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GOOD SOLUTION STARTS FROM RIGHT STRATEGY

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Agenda:

- How to rightly approach the question
- How to rightly approach the solution

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Strategy

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1st step What is a problem???

2st step Solve the problem

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Problem.

Fact

Conclusion

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Context

A short summary of current situation and problems, which account for the case problem

Success

Parameters and indexes that indicate that the problem is successfully solved

Central entity/person

Interested party: group of people, organization) that will influence the decision making and the realization of goals

Boundaries

Restrict the range of possible solutions (e.g. geographical, financial, organizational, etc. boundaries)

Potential risks

Risks and problems that can prevent the goal to be achieved

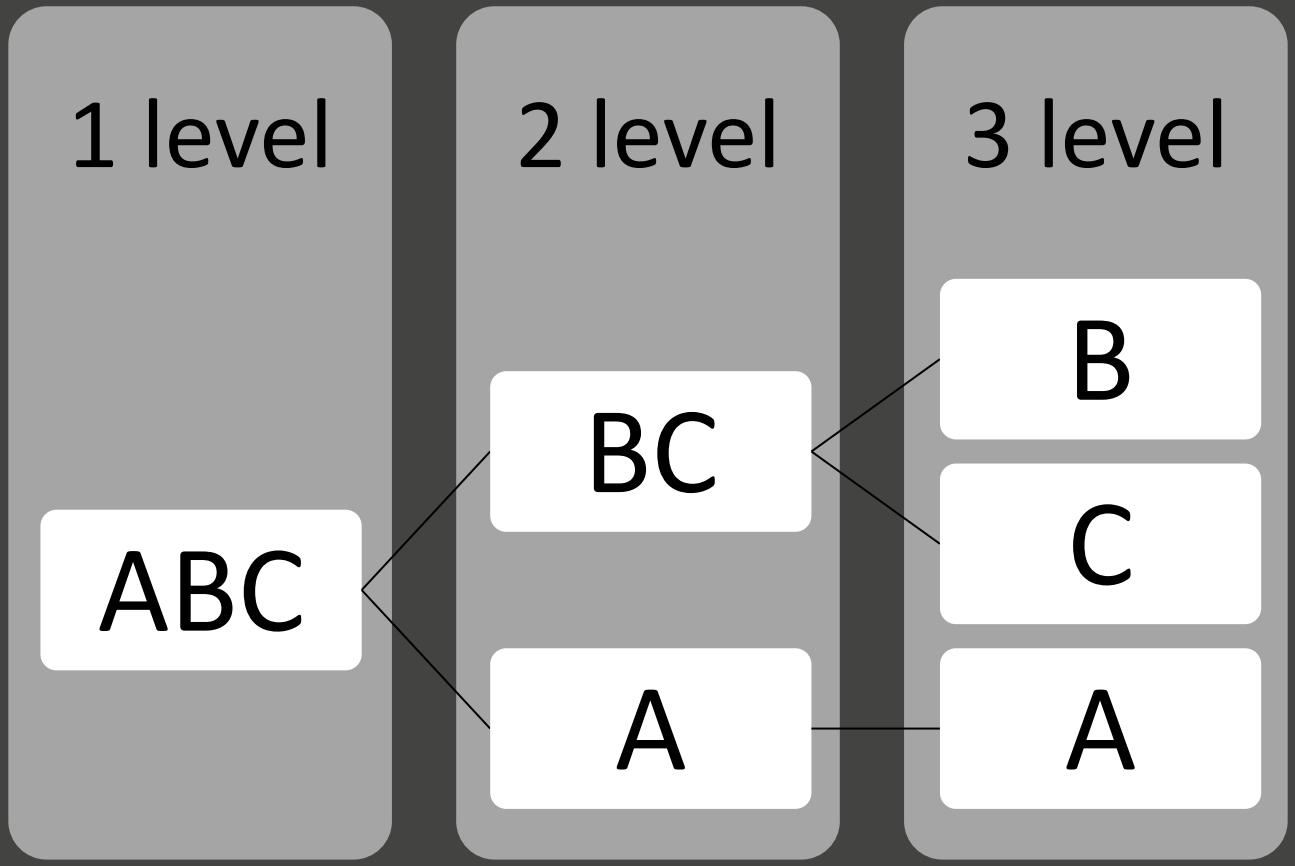
Example:

Our president decides to cut off the budget of NU. What measures should be undertaken to minimize the effect on quality of education (all professors should stay)?

Example:

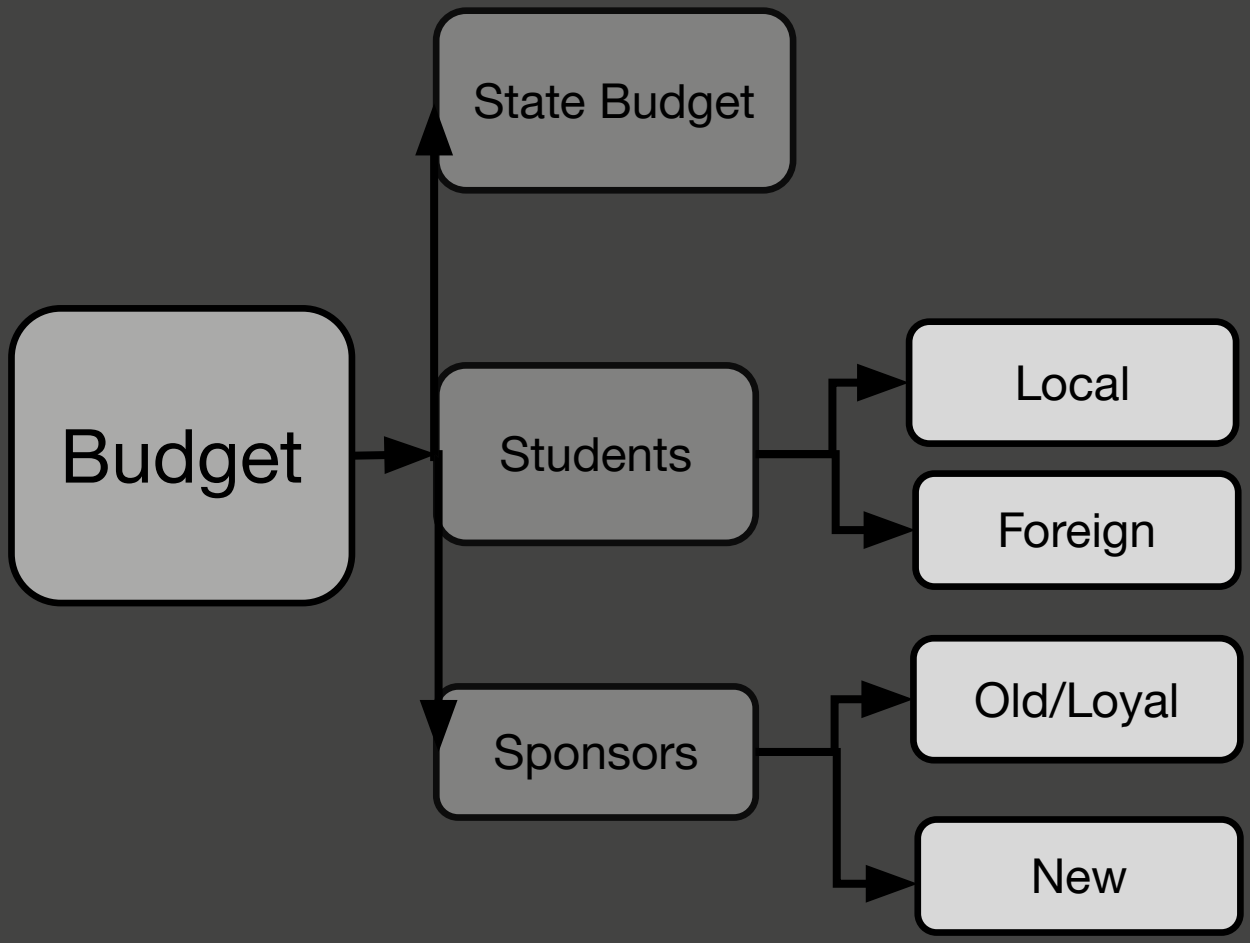
Company ABC wants to entry the Kazakhstan market of furniture and building materials and occupy 50% of market with investments return in 5 years.

Minto Pyramid



Back to the example:

Our president decides to cut off the budget of NU. What measures should be undertaken to minimize the effect on quality of education (all professors should stay)?


Budget
State Budget
Students
Local
Foreign
Sponsors
Old/Loyal
New

Solution.

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Frameworks

A framework is an issue tree template used to solve a common business problem. An issue tree is designed to test your hypothesis.

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Frameworks

Frameworks are simply a way to structure your analysis.

The purpose of a framework is not to complete the framework by the end of the interview. The purpose is to test a hypothesis.

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Victor Cheng's suggested frameworks

2 of the most crucial frameworks that are determined by Victor Cheng (former Mckinsey & Company management consultant, strategic planning consultant, public speaker, and author of several business books) cover 75% of cases.

1. Profitability framework
2. The Business situation framework

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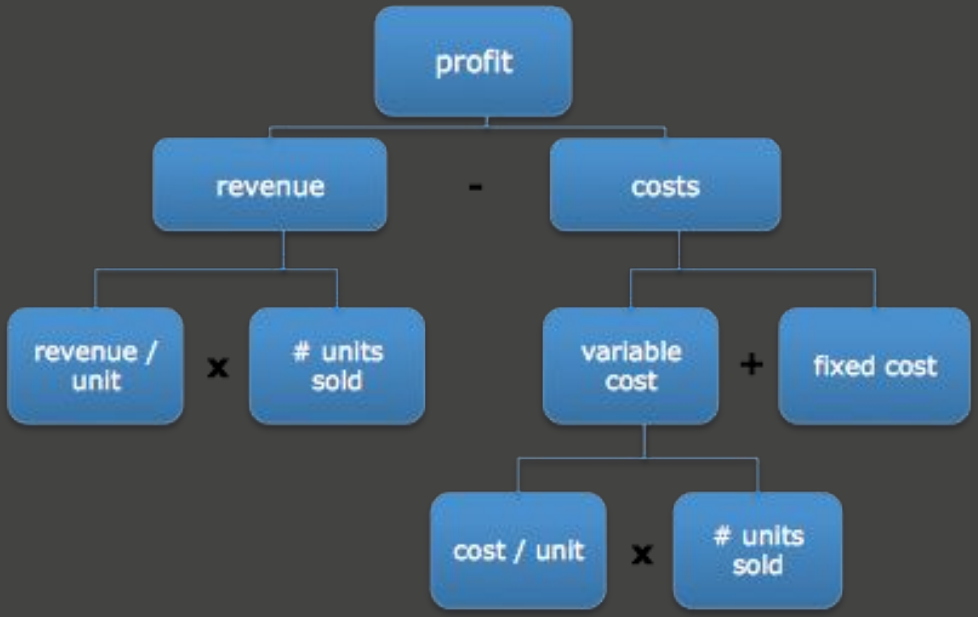
Profitability framework

- The Profitability Framework helps you take a company's financial profits and
- mathematically deconstruct them into component parts.
- Profits comprise two branches in this issue tree: revenues and cost. Here's the profit formula
- once again:

Profits = revenues – costs



- If you have a profit problem, you need to figure out if it's revenue or cost-driven. If it's
- revenue-driven, look at units sold versus revenue per unit, so

Revenue = unit price x number of units sold

Isolate and Segment.

- For example, let's say you've segmented (broken up into component pieces) profits into sales and costs and determined that a decline in sales is driving the bulk of the decline in profits. By making this determination, you've isolated the problem via the process of elimination.
- It's actually only a decline in sales, not a cost problem. This process of segmenting and isolating worked, so now you repeat it.
- Next, segment units sold into its component parts. Determine which components of units sold have caused most of the problem. At that point, you need to segment units sold into its component parts. As you segment it into component parts you might find out, for example, that in Europe, units sold are up 20 percent, and in Asia they're down 20 percent. Now that you've segmented, it's time to isolate the problem by noticing in which parts of the business the problem does and does not exist.
- As you "drill down," you ignore the parts of the business where the problem does not exist to focus on the areas where it does. Once you've isolated the root cause, say, "This profitability problem is actually being driven by a decline in sales volume in China" (and not anywhere else).

- Disaggregating costs.

  You need to break down (segment and isolate) cost into its component parts

  Costs can be broken down into units sold and cost per unit.

  Costs = units sold x cost per unit

  Distinguishing Fixed vs. Variable Costs

  A fixed cost doesn't change as the number of units sold changes. Let's say you pay $5 million a year in rent for the company's headquarters building. It doesn't matter whether you sell 1 unit or 1 million units, because your rent is set at $5 million yearly.

  A variable cost changes, typically linearly, with the number of units sold. For example, materials costs and sales force commission expenses grow and shrink proportionally as the number of units sold increases or decreases. The differences between fixed and variable costs are profoundly important to running a profitable business. The following example demonstrates why.

- Example: Assume two companies are unprofitable and losing equal amounts of profit each year.

  Company 1 has high fixed costs but very low variable costs. In other words, the company's profit per unit is very high. This business is unprofitable because the number of units sold is too low relative to the magnitude of fixed costs.

  Company 2 has low fixed costs but extremely high variable costs. The company's per-unit variable costs are actually higher than the price per unit—it costs the company $3 to manufacture a product it sells for $2.

  On the surface, the companies have identical problems, but their root causes couldn't be more different.

  Company 1 must grow the number of units sold. With sufficient volume, the profitability problem will fix itself. In other words, this company can grow its way out of its profitability problem.

  If Company 2 doubles the number of units sold, it loses twice as much money and will go out of business twice as quickly. In this company's case, you need to solve the problem of high variable costs.

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The business Situation framework

The Business Situation framework is appropriate for a wide variety of client and company situations, including introducing a new market entry or a new product, starting a new business, opening a lemonade stand, developing a growth strategy, divesting, or making a turnaround. This framework will help you understand what qualitative issues drive and impact a business overall.

The framework consists of four key components. I draw this framework as four distinct boxes, but you could quite easily redraw it as an issue tree with four branches:

- Customer
- Product
- Company
- Competition

The business situation framework demonstrates that when making all different types of business decisions, it's useful to consider data related to customers, the product or products involved, the company (typically your client), and competition.

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Customer analysis

- Who is the customer?
- What are the customer's segment needs?
- What is each segment's price sensitivity?
- What are each segment's distribution channel preferences?
- What is the customer concentration in each segment?

Product analysis

- What is the nature of the product? (What are its benefits? Why would someone buy it?)
- Is it a commodity good or a unique good?
- Are there any complementary goods?
- Are there any substitutes?
- What is the product's life cycle? (Is it new or almost obsolete?)

Company Analysis

- Capabilities and expertise
- Distribution channels
- Cost structure (mainly fixed versus variable)
- Financial situation
- Organizational structure (optional: if, for example, team organization is in conflict with how clients want to do business)

Competition Analysis

- Competitor concentration and structure (monopoly, oligopoly, competitive)
- Competitor behaviors (customer segments, products, pricing strategy, distribution strategy)
- Best practices (whether they're doing things the client is not)
- Barriers to entry
- Supplier concentration)

- Recommended frameworks for market cases:

- Five C's (company, cost, competition, clients, channels)

- Four P's (product, price, place, promotions)

- Michael Porter's Five Forces (competitors, potential entrants, suppliers, buyers, substitutes)

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Thank you for coming!