

1. Although consulting frameworks are often useful, they have limitations and are no panacea. For example, BCG's experience curve framework which was very popular in the 1970s. Considerable research shows a strong correlation between cumulative output of a product and its production cost. Typically, production costs decline by 10 to 30 % with each doubling of cumulative output (if the 1000th unit costs \$100, the 2000th unit costs between \$70-90). Implication: Aggressive pursuit of market share reduces a firm's cost to a greater extent than that of rivals and improves its cost position, and therefore its financial returns. BCG used its model to make strategy recommendations to organizations to pursue a scale-based cost advantage. Critically evaluate the experience curve consulting framework, explaining its benefits and its limitations. (about 1/2 to 1 page).

2. Online storage firm, Dropbox, operates a digital locker in which users can upload and store their files and photos from one computing device, say their work PC, and then access them from other devices, for instance their Mac at home or an Android smartphone on the go. These files can be shared with other users. Dropbox operates on a "freemium" model where many services are available for "free" and users can purchase a "premium" subscription for additional services, e.g., higher disk space.

Dropbox has several competitors, many with far deeper pockets:

- Google has a similar product, Google Drive, but that is tuned to work best with the company's own software and service suite (Google Docs, gmail, etc.)
- Microsoft's storage product, OneDrive, works best with its own software and service suite (e.g., Microsoft Office, Outlook, etc.)

Consumers prefer to "bring their own device" to various aspects of their digital lives, a trend that has forced companies to support the iPads and iPhones that employees often bring to work. Similarly, many may also prefer to "bring their own locker" when it comes to online storage. That is because they want one that works with various platforms. That has left an opening for Dropbox. Dropbox claims better functionality and ease of use across various platforms.

But Dropbox isn't alone in trying to fill that gap. It faces competition from other startups that come with similar or better features—and that also may be cheaper.

- SugarSync is much smaller in terms of users than Dropbox, but it works fine across platforms and offers more free storage.
- Box (different company from Dropbox) also is multiplatform, yet caters to enterprise customers with security, collaboration and other features that Dropbox hasn't matched.

Evaluate Dropbox's strategy and identify alternate strategic options for Dropbox, and your recommendations. (about 1/2 to 1 page).

3. Review the exhibits 5, 11, 12, included for the toothpaste industry in the Philippines in 2002 in the separate spreadsheet. Make appropriate assumptions to answer the questions below. **I am interested in your approach to the quantitative analysis rather than the actual computation, so pace yourselves accordingly.**

For decades, the toothpaste industry was dominated by MNCs, Colgate and Unilever. The market leaders enjoyed high gross margins of 60%. An upstart local company, Lamoian entered the market in 1990 and over ten years attained a market share of 10%.

Lamoian entered the market with a lower price offering. In order to induce customers to switch to their product, Lamoian had to price at least at a 20% discount to the market leaders.

Toothpaste production does not involve significant scale economies, and all 3 firms had similar production cost estimated at 140 peso per liter. Lamoian accepted significantly lower gross margins. Lamoian could not compete head-to-head on advertising, but spent similar amounts on marketing efforts that emphasized their local roots and social responsibility.

As Lamoian grew, it faced a threat that a price cut by Colgate might put them out of business.

a. Suppose Colgate decided to price Lamoian out of the market and recapture their market share. How would you figure out how long it might take before Colgate's aggressive tactics "killed" Lamoian (clearly explain the approach you would use to come up with an answer)? (about 1/2 page)

b. Identify a set of recommendations that might help Lamoian cope when threatened with a price war. (about 1/2 page)

c. Assess whether this is a positive NPV project for Colgate if it takes a year to put Lamoian out of business (clearly explain the approach you would use to come up with an answer). (about 1/2 page)

d. From a strategic perspective, what are some challenges that Colgate should consider before embarking on a price war. (about 1/2 page)

Exhibit 3 Relative Volume, Shares, Prices, and Margins in the Philippines Toothpaste Industry, 2002

	Colgate	Unilever	Lamoiyan
Volume share	42.4%	33.0%	10.0%
Liters sold (thousands)	4,918	3,828	1,160
Retail price / liter (pesos)	468	444	292
Retailer margin / liter (10.0%) (pesos)	47	44	29
Distributor margin / liter (12.5%) (pesos)	53	50	33
Manufacturing cost / liter (pesos)	140	140	140
Gross profit / liter (pesos)	229	210	90
Gross margin percentage	62%	60%	39%
Total gross profit (millions of pesos)	1,124	803	104

Source: Volume, share, and price data from "Retail Audit Presentation on Toothpaste," ACNielsen, October 15, 2002. Margin and cost data based on company estimates of industry averages.

Exhibit 8 Lamoiyan Corporation Income Statements

Fiscal Years Ended December 31; Values in Philippine Pesos	2001	2000
Net sales	342,713,566	319,451,443
Cost of sales	<u>214,395,433</u>	<u>196,716,718</u>
Gross profit	128,318,133	122,734,725
Operating expenses	<u>122,715,912</u>	<u>116,604,884</u>
Income from operations	5,602,221	6,129,841
Other income (charges)		
Interest income	3,300,193	583,497
Interest expense	(2,417,388)	(2,082,257)
Others—net	<u>599,111</u>	<u>(326,250)</u>
Total other income (charges)	1,481,916	(1,825,010)
Income before income tax	7,084,137	4,304,831
Provision for income tax	<u>1,734,897</u>	<u>1,277,997</u>
Net income	5,349,240	3,026,834

Source: Company reports.

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