

# Case 1B

## Type: Profitability



ConQuest

Consulting & Strategy Club of IIM Shillong



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# Problem Statement:

The State Transport Department of the United States of America is exploring ways to increase their profits after a few years of dip

SCRIPT KEY	
Interviewer	
Interviewee/Candidate	

<p>The State Transport Department of the United States of America is exploring ways to increase their profits after a few years of dip.</p>	<p><b>What are your current sources of non-transport revenues?</b></p>
<p><b>Is there a particular mode of transportation that they want to focus on?</b></p>	<p>Only concession stands at the docks – say we wanted to branch out, what other sources would you recommend?</p>
<p>Yes. Ferry.</p>	<p><b>Well, renting out the ferries for private parties, hosting birthdays and weddings, that could be an avenue to explore. We could also consider vending machines on the ferries.</b></p>
<p><b>Do we have any recent Top-Line or Bottom-Line figures for Ferry department?</b></p>	<p>That sounds good – could you give us an estimate of the revenue we can generate from this.</p>
<p>Data for only one year provided, no trends. Data indicates marginal profits</p>	<p><b>( Solved a guesstimate to find the income from the above sources - Page 12 )</b></p>
<p><b>Would the department like to focus on increasing revenue or decreasing costs?</b></p>	<p>That looks good, we now have some data on the cost side (Gives the breakup of the expenses)</p>
<p>Let's look at revenue for now.</p>	<p><b>Okay so it looks like close to 80% of all ferry expenses are for staff wages – does that include the crew?</b></p>
<p><b>Sure. Do we want to increase non-transport related revenue or ticket volume?</b></p>	<p>Yes – but it is only a small percentage.</p>
<p>Can you elaborate further?</p>	<p><b>Okay so may I ask what is the remaining percentage? Maintenance staff? Back-office team?</b></p>
<p><b>So, I am guessing there will one revenue stream coming from the ferry tickets, and another from non-transport activities like concession stands</b></p>	<p>Yes – back-office team has majority of the staff</p>
<p>Yes sure, let's look at the non-transport revenues</p>	<p><b>Do we want to cut costs?</b></p>

What would you recommend?

**Seeing as it is mostly staff costs, this may lead to layoffs. I think there are ways to trim the team down by leveraging technology, like by using ERP systems – we can explore that if you want**

Okay sure .

**What is the primary operation of the Back-office?**

Primary functions include Booking tickets, scheduling, etc.

**I think most of these functions can be fulfilled by websites and self-service kiosks. However, we may need a small technical team for its maintenance.**

Okay sounds good – can you summarize the case for us?

**(Gives summary, highlight the conclusions reached and tentative way forward)**

# Estimate of the potential non-transport revenue for a ferry transport company

## Assumptions

Ferry season comprises of Peak season lasting 4 months rest of the months Non peak season

Fleet size is 10

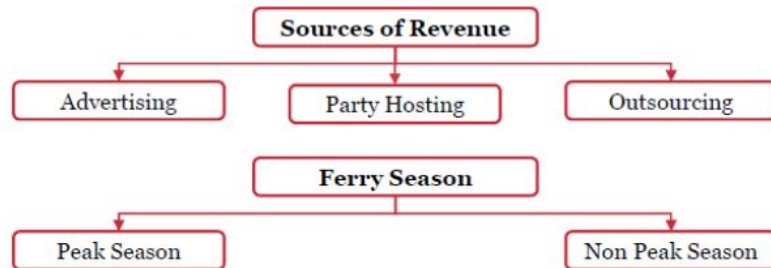
Number of weeks per month is 4

## Calculations

Total Revenue for advertising =  $40,000 \times 10 \times 4 \times 4 = 64,00,000$

Similarly for the outsourcing, party hosting for peak and non peak seasons

Total revenue =  $1,28,00,000 + 1,28,00,000 + 64,00,000 = 3,20,00,000$  rupees



### % of Ferries used

Ferry season	Advertising	Outsourcing	Party Hosting
Peak Season	100%	20%	40%
Non-peak season	100%	80%	60%

### Revenue per Ferry (INR per week)

Ferry season	Advertising	Outsourcing	Party Hosting
Peak Season	40,000	80,000	40,000
Non-peak season	20,000	40,000	20,000

### Total Revenue

Ferry season	Advertising	Outsourcing	Party Hosting
Peak Season	64,00,000	25,60,000	25,60,000
Non-peak season	64,00,000	1,02,40,000	38,40,000
<b>Total</b>	<b>1,28,00,000</b>	<b>1,28,00,000</b>	<b>64,00,000</b>

## Conclusion

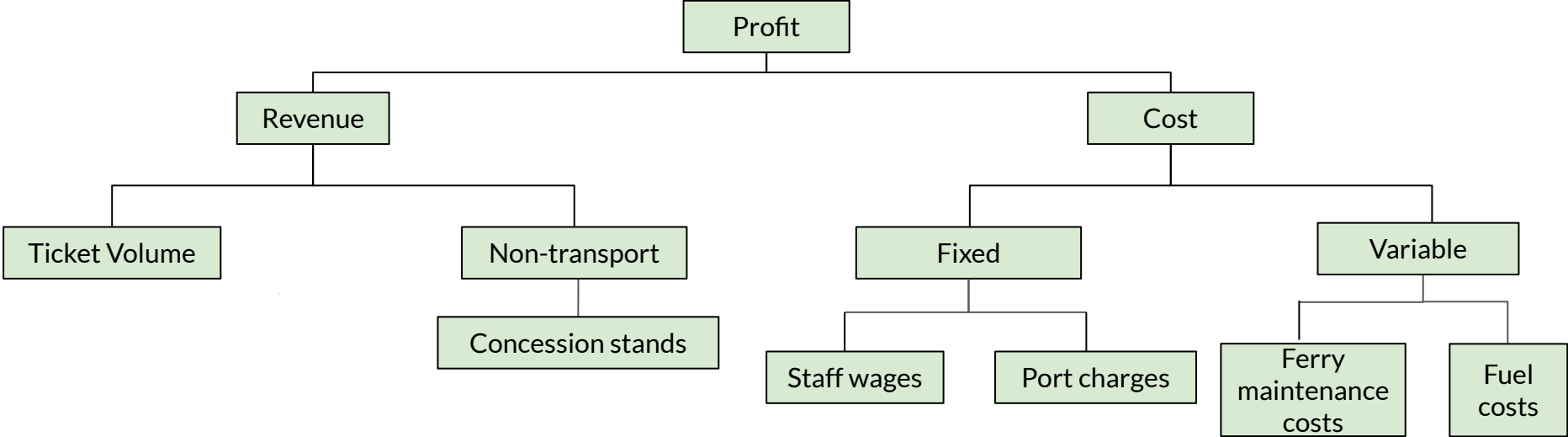
Total Revenue for ferry transport **Rs 3,20,00,000**

## Comments/ Suggestions

Consider all possible channels of revenue

Common mistake would be to neglect the seasonal effect on ferry business

# PROFITABILITY FRAMEWORK



## COST BREAKUP

<b>Expense Heads</b>	<b>Expenses (In \$)</b>
Ferry Maintenance Costs	13125
Staff Wages	210000
Fuel Costs	26250
Port Charges	13125
<b>Total Charges</b>	<b>262500</b>

## QUALITATIVE INFORMATION

### Case Background:

The State Transport Department of the United States of America is exploring ways to increase their profits after a few years of dip.

### Case Facts:

1. Focus of transport; ferry
2. Concession stands as main revenue stream
3. 80% are staff wages
4. Majority of staff is the back-office team

## CLARIFYING ANSWERS TO BE PROVIDED ONLY IF ASKED BY INTERVIEWEE

Interviewee	Interviewer
What is the particular mode of transportation in focus?	Ferry is the main source of transportation.
Would the department like to focus on increasing revenue or decreasing costs?	Revenue
Focus on increasing non-transport revenue or ticket volume?	Non transport activities and volume of ferry tickets
What is the main non-transport activity?	Concession stands are the only non-transport activity right now.
What is the primary operation of the back office?	Primary operations include booking tickets, scheduling etc.

## GLOSSARY

**Top line or Bottom line figures:** Top line refers to a company's revenues or gross sales. The bottom line is a company's net income.

**ERP:** Enterprise Resource Planning refers to a type of software that organizations use to manage day-to-day activities such as accounting, risk management etc.



<b>Target</b>	<b>Recommendations to achieve the target</b>
1. Increase revenue	Branch out to other sources such as renting out ferries for private parties, hosting birthdays and events or installing vending machines on ferries.
2. Reduce staff costs	Trimming the team down by leveraging technology, like by using ERP systems.
3. Primary operations of back-office team	Fulfilled by websites and self-service kiosks. A small technical team will be needed for maintenance.