Market Entry, Growth and New Products

Interview preparation summary · SC track

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INT.KE.1.a · Should we enter

Judge how attractive a market is by sizing its profit pool, growth, competition and regulation, and say what an entrant like the client could actually capture.

Market attractiveness asks whether a company like this client can make money there, not whether the market is large. Start with size and growth, then convert them into a profit pool: market revenue multiplied by the typical operating margin, which shows where profit sits. Next ask why margins are what they are: price pressure from powerful customers or suppliers, capital intensity, how concentrated the leaders are, how easily rivals copy, and whether rules such as licences, price controls or subsidies create or remove profit. Market attractiveness checklists and five-forces diagrams are tools, and they mislead when every factor gets equal weight or when one factor, such as a subsidy, decides everything. Adapt them: pick the three or four factors that decide this market and test each with a number. The usual mistake is stopping at size and growth. Strong candidates move from profit pool to the share and margin a late entrant could realistically win, and say what would change their view.

WORKED EXAMPLE: CHOOSING BETWEEN TWO REGIONAL MARKETS FOR HARLOW CATERING SERVICES

Harlow Catering Services, an invented UK maker of commercial kitchen equipment, can enter only one new market for equipment servicing. Market A (Spain) is 1,200m of annual revenue, growing 3% a year, and incumbents earn a 14% operating margin; the top three players hold 80%. Market B (Poland) is 600m, growing 12% a year, incumbents earn 8%, and the market is fragmented. A realistic entrant share after five years is 5% in A and 10% in B. Which market is more attractive in five years? Convention: money in £, constant margins, ignore tax.

Answer: On the numbers neither market wins outright: about 9.7m of attainable annual profit in A against 8.5m in B after five years. A is better only if a 5% entrant can earn a margin above about 12.2%, against 14% for the leaders. The next data to ask for is the margin of the smallest profitable player in A.

> **Interview tip:** Say it aloud in this order: size, growth, profit pool, share an entrant could win, then the one number that flips the answer. Finishing with the break-even margin shows judgement, not just arithmetic.

INT.KE.1.b · Should we enter

Judge whether the client has the capabilities to win in a new market, and choose between building, buying, partnering and franchising by comparing speed, cost, control and risk.

An attractive market is not enough; the client must be able to win in it. Start with what customers there buy on (the key success factors), then list which of those the client already has, such as brand, channels, cost position, technology, regulatory licences and people, and which it lacks. Then ask whether the gap can be closed at acceptable cost and time. Entry mode follows from the gap. Build gives full control and usually the lowest cost per unit of share if it works, but it is slow and carries the risk of failure. Buy gives speed, customers and capabilities at the highest price, with integration risk and a limited supply of targets. A partnership or joint venture shares cost and local knowledge but also profit and control. Franchising or licensing spreads fast with little capital, but at lower margin and with brand risk. Compare options on speed, investment per pound of mature profit, control, risk and reversibility, and let the client's binding constraint decide. The usual mistake is choosing by habit.

WORKED EXAMPLE: HOW SHOULD CALDER LOGISTICS ENTER POLISH LAST-MILE DELIVERY

Calder Logistics, an invented UK parcel carrier, targets an 8% share of a 500m Polish last-mile market at a 12% operating margin. Build: invest 24m, 70% chance of reaching the target, about four years to get there. Buy: acquire Zorva Parcels, which holds a 6% share, for 45m plus 4m integration, growing to 8% soon after. Partner: a 50/50 joint venture with a local network, Calder invests 8m, reaches 8% in about two years and keeps half the profit. Compare the options. Convention: pounds, ignore tax and timing differences in the cost figures.

Answer: Investment per pound of mature profit is 3.3 for partner, 5.0 for build (7.1 risk-adjusted) and 10.2 for buy. Partner is the efficient choice unless Calder insists on full control, in which case build; buy only makes sense if the time window is the binding constraint.

> **Interview tip:** Always put the options on one scale, here years of mature profit, before bringing in the qualitative points. Then name the single constraint, time, cash or control, that would reverse your ranking.

INT.KE.1.c · Should we enter

Build a simple financial case for entry from a revenue ramp, investment and margin, work out payback and a rough NPV, and test how a competitor's response changes it.

The financial case turns a strategy into numbers a board can accept or reject. Build it from a revenue ramp (customers, capacity and distribution grow over years, they do not appear on day one), the up-front investment and any later spend, and the cash margin on revenue. Payback is the time until cumulative cash inflows equal the investment; it is simple and intuitive but ignores cash after payback and the time value of money. Net present value (NPV) discounts each future cash flow by dividing by one plus the required return for each year, then subtracts the investment; a positive NPV means the project beats the required return. State conventions aloud: year-end cash flows, the discount rate, whether you include a terminal value. Then stress the case, because incumbents with something to lose usually respond with price cuts, bundles or locked-in distribution, and barriers such as scale economies, switching costs and licences shape how hard that response bites. The usual mistakes are a flat revenue line, forgetting ongoing investment, and ignoring the response.

WORKED EXAMPLE: VOLTARA FUELS ENTERS ELECTRIC VEHICLE CHARGING

Voltara Fuels, an invented UK fuel retailer, will install charging at 100 of its sites at 0.5m each, which is 50.0m invested at the start. Revenue per site ramps over five years: 0.20m, 0.35m, 0.50m, 0.60m, 0.60m. Cash margin is 40% of revenue. Find payback and the five-year NPV at a 10% required return. Then see what happens if a rival's price cuts reduce the cash margin to 30%. Conventions: year-end cash flows, no terminal value, ignore tax.

Answer: In the base case payback is 3.3 years and the five-year NPV is 15.2m. If a price war cuts the margin from 40% to 30%, payback passes four years and NPV is minus 1.1m. The case holds only if Voltara can defend its margin.

> **Interview tip:** Say the conventions first (year-end, 10%, no terminal value), then give payback, then NPV, then the one sensitivity that matters most. Interviewers like a candidate who volunteers the competitor response before being asked.

INT.KE.2.a · Growth and new products

Classify growth options as core, adjacent or new using the Ansoff logic, and prioritise a portfolio of ideas by risk-adjusted value, investment, fit and sequence.

Growth ideas sit on two axes: products (existing or new) and customers or markets (existing or new). Ansoff's logic names the four boxes: market penetration (existing product, existing market), product development (new product, existing market), market development (existing product, new market) and diversification (new on both axes). Risk typically rises as you move away from the core, because the firm has fewer proven capabilities and less customer knowledge on each axis it leaves. To prioritise a portfolio, give each idea a mature profit, a probability of success, an investment, a time to impact and a fit score, then rank on risk-adjusted profit per pound invested. Check four things before accepting the ranking: the budget and management bandwidth, cannibalisation of existing sales, whether one idea builds a capability another needs, and whether a small staged test would buy an option on a bigger prize. The two-by-two grid is a classification, not a decision. The usual mistakes are ranking by headline prize, ignoring probability, and funding everything thinly.

WORKED EXAMPLE: PRIORITISING FIVE GROWTH IDEAS FOR BRINDLE BAKERIES

Brindle Bakeries, an invented UK bread maker, has a 20m growth budget and five ideas. A: more stores in current regions, invest 5m, mature profit 2.0m a year, 90% chance. B: a gluten-free range, invest 4m, profit 1.8m, 70%. C: buy a Welsh regional bakery, invest 12m, profit 3.6m, 75%. D: online bread subscription, invest 6m, profit 3.0m, 40%. E: wholesale to Spanish supermarkets, invest 9m, profit 4.5m, 30%. Which should it fund? Convention: annual profit at maturity, ignore timing and tax.

Answer: Fund A and C: 17m for about 4.5m of risk-adjusted annual profit, keeping 3m in reserve. The alternative A plus B plus D uses 15m for 4.26m and leaves 5m for a staged test of D. E is the weakest idea.

> **Interview tip:** Rank on one scale, check that the ranking fits the budget, then say what you would stage. Naming the second-best portfolio shows you did not just take the top of a list.

INT.KE.2.b · Growth and new products

Plan a product launch from customer need through positioning and channel, and design and read a pilot so that the decision to scale is sound.

A launch starts with the customer need: who has it, how badly, what they do today, and what they would pay. Positioning is the promise made against the alternatives, then price, channel and the unit economics (contribution per unit, fixed cost, investment). A pilot is the cheapest way to find out whether the numbers are real. Define in advance the question it answers and the decision rule, for example scale if incremental contribution per site beats the running cost. Use a comparable control group and measure the incremental effect by difference in differences: the pilot group's change minus the control group's change, because seasonality and trend move everything. Watch for selection bias (the best stores volunteer), novelty effect (the first weeks flatter), cannibalisation of existing sales, and a sample too small to read. The usual mistakes are reading raw growth in the pilot as uplift, choosing easy sites, and having no threshold before the result arrives. Strong candidates say how they would decide, not only what they would test.

WORKED EXAMPLE: READING THE LARKFIELD CLICK-AND-COLLECT PILOT

Larkfield Grocers, an invented supermarket chain, piloted click-and-collect in 20 stores for 12 weeks against 20 matched control stores. Average weekly sales per store: pilot stores 84,000 before and 91,560 during the pilot; control stores 82,000 before and 86,100 during. Gross margin is 25%, extra running cost is 450 a week per store, and set-up costs 12,000 per store. What is the uplift and the payback, and what happens across 300 stores? Convention: pounds, 52 weeks a year, ignore tax.

Answer: True uplift is 4.0 points, worth 20,280 a year per store, with payback in about seven months. Across 300 stores that is about 6.1m a year for 3.6m of set-up. The raw pilot growth overstates the benefit 3.7 times.

> **Interview tip:** Always ask for the control before quoting a pilot result. Then give the uplift, the payback against a threshold you set in advance, and the one bias (selection, novelty) most likely to make the pilot look better than the roll-out.

INT.KE.2.c · Growth and new products

Evaluate international expansion, a new business model and a platform, and say what must be true for each to work.

International expansion should be argued like any entry: pick the country by attractiveness and ease of entry (regulation, language, customer preferences, channels, distance from home), decide what to keep standard and what to localise, choose an entry mode, and test in one country before several. A new business model, such as subscription, as-a-service, direct to consumer or a marketplace, changes who pays, when and how much, so rebuild the unit economics (cash timing, lifetime value, acquisition cost) and ask what new capabilities, such as billing or data, are needed and what it cannibalises. A platform connects two sides; value rises with participants (network effects), so the start is a chicken-and-egg problem solved by subsidising one side or focusing on one city. Size what must be true: break-even volume, active users per side, take rate, and what keeps users from dealing directly. The usual mistakes are assuming the home model transfers unchanged, counting registered rather than active users, and ignoring the cash dip when a model moves from upfront to recurring payments.

WORKED EXAMPLE: LAUNCHING A PARKING MARKETPLACE IN A NEW CITY

Parkwise, an invented app, connects drivers with owners of private parking spaces. In a new city a typical booking is worth 8.00, Parkwise keeps a 15% take rate, and pays 0.25 in payment fees and 0.15 in support per booking. City fixed cost is 60,000 a month. An average active space owner receives 30 bookings a month and an average driver makes 3. Acquiring an owner costs 40 and a driver 6. What scale is needed to break even and what does it cost to reach? Convention: monthly figures, same currency, ignore tax.

Answer: Break-even needs 75,000 bookings a month, about 2,500 active owners and 25,000 active drivers, costing around 250,000 to acquire. A cut in take rate from 15% to 12% raises the break-even volume by 43%, so the take rate and what holds users on the platform are the key risks.

> **Interview tip:** For a platform, give break-even volume, then users on each side, then say which side you would win first and what stops users trading directly. Active users, not downloads, are what count.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.