

So in this first case of the goods retail case, we will be exploring a business problem where there is a both revenue decline and a cost increase. In all honesty, this is actually probably one of the harder cases that I've given so far. And it does require both qualitative and quantitative problem solving skills to completely solve the case. This particular candidate, as a matter of fact, performed extremely well, and is probably one of the best if not the best candidate that I've interviewed so far. This candidate knew to ask both quantitative and qualitative questions, and asked these questions at almost the perfect times.

Within a given major branch of the business situation, the candidate really drills deep into every single smaller branch, and doesn't finish tackling the smaller branch until he's gotten to some logical conclusion. This combined with a very structured way of thinking, a very structured way of taking notes, probably made this candidate have a very good performance, and will make this candidate eligible for an offer from a top consulting firm.

So please be very attentive when listening to how exactly this candidate tackled this particular problem. If I were to give a grade for this performance, it would definitely be an "A", and will probably put this candidate in the top 10 percentile of all the candidates in case interviews. So let's go ahead and listen to the case.

01:46

Interviewer: Okay, so your uncle is in the commodity goods retail business in Santiago, Chile. He is a wholesaler, which means that he sells goods to other sellers who in turn sell it to customers. He would buy the products from China, and ship it to Chile, and then sell it. He has quite a few products including small commodity goods such as sunglasses, belts, and wallets. But his main line of business out of all those is men's wallets, which accounts for 40% of his overall revenue traditionally. Recently, for that particular product line, he has experienced profit decline and has asked you for help, knowing your experience in consulting. So there it goes.

Candidate: Okay great. Just a couple of clarifications I want to ask about this case. So when we say that our uncle operates this business in Chile and the goods are manufactured in China. Does he handle the manufacturing as well? Or is he buying from other wholesalers?

Interviewer: He's buying from other wholesalers.

Candidate: Interesting, so the main aspect of the business he's handling is that importing it to Chile and then from there reselling it to primarily other businesses in Chile, or other businesses in South America, where?

Interviewer: So it's only in Chile. And then he is a wholesaler. So he sells mostly to other businesses.

Candidate: Okay, great. If you don't mind, I would like take a minute to structure my thoughts before proceeding onwards. Is that ok?

Interviewer: Okay, no problem.

Candidate: So I think the way I would like to proceed is to first try to isolate the root cause of the decline in profits for the business, and then once we've identified what the root cause is, try to analyze how we might be able to try to resolve that. So when I think about profits being down, I think there could definitely be issues either on the revenue side or the cost side. What I'm wondering is, before proceeding onwards into looking at the volumes and the unit profits, I'd like to first just get a ballpark sense of what were the profits before, and how the profits changed over time.

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Interviewer: So before traditionally, we don't have a specific number. But then before compared to now this timeline, the profits have decreased by 40%.

Candidate: And do we happen to have a relevant segmentation of how profits have changed by the different revenue streams for the business?

Interviewer: What would different revenue streams? What do you mean?

Candidate: Well there could be different revenue streams that we could look at. For example, we could either look at revenue streams by client or we could look at revenue streams by product line. For example, we said that the main product line is men's wallets. We can maybe look at men's wallets and different other retail goods, or we can look at the different customers and how our profits have changed with respect to those.

The candidate here did something really smart, what he said was, "Do we have a relevant segmentation of the profit trends for different revenue streams? So here actually the candidate had no idea on how to segment the business just of yet, and is hoping to use this question to lead the interviewer to give a logical segmentation of the client's business. What is really smart about this is that a candidate very deliberately avoided going too much of a detail into how to segment the profit. So instead of asking specifically if we can segment the profit trends by different customers or by asking specifically do we know our profit trends for different product lines? The candidates simply made it just a little bit vague, and stopped at, "Do we know of the different revenue streams of the profit decline?" So what this vagueness does is that it plays into the interviewer's psyche just a tad bit. Imagine if you asked something very specific to the interviewer, and you were asking in the wrong direction, the interviewer will simply say, "No, we don't have that information." Say if in reality, the profit is segmented by the age of our customers, and you ask, "Do we have any profit segmentation by different product lines?" Then I would simply say, "No", and will not give you any additional information. So asking too specifically puts you at a disadvantage whereas asking relatively vaguely like what the candidate did likely will let the interviewer voluntarily give you the segmentation without the hassle of poking into every single possible direction. Notice here with this candidate, I challenged him and let him explain just a little bit more into detail on what he thinks should be the segmentation, before eventually giving him the right answer.

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In an actual case interview, regardless of whether or not the interviewer will challenge you a little bit. The end result is the same which is that the interviewer will voluntarily give you the right segmentation in the end. So I definitely recommend you to use this trick in your own case interview. To use this trick, what this candidate did was say, "Do we have any relevant segmentation of the profit trends from the different revenue streams?" Another way that you could ask, and one that I often ask in my own case interviews is, "Are there any data for the profit trends broken into its component parts?"

So these two types of questions are both valid in luring the interviewer to voluntarily give you the correct segmentation.

Interviewer: Right to answer your question, so we're only looking at men's wallets, and that is the one which has 40% profit decline, and that is the only one that we are targeting. Does that answer your question?

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Candidate: That does. Thank you. Okay, great. So we know that in the men's wallets line, our profits are down 40 percent. So to me, there seems like there could be two different explanations for that, either volume has decreased, the amount of men's wallets we are selling to other businesses has decreased, or the unit profit we're getting per wallet that we're selling has decreased, or it could be a combination of those two. In order to understand which of these might be the issue, I'd like to first understand how has our volume changed over the same time period?

Interviewer: Right, so our volume actually hasn't changed before and after. So previously we were selling 10,000 wallets a month, where we had around 100 customers. Those customers for us would be kind of small businesses. Each of them would buy around 100 wallets a month, but then now those numbers have been about the same.

Candidate: Can you repeat that? How many customers were there? And how many wallets were they buying from us?

Interviewer: About a hundred customers each who buy around 100 wallets each month.

Candidate: Okay, interesting. So it seems to me like the issue is not on the volume side. However, I'd just like to follow up on one thing you mentioned that traditionally it has been about 100 customers buying about 100 wallets per month. Has that been the same? Or has the customer base kind of changed in the same timeframe as the revenues change? For example, do we have larger customers or something like that?

Interviewer: It has been the same. Okay.

So just a quick comment here that whenever you have a number that is broken down into several smaller numbers, and you have a trend in this bigger number, always ask about the trends within the component parts of the larger number. Much insight can be derived from digging a little bit deeper.

Candidate: Okay great. Then for now, I'm going to say that volume is probably not the major concern and probably the major concern is going to be on the unit revenue side. So I'd like to understand that a little bit better, and we can break down the unit profit into unit revenues and unit costs or the unit price and the unit cost. And in order to see why our unit revenues have been decreasing by 40%, I'd like to understand how the price of the wallets we sell has been changing, and how the cost has been changing as well. So first can we get the information on how the prices changed over this time period.

Interviewer: Right, before we were charging fifteen hundred pesos, which is kind of the Chilean currency, per wallet. Now, we're charging thirteen hundred pesos. And on the cost side, actually you know what, let's just stick with the price right now.

Candidate: Okay. So our unit price has decreased, but the unit price has not decreased by 40%. It seems like it's actually a little bit less than 25%. So that means that while a decrease in price is part of the reason why our profits have gone down, there must also be some issues on the unit cost side. So I'd like to look at that as well, and just get ballpark numbers of what the costs were before, and what the costs are now for the wallets.

11:04

Interviewer: Okay. Just to interrupt you. You said the price has decreased by a little less than 25%. How did you get that number?

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Candidate: Sure. So the decrease in the price is we can say it's 1500 minus 1300 over 1500. That's the change in price over the original price. So that's 200 over 1500. So 2 over 15 that's roughly about 16%. And so we know from the fact that our profits are down 40%, and our volume has not changed, that our unit profits must be down 40%. And actually I'm now realizing I may have made a mistake.

So we said our unit profits are down 40% off of what they used to be. I guess in order to understand if the unit price change is the contributor to the decline in profits, we need to know what the profit margin was before and what the profit margin is now, to understand if this is the sole factor leading to the profit decrease or if there might also be factors on the cost side. So do we know what the profit margin was before and what the profit margin is now for the 40% decrease?

Interviewer: We don't have the profit margin numbers, but I guess you can calculate it from the price and the cost. The cost and this comes back to your previous question, the cost before was 500 pesos, and now it's 700 per wallet.

Candidate: Okay great. So that means that before we were making a profit of a thousand pesos per wallet, whereas now we're making a profit of 600 pesos per wallet on a higher cost base. So before, our profit margin was about two thirds, and now it's a little under half.

Interviewer: Right.

Candidate: So we have both issues on the price side and on the cost side. So I'd like to look at those individually, and my hypothesis is that either we could be doing something to increase the price that we're selling the wallets at, in order to recoup some of the profit decline, or perhaps we could be lowering our costs in some way to also mitigate that profit decline. Why don't we first look at the cost side, and see what might be some of the things that we can be doing on the cost side.

So here the candidate did a summary or a synthesis of what he has found so far, and what he is about to do given what he has found. So a synthesis happens during a natural transition point in a case or a point where you want to explain why you are moving forward into one particular part of the case instead of the other. So good things to note when doing a synthesis is that you want to make it clear to the interviewer that you are thinking about the whole picture. You want to make it clear that you are about to dig deeper into one particular branch of the whole picture, but also acknowledge that you will come back to tackle other branches later on in the case. So it's very similar to what the candidate did here that he said that he will look a little bit deeper into the cost before coming back and then attacking the prices.

I'm just nitpicking a little bit here, but if I were the candidate, an even better synthesis would be to explain why you are going into cost first instead of going into price. So if I were the candidate, I would phrase it like this, "So I want to look into the unit cost first before looking into the unit price, because it seems like the unit cost had a bigger jump of 40 percent, much bigger than the decrease in the unit price which was only about 15 percent." This is an even better response, and would really be kind of the "cream of the crop" type of response in the case interview. Here just to practice, why don't you pause for a little bit, and do a synthesis yourself at this point of the case before moving on.

15:35

Candidate: And in order to understand why the cost increased from 500 pesos to 700 pesos, I think it would be helpful to break down the costs of obtaining these wallets into the component parts, and sort of analyzing how those have changed over time. So do you happen to have a relevant segmentation of the costs for our business?

Interviewer: Right so for our business, let's just say that what we really care about is this cost per wallet. The other parts we don't really care about. You can understand it as we buy the wallets from China, from this supplier that we have. And the 200 pesos increase has been solely because of that supplier. The supplier has demanded more.

Candidate: Okay, interesting. So it sounds like we have one single supplier, is that correct?

Interviewer: Yes we do. Well actually let me rephrase that. The place we buy our wallets is a hub. It's a city within China that sells a bunch of different commodity goods, and actually there are multiple suppliers of this particular men's wallet. But then customarily, we have worked with this particular one that charges 500. But this 500 price increase usually is across the industry of men's wallets. If one of the suppliers wants to increase, another one probably wants a similar increase.

Candidate: Okay, so sounds like it's almost it's kind of a commodity marketplace that even if we change suppliers, we will still be getting probably the 700 pesos per wallet right now from China. Is that correct?

Interviewer: That is correct.

Candidate: Okay that's interesting. So at this point I think there are two hypotheses we can look at from the cost standpoint of how we could be looking at decreasing our costs. So, one is to be looking at suppliers from a different market. So you mentioned that within this area in China that we're going at and it's kind of a standardized price of 700 pesos. I'm wondering if perhaps there are other markets we could look at where we might be able to get similar quality of products but at a cheaper price. And the second area we can look at is how can we try to lower the cost we're paying in this given market? So even though these are kind of commodity goods, I'm wondering if perhaps there are certain bargaining tools you might have, perhaps there's a larger business or buying in scale that we could leverage to try to get lower prices from some of these manufacturers.

Okay. So I'd like to look at this first area, seeing if there might be different suppliers in different markets that we might be able to look at. I'm wondering, these particular wallets that we typically buy and resell. What are the different places in the world where these are typically manufactured?

Interviewer: Yes, so to answer that question, even though this is a pretty commodity good in terms of a men's wallet, it's only manufactured in China. So your uncle doesn't really know if there might be another supplier or manufacturer in India or Vietnam, but that's not where his specialty lies. So he wouldn't know.

Candidate: Interesting, okay. So given that our uncle is more adept at navigating the Chinese marketplace, and it seems like this is where most of these wallets are manufactured, I'm going to kind of cross-off this area of exploration for now, and say that right now let's focus just on this Chinese market, and see if we can potentially lower the costs we're paying within this market. So this price of 700 dollars per wallet, is that the price that

everybody would be paying within this marketplace or are there certain discounts for certain buyers or certain bulk orders?

Interviewer: Right. So you can think about it as, this price is a baseline where people sort of buy above or under this price just about, and then if you buy a huge amount of order, for example, your uncle sells 10,000 a month right, and just hypothetically if you buy a hundred thousand a month, the supplier might be willing to give you a price of 650 pesos instead of 700. So there is a little bit of wiggle room, but you don't expect it to be that much.

Candidate: Okay, interesting. So given that the level of wiggle room is kind of low, I'm going to assume that just buying in bulk isn't going to necessarily solve a problem. It might lessen the impact upon our profits just a little bit, but is probably going to have a low impact overall. However, having said that, given that we mentioned that the primary cost we are concerned with is just the cost of wallets, and presumably cost of storage and things like that are pretty low, what I might recommend is still maybe instead of buying once a month 10,000 wallets per month, maybe we buy once every 10 months, or once every year, a larger bulk order. And if we can store these wallets for pretty cheap, and maybe we can do that, and thereby reduce the price we're paying by maybe like 50 dollars per wallet or 50 pesos per wallet or something like that.

Interviewer: Okay, that is a good idea, and actually the limitation with that is we have a storage or warehouse in Chile, a couple of blocks away from our physical store. There is a limitation on how much you can store there. Again, men's wallet is not our only product line right. If we do that same strategy for all of our product lines, we definitely don't have this enough space in our warehouse.

Candidate: Interesting, okay. Well then it seems like there's probably limited options for us to significantly lower the cost that we're paying per wallet. Therefore, I think at this point, I'd like to say that given that it's hard for us to look at suppliers in different markets, because these wallets are primarily only manufactured in China, and that we have little leverage over the suppliers to get lower prices and little ability to buy in larger bulk orders, we probably don't have too much power over the price, and we might just have to take the hit on this price increase from 500 pesos to 700 pesos per wallet. What I may want to focus on instead is the price we're selling it that to see if potentially we have more leverage on that side.

22:09

So here I left the entire conversation intact when this candidate was tackling the cost component of the business. And I did so on purpose as it is really an exemplary performance from the candidate. Just at a high level, let's look at what the candidate did. So he first asked about what are the cost components to try to understand which part of cost to cut down. And then after getting a broad picture of the cost, he gave out two ways how he thinks the cost can be cut down. Then he dug deeper into one of the ways, tried to dig as deep as possible, and pulled back when he found there was no opportunity there. And he went to the second branch, and pulled back eventually when he found there were no opportunities in the second branch either. So after eliminating both logical ways that he thought about to reduce cost.

He then concluded that reducing costs might not be feasible at this stage of the business, and then moved back a layer and started tackling prices. So his approach is exactly how a great candidate, or an "A+" candidate, is supposed to behave in a case interview where everything they do is very structured and starts from the top down into the details.

Another way you can look at this is when you grow a tree, you start-off with the root of the tree, then to a major branch and into a smaller branch back to the major branch, and into another smaller branch, and so on so forth. And at the end of the day, the end result will be that you will have analyzed all the major and the smaller branches within the tree, and that you will know exactly which branch is the root cause of the problem.

So I left this whole analysis he had on cost intact, just to provide an excellent example of what you are supposed to do.

Candidate: So we mentioned that the price we're selling these wallets for has gone from 1500 dollars per wallet to 1300 dollars per wallet.

Interviewer: Yes.

Candidate: And I'm wondering is it a standardized price that we resell our wallets to all retailers? Or do we have different prices based on the retailer that we're selling them to?

Interviewer: You can think about it as a standardized price.

Candidate: Okay, great. And I guess to understand whether this is an issue with our company specifically, or whether this is an issue facing the entire market as a whole, I'm wondering if other men's wallet resellers are having the same kind of price point, or whether our price point is significantly lower. Do you know if this is kind of an industry-wide problem? Or is it that our price point has just declined?

Interviewer: Right, so you can think of our physical store as one of many stores in this particular street in Chile. It's a very prosperous street, where a lot of these Chinese and Indian vendors wholesale their goods where they import from their hometowns. So the market you can understand as this particular street, and in this particular street there are five other stores, five other wholesalers that sell the exact same men's wallet as your uncle sells. And then, their prices, to answer your question have historically been 1300 all alone, and that hasn't really changed for the past couple of years.

25:57

Candidate: Well, that's really interesting. So that means that in the past we were able to command a premium over these other wholesalers, but now as of late, we're charging the exact same price as them. So I think I want to I understand that a little bit more as to see what's changed between then and now, that we have sort of less of maybe brand power to command a higher price. And so, in order to understand this more fully, I'd like to do a further analysis of the businesses who are buying from these wholesalers.

Here the candidate made a small mistake, and I would say the only mistake that he made in the entire case, which was after finding out that the price has decreased for us from 1500 to 1300 pesos and for us only. The candidate made a preliminary assumption that something happened to our company or products that made us lose our brand name, or made us lose our competitive advantage against our competitors. In case interviews, be very careful on making these assumptions, and in particular with regard to prices because price is something that a company oftentimes can choose and has the power to determine for themselves. So when a price decreases or increases, it is just as likely that it is a voluntary decision on the client's part than that the client was forced to make the decision because of his competitors. So be aware of that and try to avoid making assumptions on things that you don't fully grasp. Just on the flip side, if it is cost that has increased then it is more likely that it's because of something that the client can't control, and something that the supplier or the market demanded. So with that said let's move on with the case.

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Candidate: And so, first just at a very broad level, I'd like to understand how do these businesses decide which wholesaler to buy from? What's kind of really important to them when they decide which wholesaler they're going to buy these Chinese wallets from?

Interviewer: Right, so to answer that question, these customers of the wholesalers which are actually businesses themselves, they either set up another store couple of blocks away from this main prosperous street, or they set up like a street stall. They're small vendors, they sell not 10,000 a month, but maybe they sell 100 a month or a couple hundred a month. And when they choose between different wholesalers, I mean to them, you could say price is really the dominant factor. So they would definitely want to get as cheap of a wallet as possible, if it is of the same quality.

Candidate: So do we happen to know maybe from speaking with them, why in the past they were willing to pay a premium for the wallets from our wholesale store?

Interviewer: Can you give me some ideas on why that might be?

Here the candidate wants to know why our customers previously wanted to pay a premium for the wallets, and simply asked for the reason. And as the interviewer instead of simply giving out the answer, I challenged him and asked him on his thoughts on why that might be. So in the case interview, you often find this to be the case where the interviewer might not give you a particular reason if you simply ask for why something might be. And this behavior really reflects something in human psychology that is called the "rule of reciprocation." So the rule of reciprocation says that people are willing to give something to you if you have already given something to them. So in other words, people like to reciprocate on a good or on a thing that you have provided to them to begin with. So how do you apply the "rule of reciprocation" in the case interview? It is actually quite simple.

30:04

In this case the candidate wanted to know why our customers wanted to pay a premium for our wallets before, and wanted the interviewer to give out that reason. To use the "rule of reciprocation", the candidate should give out something to the interviewer first to be able to acquire reciprocation from the interviewer. And in this case what the candidate should be giving out is actually his own thoughts, his own ideas, and his own hypotheses on why the situation might be. So what I would say in this situation would be something like the following. "So do we know why our customers previously wanted to pay a premium for our wallet's compared to our competitors? And one of the reasons I think that might be is that we might have offered a complimentary service to our clients that our competitors did not. Or that our wallets have been of a slightly higher quality previously than our competitors." So if you say something like this and voluntarily give up some of your own ideas on why this might be, as the interviewer I am more likely to reciprocate and give you the actual reason behind it, because I'm seeing an effort from you to try to solve the problem on your own

Candidate: Yes, so I have a few ideas of why that might be the case. So one could be perhaps our store is associated with stronger quality products. Maybe we're known to buy from slightly better manufacturers or we're more likely to vet the wallets that come in for a certain quality, whereas the other ones might not. So these places are willing to pay a slight premium for the guarantee that our products are kind of genuine whereas the others might be fakes or knock-offs.

Interviewer: Okay, to answer you that question, actually the products are exactly the same from your uncle's perspective because he suspects a lot of the other vendors, the other five, got their wallets from the same suppliers or the same range of suppliers back in the same city in

China. And the wallet's patterns are all the same. So I don't think your uncle suspects the quality is any different.

Candidate: Okay, other ideas that I have. One would be perhaps our location is more attractive, although this doesn't seem that likely to me since you mentioned that it's all kind of in the same few streets. Other ideas might be perhaps we're adding on extra features than just the wallets themselves. Maybe we're doing deliveries to their stores. Maybe we will load up the wallets in a truck and deliver their stores. Maybe we're giving them more flexibility in terms of when they can purchase the wallets or how much quantity they can purchase the wallets in such that they're willing to spend a little bit more to have the flexibility there. Maybe we're doing certain offers like we're buying back the extra wallets that they're not able to sell. So maybe we're doing certain other things that are just making it more attractive for them from a business standpoint, even though they'll have to pay a little bit more for each given wallet.

Interviewer: Okay so those are kind of the questions you want to explore. Is that the case? So actually one of the things you mentioned in the line of things you said in terms of delivery of the wallets is actually what your uncle offers, which is your uncle does offer delivery to their street stall, or delivery to their shop a couple of blocks away. And I think your uncle suspects that the other vendors don't necessarily offer that.

Candidate: Interesting, so given that the reason we were able to command a premium in the past for free delivery, while we're no longer able to do so, I would suspect that one of two things has happened. Either the other installs have also begun offering delivery such that now there's no premium for us and that other places haven't changed their prices at all.

Interviewer: Actually the other places, they still don't offer the delivery, that is what your uncle suspects. And your uncle still offers this delivery service.

Candidate: Okay interesting. So then the second conclusion that that would lead me to believe is that delivery is no longer of a strong value to these businesses, and to me that's a little bit surprising. It seems like delivery should be pretty attractive to them, but maybe there are certain changes in the market like maybe those businesses now have access to transportation, maybe they own their own trucks so they no longer need us to deliver it. Maybe they can pick up the goods themselves. Maybe transportation infrastructure in Santiago has improved such that it's now a lot easier for them to get the goods without this delivery. So I guess that I would maybe like to explore those two lines of thinking a little bit more. So do we know if these businesses now have their own, I guess third party or first party delivery options?

35:19

Interviewer: No, these businesses are exactly the same. You can think about it as before and after, they are exactly the same. So the smaller businesses who buy from your uncle and others wholesalers haven't really changed in terms of the way they run, and the infrastructure in Santiago has been exactly the same.

So here notice again that the candidate kept drilling down and asking questions to try to verify his hypothesis that the delivery service is no longer of value to the customers. So be very careful about this assumption especially when it is on the price side. What is actually happening in this particular case is that the delivery probably is still of value to the customers. But your client or your uncle voluntarily lowered the price from 1500 to 1300, just to test things out. And that is the reason why the candidate got just a little bit stuck here because he is unable to find data that validates his original but erroneous hypothesis. So moving forward in your own cases, be very careful when making assumptions that a certain change, especially on the price side, is because of something that customers demanded, or is it because of the client's own voluntary choosing.

Interviewer: So given that, I guess my question is, you mentioned that it seems like this additional service is not that valuable. And why did you make that conclusion?

Candidate: Yes, so I guess I was making perhaps an erroneous assumption that the fact that the price we were commanding has decreased to the same price that the other competitors are selling at would imply that there was some change in the environment that led us to be no longer as desirable as them, such that the price we were able to command decreased to the price they were able to command. However, now that I'm thinking about that more, perhaps that was a false assumption, and perhaps the fact that we changed our price is actually just an error on our part. And maybe our uncle should actually still be commanding those same prices. So maybe one thing I would like to understand is, from our uncle's point of view, what led him to make that change from 1500 to 1300? Was it a change in the volume he was getting? Was that what led him to decrease the prices because volumes declined? Or was it kind of more of an arbitrary decision?

Interviewer: Right, so to answer that question is, the customers there are 100 of them buy from your uncle for the wallet, some of them came to your uncle and said that his competitors are offering 1300 pesos, and then they hoped that your uncle could lower the price to 1300 as well. So that's when your uncle decided to lower it.

Candidate: Interesting, so our uncle was unaware of these other competitors until then?

Interviewer: No your uncle was aware of them. And then one of the key motivations that your uncle was trying to lower the price was definitely hoping to have more customers or more purchases with lowering price, which didn't happen as you have seen.

Candidate: Interesting, so these other businesses came to our uncle, told him that they wanted him to lower his price to 1300, and he did so in the hopes that that would lead him to attract more customers, and the increase in volume would offset the decline in unit profits for wallets sold. So on the face of it, it seems like perhaps we should actually be increasing our price back to 1500. But one thing that I'm wondering is, these same businesses that came to our uncle to ask him to lower his price to 1300, do we know if they would threaten to then buy from his competitors if he were to change the price back to fifteen hundred, or do we think that his volume might remain the same as it was before?

Interviewer: So actually, that's a good question. And then, with customer reaction, we really don't know as a vendor. But that would be a really good question that I would want to ask you right now is, knowing that this is the situation with the price that your uncle voluntarily lowered the price by 200 pesos, and knowing that there is an additional bonus service that your uncle provides, so what would you do if you are the uncle with the prices? Would you kind of keep it at 1300, increase it, or further decrease it? What would you do and why?

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Candidate: Do you mind if I take a minute to collect my thoughts?

Interviewer: No problem.

Candidate: Okay. So I think one thing that I would want to look at which we haven't really talked about so far, is kind of what's the overall demand for these wallets out of these different sellers in Santiago that are buying the products from our uncle? Because to me it seems like if we're offering the same price as everyone else, we lowered our price to be the same as everyone else. So we're actually having an extra incentive over the other companies, that we're actually providing these wallets with the delivery, and no new customers have arrived. I'm also wondering if maybe we already had almost saturated the entire market. And in order to understand how we should proceed now with all of this information, I think it will be useful to see what percentage of the market we actually command of these resold wallets. Do you have any information on that?

40:39

The good thing about what the candidate just did here was that he gave me justification on why he's asking for market data and market share, and explained why he would need this particular data. But what the candidate should have done to have an even better performance was to explain how he would use that data to solve the specific questions that I asked him to solve. Realize, the question that I was asking here was, given all the previous information, what would you advise your uncle do in terms of the prices? And I explicitly asked about the prices, whether we should keep it the same, increase or decrease it further. So an even better answer in this scenario would be to explain to the interviewer how you would use the market data to determine whether to increase, decrease or keep the price the same?

So for example, we can say things like, "I want to explore the possibility of potentially increasing the prices, but I'm not sure if as the seller, we have the power to command prices. So right now I want to understand the market and our market share to see if we actually are big enough of a player that we can actually command prices." So if you say something like this, then that gives me extra incentive to give you some data, and it tells me exactly how you would use the market data to try to solve the exact problem that I asked you to solve, which was the prices.

Interviewer: So the percentage of market is actually 20 percent. So out of the whole street, there are five other vendors, and your uncle commands just around 20 percent, and you can think of all of the other vendors have a similar market share. They sell similar quantities as your uncle.

Candidate: That's interesting. I would wonder why the other 80 percent of purchases are going to competitors of our uncle given that it seems like we're offering the most attractive add on. Two areas that I might want to explore then. One, are there other services that the other providers are providing that we're not providing? As you've mentioned, we're providing delivery, are there other services that they are providing which we're not offering? And second is, are there any incentives for these wallet companies to be long term partners with a certain retailer? Maybe the reason that they haven't switched over yet is because they have certain incentives to remain loyal to one of the wholesalers on the market as opposed to switching over to us.

Interviewer: Right, and to answer those questions is, the first question I remember you asked was, what was the question again?

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Candidate: Whether these other wholesalers are offering other services?

Interviewer: Yes, so from your uncle's perspective, he doesn't think so. And, the second question is, are there any long term engagements and particular reasons why people would go with their vendors long term? And your uncle doesn't necessarily think so. He thinks it's a very volatile market. People just really go with the price.

Candidate: That's interesting. So it seems like, based on those two pieces of information, it seems like every seller of these wallet has the incentive to go to our uncle because they're getting the same price, they're getting extra services that they aren't getting with the other companies, and they have no incentive to retain these long term contracts with their existing wholesalers. So what I might think is the conclusion of this is perhaps these other wallets sellers don't know about our uncle's wholesale business. Do we know those other 80 percent, are they even aware of these extra services that our uncle's providing, and the cost that he's providing wallets at?

So again the situation here is that, with the questions that the candidate was asking, I am starting to wonder if the candidate still remembers the original question that I asked which was, "What should we do with the price, increase or decrease it, or let it stay the same?" And my concern here is really derived from the fact that the candidate stopped mentioning the word "price" altogether and stopped relating back to my original question, and stopped explaining why these questions he is asking even matter to determine the price we should be charging.

45:02

As you listen in the next two minutes, eventually the candidate looped back to the price, and the matter of the fact is that the candidate remembered all along that the key objective here is to determine what to do with the prices. But it was very unclear in the middle if he still remembered that, because of a lack of explicitly mentioning of the word "price", and the lack of tying questions back to this key objective. And what really happened in the actual case interview was that I was so impressed with the candidate's performance before this that I actually didn't notice the candidate stopped relating back to prices. So this is something that the candidates usually get a bonus on, if the candidate performed well in the prior parts of the case.

Interviewer: Right, so you know, we could think about it as there are hundreds of smaller vendors who come buy these things, and then they tend to work with existing vendors. So it takes time for them to knock on every door and understand everyone's prices every single morning going to these markets. So there is a little bit of friction costs there. So that is one of the reasons your uncle might suspect. And he hasn't seen kind of a lot of new customers come knock his store and ask about his prices all the time. It has been the same old customers the whole time.

Candidate: That's interesting. So I think what we're seeing now as the root cause of why our volumes haven't increased with our proportionate decrease in price, is really a lack of awareness about the attractiveness of our wallet company. So I think one area we might want to look at, in order to further analyze how we might want to adopt our prices, is how can we actually inform these other buyers of this change in prices. Because I think if we can let this other 80 percent of buyers know that we're offering a more attractive service, then our decrease in price from 1500 to 1300 pesos per wallet is well warranted, because the increase in volume is going to increase our profits far beyond that lower profit margin. So I think what I'd want to investigate now is a hypothesis of, perhaps we can be increasing

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the awareness among these wallet buyers of the different prices and the different services that are provided.

Interviewer: Right, so to answer that question, so think about it as this way, this is a great idea that you have, but your uncle really wants to make a decision right now. So he doesn't want to explore trying to market more to other smaller customers. So just with all the information you know right now, can you just tell your uncle, if you were him, would you increase the prices, keep a steady or further decrease it?

Candidate: Sure, I would tell my uncle that if we don't want to look into marketing and attracting new customers, then we should definitely be looking at increasing our price perhaps back to the original price of 1500 pesos per wallet, or even maybe a little bit beyond that, if we deem the demand is inelastic enough. And the reason for that is that because there is a lack of information, it's like an information asymmetry between the people who are buying the wallets and the people who are on the market in this wholesale business. Even though he's offering a more attractive service, most people don't know about it, and thus his business isn't increasing enough to justify this decrease in profit margin he's taking by lowering the prices. I think before making a firm conclusion on that I would like to further understand from those 100 customers he already has who asked him to decrease the price of thirteen hundred, what their reaction would be to changing the price back to 1500. But assuming we were able to retain those customers, I think it definitely makes sense to increase the price back, because I see that in the current state where we don't advertise our services more aggressively, it's going to be hard for us to increase our volumes in a quick way.

Interviewer: Okay no problem. Thank you.

To just wrap up here, I want to indicate two things that stood out to me from the candidate's performance, and things that I actually learned from the candidate myself to some extent. The first thing was that, notice that during the whole case, the candidate really looked at many aspects of this business, from how the business operates to the different types of products, and many more. And notice here that the candidate scanned all these different business aspects without explicitly saying, "Now, what I want to look here at is our company, or now I want to look at our products, or our competition, or our market." Instead, the candidate got information for all of these aspects by asking business situation questions in a very natural and logical way, without it seeming like that he is following a premade framework. In the end, this candidate solved all aspects of the case really close to perfection. And when I chatted with this candidate in private later on, he eventually got an offer from one of the top three consulting firms. This just goes to show that to solve the case and to get the offer from a top consulting firm, you don't need to be prototypical and solve cases using a set formula that everyone uses. Instead, the candidate actually got to all the business situation branches without explicitly using a pre-determined framework, or explicitly mentioning some of the key words within a framework.

The second thing I want you to notice is how the candidate takes notes. Notice that the candidate had four pieces of notes in total. The first being the overarching profitability framework, the second piece of notes on just the cost side of the business, the third on just the unit price of the business, and the fourth and last page on the market, and more specifically how the market data would help him determine how to change the prices. If you notice, the candidate used one whole page on one major branch of the business and moved on to the second page after we moved to a different major branch of the business. This left me with a very good impression when I looked back at the notes, as the notes showed me that this candidate is very structured, and his very structured and organized way of taking notes implies that he will likely be a very structured consultant when and if I work with him in the future.

51:43

So the takeaway here is that you don't necessarily have to take notes in the exact same format which this candidate took notes, but you should develop your own notes that goes to show the interviewer that you are a very organized and structured individual. So this is the end to this case.