PROBLEM SOLVING WITH THE MCKINSEY METHOD
MCKINSEY PROBLEM SOLVING APPROACH

Business Need
- Competitive
- Organizational
- Financial
- Operational

Managing
- Team
- Client
- Self

Leadership
- Vision
- Inspiration
- Delegation

Analyzing
- Framing
- Designing
- Gathering
- Interpreting

Presenting
- Structure
- Buy-in

Implementation
- Dedication
- Reaction
- Completion
- Iteration

Focus of today’s discussion
FRAMING THE PROBLEM – KEY TIPS

• Start with structure, not data

• Break the problem into “MECE” parts (using issue trees)

• Form a sound hypothesis as to the answer

• Identify what conditions are necessary and sufficient to prove the hypothesis (using hypothesis trees)
Problem: How can the Acme Widget Company increase profits from its existing business lines?
FRAMING THE PROBLEM – ISSUE TREE EXAMPLE

How can Acme increase profits from existing business lines?
FRAMING THE PROBLEM – ISSUE TREE EXAMPLE

Which Business Lines?

- From Widgets
  - From Thrum-mats
    - From Grommets

How can Acme increase profits from existing business lines?
**FRAMING THE PROBLEM – ISSUE TREE EXAMPLE**

How can Acme increase profits from existing business lines?

- From Widgets
  - Increase Revenues
  - Decrease Expenses
- From Thrum-mats
- From Grommets

**Which Business Lines?**

**How?**
How can Acme increase profits from existing business lines?

- From Widgets
  - Increase Revenues
  - Decrease Expenses
    - Decrease raw material costs
    - Decrease labor costs
    - Decrease overhead costs
- From Thrum-mats
- From Grommets
How can Acme increase profits from existing business lines?

- From Widgets
  - Increase Revenues
  - Decrease Expenses
  - Decrease raw material costs
    - Negotiate wage concessions
    - Negotiate higher productivity quotas
    - Implement a labor-saving production process

- From Thrum-mats
- From Grommets
  - Decrease labor costs
  - Decrease overhead costs

- How?
Problem: How can I have more money at the end of each month without incurring debt?
ISSUE TREES VS. HYPOTHESIS TREES

• Issue trees identify all potential ideas
  • Issue trees ask “How” we could meet a desired outcome
  • Issue trees are excellent for organizing ideas in a “MECE” manner
  • Complete issue trees uncover all potential ideas

• Hypothesis trees focus and build up an argument or conclusion
  • Hypothesis trees ask “Why” we believe something to be true
  • Hypothesis trees are excellent for narrowing down investigation to essentials
  • Complete hypothesis trees build up a complete argument
  • Hypothesis trees focus on the “so what” of any data that is presented
Hypothesis: We can increase the profitability of the Acme Widget Company through a streamlined production process for thrum-mats.
FRAMING THE PROBLEM – HYPOTHESIS TREE EXAMPLE

We can increase thrum-mat profitability with the new production process.
We can increase thrum-mat profitability with the new production process.

It will reduce our costs.

Our organization can implement the necessary changes.

We can maintain product quality while implementing the process.

Why?
We can increase thrum-mat profitability with the new production process.

- It will reduce our costs.
- Our organization can implement the necessary changes.
- We can maintain product quality while implementing the process.

Why?

- The process does not require new facilities.
- The process does not require new skills.
Hypothesis: The best way for me to have more money at the end of the month is to spend less through comparison shopping.
DESIGNING THE ANALYSIS – KEY TIPS

• Lay out the issues in a written workplan by priority

• Identify the essential analyses necessary to draw conclusions on each issue

• Disregard analyses that are “interesting” but not essential to prove/disprove the hypothesis

• Avoid time-consuming analyses designed for more precision than necessary

• Begin each analysis with the end (specific end products and timing) in mind
### DESIGNING THE ANALYSIS – WORKPLAN EXAMPLE

<table>
<thead>
<tr>
<th>Issue/Hypothesis</th>
<th>Analyses</th>
<th>Data Sources</th>
<th>End Product</th>
<th>Responsibility</th>
<th>Due dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can we implement the new production process? <strong>Yes</strong></td>
<td>Technical specifications</td>
<td>Articles, interviews</td>
<td>Chart</td>
<td>Tom</td>
<td>3-Jun</td>
</tr>
<tr>
<td></td>
<td>List of facilities that meet new criteria</td>
<td>Facilities management, interviews</td>
<td>List</td>
<td>Tom</td>
<td>5-Jun</td>
</tr>
<tr>
<td>Does the process require new facilities? <strong>No</strong></td>
<td>Map of “facilities gap”</td>
<td>Facilities management, thrum-mat line supervisors, interviews</td>
<td>Chart</td>
<td>Belinda</td>
<td>7-Jun</td>
</tr>
<tr>
<td>If it does require new facilities, can we acquire them economically? <strong>Yes</strong></td>
<td>Sources of required facilities/equipment</td>
<td>Facilities management, Operations, trade publications</td>
<td>List</td>
<td>Belinda</td>
<td>7-Jun</td>
</tr>
<tr>
<td></td>
<td>Cost to fill gaps</td>
<td>Operations, contractors, interviews</td>
<td>Table</td>
<td>Belinda</td>
<td>10-Jun</td>
</tr>
<tr>
<td></td>
<td>Effect on project rate of return</td>
<td>Finance department, prior analysis</td>
<td>Spreadsheet</td>
<td>Terry</td>
<td>12-Jun</td>
</tr>
</tbody>
</table>
GATHERING THE DATA – KEY TIPS

• Use the workplan to focus the search

• Search the web and other public sources for essential facts

• Identify and interview experts to uncover hard-to-find facts and deeper insights

• Conduct primary research only if unavoidable
INTERPRETING THE RESULTS – KEY TIPS

• Look for the 80/20 opportunities
• Always ask, “what’s the so what?”
• Perform sanity checks
• Draw a chart for each insight
• Don’t make the facts fit your hypothesis
• Pull together “the story”
How can I have more money at the end of each month without incurring a debt?

Increase income
- Receive a windfall
- Receive more $ from investments
- Receive more $ from work

Reduce expenses
- Pay less for same amount of items
- Buy less

How? 
- Legally
- Illegally
- Work more hours
- Make more per hour

Buy lower quality items
- Shop around for specials

Buy more
- Food
- Clothing
- Utensils
- Entertainment
- Travel
- Other

Inherit
- Win lottery
- Overtime
- Additional job
- Higher job level
- Better paid industry
The **best way** for me to have more money at the end of the month is to spend less through comparison shopping.

- **Why?**
  - Comparison shopping is an interesting opportunity
  - Additional investments do not wipe out savings
  - Savings are feasible

- **Why?**
  - Changing my lifestyle is not an option

- **Why?**
  - Key spending categories have competition in new formats
  - New formats offer same quality at lower price
  - Opportunity cost of additional time taken up by comparison shopping
  - Savings in $

- **Which?**
  - Hypermarkets
  - Price Club
  - Home Depot
  - Auto mall

- To compensate for demanding workload, I need to invest in weekly visits to the spa and the opera
- My profession does not allow me to wear lower quality clothes
- To balance the junk food I eat during the week, I need at least one three-course meal on the weekend