

BAIN & COMPANY

Business Case 02

Case 1

ChemicalCo

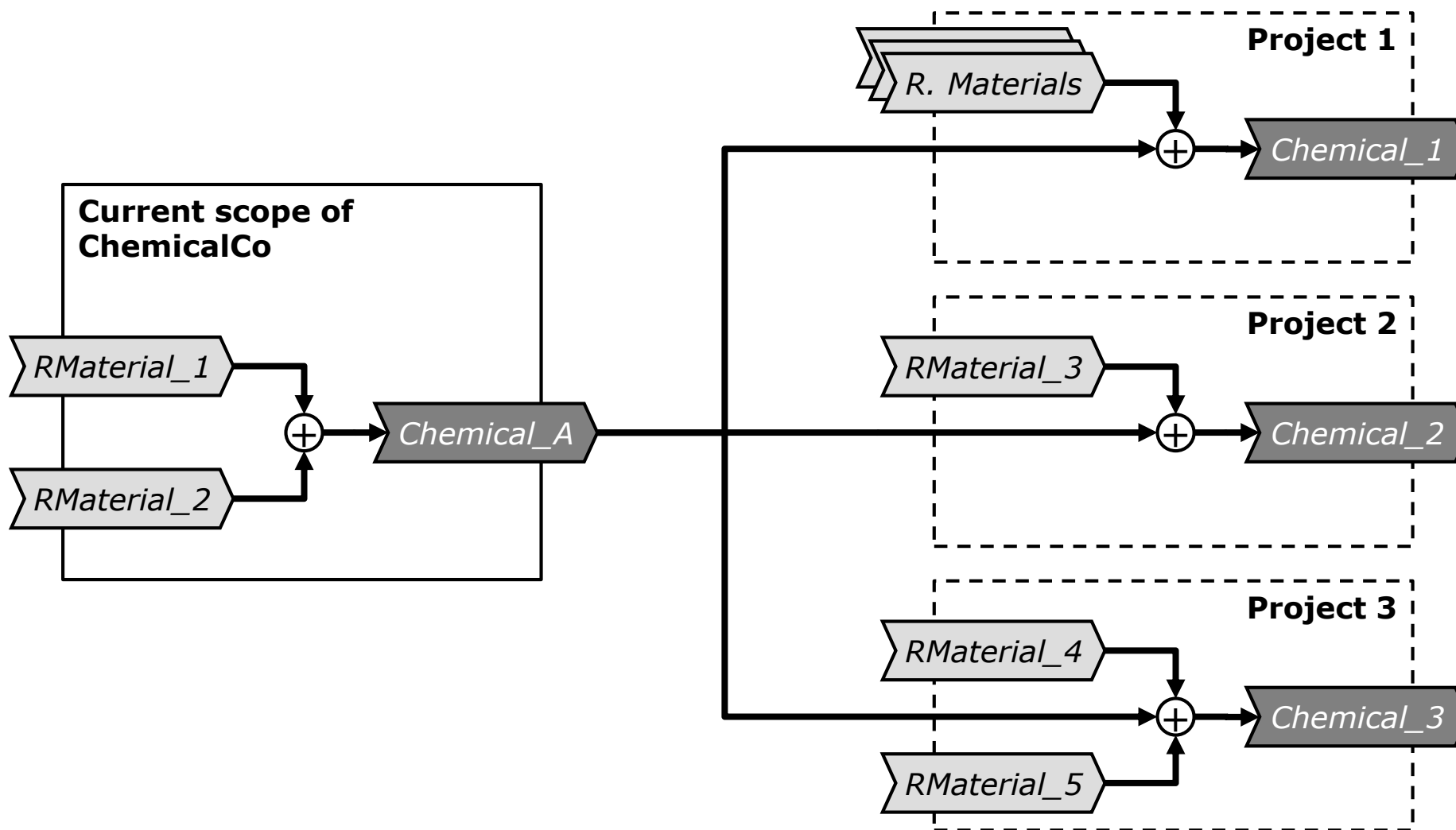
ChemicalCo case overview (1/2)

Situation overview

- ChemicalCo is the leading producer of *Chemical_A* in Brazil and its only competitor, EveryChemCo, has less than half the capacity of ChemicalCo
- Since the prices and margin of *Chemical_A* are shrinking, ChemicalCo is looking for opportunities to grow in adjacencies of the core business
- ChemicalCo's executives found three interesting opportunities:
 1. Consolidate *Chemical_1* market
 2. Build a *Chemical_2* plant
 3. Produce *Chemical_3*
- However there is no consensus among the executives about the viability of these project and their right prioritization
- ChemicalCo executives asked Bain to help them evaluate these opportunities and design a new strategic plan with clear priorities

ChemicalCo case overview (2/2)

ILLUSTRATIVE



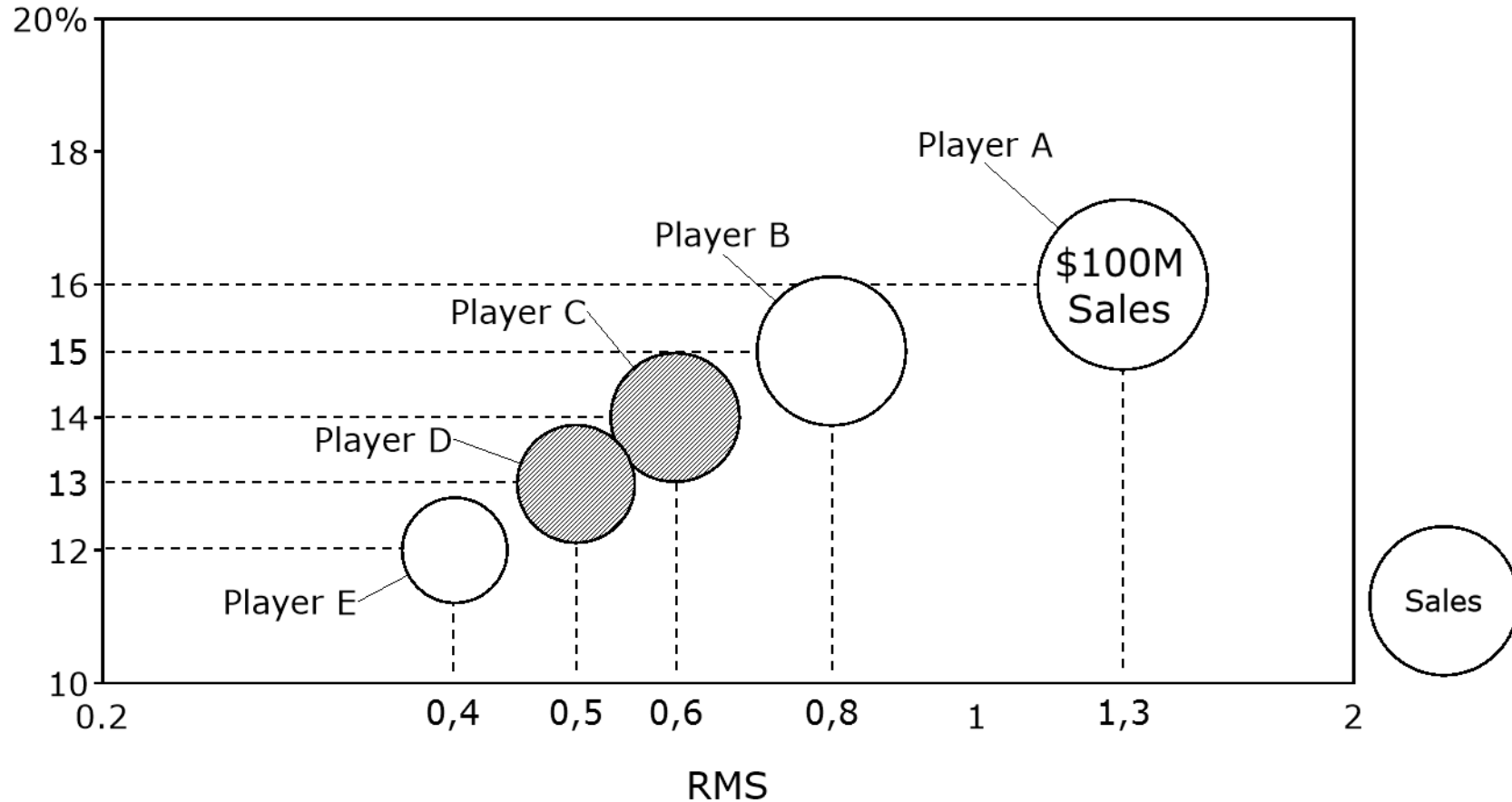
Note: Every chemical product in this case is hypothetical

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Graph 1 – *Chemical_1* producers' EBITDA X Relative Market Share

PROJECT 1

EBITDA (% of sales) – *Chemical_1* producers
2010



EBITDA = Earnings before interest, taxes, depreciation and amortization

RMS = relative market share

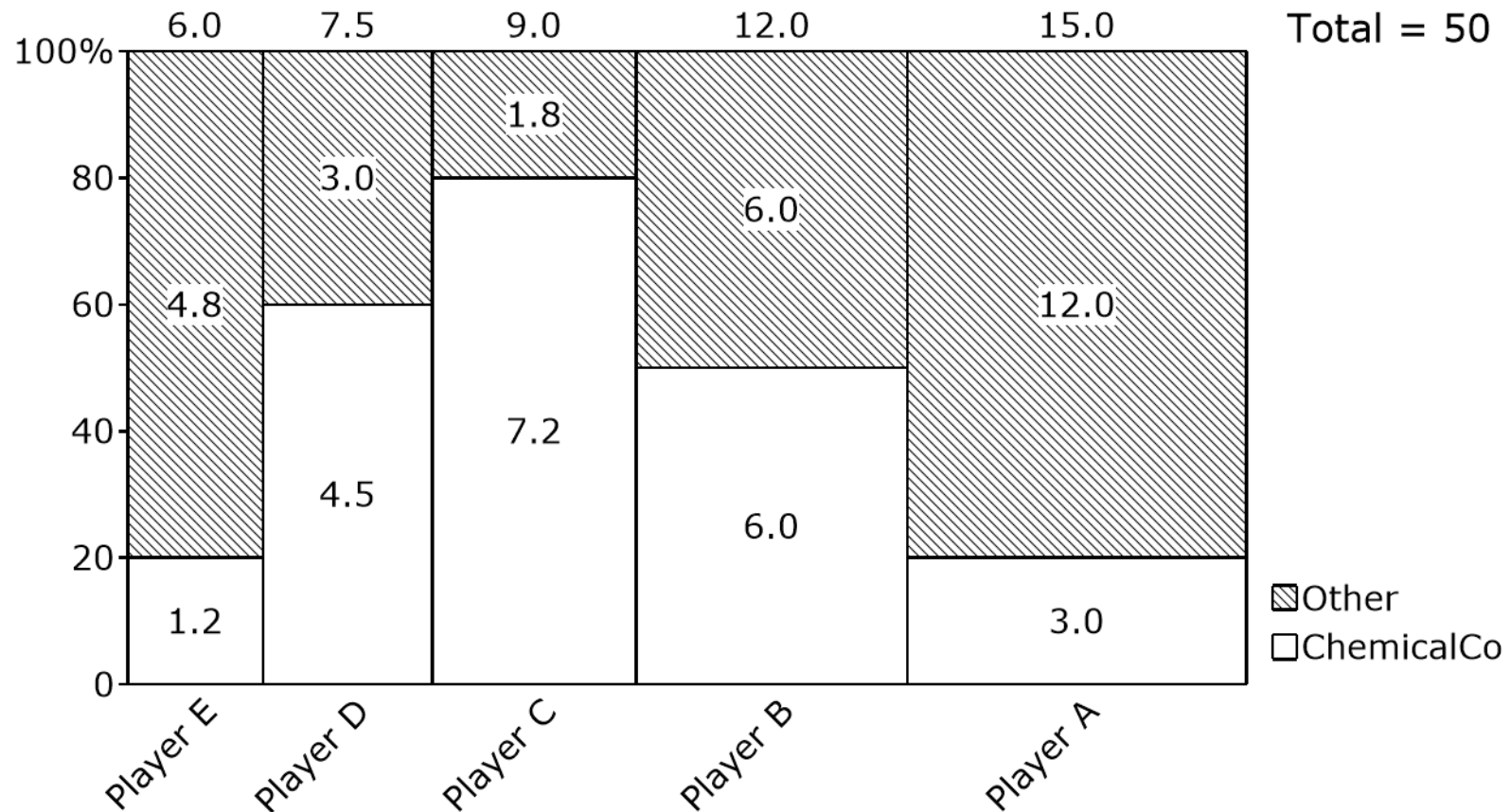
If company is market leader → $RMS = \text{company's market share} / \text{second player's market share}$

If company isn't market leader → $RMS = \text{company's market share} / \text{leader's market share}$

Graph 2 – Consumption of *Chemical_A* by *Chemical_1* producers

PROJECT 1

Consumption of *Chemical_A* by source
(kty) - 2010



kty = 1000 ton per year

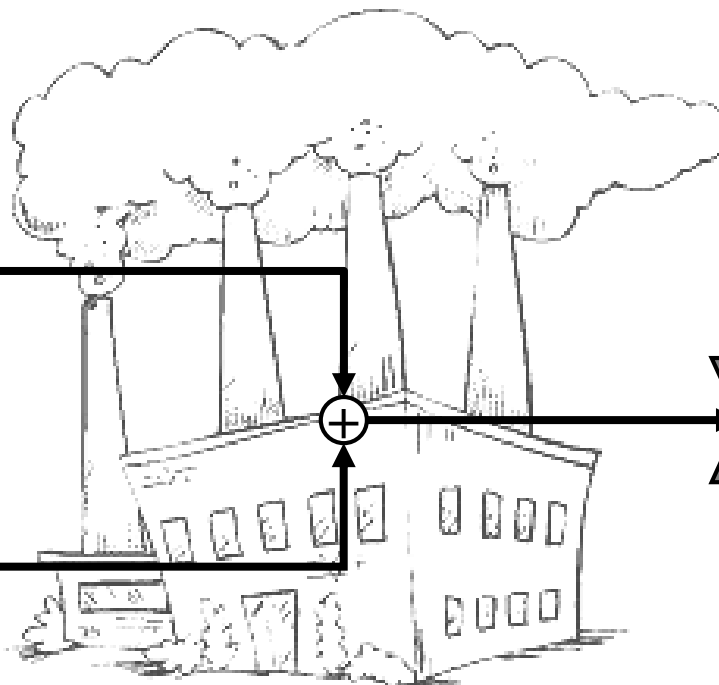
Graph 3 – Project of a new *Chemical_2* plant

PROJECT 2

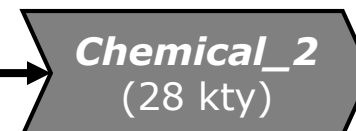
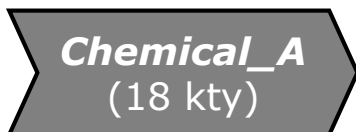
Raw Material

Production

Local price:
\$1.5k/ton



Local price:
\$1.0k/ton



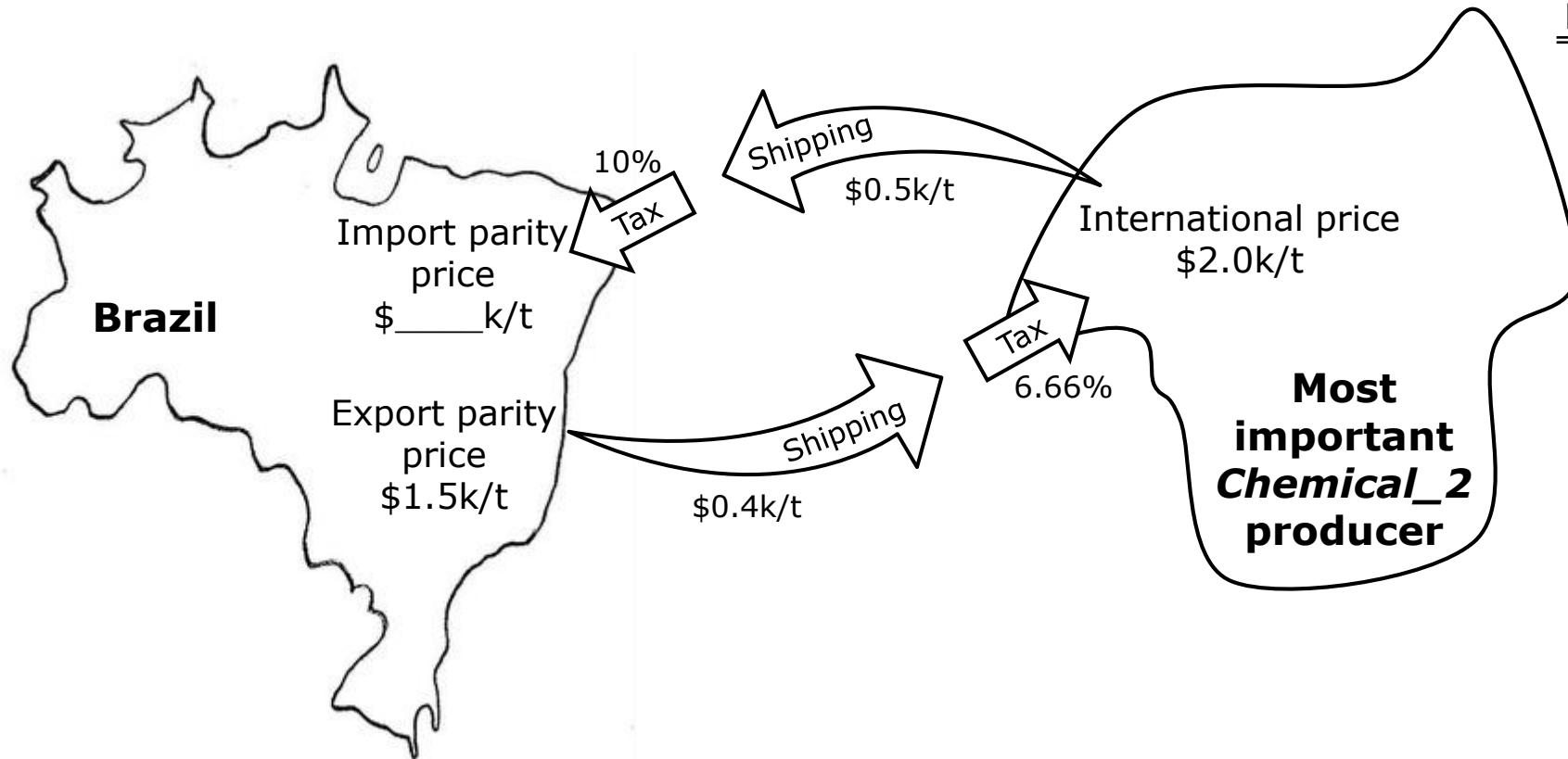
Fixed costs = US\$14M/year

kty = 1000 ton per year

Note: All other variable costs are negligible compared to raw material

Graph 3 – Chemical_2 import/export parity prices

PROJECT 2



- Import Parity Price (IPP): the value of a unit of product bought from a foreign country, valued at a geographic location of interest in the importing country (i.e. $IPP = \text{International_Price} + \text{shipping} + \text{taxes} + \text{insurance}$)
- Export Parity Price (XPP): the value of a product sold at a specific location in a foreign country, but valued from a specific location in the exporting country (i.e. $\text{International_Price} = \text{XPP} + \text{shipping} + \text{taxes} + \text{insurance}$)

Note 1: Insurance costs can be ignored

Note 2: Taxes apply only over good's price, not over shipping costs

Graph 5 –Interviews about *Chemical_3* market

PROJECT 3



ChemicalCo
executive

- *Chemical_3* consumes most of EveryChemCo's *Chemical_A* production. This only happens because we cannot be competitive in *Chemical_3* without a local sourcing of *RMaterial_5*
- We already tried a few times to get this sourcing agreement, but we never had success in this negotiation
- I think we should buy EveryChemCo. This is the easiest way to access the sourcing agreement of *RMaterial_5*

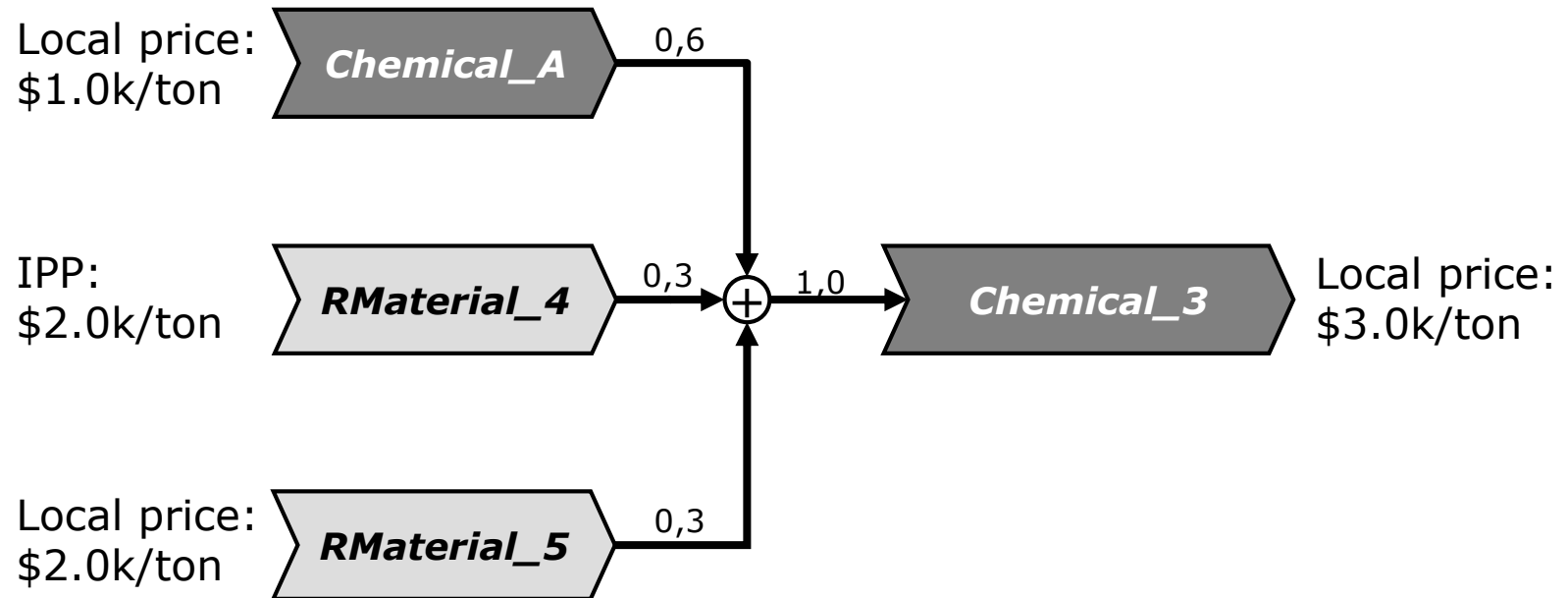


Market
specialist

- The local market is not able to consume the total *Chemical_A* production of ChemicalCo and EveryChemCo, so both companies have to export part of their production, which pressures local prices
- The only reason why ChemicalCo exports more than EveryChemCo is the competitive disadvantage in *Chemical_3*
- I'm pretty sure that this sourcing agreement is a short term contract and must be renewed every year

Graph 6 – Viable production of *Chemical_3* in ChemicalCo current facilities

PROJECT 3



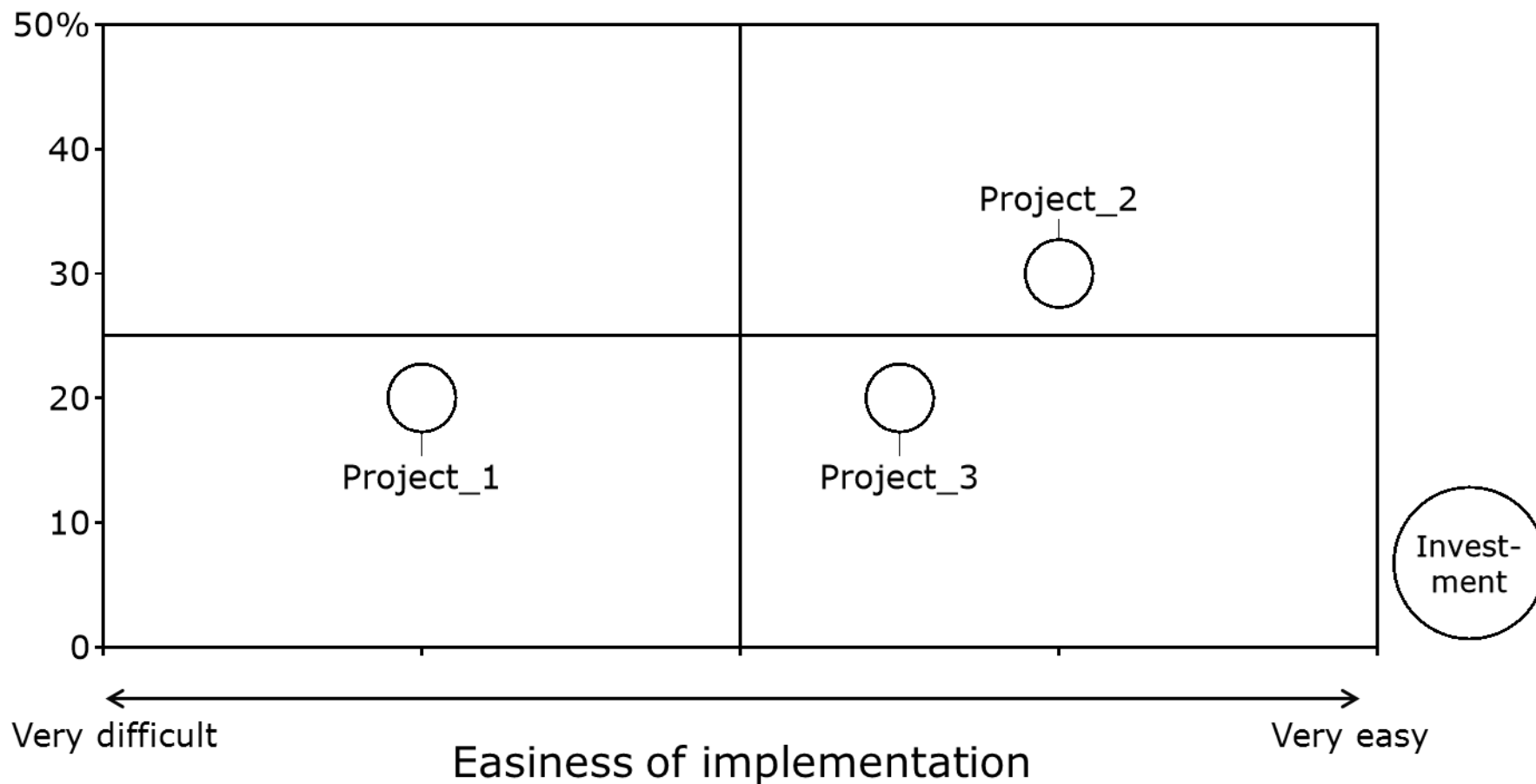
Note: All other costs are negligible

Graphic Business Case 02 10

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Graph 7 – Prioritization matrix

Return on Capital



Appendix A - Useful concepts

- Import/Export parity prices:
 - Import Parity Price (IPP): the value of a unit of product bought from a foreign country, valued at a geographic location of interest in the importing country (i.e. $IPP = \text{International_Price} + \text{shipping} + \text{taxes} + \text{insurance}$)
 - Export Parity Price (XPP): the value of a product sold at a specific location in a foreign country, but valued from a specific location in the exporting country (i.e. $\text{International_Price} = XPP + \text{shipping} + \text{taxes} + \text{insurance}$)
 - Export and import parity are two of the key price-setters in chemical markets. For this case we will assume that every product sold locally is sold at IPP and every exported product is sold at XPP
- EBITDA: Earnings before interest, taxes, depreciation and amortization
- RMS: Relative Market Share
 - If company is market leader: $RMS = \text{company's market share} / \text{second player's market share}$
 - If company isn't market leader: $RMS = \text{company's market share} / \text{leader's market share}$
- CAGR: Compound Annual Growth Rate

Case 2

RetailCo

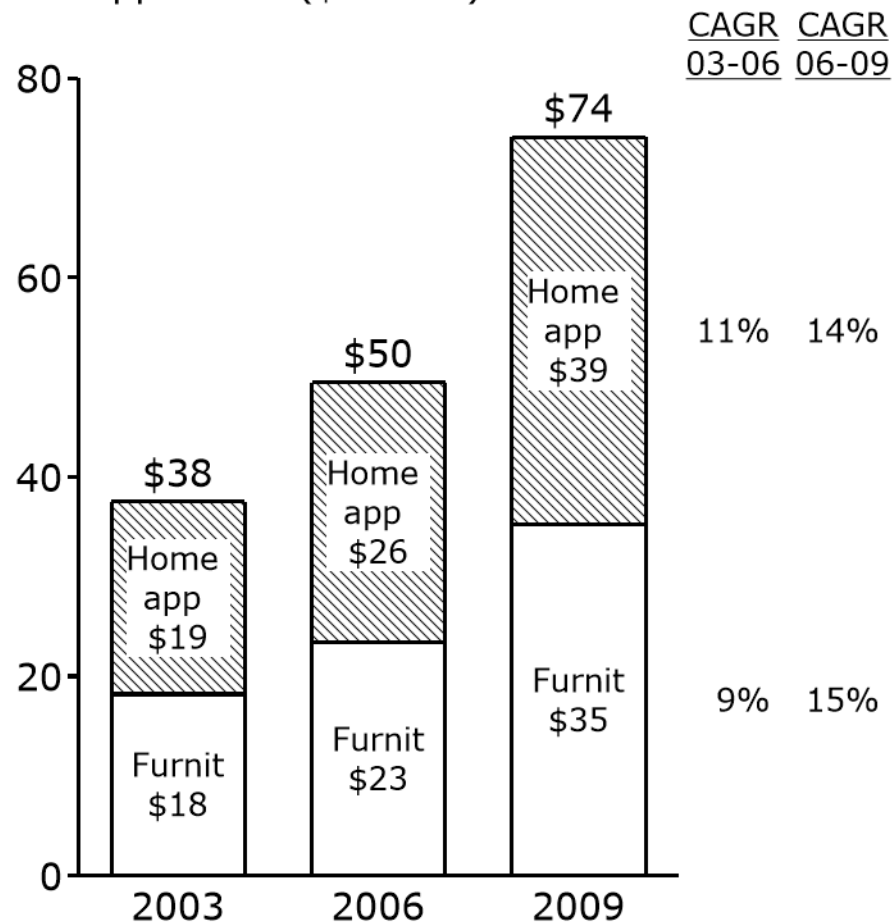
RetailCo case overview

Situation overview

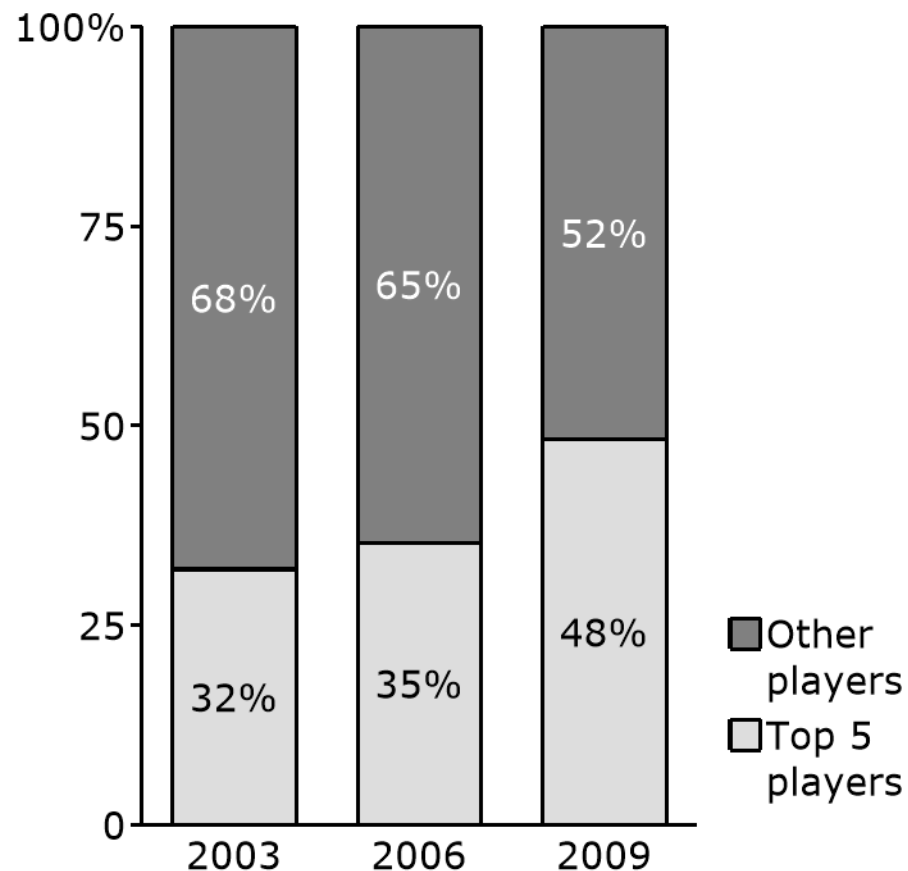
- The retail market for furniture and home appliances showed strong growth in the last years, accompanied by consolidation driven by major players
- RetailCo is a regional retail company with operations in four states of Brazil
- RetailCo holds a strong position in the markets it serves, however, it does not have the same scale as the major national players, which seek to expand their markets
- Moreover, in recent years, RetailCo presented weak results on important operating metrics, such as EBITDA and sales/m²
- RetailCo hired Bain to help them improve operating metrics and define its long term strategy

Graph 1 – Retail market over time and market breakdown by players over time

Brazil retail market - furniture and home appliances (\$billions)

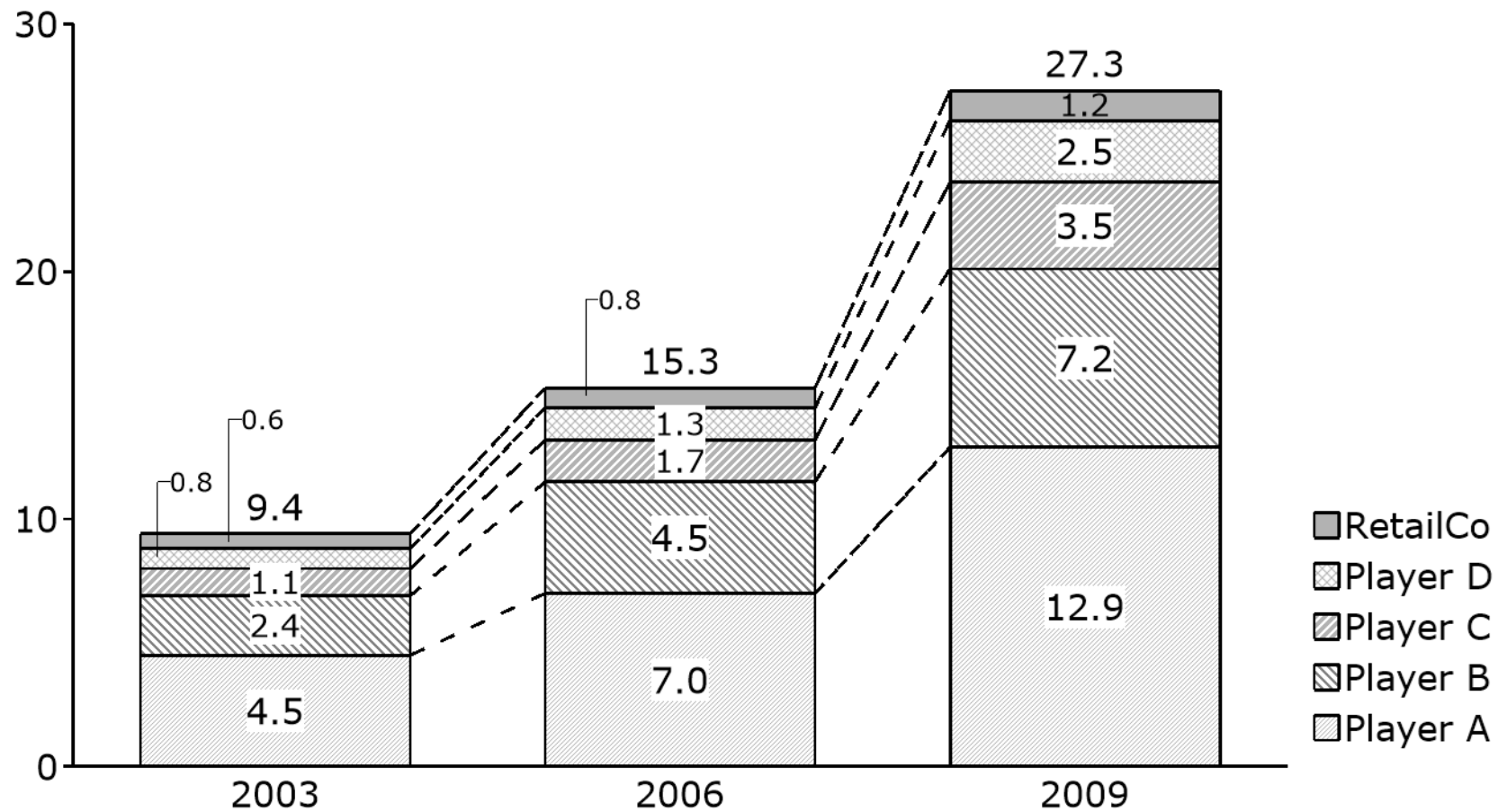


Sales by player segment (% of total market)



Graph 2 – Sales over time for RetailCo and competitors

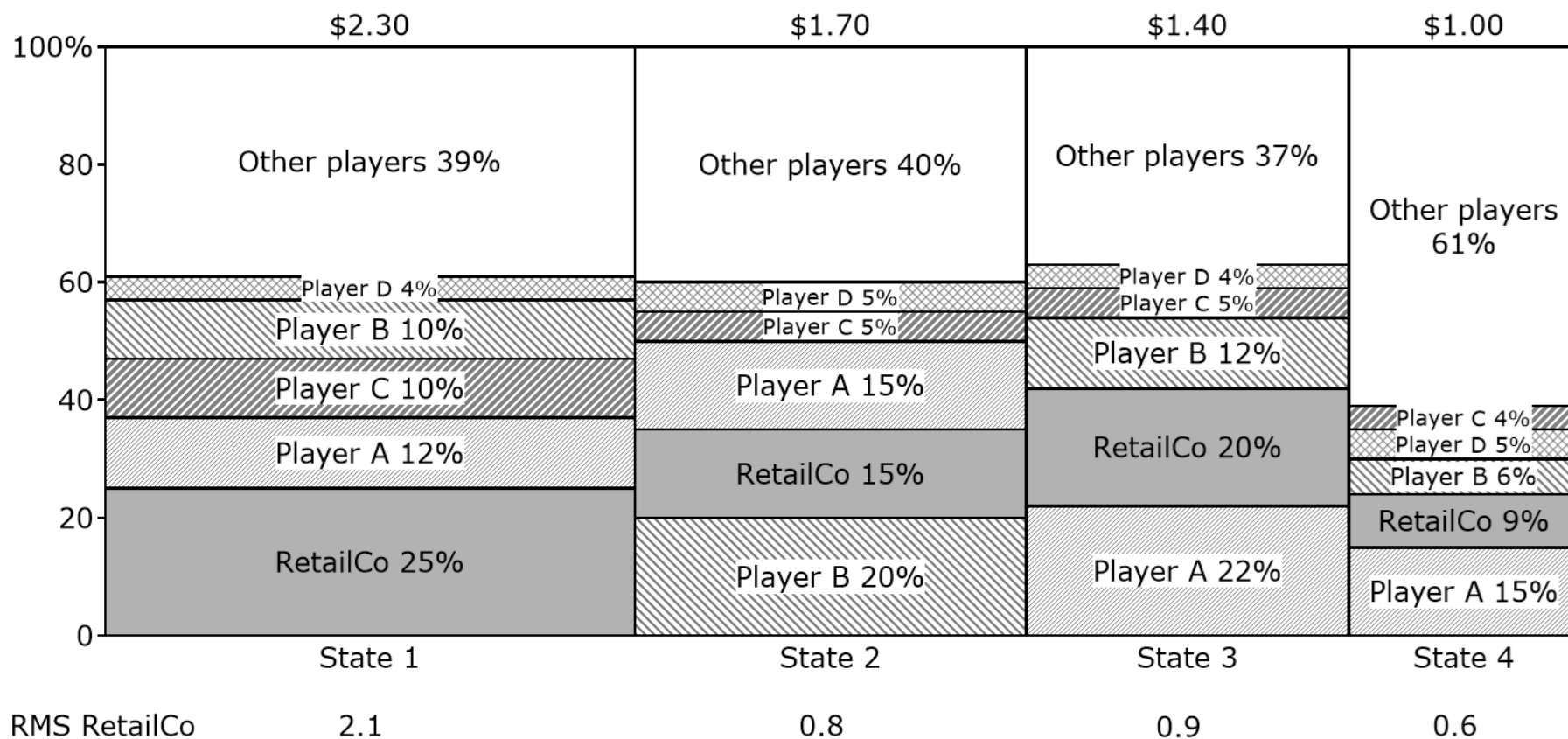
Sales over time for RetailCo and competitors (\$billions)



Graph 3 – Retail market breakdown, by player and by state

Retail market - Sales by player and state, 2009 (\$billions)

Total = \$6.40

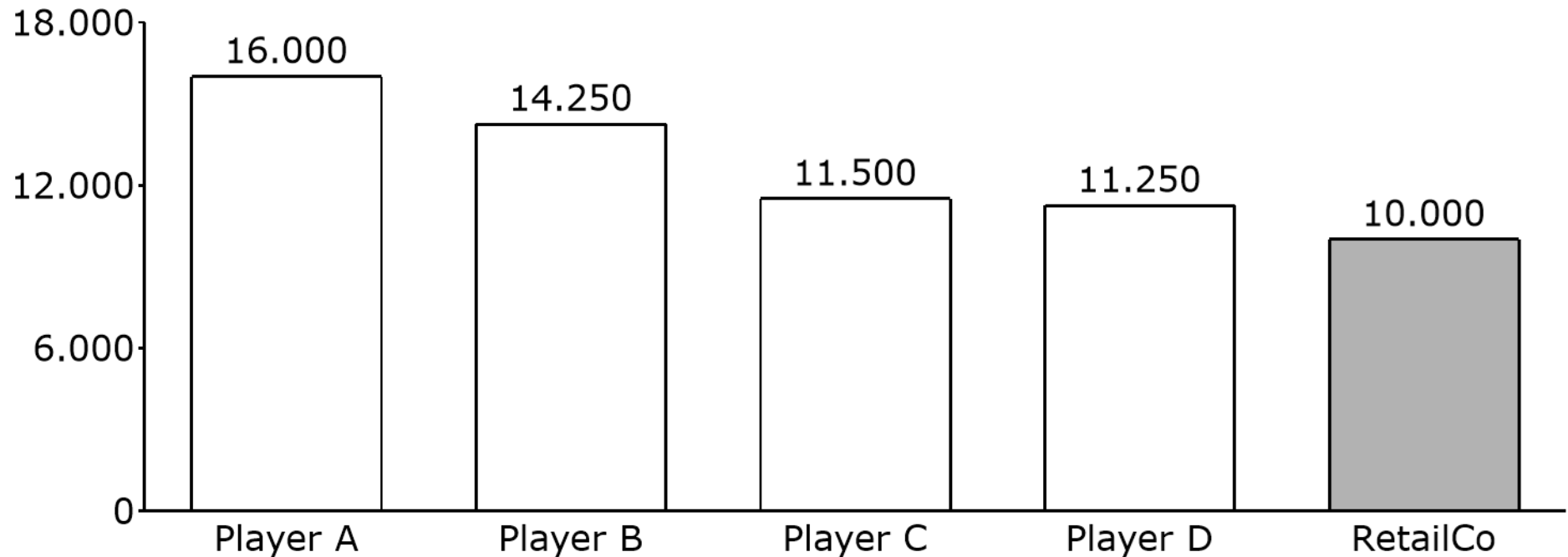


* RMS = relative market share

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Graph 4 – Sales per square meter

Sales/m² of sales area, 2009 (\$/m²)

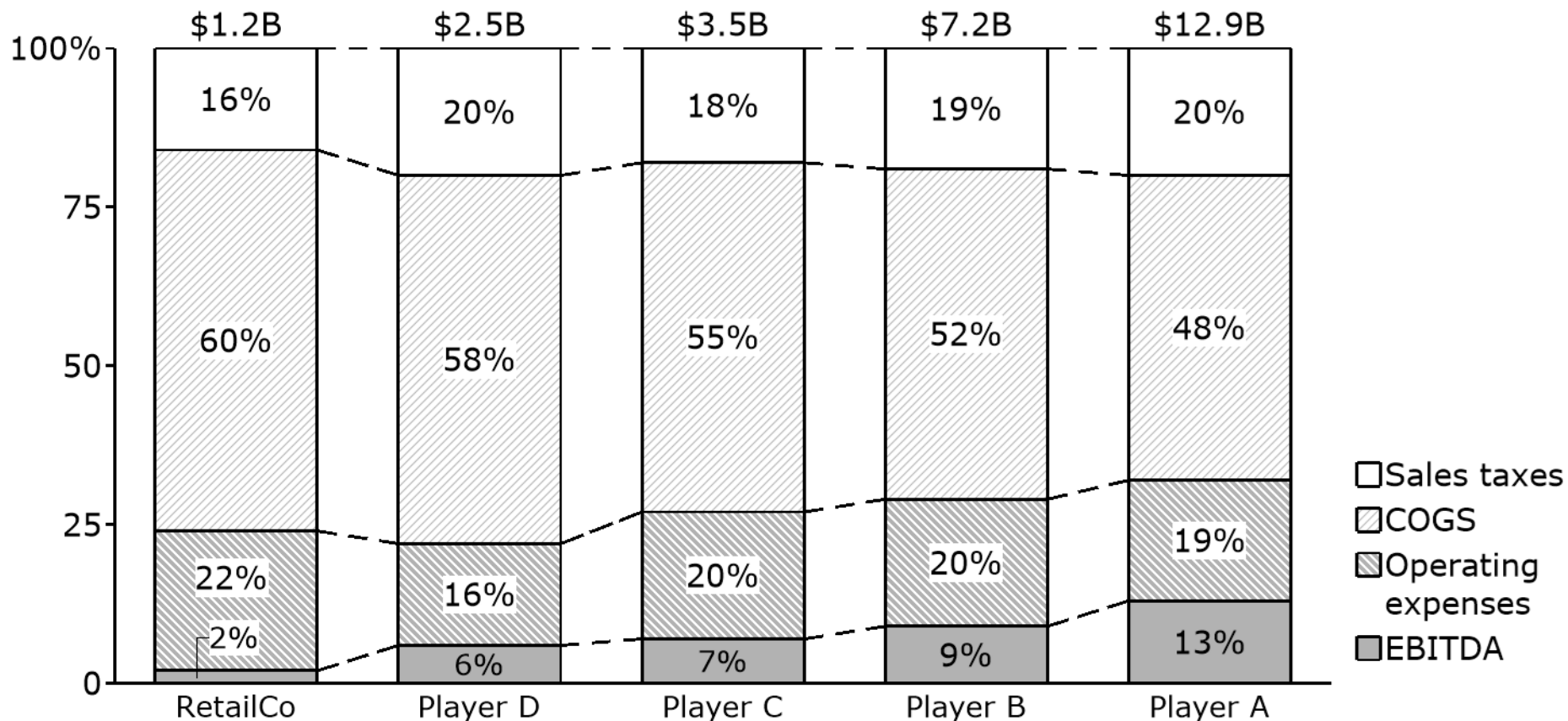


m ² /store	1.800	1.250	1.100	1.200	1.000
Sales area/ Total area	90%	90%	85%	85%	80%

Obs.: sales area does not include back-office and inventory areas

Graph 5 – Sales breakdown by player

Sales breakdown, 2009 (%)



COGS = Cost Of Goods Sold

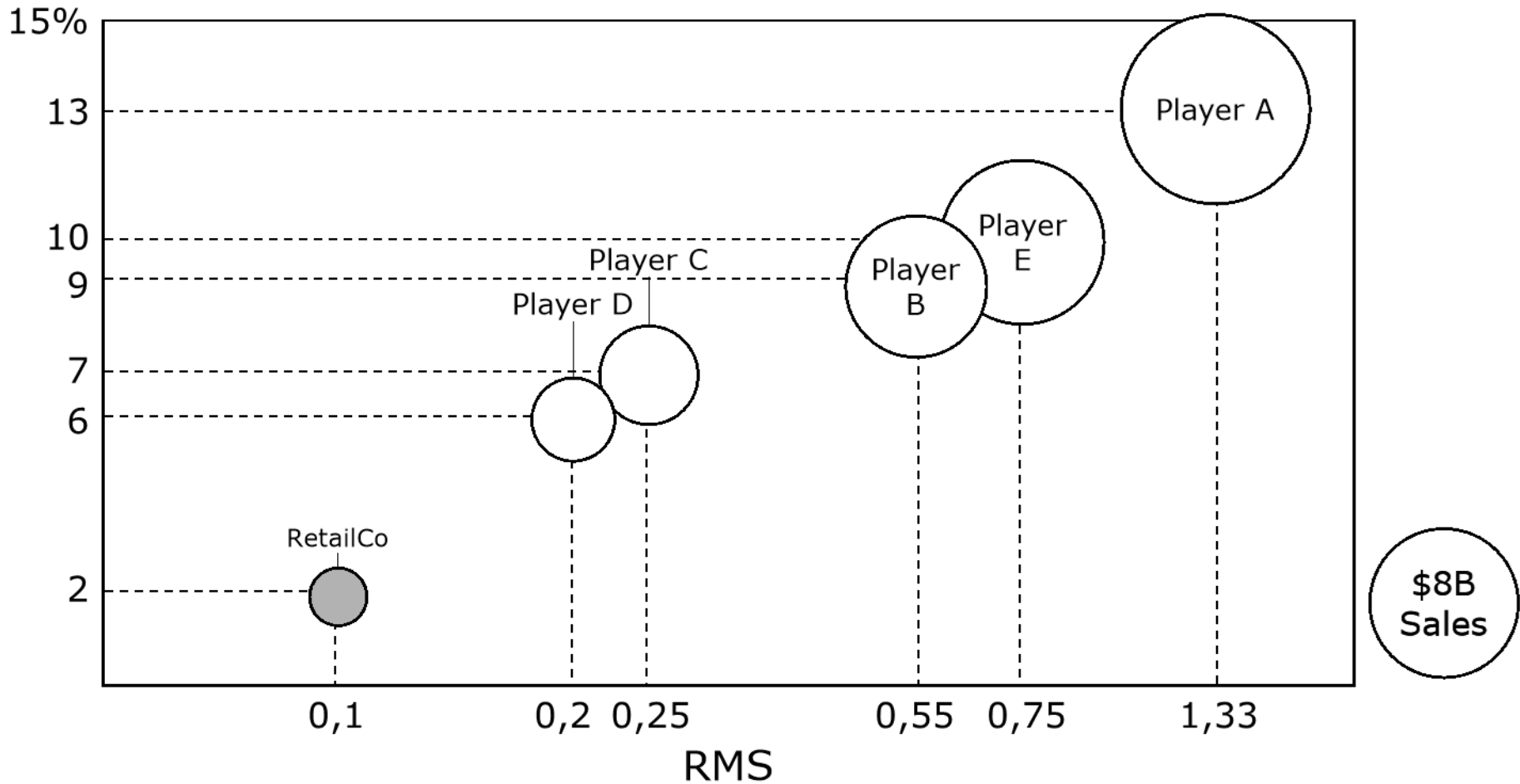
Operating expenses = Selling, General and Administrative Expenses (SG&A)

EBITDA = Earning Before Interest, Taxes, Depreciation and Amortization

Graph 6 – Brazilian market: EBITDA X Relative Market Share (RMS)

EBITDA (%)

2009

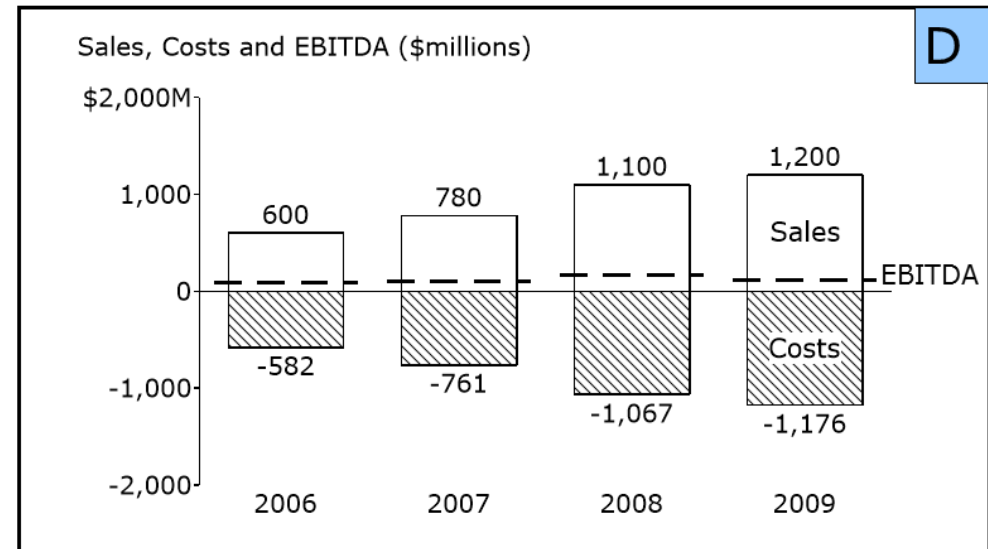
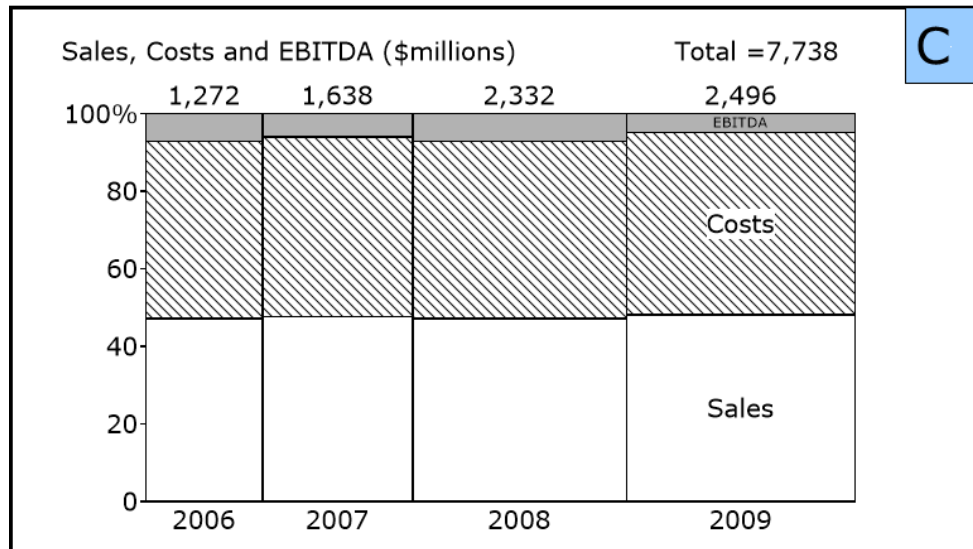
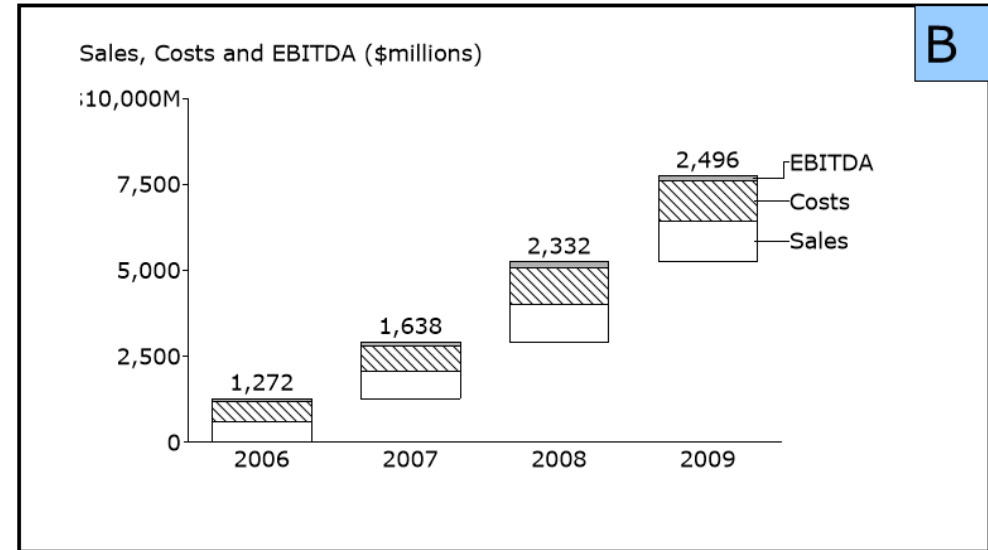
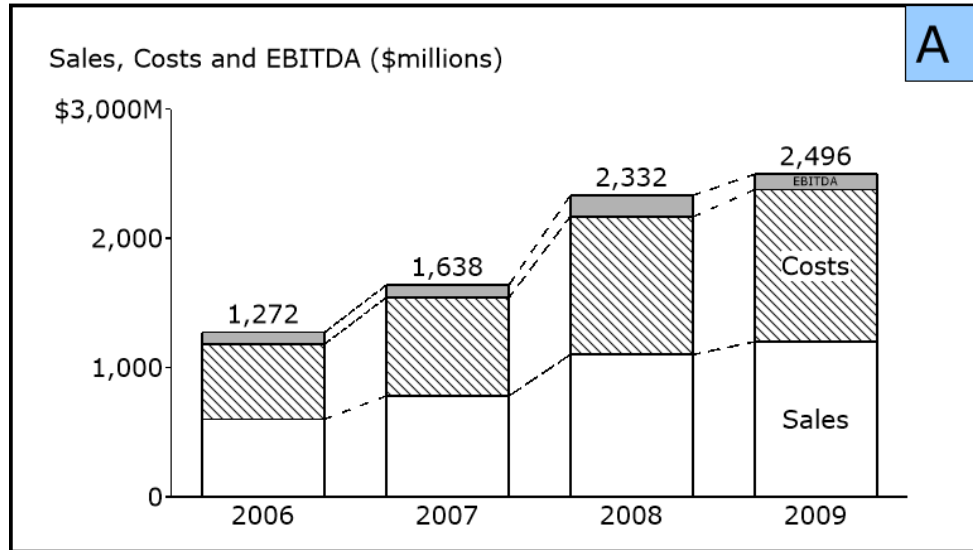


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Annex 1 – Sales, Costs and EBITDA



EBITDA = Earning Before Interest, Taxes, Depreciation and Amortization
 Costs = Cost of good sold (COGS) + Operational expenses (SG&A)