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INTERACTIVE CASE STUDY

STEP 1. WELCOME

This interactive case study is designed to simulate the type of case you might expect in a case interview. Case studies help test logic and quantitative reasoning skills, the understanding of basic business principles, and the ability to synthesize and communicate information.

This case is based around a recent Marakon project and illustrates some of the standard analytical techniques we use to diagnose business situations and advise clients. Solving problems like this is not just what you will be facing in a case interview, but what Marakon teams do day to day.

» HOW IT WORKS

The case consists of a client scenario, in which a client has asked you to help answer an overarching question facing the business. To complete the case, you will be asked a series of sub-questions and then asked to synthesize your findings into a recommendation for the business.

It is recommended that you take some time to think through your answer to each question and jot down notes on a piece of paper. Some questions also require some simple calculations (you should not need a calculator, but you may use one if needed). While there is no single 'right' answer to most of the questions in this case, guidance is provided on a suggested answer.

The case is designed to take around 20-30 minutes to complete. However, if you choose, you may move through the case at a faster pace by simply clicking through to the next page or using the menu to jump ahead or back.

START THE CASE ▶

PRINT READY VERSION 🖶

CASE OUTLINE 🔍

STEP 2. CLIENT BACKGROUND

You have just joined a team, which is advising Toyco, a large US-based toy manufacturer. With revenues of $3 billion in 2002, Toyco is the second largest toy company in the world, and sells its products in 20 countries. Toyco's main product line is a series of die-cast metal cars targeted at boys aged 5-10 and priced between $3 and $10.

You are working with one of Toyco's smaller business units, Quasar, which makes "Pixie", a series of unique electronic educational toys with simple mathematical lessons targeted at 10-17 year old girls. Quasar produces a number of different products within this line, ranging in price from $40 to $100 based on the degree of specification. Pixie is currently sold in a number of developed markets. 2002 revenue for the Pixie line was $110M. Jennifer Kelly, the Chief Marketing Officer of Quasar is interested in launching Pixie in China. While a number of other Toyco businesses sell their products in China, she is unsure about the attractiveness of the Chinese market for Pixie and has asked you to advise her on a decision...

›› THE QUESTION YOU NEED TO ANSWER IS:

Should Quasar launch Pixie in China?

First, to start your thinking, come up with 3-4 pieces of information you would be interested in gathering to answer this question. (This will not be tested but is intended to start you thinking about the problem.)

CONTINUE ›

PRINT READY VERSION 🖨

CASE OUTLINE 🔍

STEP 3. LOGICAL REASONING: MARKET SIZING

The first step is to estimate the size of the market.

Using some simple assumptions and calculations, estimate how large you think the market for 10-17 year-old girls' toys in China is, in terms of annual units sold.

REVEAL SUGGESTED ANSWER ⌄

Interview Tips

This question is a typical logical "estimation" question that might be used in an interview. Other examples might be more extreme, such as "how many hairs are there on a dog?" or "how many golf balls fit in a jumbo jet?" There is no single correct answer; the questions are designed to test your ability to break down the problem logically and make reasonable assumptions. In this case you would need to decide what constitutes the "relevant market segment" and make assumptions in order to estimate the number of consumers and how often they buy. You should try to use easy round numbers for your calculations so that you can focus on the logical process rather complex calculations.

Suggested Answer

One possible answer to this question might be:

Number of Consumers

One billion people in China, assume 50% are female
 = 500M women

The segment we are concerned with is 10-17 year old girls, so assuming a life expectancy of 70 and even distribution across ages = 1/10x 500M = 50M consumers

Purchasing Frequency

Assuming each girl gets a new toy every two years, implying an annual market of 50/2 = 25M units

CONTINUE ⟩

PRINT READY VERSION 🖶

CASE OUTLINE 🔍

STEP 4. QUANTATIVE ANALYSIS: MARKET PROFITABILITY

The market may appear large, but you still do not know if it is attractive. In particular, Jennifer would like to know:

**What is the profitability of the segment Pixie would participate in?**

You are able to obtain some market research, including revenue and cost information. Using this information, estimate market profitability. This section requires calculation, so have pen and paper and a calculator handy. If you'd prefer, you can of course go straight on to the suggested answer.

Revenue data:

- Total market volume of girls toys in the Age 10-17 segment
  = 8.0M units
- Share of the market by price point [see Fig 4.1]

Cost data:

- The average advertising spend in the toy market China is 25% of sales
- Average production cost by price segment [see Fig 4.2]
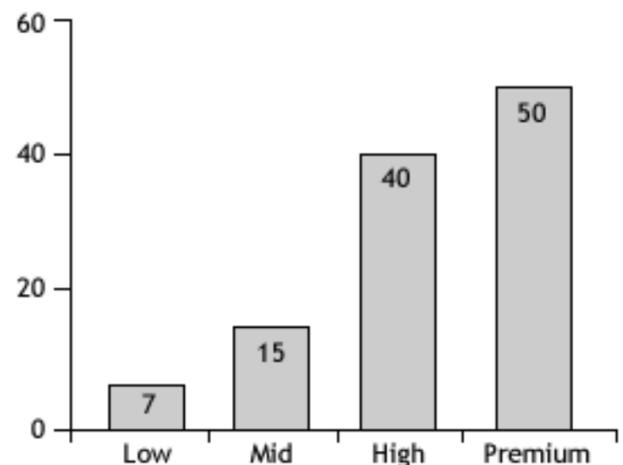
Fig 4.2 Average Production Cost by Price Segment
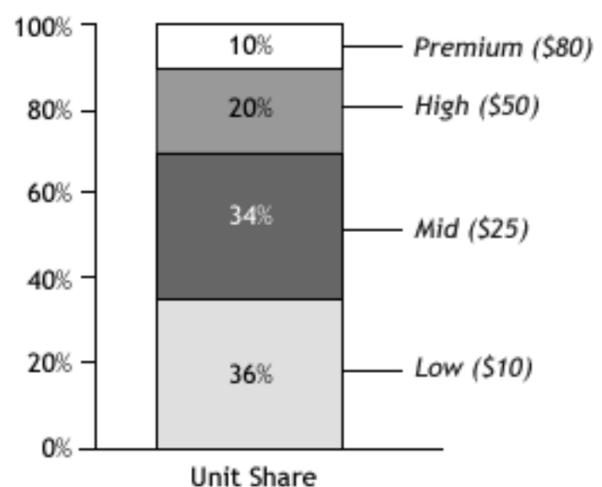
Fig 4.1 Share of the Market by Price Point

REVEAL SUGGESTED ANSWER ∨

Interview Tips

This question is designed to test your knowledge of profitability, a basic but highly important concept, as well as your quantitative ability in performing some simple calculations.

- Profit = Revenue (or Sales) – Cost

Faced with a profitability question in an interview, remember the simple concept above and think how you can break down the problem into components, identifying the drivers of revenue and cost:

- Revenue = Price x Volume (Units)
- Cost = Variable Cost (Unit Cost x Volume) + Fixed Cost

Remember that costs can be separated into variable versus fixed costs – some are incurred for each unit sold and some will be fixed regardless of the level of production. In this case, production cost is variable and advertising cost is fixed.

Suggested Answer

Your first step is to identify which segment(s) Pixie would compete in. Based on the background information, you know Pixie is priced between $40-$100, so it would compete in the High and Premium segments of the market. Now you can calculate revenues and costs to determine how profitable each segment is.

Revenue
You first need to calculate the number of units sold in the relevant segments by applying the share for each segment to the total market volume:

- High units = 20% share x 8.0M total units = 1.6M units
- Premium units = 10% share x 8.0M total units = 0.8M units

Next, you need to calculate revenue by multiplying units with average price:

- High revenue = 1.6M units x $50 price = $80M revenue
- Premium Revenue = 0.8M units x $80 price = $64M revenue

Cost
First calculate variable costs:

- High variable cost = 1.6M units x $40 cost per unit = $64M
- Premium variable cost = 0.8M units x $50 cost per unit = $40M

Next calculate fixed costs – in this case, the only fixed cost you need to consider is advertising which you know as a percentage of revenue:

- High Advertising = 25% x $80M revenue = $20M
- Premium Advertising = 25% x $64M revenue = $16M

Profit
Now you can calculate profit by subtracting costs from revenue:

- High profit = $80 revenue – $64 variable cost – $20 fixed cost = $(4M)
- Premium profit= $64 revenue – $40 variable cost – $16 fixed cost = $8M

From the calculations, you'll see that the High-price segment is unprofitable on average whereas the Premium segment is profitable, a valuable insight. The high costs relative to revenue of the High-price segment is making it unprofitable.

CONTINUE

STEP 5. COMPETITIVE ANALYSIS

Now that you have determined the size of the market and market profitability, the next challenge you face is to understand Quasar's potential position relative to competitors in the Chinese market.

Would Quasar be advantaged or disadvantaged relative to the competition?

From the following list, which three pieces of information would be the most relevant for answering this question?

Once you have made your selections, you'll be able to see what we think might be the most appropriate information to look at in answering this question.

- Consumer product perceptions
- Urban/rural market size
- GDP per capita and growth rate
- Demographic trends
- Competitors' market share
- Competitors' media spending
- Quasar's cost structure (vs the industry average)
- Market size by segment (electronic vs non-electronic toys)
- Global market size by segment (electronic vs non-electronic toys)
- Investment required to modify Quasar's product for China

REVEAL SUGGESTED ANSWER ∨

Interview Tips

While all of the potential selections are pertinent to the overall problem you need to make sure to focus on information that is relevant to the specific question you've been asked – would Quasar be advantaged or disadvantaged relative to the competition?

In terms of competitive position, there are a number of general dimensions to understand:

- Number of competitors in the market
- Your business' pricing and costs relative to that of competitors
- Consumers awareness of your brand vs that of competitors
- Consumers perception of your products vs that of competitors
- Your share of voice (relative advertising spending)

Fig 5.1 Competitor Market Share

Suggested Answer

In this case, the recommended information to look at would be competitor market share, Quasar's cost structure (vs the industry average) and consumer product perceptions.

1. Competitor market share

This information is useful as it tells you how many competitors are in the market and each competitor's relative level of strength. In general, markets with few competitors are more difficult to penetrate given the dominance of the incumbents. In this example, [see Fig 5.1] the High segment is dominated by two competitors, whereas the other segments are more evenly shared among competitors.

2. Quasar's cost structure (vs the industry average)

Quasar's cost structure will determine whether it is advantaged to competitors. Even though a market may be unprofitable on average for the industry, a competitor with an advantaged cost structure may be able to make profits. In this case, [see Fig 5.2] the data shows that Quasar is advantaged in costs to the industry average, particularly in production costs.

3. Consumer product perceptions

A product that consumers perceive to be superior [see Fig 5.3] is likely to drive sales above the industry average, offsetting deficiencies in market position where they exist.

Other Information

The other information will certainly enhance your view of market trends, but will not necessarily help you answer the question of determining whether or not Quasar is advantaged or disadvantaged in the current time period.

Urban/rural market size and market size by segment are no longer needed since you have already approximated the size of the market.

GDP per capita and demographic trends will help you understand consumer trends, but will not allow you to look at relative profitability.

Finally, the investment required to modify products could be useful if you decide that this is a relevant issue, but you will need to understand current profitability first.
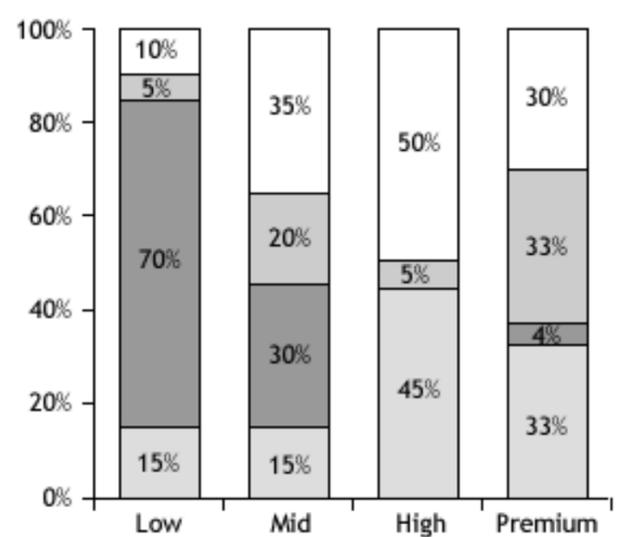

Fig 5.2 Quasar Cost Structure vs. Industry Average
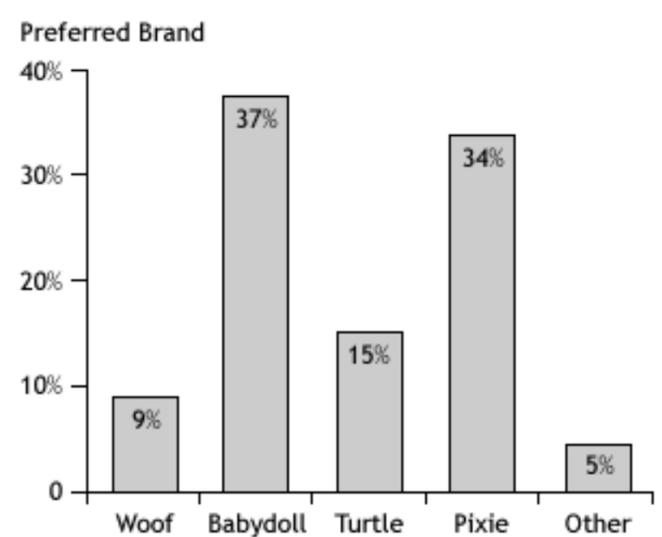
Fig 5.3 Consumer Product Perception

CONTINUE ▶

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STEP 6. RECOMMENDATIONS

Based on what you now know about the profitability of the market and Quasar's position relative to other competitors, what would you recommend to Jennifer Kelly and why?

REVEAL SUGGESTED ANSWER ⌄

Interview Tips

As in most interviews, there is no clear "right" answer to the problem. What is more important is to back up your answer with reasoning based on the information you have about the situation. However, even if there is no single answer, make sure your recommendation is decisive and you communicate it clearly and succinctly. Vague answers do not go down well in interviews or when you are working with a client. Once you have answered the main question, you may also have a chance to dazzle the interviewer with your creativity and insight by offering further suggestions or thoughts at a more complex level.

Suggested Answer

In this case your answer might be: Quasar should launch Pixie in China. Overall its market segment is profitable and it is cost advantaged to competitors and the product ranks highly with consumers. However, Quasar should focus primarily on the Premium segment since this is profitable. The High-end segment is not profitable, so Quasar needs to make sure to leverage its cost advantage and product superiority relative to other competitors in order to achieve profitability.

For further suggestions, you could potentially suggest ideas such as:

- A joint venture with a local manufacturer to share distribution costs
- Leverage the position of Toyco's other business units in China e.g. by sharing advertising and promotions
- Segment the market at a greater level of detail to identify segments that may be profitable within the High-end, for example electronic vs non-electronic toys.

Well done, you've completed the case!