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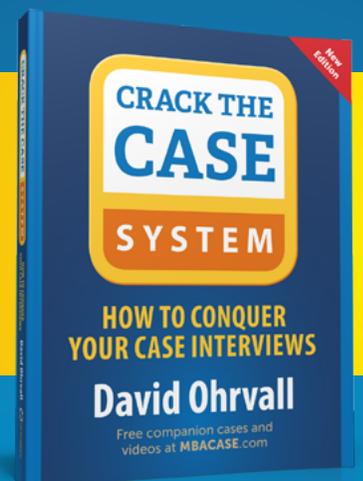
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CASE **510**

*Clark &
Gable Shoes*

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Clark & Gable Shoes

Seoul, South Korea

Clark & Gable Shoes is stepping out in a new direction. They want to offer hip, fresh styles to the business casual crowd. Will their Italian design firm help them walk on air or wade into red ink?

510
FULL
★★★

SEOUL CITY FACTS

- ▶ Was almost completely destroyed during the Korean War
- ▶ The old city center holds a pavilion with a large bell which once controlled the four major gates to the city; it is now rung 33 times at midnight on New Year's Eve
- ▶ Location of the world headquarters of taekwondo (the national sport)



TRAIN Profile

Type	Region	Analysis	Industry	Number
	<p>SEOUL, SOUTH KOREA Population: 10M Currency: South Korean won (KRW)</p>	<p>New Business or Product</p>	<p>Apparel</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

Clark & Gable Shoes, a \$300M shoe manufacturer and retailer, has a 70-year tradition of making fine men's dress shoes. In the last two years sales have been gradually slipping, mainly due to the business casual trend and C&G's lack of less formal shoes. To fill the gap in its product line and put some energy into the brand, C&G enlisted Luigi, a well known, avant-garde Italian design firm. After six months of sales, management wants to review the results of the ten shoes in their Everyday Style line and eliminate four "dogs" to make way for Luigi's second wave of shoes.

Management wants you to recommend which six styles of shoes to keep and to discuss the implications of eliminating four.

Case Twist

If you had to cut two more shoe styles, which shoe styles would you take out?

Feedback

Physical Skills

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

Thinking Skills

	Weak	Strong
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)

Revenue targets: None. Management is more interested in knowing how the launch of these ten shoes compares to previous successful launches. The second wave of Luigi-designed shoes is certain.

Distribution channels: All shoes are sold through C&G's stores, catalogs or online store. For this case, the focus will be on the new line and how it is performing, not on improving the distribution channels. Not using third party retailers means that more profit will hit C&G's bottom line.

Cost structure: Not a focus of this case. The main discussion around costs will center on why some shoes cost more to make than others, resulting in lower gross margins.

Competitors: Most have casual lines. C&G is a laggard.

Suppliers, government and legislation: No issues.

Key Insights (Do Not Tell the Candidate)

General tips: This case is very straightforward: look at the data and eliminate four out of ten products. It requires a quick ability to integrate data from many sources. Star candidates build a logical solution quickly. Since most people will not have trouble coming up with a recommendation, push hard to understand the flaws in the logic. At the end ask, "If you had to eliminate two more, which ones would you pick?"

Product elimination: Eliminating the following four shoes is the best solution for Clark & Gable: Everyday Camel, the Sierra, the Randy and Neuman.

Gross margin: The four eliminated shoes do represent 1/3 of gross margin from 6 months, which is less than the 4/10 they would provide if all 10 shoes were equal.

Unit sales: All previous successful new product launches have had one critical element in common; baseline sales of 2952 units over the first 6 months. The four shoes above do not meet this threshold.

Product appeal: These 4 shoes have not shown much appeal with our most loyal customers.

Product line gaps: After removing the products, there will be a gap in the offering, namely the beach category.

Mid-case Data (Tell Only at Appropriate Time)

"What is the most efficient way to determine which products are going to succeed long-term?"

- Give the candidate Handout A. Ask, "Which products have contributed the most in terms of gross margin dollars?"

"What role would historical data play?"

- Give the candidate Handout C, historical product launches. Ask, "What can you infer about previous launches and their ability to succeed?"

"How would you gather data around preferences for certain product types over others?"

- Give the candidate Handout B, purchases of highly loyal customers. Ask, "How does this data align or disagree with other information you may have?"

"What other considerations do you need to account for when reducing a product line?"

- Give the candidate Handout D, qualitative description of the product lines. Ask, "Where is our product line weak and strong today?"

Case Flow and Milestones

1 Present Main Question

Candidate takes notes, asks for a minute, forms a plan and presents it.

2 Answer Any Basics

These may come up after you read the question or later.

3 Ask for Clarification

"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." No data. Ask questions about his approach.

4 Guide Discussion

To solve the case he will need data on units, revenue and gross margin. Your main goal with giving this case is to eventually get all 4 slides in front of the candidate. Review the Mid-Case Data on page 2 to prompt him.

5 Get Recommendation

The candidate needs to integrate his insights into a selection process. Staying data-driven is the best course of action, so the candidate should calculate the bottom-line implication of his choice. A good conclusion will make sense mathematically and logically.

Handout and Data Guide

Handout A:

Candidate: Do you have any sales data?

Interviewer:

Here's what we know about the six month launch in terms of unit volume. Revenue and gross margin per shoe are also shown.

Ask: Which products are contributing the most in gross margin dollars?

Insight: Revenue per shoe varies quite a bit, but a majority of the shoes contribute \$100 in gross margin per sale.

Handout B:

Candidate: Do customers like the products?

Interviewer:

We polled our most loyal customers with pictures and prices of each new shoe. Here's what they said.

You Must Ask: Which shoes seem to be most disliked? Which ones are the favorites?

Insight: Three shoes rated poorly: Neuman, the Randy, and Everyday Camel. People either loved or hated Berks.

Handout C:

Candidate: Do we have any historical benchmarks for product launches?

Interviewer: C&G has tracked their last 25 launches.

You Might Ask: What can you infer from the data about the minimum required for success?

Insight: Previous launches that succeeded all had sales of at least 2,952 units in their first six months.

Handout D:

Candidate: Do you have any descriptions of the shoes and how they differ?

Interviewer: Here is a qualitative style map. This depicts the niche each shoe fills.

You Must Ask: What would be the implications of removing the shoes you are considering eliminating?

Insight: Gaps will occur as a result of removing some shoes. Wave 2 from Luigi will need to fill these gaps.

Additional Info

Prompt the Candidate by asking the following questions:

(See Post Case Review page for answers)

Company Philosophy: How long does Clark & Gable test their new products?

Units and Gross Margin: Are there any similarities across gross margin by product?

Historical Success: Is there an historical unit sales threshold?

Customer Feedback: What shoes do the customers like best?

Style: How do your cuts impact C&G's portfolio of styles?



Re-routers

Questions to Keep Things on Track

- **What do you think is a good basis for making this decision?**
 - ▶ Historical launches and their units sold
 - ▶ Gross margin contribution
 - ▶ Customer feedback or interest
- **What value is there in looking at gross margin?**
 - ▶ Gross margin is defined as revenue minus direct labor and materials. Gross margins tell

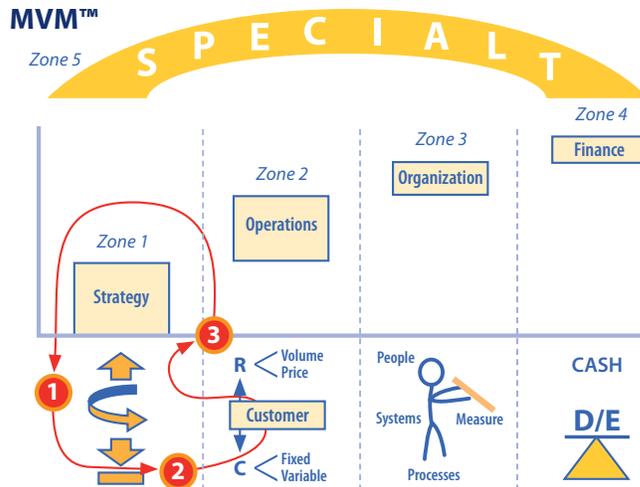
you how much of a product's revenue is eaten up by the cost to produce it.

- ▶ In the case of C&G, most of the gross margin percentages were the same, so there was not a lot to explore. Making labor more efficient and/or reducing material costs would result in higher gross margins.

- **How can you make your answer more quantitative?**

Additional Study Using the FRAME Method

F – Form a Plan



M—Mine for the Answer

Now you can mine for data. Use your plan as a guide along with your initial hypothesis. Try to ask 2–3 questions in each section you explore.

Revenue & Costs

■ **How much revenue do we typically make per shoe?**

Revenue per shoe for the new line averages around \$150, plus or minus \$30 for exceptions.

■ **What are the costs and resulting gross margin per shoe?**

Gross Margin % is hard to estimate from the chart but \$ are easy to see: five shoes earn ~\$100, 3 shoes earn ~\$75, 1 earns \$125 and another \$150.

■ **In past launches, what is the typical number of units sold in the first six months?**

Past successful shoes had at least 2,952 units sold in the first six months. This is a good benchmark.

Customer Reaction

■ **Will customers respond negatively when the shoes are cut from the line?**

Using unit sales of 2,952 as a threshold, the four lowest performers are Everyday Camel, the Randy, the Sierra and Neuman. By selecting the ones that have the lowest unit sales, the smallest number of customers will be disturbed.

■ **What kind of shoes do our most loyal customers like?**

Loyal customers were not fond of three of the four. The Sierra elicited an average response.

Shoe Portfolio

■ **What various lifestyle needs is our line trying to address?**

The most well-represented categories are office casual, club (evening), and hip (fashion-forward). This suggests a young and affluent customer.

■ **What gaps will result from these eliminations? Will the gaps hurt our long-term sales?**

If you eliminate four shoe lines, gaps will result in the beach and club categories. Shoes, considered to be more hip, will disappear. This gap could be a problem as C&G tries to reach new customers. The businesses want freedom to make independent decisions more quickly without having to obtain senior management's approval.

1. Start in Zone 1, Strategy – Change

Direction. This is a mental placeholder until you answer the question of narrowing the new shoe line. You should return here if possible.

2. Move to Zone 2, Operations.

How are the shoe lines performing? Compare them in terms of unit sales, revenue and margin.

3. Stay in Operations.

After you eliminate some styles, consider these issues:

- Customer Response – How will our most loyal customers respond to these cuts? Should we care more about this group, or about to new customers?

- Historical Performance – How have successful shoes performed in the past?

- Product Offering – What gaps will exist in our product line?

4. Finish back in Zone 1.

Can you estimate the new line's growth and profit potential? Is that enough for management?

A - Anchor a Hypothesis

The key to using a hypothesis well is to anchor your initial thought and then look for data that will help you prove or disprove your hunch.

Look for the Most Profitable Shoes

"Since I have to eliminate shoes based on only six months of data, I need to find the ones that produce the greatest profit or gross margin dollars."

Consider the Portfolio and Seasonal Mix

"Since C&G launched ten shoes, it is likely that each shoe is playing a role in the overall portfolio. I need to look for any seasonal impact in the data and see if "dogs" are performing poorly because of their purpose (e.g., winter boots vs. beach sandals)."

E - End the Case

"I recommend C&G eliminate the following four shoes: Everyday Camel, the Sierra, the Randy and Neuman. I'm basing my decision on historical measures of success for new products. These shoes represent one-third of our total gross margin from the first six months, but because they do not meet our six month benchmark of 2,952 units, I don't think they have long term potential. Most of them turned off our loyal customers as well."

Post Case Review

Case Insights & Takeaways

What did you learn?

Company Philosophy: Clark & Gable has tough standards, shown by its willingness to “cut bait” or eliminate new product lines after only 6 months of data.

Units and Gross Margin: Unit sales and gross margin percentages vary widely, but revenue is roughly in the same range for the ten products. About 7 of the 10 shoes provide gross margin dollars of over \$100 each (Handout A).

Historical Success: All shoe lines that succeeded in the last 25 launches exceeded unit sales of 2,952 in their first six months (Handout C).

Customer Feedback: Loyal customers dislike these 4 shoes: Neuman, the Randy, Berks and Everyday Camel.

Style: Most of the products are focused on the office casual, club and hip factor styles. Removing certain products may leave holes in the portfolio.

How does it tie together?

Use a logical rule to make your selection. In this case, sticking to the unit sale requirements is a good method. Four shoes do not make the historical cut-off of 2,952 for the first 6 months. Knowlton is close enough and carries a large GM dollar contribution, so you would probably want to keep it.

Check the downside. From a total, six-month gross margin dollar comparison, these four are good choices. Neuman rivals several others that were not selected, but loyal customers do not like it.

Consider the gaps. Beach will not be covered with these choices. Next steps should include reviewing the portfolio coverage.

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	points	points	points	points	points	points	points	points	points
③ Structured, clean	③ Good back & forth, caught clues	③ Solid hunch, pursued clue	③ Specific questions, solid analysis	③ Used facts and data, connected the dots	③ Structured, clean	③ Good back & forth, caught clues	③ Solid hunch, pursued clue	③ Specific questions, solid analysis	③ Used facts and data, connected the dots
② Somewhat organized and logical	② Awkward, trouble with interviewer style	② Partial direction	② Missed some questions, some math mistakes	② Some data, mostly understood connections	② Somewhat organized and logical	② Awkward, trouble with interviewer style	② Missed some questions, some math mistakes	② Vague questions, weak math, no linkages	② No data, no passion, no connections
① Messy, overlapping ideas	① Interviewer not interested, couldn't follow	① No hypothesis at all	① Vague questions, weak math, no linkages	① No data, no passion, no connections	① Messy, overlapping ideas	① Interviewer not interested, couldn't follow	① No hypothesis at all	① Vague questions, weak math, no linkages	① No data, no passion, no connections

Interviewer's Data Guide

Make estimates and round your numbers

Review the Slides

- Look for a simple method or “cutoff” to eliminate some of the shoes.
- One approach is to use the historical successful launches as a benchmark.
- Since every successful product in the past had at least 2,952 units sold in the first six months, that number may be a good start.

Apply Your Rule

- Shoes that do not have unit sales of at least 2,952 are:
 - § Everyday Camel, Sierra, Randy, Neuman

Check Implications

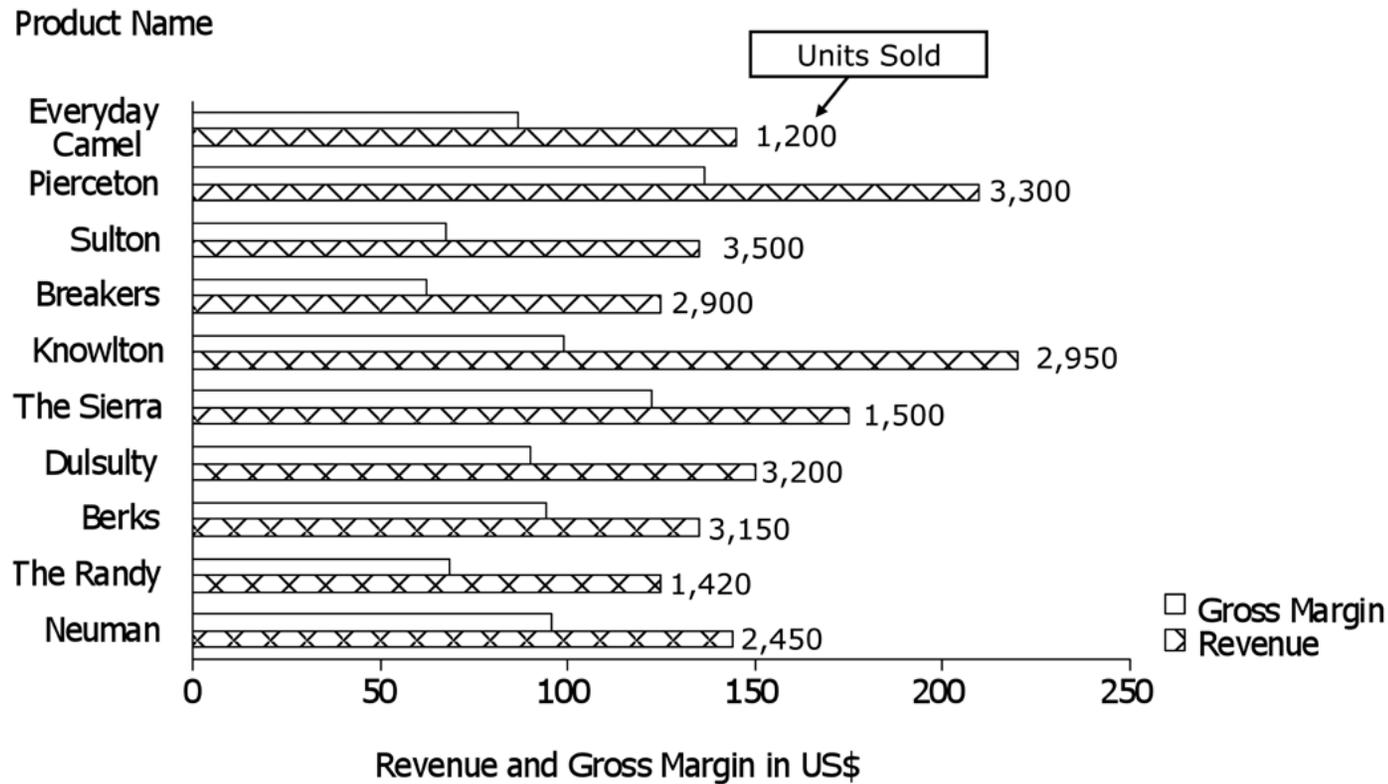
- **Customers:** Will they be upset if you cut these four? Not likely, given the loyal customer survey. Only the Sierra was borderline in terms of customers being unsure vs. interested in buying it.
- **Shoe Line:** Removing these four will create gaps in the “hip” and “beach” categories. This is a softer point and could lead to a discussion about what Wave 2 should try to fill.
- **Bottom Line:** From a gross margin point of view, what's the impact? The table at the right (make this quickly during the interview) gives us a view.

Shoe	~GM\$	UNITS	Rounded Totals (K)
CAMEL	100	1200	120
PIERC	150	3300	500
SULT	75	3500	260
BREAK	75	2900	220
KNOW	100	2950	300
SIERRA	125	1500	200
DULS	100	3200	320
BERKS	100	3150	315
RAND	75	1420	110
NEUM	100	2450	250

Cutting these four will eliminate two that were contributing decent, six-month total gross margin (SIE, N) and two that were, at the bottom (EC, R).

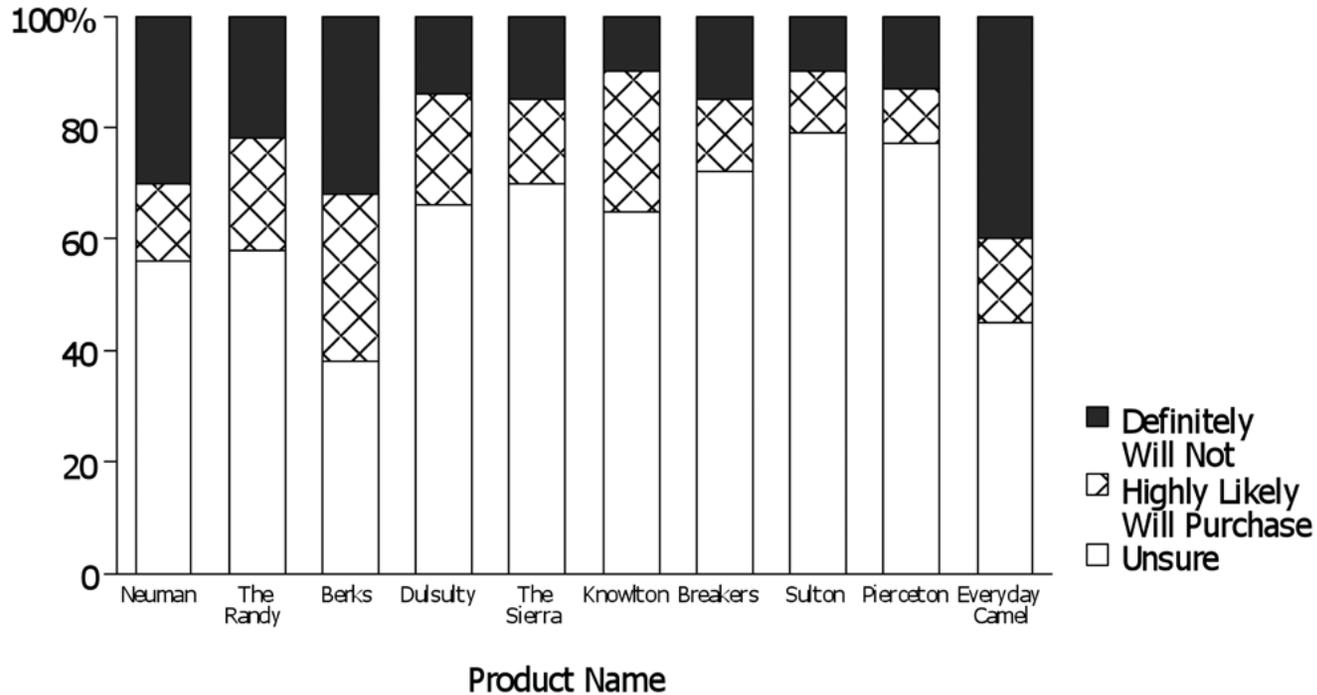
6 Month Results

Revenue/GM per Unit and Units Sold in 6 Months



Predicted Purchases of "Highly Loyal" Customers

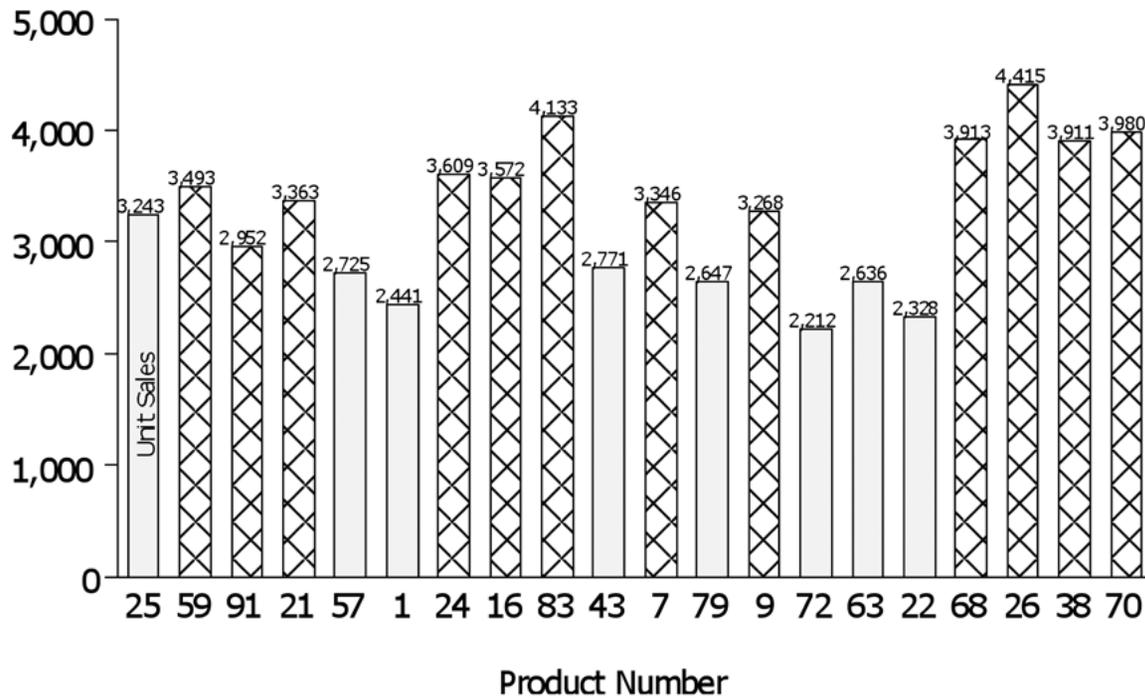
Survey Results: Interest in New Products



Historical Profile of Last 25 Launches

Shaded bars indicate shoe lines that succeeded

Unit Sales Over 6 Months



○ Weak
◐ Medium
● Strong

Style Map

	<u>Office Casual</u>	<u>Wear More Formally</u>	<u>Beach</u>	<u>Clubs</u>	<u>"Hip" Factor</u>
Neuman	◐	○	○	●	●
The Randy	●	○	○	◐	●
Berks	●	○	○	●	◐
Dulsultry	●	○	○	●	●
The Sierra	○	○	●	○	●
Knowlton	●	◐	○	○	○
Breakers	●	○	○	○	○
Sulton	●	○	○	●	●
Pierceton	●	◐	○	○	○
Everyday Camel	◐	○	●	○	●



WORKSHEET

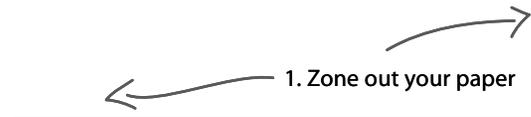
Clark & Gable Shoes
Seoul, South Korea



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

Which 6 styles to keep? Implications of removing 4?

Rev - \$300M

Costs - ?

Profit - ?

No financial targets

Goal: Review 10 shoes, remove 4 styles

- Clark & Gable Shoes
- 70 year tradition, fine men's shoes
- Sales slipping > casual trend
- Lack less formal shoes
- Luigi - Italian design
- 6 month sales review
- Preparing for 2nd wave

Metrics > Revenue

Cost to Produce /profit

Units Sold

Customer Reaction

What's the total revenue per product?

Does any shoe line require additional costs, expensive

Which shoe has the largest demand?

Are there any clear favorites?

How steady has each shoe's revenue been over time?

processes or unusual labor?

Have unit sales been steady or uneven?

Do customers dislike any specific shoe?

Are there any clear "dogs" that are underperforming?

HUNCH: Focus on units sold. Pricing can vary but units moved will be most important.



Click or scan QR to see video.

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



Voiceover

"In order to evaluate the new line's performance to date, I'm going to focus on the basics: revenue, cost to produce, units sold and customer reaction. After I understand the fact base better, I'd like to talk about the strategic implications of my reductions. To begin, may I review any sales results you have for the first six months?"

