

The following case is an interviewer-led case format, so it's a little bit different than the traditional case interview. And as you listen to this, be prepared to do a lot of math. This is the kind of case where you'll actually get the most value out of it, particularly the middle section of the case, by actually getting out a piece of paper and doing the math along with the candidate that's being interviewed. So on that note, let's go ahead and get started.

This next candidate is a soon to be MBA graduate from a Top 5 U.S. business school. That's the context of this person's background. Let's go ahead and get started.

Interviewer: This case involves a client that is in the chemicals manufacturing industry. Your client's name is Gold Chem, and they create a chemical that is used in the process of refining gold ore – making gold that is very impure to making it extremely pure.

There are a couple of companies in this business; Gold Chem is by far the largest, and has been around the longest. It is a commodity in the sense that the chemical – from all the various manufacturers – really is molecularly identical. Also in the sense that the pricing is pretty constant – there is a market and it is traded – so pricing it pretty fixed in this business.

Recently, however, there has been some new news that has the CEO and Board somewhat concerned. There is a new company that has entered the market. The company is called Mega Chemicals, and it is a global conglomerate, perhaps similar to something like Dow Chemicals. This company – across all its markets and all its product lines – is probably 50 times larger than your client, Gold Chem. But Gold Chem so far is the larger one within this particular market.

Candidate: Okay.

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Interviewer: At the same time, Gold Chem has been receiving overtures from yet another company, Worldwide Limited, which is also a chemicals conglomerate. It appears Worldwide Limited seems to be interested in potentially acquiring Gold Chem.

The client has two questions they would like you to answer. First is: given Mega Chemicals entry into the business, how will this impact Gold Chem over the long run? That is the first question. The second question is: should Gold Chem remain independent, or should they consider and entertain acquisition talks from Worldwide Limited?

Candidate: Okay. So just to recap, our client is a chemical manufacturer called Gold Chem, and they are the largest player in the gold ore refinery space. They face competition, but they are the largest player in the industry. The current threat is the fact that Mega Chem, a very large global conglomerate, has entered the market and is approximately 50 times larger than Gold Chem overall, although Gold Chem is still the large dominant player in the gold ore refinement space.

Further complicating is the question that Worldwide Limited has entered, or is considering entering...?

Interviewer: Worldwide Limited is not currently in the market, but they have reached out to Gold Chem to consider acquiring it.

Candidate: Okay. So the questions that we're interested in understanding are a little bit more about the implications of Mega Chem's entry into the market, and whether or not we should entertain the offer or potential offer from Worldwide Limited, right?

Interviewer: That is right. Another way of rephrasing that first question is: the client is having difficulty imagining what this business looks like a couple of years out. Because that seems fuzzy to them, they have a hard time determining how to run the business, and whether they should stay independent or be acquired.

Candidate: If you don't mind, I would like to take a minute to structure my thoughts.

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Here the candidate had the right idea to take some time to structure his thoughts. That's something I strongly encourage that you do. Unfortunately, I sort of distracted the candidate a little bit in asking him some follow-up questions, or giving him some additional information. He ended up not taking the few extra minutes to actually sort through his thoughts. Ultimately, it did cost him, I think, the interview.

So pay attention as you hear the next few minutes unfold, and notice how there wasn't time taken to structure the thoughts. Ultimately, the thoughts that were structured were not as good as they could have been, in part because he didn't take the time.

Interviewer: Sure, and I'll help you a bit. The opening question here would be: what factors would you consider to be most important in examining, to answer the questions the client has asked?

Candidate: So the questions to consider— obviously when we think about the impact of competition, that is a serious consideration. Naturally, this is a commoditized type of business, so I would imagine that the product is a little less important. Further,

I would imagine the company itself – its capabilities are very important. Finally, the customers themselves I would expect would be relevant, but perhaps a little less, given it is a commodity business and likely traded on a publicly traded type environment with relatively consistent costs. Would you say that's...

Interviewer: It's not traded on an explicit marketplace, but I would say pricing is fairly uniform in the industry.

Candidate: Okay.

Interviewer: And of those four areas, which one or two would you consider the most important?

Candidate: I would consider the competition and the company to be the most important. So the competition obviously is a central issue in this case. And with respect to the company itself – its ability to compete in a relatively homogenous product environment, probably factors like its cost position or abilities, with respect to being a relatively low-cost producer, given this is a commodity business, are probably also very key.

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Interviewer: Great. You said competition and company capabilities were the two most important areas; I tend to agree. For each of those two areas, if you could give me the specific factors within each area that you deem most important in answering the question at hand?

Candidate: With respect to competition, I would imagine that the entry barriers into this industry would be fairly important. Now given we're talking about a global conglomerate with vast resources, my expectation is that that's maybe a little less of an issue, but I would like to explore that a bit further.

I would like to understand a little bit more in detail about any other players in the space, and what the potential effects of those existing competitors are.

I think those are the first two factors I would like to consider, and then we'll get into others a bit later on. Would you like to start there?

There are two problems with this particular opening. The first is: there is no hypothesis to drive what the structure or issue tree should look like. The second is: the issue tree structure is only one layer deep. And particularly in an interviewer-led interview, it's important that the issue tree be more than one layer – ideally two layers, and in some cases, three layers.

What I mean by that is: in a traditional candidate-led interview, it's okay to open up with the three major categories of things you want to look at. Then, over the course of the interview, drill down into each of the three areas potentially, breaking each area down into its subcomponents, breaking those subcomponents into their subcomponents, and sort of work your way down the tree, if you would.

It is ideal that in both interview formats you structure the entire tree. Lay out all the major issues and all the sub-issues in advance, and then work through them in the candidate-led interview. But in the interviewer-led interview, sometimes you don't get the chance to work through all the issues and to reveal the issue tree as you go.

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So it's especially important in this format to outline the issue tree in more than one layer. So you can't just say, "There are three major topics I want to cover," and then stop. You want to say, "There are three major issues I'm going to cover – 1, 2 and 3. Within Area 1, I'm looking for these three issues – A, B and C within Area 1 – and here is why I think they're important, and here is what I hope to learn from them. In Area 2, the three other areas are A, B and C," and explain also the rationale of why you want to learn about those, and what you hope those will do to test your hypothesis.

So both of those things are very important – having an issue tree that goes deeper, and having a very clear hypothesis. You will hear this theme come up quite a bit in many of these case interviews, explaining why you want each piece of information in your issue tree structure, why it's important, and how it will prove or disprove your hypothesis. So you really need to explain that linkage between your issue tree and the hypothesis. Unfortunately, a lot of candidates, particularly in this format, miss doing that.

Interviewer: Not yet, but we'll get there. It sounds like for competition, you want to know what the true barriers to entry are, and if there are other competitors besides Gold Chem and Mega Chem.

Candidate: That's correct.

Interviewer: Okay. That would give you a clear picture there, it sounds like.

Candidate: That would give me at least a start on a clear picture, yes.

Interviewer: How about on the company side? What would the key factors be that you would be interested in understanding about Gold Chem itself?

Candidate: So given this is a relatively commoditized business, I would expect that their cost position is probably paramount.

Interviewer: What are the components of cost position? How would you define that?

Candidate: I guess what I would like to understand is a little more about their fixed and variable costs. Just qualitatively, I would imagine this is a fairly fixed cost capital-intensive business, but I guess I would like to know a little more about that. I would like to understand similar factors for the existing competitors in the space, as well as any information we might have about Mega Chem's capabilities or cost position in that regard.

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Interviewer: Okay, so what I heard so far was you wanted to add Mega Chem onto your list of factors under competition?

Candidate: Yeah, I suppose that's true. I guess I was framing it in terms of the cost position, but yes, certainly we need to understand what Mega Chem's position is.

Interviewer: In particular, you were interested in the cost structure for Mega Chem, is that right?

Candidate: I was interested in the cost structure for Gold Chem, but also for Mega Chem, and also for the existing players in this space. In some sense, there is some overlap, in my estimation, between company factors and competitive factors.

Interviewer: Okay, I've been drawing things out here, so just to summarize, what would the roughly four or so most important factors be that you've identified so far?

So you'll notice, the reason I asked the candidate this particular question of "what are the four most important factors," was that it was very hard for me to tell what the four most important factors were, according to his opening. I'm not entirely sure he knew.

At this stage of the case, it should be crystal clear from the candidate's standpoint, very crystal clear what the major issues are, and why the candidate feels those are the major issues. In this particular candidate's case, he was a little bit all over the place. So it was very hard to understand what his priorities were; what he thought was important; why he thought it was important; and communicating that to the interviewer.

So I asked this clarifying question, which really is a yellow flag, a warning sign, that what the candidate said, prior to me asking this question, wasn't quite clear enough. So the question I would ask you, in listening to this case or reading about this case: What are the four most important issues, according to this candidate? Can you tell? If you can't, then there is clearly a challenge here, in terms of things that could be done better.

Candidate: What I would like to understand is a little more about Mega Chem, with respect to their cost position. I would like to understand a little more about the other existing players in the space and their relative capabilities and cost position. And finally, I would like to understand in more depth our cost position – that is to say, fixed and variable costs.

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In answering any type of question where you have a certain number of ideas, so: what are the four most important factors, what are the three key issues, and those kinds of things, it's a very useful habit to number your points. So if you say, "In response to your question about the four most important topics, number 1 would be this; number 2 would be that; number 3 would be this; and number 4 would be that." It really helps clarify in the communication which issue you're talking about.

It's hard, actually. One of the reasons interviewers like it is because it's clear and very simple to understand, from the interviewer's standpoint. One of the reasons candidates don't often do it consistently enough is because you have to know what your three or four ideas are going to be before you actually start numbering them. So if you say there are four ideas or three ideas, it sort of presupposes that you know how many ideas there are. I think a lot of candidates sort of make it up as they go, which is certainly understandable.

But it's better to just pause for a second, rewind, think through all your ideas. before you even speak about the first one. Explain that there are three or four ideas you want to cover, and then dive into each one, one at a time. That is probably the preferred way. I think under pressure, with people who are nervous, sometimes they want to jump into the first one. Then in the middle of the first one, they'll come up with a second one, and so forth. It's better to pause, wait 10, 15 or 20 seconds if you have to, and think it through, "Okay, what are the three most important things here?" Explain what the three are, and then dive into each one, one at a time.

Interviewer: So you want to do a fixed and variable cost comparison across the major competitors in this marketplace?

Candidate: Yes.

Interviewer: Okay. What would you guess would be the major cost components of fixed or variable costs in this kind of business?

Candidate: I don't know a lot about this business, but what I would imagine is that this is a fairly highly capital intensive industry, so there is a fair amount of investment in

significant machinery to refine gold. I would imagine that with respect to variable costs, major inputs would probably be energy and gold ore itself.

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What we have here is a candidate who frankly misunderstood the context of the case. He didn't really grasp the background information around the case, and misunderstood what business the client was in.

I went back to check the transcript on this to see if perhaps I stated it unclearly or ambiguously, and in looking through the words, it was pretty clear I explained what industry this business was in and what they do. In this particular case, the candidate didn't get that. I think it is indicative of two problems: One is the candidate did not actively listen early in the case or the beginning of the case, which is really very important. The second is that the candidate didn't have the habit of confirming what he thought he'd heard. You'll notice that a lot of candidates in these interviews, particularly in these recordings, will do that, and it seems very mechanical and so unnecessary in some ways.

But I can assure you that it is very necessary. If you do it four or five times and try to confirm what you understand, nine times out of ten, you heard it right if you're paying attention. One time out of ten, you'll have caught a misunderstanding very early in the case in the first two minutes, and that will very much impact how you think about the rest of the case. Keep in mind that interviewers are human, and they sometimes forget to mention things. So it was their intention to mention profits rather than sales, in terms of what is important to the client, but perhaps they misspoke. So by asking a clarifying question confirming your understanding, you give them one extra chance to make sure they themselves (the interviewer) got it right.

Guess what? If the interviewer misstates something, or states something ambiguously, or you didn't quite catch it, or thought they said something but you never heard it, and you don't pass the interview, well guess whose problem that is? Even if it's the interviewer's fault, it doesn't matter. If you didn't pass the interview, you didn't pass the interview.

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So it's really important early on to listen very actively, pay close attention, and then confirm what you thought you heard. I know I've been saying this forever, I'll continue to say it, and I guarantee you people will continue to make the mistake. It's a very simple one and very easy to control, it's in the opening minute of the interview, so it's not like— you forget these things. Just write down what you thought you heard, and paraphrase it back to the interviewer to make sure you heard it correctly.

In this particular case, the candidate did not do that, and I think it threw him off in the wrong direction. He got confused because he was starting off from

a bad point. A case is hard enough as it is, you might as well be solving the *right* case. Give yourself every advantage possible, and this is precisely one habit that will help you do that.

Interviewer: To clarify, this company manufactures the chemicals used to refine gold ore, and their customers are gold ore refineries. So this company doesn't actually touch gold at any point in the process.

Candidate: Okay. Obviously that changes things quite a bit. I would still imagine it is a relatively capital-intensive industry.

Interviewer: It is.

Candidate: Instead of gold ore as an input, and energy as an input, my expectation would then be that variable costs would consist a little more of labor and input chemicals predominantly.

Interviewer: Great. Based on what you've talked about so far, do you have a hypothesis that you're going into this with that you want to test?

Candidate: Yes. I would say that my hypothesis is that Mega Chem is likely to be able to resource...potentially given their resources, and as a result of this, I'm very concerned about the cost position element in general. In order to test that, that's why I'm asking for much more detailed information about the cost structure of Gold Chem.

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Here I was trying to help out the candidate a little bit. So I asked the candidate, "What is your hypothesis?" The reason I asked that was for two reasons: One – I couldn't tell, and either he didn't say one or didn't say it very explicitly, so I didn't really grasp it. The second one was: sometimes candidates actually do have a hypothesis; they've just never bothered to say it out loud. So part of it is a legitimate help of, "Okay, maybe you have one and you're going somewhere, but I don't quite follow it."

So it's designed for me to figure out as an interviewer: does the person have a hypothesis? If so, that's one point in their favor. If they forgot to say it out loud, maybe that's a deduction, or if I ask and they really don't have a hypothesis, then that is two points, if you would. I'm using points here very flexibly – I'm not talking about a specific rating system; I'm sort of talking conceptually to mark against.

So in this particular case, I asked the candidate, "What is your hypothesis? What do you want to look at, in terms of data? And how is this going to help test

your hypothesis?” I’m not sure if you followed the candidate’s last response, but I couldn’t, and it was still unclear to me what the candidate’s hypothesis is, and then how he planned to test it.

As the rest of the interview unfolds, I suspect he didn’t really have a hypothesis or was very fuzzy. Therefore, his issue tree structure to test the hypothesis was equally fuzzy, because the starting point wasn’t a strong one to begin with.

Interviewer: Could you be a little more specific – I know you are concerned, but concerned about what in particular?

Candidate: My expectation is that the global conglomerate Mega Chem likely has access to cheap inputs. I would imagine they would be able to leverage their supply chain and existing vendors in order to supply them with the chemical inputs in particular, at probably a relatively low rate compared to what we can get them for.

Interviewer: Okay, it sounds like your hypothesis is: because Mega Chem is such a large company that they would have a lower cost structure than your client, and in particular, around materials costs. Okay, that seems like a reasonable hypothesis.

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Here we have the candidate who did actually end up stating a hypothesis. I probably rephrased it a little bit clearer than he did. At this point, we’re probably into the original interview... we’re about 14 minutes into the interview. So the ideal point to have made the hypothesis was about 12 minutes ago. Because now really in practice— these interviews, by the way, are a little longer than the ones you’ll actually see in the live interviews. In part, I give a little more time in certain sections, because I’m trying to use it as a teaching example. So I want to flush out all the mistakes and all the good things, and have ample time for that.

In practice, when you hit your time limit in a particular section of the interview, they just cut you off and move on to the next piece. In this case, I’m letting them run long so we can see all the things they’re doing, and basically give them some coaching down the road on how to improve that. In real life, they will just cut you off.

So in this particular case, we’re 14 minutes into the interview, and that hypothesis really should have been stated at Minute 2. And the entire problem-solving structure the candidate should outline at this point, including the hypothesis and the issue tree underneath it, really should have been covered probably in the first seven minutes – maybe eight or nine minutes. So we’re running way late, and this point, it would have never even happened – we wouldn’t have even gotten this far. We would have been cut off, and moved on to the next part of the case.

So reasonable hypothesis – just the timing was not the preferred timing.
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Interviewer: With that in mind, if you could turn to Exhibits 1 and 2, and go ahead and take a minute to look at that. The question I have, which you can keep in mind as you look at that is: What observations or insights do you notice about these businesses? Anything counterintuitive, anything that was unexpected that you would like to point out?

Candidate: Right off the bat, I notice Gold Chem has a substantially larger production output than Mega Chem does at this point in time. You mentioned that Gold Chem was, in fact, the largest player in this space, relative to this fairly large global conglomerate. That's a little counterintuitive.

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Furthermore, what is counterintuitive is that the profit... it looks like per ton, it appears... so just to be clear, this profit information or the variable cost information is per ton?

Interviewer: Yes, it is per ton. My apologies for not labeling that appropriately. All those cost numbers are on a per-ton basis.

Candidate: Got it. So the fact that Gold Chem is more profitable, where Mega Chem is not at all profitable on a per-ton basis, is impressive. Furthermore, I notice that raw materials seem to be most of the driver behind that. The raw material cost position is 25% higher for Mega Chem than it is for Gold Chem, so that's really the key, I think.

Interviewer: So now I want to run a scenario by you, and have you do some computations on behalf of the client. For these computations, I have three assumptions that I will give you verbally. And then in Exhibit 3, there are some additional assumptions that will become relevant for the exercise we're about to do.

Candidate: Okay.

Interviewer: The ones I will give verbally you obviously want to write down, perhaps on the same page as Exhibit 3, since you'll be using it together. Here are the three assumptions for this scenario that I would like you to do some computations for.

Assumption #1 is assume market consumption remains unchanged at 80,000 tons per year. Given this is Mega Chem's first year in business in this market, let's assume Mega Chem can increase its production capacity from 10,000 tons to 40,000 tons, once it gets the ball rolling. For our purposes, let's assume that is next year. So second assumption – 10,000 to 40,000 tons for Mega Chem. The

third assumption is that for every 10,000 tons that Mega Chem increases its shipments in the market, Gold Chem's shipments would decrease by 5,000 tons.

Candidate: Okay.

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Interviewer: So half the growth that Mega Chem gets will come at the expense of Gold Chem. So the question here is: assuming that Mega Chem reaches peak production of 40,000 tons, what would the variable cost structure on a per-ton basis be for each of the two companies? Please refer to Exhibit 3 for additional information on cost structure changes.

Candidate: Got it. Just so I'm clear, we're assuming that Mega Chem is going to 40,000 tons of output, and we're looking to understand what the implications are of that?

Interviewer: That's absolutely right.

Candidate: Got it. The first thing I notice is: it appears that if we're assuming the market capacity is remaining constant at 80,000 tons per year, Mega Chem is going up to 40,000 tons per year, which, based on the numbers you gave me, tells me that Gold Chem is going down to 25,000 tons per year of output. This means that we have – between these two players – 55,000 tons, leaving a remaining 25,000 tons available for potential entrants, I would imagine. Or perhaps left on the table for the other competitors we haven't yet talked about.

Interviewer: That is a fair assessment.

Candidate: So that is the first thing I noticed. Furthermore, it looks like Mega Chem's manufacturing costs go down by a further \$600 per ton, and transport costs drop by \$60 per ton, so that leaves a variable cost position of \$5,660 per ton, it looks like and...

Interviewer: You want to walk me through the math on that one?

Candidate: Yes, I certainly can. So off of Exhibit 3, so we already have that the volume's increasing by 30,000, and we've got raw materials, and it appears that raw materials are unchanged.

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Manufacturing costs go down by \$200 per ton for every 10,000-ton increase in production for Mega Chem. So that is down by \$600 per ton, transport costs go down by \$20 per ton for every 10,000 ton increase in Mega Chem's production,

so that's an additional \$60 per ton. So we are decreasing by \$660. So that gets us \$5,000, plus \$3,600, so that's \$8,600, plus \$660 per ton, and so that gives them a profit of \$1,340 per ton is the math that I'm doing here.

Here in this example, the candidate is doing the math. I don't know about you, but I had a really hard time following the math – certainly during the interview, as well as afterwards as I was reviewing the transcript. In any particular word-type problem, there is usually more than one way to solve it correctly. So I was trying to see if there was another way that perhaps wasn't the way I would have intuitively solved it, but perhaps it was another way that was equally legitimate and accurate. But overall, I found it very hard to follow.

The reason I point this out is because if it's hard for an interviewer to follow, it's even harder for a client to follow. So when you do math, it's very important that you go slow, and it's important that you state what you're doing, not just do it. So you can't say, "Well the answer is $300 \times 6 \times 12$, divided by 14." You have to say, "The answer is: sales is equal to volume sold times price, which gives you equals profits." Then explain in words the computation you are about to do, and then substitute in the numbers. That's a very important way, and it's preferable actually to draw it out on a piece of paper – both for yourself, so you don't get lost; and you can turn around and show it to an interviewer, and explain what you're doing.

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In this particular case, the candidate sort of blended the two. He started doing the math while adding the labels as he went. It would have been better off to explain the algorithm using words only, and then using the actual numbers. I do that very consistently. Even today I still do that – mostly for two reasons, 1) to show clients so they can follow along on the math without them having to be too computationally oriented, and 2) for myself, so I don't make a mistake. So I literally write out the words of what I'm doing – price per ton, volume, price margin, percentages – and I literally write the words, the percent symbol, and the words. It becomes a very easy reference point for you to avoid being lost.

Interviewer: What do you have for raw materials costs?

Candidate: Raw material costs on Mega Chem I have still \$5,000.

Interviewer: What do you have for manufacturing costs?

Candidate: I have \$3,400.

Interviewer: What do you have for transport costs?

Candidate: I have \$940.

Interviewer: What do you have for total costs per ton?

Candidate: I have... let's see, \$4,340 and \$5,000 is \$9,340. In fact, it is \$1,660 per ton. Do I have that right? Yes. No.

Up to this point in the interview, I was a little skeptical that this person would pass the interview. It's been about 20 minutes in or so, and some parts we went a little long on purpose. But really at this point, when he couldn't do the math, in my mind that was the clear indicator that I can't pass this candidate onto the next round. It's just the way it goes, particularly in the Top 5 firms; a math mistake computationally – it is just a deal breaker. It really is, unfortunately.

Now it's okay if your math is accurate but slow; that usually means you can work in consulting – perhaps not in the Top 3 firms, but perhaps in the Top 10. Amongst the Top 3 firms, your math has to be both accurate and relatively fast – or “time efficient” is probably a more appropriate phrase, rather than speed.

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In this particular case, the candidate wasn't able to do either – accurate or necessarily that fast. So at this point, essentially in my mind, I had decided that he wasn't going to go to the next round.

Candidate: Okay, so \$660 per ton... so \$9,340 in variable cost per ton. Stop price is \$10,000 per ton, ergo \$660 per ton is Mega Chem's profit.

Interviewer: Okay, I agree with that. What about for Gold Chem?

Candidate: Okay. So manufacturing costs – I have \$4,600 per ton for Gold Chem. Transport costs – I have it looks like an additional \$150, so that gives us \$1,100 per ton in transport, making it \$8,600...\$8,700 per ton, dropping profit to \$300 per ton for Gold Chem.

Interviewer: What are the implications of this analysis for the client, Gold Chem? What does it mean to them?

Candidate: Obviously, terrible. Essentially, profits have been cut by approximately two-thirds, and further, the entrant has not only taken share from us, it has done so while essentially taking its profits up from \$0 to \$660 per ton, and is currently the most profitable player in this space.

Interviewer: Okay.

Candidate: Based on the information we have so far.

Interviewer: Sure, that makes sense. Given all this preliminary information, what is it you suggest that Gold Chem should consider doing?

Here I asked the candidate what he recommends for the client. It would have been better if the candidate had proactively mentioned what he recommended for the client. So in many of these things, you always want to constantly circle back to the original objective of the case, and what the client is looking for.

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I should also mention, even though an interviewer-led case is typically broken up into five or six “mini cases,” it’s tempting to think they are separate cases around the same general topic, you know, this particular company or this particular industry. I think that’s a mistake, and I think it’s useful to think of it as one particular client engagement that happens to be done in five different pieces. But the underlying objective for all five pieces of the case is still the same, the client’s end goal is still the same, and your synthesis should always be to tie it back to the client’s original objective.

In this particular case, I asked the candidate to do that. And again, it would have been better – not a deal breaker, but it would have been better – if the candidate had proactively done that himself.

Candidate: If the assumptions hold, and we assume they hold regardless of anything else, it seems that Gold Chem would be well served to hang onto share, to maintain its economies of scale.

Interviewer: Okay, that’s one conclusion – I agree with it. What else?

Candidate: Beyond that, it would seem that given that, maintaining its raw material cost position is fairly critical, since that is the main driver. But subject to these assumptions, that is not necessarily the only thing at play here.

Interviewer: It sounds like there is a big reversal, so Gold Chem is the most profitable today, but at maturity with Mega Chem really focusing, the positions seems to reverse, with Mega Chem being more profitable. What is driving this reversal? What is driving such a dramatic change?

Here what I’m asking the candidate is: what is the primary driver or primary cause, main cause or root cause of this particular phenomenon we’re seeing with the client? It’s important because it goes back to the 80/20 rule, which is: usually very few things that could contribute to the overall cause actually have the biggest impact. So when you identify things that are causing a particular phenomenon with a client, it is useful to start with the one that has the most impact first, and to say that it has the most impact. So that’s the question I’m asking here, and as you follow the rest of the case, you’ll see why that’s useful.

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Candidate: I'm sorry; I'm not seeing what you're asking here. So I mean ultimately, what is driving the change is sort of the shift in volume, but we've already talked about the implications of that. That is the root cause I guess, based on the assumptions.

Interviewer: I agree with that, but can you be more specific?

Candidate: Sure.

Interviewer: Clearly it's the volume, but what is the volume doing?

Candidate: So the effects of the volume are de-leveraging the fixed cost assets. In other words, as volume slides, they are allocating their fixed components over a relatively smaller volume, and as a result, its cost per unit is essentially going up as a result of that.

Interviewer: Is that impacting the business equally across all major fixed assets, or are there differences?

Candidate: You would expect not. You would expect that the...I'm sorry. I don't want to belabor this, but I don't see what you're looking for here.

Interviewer: Okay. You said the major driver was a shift in volume, so Mega Chem getting more volume, making its cost position more efficient; and Gold Chem losing volume, making its cost structure more expensive.

Candidate: Right.

Interviewer: My question was: does it impact each company's cost structure, each component of their fixed costs equally, or does it change? For example, do raw material costs change, given the change in volume for either company?

Candidate: No, because Gold Chem owns its sources of raw material.

Interviewer: Does it change for Mega Chem either? Even though it has more volume, does it change?

Candidate: Apparently not, based on what we've seen so far.

Interviewer: Okay. How about for transportation costs? Are there big swings in transportation costs because of the change in volume?

Candidate: The overall shift is not huge on a percentage basis.

Interviewer: What is the biggest thing that is changing as the volume shifts?

Candidate: The biggest thing in dollar terms and percentage terms is the manufacturing line.

00:35:59

Interviewer: So it sounds like the manufacturing piece is, for a lack of a better term, the 80/20, or the big driver of the change in cost structure. Is that fair?

So that's exactly what I was looking for when I asked about six minutes ago: what is the primary cause, the main driver of the situation that the client is facing? There are two things wrong, or that can be done better, I should say. One is: I'm looking through my transcript here, and it took about six minutes to answer that question, which is: what is the most important thing here, the biggest contributing factor? Six minutes – essentially that portion of the case was over with, and you'll never get the chance to actually answer.

Again, in this particular situation, I let the case run long so that we could hear out the person's rationale, use it as a teaching example, and so forth. Two things would have been better. One is: if the candidate proactively mentioned what was the primary driver of this particular situation or primary cause. And it would have been better if this was mentioned about six minutes ago. So in a single conversational exchange, rather than going back and forth, or again, mentioning it proactively. So without the interviewer even having to ask, "what is the most important thing," the candidate will proactively tell you what is the most important thing in this particular case. And by most important, I usually mean: which factor is making the greatest contribution to whatever phenomenon you happen to be noticing.

Candidate: Yes.

Interviewer: Great. Let's do a recap. Given this information, what does all this mean for the client? I think you mentioned they should try to hold share as best they can, they should try to keep their raw material advantage as best they can. Are there any other initial implications, based on this data alone, you've noticed that you would want to point out to them?

Here I'm asking the candidate to state a conclusion beyond the obvious. The obvious is that in a business where the bigger companies have a more efficient cost structure, his argument was: you want to make sure the company hangs onto as much market share as possible.

00:38:02

Great, but that's not exactly very helpful. What does the client need to do differently to do that? One good way in answering that question around the implications of a preliminary conclusion is: what does it mean for the client? What should they do differently? How does this impact the client's overall objectives?

For example, what are the client's two objectives? Do you remember? Objective #1 was to figure out how this new entrant is going to impact the client (was the first question they had). And the second question was: they had been receiving overtures to be acquired by a large company. Should they consider it?

In this particular case, rather than saying they need to maintain market share, what I was looking for was: tell me something beyond the obvious! They're losing market share, and your recommendation can't be, "You should keep it." They're not losing market share voluntarily, so it's useful to tell them something a little more concrete. That's like dealing with a client that says, "I've called you in because our sales have dropped, and we need your help in figuring out what to do about that." And your recommendation is, "Increase sales." Okay sure, that's kind of obvious, but how, or why, or in what way? Is there a particular way we haven't considered that we should be considering? So having something that is a little more concrete, I think, is very useful.

Candidate: I would say that given Mega Chem has additional capacity apparently, at least beyond this. That is a little bit of a concern, because as they continue to scale up, they have the ability to drive their unit costs down even further.

Interviewer: Okay, so there is potential that they can get even bigger, that the cost structure might even get more efficient in the future?

Candidate: That's right.

Interviewer: Okay. Given all this, what should they do?

00:39:47

Here I'm re-asking the same question, and again, the hint here really is: what is the client's objective? I think in this particular case, the candidate has forgotten what the client's objective was, and is therefore having difficulty linking his current conclusion back to the client's objective, and linking the two together.

Again, this stresses the importance of remembering what those objectives are, writing it down, boxing it, starring it, whatever you need to do to remind yourself of those objectives. Then when you're stuck, constantly refer back to that.

Candidate: Given all that, the next step would be... given that we've already said they need to essentially hold onto share at all costs, I would say that given this is sort of a differentiated good, I would consider whether or not there are any more service-based types of advantages they might have over Mega Chem.

For example, perhaps they have better distribution, or something along those lines that they could play up, in order to stem a potential sliding share. I would...beyond that, I would say that so far at least, absent any types of advantages they have in that regard, and given this is a commoditized business, probably with a very well defined distribution structure... I would say, at least so far based on the data we've seen, would want to seriously consider the option to sell out to Worldwide.

Finally, I get an implication or a "so what." So based on the candidate's thinking, he finally concludes that maybe they should sell out to the bigger company, because it would allow them to stay bigger. And that's a reasonable conclusion, given the data presented in this particular case. But it was like pulling teeth to get it out of the candidate, using up a lot of time in the case – probably about two to three minutes – when really, 15 seconds should have sufficed. What is important here? What does it mean for the client? What should they do about this situation? And having a firm, concrete, very actionable conclusion.

00:41:57

Again, all recommendations for clients really should be action-oriented, telling the client what they should do differently, and being very clear and very concrete.

Interviewer: Okay. Would there be any factors, which if different, would cause you to change your mind about that recommendation? If so, what factors might those be?

Candidate: Yes, so I would like to know if— for example, while Mega Chem has the ability to scale up dramatically, I would be interested to know if we would enjoy similar scale advantages as Gold Chem, so that is, essentially: could we play that same game and win?

Interviewer: Of getting some economies of scale as you get bigger?

Candidate: Yes, exactly right.

Here the candidate makes a really good point, and I want to give credit for that.

Interviewer: What does the data suggest about that, given what you've seen so far?

Candidate: Given the data so far, it doesn't appear, again, that raw materials are going to change. So there is not a lot of room left for them to grow, given that Mega Chem is already in the market today, but there is some room to grow. So it seems like there is at least some opportunity for that.

Interviewer: Okay, so if Gold Chem could realize better economies of scale, that might change your mind. Anything else that might cause you to change your mind about considering being acquired by others?

Candidate: I'm sorry; I'm not seeing anything.

Interviewer: Okay. Let's say the client runs into you in the hallway – the CEO does – and says, "I know you've been working very hard on this and just wondering if you've made any progress on my two original questions. What implications does Mega Chem's entry to this business have for us? And should I return the phone call from the guy who wants to acquire us?" What would you say in response to that question?

Candidate: I would say based on the data we have so far, you should absolutely entertain the potential overtures from Worldwide. Given the scale advantage that Mega Chem enjoys, or the potential scale advantage Mega Chem would enjoy, and the constraints of the market, in addition to the existing players in the space, and the fact that – if what our projections hold are true – Mega Chem is likely to drive much of our profitability out.

00:44:10

So I would strongly recommend the offer from Worldwide Chemical.

Interviewer: Okay. Now in considering an acquisition by Worldwide Limited, what would be the one or two most important factors that would have to be true in order for the deal to be attractive for all parties?

Candidate: The first thing is that raw material rights ownership issue be relatively stable, given that that is the only source of advantage we have. Second, I would say you would have to have some plan in place in order to protect the current share position as best as possible, because again as we discussed, as volume starts to slide, this deal starts to look far less attractive to Worldwide Limited.

Interviewer: Okay, then under what conditions would Worldwide find this deal attractive? If it's not attractive to the Gold Chem Board, why would it be attractive to Worldwide?

Candidate: Essentially it would be attractive today because if you look at relative positions as they are right now, enjoy a substantial profit margin as Gold Chem, where Mega Chem enjoys absolutely no profit at this point in time. So ultimately, that is sort of— current state is what would be attractive to Worldwide.

Interviewer: Okay. So let's say the CEO at Worldwide also has consultants on his or her staff, and they've looked at the situation much like you have, and their response to the CEO is, "It seems like the writing is on the wall that you guys are going to get creamed by Mega Chem. Why would I want to acquire you for the price you're asking for?" The CEO is unclear on how to respond and asks you for advice, and says, "What should I say? It seems like a good point." How should the client respond to that particular point?

00:45:54

Here what I'm trying to do is elicit from the candidate what he thinks the 80/20 factor is on the acquisition. And any type of acquisition – it usually hinges on a couple of key assumptions being true for the deal to make sense. I was trying to frame the question in such a way to see if the candidate would notice what that would be. Ideally, the client should notice it him or herself, and proactively identify it without the interviewer having to ask the question.

In this particular case: "Why would anyone buy this company, because it seems to be having some difficulty?" So being able to answer that and, in turn: "If you *were* the Gold Chem Company, why would you want to be acquired? What benefit does that have?" So trying to get to the crux of the issue is very important, and when you notice it, you should say it out loud.

I notice that a lot of candidates that I have given practice interviews to – the insightful thought will have occurred to them silently in their head to themselves. They will hang onto the thought until the very end of the interview. Then when the interview ends, I will ask them, "Did XYZ thought ever occur to you?" And they will say, "Of course it did." Well, you didn't say anything! So as an interviewer, we can't read your mind, and so when you have an interesting thought about what is important, it's a very good habit to explain and say it out loud what that thought is.

Candidate: Given this appears to be largely economies of scale, ultimately it comes down to whether or not we could either hold the share or grow the entire pie, but we do enjoy already a fairly substantial input cost based advantage.

The problem I saw in this particular last comment was that it didn't really say anything. The candidate was speaking in generalities, was not really making a firm conclusion, wasn't stating there should be a new hypothesis, wasn't indicating there was new data to get, and so really the comment didn't contribute very much to the conversation.

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Again, this really emphasizes the importance of speaking very concretely, having very insightful key points, and in this particular case, I don't know – well, I have a suspicion. Either he didn't really have a clear point in his head and therefore, he was simply articulating what was in his head, which was a little confused, or he had a clear thought in his head, but wasn't able to convey it very succinctly. In either case, you want to have good points, and you want to articulate those points very, very clearly. And that was not what happened here.

Interviewer: Got it. Let's jump back up to the beginning around the structure. On the opening structure there is...

Candidate: You don't have to be nice; I know it is an unmitigated disaster.

Interviewer: There are parts you can definitely do better. I would say you clearly tried to open with the business situation framework. What is important in that approach – and you did do this – was to identify the parts that are more or less important. That is important to specify.

In this format in particular, you want to drill down deeper around your structure. So if you think of the issue tree as being your four components – competition, product, company and customer – you ideally want to identify the one or two layers underneath each of those, and explain why each of those would or would not be important.

Candidate: Yes.

Interviewer: The reason is: this format breaks up the process, particularly compared to a traditional case interview. It is a little artificially broken up, so Step 1, Step 2 and Step 3. You don't have the fluidity of transitioning from one area to the next to the next. You have to – in 5 minutes – state the entire structure on what you want to tackle in this case. If you don't go into the deeper layers, then the assumption is that you weren't sure what the deeper layers would be. So that would be something important to do.

As an example, you mentioned company capabilities being important, and cost position. I kept pressing you to define what cost position means. Ideally, particularly if that is your key area, you would proactively want to identify the subcomponents.

00:49:54

So you might say something like (to make your same point but with different words), "The company capabilities would be really critical, in particular since it's

a commodity business. We want to know the cost position of the company – in particular, its fixed versus variable costs. And compare that to the other major competitor, which we now know is entering the market, to see who has an advantage in each of those areas.”

Then you might say separately, “In addition, because this is a capital intensive business, my sense is economies of scale would be relevant somewhere in this industry. It is a little unclear whether it is for the company or the major competitor or both.”

So you would want to identify the key things. The structure you sort of evolved to, I think ended up being pretty good, which was essentially a cost comparison between the major categories of competitors. It would have been better to state that from the outset.

So there are two different ways you can go on a structure. You used a structure I didn’t prefer, but that in and of itself is okay, as long as you detect it and transition, based on the data you are getting from the interviewer.

What you do want to do is go down deeper. So when you presented the “competition, product, clients and customers” framework, you didn’t go deep enough in that. Had you done that, I would have given you more credit for going deeper and having justified why each of those things would be relevant. Then I would have said, “Let’s assume the product is a commodity, so we’ll scratch that one off. Let’s assume all the customer demands are pretty constant, so let’s get rid of that.” So that would be my way to say, “Hey, I gave you credit for structuring it in one way that is appropriate and for justifying it, and I believe your justification, but I don’t want to use that one, so I’ll tell you two things that are no longer relevant, and we’ll change it to something that is more relevant.”

This raises a really interesting point that I want to elaborate on. It has to do with how you structure a case at the beginning. If you have a very clear hypothesis, and you identify a structure that logically would test the hypothesis, but the structure was not the one the interviewer had in mind, that is okay. The goal here is not to replicate what the interviewer has in mind, at least in my opinion. But if your approach is reasonable, but just different than the one I had thought of as an interviewer, that is okay.

00:52:07

Now what you can do as an interviewer is: you can give the candidate additional information that would invalidate their structure, and invalidate their hypothesis. So maybe the candidate has a particular hypothesis, and thinks there are four key branches that will prove or disprove the hypothesis. You could (just for kicks), as the interviewer, right after that, say, “Of the four factors, two of

them are not true,” which immediately tells you that the hypothesis is wrong, which generally suggests they need to revise the hypothesis and come up with a new structure.

So when I have a candidate who has come up with a structure that is perhaps, “Hey, actually that seems reasonable; it was not what I intended” – they were thinking about the problem very holistically, and perhaps I was thinking about the client’s problem very narrowly, but their answer was not wrong. So I would not hold it against them. But because I had prepared the case in a particular way, and I want them to focus on certain areas, I would guide them to that area by telling them all the other parts were irrelevant, and seeing if they could adapt. Usually the good ones will adapt, and the structure will end up being similar to what I had in mind, and we’ll go from there.

The point I want to make is: if your hypothesis is strong and your structure is very clear, and clearly does point to the hypothesis, then the interviewer can’t call it “wrong.” They can only call it “different.” That is an important and very subtle point I want to make sure you understand. Different is okay – you can still pass with different – but if it’s flat out wrong, then you can’t. The one way it can be wrong is if your structure supports a silent hypothesis – one that you did not mention – then they are just going to judge you based on whether or not it seemed reasonable to the hypothesis the *interviewer* had in mind, not what *you* had in mind.

So the bottom line here is: you need to state the hypothesis up front; you need to explain your structure; you need to explain how your structure is related to your hypothesis; what it will test; what it tell you; and, what it won’t tell you. And if you do a good job there, even if it is “different,” it will still be considered favorably in the eyes of the interviewer.

00:54:02

Candidate: Right.

Interviewer: So there is a difference between “relevant” versus “not relevant,” versus “right” versus “wrong.” So – “preferred” versus “not preferred.” You used one that was correct, but you didn’t justify it, so I had the issue of trying to get you to change to one that I preferred, as well as to get you to justify *any* framework. Does that make sense?

In this particular case, the candidate – had he done a better job justifying the framework he chose, I would have given him more points for his structure.

But because he didn’t justify it, *and* it was not the one that I was looking for, *and* he didn’t have a hypothesis to justify it against, it was very hard to give him full credit for the opening part of the case.

Candidate: Yes.

Interviewer: I think it would help— in your case, I think it would help if you started with a hypothesis in mind first. I think you (a little bit) gravitated towards using a framework. Here is the risk, and here is why this whole format was invented.

The big complaint from many years ago was that a lot of candidates were doing sort of what I call the “framework regurgitation process” – memorize the framework and spit it back out. A lot of the candidates were saying that costs were important, or this was important, or that was important, because they were told (by someone like me) that it was supposed to be important, and so you say that.

As opposed to really thinking about: is it really that important in this particular case? What you will find in this format is: first of all, it is a lot more interactive. The interviewer is going to interrupt a lot more. They are going to challenge you literally on everything you say. So if you say something that doesn’t seem to naturally follow from what was discussed before, they will question you on it.

So everything you want to do needs to be justified. So if you start with a hypothesis – so your hypothesis that you gave is that Mega Chem has a lower cost position, would have a lower cost structure eventually in this market. Right?

Candidate: Yes.

00:55:56

Interviewer: Then you could start with the business situation framework, even though that wasn’t the preferred one, and you could say, “Well, what about the customer? Is the customer that important? We’re just talking about cost structure and not demand, and so that is probably a secondary issue,” and you might scratch that one off.

As you suggested, what about the product? If they have a lower cost structure, you can sort of assume they would have lower cost structure across the board, and this is not a market segmentation type project, so maybe that’s a secondary issue as well. So that becomes, “Okay, what is the cost structure of Mega Chem versus Gold Chem?” You have evolved to the structure which you ultimately ended up using.

So I think had you started with a hypothesis, you would have more likely evolved to the preferred structure without losing any points. Even though you started off in a way I didn’t prefer, it was still correct.

Again, this is a very important point, and I'll emphasize it over and over again. Having a hypothesis at the opening solves a lot of other downstream problems. Again, this is just a reminder to open with a hypothesis. It truly does solve a lot of problems down the road.

Candidate: Okay.

Interviewer: So I would recommend that. I don't always do that for everyone, but I think that given some of your habits – which I will point out in a little bit – that discipline of stating a hypothesis up front, I think will save you about five minutes.

Candidate: Great.

Interviewer: One feedback point related to that is what I call (I had a note here to myself): point out the differences between a framework versus the core issue. I think this is something that you want to try to pay attention to as best you can, which is always be asking yourself: what is *the* core issue? What is *the* #1 issue on every step of any particular case?

When I asked you, you had a good intuition around it. So when I asked you, “of the four areas, which one was the most important,” the difference in what I'm suggesting is that you proactively do that without having me ever ask you.

Candidate: Right.

Interviewer: You had a couple of math errors, so you just want to be careful with practicing the math. One tip is to write out any formulas around computations before using numbers. So: Mega Chem's “profit” equals their “sales,” minus whatever. And write it out in words – that way, as you get into the numbers, you can always look back up to what you're trying to solve, and it reminds you of your own structure so you don't get confused by it.

00:58:13

Candidate: Right.

Interviewer: In terms of the wrap up, there were a couple of insights that were maybe just beneath the surface that you got really close to, but either never noticed, or you noticed but never said it out loud, so I can't give you credit for noticing it. Let me point out what some of them were.

One of the things that would have been nice to have articulated was that the shift in cost position was primarily driven by the economies of scale, or lack thereof, in manufacturing costs. You got it right that it was volume-driven, but you were

missing the mechanism, one layer under that, of why it was swinging so much. That would have been useful to point out, and I actually think that is probably the core issue in this business – whoever has the lower manufacturing costs, as opposed to transport costs, is ultimately the winner in this game.

Given that *is* the goal, I think one of the core factors— when I asked you, “Under what conditions should Worldwide acquire Gold Chem?” The answer I was looking for was, “If Gold Chem, by being a part of Worldwide Limited, would have a lower manufacturing cost than it would on its own, then it would make sense for Worldwide to acquire it because it would be attractive to Worldwide, and they could get a better price. It is a win-win all the way around.” But that is a big assumption.

Candidate: Yes.

Interviewer: You kind of danced around this other one – I didn’t even think of this one until you said it and it triggered the thought, which was basically: whoever has the bigger volume, ends up having the lower manufacturing costs, which ends up being profitable. So the thing you got much closer to than even occurred to me, and this was like acquiring the smaller competitors. So there is still like another 25,000 tons sitting out there, and they have to be hurting as much, if not worse than Gold Chem would be, so acquiring those other competitors might be a play there.

Candidate: Yes.

Interviewer: The key factor there would be: if by acquiring these other competitors, would the manufacturing costs come down enough to again be #1, in terms of lowest cost manufacturing— total cost position.

01:00:00

Candidate: Okay, great.

Interviewer: Those are the content of this synthesis. In terms of the structure of the synthesis, let’s see... I would recommend doing a couple of things. When you do a synthesis, the first thing you want to synthesize is to directly answer the question that the client asked, which was: “What does this mean for us?” The second question was, “Should we be acquired or not?”

Before I give you more detailed suggestions, let me ask – if you had to describe (without worrying about being formal and precise): how does this business evolve? So the client is thinking, “Hey we’re #1 and we have this big gorilla

coming into the market – what will this business look like in another year or two? In a nutshell, what do you think is going to happen?”

Candidate: Your question is: given that they see this coming, what is their immediate response essentially?

Interviewer: No, it is more like: predict the future. The CEO is worried – they see this 800-pound gorilla coming in, and they are like, “Am I going to be okay?” What is the one word, or one sentence answer to that question?

Candidate: The one word answer is: “No, not really.”

Finally, we have an insight. The trick here is that the synthesis here really is, to the client: “Your business is screwed! You’re in serious trouble.” It’s okay to say it that clearly. In fact, it’s what clients prefer. A lot of CEO-type clients are used to hearing gobbledygook, lots of jargon and phrases of people talking in generalities, and they really do appreciate someone either on their staff, or an outside consultant, telling them exactly and concretely, in no uncertain terms, what is really going on.

So I would literally say to a client, “Your business is in serious jeopardy,” “you’re screwed.” I would say that parenthetically – I wouldn’t write it down but I would say that verbally. “You’re business is screwed – here is why... boom, boom, boom, here are the three reasons.” Then it’s very clear that they know what they’re dealing with.

01:02:00

So here, in this particular case, I think the candidate had the thought that this business was going to have some problems, but he didn’t really say it very clearly or concretely. So that is something you want to make sure you do in your interviews, is: say things very clearly and concretely.

Interviewer: But you didn’t say that, and it’s okay. In my other interviews with other folks, they had similar challenges. A lot of folks, I think in their head, have the right answer, but how it comes out is not very concrete. If I weren’t in my more polite mood, I would say to the client, “Dude, you’re screwed. That’s my conclusion – you’re screwed. You’re going to get hammered, you can no longer be #1, you’re going to be at best #2, and you’re going to make like two-thirds less money. There isn’t a darn thing you can do about it in the short run, so get used to it.”

Notice my rephrase. I’m going to argue that my rephrase is a lot clearer. Now it’s the same idea the candidate had, I just tried to phrase it in a way that was a little more concrete and a little clearer, with the same idea. Hopefully you can see that it is clearer as well.

The trick here is: I'm distinguishing between having the right thought, and being able to communicate the right thought. To pass these interviews consistently, you have to not just have the thought, but you actually have to articulate it very clearly and concisely.

Interviewer: “Your options would be to consider being acquired, to change the game; to consider acquiring others, to also change the game around manufacturing costs.” So being really clear I think is useful, because if you sort of dance around the issue, a lot of that gets lost in interpretation with clients. So they need to be proverbially “hit over the head with a 2 x 4” so it’s really clear what’s going on, so there is no way to misconstrue it.

Candidate: Right.

Interviewer: I think you had the general sentiment. Given the question was kind of “predict the future,” you have to prove why you think that’s going to be the case. So the structure of a good synthesis— let me describe what you did, and then I’ll describe the preferred structure.

01:04:04

You synthesized by saying, “There are two or three things that they should do. One is to try and hold share; the other is to keep their own raw materials cost competitive advantage,” and those were the two things you recommended. The question was: predict the future – what is going to happen to this business, and should I be worried?

So the structure should have been a more polite version of “you’re screwed.” You know, “You’re going to suffer a lot because this major swing in volume triggered by this manufacturing costs. So let me prove why you are screwed. Number one – Mega Chem has superior economies of scale when it comes to volume. So 40,000 tons in their business, versus your cost structure – they will have a cheaper cost structure at that large volume. So the reprieve you have now is only temporary. Number 2...” And so list your points that justify why you think that is going to be— justify your answer, essentially.

Candidate: Right.

Interviewer: Then after you predict the future, then you could say (particularly if asked, “What should we do about it?”) then I think you would say, “I think there are three options you have. I would say in this case, given that manufacturing costs is the core issue, your options should all be around finding a way to impact manufacturing costs, since that’s the 80/20 issue.”

“So being acquired by others, particularly if it would change the manufacturing costs, would be fair game; acquiring others would be; and, if there is another option which I can’t think of that would change manufacturing costs, that would be I think fair game to consider as well.”

Candidate: Yes.

Interviewer: Any questions or observations or thoughts, now that you’ve had some time to think about it?

Candidate: No, I think the feedback is all completely accurate. I am not living the “pyramid principle” in the way I need to be, and that is the big takeaway for me from this. Other than that, honestly I’m a big fan of what you’re doing. It is very accessible and very helpful, so thank you for that.

01:05:52

Interviewer: You’re quite welcome. Interesting – on the “pyramid principle” point, I think I would agree. Any other points that come to mind? Sometimes I find, particularly for the benefit of others, that how you perceive the feedback is as useful as the feedback itself. So that is a good takeaway, that of the “pyramid principle.” Anything else come to mind?

Candidate: Yeah, I think that the “pyramid principle” is key, and as sort of a corollary to that, being as explicit as possible.

Interviewer: Oh, good one!

Candidate: “Explicit points of the pyramid,” I guess is how I would say, would be sort of another piece. Then – answering the right question. I missed what business they were in at the top, which was probably not good. I probably could have been more structured about the math, and that’s obvious. I don’t know. I think you captured it.

Interviewer: I would definitely second that first point you mentioned, which was: be as explicit as possible. I think a lot of your inputs and stuff were good, but from an interviewer’s point of view, if you got the answer right in your head but didn’t say it out loud, I can’t give you credit for it. I can’t read your mind, so that’s sort of stating the obvious.

The other thing (if I had to put my thumb on it) is at every step, being more 80/20. I think all the things you did – I think most of the things were generally right, but they weren’t the most important. Was it relevant? Yes. But was it *the* most important? Not always. I think at every stage, you want to ask yourself, “What is

the most important? What is the 80/20? What is the part that makes the biggest impact?”

Now as a concept, that is easy to understand, but to actually practice it, it takes a fair amount of indoctrination and practice frankly. Because for most people, it is not a natural way that we would typically think. So I'll link it back to certain things. So on your opening structure, you mentioned four areas – you want to always say, “What is the 80/20 here? What is the most important of these four areas?” Then think about how you might change what you say there. Around your synthesis as well – “What is *the* most important portion?” You mentioned things that were – I think they were relevant, but I don't think they were like in the Top 2 or Top 3 list.

So I think that is a good filter as you're working on it, is to constantly ask yourself: “What is the most important thing?” And to add that factor into your decision-making process.

01:08:02

Candidate: Yes, absolutely.

Interviewer: I just want to thank you for participating, and being my guinea pig in the process. It's not always fun, but useful hopefully for both sides in the end.

Candidate: Okay, great. Listen, thanks so much for the opportunity, I appreciate it.

Interviewer: You're quite welcome. Take care.