

So in this second example of the hot sauce case, the candidate here is a junior at an undergraduate institution. The candidate has practiced a decent number of cases. And, in this particular case he has performed pretty well. I would give the candidate an “A” meaning that the candidate has a chance of getting an offer from a top consulting firm. The key reason for the successful case on the candidate’s side was a combination of things, and these things you should be aware of when you listen to the case. The candidate was very hypothesis driven, first of all, and mentioned the word hypothesis many times during the case. Second of all, he was very good at conversing and holding conversation. And, during the case, had very minimal gaps in his thought process, and gave very logical summaries and deductions along the case with every new piece of information. So these points combined with a strong math calculation and a very strong final recommendation put him over the top. So listen to these things as you go deeper into the case.

01:29

Interviewer: John is the owner of a hot sauce shop in Manhattan. The type of hot sauce he produces can be used for all kinds of different culinary purposes. Over the 10 years, where he has done this business, he has experienced both revenue and profit increases. However, this year for whatever reason his profit has declined. You're a friend of John's. Knowing your background in business consulting, he really wants your help.

Candidate: Okay so just to clarify, basically just to sum up what you told me so far: a friend named John, he runs a hot sauce shop in Manhattan, selling hot sauce for various culinary uses. Even though over the past 10 years his revenue and profit has been good, recently, this year his profit has declined, and he wants me to look at essentially what's going on and how to turn it around. Is that correct?

Interviewer: It’s perfect.

Candidate: Are there any other objectives I should be aware about?

Interviewer: No.

Let's take a quick pause here. Notice that the candidate asked something very subtle. Are there any other objectives I should be aware about? This is a question that is wise to ask in certain type of cases to verify the key objective of the client. For example, and just hypothetically here, a U.S. based pencil manufacturer wants to enter the South American market, and specifically the country of Chile, and wants a market-entry-strategy from you. For this type of question, it is wise to ask, “What is the key objective for the client?” or “What factors, if met, would make the client's endeavors successful?” “Does the pencil manufacturer wants to garner as much profit as possible in the first year?” or “Is it as much revenue as possible?” Or “Is the manufacturer okay with having profit losses for the first couple of years as long as it can gain a lot of market share in the Chilean pencil market?”

Therefore, in this type of case asking a question, such as, “Are there any other objectives I should be aware about?” as the candidate asked, or something along the lines of, “What is the key objective for the client?” can really verify the problem statement and guides you in the right direction to solve the case.

Candidate: Okay. So one point of clarification. What's John's business model, like how is he making money? Is it just simply by regular selling bottles of hot sauce, or maybe like a subscription service for different restaurants and things? How is he making money?

Interviewer: Great question. So, yes he basically sells per bottle. He has a bunch of hot sauce stored up in his store, and then people would come over and buy his hot sauce. And, then he charges per bottle basically.

04:31

Candidate: Okay. And also does he sell only one type of hot sauce or does he have multiple varieties?

Interviewer: Yeah. Great question. So he has three types of hot sauce he currently sells: hot sauce "A" which is the chili pepper hot sauce; hot sauce "B" which is the Louisiana style hot sauce; and hot sauce "C" which is the Texas homemade hot sauce.

Candidate: Texas. Nice. Okay. Then in that case, could I take a bit of time to set up my framework?

Interviewer: Sure.

Candidate: Thank you.

Here I want to indicate another subtle point. The candidate ended his opening remarks by asking, "Can I take some time to lay out my framework?" The good thing about this question is that the candidate asked for permission to take some time and think about things. However, framework is a word that you should use with caution during a case interview, as it is tied to the notion that you have a specific, pre-made type of method that you use for case interviews, and the same method that you use for different types of cases. By saying, "Can I take some time to lay out my framework?" It might be interpreted by the interviewer as, "Can I take some time to write out a case-solving method that I have pre-prepared beforehand to solve your case?"

Imagine that you are the interviewer here. Interviewing your 10th candidate of the day after a grueling 8 hours. If you hear the word "framework", what you might be thinking is that, "Ah here comes another candidate tackling my custom-made case using his boring premade approach." It can make the interviewer conjecture that you are uncreative, and that you use the same approach for all types of cases. Therefore, I recommend that the candidates stay away from the word "framework". Instead, if I were the candidate, I would say something like this, "This is a very interesting problem, and I definitely want to think hard about this. Can I take some time before I tell you how I would approach this problem?" Look and notice that saying it this way can make the interviewer have a better impression of you during the case.

Candidate: Okay. So essentially what I have structured here is that, we know that profit is "revenue minus cost", as we know, and then we can break revenue into it's unit of basically profit - I mean not profit, price - and volume. And then we can break up cost into fixed-costs and variable-costs. So I'll be tackling this problem from each of those four points to essentially assess what the problem might be. And then from there, I'll proceed with a recommendation about the overall thing. So first off, I'd like to start with a revenue analysis, so you've told me these three products. Could I get a breakdown for how much revenue contribution each product has toward John's overall bottom-line?

Here, I want to comment on the candidate's initial structure, and I want to go deeper into one thing that the candidate did well. And one thing that the candidate completely missed. What the candidate did well was that the candidate noticed that this is a "profitability" problem, and at the end of the day, to figure out the decrease in profit, he has to figure out what the revenues and costs are, and the detailed trends within revenues and costs. So he accelerated his problem solving by immediately tackling specifically these numbers. This is an approach that I totally recommend to all of the candidates, which is to dive immediately into the quantitative numbers associated with the revenue and the cost, and figure out which segments are causing the profit decline. However, what the candidate is missing here is that he is not asking the more business situation or business sense type of questions that are equally as significant in a case interview.

At the end of the day, to solve a case, you not only have to figure out what the numbers are, but also have to use those numbers to explain, verify, or solve an actual business problem. And you can't solve the actual business problem if you don't ask questions to understand, what the business actually is. So after asking about the revenue and the cost of the business, what I would do is to then ask some of these business situation questions. Just to illustrate this point, I have attached a framework to a profitability problem that I find is most comprehensive to open any profitability type of case, as this approach encompasses both the quantitative number part of the case, as well as the business situation part of the case.

10:00

And, just as a bonus, in the next two minutes, I will record myself as an excellent example of how I would frame my initial structure to this case. In my example, please note how I covered both the profitability part of the case as well as the business situation part of the case. And that I have thrown in some hypotheses for the case as well.

"Cool! So this problem that the client of the hot sauce shop is having is fundamentally a profitability type of problem. And profitability can be broken down into revenue and cost. And within revenue, [we have] the price that we're charging for the hot sauce, as well as the volume that we are selling. For the cost, [we have] the volume and the cost per hot sauce. And, we can further break that down into fixed and variable costs. So I definitely want to first dig into these profitability numbers, and figure out the key trends within revenue and costs within this past year.

However, at the end of the day, this is a business problem. And I also want to understand, what is the fundamental business situation that is causing the profitability decline. And specifically, I want to take a look at five major business categories: the market, the customers, our product, our company, and our competition. On the market size, I would like to understand, if the profitability decline is only for our company, or is it for all the other hot sauce shops in Manhattan? One of my hypotheses here, I want to throw out is perhaps, and only perhaps, that maybe people in Manhattan are starting to switch from hot sauce to Sriracha sauce. And because of that, the sales and profits of all hot sauce shops, including our shop has declined.

On the competition side, I want to understand who are our competitors, and what are their shares of the Manhattans hot sauce market. And, another possible reason for the profit decline might be that another hot sauce store opened right across the street from us, and that has taken away both our revenues and our profits. So I want to understand these underlying business situations that we're dealing with along with things that are happening with our customers, products, and our company to pinpoint the problem, and solve the problem later on. To begin, I want to first dig into the numbers with profitability. More specifically, you mentioned our profit has declined this past year. Do we know if it is because our revenue has increased, or costs have decreased, or a combination of both? And by how much have we experienced these increases and decreases?"

Interviewer: Okay. So the revenue contribution. What we have is the overall total volume of bottles sold have increased by 10%.

Candidate: The overall volume? So do we not have a percent, like the amount, that increased for each of them?

Interviewer: Right. So yeah, follow my lead here. So the overall volume has increased by 10%, total revenue has jumped up by about 60%. So given those numbers, what do you think?

Candidate: Okay. So basically, you told me that the total volume had jumped up by 10%, but the total revenues jumped up by 60%. So it seems like that one of the bottles, which is very high priced, is contributing to the bulk of the revenue increase. Would that be correct?

Interviewer: Is that your conclusion, or is that your hypothesis?

Candidate: It's a hypothesis that I have given.

Interviewer: Why do you think that is?

Candidate: Because, assuming that these were all similarly priced, then a 10% jump in volume would essentially scale linearly with - well it will scale linearly regardless. However, since this jump is rather dramatic, 10% to 60%, my hypothesis is that one of the bottles, which would be more expensive which would then thereby contribute more to the revenue, would therefore be generating this. However, of course, I'd like to hear if that's correct to validate that.

Interviewer: Right, exactly. What data would you need to validate that hypothesis?

Candidate: So I'd need to know the prices of "A", "B", "C", and also if possible, just like how the revenue trends for those three different products.

Interviewer: Okay, that sounds good. So what about, our profits have declined, right? And given the fact that our revenue and volumes have increased. Why my profit actually have declined?

15:01

Candidate: Yes, you bring up a good point. And one thing I have, because it does again seem strange that revenue has increased, so it leads me to believe that costs may be an issue here. So our costs may have increased beyond our total revenue percentage.

Interviewer: Got you. And then to validate that what else would you need?

Candidate: So to validate that, I need to learn more about the costs that go into creating the hot sauce, like for example, material costs like the chili peppers and materials involved with that, bottling cost, labor cost the cost of the machines - to do all those things, just to get a sense of what exactly is contributing to the costs of making this hot sauce.

Interviewer: I like where you are going. I like the data that you need. So, to tell you, basically, we have data on the price that we charge. One of your first hypotheses was that one of the prices of one of the hot sauces are more than the other. Right?

So we know chili pepper hot sauce is priced at 5 bucks a bottle, Louisiana style hot sauce is priced at 6 bucks a bottle, and Texas homemade hot sauce is priced at 12 bucks a bottle.

Candidate: Very Interesting.

Interviewer: And then, in terms of volume that we sell, we actually have some data. So please take a look, and let me know what you think.

Candidate: That's interesting. Okay. So I have two main takeaways, and I have a question for you, but we'll first start with the takeaway. So the first thing that I noticed right off the bat is that volumes for both "A" and "B" have declined essentially, while "C", would I be correct in assuming that basically last year, essentially this year, "Texas" was newly introduced into our product mix? So which has led to a 20,000 jump obviously. So 20,000 units were sold. And so it's interesting that it seems like there is some cannibalization from hot sauce "A" and hot sauce "B". And also one another interesting thing that I noted, given what you told me here with the volume and also the price numbers, it seems that essentially, since "C" is being sold more, and also it's had seen the biggest jump in terms of volume, it seems like that is one potential reason why we're seeing a big jump in our revenue.

Interviewer: Why was that potential reason?

Candidate: Yes, it's a solid reason. There may be other ancillary factors, but from my current analysis, this seems like a major reason for our jump. But, now there is one question I want to ask. Why is it that we're seeing these decreases? There is cannibalization, but I just have a question about why this might be happening, given that these are pretty different tasting types of things, like "Cajun" is very different from "Texas", which is very different from just standard chili. So do you have any information on why this potential cannibalization is happening?

18:36

Here, the candidate said something that I would applaud. The candidate said, "Do you know why this cannibalization is happening?" This is what I call the "why question", and "why questions" are something very distinct from "what questions". The "what questions" would be, "What is the price for products?" "What are the volumes?" "What are the trends for the revenue and cost?" Whereas, the "why questions" are drilling into the profit and the fundamental reasons behind why something is happening, instead of simply observing what is happening. Here, notice something very important in case interviews is that solving the numbers doesn't solve the case, and getting all the numbers correct wouldn't guarantee that you pass the case. You not only have to get all the numbers correct but also need to understand why these numbers are acting the way they do to pass an actual interview.

In this particular instance, the candidate noticed that by introducing a new product "C", the volumes for "A" and "B" have actually decreased. "A" rookie candidate or a mediocre candidate in this case would simply assume that cannibalization happened. And that the decrease is a natural-logical-outcome of introducing a new product. However, this candidate, who is a top-tier candidate, asked the "why question", and asked why specifically did "A" and "B" decrease. An even better response which would put the candidate to be the cream of the crop, would be to say something like this: "So I noticed that by introducing the product 'C' the volumes of 'A' and 'B' have decreased. Do we know particularly why this has happened other than just a cannibalization effect? More specifically, one of my hypothesis here might be that the customers who buy products 'C' are the same customers who buy products 'A' and 'B', and we're actually not attracting new customers and new revenues, and are simply giving a new option to our customers to choose from which would most definitely decrease the sales of our old sauces."

To ask a "why question", like I just did, would be the best question that you can ask, because it gives the interviewer, your thinking on why this might be happening instead of simply asking for the reason.

Interviewer: Okay, so why the cannibalization? Well, we don't know. We just rolled out this new sauce, and it seems like our previous two sauces are decreasing in terms of sales volume. So yeah, we don't know.

21:28

Candidate: Okay. Then I think I'll drill a little bit deeper to just try and see. Do we see that maybe our repeat customers continuing to buy "A" and "B", or are they switching towards "C", or do we have an influx of new customers that are perhaps just have preferences for "C", or just out of curiosity?

Interviewer: It's a mix of repeating customers and new customers, so we don't really track our customers. This is what we noticed in terms of a yearly sales volume.

Candidate: Fair enough.

Interviewer: So I guess, numbers-wise Texas homemade is doing well in terms of sales volume. Based on what we've experienced as a problem, and what we've seen, what other insights or which other directions do we want to go to?

Candidate: Yes. So basically since you told me that revenue is increasing, and this new sauce is priced at 12 dollars, and my hypothesis is that higher price is also due to the fact that it costs more to produce "C". So I'd like to learn a bit more about the cost associated with producing each bottle of the different types or varieties.

Interviewer: Right. Okay. And then how would that tie back to the original objective that we have.

Candidate: Essentially, if our costs for "A" and "B" compared are pretty low, but then with "C", basically if the costs are much higher, then our profit margin is going to be decreased if we're selling more of "C" than "A" and "B" because of that fact, if the margin is in fact lower for "C" than it is for "A" and "B".

Interviewer: Got you. And, it is that a hypothesis that you have.

Candidate: It's one potential hypothesis, and it's an area I'd like to explore more to validate that .

Interviewer: What about another one that might be causing the profit decline?

Candidate: Yeah. So another one that I can think of is that we also don't know whole lot how other competitors are potentially doing, so perhaps competition from them. We have to spend more on, say, marketing, or we have to spend more on our distribution channels getting our product out there; and that's also eating into our profit, because we have to spend more money to compete in a sense. So that's another hypothesis I have.

Interviewer: Got you. So I think I'm hearing that, in terms of fixed cost and variable cost, you're saying perhaps the variable costs of these bottles are higher for "C" versus "A" and "B", or if that's not the case it might be the fixed cost - marketing and something like that - that might be increasing as well, right?

Candidate: Yes, so those are two current hypotheses I'm playing around

Interviewer: That's very valid. So just to answer your request for data, we have some extra data on the costs for the hot sauces. So please take a look, and let me know about your insights, and then afterwards please calculate how much has our profits decreased from last year to this year?

Candidate: Okay. So just to clarify again. So first give you the takeaways that I get from this, and then also after that calculate how much profit has declined. So after giving you the takeaways?

Interviewer: Yes please.

Candidate: Okay. So right off the bat, looking at these numbers, I have essentially that this data does seem to confirm my original hypothesis that the profit margin for “C” may have been lower than it is for “A” and “B”, since as we can see here, for “A” we have a profit margin of 4 dollars; for “B” we have a profit margin of two dollars and fifty cents; and then for “C” we only have a profit margin of one dollar. So for selling a lot more of “C”, we're going to be making less profit overall than we would for “A” and “B”. So this does seem to confirm my original suspicions. So is it okay if I first take a moment to set up how I'm going to proceed to tell you how much profit has declined?

Interviewer: No problem.

Candidate: Okay. Awesome. Could I walk you through how I'm going to proceed with this, just so you can see if I'm on the right track?

Interviewer: Sure.

Candidate: What I'm essentially going to do for each of the two years, I'm going to first calculate the unit profit by subtracting price minus cost, and then multiplying that by the volume of each year. And, I'm going to basically do that for “A”, “B”, and “C”, and then sum them all up. And then from there, once they have the bulk numbers for each of these years, I'm going to subtract the two from each other.

Interviewer: All right. No problem. Sounds good.

Candidate: Okay. So can I take a few more moments to actually do that calculation?

Interviewer: Yes, sure.

Candidate: Wonderful, thank you very much.

26:38

Here, I want to take a step back, and evaluate how the candidate approached the calculation. Before digging deeper into calculation on the profit decline, the candidate explained to me the procedure that he was going to take to do the calculation before actually plugging in the numbers. This is very important, because you want to verify with the interviewer that your procedure is correct before spending extra time to do an otherwise worthless calculation. However, it is not always necessary to explain the procedure upfront when doing a calculation. And I want to go a little bit deeper here to explain the situations where I would split a calculation into two parts - explaining and then plugging numbers - versus just doing the two of them all together. And, the key variable to optimize here is the amount of time it takes you to finish a particular calculation. The faster you finish, the faster you can move onto the next thing in the case, and the better chance that you have on passing the case. So if at the beginning of a calculation, you anticipate the calculation to only going to last you 30 to 45 seconds, what I would do is to trust my method, and finish the calculation before explaining the procedure, and the numbers altogether to the interviewer.

However, if I anticipate that a calculation would cost me 2 to 3 minutes, then I would break the calculation down into two parts, explaining the procedure first, before actually plugging in the numbers. The reason I wouldn't spend time to explain my procedure upfront in a shorter type of calculation is that even if I do the calculation incorrectly it would only take me a very short amount of time to correct it. Whereas, I definitely would explain my procedure upfront for a longer calculation, because the cost of getting it incorrectly is significantly higher, or an upwards of 2 to 3 minutes of time. So when you are doing calculations, always be aware and anticipate how much time it will take you, and let that be a guide to your specific strategy on how you would do the calculation.

29:21

Candidate: Actually I just realized something. Instead of doing this, I'm going to subtract the two volumes from here. Since you know, profit is the same for both years, so essentially this will be the delta of the volume for each "A", "B", and "C" to get the overall profit decline.

Interviewer: Sure, yes. Just let me know how much the profit has declined.

Candidate: Okay. So from my analysis of subtracting the volumes between each year for "A", "B", and "C", I've determined that we'd lost 25,000 dollars in terms of profits.

Interviewer: Can you go a little bit deeper on the numbers?

Candidate: Yes, of course. So essentially, what I did is that I took the year one costs. I mean not the year one [costs] - the year one volumes and the year two volumes. So for each of the ones, for example, "A" was 15k. I mean, sorry - year two volumes from year one volumes. So 15k for year 2 for "A", 20k for year one for "A". So that's basically, negative 5k which multiplied by 4 is negative 20k. So then for B. So 20k minus 30k. So then that's negative 10k times 2.5, which is 25k. And, then this is 20 minus 0 times 1, so that's 20k. And now so basically, "A" and "C" cancel out, since negative 20 and 20, which leaves us with only B, which gives us negative 25k.

31:06

Interviewer: Okay.

Candidate: In terms of profit.

Interviewer: Okay. So, what do you see from that number?

Here's the candidate had very messy notes, and as a result, it is pretty hard to interpret what the candidate is trying to do. So what I've done here is that I've created a separate note explaining what the candidate was trying to do originally. What he was trying to do after using a quicker method, and furthermore, an even better way to do this calculation that I would do.

As you can see on the left of the page, what the candidate was trying to do before was to calculate the profit that we had last year by multiplying the volume we were selling by the profit per unit that were sold. And then calculate the new profit this year, and find the difference of the two for the loss of profit. Then, the candidate quickly realized that there is a common multiplier here, which is the profit per unit. So it is quicker to do this calculation by using the distributed property of multiplication, which is to extract the common multiplier and simply multiply the profit per unit by the difference in the volume sold. As you can see it is a much quicker and more simplified way to do the calculation. But, last but not least on the very right, I wrote out a way that I would do the calculation, and an even better way to do it.

Even though, this third way represents the same information as the way that the candidate was trying to do the cancellation. The tabulator's format is my methodology is what stands out, and is a lot clearer to the interviewer, and will imprint a very good impression on the interviewer both within the case and after the case, when the interviewer is reviewing or notes. So the third way in a tabulated format is what I would recommend people to do in their calculations.

Candidate: So what this is telling me, essentially, is that our profits have declined from year one to year two by 25,000. And, it does in fact seem like this is the case, because even though we're getting more volume with this entry of the new product, because the profit margin is so low, it's a cannibalizing from our other products, which is causing a drop in those volumes. But then even beyond that, it's not even generating enough profit to be able to cancel out the loss in profit from cannibalization.

Interviewer: Right, what about in terms of the total profit? How many percentage are we down from last year this year?

Candidate: From a percentage-wise number, that would be...

Interviewer: As quickly the calculation.

Candidate: So that's a 50% decrease.

Interviewer: Are you sure? How do you get that number?

Candidate: Oh my apologies. Okay, so given our year one totals from - we didn't have "C" so that's why that is "0". Our year - basically our "A" - year one was 20k, and then times a profit margin of 4. For "B", it was a total of 30k times 2.5 in terms of profit margin. So that becomes 80 plus 75, which is equal to 155k. To simplify the math, I rounded that to 150. So that makes roughly 1 over 6 which is roughly equal to 16%. So we've seen a 16 percent decrease in profit from year one.

35:06

Here I want to take a moment, and assess two things. One is rounding numbers, and two is what to do after you've come out with a number. These subtle things on how you handle numbers say a lot to the interviewer on what a candidate you are, or what a potential consultant you may be. Here, with the candidate simply said was, "So I rounded 155 to 150, and 25 over 150 is 1 over 6 which is 16 percent." The candidate is not wrong in rounding numbers from 155 to 150. However, the way that the candidate phrased it seemed like he was trying to avoid doing complex calculation by simply making it easier for himself.

What I would do in this situation would be to request a subtle validation with the interviewer on if my rounding is okay. Most of the time, the interviewer will approve of the rounding, but you don't want to come across to the interviewer that you are deliberately avoiding difficult calculations. Second thing I want to assess here is the importance of asking yourself the "so what" question, after you come out with a number. In this situation, the profit decline was 16%, and, the candidate simply said, "Okay, after my calculation, the profit decreased by 16%." But a better candidate would respond by analyzing that percentage in the bigger picture, either by comparing it to a profitability goal that the client is hoping to accomplish in the future, or just by commenting on the sheer magnitude of the profit decrease. If I was the candidate, this is what I would say, "So the profit this year compared to last year decreased by 16%, which is not insignificant, but also not impossible to recover. If we have potential to increase prices as well as decrease costs, there is still hope for us to turn it around very quickly as a business." Remarks like these that I've just said would tell the interviewer that you're grasping the magnitude of the numbers, and relating the numbers to the actual business instead of looking at numbers just as pure math.

Interviewer: Okay that sounds good. It seems like we're declining profits. So what next?

Candidate: Yeah. So since it seems that we've identified the problems given with this. I would like to ask, why are the costs for basically brand "C" is so high? Since it seems like again, our profit margin for "A" and "B" are pretty good. But, for "C" like 11 dollars that's pretty high.

Interviewer: Right. So let me tell you. We introduce this new sauce this year. This is the first year. The other two sauces we've done it for 10 years. So we have a good recipe, good assembly line, everything. The variable costs is lower. But for the new sauce, the first year takes some time for us to set up everything, to lower the variable costs.

Candidate: I see. So what variable cost are we having trouble lowering currently?

Interviewer: It's a combination of the people we hire labor-wise, and we actually have a warehouse, a couple of blocks away from our shop, and we set up an assembly - like a process when you make materials, you put materials in the bottle, cork it, and things of that nature. So, it's just a combination of the labor and the process.

Candidate: I see. That's good to know. So just to summarize what we've learned so far, it seems like there has been a decrease in profit despite an increase in revenue, and digging deeper from that we've seen that that's because of us increased sale in Texas hot sauce - product "C" - which has a much lower profit margin than "A" and "B" has. And, from what you've told me so far, is that one reason why cost is so high, currently, is because since it's a new recipe, essentially, there are a lot of variable costs that need to be ironed out, as you guys improve the process and things like that.

39:33

Interviewer: Exactly. So given all that what would be the logical thing that John should do? What should he do? Should he continue with Sauce "C" or should he take out sauce B. What to do?

Candidate: Yeah. Well one thing I think that the product “C” is still generating profits. The only problem is it's not generating enough right now. And from what I've been told like there is still a process of basically reducing those costs, and that's an ongoing process. So in terms of the long term, I think ultimately, we should be relatively okay contingent on if those costs can be reduced to a point where we can do well in terms of profit. However, for the short term, one thing we can do, we could potentially, try testing out on adjusting the price to see if perhaps if we increase the price but decrease the volume, perhaps we might get a better profit in total profit by doing the price manipulations. Another thing we could potentially do is we could try to seek out if there are potentially ways to save costs in other spaces like, perhaps with shipping.

Interviewer: Those costs have been the same.

Candidate : So there's not much fat to trim away. Then, another potential thing that we can do is again, since we did see that there is the potential problem with cannibalization, One thing we could do is that we could markets these different sauces for very distinct uses so that we have less of a risk of cannibalization. For example, for Texas we could promote it as just something that's absolutely perfect for barbecue; and which Louisiana style and chili peppers don't have as much ground in those areas; or perhaps with Louisiana style we can say that this is the best to go with perhaps fried food, Cajun, John bely, and things like that. So marketing them for different uses would help reduce the cannibalization that we're seeing here. And thus would help, essentially, increase our profits overall in that respect.

Interviewer: Got you. So basically you're saying we shouldn't take away this new sauce.

Candidate: Yeah. In my opinion, given the analysis that we have, and given the fact that you said that you guys have been in the business for a while, and you have “A” and B, and you guys know how to reduce costs, I'm fairly confident it's a matter of time until you guys are able to reduce costs, so that the profit margin in this profitability problem will ultimately disappear.

Interviewer: Okay, so let me give you some background. We introduced sauce C, which is Texas Home Made, because there has been a new competitor in town. Their new competitor's called Joe's hot-sauce, and they're based out of a hot sauce chain on the West Coast, and they're opening one of their first stores on the East Coast in Manhattan. They have good sauce, and their customers have positive feedbacks. It seems like they're doing pretty well. So that's why we rolled out sauce C, because it seems like from the customers, Joe's hot sauce has a lot of new flavors that are very refreshing to the East Coast customers. We want to roll out a new sauce to compete with Joe's. Does that make sense?

But let me tell you what you said about not to take out sauce C. Let me tell you why you're wrong. Because we're only having one dollar of profit margin, we're selling a bunch of them. So if we run this for a couple of years, we'd be losing a lot of profits, and we don't have a lot of cash reserves. If I'm John, what you've recommended me is totally wrong, because we'd be losing profits every year, and eating away our assets. Don't you agree?

43:33

Right at this moment I challenge the candidate on his recommendation to keep Sauce C, and I vehemently voiced my opinion, and deliberately told him that he was wrong. This is what I call in case interviews, “The Ultimate Consultant’s Challenge”, where the interviewer or the client, if this is an actual consulting project, is challenging the validity of the work that you do, or the strength of the strategy that you proposed. The key when you are being given this ultimate consultant challenge, is to stand your ground. And I say it again, “Stand your ground”. This really comes down to consulting as a job, where many of the strategies that you propose, albeit all backed up by numbers, are still very subjective.

So as a consultant, you are not only selling a strategy, but you are also selling your confidence in the strategy. And, the client wouldn’t feel confident about your strategy, if you change it every time the client gives you a challenge, just as the interviewer would think that you are unfit as a consultant, if you can’t withstand the slightest poking and challenging on your recommendation. So whenever an interviewer says, “Let me tell you how you are wrong here,” and challenges you on the strategy that you are giving don’t fall into the trap, and simply change your strategy to what the interviewer wants. Instead, stand your ground. Continue with what you have proposed, and give more explanation on why you firmly believe that your recommendation is the correct one. As you listen to the candidate responding, notice that the candidate stood his ground. And this kind of response is one that I would recommend people to follow suit in their own case interviews.

Candidate: Well, you do bring up a good point. Again, this one dollar profit margin is not ideal. And also from what you just told me, John doesn't have a whole lot of cash reserves, so he might not be able to eat this relatively low profit margin over an amount of time. However, also given what you told me, if there is indeed a new competitor in town, and one of the draws is that basically their customers are attracted to new flavors and refreshing flavors. Taking away our new product, and sticking with the old ones would not be something that it seems like customers want. Because if they're attracted to these new flavors, then we will still need to have new flavors. We can't just stick to our old products. Furthermore, as I said before in my analysis, if like “A” and “B”, you guys have done pretty well reducing the costs. So again like you said, currently “A” is now a profit margin of 4 dollars per bottle, and “B” is now a profit margin of 2.5 per bottle. Since you guys have had the experience and being able to optimize the chili pepper processes so that you can reduce the costs in that way, I think I am confident that given the expertise of being able to do that for two bottles then basically this hot sauce company should be able to also do that for product “C” as well.

Interviewer: So after I’ve told you, you still think we should stick with C. Basically, I don't agree with it, and I think we should take out C. You think, we should stick with “C”.

47:03

Candidate: Well, I think at the very least, we should give it a chance. And, if it seems that it's we can't, like we absolutely can't reduce profits, then it might be a good idea to remove it. But, given like the overall competitive situation as well as the experience, I think it's worth it right now to give it a chance.

Interviewer: Okay that's fair. You said a lot of things in terms of recommendation. Can you wrap it up or summarize? Take 30 seconds to summarize, and let me know the overall recommendation. What I should do moving forward?

Candidate: Of course, let me take just a few moments. Okay, so I'm ready to proceed with my recommendation.

Interviewer: Please tell me.

Candidate: First off, just to recap our project statement. Originally our client was a hot sauce shop in Manhattan that had previously done well in terms of revenue and profit. But this current year has experienced a decline in profit, so we wanted to look at what the problem was, and how we can turn it around. From our analysis, we determined that revenues were up but profits were down, and the reason for that was because they were selling a lot more of sauce “C”, which had a lower profit margin than this previous two products, and thus causing the decline in profitability. Now, in terms of recommendations there are a few things that this company can do. They can potentially market different uses for this overall product. So like again maybe, Texas can be marketed for just like using barbecue; Louisiana sauce can be used for marketing Cajun food; hot sauce could be marketed for just like a general use for adding more spice.

48:46

Another possible recommendation that could happen is that we could investigate adjusting price of basically “C” to “A”, help with that increasing the profit margin as well as potentially, hopefully increase the overall profit. Of course, more investigation is necessary for that. And then lastly, another thing I thought we could potentially do is a joint venture. So we've heard before that basically customers are looking for new varieties. Another thing, besides just new varieties of hot sauce, we could think of new varieties of ways to do hot sauce. For example, one thing like Tapatio partnered with Lays to introduce Tapatio chips, So we could do a similar thing. So that gets our hot sauce out to more customers, and also would help us compete against this new entry with Joe's.

Interviewer: Okay. All right. Is that all?

Candidate: Yes that's all.

Interviewer: Alright, thank you.

What you have heard is a very nice way to wrap up the case, as you may have noticed yourself. The candidate's final recommendation part was very brief, but nevertheless, with a lot of detailed action items. And, I would grade this recommendation as an “A”. Just to reiterate, the candidate stated his observation that the revenue has been up, but the profit has been down, then explained the key reason of the observation and then gave specific recommendations. Instead of just simply saying we can market these sources for different uses, or we can do a joint venture. This candidate gave a very specific example of how to market them in different uses, and a very specific example of a joint venture that can be set up. So, great job there.

I want to shift gears a little bit here, and shed some light on a question that I have been receiving on the final recommendation part of the case, which is the need to add some risks and next steps after your recommendation. Here, the risks are setbacks that might happen with your recommendation, and next steps are even further action items to either mitigate the risk or things to do afterwards. So my assessment of that is that the risk and the next steps are actually not mandatory in a case interview, and is solely dependent on the length of your recommendation. Adding risks and next steps can either help you or hurt you, if you already have a very detailed and rather long recommendation, adding extra things can make it rather verbose. Whereas, if your initial recommendation is rather short, adding risks and next steps can help you, and add needs to your delivery.

So using risks and next steps at your own discretion, but overall as I have said at the beginning of this case this candidate did rather well. And, I would give this performance an A, meaning that the candidate has a strong chance of getting an offer at a top consulting firm. As a matter of fact, I recently heard from this candidate, and he actually did get an offer from the Boston Consulting Group. So, this wraps up the case.