So in this technology case, we are analyzing UBIKE, a bike sharing company based in China. This particular candidate had a really interesting performance. Usually, by the end of a case interview, as the interviewer, I would know whether or not to hire the candidate. In this particular case though, I'm actually quite ambiguous on whether a general case interviewer would hire this candidate. As you go deeper into the case itself, the candidate had a very strong strength that you can immediately notice. The candidate had many good ideas and threw them all out there and could do math very quickly, which are attributes that usually would get the candidate the next round of interview or an offer. However, this candidate had some glaring weaknesses as well, especially if he encounters a very specific type of interview that might be more strict. One of these key weaknesses was that whenever I gave this candidate a question, he never asked any time off to think about it, to really make sure that he gave out a very comprehensive answer, and instead within really half a second started spewing out facts and started spewing out recommendations.

But to some interviewers, this actually might appear to be a rather rash act on the candidate’s part, because the interviewer is expecting you to at least think about what you're saying, before saying things immediately. So pay attention to these things as you go deeper into the case. If you are the candidate, what I would recommend you do is to develop this business intuition as this candidate has, to be able to think about good ideas, and to do calculations very quickly, but then to also know that even when you have a great idea right off the bat, it might be a good idea to deliberately hold for a little bit, and to think things through before giving out recommendations immediately. So here we go, and let’s take a ride into this case.

02:16

Interviewer: Your client is UBIKE. So UBIKE is a bike sharing company based in China. It is very similar to UBER, but you can think about it as for bikes, right? Whereas for UBER you can use the UBER App on your smart phone to call for a ride, for UBIKE what you do is you use the bike app, and you find an available bike nearby. You unlock one of them and you bike to your destination and then you use your app to lock it. And all of that is done through your smartphone. Payments for the bike can be done on your smart phone as well. So this is actually a relatively new idea and technology that has sprung alive within the past year with numerous successful startups launching in China.

So UBIKE actually started this year and currently is only in operation in China. It is the biggest player in China with around 30 percent market share in terms of the number of rides per day. It’s a lot of information but we're almost done. So, recently UBIKE got some new venture capital funding, and would like to expand both domestically and internationally. More specifically, internationally, since there are no such players other than in China, UBIKE would like to grow on their own by starting their business in a new city, and whereas domestically UBIKE is thinking on potentially acquiring an existing player. So today, after all that, we're going to explore these two areas.

Candidate: Sounds good. Let’s make sure I have got all that information down, we are UBIKE which is a bike sharing company. We are based in China. We are only active in China right now. Essentially, we provide a service where a customer downloads our app on their smartphone, and then they can use the app to find available bikes near them, unlocked them, travel with bikes to their destination, lock the bikes. All the payment is handled on the smartphone, and so that's sort of the premise. In the past year, we have ramped up our operations in China, and we have 30 percent of the market share, but there's a lot of competition and that's just in China right now. And so we are the biggest player in the market with 30 percent market share, we have got some new funding, and we want to determine whether we want to use that to grow internationally or domestically and what the strategy for that would be.

Interviewer: Absolutely, that is correct. So you can ask any clarifying questions you want, but after you ask those, the first question I want you to answer for me is what factors would you consider when determining which city internationally UBIKE should expand into?

Candidate: So, give me maybe 10 seconds to lay out my thoughts there.

Interviewer: No problem.

Candidate: So the vision for expanding internationally is really, we're not acquiring anything. We are launching our product in this new space, new city, whichever city it maybe. Well, so of course, whichever city we pick, we want to make sure that city is very receptive to our product. And in one sense our product is this app, but really what we're trying to do is we are trying to sell bikes as a method of transport. If people aren’t interested in biking, they are not going to be interested in our product regardless of how good the UI or how accessible it is. So when we are considering what city we want to pick, where we want to be expanding internationally, we want to consider factors that would encourage this idea of people need bikes, but maybe they don't want to have them. So a couple of things we are going to look at is, we want cities with relatively large populations. Because you know, if there are not that many people to use our bikes, we might not be able to meet our break even costs for buying these bikes and setting up the system. We want to look at what the transportation culture of the city is. So we are probably not interested in American cities because in most American cities people drive cars, whereas in Europe, most people walk or bike. So we would probably be more interested in an European city because the culture of transport there is more in line with what we are selling. And then we want to take a look at the cost of setting up our system, whether or not it's more expensive to set up our system in certain cities versus certain other cities, and optimizing for what the costs might be. Right off the bat, my intuition is we would probably want to set up in a major European Capital somewhere, or a heavily trafficked area like Paris, Amsterdam, where people are technologically literate and they are capable of using an app to do this sort of thing. Generally the population is generally younger, so they're interested in biking, and of course like those cities have a lot of people, but they are pretty compact. So people do use bikes pretty frequently to travel

07:09

So let's take a pause here, as you have heard from this candidate, this response for the first part of the interviewer-led case is actually not bad, and I would give a score of an A-. The candidate was very quick in his thought process, and came up with three or four ideas on how to tackle this problem within about 10 to 15 seconds of thinking. However, as I have said before in a Mckinsey Style Interviewer-led Type of Case, it is very important to emphasize or even over-emphasize a structure or multiple layers in your answer to a question. And the candidate’s response could have been raised from an A- to an A or A+ level had he done just that. So just to give you a quick example of how to quickly put your ideas into a structure without using too much effort.

So here, if I were the candidate and I looked at this piece of paper after 15 seconds, and see that I have come up with four factors or four ideas: the population of the city, the density of the city, the cost of service of setting up bikes in the city as well as the culture of biking within the city. The first thing I think about is to find some correlation between these four factors, and quickly I could find that the population, the density as well as the bike culture has something inherently to do with the people living in the city, whereas the cost of service really has only something to do with the bikes themselves, and not with the commuters or the people. So then I would bucket population, density, and people's biking culture under the big bucket of people, and I would bucket cost of service under the bucket of bike. And now you see I have two layers instead of one layer as a response to the interviewer. When I actually start answering the question, I would say something like this, "So to answer the question of what factors I would consider to set up UBIKE in a new city internationally, I really think about this problem in two major areas. I want to evaluate the people factor within this new city, and then I want to evaluate the bike factor in the new city. Within the people side, I want to take a look at population size, density of population, as well as the biking culture of people. And on the bike side, I want to evaluate the cost of bringing the bike service to the city." If you had said it this way, it would be a very quick way to turn your otherwise A- response to an A+ response, as it goes to show the interviewer that you have multiple layers, and that you have a very structured approach and you are thinking ahead with multiple layers of structure, whereas on your side it's really not that hard and all you had to do was really to take an extra 15 seconds to find some correlation between the existing ideas that you already have and bucket them.

Interviewer: So those will be your ideas. Ok, that sounds good. So, we will take that into consideration but let's move on to the next question. You know there is the international part and then there is the domestic part. Domestically, UBIKE is considering on acquiring a potential competitor called the BOFO, that's spelled B-O-F-O, which is another bike sharing company in China that does basically the same thing as UBIKE, and it's actually the fourth largest player in China with around 10 percent market share. So again, on a similar note, what things would you investigate into before determining whether UBIKE should acquire BOFO?

Candidate: So right off the bat, two things jumped out to me: the first one is location, so ideally we want to acquire a company that sort of expands the reach of our product even in China. China is a really big place obviously. So if we have a lot of bikes in Beijing and BOFO has all their bikes in Beijing, that might not be worth acquiring them versus acquiring a bike sharing company that has bikes in another major city; the second one is segmentation of the user base. So again, what we want to be wary of when acquiring another company is essentially, for the users who are sort of using this company, we don't want to cross cannibalization between our existing users and the users in this company. We want to acquire a company, acquire a bike sharing service with users that are in a user group of this market completely independent of our own.

So we can do segmentation of the user base in BOFO that could be age. So maybe they somehow appeal a lot more to older people or they appeal more to younger people and so that really widens what our demographics are and what segmentation of population we are capable of reaching. Maybe their pricing model is different, and so they are more attractive to people with less money, or maybe they are more attracted to people who are wealthier and less inclined to bike, that sort of thing. So we want to make sure we are looking at locations where we are really expanding our footprint in China. And then we want to make sure that they provide visibility to capture a different segment of the population than what we have already.

Interviewer: So, to answer your question, it's actually exactly the same in terms of the service that we provide. So it's like a bike-sharing. Think about UBER, it's hard to segment different ages as you put out, but then there is the possibility to segment by location on different cities that they might focus on.

12.58
Candidate: That's true, that being said, it's possible that, just to take the metaphor, UBER. Maybe UBER started with just a normal UBER, and then hypothetically they acquired a classier version of UBER which is now their UBER X service. But you know, real adults, or business people are more likely to be calling those UBER X's and driving around in their black SUV's than they are to be calling like a dude in a Prius. So acquiring whatever technology or infrastructure that's already existing that appeals to that new segment the population if possible. Maybe it isn't possible given that BOFO is really similar to us.

Here, just to give you a hint, in a merger and acquisition question where you are asked "what factors would you consider if a merger or acquisition is a good idea or bad idea?", one of the things that you can focus on is to take a look at the business conditions framework or the MCCCP framework with market, customer, company, competitor and product, and to evaluate these areas both for your company and for the acquisition company. So as showing in the notes here, you can look at these five factors for our company UBIKE, and for our acquisition company BOFO, and you can answer it in this way saying, "I want to take a look at the market both for UBIKE and for BOFO respectively, and see whether there is a potential cannibalization effect on the market, more specifically if the locations that we cover are very similar and are overlapping. And then I want to take a look at our customers and customer segments by age, for example, to see if there is any overlapping there and then see our products, our company, our competitor, etc. So in the end as you see, the location, the customer segments are things that this candidate covered already in his response. But looking across the five factors in the business conditions framework, both for our company and for the acquisition company, can give you more ideas that you can think about as factors to consider in case you have exhausted all your other ideas, and it is a way that also shows that you have a structured approach in a merger and acquisition type of problem.

Interviewer: Sure. So I like those two ideas you said. How about you take some time and come up with 2 more ideas on what you would think about when acquiring BOFO, in addition to what you have right now.

Candidate: Absolutely. So one thing is obviously just cost, how much we are paying them, and is this reasonable based on the fact that we are sort of just jumping our market share by 10 percent, which is what their market share is. And then the other one is what the market looks like after we acquire them and maybe what the market looks like perhaps if we have any modeling that we can do based on acquisition, what it can look like in five years or however long we anticipate this business going on. So for example, why are we buying the fourth-largest and we aren't buying this immediate competitor, the second largest or third largest. With this acquisition of BOFO, how much bigger are we going to be than our second largest competitor and what is that going to mean for us five years down the line, 10 years down the line? So there's a lot of just strictly mathematical things we can be investigating there to see how we could leverage this acquisition of BOFO to really put us in a better position in the market.

Interviewer: So to answer that question, you talked about the possible landscape of the market after you acquire, and the possibility of acquiring different competitors. We actually have an exhibit. So please take a look at this exhibit one, and let me know what you think.

Candidate: Yes, for sure. There's UBIKE and BLUE BIKE is our next greatest competitor. Red Bike, and then, BOFO. Right off the bat, BOFO is actually decreasing in size and is this per year?

Interviewer: Yeah, this is last year to this year, the growth rate.

Candidate: So they actually started off with more customers than they ended with.

Interviewer: Yes.

Candidate: Or rides per day. They had less rides per day at the end of the year than they did at the beginning of the year.

Interviewer: Exactly.

Candidate: So, well it looks to me, one, that it's difficult to maintain a consistent growth in this market in general. I mean three of the five companies here are decreasing. They have negative growth being shown here. Let me come back to that in a little bit. Tier one, two, three, four cities is just size of the cities. Is that right?

Interviewer: Yes, so how about you take about 20 seconds to look at the whole graph to see if you have any more questions?

17:59

Notice here that I encouraged the candidates to take 20 seconds to really read through the chart before giving me any insight, and this is really a more polite way of saying: you don't even know what you're talking about, but you're still talking, and why don't you go back and make sure you know what you're doing. This is really something that this candidate didn't do well here. So the candidate, after getting this chart, immediately started to analyze what he sees without having completely understood all the information in the chart. The candidate didn't understand, for example, what is the definition of a tier one, tier two, tier three, and four city, and how big are they? What is the market share data? Is the market share data in terms of the number of rides or the number of people riding or something else? And the candidate here started spewing out facts and observations out of the chart immediately without having answered these questions for himself.

And this is something that is extremely dangerous in a case interview, because it exhibits a very dangerous behavior if you are to be hired as a real consultant for a real client. When a client gives you a piece of data to analyze, and you immediately start your analysis by giving out recommendations without fully grasping the data, then you will lose credibility with the client, and may even lose the client for your company. Knowing this, and to mimic what real consultants in real life should do, what you are supposed to do when given a chart is to really take 30 to 45 seconds, ask all the clarifying questions you have on things you don't understand, and then come out and say, “Here are the three or the five insights I've come out with after looking at the chart.” So I just want you to be aware of this fact, and to not make the same mistake in your actual case interview, as this candidate has.

Candidate: Out of curiosity, what's the difference in scale between the one, two and three and four cities?

Interviewer: So the second graph shows the total number of tier one, two, three, and four cities in China. You are talking about population, right?

Candidate: Exactly.

Interviewer: So tier one, there are four tier-one cities in China. They are about 10 million in terms of population, tier two about 4 to 5 million, tier three is 1 million or a little bit under, tier four is even smaller.

Candidate: I see. Ok.

Candidate: Well, so a couple of things stand out to me. The first one is that we seem pretty weak in the tier four cities that we hope to penetrate and expand to, especially compared to BLUE BIKE, which is really right on our tail. They have 25 percent, which is not that much different than 30 percent here. That being said, BOFO has expanded into a lot of tier four cities, exactly as many as BLUE BIKE. So, I would say just on that, there's some merit in acquiring BOFO, because UBER, when they started as a company, they weren't looking at profits. They were looking to aggressively expand and grow their business. And that's exactly what we're trying to do right now. So acquiring BOFO allows us to sort of directly compete with BLUE BIKE in this category of tier four cities, which right now we are failing in competing against completely.

Here this candidate grasped the main information from the chart, the fact that BOFO's presence in tier four cities can supplement UBIKE as we compete with BLUE BIKE. However, the presentation of this insight by the candidate was unnecessarily long. Instead, an exemplary response right out of a chart should be numbered, should be insight driven. So here I will take another 30 seconds to put myself as the candidate and present exactly what I would say if I were the candidate. So here it goes, "So right after looking at this chart, I see three insights: Insight number one is that based on the market share data, UBIKE and BLUE BIKE are the market leaders in the bike sharing space in China with a couple of smaller players. Insight number two is that UBIKE can BLUE BIKE are very similar in size and have comparable presence in tier one to tier three cities, but UBIKE is being outcompeted in the tier four cities by BLUE BIKE. And the last insight is that BOFO, the company that we are trying to acquire, and actually both BOFO & DASH BIKE have significant presence in tier four cities, although they are of a smaller size in general. So to combine all these insights, I believe that BOFO's strong presence in tier four cities can supplement UBIKE, and if we acquire BOFO, we will be able to compete with BLUE BIKE significantly better." So what I have just said is an exemplary response to a chart. And as you have heard, it is structured, it is numbered, and it is very insight driven and it should be the way that you present when looking at a chart.

23:18

Candidate: Yeah. And it looks to me, even DASH BACK is pretty successful in the tier four cities. What are we doing wrong here? Do we have any information about that out of curiosity?

Interviewer: I think, as a strategy going out, to answer your question, we wanted to focus more on the top tier cities because we think that's where the most of the users are in.

Candidate: OK, that's fair. May be somewhere along the way in that focus, we lost the way because we are almost even with BLUE BIKE on every one of the cities, I mean tier two we are only slightly ahead, except for tier four where we are just way behind. So anyway, to wrap up there, I think BOFO is pretty tempting strictly because they are offering us this advantage of tier four cities which we don't quite have access to yet. I know we are strictly talking about acquiring BOFO right now. Or hypothetically, are we interested in sort of any deal that can be on the table or are we interested in looking at these other companies or we are just focused on BOFO?

Interviewer: Yes, for all four of these, what additional things would you recommend to the CEO of UBIKE, just additional things to enlighten him?

Candidate: One thing I want to do first is maybe. I am curious why BLUE BIKE is growing at a much faster rate than we are growing. They're growing at one and a half times our growth rate. Given that they are the only other company in the market that is actually growing, I want to know what their strategy is. So how are they acquiring that many rides per day or that many users? Maybe they are being more aggressive about discounts, maybe they are more aggressive about advertising. But we are in the stage where growth is really important, so we want to get on that. Because otherwise there is definitely a non-zero chance that they catch us or even exceed our market share in the near future.

It's probably the first thing, I would say right off the bat, is just to take a look at that. But then again, as I mentioned, really focus on the tier four cities more aggressively because we are really lacking in that department even compared to BOFO and the fifth place company DASH BIKE.

Interviewer: Sounds good. Thank you for the analysis, actually you mentioned, some of the numbers are very important in terms of what we have to pay to acquire BOFO, and that's one of the things you mentioned earlier. So we actually have some numbers from a potential future projection. If UBIKE acquires BOFO, initial investment to purchase BOFO is 100 Million RMB, which is the Chinese currency. After acquiring BOFO, the projected additional revenue generated is around 20 Million RMB a year for the next seven years. So given that information, would you make this investment or not? And how would you evaluate if this investment would be justified?

Candidate: Well, so right off the bat, I will say we don't necessarily have a lot of information. So we know we are essentially paying a lump sum of a hundred million, and then we project an increased revenue of $20 Million per year for seven years. So right off the bat, it seems to me, seven years down the line, we are coming ahead by 40 million RMB. That being said, it will take us five years to just break even our initial upfront investment. And so I'm assuming you phrased it as really a lump sum, and we are sinking it right at the start?

Interviewer: That is correct.

Candidate: So from this data, it says: if we are around in seven years, this is a worthy investment. But that's a big if, right? We are a small startup. There is a lot of competition in the marketplace. There is a competitor that's right on our tail, so we really want to be considering if we are comfortable not breaking even in five years or before five years, because that's when our breakeven point is for the sale. And then, of course this data tells us nothing about whatever additional implications acquiring BOFO could have. Maybe it is not simply like a linear increase in revenue. Maybe acquiring BOFO expands us to other users in a different way, maybe there is some sort of cannibalization effect going on, and so that actually hurts our core business. So maybe we have increased revenue from BOFO, but we lose revenue on our original users somehow. So, does our CEO think we're going to be around in five years to see the break even point.

27:59

As you hear this candidate's interview until this point, a common theme has occurred where every time the candidate ended his structure and his ideas on how to approach a problem, he left it with a question to the interviewer. In this particular case, he asked: does our CEO know what the timeline of existence for our company is? Noticed that this interview is a McKinsey style Interviewer-Led type of case. And by the definition of Interviewer-Led, the interviewer should be the one to ask you questions on your ideas, and on your structures and to propel the case forward instead of the candidate. In reality, the entire interview will be broken down into four to five subsections or four to five questions, while the interviewer will go through these questions one by one. And, probably within a specific subsection the interviewer doesn't even have redundant amount of facts to answer your very specific questions thrown his way, because he is expecting to ask you questions on your structure, or to simply move on to the next subsection. So instead of asking questions to try to propel this interview forward, we recommend you to just simply lay out your framework, lay out your ideas, and simply end there. Tell the interviewer that these are the four ideas I have to approach this problem or these are the three things that I think UBIKE should think about before acquiring BOFO, and that's it. And then, let the interviewer either ask you questions on the specifics of your answer or to move on to the next sub-section of the interview.

Interviewer: Right. So I see two concerns of yours. One is our timeline of existence. So let's assume that even though we are a start-up, let's assume that the CEO is very confident that we want to be a business that survives in 10 years, 20 years, a long lasting business. And to answer the second question, I think the question you asked was?

Candidate: Essentially these numbers really tell us nothing more about whatever other implications acquiring BOFO could have. So maybe they don't because they already factored that in?

Interviewer: Assume that these numbers are all in after factoring all kinds of cannibalization and everything, this is the number, and assuming that we will survive in seven years, how would you do that type of evaluation given the additional information I have given you?

Candidate: Ok, can you clarify what you mean. You mean the evaluation for whether or not we should acquire BOFO?

Interviewer: Absolutely.

Candidate: Yeah. Well, in that case we should. Because of our CEO's confidence, we are going to be around in 10 years, we are coming up 40 million bucks ahead, seven years down the line. I took this as implied that we are only making an additional 20 million per year for seven years and after that that stops some how?

Interviewer: Exactly.

Candidate: OK, alright. Well I think it's a bit strange that it just cuts off after seven years, so maybe we want to look into whatever is causing that effect. But if we are going to be around 10 years down the line, and we already have this 100 million dollars from somewhere, it is definitely worth it. And this is just a lump sum, there is no extra analysis that needs to be done for these figures. Basic arithmetic tells us it's a good strategy.

Interviewer: Ok, do you think you might be missing certain aspect in terms of something else with the numbers, something else with money that you might be considering?

Candidate: There is time value of money, right? We could use 100 million dollars for something else. But if we are just looking at acquiring BOFO, then these numbers tell us yes, but it's possible that expanding internationally nets us a greater increase in revenue over seven years or 10 years or even in a shorter term than acquiring BOFO does. So I'm not saying we should use this money to buy BOFO, and there is no other option to look at. But just evaluating this option, it seems promising. So if we don't have any other promising options, we should do it.

Let's take a pause here. I wanted to lead this candidate to say something very specific in the section on evaluating this investment, but the candidate failed to grasp hints repeatedly, and eventually fail to answer what I hoped he would answer, which is the use of time value of money in making this investment. In case interviews, especially at consulting firms that have a very strong finance, private equity branch such as Bain & Company, oftentimes interviewers will test on the concept of time value of money, and I would like to take just 30 seconds here to explain this concept if you don't know it already. Time value of money is basically saying that a dollar tomorrow is not worth as much as a dollar today. A dollar seven years from now is worth less than a dollar three years from now. Therefore, to do a more objective analysis of investments and cash inflows and outflows throughout multiple periods of time is to use a discount rate that converts cash flows of different years into a value of cash flow of the same year.

33:14
As you see on the top here, this is how you incorporate the concept of time value of money. To do this analysis at year zero, we made an initial investment to acquire a competitor for $100 million. In years 1 through 7, we are reaping the rewards of this investment by a cash inflow of $20 million a year. Now, we want to convert them into the same year, so we want to apply a discount rate "R" to the cash flows of the different years. In year zero, we make the year that we made the initial investment as our base year. And because of that, our discount rate for that year is zero, but by year 1 we need to apply the discount rate of "1+R", the value of $20 million of cash inflow during year one is converted to the cash value of year zero as 20 divided by "1+R", and for year two, the converted amount would be 20 divided by "1+R squared" and so on so forth.

At the end, we want to convert all the cash flows of all the years to the monetary value of our base year, as you see on the bottom of the notes here. As shown in this equation, if the total value of this equation is greater than zero, this investment is a good investment, and it would be a bad one if this equation smaller than zero. This is what I was repeatedly alluding to the candidate, and hope that he would say. Just for your own case interviews moving forward, remember whenever you're dealing with money and investments and private equity, that you always have to consider time value of money, just as I did when you're dealing with different time periods.

Interviewer: OK, That's fine. In that case, let's move onto the third question and the last question, which is we want to deal a little bit more with pricing here. So, currently UBIKE's pricing model involves Pay Per Ride, just like UBER. So right now what happens is that every time a biker rides a bike, the biker would use his smartphone to unlock it, ride it for whatever the distance and then lock it again. And that cycle, the unlock and the lock, would make the system charge the biker 1 RMB. That is the cost right now, which is around 0.15 USD.

Candidate: That's per ride, regardless of the distance.

Interviewer: That is correct. And so now UBIKE wants to investigate the possibility of changing the price of its service. So as a management consultant, how would you determine how much to charge for the service?

> Here, I would encourage you to take a pause, and think through what you would say if you had to answer a pricing question like the one I just gave the candidate. Notice the specific question that I asked was, "How would you determine how much to charge for this service. Now take a few seconds and think it through before listening to the following scripts.

Candidate: First off, I just want to say, they should definitely change the price of this service. You can unlock the bike in the morning, and just take it the entire day, and spend fifteen cents on that. So that just seems like it's such an easy-to-exploit system. Anyway, so what factors are we looking at when we want to consider the price of the service?

We are going to look at a couple of different things right? What are our competitors pricing models look like? How do they price their services? We want to be pricing competitively with regards to the market. The next thing we want to do is we want to see what are our customers willing to pay? What are their alternatives to biking? Are they taking the subway? Are they walking? If they are taking the subway, we want to be pricing competitively to what that alternative is? So like what's the cost of a subway ticket, how much money are they saving by using a different UBIKE pricing model compared to the subway ticket in such a way that that's an appealing pricing model for them.

Interviewer: So can you elaborate a little bit more? I am not understanding how you are comparing UBIKE to subway.

Candidate: Sure. Yeah. Well, so let's say you are going to work in the morning. And you can either take a UBIKE for fifteen cents or you can buy a subway ticket. I do not know how much the subway ticket costs.

Interviewer: That costs, in China, around sixty cents USD for example, or three to four RMB. So three to four times as how much it would cost on UBIKE.

Candidate: Well, so if you take the subway to work, there's no inconvenience. You just stand on the train. If you UBIKE, you are biking and sweaty or whatever. So you know, there's no way that we could raise our price from one RMB per ride to three to four per ride, because in that case, it's not appealing at all to take a UBIKE versus a subway. It's probably faster to take the subway as well. But maybe we can increase it to two RMB per ride, and there are some people for whom the subway lines don't go directly to their work or bike is more convenient. Or it's somehow inconvenient for them to take the subway, and UBIKE price is still a cheaper alternative than subway. But we are doubling what our revenue per ride is and our net income per ride.

So, and then the other thing is we should look into alternative pricing models completely. I think the lock and unlock pricing model is very easy to exploit. We should be looking into perhaps pricing models based on distance. We should be attaching sensors to the bike or something like that. And my understanding is for a lot of bike sharing systems that already exist, that is the current pricing model that they use, and seeing how maybe we could sort of incentivize people to us our bikes for short distances, which is really where we are making the most money, that's where our margins are the highest presumably.

The candidate thought about pricing in a couple of ways here. And I want to explain what the candidate said on pricing, but explain further into detail what the candidate meant. The first thing the candidate said was to price UBIKE close to what our competitors are charging. And this is actually called competitive-based pricing. When you're offering a very similar service as your competitors, for this case a bike sharing service, and your competitors charge a dollar for that service, let's just say, then it is very difficult for you to charge anything more than a dollar, because your customers would choose your competitors instead if you do charge more. And the second thing that the candidate said, which is a little bit more subtle, is to see what subway and what other forms of transportation are charging for the customers. This may not seem that intuitive as competitive based pricing, but actually this is a very valid way to price a product, which is actually called value-based pricing.

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Value-based pricing is telling us, for example, if our customers is deriving a three to four RMB value from riding a subway, then it is very difficult for UBIKE to price more than that if the value that we bring to the customer is not as much as the value brought by the subway. And that is why the candidate said that perhaps we can price it at one or two RMB, but not over three or four RMB, because based on a value-based pricing scheme, our value is not as much as subway. So these are just two very common ways of pricing that you can think of during a pricing question in a case interview.

Interviewer: OK, So let me summarize it for you a little bit. You are saying basically competitively pricing and then kind of comparing it to other forms of transportation, and those would be the two things you would consider.

Candidate: Well we can also be considering other things. What do our main user demographics look like. Are they students?

Interviewer: They are of all ages.

Candidate: Is there any way to take that into account when we are looking at different pricing structures? So, how do different age demographics use bikes differently? And maybe different segments of our user base are actually using the bikes differently as well. May be some of them are biking to work but may be some of them are using the bikes because they really like road biking or something, who knows? So ideally there should be a way to exploit that difference in the demographic usages of our bikes in a way that allows us to price them more reasonably. And maybe this is of course a product of just the case interview format, but we really don't have a lot of information at all on what the users of Ubike look like or what the customer base looks like. So that's information that's really important to our pricing structure, and we definitely want to be looking at that, and we don't want to just say here's a flat fee and that's it.

Interviewer: That's fair. So kind of a follow-up question on that. So one of the potential pricing schemes that UBIKE is thinking on implementing, and UBIKE has considered all the things you've already talked about, but one of the things is to add a monthly subscription model for its user on top of the current pay per ride model. So basically, if the user buys the monthly subscription model, then he can pay that amount for the month, and ride however many times he wants.

Candidate: In addition to the extra one RMB per ride.

Interviewer: Exactly. So let me finish here. So the old pay per ride model is still there for the user to choose if they so desire. So given that information and this exhibit two, would you recommend the CEO of UBIKE to add this new monthly subscription model?

Candidate: And, so I just want to ask that clarifying question one more time. It seems to me here with the monthly subscription charge, there is no price per individual ride. They just pay the fee once a month and they can ride as many times as they want with no additional fee. Is that right?

Interviewer: That is correct.

Candidate: All right, so we have 25 million users that ride five times a month. So we will just evaluate this strictly based on our current pricing model, and maybe how that might look with our new pricing model. So we have 25 million that ride five times a month. So from 25 million people, we are getting 5 RMB per person, and so from that low traffic demographic, we are making 125 million RMB per month. And then we have 5 million users that are riding 50 times a month, so we are making 50 RMB from them, that is 250 million. So that’s a total of 375 million RMB per month. And that's just with this sort of scheme. So let's take a look at the the monthly subscription. Ideally, when companies do things like monthly subscriptions, they are really taking advantage of the fact that people may sign up for the monthly subscription, but not use the service enough times for that to be worth what they pay. Let's just assume that our users are smart, and they actually don't fall for that. Maybe they do but we'll assume that they don't. And so what I mean there is we will assume that these 25 million users, they only ride five times a month. So we will assume they are smart and they know that they can just continue with the old pricing structure instead of signing up for the new pricing structure.

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Candidate: So we make the same amount of money from them, we still make 125 million. Then we have the 5 million users that ride 50 times a month, for them there's no reason they should not pick the monthly subscription. It’s clearly a much better deal for them and so we are only making 100 million from them. So this new figure of 225 million RMB per month, which is a clear drop from the 375 million. That being said, what if we could somehow get these 25 million users that ride five times a month on a monthly subscription model as well, even though it's clearly objectively not worth the amount of times they are using the service. If we could do that, we have this extra 25 million users, we are getting 20 RMB per month from them,

Obviously, we don't care about the number of times they are riding. So that gives us 500 million from these users. So 500 million and then from these sort of 5 million users we had previously, that's an extra 100 million. So that's 600 million as opposed to 375 million previously. So if we fully transition over to a monthly subscription charge, and we don't allow users to pick and choose what model they want, we should do it. If we do allow users to pick and choose which model they want, I suspect it's not actually going to be the ideal sort of pricing scheme for us, because at least based on my assumption that our users are intelligent and they're looking at which pricing model they should use based on the frequency they ride.

Interviewer: OK, I get your point. So you are saying if we fully change to the subscription model, we should do it. Are you sure about that?

Candidate: Well, and so that's the thing, right? So there are other ramifications of that. For example, maybe these 25 million users seek their luck elsewhere. They take their business elsewhere to one of our competitors because they know our pricing scheme is no longer in their best interest. And obviously that 600 million figure would be a huge over estimate then, because we are just losing our customer base that has much greater long term ramifications because we would need to aggressively grow our business. That's the life cycle we are in right now. That being said, very clearly the other option where we let our users pick between these two is clearly not ideal either because these users are, in a sense, taking advantage of our service at this price. It's almost like we're giving them stuff for free, and then these users, we are getting no increased from them. So I can't say we should just do this because there are a lot of other factors that we want to be considering, again based on what might these users be paying when they go take their business elsewhere. And how can we recapture that with a different pricing scheme for them. I also can't recommend that we allow both of these pricing structures. That's subjectively bad. So what I might recommend instead is we increase the price per ride a little bit. I don't know in retrospect, I'm not sure I quite buy that because I would say we increase the subscription charge per month. Because the difference in 50 RMB per month to 20 RMB per month for each of these 5 million users is really adding up for us, and these users, these five-times-a-month, anyway they are not going to be paying the monthly subscription charge. Anyway it is too much for them. So we really shouldn't be letting these 50-times-a-month users take advantage of this monthly charge.

Interviewer: So, how much would you raise it till?

Candidate: You know, if we just raise it to 50 RMB, it's meaningless. They're paying the exact same thing that they are paying here. Honestly I think it's a little bit hard to say. We can take a look at the math and sort of see what it suggests to us. But what it will suggests to us is that, to break even and be making the exact same that were making earlier on, we should raise it to 50 RMB because we are making the exact same from this demographic. I'm not sure if I agree with that, but what I might suggest instead is… I'm sorry, I will only take like five seconds to just present an alternative solution.

Interviewer: Sure. No problem

Candidate: All right. So maybe let me present an alternative which is we actually increase both prices. We increase our price per ride from 1 RMB to 2 RMB, which is like thirty cents, right? It's not a huge increase cost wise.

Interviewer: You don't know. 1 RMB to a Chinese user is different.

Candidate: That's true. It is. I mean, it's a 200 percent increase in price. But if we keep this price per ride here at 1 RMB, I really think mathematically there's no way we can reasonably make this work. We increased the price per ride to 2 RMB, and so from these 25 million users who ride five times a month, we are making 250 million. And then, just in order to compete with the figure we were making earlier, which is the price per ride cost, we only need to make 125 million from these subscription users, which should be increasing the monthly subscription charge from 20 to 25 RMB. If we increase the monthly to subscription charge from 20 to 25 RMB, we are just sort of breaking even with our earlier value. If we increased it to something like 30 RMB, now we're making a profit, and the pricing scheme that we're employing is not necessarily encouraging our users to go elsewhere. We still want to look at how this one to two RMB change might affect our business, but it's also not allowing these 5 million users who ride 50 times a month to take advantage of the pricing scheme as much they're really doing when they have both these options available to them.

Interviewer: Alright.

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For this last section on the specific pricing and the introduction of a subscription model, the candidate really had a pretty exemplary performance, and his analysis was pretty impeccable. He quickly realized that if the users are smart enough, then introducing a subscription model would actually have a detrimental effect on our revenue, because only the customers who can save money will use this new subscription model, whereas the customers who will not save money will choose to not have the subscription model. The only caveat I would like to add is that towards the end, the candidate proposed on perhaps increasing the price per ride from 1 RMB to 2 RMB, and assumed that the number of individual customers will still be the same, because it's a small absolute number increase. If I were the candidate, I would ask the interviewer if that is correct, and I would ask how many customers or what percentage of customers do we think we would lose if we were to increase the price from 1 RMB to 2 RMB, which would be a better response than what a candidate asked. And that is the end to this case.