

# Case 1: Light Bulb Launch (1 of 2)

No Handouts

## S Say

### Start the case

- Light Co., maker of light bulbs and industrial lighting equipment is debating whether they should enter a new market, compact fluorescent light bulbs (CFL).
  - Recently US Congress declared that the traditional incandescent bulbs will be banned in 2012 because they use too much energy. Light Co. thinks there will be huge demand for the CFL's.
  - Several consumer groups have shown outrage at the new decision as each compact fluorescent bulb contains mercury. The mercury level is high enough that if the bulb breaks, it creates a hazardous waste event in the home. The mercury levels are so high that if a bulb shatters on carpet, the EPA recommends removing the carpet.
- Should Light Co. enter this market?**

### Be ready with more info if asked:

- CFLs produce more light and use 75% less energy.
- Current company revenue if \$500M USD. Gross profit is 20%.
- They have no financial goals for CFL's other than breaking even after 2 years.
- Light Co. makes long tube fluorescent bulbs but does not make compact fluorescent bulbs.
- All competitor bulbs are made in China and Light Co.'s factories are in the US.
- Men like the bulbs more than women. In grocery stores and drugstores, where women buy bulbs, sales of CFL's are down. In home improvement stores, where men buy bulbs, sales are up.

## M Manage

### Know what to manage

- This case focuses on **breadth, numbers and integration**. You will provide the numbers after the initial discussion.
- Be ready to test breadth by spending more time on the structure up front.
- Expect an exact number to the numbers calculation.
- A good recommendation will integrate the numbers and the softer (less data driven) issues like consumer preferences.

Look for good structure (*this is a sample – expect variations*)

<i>Financials for product and company</i>	<i>Market growth and stability</i>	<i>Competitors</i>	<i>Risks, consumer backlash and legal issues</i>
<ul style="list-style-type: none"> <li>▪ <b>Profit</b> - Can we make money in this market?                             <ul style="list-style-type: none"> <li>➢ Revenues (V x P) minus                                     <ul style="list-style-type: none"> <li>○ Volume - # we can sell</li> <li>○ Price</li> </ul> </li> <li>➢ Costs                                     <ul style="list-style-type: none"> <li>○ Fixed costs like new plant &amp; equip</li> <li>○ Variable costs, e.g. glass, wire, labor</li> </ul> </li> </ul> </li> <li>▪ <b>Cannibalization</b> - Lose sales of existing products?</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Growth projection</b> - Do we know how fast it will grow?</li> <li>▪ <b>Stability</b> - Are there any concerns that growth won't happen?</li> <li>▪ <b>International</b> - Can we grow outside the US?</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Do we know who we will compete against?</b></li> <li>▪ <b>How established are they?</b></li> <li>▪ <b>Do we know their growth projections?</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>How serious is the consumer safety concern?</b></li> <li>▪ <b>Is the government concerned about the mercury?</b></li> <li>▪ <b>Will the Senate reverse its requirement?</b></li> <li>▪ <b>Consumer distaste for fluorescent?</b></li> </ul>

# Case 1: Light Bulb Launch (2 of 2)

No Handouts

## A Ask

Ask specific questions to keep the case on track. Remember your goals for this case: breadth, numbers and integration. Ask questions that help you assess those skills.

- (BREADTH)** If you were trying to lay out an approach to this problem, what else would you include? (e.g. if the person forgets to put "risks" in his structure).
- (BREADTH & NUMBERS)** I think this is a pretty solid structure. What data would you look for to solve this problem quickly? (The financial information is the most critical. He should be looking for sales and cost estimates based on existing products or any data from CFL plants (competitors, etc.)).
- (NUMBERS)** Now that we've covered your approach, let's look at some data (read this, do not show). Can you calculate how many CFL's Light Co. expects to sell at the end of 2 years? What data would you need? (answer: about 50 million).



	Current Market	Expected Size After 2 Years	Answers do not give
US CFL bulb units	290,000,000	50% of all bulbs	833,750,000
Total bulb market	1,450,000,000	grow 15% from current level	1,667,500,000
Light Co.'s CFL share	0%	6%	50,025,000

- (NUMBERS)** Good. Your number is very close to what they found for estimates. If their two year investment is \$15M to build CFL capabilities, what net profit to they need to make per bulb to cover the investment? Don't worry about the net present value.

- 80/20 Answer = 50M bulbs x (30 cents) = \$15M.  
OR, 15M/50M = .3.

- (INTEGRATION)** According to their estimates they'll only make about 25 cents net profit on each bulb? Also, a recent report indicates that there will be no reversal of the Senate's decision to mandate the bulb's usage? Over 50% of all light bulbs in Japan and Germany are CFL's.

Please consider these final items and give me your final recommendation (this is a sample - look for facts and numbers).

- **Recommendation:** Light Co. should enter the CFL market due to several reasons:
  - CFL's will be the only option in 2012 and the decision will not likely be reversed. They have no choice if they want to keep selling consumer light bulbs.
  - Current profits are short by \$2.5M to cover the initial investment, but could be mitigated by:
    - Pricing product higher
    - Looking for ways to reduce investment costs
  - Next steps
    - Confirm the numbers and any estimates. 6% could be high for Light Co.'s share.
    - Look for ways to reduce investment costs.
    - Understand the mercury concerns and mitigation by studying Germany and Japan's response.

## R Role Play

- If you are limited on time, focus on practicing the start to the case.
  - Present each part of the structure in clear groups ("first, . . . . second, . . ."). Have the candidate do the same.
- Role play the numbers section by having the candidate talk through the numbers while calculating them. Have the candidate show his work.
- Practice the recommendation with firmer numbers and facts.

## T Track

- **Breadth** – give feedback on where the initial structure was lacking.
- **Numbers** – talk through some simple math that the candidate could practice. For instance, learning to calculate in thirds, quarters and halves.
- **Integration** – If parts of the discussion were missed, check the notes and talk about ways to improve note taking.