

CONSULTING CASE INTERVIEW

# Bike DVD Rental Service in NYC

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**Level of Difficulty** (Select level of difficulty)



## Question

You friend has approached you with a business idea and wants your advice. He wants to open a DVD Rental service in New York City, specifically Manhattan. DVDs would be delivered to customers via delivery people on bicycles. What would you tell your friend?

### Note

This case combines elements of what a student might see in both 1<sup>st</sup> and 2<sup>nd</sup> round interview.

## Clarifying Questions and Answers

Provide the following answers only if the interviewee asks the corresponding question.

Question	Answer
1. What kind of competition exists?	Assume that Netflix and comparable services are not available. Push the student to come up with large chains (Blockbuster), local video rental stores, movie theaters, live theater, etc.
2. What is your friend's acceptable breakeven period?	He wants to breakeven within 1 year.
5. Where will the DVDs be stored?	They will be stored in your friend's apartment (he has plenty of space for the collection).

## Plan

This is a primarily a Market Sizing and Profitability case, but also includes other elements.. The analysis may include, but is not limited to, the following areas:

1. Market Sizing Analysis (Details shows in excel sheet at end)
  - a. Estimate the population of Manhattan – Push the student to pick a number around 2 million people.
  - b. Estimate the average household size in Manhattan – Push the student to pick 2 (lower than the 3 person average for the country due to a higher number of singles)
  - c. Estimate the portion of the households that your friend will be able to serve based on having one central location for the DVDs – Push the student to pick 25% of the population.
  - d. Estimate the percentage of the market that your friend's service will capture in the first year. – Push the student to pick a number around 1%.

- e. Estimate the rentals per month. There can be some flexibility here, but push the student to make assumptions that yield around 2,000 movie rentals/month for your friend's business
2. Profitability and Breakeven
    - a. Give the following information when asked
      - i. Assume you know someone who has a sizeable DVD collection that they are willing to sell to you to \$10,000.
      - ii. Assume you have a friend who can set up a website and maintain it for you for a one-time fee of \$10,000
      - iii. Variable cost to deliver DVD is \$4 (pay bicycle delivery person). Assume an infinite supply of bicycle delivery people.
      - iv. Chose prices between \$5 and \$8 and calculate the breakeven time in months (see excel sheet at end)
  3. Operations analysis
    - a. What time and what days would you operate your service?
    - b. How would DVDs be returned (likely dropped off at central location)
    - c. How will the service function in the winter months or when it rains?
  4. Marketing and Advertising Analysis
    - a. What is the competitive advantage of this business?
    - b. How would you attract customers?
    - c. How can you advertise effectively and inexpensively?

# Calculations

## Market Analysis

### Assumptions:

People in Manhattan	2,000,000
People/Household	2
Households in Manhattan	1,000,000
% of population that can be served	25%
% of population that rents regularly	40%
% of market that we can capture	1%
Market Potential (Households)	1,000

Market Breakdown	Size	DVDs/Month
Low Renters	500	1
Medium Renters	250	2
High Renters	250	4

<b>DVDs/Month for your friend</b>	<b>2000</b>
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### **Profitability Analysis**

DVD Capital Costs	10,000
Website Costs	10,000
Variable Delivery Costs	\$4

Price/DVD	Breakeven time (months)
\$5.00	10.0
\$6.00	5.0
\$7.00	3.3
\$8.00	2.5

### **Recommendation**

The recommendation should include the following:

1. The answer – Based on the market and profitability analysis along with my friends target of breaking even in less than a year, I would recommend that he goes forward with the business.
2. The number(s) – At a price of \$5, the friend can breakeven in approximately 10 months
3. Risks or considerations – Demand might not materialize, delivering 60+ videos via bicycle might not be practical, and competition such as internet movies could make the service obsolete.
4. Next steps – Purchase the video collection, set up the website, and start advertising.

### **Questions to Further Challenge the Interviewee**

1. What challenges would be faced if your friend wanted to expand the service to serve more customers?

# Establishing the case

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## Case: De Beers Retail Venture

### Problem statement narrative

De Beers, one of the leader diamond exploration companies in the world, is thinking about entering the retail business. Should De Beers do so?

### Guidance for interviewer and information to be provided on request

- It is crucial to understand De Beers' value chain: exploration – extraction – distribution – polishing and finishing – jewelers – retail. De Beers is currently in exploration, extraction and in distribution and would like to enter retail. They won't however, enter polishing or jewellery. Basically, De Beers wants to take advantage of their brand equity to sell finished diamonds (e.g. engagement rings). They would continue selling raw diamonds to polishers and they would then buy finished diamonds from jewelers.

# Sample solution element – issue tree & qualitative analysis

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## Candidate may propose analysis / action in:

### Business

- The candidate should fully understand the value chain of De Beers.
- Competition
- Industry

### Possible follow-up and guidance to interviewer

- The interviewer should explain the value chain as highlighted in the previous exhibit.
- The candidate can ignore competition and could assume that the industry is healthy.

### Customers

- The candidate should understand De Beers' retail venture customer base.

### Possible follow-up and guidance to interviewer

- The customers are wealthy individuals. Also, the typical customers will likely be located in large metropolitan areas such as New York or London.

### Profits

- Revenues: understand the pricing structure and the revenues of selling the end product.
- Costs: Understand De Beers' cost for a retail venture.

### Possible follow-up and guidance to interviewer

- The interviewer can provide revenue information to the candidate by telling him/her about the information in the exhibit in page 5.
- The interviewer should provide the candidate with fixed cost information.

# Case Sequence

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As this is a command and control case, the interviewer must direct the candidate in the following sequence:

## Sequence Part 1

- Interviewer asks original question as explained in the first exhibit.
- The candidate must develop a framework and explain his reasoning. The candidate must fully understand the value chain. If the candidate does not, the interviewer must prompt questions to help the candidate understand it.
- The interviewer must ask the candidate about the main fixed costs. A good answer should include: real estate (rent), salaries, security, insurance, fixture, etc. The interviewer should ask the candidate to estimate the cost of real estate rent for one store. The interviewer should let the candidate think about some key issues (such as location). Eventually the interviewer must say that the store will be located in London and the costs will be:

£300 per square meter

5,000 square meters

The candidate should reason that the cost per year is  $£300 \times 5,000\text{m}^2 \times 12 \text{ months} =$  £18 million

- The interviewer should ask the candidate to calculate the gross margin on the company's 5 products as shown in the next exhibit.

# Case Sequence

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## De Beers' Retail Venture Products to be sold in the London store

### Sequence Part 2

Products	Price	Gross Margin	Profit	Allocation Mix	Revenues
P1	£300	20%	£60	20%	£12
P2	£500	30%	£150	40%	£60
P3	£1,000	10%	£100	10%	£10
P4	£1,800	20%	£360	20%	£72
P5	£5,000	30%	£1,500	10%	£150
				100%	£304

Units to be sold to break even                      59,211  
Aproximately    60,000

The interviewer should not provide the candidate with the exhibit. The interviewer should call the numbers and the candidate should organize his/her thoughts. The interviewer should provide the candidate with the information included in the products, price and gross margin columns. The candidate should calculate the profit column. The interviewer should then ask the candidate **how many diamonds should be sold to break even?** The candidate should then ask for the number of units sold for each product. The interviewer can provide the candidate with the historical allocation mix. The candidate can then proceed to find the breakeven point as shown in the exhibit above. The calculations are as follow:

To break even set profits = 0.

$$0 = (0.2)(12) + (0.4)(60) + (0.1)(10) + (0.2)(72) + (0.1)(150) - 18M$$

De Beers should sell 59,211 or ~ 60,000 diamonds per year to break even.

# Case Sequence

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As this is a command and control case, the interviewer must direct the candidate in the following sequence:

## Sequence Part 3

- The interviewer should ask the candidate whether it is feasible to sell 60,000 diamonds in one year. The candidate should think creatively to answer this question. One good approach is as follows:

“A good way to think about the feasibility of selling 60,000 diamonds in a year in each store is to translate this into how many diamonds should be sold on a given day or on a given hour. Thus, to sell 60K diamonds in a year, the store must sell 5K diamonds per month. Assuming that the store is open 20 days per month (a 5-day work week) then the store must sell 250 diamonds per day. If the store is open 10 hours per day, then the store should be selling 25 diamonds per hour.” Clearly, it is very unlikely to sell 25 diamonds per hour. The typical consumer usually shops around before buying say, an engagement ring.
- The interviewer should then ask the candidate what to do. The candidate could mention different things but must mention that **the biggest cost driver is the real estate**. The **size of the store is too large** given the business (5,000 m<sup>2</sup> are not necessary to sell diamonds which are quite small). Other locations could also be explored.

# Sample solution element

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Recommendation	De Beers should re-think its strategy to enter the retail business. As things are now, it should sell about 25 diamonds per hour per store to break even, a situation that is highly unlikely. De Beers should first focus on reducing the size of the store to reduce its fixed cost.
Risks	
Next Steps	Other consideration is selling only the most profitable products such as P5 and P2. Other locations could also be considered.

## CASE INTERVIEW PERFORMANCE REPORT

<b>Name</b>	
<b>Date</b>	
<b>Case Name</b>	
<b>Coach</b>	

<b>Behavior Score</b>	n/a
<b>Case Score</b>	
<b>Other Score</b>	n/a
<b>Weighted Comp. Score</b>	n/a

Grading Criteria	Score	Comments
Please walk me through your resume	n/a	
Why consulting? Why Bain?	n/a	
Understanding of Prompt and Clarifications		
Framework		
Structured Responses		
Interpretation of Graphs		
Solving Quant Section		
Addressing the Key Question / Consideration		
Recommendation		
Questions for the Interviewer	n/a	n/a

Appearance	
Body Language	n/a
Tone	n/a

Delivery	
Grammar / Vocab	
Conciseness	
Clarity	

Content	
Creativity / Originality / Depth	
Rapport Building / Delivery	
Business Knowledge	

Response Key			
4	Exceptional / No Errors	3	Average / Adequate
3.5	Average / Competitive	1 - 2	Inadequate