

In this next case, particularly in this very first example, you're going to hear a candidate make a very fundamental error that really torpedoed the entire case for this particular candidate. So this candidate did *not* do well in this particular case, even though his overall skills I thought were reasonable. And he made a mistake that was really key early in the case, that pretty much made it impossible for him to solve the case, and therefore he did not go on to the next round, or would not get an offer, at least in my opinion.

And the mistake that is made is something that I call the “80/20 rule,” and something you hear a lot in consulting circles, in particular at McKinsey, and what the “80/20 rule” basically means is: 20 percent of the things you can influence will impact 80 percent of your results. It's the definition of working smarter, not harder, particularly in a problem-solving type situation.

And what this candidate did basically was make an 80/20 error early in the case, which is: he decided to analyze a part of the case that really wasn't very important, and completely ignored the part of the case that was actually extremely important. And so we call this an “80/20 rule” type error. And I'm actually glad this particular candidate made this error, because he was the only person that made it, but it's a very important one. And so I want you to listen very carefully, particularly in the first, I would say, first five to seven or eight minutes or so of this case. Notice how the person approaches it, and see if you would do it differently. That's the first thing I would have you look out for.

And then the second thing is make sure you're really clear on what the objective of the case is. I think this candidate perhaps might have misunderstood it. To be quite honest, I actually did not state the case very well; it was a little ambiguous what my goals were. And when that happens, it's important that you, as the candidate, clarify what the interviewer is asking for, because interviewers are human, right?

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And in the event that I perhaps stated an objective for the case that was a little ambiguous, could have been interpreted, you know, one of two different ways and you pick the wrong one and you get it wrong, well, guess what? You know, you get it wrong, *you* suffer. I don't suffer as the interviewer, right? So it's important that sometimes the interviewers forget to mention certain little tidbits of information in a case, and it's important that you verify and you clarify to make sure that you're really clear on what the interviewer is asking for, particularly at the beginning of the case.

And this particular case I think illustrates both these ideas: asking questions, making sure you're clear on the objective; and then the “80/20 rule” in terms of deciding where to focus your time to have the most impact. So with that, let's go ahead and get started.

Interviewer: This company, the client that we are working with, is a storage company. They are based in the Midwest, and they have very large facilities and warehouses that will store a wide variety of things.

The three major parts of their business: they have a moving company, so sometimes they will store people's homes and belongings, if they are in the middle of a move. They will store records, so if you go to your accountant or your medical office and they have old records that aren't active but they still need to keep them for legal reasons, they stick them in a box and they stick it in these facilities. And then they also have a data storage business, where they are storing tapes and back-up tapes for companies with a lot of computer data.

This business—the owner is unhappy because the business has been losing money this past year, and sales have declined, and they are hoping that you can help them figure out how to turn this business around.

Candidate: Okay, so just to reiterate the problem statement: the client is a storage company based in the Midwest. They have large facilities and warehouses that store many things. They have sort of three areas to their business: one is a moving company; and then they store records of medical sort of information; as well as data storage tapes of important information. So the owner is currently unhappy because he is losing money and revenue has declined.

Interviewer: Yes, that's right.

Candidate: Okay, so what you want me to do, I am assuming, is to sort of find out why sales are declining, and to come up with a solution to that problem.

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Interviewer: That would be great.

Candidate: So just to clarify: when you say he is losing money, is it mainly because of the sales, or is he also losing profit?

Interviewer: Both – sales are down and profits are down.

So here the candidate actually asks a couple clarifying questions, and I actually think a lot of mistakes in cases, a lot of I think very simple mistakes in cases are made sometimes in the first three minutes. And one of the things this person *did* do well was to clarify his understanding of the situation. What this candidate did *not* do a good job of is verifying what the objective is. And in this particular case – and unfortunately, I did not say it that well when I actually gave the interview – the objective in this case is to improve profitability. And it is useful in the beginning of the case to ask what the objective is, because improving profitability and improving sales are related, but they're not necessarily the same thing. So it is useful to state that, and once you confirm that, write that down, and always keep circling back to that throughout the case.

So in this particular case, I think some of the mistakes made later in the case were perhaps due to an unclear understanding of what the objectives are, which was: originally, it should have been to improve profits, not necessarily just to improve sales. So just keep that in mind. And again I think – when I think a pretty good candidate, someone with sort of B+/ A- skills – when they miss something, oftentimes it's this misunderstanding early in the case that throws them off. And sometimes they're not strong enough to figure out that they need to clarify that objective, and they waste so much time that they never actually get even a shot to actually solve the case.

*So again, ask for the objective up front and make sure you're really crystal clear on it, and write it down.*

Candidate: Okay, so I could just take a second to write something up?

Interviewer: Sure.

Candidate: Okay, so what I do right now on my piece of paper is: at the top of the page I have profits and coming out two branches, revenue on the left-hand side, and cost on the right-hand side. I further divided revenue into volume and selling price, and I divided costs into fixed and variable costs.

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Interviewer: Okay, sure.

Candidate: So you told me that profits are down. Are they down by a certain percentage that you know?

Interviewer: Let's say that the business overall had \$1 million in net income last year, and it's down to a \$4 million loss this year.

Candidate: Okay, so we were profiting last year – \$1 million – and now— so we went down basically \$5 million?

Interviewer: Correct – about \$4 million to \$5 million, correct.

Candidate: All right, I'd like to start with the revenue side first. You told me that revenue has gone down. Has this been going down for the past couple of years as well? And if so, sort of what is the trend, and how much has it been reduced every year?

Interviewer: I would say it's been fairly flat the past 4 or 5 years, and really had taken this most recent decline just really in the past year or so.

Candidate: Is it also by about the same amount, in terms of the \$4 million or \$5 million?

## Case 4 – Storage – Ex 1 – Transcript

Interviewer: Yes, the net income was positive a year ago, and in the years prior to that was equally positive by the same amount. So this business was generally netting about \$1 million net income, and then this last year they are down about— having a \$4 million to \$5 million loss.

Candidate: Okay. So I'd like to formulate a hypothesis that it might be down maybe due to a reduction in volume. Do we know if volume has gone up, down, or stayed the same?

Interviewer: Yes, actually the number of orders and number of clients has declined, and it has declined by, let's say, roughly 10 or 20 percent.

Candidate: Okay, so there is an interesting point. Just to sort of cover everything here, can you break it down for me – our revenue stream? So what is the revenue stream for the moving company, as well as the records and data storage?

Interviewer: Sure. The residential moving company – the revenues this year were \$30 million in sales. For record storage, revenues were \$15 million in sales; and for data storage, it was about \$10 million in sales.

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Candidate: Okay, and do we have any information on the previous year?

Interviewer: Previous year – for residential moving, was \$50 million in sales; for record storage, it was \$15 million in sales; and for data storage, it was about \$8 million in sales.

Candidate: Okay, so already just by looking at the numbers, I could sort of deduce that: the volume has been pretty stable for record storage, has actually gone up for data storage, but we've gone significantly down about almost 50 percent on residential moving, and we've lost about \$20 million in sales.

Interviewer: That is correct.

Candidate: Decreased by \$20 million – this is the main point. I am sort of putting an exclamation mark near that part, in volume has decreased by \$20 million for residential moving.

Interviewer: Okay.

Candidate: Sort of just to cover the price component, have we changed any prices for these services?

Interviewer: Let's say, for argument's sake, that the pricing has stayed relatively similar.

Candidate: Okay, and similar to the previous year as well?

Interviewer: Correct.

Candidate: Okay. All right, so I'm just trying to see if I've covered most of the things that I've wanted to cover here. All right, so now I feel I'm comfortable in understanding the revenue side, and the fact that the main problem here is the fact that we've gone down \$20 million and a large portion of our revenue. But just to sort of make sure I've covered all my bases, I want to analyze the costs, and make sure that those haven't sort of increased.

Interviewer: Okay sure.

Candidate: So I would like to sort of segment costs into fixed and variable. Is that the way that you'd prefer me to go – if you have data on that, or would you prefer me to break it down by the value chain components within each revenue stream?

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What I would like to do now is give you an advanced and very clever trick that I used, and I wouldn't say I developed, but I sort of stumbled upon it. And that is: when an interviewer gives you raw data, and your instinct is to segment that data into its component parts, here is the way to phrase that question. So here in this particular case, the candidate wanted to look at costs. And the way to say it would be, the way to phrase the request would be: "I'd like to look at costs, and break it down into its components. Do we have any more detailed data on costs and what's included within overall costs?"

And the reason that you want to do that is because there are an infinite number of ways you can segment costs. You can segment costs by fixed versus variable, which is one of the approaches that I often use in my frameworks. You can segment costs by East Coast versus West Coast; you can segment costs by labor versus raw materials. There are lots of different ways to segment costs. And the problem is: when you use an approach prescribed in a framework, such as my own, sometimes that's not the more useful way to segment.

And so in this particular situation, if you ask a very specific question, the interviewer is likely to give you exactly what you asked for, and not volunteer any additional information. But if you ask the question a little more generally – a little more vague – and say, "I want a breakdown of costs," they might give you fixed versus variable, and they might give you a *different* kind of costs breakdown, perhaps costs segmented by distribution channel – you know, selling direct to customer versus through e-sellers – or segment costs of services versus products, there's lots of different ways to do it.

So even though in my own framework, I suggest breaking down costs into fixed and variable, I suggest before you do that, you ask the interviewer to break down— that you want a breakdown of costs, and see what the interviewer

says. They may give you fixed versus variable, but they might give you fixed versus— they might give you cost in a per-unit cost mode. So rather than total cost in terms of millions or hundreds of millions of dollars, they might give you cost on a per-unit basis – (“it takes \$40 to make this particular— one unit of this particular product”).

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So that's a very useful, sort of advanced trick, and generally I think interviewers (most interviewers) will actually give you the answer you're looking for if you mention the words “break it down into its components.” “I want to break down sales into its components;” “I want to break down costs into its components;” “I want to break down profits into its components.” If you use that phrase, you're signaling to the interviewer that “Hey, you and I both know we need to break this thing down into its pieces,” and “Hey Miss Interviewer, Mr. Interviewer, what are the pieces?” And generally as an interviewer, if you were smart enough to realize that you needed to segment the data, I would then go ahead and tell you the segmentation pattern that I ended up using in real life, when I actually did the case for a client.

So that's just an advanced trick. Not related to the core point on this particular case, but I did see an opportunity here to mention it, and it's very helpful in avoiding going down paths that end up wasting a lot of time. And it's sort of an advanced, very subtle little trick that I discovered, sort of by accident, and found very useful when asking for data to be broken down into its pieces.

Interviewer: Actually, I think we do have data in the fixed and variables, so why don't we start there? Fixed costs have been at about \$27 million per year, and that is inclusive of: equipment; real estate, which is a very big component to fixed costs; and some corporate overhead, mostly the main office. And then the remainder of the costs is really labor, and labor costs this year were about \$32 million per year for the business overall.

Candidate: Okay, so before you give me variable costs – just to make sure I have the information down right on the fixed costs, \$27 million is mainly fixed costs, and that includes equipment, and a large portion of that is real estate. Do you know how much of the \$27 million is real estate?

Interviewer: Yes, let's assume that 70 percent of that is real estate, and then the remainder would be let's say trucks, particularly on the residential side.

Candidate: Okay, and is there a reason as to why we are spending a lot on real estate – 70 percent is real estate?

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Interviewer: They have close to several hundred thousand square feet of facility space. They own a lot of land, and that land requires debt service mortgages and payments.

## Case 4 – Storage – Ex 1 – Transcript

Candidate: And then labor is \$32 million. Have those costs changed relative to last year?

Interviewer: Yes, actually I would say that the variable cost has actually come down from \$47 million in the prior year down to about \$32 million this year, and the fixed costs have remained —

Candidate: Can you repeat – the variable cost has gone down...?

Interviewer: Yes, from about \$47 million to \$32 million, and the fixed costs have remained the same.

Candidate: Okay, can you break down variable costs for me as well?

Interviewer: Let's assume variable cost is all labor.

Candidate: Okay, so we are going to assume that labor is variable, not fixed?

Interviewer: Yes, labor in terms of actual service delivery, we put in variable. Things like human resources, finance office, that kind of stuff we put in fixed. It is a very small amount on the fixed side.

Candidate: Okay. All right, so what I have now is: under costs, I have fixed and variables, and under variable costs, I have that it has gone down from \$47 million to \$32 million and that's mainly labor; and under fixed, it's \$27 million this year, and it's a pretty constant amount, compared to last year. A big proportion of that cost is the real estate cost, with the rest of the cost used to rent trucks.

Interviewer: Okay that's fair.

Candidate: So overall what I understand is that we have actually two problems. We have the fact that we are losing— we actually have one major problem. I don't think we have a problem on costs, because we actually reduced costs on the variable side, and we've kept fixed costs stable. So our main problem is regarding the volume within our residential moving, we've lost a lot of volume on that. So what I'd like to do now sort of is to analyze just the entire situation as a whole to understand where we are at.

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At this point in the case, the candidate is in the process of making a fairly big mistake, and it's a mistake that the candidate can recover from, but ultimately did not. And in these first few minutes of the case, I would like you to go back and listen to it again, or read the transcript again, and see if you can figure out what this person did wrong. And it has to do— as a little hint, it has to do with

again, the objective of the case, which is to improve profits. And it also has to do with the fact that at the beginning of the case, realize this business consists of three businesses, three divisions.

And so see if you can go back and figure out what this mistake is. It's very, very subtle, it's not obvious actually that it's a mistake until later on in the case, but this is where the mistake starts to happen. And also if you don't catch it at the very end of this case, I will give you the answer (in terms of what the main mistake was), but hopefully you will start to see it as the case progresses.

Interviewer: Okay.

Candidate: So what I'm doing right now is I'm writing on a new page. I'm splitting the page in half into internal and external factors. With the external factors, I have customers as one heading and the competition as another, and within the internal factors, I have it branching out into two factors, one would be the product and the other would be the – let me think – the other would be the client or the company.

Interviewer: Okay.

Candidate: So what I'd like to do first is— before I really go into that, I want to understand: externally, are we the only ones who are faced with the problem of the drop in revenue, within especially the residential moving business? Is this an industry-wide problem, or is it just us who is facing that?

Interviewer: It turns out that it is an industry-wide problem. The rest of the industry has contracted, let's assume by a similar and comparable amount.

Candidate: Okay, so I think that is important, to know the rest of the industry. Okay, so that— I think that's really important in the fact that it is an industry-wide problem; it's not really something that was in our own hands. But now I would like to look on the external side, and I'd like to focus on customers first.

Interviewer: Okay.

**00:18:03**

I'm going to go ahead and intervene on this case and cut this case short. What I'm editing out of this particular recording and transcript is the next 26 minutes of this case, which is basically the candidate going through a business situation framework analysis of the residential moving business. And the reason I'm editing this out is because this person has already made a very significant error in this case, and it makes the next 26 minutes basically irrelevant. Here is the big mistake. And I did suggest you looking back on the whole case, to see if you can figure that out. So I'm going to tell you what the big mistake is right now.



The objective of this case is to increase profits. And this business consists of three divisions. *The first analysis that should have been done in this particular case was to figure out what the profits are of the three divisions, and how they've changed.* So if you're trying to improve profits, well which one is most profitable now? Which one is the least profitable right now? And this particular candidate either misunderstood the case objective – and I did not phrase it as clearly as I could have, that's for sure – and decided to go after figuring out how to drive the most revenue. And he gravitated towards finding the division of the business that had the most revenue to try to increase its sales volume. And this was the big mistake, because it turns out – the next 26 minutes and he never realizes this – is he basically solves the case around, or tries to solve the case by figuring out how to drive more revenue in one of the divisions that doesn't really matter. And so he ended up focusing in the wrong place.

So he applied perhaps the right framework to the wrong business, so that it doesn't actually help the overall situation. That was a very, very big mistake. So let me ask you a question. We're at Minute 15, Minute 17 of the case so far – what is the overall profitability of the company (which I think was shared earlier)? And then what is the profit level of the residential business, paper storage and data storage? How much net income did each business drive or create and contribute? And the answer is: you don't know, because the candidate never asked. And in the next 26 minutes, he doesn't ask either.

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So that was the big mistake because in a case like this, where it's a multi-subsidiary or a company with multiple divisions or business units, you don't have enough time to analyze every business. And it turns out – in real life, you don't have the time to analyze every division of a client, either. So you kind of have to pick and choose. And at least in the McKinsey world, the phrase we would always use is the “80/20 rule.” You know, “what is the 20 percent that will give you 80 percent of the impact?” Or “where is the leverage in this situation?” or “what is the little hinge that swings the big door?” to use a long list of metaphors. And this particular candidate basically picked the wrong place to focus, and so all the other efforts are really not relevant after that.

So I'm going to ahead and skip ahead to the feedback section of this particular case. I wanted to show you how this mistake was made really in the first ten minutes or so, actually even the first five minutes of the case, so that you could be aware of that and not make the same mistake in your situation. So let's go ahead and skip to the feedback section, where I elaborate on the mistake and try to get a better sense of what the candidate was thinking at the time that he made the mistake.

Interviewer: So let me give you a couple of suggestions. I think— on this particular case, I think you went down the wrong approach, frankly. There are three parts of the business and you were trying to turn around the profitability of the worst part, the part that was losing the most money. And you really sort of ignored the parts of the business that were already making a lot of money. From a balanced standpoint, you know, I think it's reasonable to try to turn the residential moving

business around. That is a reasonable initial hypothesis, but in terms of the forty minutes we spent together, you didn't really spend any time on the parts of the business that are quite profitable. So for example, which business is most profitable, of the three?

So let me back up for a second. All the frameworks in real life, you use them to start a case or use them *in* a case fairly often, but you rarely *only* use it. It's never (almost never) enough to finish the case just by sticking to the framework. And I would say maybe half of the cases I've done, we use the framework and then use nothing else, and it does a good job.

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The other half of cases, you start with a framework, but at some point you exhaust its usefulness, and you have to create a variation of the framework or sometimes create your own analysis that's completely differently from the framework.

Rather than do profits from a revenue minus costs standpoint, do it by business unit or by division. So if there is a \$4 million or \$5 million loss this year, how much did each of the three businesses contribute to that loss?

So what was the profit for each of the three businesses? And you would've realized that one of them was actually very, very profitable and one was extremely unprofitable.

And this is the big mistake in the entire case, which is not figuring out which of the three businesses you ought to spend time analyzing to turn around the profitability of this company. And I should mention something – the reason this candidate made the mistake was: I think he was a little too literally following my frameworks. And so let me explain the proper role of the frameworks that I provided, and when you should use them, when you should not, and when you need to modify them. And the modification process is fairly common.

The big criticism that the case interviewers have of candidates is: a lot of them are mechanically going through case interview frameworks. They get a list of the four areas they're supposed to analyze, the six questions in each area, and like a survey, that's sort of not even thinking, they're asking questions on the whole checklist. You know, "What are sales?", check. "What are profits?", check, right? And just going through and asking questions sort of unthinkingly.

And in this particular case, you know the profitability framework I mentioned before is geared towards analyzing the profits of one business. And in this particular company, there are actually three businesses. So this is a twist. And this is why this is, from an interviewer standpoint, this is a very good case, because it's something that as a, I guess a trainer of case interview candidates, you can't train someone for every particular scenario, right?

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And so you train for the basics, which is: one business, one simplified situation. So this particular case has a twist. It's three businesses wrapped inside of one corporation. So when you apply the profitability framework or any of the frameworks, those frameworks apply to one business, which is not to say they apply to one company. And so the right move, again the right analysis to start would have been, "Okay, let's figure out: of these three businesses within this one corporation, what is the profit level of each, and then let's decide whether we want to analyze each one further." And that was the little twist that this particular candidate missed.

Now to be fair, I know I never taught this particular scenario before. And there's a reason. There are an infinite number of sort of little twists and nuances that make a case a little bit different than something that's very standard, simple and easy. And I have found that in my own cases – I mean I created a bunches of cases for these mock interviews – and the ones that were fairly straightforward, people just followed the framework, step by step, they didn't have to think, they didn't have to change, they didn't have to adapt the frameworks in any way at all, and they sort of got the case.

And I found that when I had put in a little twist to the case, to make it a little different, so it wasn't a perfect one-for-one, 100% application of the framework to that case – but it was close, you just do one or two additional pieces, the frameworks would have still worked – then I find that people had a lot of difficulty with it. Because they're going through the cases, the frameworks, too mechanically, and not always stepping back to think about "Okay, does this framework actually apply?"

And the thought process that you hopefully go through is, "Well, the framework is geared for one business; the business has three businesses in it. So can I use the framework as is, or do I need to do something different? Or do I need to mix and match frameworks, or do I need to do a simple analysis up front to figure out which business is most profitable or least profitable, and then apply the framework?" So it does require some real-time problem solving.

And so it's something important to keep in mind. I would say probably half the cases I did as a candidate involved some twist or some deviation from a "standard framework." You know, I used the framework but it got me to a certain point where it was no longer useful, or maybe I started a case and the framework wasn't useful until I got to a certain point in the middle of the case, and that is extremely common. And this was a good example of what that sounds like when you have a case that has a little bit of a twist to that.

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So big lesson here is step back for a second, actually think about what's the problem, and what's the best way to solve it, and don't just jump in and start using a framework. You really want to think about whether it's appropriate to use one or not. And if it is appropriate, under what circumstances is it appropriate to do so.

Candidate: I think— I guess the problem that I have in which I agree is that I focused too much in one segment of the business. I think mainly my issue is time. How

would I sort of do – especially analyze – a whole business situation when there is three segments of the business?

Interviewer: That is a very, very good question, and it's the exact same question as consultants, we'll typically deal with when working with a client. So we have one month of analysis we can do, in terms of the client's paid us for a month of work. We have three businesses, like which one do we focus on, right?

And what you realize is you don't have the time to analyze three businesses, right? So the key is to make sure your upfront analysis gives you some indicator as to which business would be easier to fix, or which business is profitable.

This concludes this case.
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