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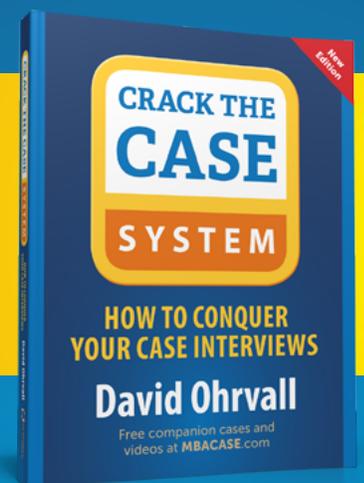
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CASE **606**

*Slash & Burn  
Investors*

**David Ohrvall**

FOUNDER OF [MBACASE.COM](http://MBACASE.COM)



## Slash & Burn Investors

New York City, New York, US

Tempers are flaring in NYC as the partners of Slash & Burn decide the fate of Tuttle Knox. To pay down debt, S&B must divest some of Tuttle Knox's assets. Help these sharks decide who sinks and who swims.

**606**  
FULL  
★★★

### NEW YORK CITY FACTS

- ▶ Larger population than that of 39 individual US states
- ▶ Home to Wall Street, the center of the American finance industry
- ▶ 5 boroughs: The Bronx, Brooklyn, Manhattan, Queens and Staten Island



### TRAIN Profile

Type	Region	Analysis	Industry	Number
	<p>NEW YORK, NY, US Population: 8.5M Currency: Dollar, USD, \$</p>	<p>Exit a Business or Market</p>	<p>Banking</p>	<p>LEVEL 3</p>

### Solo Practice with Video Assist

1. Find your videos
2. Set up
3. Listen to question
4. Recap
5. Create your plan
6. Present your plan
7. Stop and study
8. Reinforce



30 minutes

### Partner Practice

1. Set up
2. Present the case question
3. Recap
4. Create your plan
5. Present your plan
6. Stop and study
7. Reinforce

## Interview Guide

### Case Situation and Question

Slash & Burn is a New York City investment firm. Not known for being a “friendly fund” like some of their contemporaries, S&B is infamous for selling off acquired companies, or parts of companies, within 3 years of acquisition. Tuttle Knox Corp., a 2.5 year-old investment, is a hardware conglomerate designed to capture a high share of the home improvement market. TK is not doing well overall. Slash & Burn would like to reduce its debt burden by \$500M, and has decided that Tuttle Knox must sell off assets to raise the funds. They would like you to determine which companies they should sell to raise the \$500M. Select the companies you would divest, and give your logic for the choices.

### Case Twist

If the investors came back and said they needed \$750M rather than \$500M, would you change your answer?

What would you do differently?

How can we improve the marketability of the assets we have left?



## Feedback

### Physical Skills

	Weak		Strong
Body Language	①	②	③
Verbal	①	②	③
Listening	①	②	③

### Thinking Skills

Hypothesis Generation	①	②	③
Comfort with Ambiguity	①	②	③
Initial Plan & Output	①	②	③
Data Analysis	①	②	③
Basic Business Intuition	①	②	③
Integration	①	②	③
2nd Level Insights	①	②	③
Creativity	①	②	③

Total Score \_\_\_\_\_ / 33

### Intro Facts (Tell the Candidate if Asked)

**Slash and Burn Motto:** “Grow or Be Sold”

**TK Customers:** TK was designed to penetrate Home Depot, Lowe’s, and Menard’s as well as Ace Hardware and other national hardware chains. The strategy was to gain leverage with retailers by supplying critical product lines in several store categories.

**Sales Multiples and Timing:** Assume that price per asset will be one times annual revenue, and that there are buyers for all assets.

**Intention:** S&B hopes to streamline TK, create a more focused business and then keep the smaller entity for 2–3 more years.”

### Key Insights (Do Not Tell the Candidate)

**Tuttle Knox Management:** They are deferring to the candidate’s recommendations.

**Low Growth Businesses:** Heavy Lawn Equipment (HLE) and Tools are the lowest growth businesses, with HLE being the lowest. These two areas are clearly the place to focus, but the real question is which companies to choose.

**Divestiture Combinations:** There are several combinations within Heavy Lawn Equipment and Tools that will give S&B their stated goal of \$500M. The key is to put a stake in the ground on the logic that seems best (see Interviewer’s Data Guide).

### Mid-case Data (Tell Only at Appropriate Time)

**Understand the bottom-line impact.**

Some questions to ask after you hear the Candidate’s approach:

- If there is a combination of tools and lawn equipment, how will they work together?
- Setting aside the heavy lawn equipment and tools, what is the synergy between the remaining businesses?
- Will there be any new challenges in dealing with the home improvement centers after some assets are divested? If TK has any leverage with certain companies, will it be gone?

## Case Flow and Milestones

1 Present Main Question	2 Present Any Basics	3 Ask for Clarification	4 Guide Discussion	5 Get Recommendation
Candidate takes notes, asks for a minute, forms a plan and presents it.	For this case the Candidate needs to interpret data from one chart and take notes on some additional facts. There may be a few questions before you get to the slide.	Be sure to make him explain anything you do not fully understand.	There is only one handout. The chart is called a marimekko. It enables you to quickly see two dimensions (in this case, total division revenue and percent of division by business). The candidate should look for combinations of businesses that total \$500M in some logical form.	Look to see that it is data-driven and based on the facts of the case.

ASK  
QUESTIONS

PRESENT  
CASE TWIST

## Handout and Data Guide

### Handout:

Give the candidate the marimekko chart showing company revenue



### Data to Read

Provide the candidate with the "Additional Info" from sidebar to the right when asked. Refer to the Interviewer's Data Guide and Post Case Review pages for calculations and potential case answers.

## Additional Info

**Likely question from Candidate:** Do you have any information on the businesses that Tuttle Knox owns?

**Interviewer:** "Here's a marimekko of 2002 revenue. If this chart type is new to you, just think of it as a square pie chart. The upper right corner shows the total revenue for the entire chart. The width of each column is proportional by product category (e.g. heavy lawn equipment is the largest). Each block within a column represents a business. The y axis shows % of category. For example, True Cut is about 40% of heavy lawn equipment."

### Businesses under consideration:

- True Cut—Oldest, most prestigious line of lawn mowers. Some older technology. Loyal customers.
- LawnKraft—Second only to True Cut in terms of name and brand. Some think their quality is the best.
- Shaker Smith—Premium image. Less focused on lawn mowers; more focused on broad set of tools.
- Trim Assist—New to the mower space. Better technology, savvy marketing to hip suburbanites.
- Shinjuku—Japanese high-quality tool maker. Making strong inroad into the market.
- Fulcrum Tools—"Good Ole Boys" tool maker; strong loyalty among carpenters; slipping in quality.
- Congren—Consistently the also-ran brand. Dying a slow death as Shinjuku takes its share.



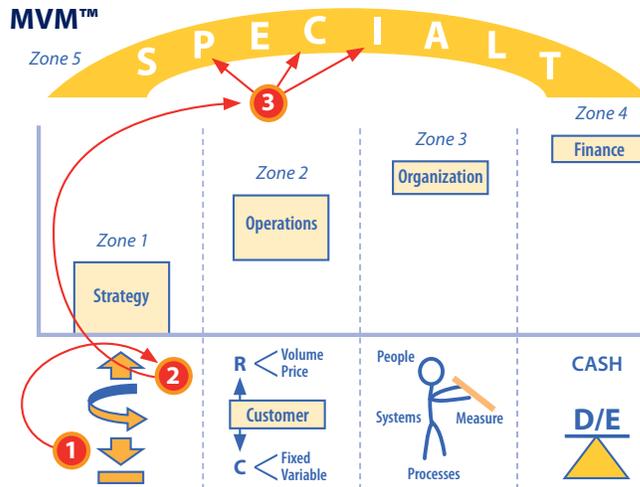
### Re-routers

### Questions to Keep Things on Track

- **When you look at this chart, what jumps out at you?**
  - ▶ A large number of companies are the same size.
  - ▶ Two categories have low growth and low profit margins.
- **How will you prioritize some assets over others?**
  - ▶ Look at net profit and growth percentages.
  - ▶ Consider the strategic implications.
- **What are the implications of the divestitures in their respective categories? Will Tuttle Knox be able to compete going forward?**
  - ▶ If either of the large lawn mowing companies is left, Tuttle Knox will not have trouble competing.
  - ▶ If the smaller lawn care companies are left then, Tuttle Knox may have trouble establishing market share.

## Additional Study

### F – Form a Plan



**1. Start in Zone 1, Strategy/Divest:** Slash & Burn Investors want Tuttle Knox to divest \$500M of assets. How much will buyers pay for the assets? How well will the remaining companies work together? Will competitors buy the assets and use them against us?

**2. Move to Zone 2, Operations:** To understand which businesses to divest, you'll need to know the basics about each business: annual revenue, net profit and historical and expected growth rates.

**3. Move to Zone 5, External Factors:** What about the industry for the remaining assets? Will growth projections continue for each business, or are there potential limits? Consider potential competitor response and public opinion.

### A - Anchor a Hypothesis

Using a hypothesis does not have to be limited to the main question of the case (e.g. Which companies should you divest to reach the goal of \$500M?). Use hypothesis thinking in sub-sections of a case where you may have to quickly form an opinion or develop a structure for finding more data.

For instance, once you found that mathematically there were several options you could choose to reach the \$500M goal, you had a great opportunity to put a stake in the ground with a hunch about which deal would be best..

### E - End the Case

How strong was your final conclusion? Make sure that you are answering the main question of the case and that you use data whenever possible.

In concluding this case, be direct and to the point. Also, be very clear about how you got to your answer. S&B partners will want to know the bottom line.

### M—Mine for the Answer

Where did you go looking for data? You needed to build a fact base around the companies. There were also some questions you could have asked about what is driving the company's performance today (e.g. size, innovation, etc.). Here are some examples:

Company Facts	Innovation	Performance
<ul style="list-style-type: none"> <li>What is the full list of companies owned by Tuttle Knox? <i>See the marimekko chart. Each block represents one company and shows its sales.</i></li> <li>Which companies are growing and which ones are not? <i>See the marimekko chart and data distribution.</i></li> <li>Are there distinct markets that we want to exit? <i>The chart shows that Heavy Lawn Equipment and Tools are both low-growth and low-margin businesses.</i></li> <li>Is it clear where to focus? <i>Heavy Lawn Equipment and Tools are the poorest-performing areas.</i></li> </ul>	<ul style="list-style-type: none"> <li>Have the businesses had trouble innovating? <i>Many managers have complained that the organization is too big. Heavy Lawn Equipment and Tools take a proportionally larger share of resources to manage.</i></li> <li>Where have we seen evidence of innovation within the businesses? <i>The paint businesses have been extremely innovative, capitalizing on the growing popularity of home decoration shows and interest in decorative painting projects.</i></li> <li>What kind of support do the businesses need to be more innovative? <i>Most advantages have come from relationships among senior executives at various business lines, from consolidated shipments, and from sharing insights about how to deal with troublesome customers.</i></li> </ul>	<ul style="list-style-type: none"> <li>Has our conglomerate model worked with home improvement stores? <i>Each department typically has a different buyer, so the paint sales buyer doesn't care if we're an important lawn mower supplier. We gain little or nothing in terms of preferred pricing from our volume in several categories.</i></li> <li>What advantages do we currently have, and will they continue after selling assets? <i>The businesses want freedom to make independent decisions more quickly without having to obtain senior management's approval.</i></li> </ul>

## Post Case Review

### Case Insights & Takeaways

- Heavy Lawn Equipment and Tools have weak profit and growth margins.
- Divesting the low margin businesses is a key priority.
- To divest anything in the Tools category before Heavy Lawn Equipment would mean a 3¢ loss of profit for every dollar of revenue.
  - Option 1: True Cut and LawnKraft, \$529M, (sticking with specialty lawn equipment only).
  - Option 2: LawnKraft, Shaker, Trim, \$469M, (placing bet on True Cut, tradition and loyalty).
  - Option 3: True Cut, Shaker, Trim, \$508M, (placing bet on quality and making #2 into #1).

### Math Tips

- Round your numbers to come up with estimates quickly.
- Scan the companies to see if a few options can quickly add up to about \$500M.
- Think about the numbers of this case at a high level. \$500M can be broken into 4 companies at \$125M each, 3 companies at \$133M each and 2 companies at \$250M each. Each approach would imply different activities.

### Tips for Reading Charts and Graphs

- Talk while reading through the chart to show that you are relaxed and could talk to a client.
- Start at the top, go around the edges, and finish up in the middle.
- Look at the big pieces first and see what would have the most impact.
- Think of simplicity first. Is there an obvious solution that you can tailor or refine?
- Use your paper along with the chart. Make sure you are calculating very early in the case to show your ease with calculations and numbers.

## My Takeaways

To build skills and improve, you must apply what you learned to future cases. Take a few moments and review the interviewer feedback and jot down some key insights about your performance in the space below.

### Thinking Skills

My top 2 strengths are:

My top 2 soft spots are:

To address these problems I'll begin to:

## My Performance During the Case

Add up your points. → Total Score: \_\_\_\_\_ / 15

F	Form A Plan	R	Read My Audience	A	Anchor a Hypothesis	M	Mine for Answers	E	End the Case
points	<ul style="list-style-type: none"> <li>③ Structured, clean</li> <li>② Somewhat organized and logical</li> <li>① Messy, overlapping ideas</li> </ul>	points	<ul style="list-style-type: none"> <li>③ Good back &amp; forth, caught clues</li> <li>② Awkward, trouble with interviewer style</li> <li>① Interviewer not interested, couldn't follow</li> </ul>	points	<ul style="list-style-type: none"> <li>③ Solid hunch, pursued clue</li> <li>② Partial direction</li> <li>① No hypothesis at all</li> </ul>	points	<ul style="list-style-type: none"> <li>③ Specific questions, solid analysis</li> <li>② Missed some questions, some math mistakes</li> <li>① Vague questions, weak math, no linkages</li> </ul>	points	<ul style="list-style-type: none"> <li>③ Used facts and data, connected the dots</li> <li>② Some data, mostly understood connections</li> <li>① No data, no passion, no connections</li> </ul>

## Interviewer's Data Guide

### Ask the following: Which companies would be on your short list to sell? Why?

- Main insights: Two categories have significantly lower growth than the others, Heavy Lawn Equipment and Tools. Both also have low margins.
- The other categories of product all have healthy profit margins and growth rates, so it is safe to focus on Heavy Lawn Equipment and Tools. The next question is which ones to eliminate.

### Narrow down the choices

- Heavy Lawn Equipment and Tools have weak profit and growth margins. They are prime areas to examine, since the other areas appear to be growing and show healthier profit margins.
- When choosing between the two, choose Heavy Lawn Equipment. Divesting all tools (\$356M of revenue) vs. divesting an equivalent amount in heavy equipment will result in a profit loss of  $3\% \times \$356M = \$10.7M$ , due to the difference in profit margins (12% vs. 15%).
- Divesting the low margin businesses is a key priority. To divest anything in the Tools category before Heavy Lawn Equipment would mean a loss of 3¢ for every dollar of revenue.

### Look for combinations that amount to \$500M in the lawn category

#### What will add up to \$500M?

Option 1: True Cut and LawnKraft	\$529	Sticking with specialty lawn equipment only
Option 2: LawnKraft, Shaker, Trim	\$468	Placing bet on True Cut, tradition and loyalty.
Option 3: True Cut, Shaker, Trim	\$508	Placing bet on quality and making #2 into #1

#### What's the Implication

Since option 2 does not quite reach \$500M, you could divest Congren (Tools) as well, which would bring the total to \$556. Slash & Burn wouldn't mind the extra cash for debt payments and it might be best to take care of all the divestitures at one time. This plan leaves TK with True Cut, the traditional lawn mower company. High share would likely be sustained for a period of time, but it is very slow growth and not very profitable.

Option 1 leaves TK with two smaller specialty companies that are likely acquisition targets down the road. They could be packaged together and sold in a year or two. At that point, TK would be out of the slow-growth lawn business.

Option 3 hits the target and leaves TK with one lawn company to focus on and grow. However, it is questionable whether TK will want to grow a business in the lawn care field.

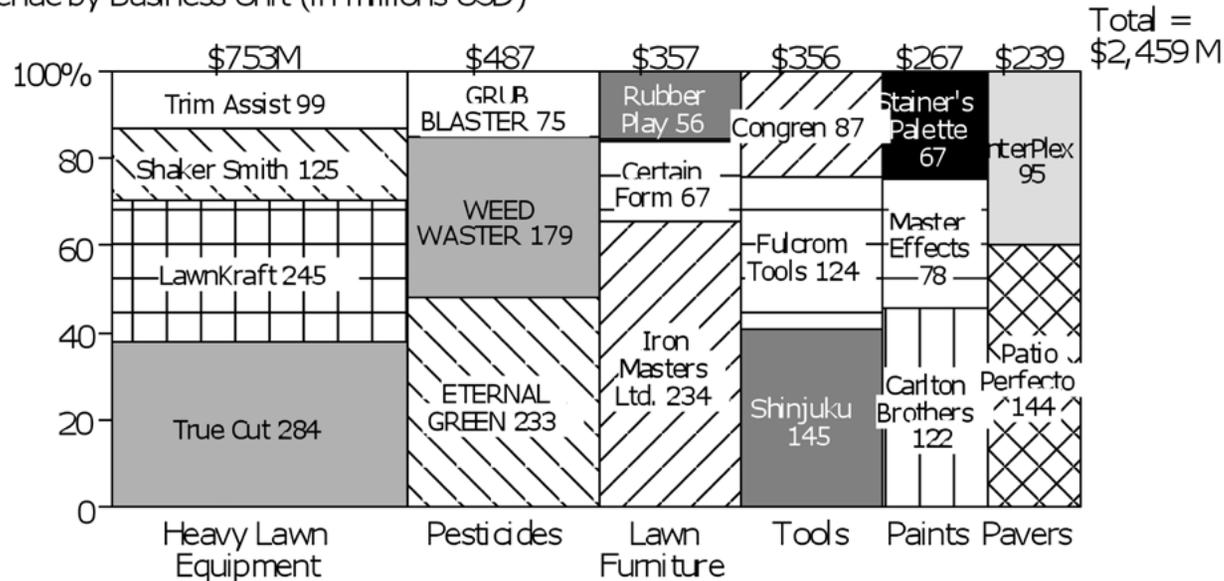
### Follow-up Questions

#### Consider what is left after the company divests the assets

- If there is a combination of tools and lawn equipment, how will they work together?
- Setting aside the heavy lawn and tool equipment, what is the synergy between the remaining businesses?
- Will there be any new challenges in dealing with the home improvement centers after some assets are divested? If TK has any leverage with certain companies, will it be gone?

## 2002 Revenue Major Divisions and Businesses

Revenue by Business Unit (in millions USD)



Net Profit Margin	12%	23%	27%	15%	42%	34%
Avg. Growth Rate	4%	9%	13%	5%	17%	31%



WORKSHEET

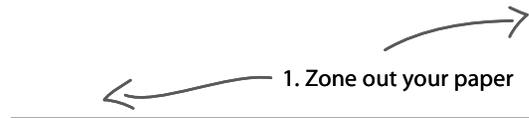
Slash & Burn Investors  
New York City, New York, US



Today's date:

2. Be original with your data

4. Leave ample room for a structure and additional notes as the case progresses



3. Take clean and simple notes

SLASH & BURN INVESTORS

Potential Plan and Output



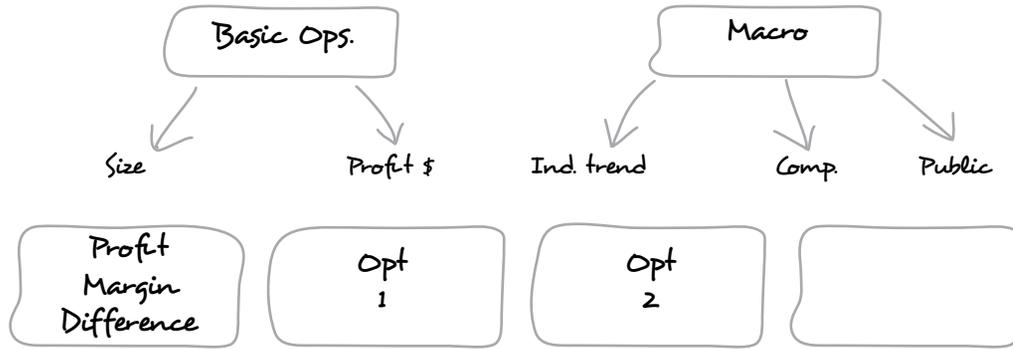
WORKSHEET

Slash & Burn Investors  
New York City, New York, US

Rev. - no data  
 Costs - no data, want to reduce  
 Profit - no data  
 Goal: \$500M FAST!

- NYC / not friendly / sell off
- Slash & Burn Invest.
- Tuttle Knox / 2.5 yr pt.
- HW conglomer / home improve. (Home Depot?)
- Reduce debt by \$500M
- Sell off assets to raise fund
- Which ones?

Which companies to divest?



Start w/ low margin divisions, Heavy Lawn and Tools	284 True Cut 245 Lawnkraft	245 Lawnkraft 125 Shaker 99 Trim	284 True Cut 125 Shaker 99 Trim
All tools (\$356M of rev)	\$529	\$469	\$508

\$356M x 15% vs.  
 \$356M x 12% Heavy Lawn  
 3% x 356 = \$10.7M

✓ Go with Heavy Lawn when possible!



Voiceover

"Before we divest companies, I'll want to look at the basic operations of the businesses to understand their size and profitability. I also want to look at several macro issues like industry trends, competitors and the public reaction to our remaining company. Unless you suggest otherwise, I would like to start with the companies and their financial performance."

Click or scan QR to see video.

Additional Study: For more questions to consider, review Section 13: Roadmaps.

