**How to Use the Case Q&A:** The following document will enable a "candidate" (you!) and "interviewer" (your family/friend/roommate) to practice solving a case together. You'll start by assigning roles, then the interviewer will share the context, and then answer any questions from the candidate. Next, the candidate will dive into solving the case by structuring an approach and then answers to each question. The interviewer should use this material to share context and ask follow-up questions to guide them through the answers. Remember, you're working with your interviewer to solve this question!

**Case Context:** You're working alongside a department store retailer to help them decide if they should remodel their stores. They have several hundred stores across the US and are a leading player in their industry. They're considering a remodel that will make their department stores more interactive and engaging. For example, they could add a test kitchen to try out cooking equipment or an area to try on new shoes walking on a variety of services. Their ultimate goal is to understand how quickly they will pay back the upfront remodel investment and if they will sustain long-term profitability.

**Question 1: How would you help them decide if they should do the remodels?**

- Candidate:
    - The first thing that I'd like to do is share a framework for how we can think about this—then I'll ask a few follow-up questions.
    - The key question for this remodel is if it will hit break-even. That means that profit is greater than 0, so we will recommend the remodel. Profit is revenue minus cost. I'll ask some questions about each of these buckets
    - How does revenue change?
        - Are they selling more? At a different price?
    - How does cost change?
        - How much does each remodel cost? Are there increased costs in the long run?
        - Can we break it down into fixed costs and variable costs?
- Interviewer:
    - That sounds like the right process
    - Here's some additional base information:
        - Avg. # of transactions per store per year: 100,000
        - Avg. transaction size: $50
        - Avg. Revenue: $5M
        - Margin rate: 20%
        - Avg. margin per store: $1M

**Question 2: What sort of revenue and costs might we expect?**

- Candidate:
    - The revenue might be impacted in a few ways:
        - Brings in new customers
        - Store sells more items
        - Store can sell higher-margin items
        - Better brand positioning compared to competitors, which can drive new customers and loyalty from existing customers
    - The costs might be impacted in a few ways:
        - Cost to execute remodel
        - Cost to market remodel

        - Cost to pay more employees to monitor interactive area

**Question 3: What is the impact of the remodel?**

- Interviewer:
    - After the remodel, here is the impact to the store finances:
        - Transactions increase by 3%
        - Transaction size increases by 2%
- Candidate:
    - Ok, so that means transactions increase from 100K to 103K and transaction size increases from $50 to $51.
    - In total, that means the average revenue for each store increases by 5%, which means our revenue increases from $5M to $5.25M and margin increases from $1M to $1.05M

**Question 4: Is the remodel profitable?**

- Interviewer:
    - Here's some additional information on the cost
    - Fixed:
        - Construction cost: $90K
        - Marketing spend: $15K
    - Variable:
        - New employee: $15 / hour at 40 hrs per week
- Candidate:
    - Ok, so that means total fixed costs are $90K + $15K = $105K
    - And total variable costs are $30K per store per year
        - $15 * 40 = $600 * ~50 weeks per year = $30K
    - As we discussed to start the case, in order to calculate the break-even & profit, we need to bring together our margin increase (the revenue) and our cost increases
        - Our annual cost is $30K, but we're earning $50K in margin. that means we're earning $20K per year
        - We spent $105K to execute the remodel
        - So $105K / $20K per year = ~5 years to pay off the investment

**Question 5: Was the remodel a good decision?**

- Candidate:
    - We learned the following:
        - The retailer is deciding if they should remodel stores to be more interactive.
        - They would earn $20K in margin per year, but spend $105K to remodel and increase their annual costs with marketing and employees, which means they'd pay back the investment in 5 years
    - Based on the five-year payback period, my opinion is:
        - Reasons why the investment may make sense:
            - Five years is relatively short
            - It's strong positioning against competitors
        - Reasons why the investment may not make sense:
            - It requires annual workforce and maintenance

**Follow-up Questions: As the case wraps up, you may talk through some interesting follow-ups**

- How might they be able to improve the program in the future?
    - Run events or classes in the new interactive space, like a knife skills class, tasting event with a chef partner, etc.
    - Hire more skilled salespeople to staff the space and increase conversion
- How would online growth impact this? How could it complicate the calculations?
    - This could help as a competitive edge against online retailers where you can't try out the product
    - However, if foot traffic is reduced because of shift to digital purchases, the payback period might take longer if there are fewer sales
    - We may also want to explore if the experience is cannibalizing online sales instead of reaching net new customers
- How else could you improve the remodel?
    - Identify which store geographies it works best in and focus remodel in those regions
    - Understand what types of customers enjoy the remodel best and focus on experiences for that demographic Test which products out of all of their houseware items see most lift in purchases and focus experience on those