

Trim: October – December 24		
Maximum Marks: 50	Examination: ETE Exam	Date: 17/01/2024 Duration: 3 Hours
Programme code: 01	Class: SY	Semester/Trimester: V
Programme: MBA Minor Strategy and Consulting		
College: K. J. Somaiya Institute of Management	Name of the department/Section/Center:	
Course Code: 217P01M553	Name of the Course: Strategy Consulting	
Instructions: 1. There are three questions to be answered. Each question has two options. You can answer any of the two options for each of three questions. 2. While answering Question 1, take note of the fact that for case A “Too hot to handle, Restaurant Industry” the questions are listed at the end of the case whereas for case B “Kamaal Sweets and Chocolates, Consumer Goods”, the questions are at different stages of the case. You need to answer questions linked to any one of the two cases.		

Question No.		Max. Marks
1.	<u>Case A: Too hot to handle, Restaurant Industry</u> Your client is the fast-food chain “Hot Potatoes” which brings in Rs 300 Cr in annual revenues around Maharashtra, with locations in most major cities. Started in Pune as a small food truck in 2013, Hot Potatoes quickly became a local staple known for their quality of food, level of service, and distinctive “dance for 10% off” style gimmicks for customers. Hot Potatoes also keeps a lean menu, devised to keep operations simplified. The locations are in food courts, food trucks, and standalone locations alike. All restaurants are owned by the company, and each restaurant brings in about Rs 1.5 Cr in annual revenue at 20% operating income. You have been hired to figure out where Hot Potatoes should source their chutney from. Currently, Hot Potatoes sources all sauce from a company owned manufacturing plant in Pune and distributes the sauces to all locations around Maharashtra. Hot Potatoes has 50 additional restaurant openings planned in the next three years, and the plant will be out of capacity for the additional volume within two years. On checking with the client, you get following clarifying Information: i) The restaurant value chain consists of Fresh produce, vegetables, and supplies are typically supplied through a restaurant supplier or local provider. The chutneys are created in the Pune facility, then shipped through a third-party distributor to restaurant locations. ii) “Hot Potatoes” menu consists of two main course items: Puri-Bhaji and Aloo Paratha. They have 4 side dishes, labelled as “Snacks” and include items such as Vada Pav, Samosa. For beverages, they serve “Baba’s Masala Chai” in addition to traditional beverages found in fast food operations. iii) The goals stated by the CEO, Amol Dixit are to grow operating income at the restaurants. If possible, Amol would also like to keep operations within Pune, where he grew up and has a vested interest in. He also wants to ensure that the quality of the food at Hot Potatoes remains quite high in comparison to competitors while keeping operations lean. iv) Current operating income is Rs 60 Cr (20% of sales). Currently there are 200 restaurants, but the plan needs to include expansion by another 50 restaurants. Each unit uses approximately 10 units of chutney per day (3,650 on an annual basis). After one week of interviews and data search, following alternatives are seen as possible options: i) In-Restaurant Options: Create small Chutney making facility in each restaurant. Each chutney making unit will cost Rs 1 lac and the	30

cost of making chutney will be Rs 100/unit. This will require 6 months for facilities to be set-up across all the restaurants and the quality control will be low. Capacity will not be a constraint in this case as the facility will be within each restaurant.

- ii) **Expand current plant in Pune:** This will require an initial outlay of Rs 1.5 Cr and the cost of making and transporting chutney will be Rs 40/unit. This will require about 1 year to implement and quality control will be very high. The expansion will cater to the need for additional 50 restaurants in addition to the existing 200.
- iii) **Build new facility:** Build a completely new facility in Pune with an initial cost of Rs 4 Cr and the cost of making and transporting chutney will be Rs 20/ unit. This will require three years to build and the quality control will be high. The new facility will be able to serve the demand for 100 additional restaurants (total 300 restaurants).
- iv) **Outsource:** Source it from third party chutney supplier. This will mean per unit chutney cost of Rs 50/unit with no capex requirement. This option will require three months to implement and will have medium quality control. This facility will be able to serve 75 additional restaurants.

Questions

- a) Provide your recommendation of the options to be pursued in short and long term with your analysis. You can assume no disruption to current operations due to the construction activity in any of the options.
- b) If the above recommendations are liked by Hot Potato, they would like you to consider the option of adding the “Lassi” to the menu. What factors would you like to consider to decide inclusion of “Lassi” to the menu. Provide the factors under broad categories such as “Customers and revenue, Impact on Costs, operations”.

Or

Case B: Kamaal Sweets and Chocolates, Consumer Goods

Your client is Kamaal Sweets and Chocolates, an Indian confectionery manufacturer that specializes in chocolate bars and unique candies. While Kamaal’s has a long history of success in its industry, the company has projected negative operating profit this year. This has forced a change in management via a very unusual process. The new CEO, who is very young, has hired you to discover the root cause of the company’s profitability problems and how to ensure the company’s survival.

On seeking clarifications, you get following information:

- i) The company make money by developing, manufacturing, and distributing its products across India. It earns money by selling its products to retailers such as grocery stores, convenience stores, and specialty candy stores.
- ii) The CEO wants to **return to profitability as soon as possible**, ideally in a year or less.

As you seek profitability data of the company, you find the following information:

<i>All figures in Rs Cr</i>	2021	2023	2024
Sales	140	147	154
COGS	60	63	66
SG&A	70	80.5	91
Operating Income	10	3.5	-3

- a. What key conclusion do you draw from the above data? Justify.

Your next step is to seek information on SG&A costs. You get the following information:

	SG&A Costs in Rs Cr <table><thead><tr><th>Year</th><th>Rent Mortgage</th><th>Salaries</th><th>Logistics</th><th>Sales/Marketing</th><th>Insurance</th><th>Utilities</th></tr></thead><tbody><tr><td>2021</td><td>20</td><td>15</td><td>13</td><td>10.5</td><td>10.5</td><td>1</td></tr><tr><td>2022</td><td>21</td><td>16</td><td>19.6</td><td>11.5</td><td>11.2</td><td>1.2</td></tr><tr><td>2023</td><td>22</td><td>17</td><td>25.5</td><td>13</td><td>12</td><td>1.5</td></tr></tbody></table> ■ Rent Mortgage ■ Salaries ■ Logistics ■ Sales/Marketing ■ Insurance ■ Utilities b. What conclusions do you draw from the above data? Briefly explain c. What options would you recommend for Kamaal to reduce its logistics costs? Provide key features of each option proposed by you, including outsourcing. On further drilling down of the logistics cost, you get following details: Rs 8 cr for warehousing, Rs 15 Cr for order fulfilment and Rs 2.5 Cr for inventory management. Kamaal has received three bids for third party logistics (3PL) services. ● Apple Logistics – Largest 3PL company in India • Bid terms: Rs 5.50 Cr for warehousing, Rs 11 Cr for order fulfilment, Rs 3.5 Cr for inventory management software (required purchase, would replace Kamaal’s inventory management system) ● Original Logistics - Mid-sized 3PL • Bid terms: Rs 6 Cr for warehousing, Rs 12 Cr for order fulfilment, no inventory management software. ● The Long Haul (TLH) – Global courier service, based in the US • Bid terms: Rs 10 Cr for order fulfilment, no warehousing capability or inventory management software Any services not provided will still need to be provided for by Kamaal. d. What would be the total logistics cost savings for Kamaal with each of the three 3PL service providers? e. Should Kamaal outsource their logistics function? Give reasons for your answer. f. If the answer to question e above is yes, which bid should Kamaal accept and why? What risks do you anticipate with the option of outsourcing?	Year	Rent Mortgage	Salaries	Logistics	Sales/Marketing	Insurance	Utilities	2021	20	15	13	10.5	10.5	1	2022	21	16	19.6	11.5	11.2	1.2	2023	22	17	25.5	13	12	1.5	
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2.	Imagine you are planning for a family wedding. Think of all the key elements of the process involved? Write them out in the form of logic tree. Can you come up with a different grouping? Say by responsibility? OR Imagine you are planning for a vacation. Think of all the key elements of the process involved? Write them out in the form of logic tree. Can you come up with a different grouping? Say by responsibility?	10																												
3.	Explain in about 250 words why the approach taken by management consultants is a scientific approach but not completely scientific. OR Explain in about 250 words why inductive approach is preferred over the deductive approach while presenting the findings to the client.	10																												

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