is an interesting question. Let me first ask a little more about the company: What types of shoes does it make? What customer segment, or
segments, does it target? What are its price points? And what channels does it compete in?

**The candidate remarks on the question in a way that lets him check WHAT it is. He then asks questions to make sure that EVERYTHING is there. His questions point toward the use of a modified 3C FRAMEWORK, giving him the relevant information he needs to get going.**

**Interviewer:** The client targets women exclusively and provides a wide product offering, from work shoes to dressier, fashion-based shoes. Its price points vary—from $50 all the way up to $400. And it owns its own distribution channel, with small stores across the country. It does not have any international distribution.

**Candidate:** One or two more questions before I start testing some hypotheses: You mentioned that seven plants have been closed. What was the reason that the plants closed, and where did the production move to?

**Interviewer:** The plants were closed because the client determined that costs were too high. Most of the sourcing has since moved to Asia.

**The candidate takes a moment to THINK.**

**Candidate:** The surprise is that it hasn’t moved all of its sourcing yet, but maybe there are reasons. So the client makes a wide range of shoes, some basic, some more fashionable, but still targeted toward the same consumer, who appears to be a working woman. Digging a little deeper, I’m going to assume that the key purchase drivers for the target’s work shoes are comfort, price, and a baseline level of fashion. That said, the target will splurge for her dressier, more fashion-based shoes. Is this correct?

**Interviewer:** I see. Tell me more about what you mean by lead times and why the different markets might require varying lead times.

**Candidate:** I’m defining lead times as the time it takes the company to design a shoe until the time it is on the shelf. Lead times may be different based on the product segment precisely because of each shoe’s varying shelf life. Fashion-based products only have a short window of time in which they are—for lack of a better word—in fashion, while the work shoes are likely to be more consistent year after year.

**Interviewer:** And what does this mean for our client?

**The interviewer is pressing the candidate to turn his insight into implications for the client. Whenever possible, try to do this before the interviewer explicitly asks for them.**

**Candidate:** For fashion products, the client needs to get the product on the shelf expeditiously, and may

**Though the candidate may (and in this case does) have very legitimate reasons for going down this path, he has not explained up front how and why he is taking this slant and has therefore lost the interviewer. Not a big deal, but he will need to quickly articulate the rationale for his line of assumptions.**
not be able to wait for the long lead times from Asia. Having a plant in the U.S. would allow the client to respond to market trends expediently and quickly stock its stores with fashionable shoes. And, given that the consumer is willing to pay a little more for her dressier shoes, the tradeoff between a higher-priced shoe and the higher cost structure from a domestic plant might be worth it. In fact, if the client were the only company to have an American plant, perhaps this could be a competitive advantage.

>> The candidate outlines the client implications succinctly, with an extra point about competitive advantage thrown in at the end. Some interviewers may not react kindly to this bonus information because the competitive set has been mentioned; others may be impressed by the candidate’s ability to push the analysis to the next level. Sadly, you just never know. One of the realities of the job hunt is that you can never psych out all the factors, as interviewers make judgments that may have nothing to do with you and everything to do with their mood that day.

**Interviewer:** You’ve nailed one of the key issues. The client has kept the last plant in order to service the needs of its more fashion-conscious consumer, who demands a product that is “trend-right.” All of the work-shoe products have been moved overseas. Now let’s see if we can quantify the tradeoff you talked about and make a recommendation. The client has recently put together some analysis saying that it can make the same fashion shoes in Asia for 20 percent less, but that this will add six weeks to the lead time. How would you analyze these results?

**Candidate:** So we’re trading off a 20 percent reduction in costs versus six weeks of lead time. The answer will lie in how important those six weeks are. This brings us into the competitive nature of the market. Is the client now leading the market in getting its fashion product to market? And is its brand equity based on an avant-garde product line?

>> The candidate now formally introduces another C: competitors. He also asks more about the company, and where its equity with consumers lies, as he evaluates his progress toward an answer.

**Interviewer:** Over the last couple of seasons, the client has introduced the “It” shoe for the women’s fashion market; this has significantly driven up sales in this segment. Women have waited in lines that have stretched over city blocks in order to buy the shoes, which have retailed for $400, up from $250 in the years before.

>> This interviewer must have recently sold a big project, because this is a real giveaway.

**Candidate:** Well, in that case, it wouldn’t seem to make a lot of sense to lose the brand equity, the price premium, and the sales for a 20 percent cost differential.

**Interviewer:** How would you calculate the break-even point?

>> The interviewer, realizing he was being too nice, now throws the candidate one last zinger.

**Candidate:** I would determine the average profitability under the two scenarios. The base case would involve producing the shoes in the U.S., with the higher cost structure. The other case would be producing the shoes in Asia but losing six weeks. I would assume that both the price point and the total sales would be lower under the second scenario, because the client is giving up its positioning as the maker of the “It” shoe. Then you would need to determine whether the lower cost structure would make up for it.
Interviewer: So if I told you that the average margin on the “It” shoe for the past two seasons was 25 percent, how far could the price fall before the lower cost structure would make sense?

>>> Well, maybe one more zinger.

Candidate: If the shoes have sold for $400, this means that the cost was $300. Moving to Asia would mean production costs of $240. To make the same dollar profitability per shoe, the price could be $340. Ultimately, then, the question is whether waiting those six weeks will cut into the price by $60 at retail.

>>> A solution that TAKES ACTION. Interviewers love real numbers!

CASE 7
A regional bank interested in expanding beyond commercial banking services has merged with a major asset management firm. They are struggling with post-merger integration and have hired you to help them. What issues would you address?

>>> This question is less investigative in nature, but seeks to evaluate whether the candidate understands what challenges and critical areas a firm in a complex post-merger integration may face. The candidate is charged with structuring and displaying a comprehensive view of issues, as opposed to coming up with specific solutions.

Bad Answer
Candidate: I’ll give it a shot, although I have absolutely no experience dealing with merger situations. Don’t they usually bring in experts for something like this? I guess what I would do is make sure we get rid of excess people. Mergers are done for economies of scale and the only way to achieve that is to eliminate people. Certainly not a motivating thing for a consultant—I plan on focusing on growth strategy only. Anyway, I would also analyze competitors to make sure they are not trying to steal my customers during the transition period. I would also look at customers to ensure that they know what is going on and are not threatened by the merger in any way. So basically, my approach would be to use a three C’s framework.

>>> Not a strong beginning. Unless the candidate is an experienced hire with specific expertise, a case question won’t require that the candidate understand much more than classwork and current business events. Instead, the case will be designed to see how the candidate thinks. This candidate wavers from the start and begins to make excuses right out of the gate. She also displays a limited view of what might motivate a merger other than to cut costs through economies of scale. A merger could be motivated by access to new customers, access to specific expertise, geographical coverage, etc. And never assume you know what kinds of cases you will be on when you get the job. In a down economy, many of the cases done by operations and strategy consulting firms alike are cost-focused in nature.

Good Answer
Candidate: Post-merger integration is a tough challenge for most companies. In class, our professor brought in research showing that most mergers are disappointments, so I would expect that these engagements come up too often. Let me first give you a sense of how I would structure my approach, and then I will dive deeper into each issue. I would think about this challenge using both an external and internal perspective. Externally, I would consider the customer, first and foremost. I would also manage the impression...
by Wall Street regarding the merger. Internally, I would break my focus into five categories: organizational, cultural, technological, operational, and strategic.

> The candidate shows the interviewer that she knows WHAT the question is, and sets out a simple, yet effective FRAMEWORK for considering the situation. She also lays out her planned areas of focus within both internal and external perspectives. This is valuable on two levels. First, it demonstrates thoughtful structure and gives the interviewer an opportunity to direct you down the most desirable path.

Interviewer: Sounds good. What would you think of first?

Candidate: I would think of the customer first. Depending on how communication has been handled to date, customers may not feel comfortable with the uncertainty that typically accompanies a merger. Risk of customer attrition must therefore be managed. Let’s assume little has been done to date. I would first send announcements to my customers explaining the benefits of the merger and expressing our appreciation for their business. Some benefits may be bundled product offerings, access to a greater network of investment research, and better investment and banking rates. I would also have all relationship managers actively visiting and communicating with our most profitable customers. Finally, I may consider a brief survey to gauge customer concerns and preferences.

> Smart to pick the customer first. All service businesses should start with the customer. She explains why there may be issues regarding customer satisfaction in the face of a merger, states an assumption, explains the business risk, and then proceeds to suggest several ideas to addressing the problem. Remember, this is not an investigative case like a profitability problem would be, and so this sequence of points is exactly what the interviewer is seeking.

Interviewer: That’s great so far. Your earlier point about managing Wall Street is an important one, but let’s move on to internal challenges. What issues would you address around culture?

> The interviewer is satisfied that the candidate mentioned, and briefly touched upon, the external issues and so redirects the candidate. Points are scored and focus is achieved.

Candidate: With any luck, the architects of the merger carefully evaluated the cultural mix before the merger was transacted. Unfortunately, this is often one of the least considered and analyzed factors in a pre-merger situation. I would take a path similar to how I approached my customers. Both formal and informal communication is critical, and expectations, hopes and concerns must be heard and addressed. Additionally, I would encourage all managers to informally meet with employees to gauge potential issues, as well as to communicate corporate strategy. This open communication will help to diagnose cultural issues as they surface. They can then be prioritized and addressed accordingly.

> Without being overly presumptuous, the candidate EXPLAINS some knowledge of typical merger pitfalls and uses this knowledge to logically prioritize her discussion points. Further, as she introduces culture into the discussion, she begins by suggesting the gathering of information, both formally and informally. All effective consulting cases are predicated on gathering sufficient data first, even if the answer seems clear.
cases are predicated on gathering sufficient data first, even if the answer seems clear.

**Interviewer:** You mentioned technology. What would need to be done around technology?

**TIP**

Good consultants must not be overly academic and inward-looking, but rather continuously take an “outside-in” perspective of a business.

**Candidate:** I would imagine that there are complicated customer management systems that help both companies manage their customers, track profitability, store transaction histories, execute transactions, and so on. Customers may even have access to proprietary account reporting software. Having some experience with financial services, I know that companies often have old legacy systems that are not easily integrated with other legacy systems. I would evaluate the strategic and operational significance of the systems that exist across the two firms and work with in-house technology experts to assess integration options. Technology is a critical part of a merger integration to get right, as any problems in transaction execution, balance reporting, or customer information could damage the firm’s credibility with clients, perhaps irreparably.

**Interviewer:** What about operational issues? Give me a couple examples of what you would address operationally.

**TIP**

The candidate thinks for a moment and EVALUATES her progress so far, then continues to demonstrate the importance of looking through the customer’s eyes. Good consultants must not be overly academic and inward-looking, but rather continuously take an “outside-in” perspective of a business. In doing this, she highlights a very important business point—and one that consultants frequently focus on—which is segmenting the “customer profitability gradient.” Customers have varying levels of cost to support and subsequent levels of current and future profitability. These two sides of the customer equation must be used to prioritize a company’s focus, as rarely are there enough resources to focus on all customers in the same way and with the same price points.
Interviewer: Yes, I agree. Good point. Since we are running short on time, briefly summarize remaining issues you would address.

The interviewer is satisfied and wants to wrap things up. The candidate has done well in moving through the question with structure and supporting detail. The interviewer wants her to broadly cover any remaining points—often an opportunity to obtain bonus points in the eyes of the interviewer. The summation should be concrete, as consultants need to TAKE ACTION.

Candidate: The organizational structure would need to be assessed. The merger is bound to result in overlap of functionality and a scenario of “too many cooks.” Having complementary skill sets across the team would be a key objective. Also, it would be strategically important to analyze what products and services we want to emphasize most, so resources can be focused accordingly. And finally, if I was hired as a consultant to facilitate the integration, it would be absolutely critical to have a cross-functional merger task force made up of client employees dedicated to the effort. Our efforts would be governed by a strict project work plan, with clear timeframes and stated ownership.

Interviewer: Great job. That is a very comprehensive way to look at the problem.

Bad Answer
Candidate: The problem is that no one but old people listens to classical music. I think that the symphony should launch a marketing campaign aimed at getting a completely new audience. Maybe it should find a way to do cross-promotions with the local alternative rock and rap radio stations.

This would be an interesting answer if the question was about new marketing ideas, but it’s not. It’s about understanding why ticket sales from the telephone campaign have fallen. Show the interviewer that you are listening. In general, start by checking to make sure you know WHAT the question is. It might not be what you think it is, and, well, you know that old joke about what happens when you ASSUME.

Good Answer
Candidate: Very interesting. I don’t know if you noticed on my resume, but I did telemarketing for the Chicago Symphony Orchestra for the last two summers, so I have some insight on this. Do I understand that question correctly, that you just want me to focus on ticket sales from the telephone campaign, and not on overall marketing issues?

The candidate starts out by making sure he knows WHAT the question is. And here’s something interesting: the interviewer asked the candidate a question based on his resume. That’s a common tactic, especially for firms that do not have standard case interviews prepared. It lets the interviewer understand your thought processes and get a sense of what you learned on the job. But unlike a typical “tell me what you learned from your summer job” question, a case question based on a resume item is less likely to generate a canned response.

Interviewer: Yes, I did notice that! Just talk about the productivity of the telephone campaign.

CASE 8
You have been hired by a metropolitan symphony orchestra to help it with an annual subscription drive. For years, the symphony has called ticket buyers and asked them to subscribe, and this generated 20 percent of all new subscriptions. In the last two years, however, ticket sales from the telephone campaign have fallen dramatically. What is going on?
**Candidate:** Well, to start, I’d want to know if the symphony has changed anything about the product, like the pricing or the types of packages available. Then I’d want to know if it has changed anything about the telemarketing setup, such as the number of callers or the equipment that they use. Is there any more information on this?

>> *He checks to make sure EVERYTHING is there.*

**Interviewer:** Ticket prices have gone up eight percent over the two-year period. The subscription offerings and the subscription privileges have stayed the same. The call center’s equipment has been unchanged, but employee turnover has nearly doubled.

**Candidate:** Wow, that’s a huge increase, because it’s a high-turnover field to begin with. I stuck it out in part because I got free tickets to concerts and I like classical music.

>> *The candidate takes a moment to THINK. He’s pretty sure that the problem is related to the employee turnover, but he wants a way to structure the problem. How about looking at the employees as customers, and then using a version of the 4Ps? It’s not so much forcing the FRAMEWORK on the case as using it to get some insight.*

**Candidate:** My initial hypothesis is that the problem is related to the employee turnover and I’d like to analyze that by thinking of the employee as a customer and the job as a product. Is the job a good one? What about the price for the job? Is the job being promoted to the right people in a way that reaches them?

>> *The candidate EXPLAINS his logic, and he gives the interviewer a chance to respond.*

**Interviewer:** Interesting. I’d like to see where you go with this.

>> *The interviewer isn’t sure that this is the right way to continue, but he is interested in seeing if the candidate can carry it through. Is this a music major who looked up a framework in a case study guide and pulls it out for everything? Or will this help him generate a solution that the client can use?*

**Candidate:** Okay, we know that telemarketing jobs aren’t really in high demand because the skill level is low and they don’t pay very much. And the customers don’t really want the calls; they use caller ID to screen them out. Tell me, are the employees being evaluated on their productivity?

**Interviewer:** Yes, they are compensated based on their sales, but why do you want to know that?

**Candidate:** Because that is not a great metric in the current world. Because customers can screen calls, a better measure is whether or not the telemarketers are making the calls in the first place. If they don’t make a lot of calls, they won’t reach any customers. Is this symphony using autodialer software?
Interviewer: No, it’s not, but it is considering purchasing it.

Candidate: Good. Okay, so we have a product—a job—that is not very desirable in the first place and that is being evaluated on a metric that is getting tougher and tougher to reach given current customer technology. Then let’s think about the price, the compensation. What is it?

**The candidate EVALUATES his progress to make sure he stays on track. No need to discuss software, at least not yet.**

Interviewer: The callers receive minimum wage. They receive a ten percent commission on every ticket package sold and they get a discount on symphony tickets.

Candidate: Is this symphony in a major market or a smaller community?

Interviewer: It is in a smaller community.

Candidate: All right, then the base salary might not be too low. The commission might be okay if the productivity can be increased. But the symphony can’t give everyone free tickets, can it?

Interviewer: Is that your recommendation?

Candidate: No, not yet. I also want to think about how they are recruiting employees. It’s entirely possible that their employees don’t want free tickets. Do you have any information on the types of people that the symphony recruits for these jobs?

Interviewer: They place ads on Craigslist and in the local paper—the usual.

Candidate: So the symphony isn’t seeking out people with a special interest in classical music.

Interviewer: Well, wouldn’t only people interested in classical music respond to the ads?

Candidate: Not necessarily. Don’t you get resumes from people who want a job but who don’t really know a thing about consulting?

**The candidate works a little joke into the interview. If you crack a joke, deliver it with a smile! Otherwise, a tired or humorless interview might not remember to laugh.**

Interviewer: Ha. Yes, that happens, sad to say.

Candidate: All right. And these people work in a call center—cubicles with beige walls, right?

Interviewer: Yes, we can assume that.

**The candidate THINKS for a moment and comes up with an answer that combines his analysis so that the interviewer can EVALUATE it. If he’s on the wrong track, there’s still time to go backward. Is he on the wrong track?**

Candidate: Okay. So the product is the job, and its price isn’t very attractive unless the prospective employee is interested enough in classical music to appreciate the ticket discount. What I would suggest is that the symphony change its target audience when it recruits. Instead of going to a general list, like Craigslist, it should put up posters at music schools. If there’s a university with a school of music, it should advertise there. It might also want to consider advertising the position to retirees who are classical music fans and who are looking for something to do.

Interviewer: Interesting. That makes a lot of sense.
The EVALUATION stage is over, and it's time to TAKE ACTION and build on the recommendation.

Candidate: There are other ways that the symphony could make this a great job for music lovers. Instead of a ticket discount, it could give away tickets to staff members who meet or exceed outbound calling targets. That would be really valuable to someone who loves classical music. Maybe it brings musicians to the call center to talk or play during lunch breaks, to help inspire the staff to keep making calls. The beauty of this is that it would involve little to no additional spending by the symphony, just better recruiting.

Interviewer: Thank you. I appreciate your time.

Hurray! Another interview is over.

CASE 9
Your client is a large private equity firm. It is looking into rolling up the tow-truck industry; that is, buying many small and midsize firms and combining them to create one larger firm. It wants your help in assessing industry attractiveness.

Don’t be intimidated by the jargon. This is a classic industry attractiveness question and should be treated as such.

Bad Answer
Candidate: I’m going to use the 3Cs framework for this case: company, competition, and cost. First, I’m going to talk about the existing tow truck companies, then the competition between them, and finally the cost of purchasing the individual firms.

The candidate has awkwardly tried to apply a framework that doesn’t work in this case. The 3Cs framework works best for new market opportunity questions, which is not the case in this example. The interviewer is going to be wary.

Interviewer: What the client really wants to know about is the attractiveness of the industry; you’ve mentioned a couple of the aspects, but I didn’t hear anything about customers or barriers to entry. Should we be considering those things as well?

This is one nice interviewer. She is almost spoon-feeding the candidate a framework, which the candidate should easily recognize.

Candidate: I’ll get to that at the end; I’ve never been a consultant before, so I’m not too familiar with the frameworks. The 3Cs framework is one that works for me, so if you don’t mind I’m going to stick with it, even though it might be a little messy.

Hopefully the candidate didn’t make quotation marks with her fingers when she said “framework.” Interviewers are looking for your ability to be flexible and comfortable with new problems. Don’t force-fit a framework.

Good Answer
Candidate: The client has asked me to assess industry attractiveness, but I’m wondering if you can tell me a little more about the situation. Does the private equity firm own a towing business now? Does it have a target in mind?

The candidate starts by verifying WHAT the question is, and she checks to see if EVERYTHING is there. Of course, this is an investigative problem, so it’s likely that more information will come up as she works through the problem.

Interviewer: The client has no presence in the market now. We’re supposed to help the client with that.

The candidate takes a moment to THINK. The interviewer seems a little annoyed, so it’s time to launch into analysis. A good FRAMEWORK to
try is Porter’s Five Forces, which will help the private equity firm learn about the challenges and opportunities it faces in this market.

**Candidate:** This seems like a pretty good opportunity to use Porter’s Five Forces. So I’m going to follow that framework. First, the buyers: what is the relative power of customers? Well, when you get your car towed, you certainly feel powerless!

**Interviewer:** Sounds good to me. What’s next?

**Candidate:** Let’s talk about the bargaining power of suppliers. Again, I don’t see suppliers having a lot of bargaining power over the tow truck firms. I’m defining the suppliers as the companies that make the tow trucks. I’m also assuming that there are several manufacturers of those trucks. Is this correct?

**Interviewer:** That’s a good assumption. There are quite a few firms that manufacture tow trucks.

**Candidate:** What about labor? Are there unions that I need to be concerned about?

**Interviewer:** How does this relate to suppliers?

**Candidate:** Well, if one union supplies all of the labor, for example, it will be able to exercise a significant amount of control over the labor force, which is one of the key supplies that a tow truck firm needs to operate.

**Interviewer:** In the geography where the client is looking to roll up the industry, there are no unions.

**Candidate:** Okay. So, similar to buyer power, there doesn’t seem to be a lot of supplier power in this industry.

**TIP**

Take opportunities to summarize your progress after a long line of questioning. This lets the interviewer check your progress and direct you if necessary. It also gives you a moment to catch your breath.

**TIP**

It’s a good idea to summarize whenever you come to the end of a line of logic and, when relevant, relate it to other conclusions that you’ve drawn during your analysis. This gives you a chance to take a breath, and also gives the interviewer a window to ask follow up questions. If the interviewer does not ask any questions, you can feel confident that you are doing a good job thus far.

**Interviewer:** I agree.

**TIP**

In this case, silence is golden. Don’t be afraid to THINK. Candidates often over-estimate how much time passes when they stay silent to collect their
thoughts. Try it out on conversations with your friends. Every now and again, stop and let a little time pass. See if they even notice.

Candidate: Next, I’m going to tackle barriers to entry. High barriers to entry may mean large initial capital investments, complicated technology, complex manufacturing processes, or regulatory barriers. Now let’s see if any of these apply to the tow truck industry. In terms of capital requirements, new entrants certainly need a couple of trucks. In addition, the new firm would need access to real estate to store the vehicles once they are towed. Can you tell me how this works? Do firms own their own storage lots? Lease them? Are there central lots?

Interviewer: The answer is yes. Some own their own lots, others lease. But the majority of vehicles are taken to central lots owned by the municipality. All vehicles that are towed from city streets are taken to these central lots, and you have to have a contract with the municipality in order to bring vehicles there.

Candidate: Okay, so we’ve just identified another barrier to entry—having a contract with the city. How hard is it to get these?

Interviewer: They’re not easy to come by, and you have to pay the municipality an arm and a leg to have access to these central lots.

Candidate: Interesting. So this is a pretty significant barrier to entry, which, from our client’s point of view, makes the industry fairly attractive.

Interviewer: The candidate is thinking about what the analysis means for the client. Whenever possible, think about client implications and state them clearly and explicitly.

Candidate: We still have to talk about substitutes and competition. Let me address substitutes first. Here, I think the industry is going to be less attractive to the client because towing is really a commodity business. There is certainly no brand loyalty, and little differentiation between the services provided: In the mind of the customer, one tow truck company is the same as another.

Interviewer: This analysis is fairly straightforward, and the candidate has done a good job of hitting the high points without going into too much detail.

Candidate: Makes sense to me; I’ve never heard of someone talk about brand loyalty and tow truck companies in the same breath.
Ace Your Case® V: Business Operations Questions

A consultant’s feeble attempt at humor.

Candidate: Finally, we get to competition, or rivalry among firms. Based on the analysis of substitutes that I just did, I imagine that there is a lot of competition because the product is not unique.

Interviewer: What type of competition, specifically?

Candidate: For commodity products, competition typically revolves around price.

Interviewer: But you mentioned at the beginning of the case that buyers are fairly cost insensitive.

The interviewer has moved into a different mode and is now challenging the candidate. If you get into one of these situations, do not take this as a sign that you are doing poorly. The interviewer is trying to see how you react to a more direct line of questioning. This is all part of the ongoing EVALUATION that takes place on both sides during a case.

Candidate: I think in this case the price competition would mostly be around how much the tow truck companies would pay for the right to tow. We mentioned the contracts with the city earlier, but I imagine that tow truck companies must pay for access to vehicles that are towed from malls, accident scenes, etc.

The candidate has kept his cool and explained exactly what he means about price competition. The candidate has also made some reasonable assumptions about how the industry might work—even if it is completely off, the logic is rational, and this is all the interviewer cares about.

Interviewer: I see what you mean, though isn’t this at some level a discussion of supplier power since these industry participants are supplying the tow truck companies with the right to tow?

The interviewer is now playing “bad cop” and trying to fluster the candidate by telling him that he forgot about a key supplier. This will happen. Don’t worry about it.

Candidate: Yeah, I guess you’re right. I’m glad we at least got to it, though.

Interviewer: So what does this mean for our client?

Candidate: It means that the industry—at least from a competitive point of view—is unattractive. So if I can summarize, the industry is attractive from a buyer power and barrier to entry perspective. It is less attractive in terms of substitutes, competition and, in light of the analysis we just did, supplier power.

Interviewer: So, what would you tell the client?

Candidate: Overall, the industry is unattractive and the client should not seek to roll up the industry.

To the interviewer, the final conclusion is much less important than the preceding analysis. Still, be sure to state a specific recommendation. Consultants are paid to help clients TAKE ACTION—or, as in this case, not to.

CASE 10
A retail chain is having problems with cash flow. Inventory expenses in particular are increasing. What would you recommend it do?

Bad Answer
Candidate: Retail, retail, retail. All your firm asked about in the first interview was retail, too. You make the big bucks—can’t you come up with something else?

DING! DING! DING!
Candidate: Write off the inventory and move on, man. That’s always the answer, but no one wants to hear it.

A write-off isn’t always the right answer, but even if it were the correct response to this case, the candidate needs to do some analysis first. Your initial instinct might be to toss out a quick answer partly in jest, but curb that impulse. Interviewers are looking for thoughtful answers. You aren’t co-workers joking around the table—yet.

Good Answer
Candidate: Inventory issues vex a lot of companies, but it would help me if I knew more about this situation. What does this store sell? What is the overall cash-flow situation?

A good start here, asking questions to get the interviewer to identify WHAT the issue is, while also showing off a little general business knowledge.

Interviewer: This is a chain of auto parts stores, selling aftermarket parts, accessories, and maintenance materials. It deals primarily with consumers, but also with some smaller garages and repair shops. It’s a publicly traded company, and some activist hedge funds and private equity investors have been threatening a takeover. Management sees cash flow as its key operational weakness, and wants to improve it as part of its defense.

Candidate: Wow, that complicates the situation.

Interviewer: Why do you think it’s complicated?

Ah, she turns the tables a little here.

Candidate: It’s complicated because the company now has to balance the expectations of its customers with the expectations of its investors. Is this a bankruptcy situation?

The candidate, keeping cool, checks to see that EVERYTHING is there.

Interviewer: No. The company is underperforming relative to its peers, but is not in financial distress.

Now the candidate takes a moment to THINK. This could be a simple case, or there could be some weird angles to it. In terms of FRAMEWORKS, there’s a financial analysis component here, but there’s also an element of basic market analysis: How much change from current practices can customers and suppliers tolerate?

Candidate: All right. We know that a decrease in inventory costs leads to an increase in cash, and an increase in cash means that the company can either invest in the business or pay a dividend or buy back shares to increase shareholder value. But, at the same time, the company relies on suppliers for inventory, and its customers have certain expectations about inventory when they walk into the store. So I’d like to look at how the suppliers and customers interact with this company.

Interviewer: All right.

Candidate: So I have a few more questions. How does this company source its goods? How does it manage its inventory now?

Interviewer: Suppliers send goods to a central warehouse, then the company sends goods to the stores. They are all connected electronically.

Candidate: Are there any targets or norms for how much inventory should be kept on hand?

Interviewer: A typical store is 40,000 square feet and that takes a lot of inventory to keep filled. On average, a store has 110 days worth of sales tied up in inventory.
The warehouses run leaner, generally keeping only 14 days worth of sales outstanding.

Candidate: But that makes for a total of 124 days of sales outstanding, which is high. Do you have any data on how this stands relative to the industry?

Interviewer: The average of the company’s peer group is 106 days.

Candidate: Wow. There is work to be done here. First, I’d want to think about the customers. There are two categories: the individual and the small business. The individual probably buys items as needed, but the small business may keep some of its own inventory. The small-business owner might not want to go into the store all the time, either. The company should develop a small business program that maybe bypasses the stores all together. How about letting auto shops order directly from the warehouse, possibly working with a fulfillment service? It could include quantity discounts, and it could reduce the total amount of inventory kept in the stores, saving the company a few days of inventory.

The candidate explains some of his ideas.

Interviewer: That’s one idea.

Candidate: Well, then the company needs to focus on warehouse operations and work with its suppliers. First, I’d run a report of the inventory turnover rates of all of the stockkeeping units. If any have unusually slow turnover—like years instead of days—I’d have the company write that inventory off and drop those items. Then, I’d use that data to determine the maximum and minimum number of days that should be kept in the warehouse, and I’d go to the suppliers and offer them bonuses for monitoring their inventory and keeping it within target ranges. That alone might save a few days. Then I’d do the same with the store managers, to encourage them to keep their stock within a target range that’s lower than what they have now.

The candidate asks for some feedback to help evaluate the answer.

Interviewer: Sure, these are great ideas, but the client doesn’t have a lot of time to roll out new programs. The investors want action.

Ah, so maybe the answer is a little off track. Time to get the train back on the rails.

Candidate: Well, then the company needs to focus on warehouse operations and work with its suppliers. First, I’d run a report of the inventory turnover rates of all of the stockkeeping units. If any have unusually slow turnover—like years instead of days—I’d have the company write that inventory off and drop those items. Then, I’d use that data to determine the maximum and minimum number of days that should be kept in the warehouse, and I’d go to the suppliers and offer them bonuses for monitoring their inventory and keeping it within target ranges. That alone might save a few days. Then I’d do the same with the store managers, to encourage them to keep their stock within a target range that’s lower than what they have now.

It’s a simple answer, but it addresses key inventory management issues. This person paid attention in accounting! Time to wrap this case up.

Interviewer: They do have the data. They could do that.

Candidate: So my recommendation would be that the company start with its data, make necessary write-offs, and adjust store and warehouse inventory levels. That should improve cash flow almost immediately. Then, it should use that cash to invest in a new marketing and distribution program for its business customers and in reconfiguring its stores for its individual customers, to offer better service with less inventory. Those actions should keep the shareholders happy.
Interviewer: Good. Thank you.

CASE 11
The food-service spice division of a major food manufacturer has had flat or declining sales and profits over the past five years. What should it do to improve its performance?

» Here’s a good, standard declining-profits question suitable for all candidates.

Bad Answer
Candidate: It should try to get into some new, higher-margin businesses. Get into the ethnic-seasoning business, for example, or start repackaging its products as gourmet spices and sell them through specialty stores.

» Good thought, marginally creative ideas, horrible execution. The candidate jumps right into problem-solving mode without going through the requisite analysis. Even if these are correct intuitions, they will be much more compelling to the client/interviewer if there’s a lot of data-driven analysis behind them.

Candidate: Lay off its excess workers and reduce costs.

» Not a good answer. The interviewer already knows that you want to be a consultant! Besides, slash-and-burn makes poor cocktail banter.

Good Answer
Candidate: Declining sales could either be a sign that the market for spices is shrinking overall or that other players are capturing the growth. Which is it?

» Good start. The candidate grasps that there could be several causes for a decline in sales. Asking for more information will help the candidate isolate the problem and choose how to proceed.

Interviewer: This division sells spices to food-service customers only (restaurants and industrial kitchens), and this market isn’t shrinking. In fact, the overall growth of spices to food service is around seven percent CAGR (compound annual growth rate) over five years.

Candidate: That suggests that the company’s competitors are doing a better job at capturing the growth in the market. So we need to figure out why. How is the company’s product line? Is it competitive in terms of quality? Price?

» It’s often helpful to proceed by probing possible explanations one by one. The candidate might have confirmed that the client’s share of the market is declining before examining possible explanations.

Interviewer: The company has two main product lines: commodity spices (salt, pepper, basil, etc.) and specialty spices, which are mainly premixed ethnic spices (Indian, Italian, Mexican). The commodity spices are priced competitively, and the specialty spices are priced at a premium. Customer interviews suggest that price is not a problem with either the commodity or specialty spices and that satisfaction with both product lines is high.

Candidate: It appears that neither the product nor the price is the problem. How are the products sold?

» This is a typical development in the analysis of a case problem; the easy answers aren’t the right ones. When this happens, it’s smart to keep asking questions. In this case, the candidate wisely moves on to a more practical line of questioning. An alternate approach is to continue to look at more specific sales data for the different product lines. For example, the candidate might ask whether sales of both lines are increasing equally.
Interviewer: Good question. The products are sold through the parent company’s dedicated sales force. The sales reps sell a broad range of products (30 to 35 different types) to their customer base. They have regional sales territories.

Candidate: So you mean a single salesperson sells everything from coffee to chocolate to spices to a subset of restaurants or industrial kitchens in a specific region? Their customers mustn’t need a lot of specialized sales help, because it seems unlikely that the sales force could know the nuances of every product they’re responsible for.

The candidate thinks out loud and draws implications from the information she has just received. Even if she gets off track, it is usually better to share her thinking with the interviewer. Often the interviewer will provide a hint or more information to help the candidate along.

Interviewer: It’s true for the commodity products—they pretty much sell themselves—but specialty spices are a more “technical” sell.

Candidate: And does the sales force provide that technical sell?

Interviewer: We spent time with a number of sales reps in various territories, and it appears that they aren’t very familiar with the specialty spices, which are newer product lines for the company. So they focus primarily on selling their spice mainstays (salt, pepper, basil, garlic).

Although the interviewer describes what happened, the technique she describes is a standard consulting technique that could be useful in answering another question. For example, the interviewer might have asked how the candidate would go about determining why one product line is moving faster than another.

Candidate: So there’s at least one big part of the problem! The spice division has spent all kinds of money to develop value-added and differentiated spices to start earning higher margins in a traditionally commodity business, but nobody told the sales force! Or at least nobody trained the sales force to sell them. So the customers are still buying the low-margin commodity stuff from our client, and its competitors are capturing all the growth in the specialty spices.

Fortunately for the candidate, she has landed on a reasonable solution. But, she is a little hasty in pronouncing her solution. There are certainly alternative explanations. For example, the growth in the market may be coming from a segment other than the one the company traditionally reaches. Or, on a practical level, the compensation system might be rewarding the sales force for selling nonspice products. Rather than pouncing on the first thing that comes to mind, the candidate would do better by considering some of these alternatives as well.

Interviewer: That’s pretty close. So, what action steps would you recommend?

Again, the interviewer is looking for recommendations for action that draw on the analysis.

Candidate: I’d train the sales force immediately. Send a few people from marketing on some customer calls with the sales force—with the sales force’s approval, of course—and teach those customers what they can do with our specialty spices. Get the test kitchen to develop some great recipes using the product and hand those out to customers too. I think a lack of education

TIP
Don’t get overly excited and pounce on a nice, seemingly obvious conclusion midway through your questioning. There’s usually more to the story.
around the product is the problem here, and once it's fixed our client can hold its own again. And it may make sense to proactively examine other areas of disconnect between marketing and sales—we may have discovered a broader problem here.

Interviewer: Nice! The next sale!

CASE 12
Your client is the head product manager in the sports division of a major online auction company. He has brought you in to help diagnose why his division's profitability is declining and determine ways to improve performance.

This is a very open-ended, but fairly straightforward, operations question. It will require the candidate to quickly assess the root causes of the problem and to identify solutions. For these types of questions, no preordained framework is required (although you will see that the candidate does throw a clever one in halfway through the case). For the most part, the interviewer is simply looking for a structured answer.

Bad Answer
Candidate: I don't participate in a lot of online auctions so I don't know a lot about how they work. Can you ask me another question?

The interviewer is not asking for domain-relevant expertise. As a general rule, if you don't know, just ask.

Good Answer
Candidate: Okay. So there are two questions you're asking: (1) Why is profitability declining; and (2) How can we improve performance? Let's focus on the first question, because then I'll feel better equipped to answer the second.

The candidate has stated the obvious, but has given the interviewer a very simple road map for where he's going to go with the case.

Candidate: There are two possible answers to the first question: either revenues are going down relative to costs, or costs are going up relative to revenues. Because I'm not that familiar with online auction sites and don't want to make any unrealistic assumptions in my diagnosis, can you tell me generally how the client's business model works?

The candidate realizes that it will serve him better to ask questions up front than to make faulty assumptions.

Interviewer: At the risk of oversimplifying, the client's online auction model is structured as follows: Sellers pay a fixed fee—50 cents—to the client to list their products. If their products are purchased, the sellers pay an additional fee, equal to a fixed percentage (five percent) of the sale price of that item. So, for example, if the seller is listing a bowling ball that sells for $100, the client's revenue would be $5.50.

Candidate: So all of the revenue comes from the sellers. This is a free service to the buyers.

Interviewer: That's correct.

Candidate: And are there any other revenue streams?

Interviewer: Not at this point.

Candidate: So what about the cost side of the equation? How does that work?

Interviewer: Good question, and I'm going to try to help you answer that one. There's only one platform for the entire auction site. What do you think this means for the client?
Candidate: If these platform-related costs—hardware and software, I would imagine—are centralized, this probably means that the client has little control over some of the costs of his business, for example site development and online merchandising. Does he have any dedicated costs to his business, for example staff or a marketing budget?

Interviewer: The client has 12 people reporting to him and a small marketing budget.

Candidate: Have any of these direct costs changed significantly over time?

Interviewer: No.

Candidate: Okay. I’m going to make the assumption that these centralized costs are not the reason for the lagging profitability. Plus, it sounds like our client wouldn’t have a lot of control over them even if they were. So let’s ignore those for now. In addition, because the other costs have not changed significantly over time, I feel confident in concluding that the problem with the client’s business is on the revenue side. Let’s talk about what’s going on there.

The interviewer has answered enough questions and is ready for the candidate to stop using the Socratic Method.

Again, a very simple road map for where the candidate is going to take the case. If the candidate is way off here (which he is not), the interviewer would be able to stop the candidate and steer him in the right direction.

Interviewer: Sounds like a decent structure to me. What are the types of analyses you would do to determine whether your hypotheses are true or not?

Proposing the right analyses to support or deny an assumption is one of the most critical skills in consulting. The interviewer is testing the candidate and will be looking for very specific analyses.

Candidate: I would do several analyses to determine whether there were enough buyers on the site. One would simply be to assess the total number of visits to the overall auction site over time. This would give me a sense of how popular the site is.

Interviewer: And how would you assess the results?

Candidate: One would hope that the number of visits to the site is increasing—or at least staying constant.

Interviewer: But if there are a lot of people visiting the site, but no one is purchasing anything, then those hits aren’t very valuable, are they?

The candidate has made some broad assumptions, but they are grounded in reality. He has also showed an ability to use those assumptions to make a reasonable conclusion.

Candidate: There are two hypotheses that quickly come to mind. One is that there aren’t enough buyers on the site—that is to say, there are a lot of sports items up for auction, but there aren’t a lot of people bidding on them. The other is that the client is facing a supply problem, meaning there isn’t enough merchandise up on the site to sustain the business. Let me test these two hypotheses in turn.

The interviewer is challenging the candidate’s thinking, pushing him to be thoughtful in his analyses. The interviewer is also gauging how the candidate will react to this “bad cop” attitude.
Candidate: Good point. Let me revise my proposal: I would want to look not only at overall visits to the site, but also the number of products purchased.

Interviewer: Right. This is what’s called the conversion rate. So let’s say that overall hits and purchases have been increasing steadily, but in the sports category the conversion rate has dropped significantly over the past year. And the client is feeling pressure because his business is dragging down the otherwise stellar performance of the rest of the organization.

**More useful information. Make sure that when the interviewer provides you with data, you use it.**

Candidate: What this says to me is that the attractiveness of the overall product offering has declined: On a relative basis, the number of purchases has lagged behind the number of visits, thus decreasing the conversion rate. Can you tell me whether the product mix or marketing has changed, or whether the site navigation—how you get to the site—has changed?

**Note here how the candidate has used a simple marketing framework—the 4P framework—and adapted it to the case without making it blatant. He didn’t introduce the framework as such, and substituted words such as “site navigation” for “placement” and “marketing” for “promotion.” Also, since the interviewer already told the candidate that one of the P’s—price—was standard across the entire site, and therefore not under the control of the client, the candidate astutely left it out of his response.**

Interviewer: All good questions. In fact, only the product mix has really changed. Both marketing and site navigation have remained constant. The product mix, which at one point was more focused on outdoor recreational sporting activities—for example tents, water skis, and so on—has shifted more to sports clothing.

Candidate: Is there any data to explain why this took place?

Interviewer: Let me turn the question back to you. How might you get this data?

Candidate: Both buyers and sellers, I’m assuming, need to provide e-mail addresses. The client could do a survey, offering rewards in return for filling out a survey on why certain items did or did not sell.

Interviewer: Good idea. What type of rewards might these be?

**The candidate is wandering a little off of his framework, but the interviewer is allowing him to do so. Because the candidate offered such a solid road map for where he was going with his 4P framework, he can easily move back on to his original path when the interviewer prompts him to do so.**

Candidate: For the seller, this might be a series of free listings. For the buyer, it might be a certain credit to his or her account for the next purchase.

Interviewer: And this is exactly what happened. What the client found was that the value equation for outdoor equipment did not work online. Though the prices were good on the site—for example, a high-quality frame backpack for $75—the shipping costs (borne by the buyer) made it too costly for the buyer, and the packing requirements to ship the goods were too onerous for the seller.

Candidate: I see. So what likely happened is that the model quickly broke down: The buyers left because they didn’t see the value, and the sellers left because there were no buyers. So, to answer my two hypotheses around whether this was a supply problem or a demand problem, the answer is yes to both because they are absolutely linked. Fewer buyers leads to fewer sellers, which leads to fewer buyers and so on.
The candidate has scored big points by answering his initial hypotheses and understanding that they are not mutually exclusive. If he had introduced the phrase “virtuous circle” here, he may have been offered the job on the spot—consultants live for the virtuous circle.

**Candidate:** So it probably follows that if the marketing programs are the same, the client is targeting the wrong consumer segment; instead of going after recreational sports buyers and sellers, the client should switch its focus to buyers who want sports clothing.

**Interviewer:** And how would you go about targeting this audience?

**Candidate:** I would want to know who the consumer is—what the demographics are, how and where the consumer is currently shopping, what types of clothing are most popular. And then I would want to locate sellers. Perhaps there is a way to handle the shopping carts for niche sports retailers looking to expand their Internet capabilities. Signing up more of these sellers could entice more buyers to come—and buy—on the sports site.

The candidate has suggested some simple and basic ideas for how the client could proceed. More important, he has used a structured and straightforward way to answer the case question, and has gotten to the heart of the business problem—the infamous virtuous circle. Well done!

**CASE 13**

The CEO of a small to midsize sock company has hired your consulting company to assess why profits have been falling from respectable levels four years ago to declining one year ago to a projected loss this year. You have been assigned as the main business analyst on the engagement. How would you help analyze the situation and what would be your preliminary recommendations for how to address it?

You will notice that this is a question about profitability that is similar to the last operations case, but the candidate (who gives the “good answer”) takes a very different approach.

**Bad Answer**

**Candidate:** I’d basically just find out what the problem is by talking to all of the employees and doing a bunch of market research, and then I’d talk about it with my consulting team and figure out what the best thing would be to do.

The interviewer was tactful in delivering the message, “Get on with it. Let me see how you think.”

**Candidate:** Well, it seems to me that sandals, clogs, and Crocs are getting more popular all the time. I’d guess that the market for socks is shrinking these days since not as many people are wearing formal shoes; it must be that the market is just drying up. I’d recommend that the company look at other products it can produce that are more popular.

With this assessment and recommendation, the candidate will be in sandals often since he will be sitting at home—rather than in an office—looking through the want ads. Guessing at the heart of the problem without gathering any background information is always a bad idea. Even if you
happen to guess the right answer, it won’t be a successful interview anyway. The interviewer wants to see how well you ask questions and process information. In practical terms, profits may or may not be related to market expansion or contraction. And there are many ways—not just one—to deal with a shrinking market and still be profitable. More information is needed, and the candidate should have tempered the urge to skip ahead to a recommendation before investigating the situation.

Good Answer

Candidate: If profits are down, then either the sock company’s costs are up, revenues are down, or both. I’d first want to understand the cost side of the equation at a high level to see whether there are any red flags on the operating side of things. Have costs increased for this company in recent years?

>> The candidate has successfully recognized this as a profit question. Furthermore, the candidate has chosen one of the key issues in profitability to investigate first: costs and operating efficiency.

Interviewer: Actually, no. I can tell you that costs have even declined a bit as a proportion of revenues as the client has improved sourcing in its materials and has automated one of its weaving plants. Margins were looking pretty good after the plant investment until a couple of years ago, when things took a turn for the worse.

>> So it’s not costs. Carry on with information gathering. The interviewer, role-playing as the client, has actually given a hint in the bit of extra information he shared after answering the candidate’s core question.

Candidate: Okay, so if the problem is not fundamentally on the cost side, it must be on the revenue side. Since revenues are a function of product sales volume and the average price of its products, I’d want to understand a little more about what’s going on with each one to dig further into where the problem may lie. Has the overall market for socks of the sort that this company produces been shrinking in the last few years?

>> The candidate has wisely decided to start by understanding the current dynamics of the industry. Doing so will allow her to determine whether she’s dealing with a market share or a market-size problem. Furthermore, the candidate has identified price and volume as the component parts of revenue and has done a good job explicitly communicating this knowledge to the interviewer by saying it out loud. The candidate asked the question to understand if there are macro issues affecting the client’s business—a contraction in demand for the client’s products that is outside of the client’s control.

Interviewer: The market is in relatively good shape, actually. Overall demand for socks like the ones the company produces has been steadily increasing in line with population growth. So, the problem isn’t with the demand for these products.

>> The candidate is now getting close to the heart of the matter. Since it’s not a market-size issue, then it must be a market-share issue.

Candidate: All right. What’s happening with the company’s sales volume and pricing, then? If the market is healthy but the client’s profits are declining even though costs are in good shape, I would assume that the client is experiencing a rapid decline in sales. How have sales volume and average prices been doing for the past couple of years?

>> The candidate is starting to test a theory—that a decline in sales is hurting profitability. This is a common source of profit loss in industries with high fixed production costs; basically, operating costs...
cannot be reduced as quickly as falling revenues to protect margins due to big fixed expenses like plants and warehouses, which have lower costs-per-unit as production volumes go up but higher costs-per-unit when production volumes fall. By not only asking about sales volumes, but also about pricing, the candidate is probing to find out if unit sales are falling as well as the potential reason why: competition (which often hurts not only sales volumes but also prices for former market leaders who experience price pressure and often must lower prices to remain competitive).

Interviewer: That’s really two questions in one, but they are both relevant here. Yes, sales volumes are falling precipitously. And prices for this client’s products have been falling too.

The candidate continues to make good progress through her framework and has identified the forces at work in creating the profit problem. Now she has enough to make a prediction about what’s going on and formulate a few potential recommendations.

Candidate: Right. So not only is the client seeing lower revenues, which is probably hurting profitability if that automated plant is suddenly more costly on a per-unit basis than it was before volumes fell, but also the profit margin is getting squeezed by lower average price per unit sold. Given what I know now, I’m going to guess that a growing market for these kinds of socks has attracted a number of new competitors in recent years. I’d guess that these new competitors are stealing market share from the client with similar or better products, and consequently the client is dropping prices in an effort to retain the share they are losing and boost sales volumes. Does that sound about right?

Interviewer: That’s a pretty good guess. Your theory that falling sales and prices are due to the entry of numerous new competitors is correct. So what do you think the client should do about it?

This part of the case is where there is a transition from the analytical to the practical—time to step out of the land of theory and into the land of reality. If the candidate doesn’t have a great deal of practical business experience to guide her thinking in how to address the problem once it’s identified, that’s not a show-stopper. The interviewer will already know that this is the case by having reviewed the candidate’s resume. As such, he will likely cut her a little slack so long as the recommendations are framed as possibilities rather than conclusive solutions. Remember: If you have low confidence in your recommendation in a case interview, then consider several possible approaches to dealing with the problem and share them all in turn. This will show that you keep an open mind with challenging problems and don’t settle on one solution too quickly—a valuable skill in the kind of team-oriented business practice that is common among leading companies and consulting firms alike.

Candidate: Well, I believe there are several different potential paths for the client to take to address the impact that competition is having on profits. Therefore, I’d want to make several different possible recommendations and then review each recommendation’s potential with my colleagues—they are likely to have more experience dealing with this type of situation.

Good job. This could be perceived as stalling, but in fact it shows a balanced and collaborative approach on the part of the candidate.

Interviewer: I can see why you’d want to do that. It always makes sense to review ideas with colleagues before rushing in to give the client one answer only. That said, I’m interested in hearing a few of your ideas.
What are a couple of potential ideas you'd present to your team to consider as recommendations for the client in this case?

**Candidate:** Well, one idea would be for the client to address the competitive threat head-on by assessing the qualities and value proposition of the products that are stealing market share. In this way, the client can learn if making improvements to the product will make it more competitive, thus earning back some of the lost share—and possibly justifying a higher price in the process.

**Interviewer:** Good. The candidate has proposed a logical potential solution to address the key source of the profitability problem: market share loss.

**TIP**

If you have low confidence in your recommendation in a case interview, consider several possible approaches to dealing with the problem and share them all in turn.

**Candidate:** If that’s the case, I have another potential recommendation. If the client cannot assess and change its product offerings fast enough to combat the competitive threat in the marketplace, then the client might want to consider making a quick acquisition of one of its competitors in order to regain some share. If the client has enough cash on the books to make this viable, it could be a way to “buy” rather than “make” new products that better compete in the market and thereby increase profits.

**Interviewer:** Yes, that’s another potential way to go for this client, and you’re right that this may be more practical if the product development and launch times are long. There are undoubtedly other potential recommendations you could make, but for now that’s sufficient for me to see your line of reasoning on how you’d address the core issue. Good job. Let’s move on.

**Candidate:** The intervieweer has risen to the interviewer’s challenge by calling on the classic “make vs buy” strategy when evaluating a response to competitive threats. Would you be expected to come up with two such strong recommendations, both well grounded in practical business? Not necessarily. It’s clear that this candidate is obviously experienced enough to quickly formulate a short list of solid suggestions. When asked for potential practical solutions to a problem, be fact-based, rely on what you’ve learned in the case so far, and be creative but not outlandish.
the interviewer for understanding the “make vs buy” decision that many companies face when under intense competitive pressure. Having done admirably on this case, the candidate should feel good about moving forward with the interview.

CASE 14
The COO of a business services company supplying technology consulting to Fortune 500 companies is concerned because she has noticed a downturn in overall corporate spending on consulting and other outsourced services during the trailing two quarters. Upon discussing her thoughts with some of her peers at other tech consultancies, she has learned that other companies are predicting a reduction in demand for their services as well. She is considering how to address this issue within her own company, and has asked for your help in thinking about it as well. What would you like to know, and how would you advise this COO?

Many business operations cases set up the situation you need to consider in this way: The candidate is asked to consider how changes in the marketplace will impact a company and what some of the operational responses could be to these changes. This case is indicative of the changing nature of business in the U.S., in that it focuses on a professional services company—not a traditional manufacturing or other packaged goods company. This means that the operational issues—and costs—the candidate will want to consider are different from those relevant to a manufacturing company.

Bad Answer
Candidate: I’m surprised she was able to talk to other companies. I thought that all of the consulting firms were really secretive and didn’t share information because of client confidentiality rules and whatnot. My brother is a consultant, and he can’t even tell me what clients he’s working for—just the general terms like “telecommunications company” and that kind of thing. So maybe the COO is getting bad information or getting lied to—she should think about doing some research to see if her peers are giving her the straight scoop on what’s happening with their businesses.

It’s a waste of everyone’s time to question the very information presented in the case itself. In general, whatever you are told by the interviewer towards setting up the case, you should trust. Focus on moving things forward throughout the case, rather than right off the bat questioning the foundation of the case.

Candidate: I think she should start firing people and find a start-up to sublease some of her real estate. Sounds like the boom times are over, so she’s going to need to cut the fat.

The candidate is moving much too quickly toward a recommendation. He hasn’t investigated the issues at all. Until it’s clear what the operational dynamics and concerns are for the COO in this case, the candidate should avoid jumping to potentially callous or impractical conclusions.
Good Answer
Candidate: This is an interesting case since it involves a services company, rather than a manufacturing company; this means the COO is going to be managing a different set of operations costs and processes as compared to those of manufacturing or other companies of that ilk. Since you’ve told me that marketplace demand is contracting for her and other companies’ services, I’m going to assume that this is not going to change for some time and that the COO’s main challenge is going to be cost containment as her revenues stagnate or fall in the short term.

This is a strong start. The candidate has inferred key information from the set-up of the case—namely that overall industry demand is contracting and that this is likely to negatively impact revenues. The candidate has further communicated that he understands the profit equation—and that costs, rather than revenues, are the relevant variable for the COO to focus on since revenues are assumed to be falling due to forces outside of the COO’s control.

Interviewer: That’s a safe assumption. When the overall industry is experiencing a downturn, it’s important to focus on the cost side of the equation to defend profitability. What do you think is important to consider in this regard?

Candidate: In a general sense, I would want to think about how to manage operational expenses, which break down into fixed costs and variable costs. From what I know about consulting companies like this one, the main fixed costs tend to be things related to keeping the company running—like technology resources, real estate costs for the headquarters and branch offices, and administrative support for core functions like human resources, finance, and facilities.

The candidate is continuing to show good knowledge of both the theory of operating costs and the practical application to a services business—by listing the specific components of the typical fixed costs for a company like this one. Of course, a focus on fixed costs for a manufacturing company would include many of these items, as well as key additional fixed costs like plants, machinery, and other fixed assets related to the production of goods.

Interviewer: Yes, that’s correct. Those are the main fixed costs that the COO manages for her company. Are there other costs she should think about?

TIP
If the interviewer validates one of your assumptions, that’s your cue to move ahead.

Candidate: Yes, the client would also need to think about the variable costs she manages. In this case, I believe that the main variable costs are the salaries of the professional services staff that the company employs to actually do the billable work of technology consulting. It may be a bit harsh to call these people “variable costs,” but it’s my understanding that most companies think of their labor force as one of the variable resources that the management team must handle in terms of cost.

Interviewer: Yes, employee salaries are a big component of the variable costs that the COO needs to consider. Are there any others?
The candidate has correctly identified employee salaries as one of the main variable operating costs. However, he should try to take a comprehensive view of the landscape by identifying one or two other variable costs that might impact the cost side of the profitability equation.

Candidate: Yes, some other variable costs that the COO is managing would include travel and expenses related to her staff’s client service work, compensation for contractors and other part-time workers, supplies and other nonfixed assets used to run the business, and selling and R&D expenses related to finding new clients and developing new service offerings.

Interviewer: Good job. That’s a pretty solid list of the fixed and variable costs that the COO would want to consider in thinking about how to address the company’s profitability with revenues declining. So what would you suggest she do to improve things?

Interviewer is getting into the heart of the matter now—he has acknowledged that the candidate has done a solid job in applying business theory to the case by communicating the profit equation, breaking down costs into fixed and variable, and listing the specific costs that fall under each category. The interviewer now wants to go deeper and really see what the candidate’s practical business experience and instincts lead him to recommend.

Candidate: Well, let’s consider each of the cost categories in turn. In regard to fixed costs, most of the ones I mentioned are very difficult to reduce or impact on a short-term basis. It’s the very fact that they are hard to change that makes us think of them as fixed in the near term. If the COO needed to make drastic changes, perhaps she could consider reducing the real estate budget by tightening down the floor plans and using less real estate space for existing resources. While this may not be a popular decision, it might be possible to reduce the monthly real estate lease fees—or gain some subleasing rents if the company owns its headquarters buildings and can free enough space to take on new tenants. This is a challenging prospect though, if we assume that the company is managing its space fairly efficiently already. I believe it would be more fruitful to focus on reducing or containing variable costs instead.

Sometimes you’ve got to go with your instincts and make a judgment call about where to focus your thinking and recommendations. This is fine to do—the interview time is limited, after all.

Interviewer: I can see why you’d want to do that. These are the costs that the COO is most likely to be able to impact in the short run. So what do you suggest she consider doing?

Candidate: In tight times, I know that one of the things that gets cut first is budgets for new resources like technology expenditures, office supplies, company perquisites, incentive trips, and so on. One suggestion would be to have the COO ask her department managers to revisit their operating cost budgets and identify areas where they can reduce nonvital expenditures for the next several quarters in an effort to help boost profitability. Investing in internal resources tends to stall or get scaled back when times are tough, and as long as she communicates why this needs to happen, then her division managers should understand and be able to deliver some cost savings. Marketing and branding budgets could also be reduced if her company is spending significant money in these areas. After all, these budgets go towards increasing market share—something that may not have the same return on investment in a contracting consulting services marketplace. The main advantages of these changes are that they can be made fairly quickly and won’t impact company morale as significantly as reducing headcount would. That said, the underlying motivation for these changes still need to be well communicated to the
whole company so people understand that these are not arbitrary or permanent changes.

> Good suggestion. Although it may not be the largest source of cost containment, noncritical expenses not directly related to client service and new customer acquisition/sales are the kind of low-hanging fruit that a company can eliminate as a means of reducing operating expenses during difficult economic times.

**Interviewer**: Okay, I can see that this suggestion might be a good source of cost savings in the near term. Are there other things the COO could focus on doing?

> Time to go further and explore some additional avenues.

**Candidate**: Yes, the other main source of expenses that I mentioned earlier had to do with the salaries and other expenses related to full-time employees. This is a much trickier issue, since letting employees go during tough times does save you money but also carries up-front incremental expenses in the form of severance payments. If, however, the COO believes that the downturn in revenues and demand for her company’s services is going to be prolonged, reducing headcount makes sense so that the company can avoid having to bear the costs of underutilized resources. This also assumes that the company’s employees aren’tunionized or employed under long-term contracts—both of which will prevent the ability to change the size of the labor force in the short term.

> While firing employees does save money, it also brings with it new expenses. These new expenses must be considered on balance when evaluating the total impact of this kind of change on overall expenses.

**Interviewer**: Letting employees go could save the company significant money, assuming that the overall business is contracting. The COO has actually been considering this drastic step, as she is pretty bearish on the economy and on the overall demand for her company’s services in the near as well as the longer term. If the COO accepted this recommendation, what else would you want to suggest she consider before directing her managers to reduce their headcounts?

**Candidate**: First, I would counsel her to conduct a solid analysis and business case for the need to reduce her staffing, and be very focused about where and how she would carry it out. Since this is such a drastic and emotional step for the company, I would counsel her to avoid using an across-the-board reduction in headcount and instead in a targeted manner gauge where the reductions in headcount will be most appropriate—she would need to work with the different P&L or business division managers who know best what their employee needs will be to deliver on the company’s existing client needs and service commitments. Second, I would suggest she very clearly communicate the headcount reduction plan to the CFO and investor relations team so that they can manage Wall Street’s understanding of why and when this step is happening. The last thing you want is to have the money managers who rate the company’s stock price overly penalize the company when the staff reductions become public knowledge. Third, I would advise her to be open about the task at hand to all of the internal stakeholders. In this way, the cost-containment activities will not seem like an arbitrary directive coming down from on high, but instead will be clearly connected to the reality of a downturn in the marketplace that necessitates such changes. Finally, I would counsel her to test the wisdom of making such drastic changes with other senior executives before carrying out the plan. I believe that the COO’s internal reviews and communications on the decision will be vital in carrying this out in an effective manner.

> Good job. Bonus points for showing a more savvy understanding around the challenges of reducing employee expenses through layoffs. Firing is a highly
charged and difficult process for most companies—
not only will it negatively impact morale, but it
will also create new challenges for managers to have
to handle. As well, it will potentially send very
visible, public signals to the marketplace about the
company’s opinion of its business prospects in the
long term.

Interviewer: Your suggestions make sense. Good job.
Thanks for sharing your ideas.
The WetFeet Story
WetFeet was founded in 1994 by Stanford MBAs Gary Alpert and Steve Pollock. While exploring their next career moves, they needed products like the WetFeet Insider Guides to guide them through their research and interviews. But these resources didn't exist yet—so they started writing! Since then, millions of job seekers have used the WetFeet Insider Guides and WetFeet.com to research their next career move.

In 2007 WetFeet became part of Universum Communications, the global leader in employer branding. Thanks to the integration of WetFeet into the Universum group, WetFeet products are now used by job seekers all over the world. In addition to our Insider Guides and WetFeet.com, we produce WetFeet magazine, which features career advice tailored to undergraduate students.

The WetFeet Name
The inspiration for our name comes from a popular business school case study about L.L. Bean, the successful mail-order company. Leon Leonwood Bean got his start because he literally got his feet wet: Every time he went hunting in the Maine woods, his shoes leaked. One day he set out to make a better hunting shoe, doing such a good job that his friends lined up to buy pairs of the boots. And so L.L. Bean was born.

The lesson we took from the Bean case? Well, it shows that getting your feet wet is the first step toward achieving success. And that's what WetFeet is here for: To help you get your feet wet and take the right steps toward ever-greater career goals, whatever they may be.
Business operations cases test your practical ability to get things done. From logistics and human resources to distribution and financing, operations questions cover the core issues that make companies run. But just because they're practical doesn’t mean they’re easy. Fortunately, by studying up on the case process and honing your case interview skills, you’ll be impressing interviewers with your answers to business operations questions in no time.

This WetFeet Insider Guide Provides

★ The step-by-step WetFeet way of cracking any case question
★ 14 sample questions that cover the key operational issues, from marketing to profitability
★ Detailed examples of good and bad answers, with explanations of why some responses are stronger than others
★ Suggested frameworks for handling the various types of operations questions, from the 3Cs to the 4Ps
★ Tips from real consultants on avoiding possible case scenario stumbling blocks
★ Running commentary on the interview, so you can see what the candidate is doing right—and wrong

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