Cornell Consulting Club Example Interview Case 1 (Interviewer Led)

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This case scenario is fictional and not based on any of CCC's client engagements

Case Overview and Context:

GoalCycle, SoulCycle’s biggest competitor in New York City, has hired the Cornell Consulting Club to figure out why their profitability has been declining over the last few years. The CEO, Kristin Francis, is stressed out about the financial situation and needs to see some results by the next fiscal year. As a CCC Business Analyst, you must identify the cause of the profitability issue and suggest strategies to improve profitability moving forward.

Creativity Assessment

1. Tell us, at a high-level, how you would initially approach and think about this business problem. For reference, GoalCycle has three revenue streams: it has (1) spin classes, (2) branded athletic products (think clothing, water bottles, etc.), and (3) proprietary stationary bikes. Feel free to ask questions for clarification.

Information given upon request:
- Labor is paid to instructors on a salary basis
- Equipment is depreciated on a MACRS basis

Example Response

- Examine the profitability equation
  - Profit = Revenue – Cost
  - Revenue
    - Can be broken down into revenue/unit and # of units sold
    - $/unit: pricing structure (across all three revenue streams), pricing of competitors, pricing of substitute products (i.e. gyms, bikes, etc.), price sensitivity/elasticity, price trends
    - # of units: sales volume (across all three revenue streams), distribution channels (geographic locations), macroeconomic considerations, market demand, sales volume trends
  - Cost
    - Can be broken down into fixed costs and variable costs
    - Fixed costs: labor (salaries), utilities, rent, taxes, and depreciation of stationary bikes
    - Variable costs: raw materials (used in bikes, clothes, etc.), shipping costs
• Additionally, examining cost trends may help

2. The client did some internal analysis and found that costs were stable – it seems that there is a revenue problem at hand. Referring back to GoalCycle’s revenue streams, what do you think are the drivers behind revenues?

*Example Response*
- There are three streams, so it would make sense to talk about each of them and break down their revenues
  - Spin class levers
    - Number of class participants
      - Class participants per class
      - Classes per year
    - Price structure of classes (i.e. first timers, season passes, infrequent tickets)
  - Branded athletic product levers
    - Overall athletic product demand
    - Types of products – individual demand
    - Availability of competitor products
    - Correlation between class attendance and product purchase
    - Availability of deals or discounts
    - How many spin class customers make auxiliary purchases?
  - Proprietary bikes
    - Demand for home stationary bikes
    - Distance of customer bases to store locations
    - Availability of bikes per store
    - Rate of alternative sports participation
  - Overall consideration: the three streams overlap and influence one another from a sales perspective

3. Our team looked into the client data and discovered that while GoalCycle initially had industry-winning sales and class participation, class participation has declined ever since. However, consumer surveys indicated that former customers were not heading to GoalCycle’s competitors. List out a few reasons as to why this might be happening.

*Example Response*
- Overall declining market interest
- Overly intense instructors scaring away customers
- Home stationary bikes substituting for classes
- Locations are inconvenient, prompting initial visits but no prolonged engagement
4. GoalCycle wants to attract more customers to spin classes – please brainstorm a few ideas to assist them with this goal.

*Example Response*
- Bundled class packages
- Cross-promotion or cross-selling
- First time discounts
- Friend referral programs
- Loyalty programs
- Partnerships with local restaurants

5. The CEO wants a brief update before you continue working on the project. Take a few moments to summarize what you’ve learned and concluded so far and present it to the CEO.

**Quantitative and Graphical Assessment**

1. It turns out that the primary issue is with stationary bikes – more customers are purchasing bikes and using them at home instead of coming to classes. GoalCycle is considering eliminating its spin classes altogether. Now, the client wants to figure out the size of the stationary bike market in a year. Please estimate the number of stationary bikes sold in a year. Then, estimate how many of those sales would go to GoalCycle.

   Potential Variables to Consider
   - Income levels
   - Competitor effects
   - Multiple product lines
   - Replacement cycles for the product
   - Marketing effectiveness of the product
   - Geographic outreach
   - Geographic population distribution

   *Example Assumptions to Make:*
   - Population of the U.S. (~320 million)
   - Average replacement cycle of a stationary bike (~5 years)
   - One type of stationary bike
   - One competitor with an equivalent product (50/50 sales split)
   - Middle class and upper class will purchase these bikes (heavier lean towards upper class – perhaps 50% more than those in the middle class)

2. Do you think your estimate is accurate? Why? Secondly, how could you have done better?
Example Improvements:
- Check for assumption biases
- More accurate math calculations

3. Examine the graph below regarding stationary bike sales. What conclusions can you draw from the data provided?

Example Conclusions:
- New York and Los Angeles have the highest volume sales
- Miami has the lowest in volume, but highest in percentage of population purchasing stationary bikes
- San Francisco and Los Angeles also have high percentage populations purchasing stationary bikes
- Los Angeles may be a great target to focus on in the future; it has high volume and high percentage
- New York has high growth potential – could be great to invest in