Consulting Case Book and Tips for Interviewing

People & Ideas

Strategic impact, tangible results

Welcome to the A.T. Kearney Way of Consulting

First and foremost, we would like to commend you on your interest in strategy consulting.

You are about to embark on an extraordinary journey and we at A.T. Kearney would like to prepare you in the best manner possible. As you begin to think about the upcoming recruiting season, we hope you will consider exploring career opportunities with A.T. Kearney.

This is a very exciting time to be a part of our firm. In January 2006, A.T. Kearney returned to being a fully independent, consultant-owned firm. As an “80-year-old start-up” we have combined eighty years of delivering value to our clients with an entrepreneurial spirit and fresh perspective. Our firm has enjoyed a lot of success in delivering cutting edge work across strategy, operations and other functions for industry-leading and big-brand clients.

As you explore possibilities at A.T. Kearney, we encourage you to visit our website and participate in our on-campus recruiting events.

At A.T. Kearney we are looking for people who love to reach out. People who want to stretch their talents. People who will challenge themselves to achieve meaningful, measurable results for their clients, their firm and themselves.

People with *Ideas That Last*

Your interest in a consulting career with us suggests that you may be one of those people, and we have designed our interview process so that you will have every opportunity to show it.

The A.T. Kearney interview sequence for MBA candidates seeking an Associate position consists of two rounds. The first includes two 45-minute interviews conducted back-to-back on campus or in another convenient location. The second, which normally takes place at our nearest office, involves meetings with A.T. Kearney’s senior consultants.

If you are invited to complete the full sequence, you can expect that both rounds of interviews will be a combination of case and fit interviews. This means that in addition to discussing our firm and your future with it, the A.T. Kearney consultants you meet will also present you with real-world business problems and ask you to develop solutions.

For Associate candidates in the second rounds, a standardized case presentation will also be included in the process, in addition to regular case and fit interviews. Candidates will receive a written case, along with other necessary materials, and will be provided with 60 minutes of individual preparation time to read and analyze the case, determine key issues and recommendations and prepare slides for presentation. Candidates will then make a 20-minute presentation to A.T. Kearney consultants, followed by a 10-minute Q&A session.

Experience shows that the applicants who are the most successful in a case interview are those who enter it with the right frame of mind and the best preparation. The following information is designed to help you achieve both.

Why the Case Format?

While we look for many qualities in an applicant, the most important is his or her ability to think and communicate as we believe a successful consultant should. A case interview offers you the opportunity to demonstrate your consulting potential.

The case format is a simulation in which your interviewer, in the role of client, presents you with a complex business problem and seeks your initial recommendations for solving it. In the process of developing and conveying your ideas, you will have the chance to display many of the characteristics that make for successful consulting. These include your ability to gather and synthesize information, to postulate alternate solutions, to formulate the one with the greatest impact and to communicate it with power and poise.

Ultimately, both you and we will come out of the case interview with a better sense of your “fit” with the consulting profession in general and with A.T. Kearney in particular.

What to Expect

The case format presents challenges different from those of a more conventional interview. Here, you will not only discuss your qualifications but also demonstrate them. The cases you encounter will be based in part on actual A.T. Kearney engagements or projects. They will focus on areas such as the following:

- Industry Analysis
- Profit Improvement
- Investments

- Market Expansion
- Pricing Alternatives

How to Succeed During Your Case Interview

In general, the best way to approach problems like those listed above is to enter the interview as a consultant would enter a client's office or board room — ready to use your imagination, gather and analyze information, arrive at solid conclusions and communicate them persuasively. We asked for the advice of A.T. Kearney consultants who have conducted case interviews and they offered the following:

1. ***Approach the Case Logically.*** The most important thing is to rely on what your education has trained you to do: use your logic and knowledge to identify the essence of a problem and shape a solution that will produce tangible, measurable results

- **Listen and Clarify.** The interviewer, like a real client, will offer you an initial set of facts. Be certain you understand them completely. Be certain, also, that you help the client clearly express the objectives his or her hypothetical company expects to accomplish as a result of your recommendations. In the interview, as in a real consulting situation, the client may not provide all the information you need without some probing on your part. Be prepared to ask thoughtful questions that will illuminate and fill the gaps.
- **Think "Top Down."** As you analyze the information you receive, begin with the "big picture." Understand the overriding issues and use them to prioritize and organize those of lesser consequence.
- **Hypothesize.** While you listen and question, begin developing alternative solutions. Continue questioning until you are confident as to which will offer the greatest potential for impact.
- **Frame.** Test your hypothesis with further questions and fine-tune it based on the answers.
- **Communicate.** Present your solution in a way that is poised, clear and concise. State your assumptions and revisit them when the need arises. Be "coachable," soliciting feedback and integrating it quickly. At the same time, be firm about the things in which you believe strongly.
- **Know Your Limits.** If things aren't going well, don't try to "tough it out." Acknowledge that you are stuck, seek more information or pursue a different

logical path. Remember, the simulation is designed to reflect the reality of consulting, including the fact that it can be complex and ambiguous.

2. ***Think Creatively.*** In the consulting profession it is not enough to be logical. You will also need to be creative. With this in mind, here are some things you should try to do during your case interview:
   - **Challenge Conventions.** Be willing to be different. Step outside the proverbial "box." Resist the temptation to rely on past problem-solving approaches and, instead, allow yourself to engage in free association. At A.T. Kearney we are looking for people who can offer a new slant on old problems — that's what we mean when we say that ours is a firm where your ideas make a difference.
   - **Approach the Problem from Multiple Directions.** Look for different ways to characterize the issues facing the hypothetical company. Consider each as a different starting point toward a potential solution. Look beyond the numbers to the products, processes, people and politics behind them.
   - **Adopt the CEO/Shareholder Perspective.** Remember, you are not simply trying to solve a problem — you're solving it for someone's benefit. In this case it is a CEO in his or her role as chief strategist and protector of shareholder value. Ultimately, producing results means increasing the underlying value of a company.
   - **Consider Organizational and Cultural Aspects.** Think about the ways in which both a problem and its potential solution will influence the jobs, responsibilities and attitudes of the hypothetical company's people.

   The above are some of the "do's" that will help you maintain a creative edge. Here are some of the "don'ts."

   — ***Don't Force Your Solution to Fit a Standard Framework.*** The only things it needs to fit are the problem, the business and the objectives.
   — ***Don't Speak Before Thinking Carefully.***
   — ***Don't Search for a "Silver Bullet."*** Complex problems rarely have simple solutions.
   — ***Don't Use "Buzz Words."*** Be simple and direct.

3. ***Send the Right Signals.*** The success of an engagement will often rest on the strength of the working partnership that develops between the consultant and client. The same is true during the case interview.

With this in mind, approach your interview not only as an audition but also as a relationship-building opportunity. Maintain consistent eye contact. Engage in dialogue, not monologue. Express your ideas in ways that speak directly to the interviewer's concerns and objectives. And be sure that your demeanor sends the right signals, demonstrating your:

— Passion for learning

—Commitment to results

— Ability to gain from adversity

— Good business acumen

— Confidence (but not arrogance)

— Poise under pressure

Sample Cases

Below we have included sample cases that will assist you in your interview preparation. These are actual cases that were given by A.T. Kearney consultants to candidates in the previous years. The cases offer a good mix of strategy, operations and technology areas across different industries. The final case is an example of a second-round case (in the presentation format) as discussed in the earlier section of this document.

CASE 1: GROWTH STRATEGY FOR PENETRATING A NEW SEGMENT

Brief overview: This case is a classic growth strategy case which involves penetrating a new segment by offering new products. The candidate will be tested on his or her thoughts for achieving organic growth and on some light quantitative analysis.

The Problem and Background

Client is a $2.5B *Fortune* 500 worldwide provider of leading-edge transportation, logistics and supply chain management solutions. Product offerings include: LM, which provides leasing and programmed maintenance of trucks, tractors and trailers to commercial customers; SC, which manages the movement of materials and related information from the acquisition of raw materials to the delivery of finished products to end-users; and DCC, which provides a turn-key transportation service that includes vehicles, drivers, routing and scheduling.

The focus of our discussion today is the LM group.

The growth in the overall number of truck registrations has slowed, 2.2% CAGR. The LM market is declining. However, the client's revenues within the LM market have been flat.

The client has asked your help to put together a growth strategy.

(On slight probing)

The client is looking at achieving significant growth over the next 2 years and is looking for some major improvements.

Your task – 1

In general, what are the different ways to achieve organic growth?

Expected Response

- Achieving growth through current products offered to current customers (reducing prices)
- Achieving growth through new products offered to current customers (cross-selling)

- Achieving growth through current products offered to new customers (expansion)
- Achieving growth through new products offered to new customers (penetration)

Your task – 2

What are your thoughts on the current market dynamics facing the client? Taking this into account, please recommend an organic growth strategy.

Data to be provided (during the course of the interview)

Market and customer segments

4.7M truck registrations annually (slow growth, 2.2% CAGR)

Market is segmented as follows:

- For Hire: 21% (customers who use trucks for hire)
- Private: 60% (customers who own and maintain their own trucks)
- Lease and Manufacturing: 11% (customers who buy trucks on lease with packaged maintenance program)
- Financing: 8% (customers who finance purchase of their trucks through banks and other groups)

Competition

Client and one other competitor own 24% each of LM market. The remaining 50% is divided up by smaller players.

Product/Offering

The offerings in the LM market are highly undifferentiated. Each offering has an asset (truck, tractor and trailer) and a maintenance program for the asset. The asset is owned by the provider and the customer pays a fixed monthly price for leasing the truck (based on the brand, age and financing term) and subscribing to the maintenance program. Subscribing to the maintenance program is not optional as the truck is not owned by the customer.

The customers are required to sign contracts for the specified term with the provider.

Expected Analysis

The candidate should be able to figure out that the client has grown primarily through acquisitions. Here's why. The LM market is declining but the client has maintained revenues. Increasing prices is not an option since the product offering is highly undifferentiated.

Enough said. The client needs to look elsewhere.

This is basically a case on penetrating a new segment.

Another key point: if the LM market is declining and truck registrations are increasing (albeit slowly), there must be another segment that is increasing share within the overall market. That would be the private segment.

What does the private segment need?

They are big customers (grocery chains, retail outlets, etc.) who are not really interested in leasing trucks and freeing up capital. They may however be interested in maintaining their trucks since that is by no means their core competency.

This means that the current LM product (asset + maintenance) no longer appeals to them. Hence we need to offer a new maintenance-only product. This product will likely be lower priced since it involves only the maintenance component.

Your task — 3

What are some of the key challenges with introducing an additional new product (especially one that is lower priced)?

Expected Response

- Cannibalization — existing customers may want this product as well
- Service differentiation — the client may be unable to provide differentiated service based on the type of customer and may end up overserving customers

Your task — 4 *(ask only if time permits, otherwise skip to task 5)*

How would you go about formulating what product to offer to the private customers? What process or steps would you follow?

Expected Response

- ***Qualitative Assessment*:** Interview prospective customers and conduct focus groups and brainstorming sessions with subject matter experts to find out what the private customers' needs are
- Formulate several hypotheses and list attributes that the new product should have (like different service levels for maintenance program in terms of priority servicing, regional or national coverage of shops that customers can take their trucks to).
- ***Quantitative Analysis*:** Conduct a survey to measure the interest and preference for the attributes outlined in the qualitative assessment. The sample size should be representative of the truck industry across private customers and other segments and the different types of customer industries (e.g., construction, groceries, utilities, etc.).
- ***Capability Assessment*:** Can the client do this? What would it cost them? What upfront investments need to be made? Can the existing infrastructure support the new products and new customers? Can the customer service differentiate? Are there any cultural challenges?
- ***Business Case*:** Use the findings to build a business case quantifying the revenue opportunity using estimated pricing and estimated customer volumes from the survey.

Your task — 5

If the client captures 1% of the private market by introducing this new product, at what rate will his overall revenues increase?

Expected Analysis

Client has 24% of 11% of 4.7M trucks = ~2.6% of 4.7M trucks.

If he captures 1% of the private segment, his market share will be 3.6%. This represents an increase of 38%.

CASE 2: SOFTWARE GROWTH

Brief overview: This case is a growth strategy case which requires the candidate to focus on various segmentation dimensions and develop a focused strategy for the client.

The Problem and Background

Global Software Group (GSG) is a large, publicly traded software services company. GSG's current portfolio is comprised of four major product groups: Universal Desktop Software (UDS), Productivity Pack (PP), Business Infrastructure Suite (BIS) and Business Solutions Suite (BSS). It has been facing slowing growth and lagging stock performance lately. Its international business is growing well, however its U.S. operations have been lagging, even though they represent over a third of its sales. 10% CAGR up to FY 2001 has slowed now to 3% CAGR since then. U.S. is approx $3.6B out of $10B in annual revenue.

Your task — 1

GSG has engaged A.T. Kearney to develop a strategy that will restore its top-line growth for the U.S.

Data to be provided (during the course of the interview)

Product Groups

There are four major product groups: Universal Desktop Software (UDS), Productivity Pack (PP), Business Infrastructure Suite (BIS) and Business Solutions Suite (BSS).

Product Group	U.S. Revenue ($M)	Customer Base	Growth
UDS	$477	Individuals and Businesses	Low Potential
PP	$1,566		
BIS	$145	Businesses Only	High Potential
BSS	$1,378		
Total	***$3,566***		

UDS and PP are established, well-penetrated products with a larger share of revenue but are not expected to provide growth. They are treated as industry standards. These products are industry independent and require little to no implementation support.

Product Growth

BIS and BSS are growing products and approximately 80% of the growth in the next 3 years will come from these product groups. BIS and BSS were subsequent additions to the product portfolio and face substantial competition from global software and hardware vendors.

Expected Response:

- Candidate should recognize that there is opportunity within the “business” product groups
- Candidate should then look to further drive toward identifying specific opportunities related to “business” products

Your task — 2

Is GSG looking at the overall market in the right way? How else can you segment this type of market?

Data to be provided (during the course of the interview)

Customer-Based Segmentation

Historically GSG has segmented the market by product. However, there is a hypothesis that there are better, more meaningful ways to segment the market.

Current Market

	2005 GSG Revenue ($B)	2005 Software Spend ($B)	2005 IT Services Spend ($B)	Total IT Spend ($B)
Small- & Medium-Sized Businesses	$0.7	$9.3	$53.5	$62.8
Large Corporations	$1.2	$20.3	$60.2	$80.5

"Future Market"

	2010 Est. Software Spend ($B)	2010 IT Services Spend ($B)	Total Size ($B)	Percent Growth Since 2005 (%)
Small- & Medium-Sized Businesses	$20.0	$92.0	$112.0	78%
Large Corporations	$34.0	$63.0	$97.0	20%

Past History

In the past, GSG had all but shunned the small-business market in favor of the larger-enterprise segment.

Competition

The large-business segment is highly competitive with intense competition from large software and hardware vendors.

Expected Response:

- There are a number of ways that the candidate could potentially segment the market. Look for a logical segmentation structure with clearly defined segmentation variables (e.g., vertical markets, business versus consumer, geographies, buying behaviors).
- The interviewee should ask for the data related to the revenue growth projections associated with each of the two business segments.
- The candidate should be able to see that small businesses are a better target for GSG.

Your task — 3

Is there a way GSG can prioritize which small businesses to go after?

Data to be provided (during the course of the interview)

Industry	# of Businesses	IT Spend ($B)
Agriculture	967	$1.1
Manufacturing	483	$7.3
Telecom and Utilities	69	$3.3
Business Services	1,538	$7.6

Additional information on industries and IT spend

Expected Response

- It makes the most sense to concentrate on industries which have the largest spend per business (e.g., Telecom). Agriculture will probably be last in this case.

Your task — 4

What is your recommendation for GSG? (Summarize)

Expected Response:

- GSG has traditionally used a product-based view of the market as opposed to a customer-segment-based view
- The candidate should provide a clear recommendation for focusing on the small-business segment
- The candidate should provide confident and concise recommendations on why the small business segment is more attractive (e.g., high growth rates, less-competitive segment, historically has not been an area of focus)
- Within the small business segment, GSG should prioritize its strategy on certain industry verticals like telecom

CASE 3: MEDICAL SUPPLY CHAIN

Brief overview: This case requires the candidate to evaluate two supply chain distribution plans and recommend the best option for the client. This will involve understanding of supply chain costs and intense quantitative analysis.

The Problem and Background

Scott Yarborough, CEO of Chicago Scientific, maker of non-invasive medical devices for cardiology, gynecology, oncology, etc., wants you to establish the distribution network for entry into the European market based on promising sales projections from Marketing.

Chicago Scientific currently has manufacturing in Lake Forest, IL, and Raleigh, NC, and serves the U.S. market. The plant in Raleigh has ample capacity for the projected sales in Europe.

Scott has asked you to advise him on establishing a supply chain structure for the European market. You have to look at the most appropriate distribution method for the European sales.

Note to interviewer: There are 3 questions in this case.

Your task — 1

What are the different factors you would consider in establishing a supply chain structure?

Expected Response

- Transportation costs (both inbound and outbound)
- Warehousing and operating costs
- Inventory costs
- Service levels for customers

Continue with Problem and Background

Scott is considering two options:

Option 1

The first option is to have a one-hub distribution center (DC) in Berlin, Germany, and 20 satellite warehouses in relevant European cities that directly serve the customers.

Option 2

The second option is to have four DCs in Berlin, Germany, Paris, France, Gothenburg, Sweden, and Milan, Italy, with no satellite warehouses. Berlin DC will serve the demand in Polish cities and the Paris DC will serve the demand in English cities.

Preferred Service Levels

In the U.S., Chicago Scientific has next-day delivery to its customers and wants to establish similar criteria in Europe, if feasible. Scott indicated that service levels and cost are the key criteria in determining how to set up the European supply chain.

Your task — 2

Recommend which option Scott should go with.

Note to interviewer: The data below is given to the candidate as requested. Instruct the candidate to focus the analysis initially on transportation costs, warehousing costs and service levels. The inventory costs can be provided directly if there is not enough time left.

Transportation Cost

All inbound transportation is by air and would take an average of three days from NC with same cost to all European cities. The distribution between countries would be through ground transportation. Transportation costs are given in Table 1.

Table 1 - 2006 European Sale Estimates and Transportation Cost

Country	Package volumes (000 pkg)	2003 sale projections ($M)	Avg. Pan-European transportation cost from Berlin DC ($/Pkg) *for the 1 DC Model*	Cost of shipping from satellite to customer ($/Pkg) *for the 1 DC Model*	Avg. cost from distribution center to customer in option 2 ($/Pkg)
Germany	20	$20	$8.5	$10.0	$10.0
France	15	$15	$9	$10.0	$10.0
England	5	$ 5	$9.5	$10.0	$10.0
Sweden	10	$10	$9.5	$10.0	$10.0
Poland	4	$ 4	$9	$10.0	$10.0
Italy	12	$12	$10	$10.0	$10.0

DC and Satellite Warehouse Cost

DC and satellite warehouse operating costs are on average $30 per square meter including lease, utilities, labor and depreciation. The capital cost for a DC is on average $60 per square meter including building, equipment and initial shipment of inventory (not safety stock investment). Chicago Scientific wants to own the DCs and lease public facilities for the satellite warehouses. You can ignore the markup for the public warehouse services. The minimum size for a distribution center is 1,000 m^2 and space requirements are calculated at 0.1 m^2 per unit of package.

Service Levels

Service level is dependent upon the percentage of demand that could be delivered the next day, second-day, third-day, etc. The service level for option 1 is 100% next-day delivery. However, with option 2 50% is next-day, 30% is second-day and 20% is third-day delivery.

Inventory Details (only if time permits, else provide cost directly)

For option 1, initially inventory levels will be set at 100 days in the Berlin DC and 30 days in each satellite warehouse to meet projected customer demand.

For option 2, initially inventory levels will be set at 150 days in each of the DCs to meet demand for countries and cities served.

Expected Analysis

Refer to detailed analysis at the end of this case.

- The distribution network in option 1 is more expensive than option 2 when considering just transportation and warehousing costs. Higher service levels could be achieved with option 1 compared to option 2. Consequently, the low service level and similar cost base make option 2 less favorable. Another consideration is that option 2 has a higher capital investment requirements due to more days of inventory. Also consider the inventory holding costs will be less with option 1.

Hence option 1 is the recommended option.

Other points that the candidate should draw upon

- Candidates should present the tradeoff between distribution costs and customer service levels to evaluate the performance of the supply chain

Cost	Service Levels
• Inventory holding costs • Transportation costs (network optimization, air vs. ground) • Warehousing costs (own vs. lease, high inventory levels, shrinkage) • Ordering costs • Shortage penalties and lost demand	• Fill-rate percentages (% of demand satisfied on time) • Cycle service level (% of time demand satisfied completely) • Response time for customer demands • Recognize that in this case the benefit of high service level is much more critical than inventory cost due to the high margins in the medical industry

- Since the total distribution costs are directly correlated with the average aggregate inventory levels on hand, candidates should also comment about reducing inventory levels
  - Smaller batch sizes and order quantities
  - Risk pooling and postponement
  - Package to order
  - Product mix management
  - Implementation costs and risks (exp. obsolescence)

Your task — 3

What additional considerations should you factor in while establishing a distribution network?

Expected Response

- Additional considerations for the distribution network
  - Top-line impact of two options and amount of capital tied up
  - A hybrid option for reaching optimum cost levels
  - Delivery frequency and inventory levels
  - Reducing safety stock levels
  - Flexibility against future demand fluctuations
  - Build a qualitative weight scale between service levels and costs
- Candidates would also consider the aspects of distribution at an international level (tariffs, value-added tax) as well as the expiration date pressures on inventory, future growth outside EU countries, i.e., options with scalability potential

Total Sales= $66,000,000
Total Pkgs= 66,000

1 DC and 20 Satellite Warehouses

Transportation Costs

DC to German Satellite War. ($8.5/pkgx20000)	$170,000
DC to French Satellite War. ($9/pkgx15000)	$135,000
DC to English Satellite War. ($9.5/pkgx5000)	$47,500
DC to Swedish Satellite War.($9.5/pkgx10000)	$95,000
DC to Polish Satellite	$36,000
DC to Italian Satellite War.($10/pkgx12000)	$120,000
	$603,500

Cost/pkg=$10
From Satellite Warehouses to Customers $660,000

Total Cost **$1,263,500**

Warehousing Cost

Capital/m2 $60 Operating/m2 $30

Berlin DC

Inventory= 100 days	
Space needed = 66000x0.1x(100/300)= 2200m2	
Operating Cost= 2200x30=	$66,000
Capital Cost=2200x60=	$132,000

Satellite Warehouses

Inventory=30	
Space needed=66000x0.1x(30/300)=660	
Operating Cost=660x30=	$19,800

Total **$217,800**

Inventory Holding Cost

Cost of the inventory is 40% of Inv. holding cost is
100 days at the DC
30 days at the warehouses

Capital tied up at inventory=	$11,440,000
Holding cost at DC=6600000x0.4x0.2x(100/300)=	$ 1,760,000
Holding cost at satellite warehouses =6600000x0.4x0.2x(30/300)=	$ 528,000
Total	$ 2,288,000

4 DCs and no Satellite Warehouses

Berlin DC to German customers $10/pkg	$200,000
to Polish customers $10/pkg	$40,000
Paris DC to French customers $10/pkg	$150,000
to English customers $10/pkg	$50,000
Gothenburg DC to Swedish customers 10/pkg	$100,000
Milan DC to Italian customers $10/pkg	$120,000

Total Cost **$660,000**

4 DCs

Inventory=150	
Space needed=66000*0.1*(150/300)=3300 m2	
Operating Cost=3300x30=	$99,000
Capital Cost= 4000x60=	$240,000

Total **$339,000**

150 days at the DCs

Capital tied up at inventory=(150/300)x66000000x0.4=	$13,200,000
Holding cost at DCs=660000x0.4x0.2x9150/300)=	$2,640,000
Total	$2,640,000

	1 DC and 20 Satellite Warehouses	4 DCs and no Satellite Warehouses
Total Annual Distribution Cost	$3,769,300	$3,639,000

CASE 4: COMPETITIVE THREAT

Brief overview: This case is an assessment of the threat posed by private labels. The candidate will be required to deeply explore all internal and external issues impacting the client and will be asked to justify his/her recommendation.

The Problem and Background

Your client is a U.S.-based manufacturer of branded cookies (cookies that carry the name of the manufacturer.)

Recently private label cookies (those carrying the name of the retailer) have emerged and threatened branded cookies.

Private label cookies are made by the same manufacturers who make branded cookies; they are just sold under the name of the retailer.

Your task — 1

How large would you estimate the overall U.S. cookie market to be in $ terms?

Expected Response

The first question has no right or wrong answer. One response would be to estimate the number of U.S. households, estimate household consumption over some period of time, estimate the average cost of a bag of cookies and project out for a year. After an estimate has been made, the candidate would be told to assume the market size is $1B to simplify future calculations.

Your task — 2

How large of a threat do you believe the trend in private label cookie sales to be to your client?

Data to be provided (during the course of the interview)

Private Label Information

- Private label cookies emerged five years ago

- Two and one-half years ago they made up 10% of the overall cookie market (brand being the other 90%)
- Today they make up 20% of the overall cookie market (i.e., there has been a steady, linear increase of the private label portion of the overall cookie market during the past five years)
- The overall cookie market has been relatively flat over the past five years

Competitive Landscape

- Your client, who makes only branded cookies
- A second major player, that makes both branded cookies and supplies cookies for private labelers
- A collection of small outfits, that make both branded cookies and supply private labelers

Distribution Strategy

Distribution occurs primarily through one of two types of outlets:

- Grocery outlets: all grocers sell branded cookies, most also carry their own private label cookies which represents 90% of total cookie sales
- Mass merchandisers (e.g., Wal-Mart, Sam's): sell only branded cookies

What are the sales trends for the client over the past five years?

Your client's sales have been flat at $600M for the time frame of five to two and one-half years ago. Over the past two and one-half years, sales have decreased steadily down to a present level of $560M.

How has market share of the private label segment been split over the past five years between your client's main competitor and the other smaller players?

The smaller players combined had 100% of the private label sub-segment five years ago. Two and one-half years ago your client's main competitor began supplying private labelers. Today, this main competitor owns 40% of the private label sub-segment; the smaller players own the remaining 60%.

How has market share of the branded segment been split over the past five years?

Your client held 60% of this segment five years ago, 67% two and one-half years ago and 70% today. Its main competitor held 30% five years ago, 25% two and one-half years ago and 23% today. The combined smaller players owned 10% five years ago, 8% two and one-half years ago and 7% today.

How does the quality of a private label cookie compare to that of a branded cookie?

Consumer studies have shown that there is a noticeable difference in taste, texture and quality in favor of the branded cookies.

At the manufacturing level, what is the difference in cost of production and price between branded and private label products?

It costs approximately $1.50 to manufacture a bag of private label cookies which will sell for $2.00 to retailers. It costs approximately $2.00 to manufacture a bag of branded cookies which will sell for $2.75.

How do the same numbers translate at the retail level?

A retailer, paying $2.00 for private label cookies, can sell that product for $2.50. The $2.75 bag of branded cookies can be sold for $3.50.

The key finding is that from a cost-price-margin perspective it is advantageous for both the manufacturers and the retailers, with all else equal, to sell a bag of branded cookies. Other factors must be contributing to the demand for private label cookies. Think about the incentives at each level in the chain (manufacturer, retailer and consumer). The following questions can help fill details:

Has there been excess capacity at your client, its main competitor or the smaller competitors that has been used up via manufacturing of private label products?

There was some excess capacity at the smaller competitors and your client's main competitor (your client is unsure as to how much). There is little excess capacity anywhere in the industry today.

Are grocery stores using private labels in other food categories?

Yes, there has been a major push by grocery stores to populate shelves.

Is competition increasing or decreasing among grocers?

Generally increasing. Grocer chains are expanding and the number of grocers to be found serving a given area has increased over the past five years.

What general macroeconomic trends have occurred over the past five years?
The economy has been slowing. There is concern about recession.

Expected Response

This involves determining to what extent your client is threatened by the increasing percent of the overall cookie market represented by private label sales. To better answer this question, information should be gathered on what is driving the demand for private label cookies, to what extent this has already affected your client's sales and what the likelihood is for the trend to continue.

Analysis of the above information tells a very important story. The private label segment was launched five years ago by the smaller players. As private label first cut into the branded segment, it came at the expense of your client's main competitor and the smaller players, not your client. In response to this, your client's main competitor entered into the private label segment two and one-half years ago. This further hurt their own sales and those of the smaller players, but also began to hurt your client's sales. Additional information is required to understand what is driving the demand for private label cookies.

Also, the above information exposes a clearer story. A host of factors have contributed to the emergence of private label segment: manufacturer's interest to utilize excess capacity, grocer's desire to sell products with their name, consumers concerns about a troubled economy (price vs. quality tradeoffs).

Your task — 3

Upon assessment, what is an appropriate strategy for your client to follow?

Expected Response

At this point the candidate would be encouraged to state what they believe the magnitude of the private label threat to be to the client. There is no right answer. The candidate should state the basis of his/her assessment.

High Threat Factors: Revenue decline, recession concern, grocery chain strategy, etc.

If the threat is seen as **<u>high</u>**, the likely recommendation is for your client to begin supplying private label products. The candidate should recognize that in competing in the private label segment, the basis is primarily cost. At the same time, the client's branded product should be protected. Here are some tactics:

Seek to wring costs out of all phases of the operation

- Utilize all existing excess capacity
- Gain maximum product knowledge as quickly as possible
- Understand low cost positions on product ingredients and mix
- Review process improvement/manufacturing efficiency opportunities
- Undertake overhead reduction efforts
- Ensure there is no customer confusion between private label offering and branded product
- Seek partnering agreements with retailers
- Joint advertising and promotions
- Explore deals with mass merchandisers to enter private labels

Low Threat Factors: Client market share not negatively impacted, not much excess capacity, product quality differentiation, etc.

If the threat is seen as **<u>low</u>**, the likely recommendation is for your client to stay with branded cookies only. The candidate should recognize that in competing in the branded segment the basis of competition is differentiation. Additionally, your client should do all it can to halt or reverse the momentum of the private label segment. Here are some tactics:

Pursue a maximum differentiation strategy

- Invest in brand image to support premium price
- Make it difficult to copy product — innovate wisely through product advances, smart product line extensions, etc.
- Manage price gap — explore price increases where appropriate
- Explore exclusive partnering with mass merchandisers
- Consider alternative distribution channels
- Seek partnering agreements with grocers regarding branded products
- Educate grocers as available

CASE 5: OUTSOURCED ENGINEERING SERVICES CASE

Brief overview: This case is an outsourcing case which requires the candidate to analyze the benefits and costs of outsourcing different business functions.

The Problem and Background

- Your client is a large producer of construction equipment with worldwide sales (e.g., cranes, earth-moving equipment)
- The client uses both internal and external engineers to do product design and engineering — activities include detailing, design, analysis and modeling related to the client's end products
- You are called in to reduce the cost associated with outsourced Engineering Services

Your task — 1

- What would be your original hypotheses for the client to reduce the spend of outsourced Engineering Services?
- Which strategies can the client use to reduce his expense related to outsourced Engineering Services?

Expected Response

- Supplier relationship development
  - — Develop selected strategic partnerships/evaluate M&A opportunities
- Demand management/reduce need for external spend
  - — Understand spend drivers for need for external suppliers
- Service specification improvement
  - — Reduce number of specific service or skill levels
  - — Reduce complexity of services required (e.g., standardize engineering requirements across plants)
  - — Substitute skill sets
- In-source/Outsource ("make versus buy" decision) engineering services
  - — Total cost analysis

- Volume concentration
  - Consolidate number of suppliers
  - Pool volumes
- Global sourcing
  - Expand geographic supply base
  - Move more work to lower cost countries (offshore)
- Best price evaluation
  - Negotiate rates or move more volume to lower-cost suppliers
  - Understand total costs & develop cost model

Your task — 2

- We found out that the client purchased Engineering Services from 60+ suppliers, of which 20 suppliers constituted 80% of the spend
- We decided to primarily explore leveraging engineering services providers in low-cost countries such as India and Eastern Europe, which we had deemed to be the most promising
- Let's explore this offshoring opportunity a bit more in depth

One of the key reasons for moving work offshore is obviously costs due to lower wages. What could be other factors driving forces and obstacles for moving more work offshore?

Expected Analysis

- Driving forces (see below)
- Obstacles:
  - Legal risks (intellectual property)
  - Political risks (bad PR, political situation of LCC)
  - Learning curve effects
  - Cultural differences, time zone differences and distance

Expected Analysis (task — 2)

Your task — 3

- After we have established what the key driving forces and obstacles are for moving more work offshore, let's explore the cost and savings side
- In 2003, the client's facilities purchased 500,000 hours of Engineering Services from third-party suppliers, 10% of which was done offshore
- What would be the total savings for moving all the work offshore?
- Follow-up question: are there any other cost factors you would consider?

Additional data to be provided if probed:

- Onshore supplier rates are on average $40 per hour
- The average billing rate of an Engineering Services supplier in India (assumed to be the best candidate) is $15

Expected Analysis

- Quantifiable:
  - Additional time needed (a) before work: package information and write statement of work, (b) during work: communicate, correct, (c) after work: correct and redo work:
    - If supplier proposes Onsite Liaison: 20% today at $40 => 500,000 x 20% x $40 = $4M
  - Learning curve effects:
    - Candidate should propose 2 learning curve effects:
    - For the supplier — Engineering time in a low cost country (LCC) is supposed to be equal to that in the U.S. after a brief period of adjustment
    - For the client organization — additional time needed will come down to 10% => 500,000 x 10% x $40 = $2M
  - Telecommunications: negligible
- Difficult to quantify:
  - Poor quality of work due to new supplier can lead to quality problems during assembly and lead to increased warranty costs
  - How could this be quantified?
    - e.g., warranty costs, number of defects, etc.

CASE 6: SHARED SERVICES AND IT

Brief overview: This case is an example of a final round case offered by A.T. Kearney which will require the candidate to review material, develop insights and make a presentation.

Situation

You have been contacted by the client officer responsible for M&S Manufacturing Company to lead a new project. M&S has been a solid client since its merger was completed. The client partner calls you after an earlier meeting with M&S's CIO and CFO. The entire situation at M&S is changing and the client has asked our firm to help. The following information is provided.

Background

A joint venture, the M&S Manufacturing Company was established two years ago and is now operating at $4 billion annual revenues with a 25% gross margin and 10% operating margin worldwide based on its ability to generate 15% return on its project investments. Most of the company's operations and sales are based in North America, however, the company has locations in many countries around the globe. Resources for the joint venture were supplied as follows:

- Miller, a large manufacturing and distribution company, supplied most of the people, mainframe-based applications and current IT infrastructure and facilities
- Smith, a manufacturing company, supplied cash and patents

The company is now designing a new shared services and IT infrastructure to combine various administrative processes and replace the legacy systems provided by Miller. The scope of the processes to be included in the shared services center includes Finance and Accounting, Procurement, Human Resources, Real Estate and IT which account for 70% of the company’s SG&A expenses.

Shared services allow organizations to consolidate redundant support functions, such as accounts payable, for disparate business units. By leveraging economies of scale from a common IT infrastructure, such a group is able to market specific services to its business units.

In bringing together the five processes into the shared service center, M&S believes a specific focus on improving the IT infrastructure should be top priority. The current IT infrastructure can barely handle the current volume of transactions as they are disparate legacy systems mainly built in-house with some of the best programmers at the time. The scope of the IT redesign includes worldwide data communications networks integrating corporate functions with field operations, manufacturing and distribution sites.

Issues

The company's CFO has been challenged to find answers to the following questions:

- How can M&S develop an effective shared service center and a 3-year IT Strategic Plan? How should it be approached?
- What functions should be included in shared services? Who should run the shared services group?
- How can M&S align its business, process goals and strategies?
- How can M&S use shared services to gain a competitive advantage?
- How should M&S finance and justify the cost of the new shared services and IT infrastructure?
- What parts of the infrastructure (if any) should be outsourced? How should M&S decide what to outsource and what to retain?
- What is the right level of IT expenditure for M&S?
- What SG&A cost reduction trends may have an impact on M&S's strategies and business performance?
- What organizational, technological and management strategies should be followed to provide an effective and responsive IT solution for M&S's rapidly changing needs?

Our previous shared services work at clients show finance and accounting and HR typically drive 3-4 times the benefits of the other functions. Our initial estimate is to improve operating margin to 12%.

Internal attempts to resolve these issues have been unsuccessful. As a result, the CFO is looking for outside assistance. The CFO is coming under increased pressure from the business units to address the issues. Some division heads are even talking about coming up with their own solutions if "something isn't done soon to control cost and improve service levels." The division heads have formal business plans for the company's growth but are telling the CFO that the administrative process and IT functions are not well linked to these plans. Additionally, the division heads currently each manage their own support functions within their divisions, while the CFO manages all of the corporate support functions.

Your Assignment

Assume that you have the responsibility to manage the project and provide recommendations to respond to M&S's needs. A meeting has been set up for you to provide initial insight and a general approach for the project. You will have 30 minutes (maximum), including questions and answers. Assume that the ultimate audience for approving your approach includes both IT and non-IT executives. You will need to:

- Provide an overview to demonstrate your understanding of M&S’s needs and key issues to be resolved
- Describe the critical factors to be considered in developing an effective shared service and IT strategy
- Provide a project overview describing what your firm will do and what will be delivered

Some items to consider:

- Make reasonable assumptions you feel are appropriate to M&S's situation. "Convenient" assumptions, such as M&S has just completed a benchmark study with “XYZ benchmarking company,” will be deemed unacceptable.
- Do you have enough information to propose a solution? If not, what kind of information will you need to collect?
- What kind of analyses do you expect to perform?
- How/when will you interact with your client?
- What conflicts or difficulties, if any, do you expect? What steps can be taken to prevent or deal with them?
- What are the benefits of your proposed solution?
- State any assumptions you used to develop your answer.

Your recommendations will be evaluated based on organization, approach, rationale and your communication skill, not graphic style.

The materials need not cover all of M&S's issues, but should deal with at least several major areas. You should cover sufficient detail to show your appreciation of consulting challenges and demonstrate your specific skill set.

Answer Guide

- The candidate should provide a ***high level overview*** to demonstrate their understanding of the issues and desired outcome
  - — A Strategic Plan should be constructed to address the many complex issues involved — not just technology issues but also strategy, organization, management, outsourcing and investment/operating costs

- The candidate should provide a ***description of the critical factors*** to be considered in developing an effective shared service and IT strategy
  - — International — M&S's new infrastructure has to support the international operations in many countries — with many different host-country languages, currencies, business practices and government regulations
  - — Manufacturing — M&S's legacy IT infrastructure is a patch network of home-grown solutions rather than an integrated solution to enable manufacturing processes and labor to run more efficiently than now
  - — Business Plans — M&S's management has formal strategic business plans for company's growth but they have told us that the current infrastructure is not linked as well as it should be with the business plans
  - — Urgency/Prioritization — M&S has expressed a great sense of urgency about moving forward with this project however it is important to show prioritization of tasks and deliverables

- The candidate should provide a ***project overview*** touching on key factors
  - — Business Plans — the team will review M&S's plans for worldwide expansion, new business units, new product lines, acquisitions — all of which would determine the infrastructure needed to support growth
  - — Competitive Advantage — shared services can increase competitive advantage by being able to speed up processes, add agility to react to market conditions faster, provide a lower cost basis than competitors and increase productivity through consolidation
  - — Financial Outlook — the team will review M&S's 3 to 5 year financial projections to evaluate how best to finance the new infrastructure along with using past studies to leverage work already done
  - — Executive Information — the team will determine exactly what kinds of information and administrative support the combined company really needs for strategic planning as well as managing day-to-day operations of a modern manufacturing company
  - — Economic Study — the team will conduct an economic feasibility study of the various alternative scenarios for the new shared services center including cost-benefit analyses
  - — Processes — the team will identify roles, processes and technology before and after the merger for compatibility, redundancy and cost-effectiveness

- Legacy Systems — the team will evaluate the legacy IT systems/ software and determine how much longer the existing computer hardware, software, client/servers, networks and PC workstations will be serviceable
- Technology Assessment — the team will take inventory of M&S's existing IT infrastructure to determine what requirements need to be kept; given patch-work of networks, packaged systems need to be assessed
- Outsourcing/Offshoring — the team will explore potential M&S outsourcing programs with the leading service providers to identify which processes and functions to outsource, and which to retain in a shared service center environment
- Sourcing Strategy — the team will assess benefits, costs, and risks for each service area to be outsourced; establish criteria for selection of service providers; define different types of contracts and how to manage them
- IT Function — the IT function needs to be integrated with each of its customers; for each business unit, processes need to be translated into IT solutions
- Organization Model — the team will help to design a new organizational model based on the new Shared Services structure
- Governance Structure — a PMO (project management office) should be set up to help drive the process

The candidate should also provide a ***Cost/Benefit Analysis***:

Current SG&A expenses (billions):

	Current	Future
Revenue ($B)	$4.00	$4.00
Gross margin (%)	25%	25%
Gross profit ($B)	$1.00	$1.00
Operating margin (%)	10%	12%
Operating profit ($B)	$0.40	$0.48
Operating expense ($B)	$0.60	$0.52
Share of shared services centers of total operating expense (%)	70%	70%
Share of shared services centers operating expense ($B)	$0.42	$0.36
Reduction in expense	$0.06	
Savings %	13%	
ROI required (%)	15%	
Max total investment ($B)	$0.37	

Final Thoughts

We look forward to meeting you and exploring your potential as an A.T. Kearney consultant. If you have any questions about interviewing with A.T. Kearney, we would be pleased to answer them. Please visit the A.T. Kearney recruiting website at http://www.atkearney.com/main.taf?p=2,1,8,29,2.