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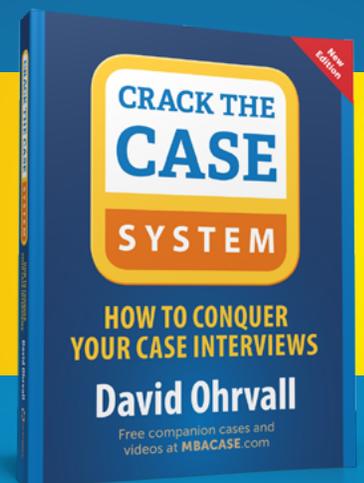
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CASE **302**

*Blueblood
Distribution*

David Ohrvall

FOUNDER OF MBACASE.COM



Blueblood Distribution

Melbourne, Australia

Known for its first-class selection of wines and spirits, Blueblood is facing a lowbrow problem. Some of its distribution centers are not up to snuff. Can you help management raise the bar?

302
FULL
★★★

MELBOURNE CITY FACTS

- ▶ Has the world's largest tram network
- ▶ Known for having "four seasons in a day;" the changeable weather is due to the city's bayside location
- ▶ Low density housing creates one of the largest urban footprints in the world



TRAIN Profile

Type	Region	Analysis	Industry	Number
	<p>MELBOURNE, AUSTRALIA Population: 4M Currency: Australian dollar, AUD</p>	<p>Streamline a Process</p>	<p>Beverages</p>	<p>LEVEL 1</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



Blueblood Distribution

Melbourne, Australia



Interview Guide

Case Situation and Question

Blueblood Distribution is a \$300M, nationwide distributor of wines and spirits. Their main customers are wine and spirit retailers, major grocery stores and food-marts. Presently they own 22 distribution sites and are trying to determine what factors make some sites more profitable than others.

What metrics would you use to compare distribution sites? Which metrics would be the most insightful?

Case Twist

Management wants you to pick only one metric to use in eliminating 5 of the 22 sites. What metric would you use? Why?

Click or scan QR to see video.

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)

Ownership

Each location is "owned" by the Regional VP, a company employee with incentive compensation consisting of 75% from regional performance and 25% from overall corporate performance. An additional bonus is available to the 5 top-performing regions.

Sales force

Each distribution site is responsible for generating sales near the site with grocery chains, restaurants and wine and spirit retailers.

Regions

There was little planning around how each region was developed; the Regional VP determined most of the regional locations according to his/her preferences.

Information sharing across regions

Distribution centers are encouraged to share best practices to increase the overall performance of the company.

Key Insights (Do Not Tell the Candidate)

Common Sense Review

This case is not complicated, but it does require the Candidate to think clearly about which metrics will have the most impact.

4 Key Metrics

These four metrics have the biggest impact on performance:

- Relative market share (RMS): indicates market strength, an important factor in pricing power and customer relationships.
- Inventory turns: high turns indicate a focused, well-chosen set of SKUs.
- Route density: gives insight on how costly it is to deliver to customers.
- Limiting the number of SKUs: keeping the number of products down saves warehousing costs.

Mid-case Data (Tell Only at Appropriate Time)

The first part of this case is a discussion of metrics for a distribution facility. Refer to the Data Guide for relevant metrics. After talking about the metrics, hand out some performance data (Handout A). This is all the information that the Candidate needs to do well on the case.

If there is remaining time after the candidate answers the main case question, introduce the Case Twist (see above).

For an additional twist on this case, ask the candidate:

"If you had to fix a 'poor performer' what would you do first?"

Case Flow and Milestones

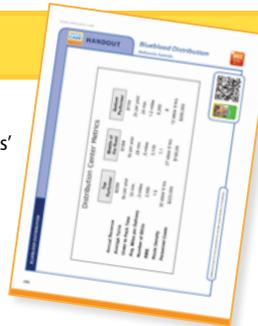
1 Present Main Question	2 Answer any Basics	3 Ask for Clarification	4 Guide Discussion	5 Get Recommendation
Candidate takes notes, asks for a minute, forms a plan and presents it.	This case has a large brainstorming component so it would be easy to slide into that discussion. Hold off, though, and wait to fully understand her Plan.	Prompt for clarification with questions like, "Tell me more about this area (you choose). What are you thinking about here?" or "Tell me how the parts of your structure link to each other." Look for clear connections between each part of the plan.	Direct the Candidate by asking about metrics. Referring to Data Guide, facilitate a discussion of metrics in a distribution facility. Next, give candidate Handout A. Ask which metrics appear to be the most significant, based on the data provided.	Gauge whether it is data driven and based on the facts of the case. <ul style="list-style-type: none"> Options should reference the data from the case. The Candidate should look for ways to gather more detailed data and try to confirm that these numbers are correct.

Handout and Data Guide

Handout

Candidate: Do you have any data on the 22 distribution centers' metrics?

Interviewer: "Here's a summary of the metrics, broken into 3 performance categories. Looking at the data on this sheet, which metrics are the most useful? Why?"



Re-routers

Questions to Keep Things on Track

- **What other metrics would you consider?**
 - ▶ Competitive intensity, measured in relative market share (RMS), is often forgotten
 - ▶ Route efficiency, measured by mileage between deliveries and number of deliveries per day
- **Of the metrics you've mentioned thus far, which one or two capture the most important drivers of the business?**
 - ▶ RMS is critical to controlling customer relationships and setting price for a region.
 - ▶ Route density and average miles per delivery are good measures of how well the sales team is selling along the routes
- **Which metrics can we gather the most easily?**

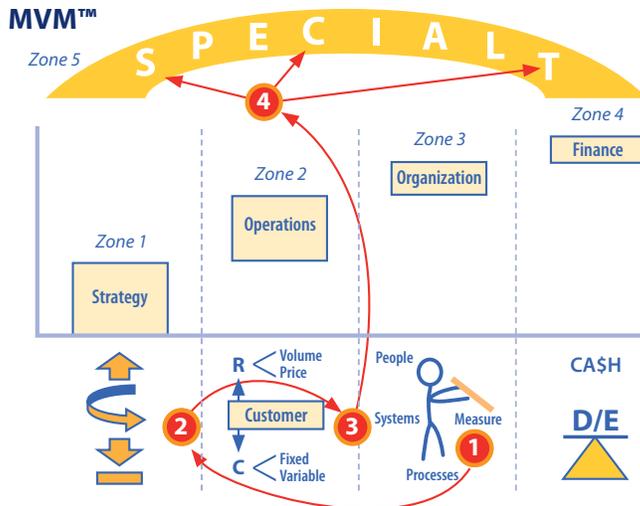
Data Guide

First, discuss the metrics. Facilitate a discussion about metrics in a distribution facility. Ask questions about which metrics are most meaningful, and how you gather such metrics. If the candidate gets stuck, offer a few of these:

- Receiving—bringing shipments of wine into the warehouse quickly, safely (without breakage) and consistently
- Picking and Packing—minimizing the time to print an order, pick a product and pack it in a box
- Inventory Turns—ensuring breadth of product while "turning" popular SKUs often
- Admin/ Accounting—streamlining all internal processes and minimizing personnel
- SKU Management—keeping the number of products down
- Sales per Customer—trying to increase the average order size and frequency of order
- Delivery Costs—Minimizing the internal cost per order by building route density
- Route Density—Routing trucks to maximize the number of customers in the shortest distance
- Relative Market Share—Increasing dominance by distribution region to better control pricing. RMS = Blueblood's market share compared to next competitor or leader. For example, if RMS = 2, BB has 2x the share of the next competitor; if RMS = .5, BB has a market share half the size of the leader's.

Additional Study Using the FRAME Method

F – Form a Plan



M—Mine for the Answer

How good were your questions? Aim to ask 2–3 questions in each section you explore. Here are some suggested areas and examples.

Inventory Turns	Delivery Costs	Competitor Intensity
<ul style="list-style-type: none"> What is the average inventory turn by site? <i>Products (measured by case) typically turn between 7 and 9 times per month</i> What is average for the industry? <i>Industry average for number of turns is 8</i> Which products in the warehouse turn most often and least often? <i>Table wines (retail <\$10) move the fastest Specialty wines, rare vintages and rare hard liquors move the slowest</i> 	<ul style="list-style-type: none"> How is product delivered to the customers? <i>Delivery is by a truck driven from the warehouse to the customer site</i> What is the average delivery cost per case of product? <i>Cost per case is about \$12</i> What are the key components of delivery? <i>Delivery can be broken down into packing, driving and unloading</i> Which steps in the process have the most variability in terms of cost? <i>Packing varies by skill or experience of packers Driving efficiency varies by driver and region</i> 	<ul style="list-style-type: none"> How does a distribution site compete? <i>Distributors try to acquire customers through promotions, new products and better delivery schedules</i> Where are Blueblood sites typically strong? <i>Blueblood is known for its wide and deep selection of hard to find products</i> Are there national competitors or regional ones? <i>Few national competitors exist, and in all cases the regional player acts independently</i> How do competitive pressures affect our revenue? Profit? <i>Competitors play tough and consistently try to steal our market share</i>

1. Start in Zone 3, Organization/Measure:

Although this case is about metrics and comparing distribution sites, to solve it you must move to other parts of the MVM™.

2. Move to Zone 2, Operations/Revenue/Cost:

How are the locations performing? What differences do we see in their revenue and costs?

- Volume—how fast do they turn items? Which ones turn more often?
- Price—which products offer a premium?
- Variable Costs—What are the costs of part-time delivery, stocking and administration?
- Fixed Costs—who has the better lease terms on warehousing per square foot?

3. Return to Zone 3, Organization/

Processes/People: What internal functions, computer systems or personnel make one site better than another?

4. Finish in Zone 5, External Factors:

- S – Are there any special supplier relationships?
- C – Which site has the most intense competition?
- T – Are there any innovations that separate one site from another?

A - Anchor a Hypothesis

You do not need to explain your hypothesis to the interviewer, but use this mental anchor to help you structure your questions as you move through your plan. Here are some potential hunches:

People: "The quality of the people at the sites is going to be the biggest driver of value. I'll check into their experience, years of work at Blueblood and overall physical strength. I also want to know about the leader of the site."

Processes: "Doing well in distribution is all about executing processes well. I want to know what the time and steps are for all the major processes: picking, packing, loading the trucks and unloading. Office activities are worth looking at as well."

Movement: "Since distribution is about moving items inside the site and eventually to the customer, I'm going to think about all the ways I can measure product movement. In addition to processes inside our site I'll look at the actions at the customer: driving and unloading come to mind immediately."

Post Case Review

Case Insights & Takeaways

A narrow set of metrics turned out to be the indicators of top performance. Two are very important to most businesses: RMS and inventory turns. Route density is a metric particular to distribution.

The chart in this case was fairly simple, but it was key to identifying the most important metrics. When reviewing handouts, look for large fluctuations in the data sets, as this variability often reveals a company's strong and weak spots.

What to Expect with Cases Like These

This case has an unusual topic (metrics) in an industry that may be unfamiliar to you (distribution). When faced with a new topic or industry, start with things that are common knowledge and common sense. For example, here it might be: trucks, warehouses, bottles that can break, heavy crates of liquids. Use these ideas as a starting point.

E - End the Case

Be firm and use data. Here's an option: "From the sample data, four metrics seem to be the most important: inventory turns, limiting the number of SKUs, route density and relative market share (RMS). Our bottom third perform much worse on these. For next steps, I would like to test the full set of metric data to measure the statistical significance. Also, I would rank the sites in detail to determine which ones we should focus on first."

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:

Click or scan QR to see video.

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"> ③ Structured, clean ② Somewhat organized and logical ① Messy, overlapping ideas 	points	<ul style="list-style-type: none"> ③ Good back & forth, caught clues ② Awkward, trouble with interviewer style ① Interviewer not interested, couldn't follow 	points	<ul style="list-style-type: none"> ③ Solid hunch, pursued clue ② Partial direction ① No hypothesis at all 	points	<ul style="list-style-type: none"> ③ Specific questions, solid analysis ② Missed some questions, some math mistakes ① Vague questions, weak math, no linkages 	points	<ul style="list-style-type: none"> ③ Used facts and data, connected the dots ② Some data, mostly understood connections ① No data, no passion, no connections

Distribution Center Metrics

	Top Performer	Middle of the Road	Bottom Performer
Annual Revenue	\$20M	\$15M	\$11M
Average Turns	8x per year	6x per year	2x per year
Order to Pack Time	33 min.	28 min.	24 min.
Avg. Miles per Delivery	.3 miles	.5 miles	1.2 miles
Number of SKUs	2,500	3,100	6,200
RMS	1.5	1.1	.6
Route Density	32 sites/ 8 hrs	27 sites/ 8 hrs	12 sites/ 8 hrs
Personnel Costs	\$223,000	\$190,00	\$200,000



WORKSHEET

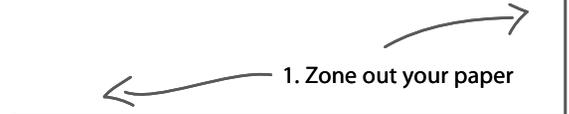
Blueblood Distribution
Melbourne, Australia



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

Rev - \$300M

Costs - ?

Profit - ?

No financial targets

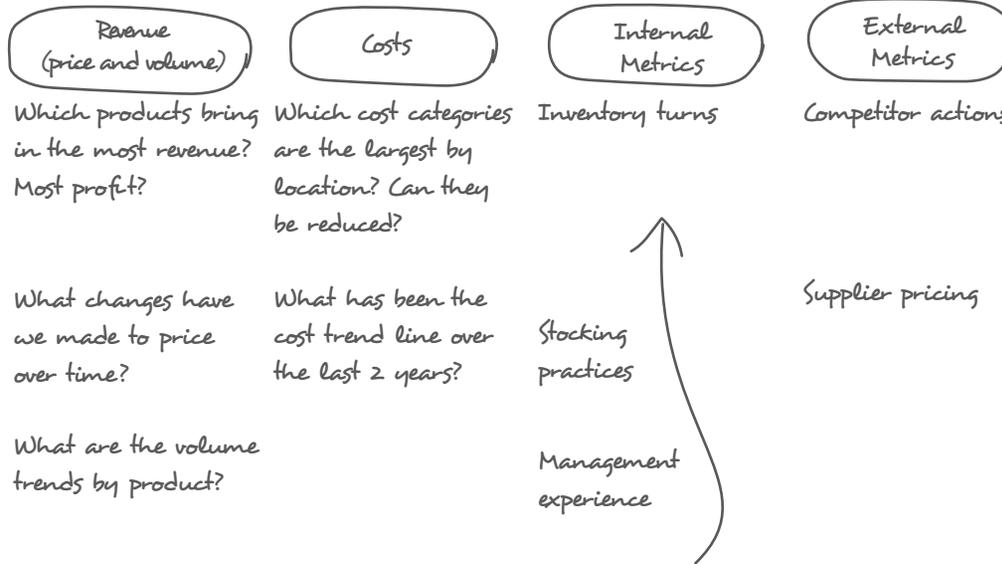
Goal: Which metrics would be the most insightful?

Distributor of wine & spirits

Customers are wine retailers, grocery stores and food marts

22 distribution sites

How compare distribution sites with metrics?
Which ones are most insightful?



HUNCH: Internal operations will be much more important than the market differences.

Click or scan QR to see video.

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



Voiceover

"To best compare the different distribution sites, I first would like to understand the heart of each site's operations—how they make and spend money. Once we clarify major differences there, I would like to break down the analysis into two parts: internal metrics, like inventory turns, stocking practices and management experience; and external ones, like competitor intensity and supplier pricing. We can dive deep on the ones that are more complex or appear to drive value. To get started, can you tell me more about how these sites generate revenue?"