

In this final example, I'll actually be interviewing myself, so hopefully I will pass this one. And this is intended to be my example of what a "best practice" case interview sounds like. And there are a couple things to keep in mind – I'll sort of rattle off a laundry list and then I'll mention one thing in particular that I think is very useful to observe, that would be difficult to observe in the other cases— the other examples for this particular case.

So a couple of things to notice in this case – One is: notice the 80/20 analysis up front, which basically is in the three different divisions, this company figuring out which of the three we ought to focus our energies on, and so I tackle that issue as a candidate up front and early, *numerically*. So I have a specific number that I'm looking at to determine which areas I'm looking at. And notice how I structure and set up the three areas I will potentially be looking at, and why I'll be looking at them, and the order I'll be looking at them, and why I chose that particular order. So again, thinking out loud and stating very clearly and explicitly what my intentions are.

Notice as I go through the case and as I get information from the interviewer – which again happens to be myself – that the new conclusions and the more refined conclusions that I develop throughout the case is coming from the data provided by the interviewer. So rather than just having just some idea that I'm intuitively thinking must be the right idea, and will not let go of, I instead let the facts and data provided in the case shape my thinking. So this is an example of being data-driven – looking at the data, both quantitatively and qualitatively, to come up with a new hypothesis or new idea of what I think is going on, and then structuring what data I need to validate that particular hypothesis.

And so it's a very important thing. It's not just taking a guess, but quantifying and specifically stating what data I need to prove that particular hypothesis is an approach that I've been trying to use throughout this last particular example.

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Other things to notice: in addition to being very hypothesis-driven, *whenever I switch frameworks or I switch branches in my issue tree, you'll notice that I typically try to synthesize what I've learned so far, what is and is not true, what is still left to be determined, and what data I need to determine whatever hypothesis still remains.* So that's an important thing to keep in mind as well.

So look out for those things, and one thing in particular I wanted to emphasize is – and I did this – whenever I interview myself, whenever I do a case interview, I try to take good notes. And one of the things I encourage everyone to get in the habit of doing is drawing in your notes, in terms of issue trees. And so you'll notice in my handwritten notes that are included with the transcript of this particular interview – which it is very worthwhile to go dig those up, so if you happen to be listening on the audio version, you definitely would benefit enormously by making sure you have the transcript and in particular, the diagrams related to this particular case example with you as you're listening to the case. And what you'll hopefully find out (notice) is how easy it is to visually diagram and visually follow where I am in my logic.

So I'll say, you know, I have three major branches I want to analyze today. I'm going to start with this branch, because I think it has the highest potential opportunity. Then I'm going to this next branch because it also has high potential opportunity, but maybe not as much as the first one. And this third one looks unlikely, but I'll leave it in there, just in case the other two don't pan out. And then really in a very structured, very systematic, very easy to see visually type process, you'll see me sort of go through a branch at a time and trying to figure out: is this an option, does this work, is this a possibility, either yes or no; and systematically using a process of elimination and eliminating certain branches of my analysis, and indicating that they are not really very useful or impactful.

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So pay attention to how easy it is to visualize what I'm doing based on my drawing. At the same time, when you think about your other case examples that you've heard today and through these recordings, notice that in the cases that were not rated as very good, how actually very difficult it is to draw out the logic of what the person is trying to say. They're jumping around a lot, they're very non-linear, so they're thinking very laterally, very creatively – which is good in business when you're an owner or a CEO. But as a consultant, you have to think very linearly, and if there is any kind of creativity, it has to be within the linear analysis.

So pay attention to that, I think you'll find that to be very eye opening. That diagramming process again is something I think that everyone should use. It does take some practice. And I find if you cannot diagram your intended analysis, generally it means your intended analysis is not a very good one. Good analyses by and large you should be able to diagram, or frameworks that are easy to diagram. And again if you can't diagram it, then it probably means you're thinking about the problem in the wrong way, and you might want to take a step back and think about which approach you're taking, and making sure it's the right one before you continue.

So with that, I'm just going to go ahead and you can hear me interview myself on a case that I would consider a “best practice” case. Let's go ahead and get started now.

In this particular case on the storage company, this example case is one of how to do it correctly, so I would rate this an A grade. And I will actually be interviewing myself on this one because of all the people I gave this particular case to, unfortunately, nobody got the whole case right. Different people got either the beginning or the end right, but no one pulled the whole thing together. So what I thought I'd do is interview myself, which is always interesting, and hopefully you don't tire of my voice. And so you can see what it sounds like to nail this particular case. So let me go ahead and get started with it.

Interviewer: This particular company is a storage company based in the middle of the United States. They have three major businesses, all revolving around storage, which is their core expertise. They have a residential moving and storage company; they

have a paper records storage business, so like when large companies need to store their paper records for a long period of time, they end up in the warehouses that are owned by this particular company; and the third business is data storage, so when companies need to create backup tapes of their hard drives and servers and store them off site in case there's some sort of disaster, this company performs that particular service as well.

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The CEO hears that you are this brilliant management consultant and the company has been really suffering a lot financially. Last year, it made \$1 million in profit on \$75 million in sales. And this year, sales are down to \$55 million, and the company has experienced a \$4 million loss. And the CEO asked you to figure out how to get the company at least back to break even, if not better than that, and how to do it quickly. So with that in mind, why don't you go ahead and get started.

Candidate: Great, so I understand this is a storage company based in the Midwest with three lines of business: moving, paper records and data storage. And last year they made \$1 million and this year they lost \$4 million. And the goal, if I understand it correctly, is to take the company's profit (or I guess in this case, loss) back to at least break even – zero profit, if not better. Is that correct?

Interviewer: Yes, that is the objective.

Candidate: Great, so I understand there's a \$4 million loss this year. I would be interested in knowing what the profits were for each of the three businesses. Do we have any data on that?

Interviewer: We do. It turns out that the residential moving had a \$10 million loss this most recent year. The paper records broke even, so they had no profits and also no loss. And data storage made a \$6 million profit.

Candidate: So it looks like our \$4 million loss came from these three areas, and it really looks like the majority of the loss is really coming out of the residential business. And if our goal is to take that \$4 million loss and get back to break even, looks like there are a couple of ways to do that potentially, which we will probably need to analyze.

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The first is to reduce the loss in the residential, so I'll make that as a hypothesis here, that to— reduce loss in residential; the other would be to improve profitability in paper records; and then the third would be to grow the data storage business enough to offset the loss in residential. And so those are my three potential opportunities, and... let me write that down. So, Hypothesis 1 is: reduce

loss in residential; Hypothesis 2 is: improve profits in paper records; and Hypothesis 3 is: grow data storage.

What I'd like to do is: of the three major businesses – residential, paper records and data storage – since the majority of the loss (or actually all of the loss and then some) is really being driven out of the residential, I'd like to start there first and then probably circle back to data storage as my next most likely opportunity. And then if none of those work, then I'll probably come back to paper records and see if we can improve profits there.

So my hypothesis that I'm going to work on first is that it is actually possible to reduce the loss in the residential moving business, and the first question I'm going to try to figure out is if this loss is a company specific issue or an industry issue? Do we have any data on the competitors and whether or not they too are also losing money?

Interviewer: Turns out that the competitors are also losing money.

Candidate: I see. And is the amount they're losing, in terms of a percentage of sales, is it comparable to the amount that we are losing, or is our profitability any different than the competitors?

Interviewer: The competitors' profitability is comparable to ours.

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Candidate: I'm going to draw an initial conclusion here that this is an industry-wide problem and not necessarily a company-specific one. That being said, I'd like to explore just a little, actually I'd like to analyze a little further whether there are opportunities for us to cut costs or to increase sales to overcome this industry-wide problem. But I will say so far, I guess my revised hypothesis is that perhaps it is not possible to increase sales or decrease costs enough to offset this particular loss. So let me analyze that and break it down a little bit further. So in terms of the \$10 million loss, I'd like to know what sales were for the last year versus costs.

Interviewer: The sales were \$30 million, and costs were \$40 million.

Candidate: And do we have a further breakdown of costs, whatever the costs components are? Do we have any data on that?

Interviewer: We do. Fixed costs are \$15 million, and variable costs are \$25 million. And fixed costs is mostly real estate and trucks, and variable cost is basically all labor.

Candidate: That's interesting. So we have a \$10 million loss, \$30 million in sales, and \$15 million in fixed costs or overhead, and \$25 million in variable costs. So just

looking at this, it looks like: for every \$30 million in sales, we subtract out the labor costs or the variable costs and we make about a \$5 million profit before we have to pay for the overhead.

And let's see... so it looks like to get this company back to break even, we need to come up with a \$5 million profit somehow. So either we need to cut these costs by \$5 million or if we can't change pricing, we'd have to increase sales to say \$60 million, which would produce another \$5 million in profit before overhead. So those are our options. I'd like to explore each one of those paths and figure out if this thing is going to work or not, but I'm not that optimistic right now.

On the variable costs, do we have any data that lets us know where our labor costs are, relative to the rest of the marketplace?

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Interviewer: Turns out our labor costs are actually fairly good, and in fact are lower than most of the competitors. Most of the competitors are unionized, and this client company is not unionized so their labor costs are lower.

Candidate: Well that's interesting. I wonder, are there any ways we can reduce labor costs beyond what they are already?

Interviewer: No, the company has tried to do that, but labor costs are already probably the lowest in the industry.

Candidate: Well so it looks like, of the options we have to reduce this \$10 million loss, it looks like there is not an opportunity in variable costs, they're already pretty low, so I'm going to "X" out variable costs as "not a possible option" in this particular analysis. Let me move on to fixed costs. Are there ways we can reduce fixed costs, and does the company have any data on that?

Interviewer: The company has already looked at that. Most of the fixed cost is tied up in the real estate and long-term leases for the trucks, and the trucks are really... the way they were financed – they were financed as a package – and so it's difficult to sell off just one truck. You have to sort of sell the whole thing off or keep all of it.

Candidate: I see. So it sounds like we could reduce the fixed expense, but we can reduce all of it or none of it. Is my understanding correct?

Interviewer: Yes, that's correct. So you could move all of it or none of it, but you couldn't, say, get rid of just a portion of them.

Candidate: Well that's interesting. So I guess that would mean potentially selling the company, so I'm going to put that as an open issue, "sell residential." And I'll

come back to that in a second, but I just want to say from an operating standpoint, it looks like there really isn't a way to reduce the fixed costs in this particular business. And given there is no way to reduce the fixed costs without getting rid of the whole business, I'm going to "X" out this particular branch of my analysis which indicates that there really is not a costs savings opportunity in the residential business as a way to turn around the profitability of residential.

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Given that, the only other way to reduce the loss in residential is to either increase pricing, or increase the volume. So I'm going to go back to the sales side of my little tree here and we know we have pricing versus quantity. Do we have any data on what our prices are, or at least how they compare relative to competitors?

As you listen to the last few seconds of this case and if you look at the diagram, notice the process of elimination I'm using in working through my analysis tree. And what I like to do is: when I diagram my analysis tree, I literally like to take an "X" mark and "X" out any branch of my analysis tree which I determined is not worth pursuing further or is a dead end. And what it does is it visually allows me, as well as the interviewer, to see what is left in our analysis to tackle, which other parts of our issue tree are open issues that we basically need to analyze. So pay attention to that. I think it's a very good way to organize your thoughts.

I frankly saw a lot of the candidates I interviewed in one particular case go through like seven pages of notes, right? And by the end, by minute 40 of the case interview with like lots of computations, you can't remember anything you talked about in the first two minutes, until after the case is over (you know, "Oh, shoot, I forgot about that").

And so by the way, what I always recommend is having really two sets of notes. The issue tree, which is sort of the more formal way of keeping track of where you are and the big picture of things, is also the thing you want to show your interviewer in terms of where you are. And separately, if you want another piece of paper to just do math, that's fine, I think that's actually a good idea, so that all the detailed math computations are separate, and just the most important information is transferred to the issue tree worksheets.

So please keep that in mind, and definitely look at the diagrams to follow and you'll see what I'm talking about in terms of process of elimination.

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Interviewer: Yes we do have that data. The computer system is down so I don't have the specific numbers. We do know from our market research comparison, the latest report shows that our pricing in the industry is relatively competitive, and in most cases a little bit lower than the competitors.

Candidate: Okay, so it looks like our pricing is similar. And has our pricing – I know it's similar to the competitors' – but has our pricing changed versus the prior years?

Interviewer: Pricing has remained steady from this year versus last year.

Candidate: Well that's interesting. So pricing hasn't changed, yet we know that sales has changed a lot. I know sales were \$30 million this year. What were sales last year?

Interviewer: Sales *used* to be \$50 million, and now they are \$30 million.

Candidate: Well that's interesting. So if we know that pricing hasn't changed, and we know sales have dropped from \$50 million to \$30 million, then it sounds like the number of moves or clients we have, or orders, has dropped by an amount equal to the drop in revenues. Do we have any data to corroborate that?

Interviewer: Yes, indeed our sales, our volume shipments have come way down, roughly 40 percent this past year.

Candidate: That's interesting. And is that 40 percent drop in number of moves – is that similar or comparable or any different than what our competitors are experiencing?

Interviewer: Our competitors have experienced a similar drop in number of moves, particularly in the market segment of professional movers that this company is in.

Candidate: Well, let's look at the quantity side here. If the number of moves are down 40 percent – and I know that \$30 million of sales make about a \$5 million profit before overhead – for me to fix this profit problem for the whole company, I need close to double sales.

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And so I need to grow sales by 100 percent when the market's been shrinking 40 percent. I'm not very optimistic about that. So I'm going to draw sort of the conclusion that that's a pretty dramatic turnaround to make, particularly if the client is in a hurry to break even. And if he wants to do that in a year, it seems unlikely that we could double sales in a year when the market's shrinking 40 percent. So I'm going to conclude on the quantity side that that doesn't seem like a very viable option. Perhaps it is in the medium to long run, but it doesn't seem like an option right now. *But just to be sure, check on that, do we have any data or forecast on how the industry volume or quantity or number of moves for the industry overall is likely to change in the next couple of years, particularly in the next year?*

Interviewer: Yes, all the research reports indicate that the number of moves has dropped this past year, and will likely stay this way for the next five to ten years.

Candidate: Well I think I'm feeling pretty confident that trying to double sales inside of a year, when the market is shrinking 40 percent and is going to stay there, it seems awfully tough to do. Unless there is something uniquely different about this company that would lend itself to that. Do we have any data in terms of: does the company have anything unique in its product offering or its customer base that's dramatically different than the competitors? Or is this company operating very comparably to the rest of the industry, which would suggest that the industry trends would be hard to change if we're not doing anything different from the competitors?

Notice here how I am thinking out loud. I think this is always something that is very much worth doing and I literally just think out loud, you know. Sometimes I don't even think about what I'm saying when I do one of these, and I literally think out loud in terms of what something means to me, how I'm interpreting the data that I'm hearing.

So I definitely encourage you to do that. In addition, once you do think out loud, always try to think in terms of what your hypothesis is now, and once you have a hypothesis or working theory of what you think is true, what data do you need to test your hypothesis to figure out whether it is actually true or not.

So that's a good sequence: *think out loud, come up with a new hypothesis, and figure out how to test that hypothesis to conclusively determine whether it is true or not.*

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Interviewer: The company's product mix, product offerings and customer focus is very comparable to the rest of the industry, with no major deviations.

Candidate: It's unlikely that, given our product set is similar, our customer set is similar, and the market's shrinking 40 percent, seems very unlikely that we would double sales in this kind of fairly hostile environment. So I'm going to conclude that there is no opportunity here on the quantity side to double sales overnight, double sales within a year.

And we know pricing is similar to our competitors today, and if the customers we serve are the same and the service we offer is the same, it looks like we would have to probably pull off a 10 or 20 percent increase in price. So if we increase price to say 10 percent, that would get us from \$30 million to \$33 million. That gets us close.

We'd have to— if we did a say 15 percent price increase, we can go from about \$30 million to what would be \$34.5 million, so that might work. So my new hypothesis is: can we increase prices by 15 percent? Do we have any data, has

the company tried to do this in the past, to indicate whether this would work or not?

Interviewer: It turns out the client has tried this, and sales dropped like a rock. So the sales dropped 20 to 30 percent or more.

Candidate: Well that's not going to work, because that makes our profitability even worse. So I'm also going to conclude here that raising prices by 15 percent while keeping volume the same isn't going to happen, and that it seems unlikely that we could fix this profitability problem on pricing alone, given that our products are the same, our services are the same, our customers are the same, and we've done some pilot testing to see if we could pull that off and it didn't work very well. So I'm going to "X" that one out, too.

So what I'm looking at is: on the residential side, from an operating basis, there doesn't seem like there's any way we can really improve the profitability on the residential side, short of selling the business outright. We can't increase pricing; we can't impact the volume, the number of moves we have; our fixed costs are all or none, but you can trim some of it; and the variable costs are already the lowest in the industry, so it seems unlikely we'll be able to change that. So my conclusion so far is that really sort of turning around the residential businesses, if you would, is not an option.

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Notice here that I'm at a transition point within my analysis where I'm planning to switch gears. Notice how I synthesize what I've learned and discovered so far, and I also indicate what is left to analyze. That is a good way to stay on track; it's a good way to communicate where you are in the overall analysis. And again, the main reason to do it is so you don't get lost – you know, if you say there are three things you want to look at, and you spend 20 minutes on the first thing, it's useful to say, "I've concluded that this first option does not work for this client. As mentioned earlier, I want to look at three key areas. The first one is not an option, which leaves us with options number two and three. I want to analyze the validity of option number two next, and then move into option three, if we still need to, and option two doesn't end up being sufficient." That's an example of indicating what is left. So notice that in this particular example.

The only other options left that I have boxed here are: growing the data storage business; improving profits in the paper record business; or in the extreme case, actually just selling the residential business outright. So of the remaining options, I would like to explore and analyze the potential opportunity to sell the residential business outright. And then, I'd like to look at growing the data storage business. Kind of seems like a potential toss-up. On one hand, it may be hard to sell the business – the residential business – but if you could, it would eliminate a \$10

million loss, which would solve the problem overnight. And the data storage business looks like it is already profitable, so there perhaps is an opportunity there as well. So let me start with figuring out whether selling the residential business is going to work, and then move on to growing the data storage business as one potential option.

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So I've set up a new issue tree here. My hypothesis is that: it is possible to sell the residential business and that it makes sense. The two factors I would like to look at is: one, is there a buyer that's even available out there that would be interested in buying the business and/or its *assets*; and the second factor I want to look at is the financial impact if we were to actually sell the business, what would that mean financially? I'm going to start with the buyer side first, because the financial impact is sort of moot or irrelevant if there's no buyer. Do we have any data as to whether moving companies are able to be sold, or the *real estate* itself could be sold or *the trucks* could be sold? Do we have any data indicating whether there's a market for these assets that are used in this particular business?

Interviewer: Yes, actually there is a consolidation going on in the moving industry, so a lot of the companies are in fact merging and in some cases buying the assets and then reselling them, in some cases buying the assets and consolidating. So I would say there *is* an active market for the assets, in the event the client would want to sell.

Candidate: Well, so I'm going to put a little checkmark by the "buyer available" portion of my tree here; that seems favorable. And I guess my next remaining issue is the financial impact. And my hypothesis is: if the financial impact is favorable, then perhaps selling the residential business would be a good idea. Do we have any data as to what would happen financially? Like would we actually be able to get rid of the costs if we were to sell the business or its assets?

Interviewer: Turns out the CFO of the company has actually done this analysis previously, and in the event the business were to shut down or be sold, the fixed costs would go away. There are no long-term contracts on labor, so the labor part would go away. And so if we were able to get the right price, we could remove the fixed expenses of \$15 million a year from the residential business.

Candidate: Great, so I'm going to make a note here then that if the price is right, then the costs go away – this is attractive. So I'll say right away then that it sounds like it is very much worth exploring to see if we can find a buyer that could meet our terms. And I would conclude— at least my initial conclusion so far is that: it is worth looking into, because if we could sell the business and get rid of all those costs, that way we would immediately recover \$10 million a year in losses, which would not only get us to break even, but get us to a \$6 million a year profit. So that's one conclusion that I'll put on the table.

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At this point I don't think there's any more we can explore on the residential side. I'd like to go to my second most likely opportunity, which is trying to grow the data storage business, and perhaps figure out if that business can be grown faster or not. And then if that doesn't work out, then I'd like to look at the paper records business to see if that's a possibility. But so far, I'm thinking that just selling off the residential business or shutting it down and selling the assets, if we could get the prices high enough to really eliminate all the costs, then I think that would be a worthwhile thing to do.

Interviewer: Well that's an interesting conclusion. Why don't we, for the time being, move on to data storage and why don't you analyze that and let me know what you think about that?

Candidate: Okay great, no problem, let me do that. So I'm going to set up a new issue tree here... is that the data storage business can grow from \$6 million profits into say \$10 million or more. So assuming we can't sell residential, if we were to improve profits from data storage by another \$4 million, that would get us back to break even. So to understand that, I'd like to know what sales were for data storage as well as costs, so I can break down where the \$6 million profit came from. Do we have any data on that?

Interviewer: Last year, sales were \$10 million and costs were of course \$4 million.

Candidate: Great. Do we have any further breakdown on costs?

Interviewer: \$2 million is in fixed, and \$2 million is in variable.

Candidate: That's interesting. So the company did \$10 million in sales, subtracting \$4 million in costs... made \$6 million. And if you look at the variable costs, it was only \$2 million. So for this company, if we were to increase sales by say from \$10 million to \$15 million or \$20 million, would the fixed costs remain truly fixed, or would that increase?

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Interviewer: The fixed costs would stay flat, up to about \$20 million in sales. Beyond that, it might have to increase somewhat.

Candidate: Well that's interesting. Okay, that's useful to know. So if our goal is to produce another \$4 million in profit, and for every \$10 million in sales we produce, we subtract that \$2 million in variable costs, that produces \$8 million in profit. So that means that if we produce another \$5 million— so basically we have a 20 percent cost – 20 percent variable costs, 80 percent gross profit.

So if we increase sales by \$5 million, then we could add another \$4 million in net income. So I'm going to revise my hypothesis to say: to grow sales in data storage from \$10 million to \$15 million. And actually before I do that, I really didn't finish up my last analysis. Let me circle back to that.

I guess there are two ways to improve profits – you can either reduce costs or increase sales – but let's look at this. If the costs are \$4 million, to produce \$4 million in profit from costs, I have to get rid of all the costs – no costs, and that seems pretty unrealistic. My tentative conclusion is that: while you can probably improve costs somewhat, it's unlikely and unrealistic to completely eliminate costs while keeping all \$10 million in sales. But for now, I'm going to "X" out costs as "not a place of focus," and then focus on the sales side.

So I have a new issue tree here. My new hypothesis is that: it's possible to grow sales in data storage from \$10 million to \$15 million. To understand that, I think we need to look at this business more broadly and holistically. Four major areas I would like to look at: first would be the customers; second would be the actual product or service we offer; then I'd look at the company's capabilities; and the competitors. I think if we can get a clear understanding of these four major areas, that'll help us determine the likelihood of whether a 50 percent increase in sales is even possible, in the kind of timeframe that we are looking for. So let me start with the customers first. Do we have any idea who these customers are, and what they are looking for?

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Interviewer: We do. There are three major types of customers. There are the Fortune 500; there are mid-sized companies; and there are small companies.

Candidate: And do we just know overall, are these customers— is this market growing? Do we have any data on that?

Interviewer: The overall market is growing 15 percent per year.

Candidate: Fifteen percent growth, that's interesting. And of the three major market segments, how big is each segment in terms of the overall market size? Do we have any data on that?

Interviewer: The market overall, it's: 40 percent is from the big companies; let's say another 40 percent is the medium companies; and small companies are 20 percent.

Candidate: Great. And do we have any data for our company, what the customer mix is for us?

Interviewer: We currently have 40 percent in the Fortune 500, 60 percent in the mid-size market, and we don't serve the small business market at all.

Candidate: Well that's interesting. Do we have any sense of what each customer segment is looking for? And I'd like to compare that with what product offerings we currently offer.

Interviewer: Well the Fortune 500 companies, what they're looking for is multiple storage facilities in different geographical areas, so most of the companies that this company works with are either based on the west coast or east coast. The mid-sized companies are looking more for a full-service offering, so someone who can not just store the information but actually manage the overall process, more of a business outsourcing kind of thing. And the small companies are looking for an automated solution, a digitally based solution, so they want to back up their data online rather than convert it into tape and physically put it in a warehouse.

Candidate: Great, and what does our product lineup look like? Do we have products in these various markets, and what do we offer in terms of each?

Interviewer: We do have offerings in the first two segments – the Fortune 500 and the mid-size. For the Fortune 500, we offer what's called a "secondary storage facility service." And for the mid-size companies, we offer basically a turnkey solution where we are focusing more on— we'll go and visit the clients and actually pick up their tapes for them so they don't have to ship them, we remind them, we give them reports and help them make sure that the whole process is actually being followed. So we call this the "full-service solution."

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Candidate: Well so far, it looks like we are positioned in the upper end of the marketplace and that our products and services seem to match up with what the customers are looking for, and the overall market is growing. So I would say so far, my take on whether this business can grow from \$10 million to \$15 million a year is looking favorable.

I'm not sure we can do it within a year, but it looks like this business is definitely a growable business. Now I'd like to look next at the competitors and get some sense of: who are the competitors, and what do they do, if anything, that's different than our client.

Once again, here's another example of me synthesizing what I've discovered and concluded so far in the case, and what information or what open questions are still left to be analyzed and to be determined. Again, that's a great habit to get in to – anytime you transition from one framework to another, one issue tree to another, one part of a framework or issue tree to another part of a framework or issue tree. Good habit to get in to.

Interviewer: There are major competitors. The competitors offer a similar set of services, particularly in the Fortune 500 market. The only differentiation really would be that the major competitors are based on the east and west coasts. Other than that, the businesses are fairly comparable.

Candidate: I see. And are there any major competitors here in the Midwest that have comparable capabilities to us? Or are the competitors really east and west coast based?

Interviewer: No, actually in the Midwest, this company is fairly prominent. And the major competitors, again as I said, are on the east and west coasts.

Candidate: Well that interesting. So I'm curious, of the Fortune 500 companies that we have as clients, how many of them are *not* based here in the Midwest, you know, they're based somewhere else? Do we have any data on that?

00:34:03

Interviewer: Actually we do. Almost 100 percent of the clients are *not* locally based, and in fact are external to local geographical area.

Candidate: I see; that's interesting. Of the clients that we *could* serve, that meet our criteria in the Fortune 500, what percentage of them do we have so far? Do we have any data on that?

Interviewer: So far, this client only has, I would say, maybe two percent of the market overall.

Candidate: Okay, that's interesting. How about from a secondary storage standpoint? It sounds like the clients are east and west coast based and they're picking us for geographical reasons, is that what's happening or did I misunderstand something?

Interviewer: Yes, actually all the contracts are of a secondary storage nature, so our client is the backup facility to the primary backup facilities. Most companies on the east and west coasts have a backup facility that's local, and then we're the one that's really far away, just in case some major disaster happens.

Candidate: That's interesting. So we seem to have cornered the Midwest geographically based secondary storage market. We have two percent of the market overall; what percentage of the secondary storage market do we have? I mean, are there people storing backup tapes in, you know, in Texas or in other parts of the country, not just here in the Midwest – the Chicago area? Do we have any data on what percentage of the secondary storage market we have?

Interviewer: We only have about five or ten percent of the market for secondary storage.

Candidate: Well my thinking so far is that there's really a good growth opportunity here. We haven't really saturated the market or anything, we have some sort of geographical advantage, and we have some sort of edge. And I'm curious – on the mid-sized market segment, who are our competitors and what do they do differently versus what we do?

Here is another example of me synthesizing what I've discovered and taking a hypothesis that was a little more general and making it a little bit more specific – narrowing down what I'm trying to determine in this particular case. And I'm also indicating what's left to be analyzed, to overall finish this particular case.

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Interviewer: In the local market, this company is fairly well known. There are no other major competitors, at least in this particular area.

Candidate: Well that's interesting. Do we have any sense of what the market share is locally?

Interviewer: This company has about a 60 percent market share in the mid-market segment, particularly in the local area.

Candidate: And do we have any major competitors, or are these smaller competitors?

Interviewer: No, this company is the dominant player in the local metro market, and again with 60 percent market share.

Candidate: Well my conclusion here is if there is a place to grow— let's see, if we're getting 60 percent of our sales from the mid-size market, that's about \$6 million in sales. We could get to \$14 million in sales by getting 100 percent market share, but that doesn't sound like that's a very realistic option, so I'm going to "X" that out as a potential segment.

It sounds like, on the small business market... looks like since we have no business there – are we not set up properly for that? Is there any reason we're not in the small business market? Sounds like our products aren't compatible with what they want?

Interviewer: That's right, and this client company is a physical storage place where you physically bring your tapes or you go get client tapes and store them. As mentioned earlier, the small business market – they want an online Internet-based solution, which is not something this company offers.

Candidate: That's interesting. And do we have the skills to serve the small business market, particularly in an Internet-based offering?

What you'll notice here is that I've basically gone through elements or parts of the business situation framework, but I didn't go through the entire framework sort of point by point. And this is actually a very important distinction. When you go through, when you are being hypothesis-driven, you'll find sometimes you just need information about customers or competitors or whatnot, and it makes sense to use the parts of the business situation framework that helps you validate a particular hypothesis.

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What it also helps you do is: when you are being hypothesis-driven, there are parts of the framework or the bullet points within each area of a framework that really aren't that relevant. And so you're able to ignore those, because it takes time to basically ask questions and get data. And if that data doesn't actually change the hypothesis, or change your interpretation of whether a hypothesis is true or not, generally it's not very useful information. At McKinsey, we used to call it “actionable,” you know, don't bother getting some piece of information if, regardless of the information you get, it's not going to change the answer. That's what “actionable” means.

So notice that I use certain elements of the business situation framework just enough to answer and test whether my hypothesis is correct or not. And by the way, this is an example of— if you look at the visual diagram of this particular case, you'll see I have an issue tree, I start off with the business situation framework, lots of different ways of analyzing the data and I'm sort of borrowing from different pieces, everything I've taught, to piece together this case. And quite honestly, in the more advanced cases, this is fairly common – that you need bits and pieces of what you know, and you have to sort of assemble it on a customized basis to solve the particular case.

What you will also notice is that I'm actually jumping around from one topic to another fairly quickly. And unlike some of the other candidates that have also jumped around, what I'm doing is *being hypothesis-driven* while I'm jumping around. So I'm basically trying to explain to the interviewer what I'm trying to determine, and I need to fill out these pieces of information to determine whether my hypothesis is true or not. And so when you do that with a hypothesis, it's easier for the interviewer to follow as you switch across a variety of topics because you have a particular objective in mind, and it's very clear why you're asking for that information.

Interviewer: The company does not historically have these skills.

And at this moment, the client walks in and says, “I got to jump on a plane. I know you’ve been working very hard on this analysis. What is your conclusion on the data storage business specifically, and then overall, what should I do for my company?”

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Candidate: Well let me talk about data storage first. I think this is very much a growth business. The market is growing at 15 percent per year, and there seems to be ample opportunity to grow at a rate faster than the marketplace, particularly in the Fortune 500 segment. I think that growing to \$15 million in sales is doable, although it's a little unclear whether it's doable within twelve months, and so that would certainly be an issue that would be worth analyzing further.

From the company overall, I think that the two greatest opportunities to turn around the profitability of this company within the twelve-month timeframe is to attempt to sell the residential business. And if you can pull off that transaction this year, that would immediately eliminate \$10 million a year in losses, which would more than cover— get the company to break even, in fact would produce a \$6 million a year profit.

In parallel, I think it is worth focusing the remaining resources in the company on growing the data storage business. It is a growth market where the company has some natural advantages – particularly geography, as it relates to the Fortune 500 segment – and there is ample room to grow in a very attractive segment, the Fortune 500 segment. Overall, I think this business can be saved and turned around by following those two particular paths, and most likely in parallel, since there is some uncertainty on both on whether they would work, particularly in the timeframe that we're talking about.