

BIG ROCK

Type: Interviewer-led | Difficulty: **Medium** | Function: **Product Launch** | Sector: **Leisure & Tourism** | Stretch area: **Judgement & Insights** | Author: **ex-Arthur D. Little**

Since climbing was introduced as an Olympic discipline, public interest in the sport has surged, and indoor climbing gyms have seen a boom in popularity. Indoor climbing has evolved into a highly social experience, where climbers often gather at the gym's café or bar to relax, share stories, and enjoy food together after their training sessions.

Your client is a friend who has created a business case for opening a new indoor rock-climbing gym called Big Rock. To secure a bank loan for funding, the client must demonstrate the business's viability and present a detailed implementation plan. Specifically, the bank has asked for the venue's location and layout, a marketing plan, and the price structure of services.

Your client has asked for your help in preparing a response for the bank.

ADDITIONAL INFORMATION

- The client has two potential sites in mind (city center and suburban) but has yet to make a choice between them.

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BIG ROCK – QUESTION 1

Dimension: Structuring

How would you structure your approach to this problem?

INTERVIEWER GUIDANCE

- The structure should address the bank's questions about venue, pricing and marketing, and demonstrate to the bank that the business will be profitable.

PROPOSED SOLUTION

1. Location
 - Best location to drive demand and revenue (e.g. parking, footfall, competition)
 - Cost of location options
2. Offering
 - Target service offering
 - Core service offering (e.g., number of climbing walls)
 - Additional services (e.g., shops, bar/restaurant)
 - Pricing for proposed offering
 - Pricing structure (e.g., membership vs. one-off fees)
 - Price point (e.g. benchmarking, customer demand)
3. Marketing plan
 - ROI for direct marketing options (e.g. social media advertising, local newspapers, **flyering**)
 - Indirect growth options, e.g. referrals
4. Financial projections

BIG ROCK – QUESTION 2

Dimension: **Judgement & Insights**

Your client has researched some location options and has identified one potential building in a suburban area and another in the city center. Exhibit 1 summarizes the characteristics of each.

How would you decide between these two locations, and which would you choose?

ADDITIONAL INFORMATION

- There is no competitor near either location
- The income levels in both areas are similar
- The suburban location comes with parking space
- Climbing centers typically present 200-500 square meters, and 10-20-meter height

INTERVIEWER GUIDANCE

- Exhibit 1 provides partial information. Candidates need to think beyond the available data, determine the factors to consider to make a recommendation, and make hypotheses or ask for missing information
- The candidate can recommend either location, with a supporting rationale

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BIG ROCK – EXHIBIT 1

LOCATION OPTIONS

	City Center	Suburbs
Average size (ground surface)	10m x 15m	15m x 40m
Average height	13 m	26m
Population density	1.500 inhabitants / km ²	500 inhabitants / km ²
Building style	Gothic	Industrial
Monthly rent	\$20/m ²	\$4/m ²

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BIG ROCK – QUESTION 2

Dimension: Judgement & Insights

PROPOSED SOLUTION

- To select a location, we need to understand both its cost and its ability to drive traffic and revenue. Overall, **the suburban location seems a superior option, but might require bigger initial investment**
- In terms of cost, **the suburban location is 20% cheaper** (\$2,400 vs \$3,000 per month). However, it is much bigger, so **might require a larger initial investment** to equip
- In terms of ability to drive traffic and revenue:
 - The city center location seems small in area (150 m²) and medium in height (13 m), which might limit our total capacity as well as affecting our ability to host advanced climbers and offer ancillary services (e.g., restaurants). On the other hand, the **suburban location offers a very large space and lots of height**
 - The city center is likely to have a bigger population of young professionals, who have the disposable income to socialize on-site. However, the **suburban location may give access to more families with children** – with the potential to sell more classes and events (e.g., parties)
 - The lower population density of the suburbs is somewhat offset by the fact that the venue comes with **parking space**
 - The style of the building is not very relevant, although the suburban location might require some more investment to include an attractive restaurant / bar area

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BIG ROCK – QUESTION 3

Dimension: Math

Your client has learned from a customer survey that people have a high tendency to start climbing after they've tried it once. To leverage this finding, and attract a bigger audience, your client is considering implementing a marketing campaign. The idea is to rent a portable climbing wall to allow the general public to try wall climbing. The campaign will run on Saturday and Sunday and the details are in Exhibit 2.

How would you assess whether this is an effective marketing campaign?

ADDITIONAL INFORMATION

- If the candidate calculates their answer without asking for the information, ask them if there are any implicit assumptions they have made which could impact their answer.
 - Only one person can try the wall at a given moment in time
 - Assume an average utilization of 75% during the course of the weekend
 - Assume a new climber will drive a total of \$70 in gross profit on average, spread across multiple visits

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BIG ROCK – EXHIBIT 2

PORTABLE WALL CAMPAIGN DATA

Rent / day (\$)	250\$
Operating hours	10AM – 6PM
Duration of try-out	10min
# Operators	2
Operator hourly wage	\$30
Conversion to climbing at an indoor gym	50%
Chance to choose your gym	75%

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BIG ROCK – QUESTION 3

Dimension: Math

PROPOSED SOLUTION

- Return = Additional Profit – Investment
 - Additional Profit = # new climbers * average gross profit per new climber
 - # new climbers = # tried * % start climbing * % your gym
 - # tried = [operating hours * utilization] / time per try-out
 - # tried = [16hrs * 75%] / 10min
 - # tried = 72 tries
 - # new climbers = 72 tries * 50% * 75% = 27
 - Additional Profit = 27 climbers * \$70 = \$1,890
 - Investment = Rent + Wage
 - = \$500 + [2 operators * 8 hours * 2 days * \$30/hr]
 - = \$500 + \$960
 - = \$1,460
 - Return
 - = \$1,890 - \$1,460 = \$430 or a return on investment of ~30%
- **The return on investment of this marketing campaign is ~30%, suggesting it would be an effective campaign.**
 - We could consider alternative campaigns, or improve this campaign by decreasing its cost, increasing the rate at which climbing becomes a habit or increasing the likelihood that they choose our gym (e.g., small discount coupon for first session at our gym).

BIG ROCK – QUESTION 4

Dimension: Creativity

Your client asks how they can improve the return on investment for the climbing wall marketing campaign.

What ideas do you have to help increase the return on investment?

PROPOSED SOLUTION

- Decrease cost
 - Buy the portable wall
 - Change the organization so it can be manned with one person only, or used by two climbers at once
- Increase conversion
 - Take a picture of the user and email it for free, feeding the contact details into our CRM
 - Provide discount for first Big Rock gym session
 - Provide free coaching in the first session, if booked within two weeks
 - Provide package discount for signing up/pre-paying for 5 sessions

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BIG ROCK – QUESTION 5

Dimension: Synthesis

What recommendation would you put forward to your client on how best to implement their Big Rock business idea?

PROPOSED SOLUTION

- You have asked us to propose a location, price point, and marketing strategy in order to land the bank loan. We believe that we should:
 - Choose the suburban location, which offers a lower cost and a more suitable area
 - Pilot the portable climbing wall to acquire new clients, as it should generate a 30% ROI, and experiment with ways to increase the conversion rate from the activity
- Before we finalize our response to the bank, we need to look further into the venue layout, pricing of our offering, and develop full financial projections.

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