

S Say

Start the case

- Andre's Hardware is a chain of 25 hardware stores on the east coast.
- They are a smaller store format than the bigger, Home Depot type stores, but carry a full range of hardware supplies (hammers, nails, paint, etc.)
- Over the last year almost all of their stores have been consistently flat, growing revenue at about 1% per year.
- However, 1 store in particular has had a steep decline in profit this last year.

Can you figure out what's going on?

Be ready with more info if asked:

- **Competitors** – No data on competitors' sales.
- **Customers** – No data indicating that customers have changed their opinions or tastes.
- **Industry shift** – No information that there's a change in the industry. Ask, "Why were you thinking about the industry overall when we know that only one location has changed?"

After reviewing the candidate's structure, be ready with this information if asked:

- **Prices** – prices for the product have not changed.
- **Fixed Costs** – there have been no changes.
- **Variable Costs** – there have been no changes.
- **Volume** – "I'm not sure, let's come back to that later." OR, "That's a good question. Let's look at some data I have."

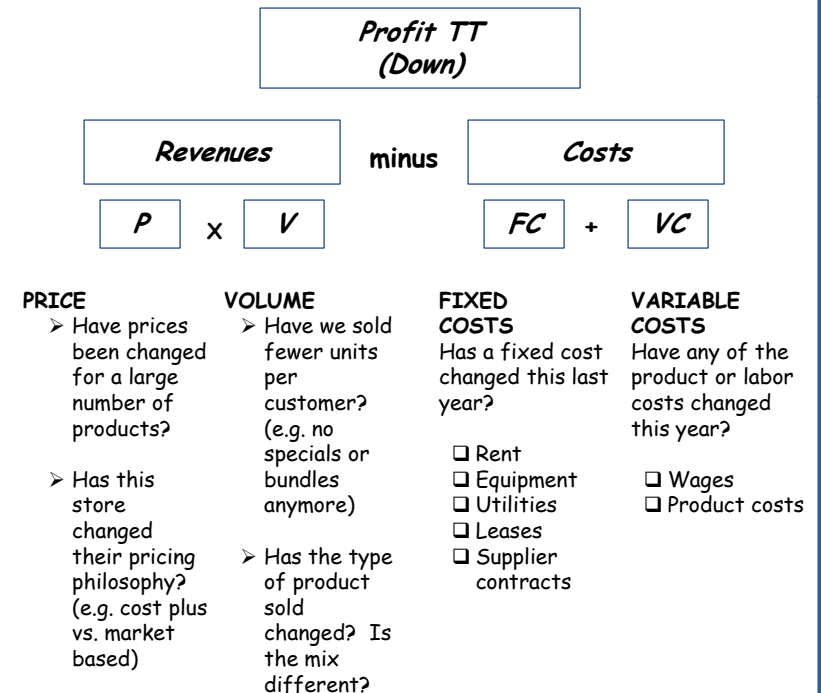
M Manage

Know what to manage

- This case focuses on **depth and numbers**. You will provide the numbers after the initial discussion.
- For an initial structure, expect to see a simple profit equation and the candidate drilling into each of the variables.

Look for good structure (*this is a sample – expect variations*)

Single store profit is down. Why?



Andre's Hardware (2 of 2)

A Ask

Ask specific questions to keep the case on track. Remember your goals for this case: depth and numbers.

- (BREADTH)** What else would you like to include in your structure? (e.g. ask this if there is an obvious gap in the candidate's thinking).
- (DEPTH)** Let's talk in detail about some of the areas in your structure. Could you walk me through the data you would need for each section in order to find out what is happening? (The candidate should be able to explore each section and lay-out his thoughts. To understand the shift in revenues or costs the candidate would need to collect about 6-12 months of data for each category).
- (DEPTH)** Andre's Hardware has a policy that they try to stock 3 levels of product for each category. For instance, low, medium and high level drills and screw drivers. Why would they do that?
 - Different customer needs
 - Different customer budgets
 - Try to up sell customers
 - Full range of product required (store demands that suppliers have all 3 types)
- (NUMBERS)** Those are some good thoughts. I do have some data here that I need your help in interpreting. Please review this slide and let me know what you see. Hand out the chart. Keep it in plastic to avoid having the candidate write on it.

Total Store Revenue: \$10M

BEFORE PROFIT DROP

	Margin	Revenue Breakdown	Profit
High quality	15%	40%	\$ 600,000
Medium quality	5%	25%	\$ 125,000
Low quality	-10%	35%	\$ (350,000)

\$ 375,000

Total Store Revenue: \$10M

AFTER PROFIT DROP

	Margin	Revenue Breakdown	Profit
High quality	15%	20%	\$ 300,000
Medium quality	5%	30%	\$ 150,000
Low quality	-10%	50%	\$ (500,000)

\$ (50,000)

- (NUMBERS)** Please calculate the profit for each product type. Expect exact numbers.
- (NUMBERS)** What's going on here?
 - Selling 3 lines for product type (e.g. paper)
 - Before, high margin lines were selling more units
 - After, low margin units are selling more
 - Revenue has stayed the same but profit is down

- (INTEGRATION)** Why do you think there has been this shift to the low margin products?
 - People can't find the products
 - High margin products have not been available (stock outs)
 - Customers' budgets are tighter
 - There's been a change in promotion that has prompted people to buy the low margin products
 - Other?
- (INTEGRATION)** To wrap up, I need to tell you what the team found. Apparently some employees thought it would be easier for the customers to find their products if they put a lot of the high volume sellers (low margin product) toward the front of the store. They had noticed the trend that people were buying cheaper products (so they thought), and decided to make it easier to find everything. Given the data and all these facts, what would you do?

Recommendation:

- Quickly turn the store back to its original format
- Understand more clearly why the store was reformatted without assessing the impact
- Discuss the role of profit margin in the business. It's not necessary to give the profit margin details, but employees need to understand the differences in margin.

R Role Play

- Focus on the initial structure and have the candidate present his plan more clearly.
 - Does he understand the profit equation?
 - Does he understand how to present each "bucket" clearly?
 - Can he explain the data below each section?

T Track

- **Breadth** – give feedback on where the initial structure was lacking.
- **Depth** – discuss ways to drill deeper into each sub-section of the plan.
- **Numbers** – review any problems in the profit calculations. Explain the concept of how the mix of products shifted.

Andre's Hardware Annual Sales

Total Store Revenue: \$10M

BEFORE PROFIT DROP

	Margin	Revenue Breakdown	Profit
High quality	15%	40%	?
Medium quality	5%	25%	?
Low quality	-10%	35%	?

Total?

Total Store Revenue: \$10M

AFTER PROFIT DROP

	Margin	Revenue Breakdown	Profit
High quality	15%	20%	?
Medium quality	5%	30%	?
Low quality	-10%	50%	?

Total?