

**The Anderson School of Management  
Management 420  
BUSINESS STRATEGY  
MBA Program, All Sections**

*Spring 2009*

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**Mailboxes for Professors**

Policy Area Office  
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Office Staff: Eric Cardenas

**Class Sessions**

**Section A**

Tu and Th, 10:00a – 11:30a  
Room: C301

**Section B**

Tu and Th, 1:00p - 2:30p  
Room: C301

**Section C**

Tu and Th, 3:00p – 4:30p  
Room: C301

**Section D**

Tu and Th, 3:00p – 4:30p  
Room: D301

**Section E**

Tu and Th, 1:00p – 2:30p  
Room: D301

**Professor Office Hours and Extra Help Sessions**

See Syllabus Section VIII

## **I. INTRODUCTION AND COURSE DESCRIPTION**

This course covers the fundamentals of both business-level and corporate-level strategy. The course is designed to introduce a wide variety of modern strategy frameworks and methodologies, including methods for assessing the strength of competition, for understanding relative bargaining power, for anticipating competitors' actions, for analyzing cost and value structures and their relevance to competition, and for assessing potential changes in the scope of the firm (diversification and vertical integration). Basic mastery of these tools has relevance to everyone seeking a career in business.

The perspective of Management 420 is unique among first year courses in that we adopt the perspective of the general manager who has overall responsibility for the performance of the firm or business unit within the firm. Such a manager needs to understand the basis for the current performance of the firm. The manager must also be able to identify changes (inside or outside the firm) that are most likely to affect future performance adversely or to provide opportunities for the firm to improve its performance. The manager must then develop a strategy that uses the company's position and capabilities to compete successfully in its new environment.

Of course, general managers need to understand the functional areas of the businesses they manage. Indeed, this why we shall frequently draw on functional expertise developed in other first-year courses. However, the general manager's role is not simply to oversee those functional areas, but rather to set a strategic direction for the firm and to coordinate the activities of the firm to help achieve its strategic goals. And it is this general perspective that we adopt in this course.

## **II. COURSE OBJECTIVES**

The objectives for the course are as follows:

- Developing and reinforcing a general management perspective
- Understanding the fundamental concepts in strategic management: strategy identification and evaluation, firm strategic analysis, the relationship of strategy and organization, industry analysis, competitor analysis, firm and industry evolution, strategic and organizational responses to external changes, corporate strategy (diversification strategy and managing the multi-business enterprise), and international strategy.
- Integrating knowledge gained in previous and concurrent core courses with a focus on understanding what part of that knowledge is most useful to general managers.
- Developing an awareness of the impact of external environmental forces and of strategic actions by the firm and its rivals on business and corporate strategy.
- Developing habits of orderly, analytical thinking and skill in reporting conclusions effectively in written and oral form.

### III. PEDAGOGICAL APPROACH

Management 420 develops theoretical and conceptual frameworks for strategic management and dedicates itself to apply these frameworks to simulated and real-world situations. These theories and frameworks are designed to help us better understand and analyze management problems and opportunities, and to develop solutions to deal with these situations. As such, each class session will usually have a “theory” reading which explains and develops the framework, and an application reading or exercise.

This case-based approach will require students to become familiar not only with the details of the general theoretical framework, but will also give the student an opportunity to learn about a number of industries. The analysis and discussion of different industry and company situations is the primary class activity. Preparation of the cases and participation in the discussion is critical to the learning and the success of the class as a whole.

### IV. REQUIRED READINGS AND HOW TO OBTAIN THEM

Readings and Case Questions: Specific readings and study questions for each class are listed in Section IX of this document, beginning on page 10. The main reading will typically be a business case. The syllabus provides study questions to be used for preparing each case in Section IX. The cases are typically accompanied by a selection from our textbook and/or another reading.

Textbook and Course Binder: We have arranged for a custom textbook to be published for UCLA MGMT 420 and be available at the Lu Valle Commons bookstore. The ISBN Number is for the custom book is 978-0-470-89892-5. This custom paperback textbook includes the entire text from: Saloner, Garth, Andrea Shepard, and Joel Podolny. 2001. Strategic Management. New York: John Wiley & Sons (abbreviated SSP), as well as additional pages from a textbook by Besanko, D., D. Dranove, M. Shanley, and S. Schaefer. 2007. Economics of Strategy, 4th Edition. **The custom book price is about \$60.00 and is \$24.00 less expensive than the SSP hardback book. We highly recommend that you take advantage of this low-cost option.**

**The UCLA Bookstore has made the following arrangements. You may purchase the book at Lu Valle Commons upon its arrival or order it in advance online. We expect the book to be available in the bookstore on March 13. To order the custom textbook online, go to the UCLA Bookstore website: [www.uclastore.com](http://www.uclastore.com), click on "Textbooks" in the left column, then click “Continue” on the following screen. You will now be on a "Find Your Textbooks" screen. Enter your Student ID, Last Name, and "Spring 2009" on the pull down menu. All the textbooks for your enrolled courses in the Spring quarter will be listed. Select the Saloner, Shepard, & Podolny book (Wiley Custom Book) for MGMT 420. Complete the order process by providing your credit card number. The credit card will be authorized, but not billed until the book has arrived. You can select “pick up” and have your order bagged and waiting for you at the store or have it shipped directly to any address (both at an additional charge). The online “pickup” option will be available through 3/28 and shipping options are available at any time but it is recommended that you buy the custom book as soon as possible to ensure enough copies are printed.**

If you choose not to order the custom book, please acquire Saloner, Garth, Andrea Shepard, and Joel Podolny. 2001. Strategic Management. New York: John Wiley & Sons. You will have to make arrangements to acquire the Besanko et al material as well from the library.

**In addition, the course binder containing the cases and readings is printed by Academic Publishing Services (APS).** The course binder for MGMT 420 can also be purchased at the Lu Valle Commons bookstore and will also be available on March 13.

Extending the Concepts: Although the textbook and course binder include carefully selected readings, many of you may wish to investigate specific issues in greater detail (either during the quarter, or later); therefore, under each topic, optional readings have been identified in a section entitled, “Extending the Concepts.” Copies of these readings will be on reserve in the library.

## V. EVALUATION AND GRADING

The class will be graded as follows:

5 “Pass/Fail” Group Memoranda	10%
3 “Graded” Group Memoranda	15%
Midterm	20%
Final Exam	30%
Participation	25%

### a. Group Memoranda

Eight times during the quarter, students must submit a two-page memorandum of analysis and recommendations. Each week, students must submit one memo with a few exceptions. Below is the list of choices students have for the eight memos. The memorandum should clearly and concisely answer the **bold-faced study question** for the relevant class session. Groups should consist of three to five people and reflect the thinking of everyone on the team (*hint: everyone should be prepared to defend his or her answer*). For group memoranda, the names of all group members should be on the memo. (*You may opt to write your own individual memo, if you wish. Include only the names of the students who crafted the memo.*) All appropriate citations should be made. Each two-page memorandum should be typed and double-spaced, 11-point font with one-inch margins. The two-page limit is for text only. You may attach as many numerical calculations, tables, graphs or diagrams as you wish in an appendix. In addition, please prepare a very short presentation for your answer. You may be asked to present this in class on the projector, or you may be asked to go to the white board to present your results. If called upon to present your memorandum, the presentation will be folded into the class participation grade for the group members. **Memoranda should be emailed to the TA for your class by 8:00 p.m. of the calendar day that immediately precedes the day of the class session.**

**Three times during the quarter, students must submit a group memorandum that will be graded. The bolded memos (below) will be graded.** The remaining five memoranda submitted by the students will be graded on a pass/fail basis. However, if a student is on the borderline for a grade in the course, the memoranda will be read carefully to see if the student receives the higher or lower overall grade in the course.

## Memos

### **Crown, Cork and Seal**

Cola Wars	or	Offshore Drilling
<b>Airborne</b>	<b>or</b>	<b>Samsung Electronics</b>
	3M	
Ryan Air	or	BsB v Sky
Xbox	or	TiVo
Patagonia	or	Disney

### **b. Midterm**

**The mid-term is scheduled for Session 11, Tuesday, May 5.** It will cover the material learned up to this point. It will be an in-class closed-book exam consisting of short answer and medium length case-like questions. Further details on the format of the mid-term will be made as the exam approaches. It is very important that you attend this class session. (The midterm must be taken on May 5 – no exceptions.)

### **c. Final Exam**

**The final exam, scheduled for Friday, June 5, will be a closed book, case-based exam.** The case for the final exam will be distributed on the last day of class (Tuesday, June 2). You may write as many notes as you want on your copy of the case, which you can bring to the exam. The examination questions will be handed out at the beginning of the exam on June 5. No laptops will be permitted in the examination room. **You must attend the exam on June 5—no exceptions. Please set aside your time from 1:00p-4:30p on June 5 for the final exam. Please make your summer travel plans accordingly.**

### **d. Participation and Attendance**

The value of this class lies as much in learning to apply the course concepts to real world scenarios as in the concepts themselves. Therefore, this course is case-based and its success depends heavily on the quality of class discussion. Preparation for class involves reading the materials and working through, in some detail, the case preparation classes in advance. Though the case discussion might not explicitly answer each and every study question, by preparing these questions, students will get the most learning out of the class. In assigning grades to class discussion the faculty will focus primarily on the *quality* of your input; however, it usually takes at least some quantity of participation for us to make that evaluation.

Good case discussions take the group farther than any one individual or study group was able to go on their own. Instructors will develop grades and scores based on the quantity and quality of your classroom contributions. In general, the instructors' criteria are:

- Are the points made relevant to the discussion?
- Do they go beyond a mere recitation of case facts, and are implications clearly drawn?

- Is there evidence of analysis rather than just the expression of opinion?
- Are the comments linked to those of others?
- Did the contribution further the section's understanding of the issues?
- Is the participant a good listener?

Students are expected to attend all classes. Because the case-discussion is a joint, real-time product of all the students, there is no good substitute for being in class. Thus there is no “make-up” for a missed case discussion. Because participation is impossible if one does not attend, each student will receive one “free” absence from the course if advance notice is given to the TA. Each additional absence for any reason will result in a 1.5% reduction in the overall grade (5% of participation points) for each class missed. If you will be absent or tardy for any reason, please notify the TA in advance.

Please note that Anderson School policy prohibits connection to the web during class sessions unless authorized by the instructor.

To help the faculty learn student names as quickly as possible, students should pick a specific seat in the second class session and remain in that seat for the quarter.

## **VI. PROFESSIONAL CONDUCT**

As a member of the UCLA Anderson academic community, the highest standards of academic behavior are expected of you. It is your responsibility to make yourself aware of the standards and adhere to them. These standards are discussed below, specifically regarding plagiarism, individual work, and team work.

*This discussion of academic honesty is not exhaustive, and there may be areas that remain unclear to you. If you are unsure whether some particular course of action is proper, it is your responsibility to consult with your professor and/or teaching assistant for clarification.*

Please take these guidelines seriously. When students are found to have violated academic standards, disciplinary action will result. Possible consequences include grade reduction, an F grade, a transcript notation, delay of graduation, or expulsion from the Anderson School.

### **Plagiarism**

Plagiarism occurs when you use another's intellectual property (words or ideas) and do not acknowledge that you have done so. Plagiarism is a very serious offense. If it is found that you have plagiarized -- deliberately or inadvertently -- you will face serious consequences, as indicated above. The best way to avoid plagiarism is to cite your sources - both within the body of your assignment and in a bibliography of sources you used at the end of your document.

Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material. Lack of such citation constitutes plagiarism.

For more information please visit: <http://libraries.mit.edu/tutorials/general/plagiarism.html>

## Individual Assignments

When you are asked to do *individual* work, you are expected to adhere to the following standards:

- Do not copy all or part of another student's work (with or without "permission").
- Do not allow another student to copy your work.
- Do not ask another person to write all or part of an assignment for you.
- Do not work together with another student in order to answer a question, or solve a problem, or write a computer program jointly.
- Do not consult or submit work (in whole or in part) that has been completed by other students in this or previous years for the same or substantially the same assignment. Do not consult or disseminate Powerpoint slides from MGMT 420 courses in previous years.
- Do not use print or internet materials directly related to a case/problem set unless explicitly authorized by the instructor.
- Do not use print or internet materials without explicit quotation and/or citation.
- Do not submit the same, or similar, piece of work for two or more subjects without the explicit approval of the two or more instructors involved.
- Do not disseminate your work or work of anyone else to anyone else in the class.
- Do not consult materials outside the course unless explicitly asked to in the instructions of the assignment.
- Do not use the assistance of former Anderson students, students at other business schools, or friends and relatives outside of Anderson.

Please note that many classes will require a combination of team work and individual work. Be sure that you follow all the guidelines for individual work when a faculty member identifies an assignment as an individual one.

## Team Assignments

In this course, the primary form of teamwork is in the form of the a) study groups for case preparation and b) group memos and group paper. When you are asked to **work in teams** collaboration is expected and each team member must contribute substantially to the deliverable.

- Each team member must make a substantial contribution to the assignment. It is not, for example, acceptable to divide the assignments amongst the team members (e.g., one person does one case and another does the next), though the team may divide the work of any one assignment to complete it as they deem appropriate.
- The team may not collaborate with other current or former students outside of the team, or consult the work of current or former students.
- The team may not use materials outside the course unless explicitly asked to in the instructions of the assignment.

*If there is any question about the rules for a particular assignment the student should check with the instructor.*

## Professional Standards

Professional Standards provide a guideline for professional behavior by students, and faculty inside the classroom. The Anderson School is committed to creating an environment in which every individual can work and study in a culture of mutual respect. When making individual decisions we must keep in mind the interests of the many other stakeholders.

Consistent with the general goal of mutual respect, faculty, students, and staff are reminded to demonstrate:

**Attending the class.** Each class benefits from the attendance and participation of all students. Your grade for participation will be affected by absences. You should sit in the assigned seat, if relevant, and display a legible name card at all times.

**Arriving on time.** Late arrivals are disruptive to both lectures and class discussion, and show disrespect to those who are on time.

**Minimizing disruptions.** All cell phones and pagers should be turned off during class. You should not leave and re-enter the class. You should avoid engaging in side conversations after class has begun.

**Focusing on the class.** Laptops and other electronic devices should be turned off during class.

**Being prepared for class.** You should be ready to discuss any assigned readings and to answer any assigned questions for each day's class, including being ready to open a case assigned for that day.

**Respect.** You should act respectfully toward all class participants.

**Prepare using only class materials.** Before a case is analyzed in class, you should neither read an analysis of the cases nor discuss it with students who have previously discussed it in class (either in a previous year or in a different course or section). Similarly, you should not share the notes handed in class with another student who may take the course at some later time. If you are in violation of this policy, or know of someone who is, please discuss it with the professor.

These points offer specific illustrative examples to encourage broader reflection of each individual's impact on the UCLA Anderson community. For more guidance on these standards, please refer to the Code of Ethics, the UCLA Honor Code, or contact Susan Corley in the MBA Student Services Office at UCLA Anderson (825-7686).

*Upholding these expectations and the standards upon which they are based is a shared right and responsibility for all faculty, students and staff at the UCLA Anderson School. As a learning and professional community, we seek and deserve no less.*

## VII. STUDY GROUPS

We strongly encourage students to meet regularly in a study group to discuss each case before class meets, even when you are not writing a case memo. Working in groups will give you a

chance to learn from your colleagues. It also provides an opportunity to discuss ideas in a setting approximating the management teams typically charged with these tasks. Go Bruins!

### **VIII. PROFESSOR OFFICE HOURS**

The Professors will hold office hours and extra help sessions. The extra help sessions will be held a few times throughout the quarter and are designed to be informal settings in which students facing difficulty with concepts can ask questions in a relaxed environment. In these sessions, basic questions will be tackled first; only after all these questions are answered will more advanced questions and topics be addressed.

**Professor Snyder** (OH = Office Hours in D506; EH = Extra Help Session)

OH: Tuesdays, 5-6:30pm and Thursdays, 5-6:30pm

EH: Friday, April 10, 10a-11a, C315

EH: Friday, May 1, 10a-11a D301(Review Practice Midterm Questions)

EH: Friday, May 29, 10a-11a, D301

**Professor Subbu** (OH = Office Hours in D519; EH = Extra Help Session)

OH: Tuesdays, 5-7p and Thursdays, 5-6p

EH: Friday, April 10, 10a-11a, C301

EH: Friday, May 1, 9:30a-10:30a, C315 (Review Practice Midterm Questions)

EH: Friday, May 29, 9a-10a, D313

## IX: COURSE GENERAL OUTLINE

<u>Class</u>	<u>Date</u>	<u>Session</u>	<u>Case</u>	<u>General Concept</u>
1	March 31	Introduction	24-Hour Fitness	Introduction
2	April 2	Industry Analysis	Crown, Cork and Seal	External Environment
3	April 7	Value Chain Analysis	Cola Wars: Coke and Pepsi	
4	April 9	Demand and Supply Dynamics	Offshore Drilling	
5	April 14	Pause—From Industry to Strategy		
6	April 16	Cost Advantage	Wal-Mart	Sources of Competitive Advantage
7	April 21	Niche Positioning	Airborne	
8	April 23	Differentiation Advantage	Samsung Electronics	
9	April 28	Organizational Strategy	3M	
10	April 30	Review: Sources of Competitive Advantage		
11	<b>May 5</b>	<b>MIDTERM</b>		
12	May 7	Entry Games	Ryan Air	Competitive Dynamics
13	May 12	Pricing Games	Simulation Game	
14	May 14	Wars of Attrition	BSB v. Sky	
15	May 19	Standards Setting and DSIR	Xbox	
16	May 21	Technology Strategy	TiVo	
17	May 26	Non-Market Strategy	Patagonia	Corporate and Non-Market Strategy
18	May 28	Diversification	Disney	
19	June 2	Wrap		
20	<b>June 5 (FRIDAY)</b>	<b>FINAL EXAM</b>		

## **X: COURSE GENERAL OUTLINE**

### **PART I: FOUNDATIONS OF STRATEGIC ANALYSIS**

#### **Class 1 : Introduction: Setting the Stage**

Case: 24-Hour Fitness (HBS 9-706-404)

Readings: SSP, Chapter 1

Porter, M. E., "What Is Strategy?" *HBR*, Nov-Dec 1996. (Use HBR OnPoint Edition #4134, Feb 2000.)

#### Study Questions:

1. Is the health club industry an attractive industry in which to compete? Why or why not?
2. Does 24 Hour Fitness have an effective strategy?
3. What advice can you offer Mark Mastrov? Should he pursue geographic expansion? Make an acquisition? Take some other action?

Key concepts introduced: Introduction to strategic management, Value creation, Value capture

#### Extending the Concepts:

Hambrick, D. and J. Fredrickson, "Are You Sure You Have a Strategy?" *Academy of Management Executive*, Nov 2001.

Ghemawat, P., "Sustainable Advantage," *Harvard Business Review*, Sep-Oct 1986.

Grant, R., Chapter 1 "The Concept of Strategy," *Contemporary Strategy Analysis* (4th edition), Blackwell Business.

Rumelt, R., "Note on Strategy Evaluation." (POL 1999-1.3).

## **Class 2: Industry Analysis Basics: The Five Forces and PIE**

Case: Crown, Cork and Seal in 1989 (HBS 9-793-035)

Readings: SSP, Chapter 6; Chapter 9 (pp. 215-230 only).

Grant, Robert M. *Contemporary Strategic Analysis, 5<sup>th</sup> Ed*, Blackwell Business, Chapter 3

### **GRADED MEMORANDUM DUE**

**(Please answer Study Question #1; see Section V.A., pp. 4-5 of syllabus for guidelines)**

#### Study Questions:

- 1. Using Grant-Chapter 3, SSP-Chapter 6, and SSP-Chapter 9 (pp. 215-230 only), perform an industry analysis of the U.S. metal can industry in 1989. Define the industry. Analyze the effects of buyer and supplier power, competition, barriers to entry, complements and substitutes for the industry. Summarize your assessment of the industry's attractiveness. Is this an industry in which the average metal can company can expect to earn an attractive return over the long run?**
2. What has been Crown Cork's strategy under Connelly? How does its strategy respond to (fail to respond to) the challenges and opportunities in its external environment?

Key concepts introduced: Industry analysis, Five (six) forces, Potential Industry Earnings (PIE), Bargaining power

#### Extending the Concepts:

Ghemawat, P. Chapter 2 "Mapping the Business Landscape" and Chapter 4 "Anticipating Competitive and Cooperative Dynamics," *Strategy and the Business Landscape*, Addison Wesley Longman.

Grant, R. Chapter 4 "Intra-Industry Analysis," *Contemporary Strategic Analysis* (4th edition), Blackwell Business.

Rumelt, R. "Numbers 101: Bargaining and BATNA." (POL 2000-10).

### **Class 3: Industry Analysis Basics: Value Chain Analysis**

Case: Cola Wars Continue: Coke and Pepsi in the 21<sup>st</sup> Century (HBS 9-702-442)

Readings: SSP, Chapter 10 (pp. 239-263; no appendix)

#### Study Questions:

1. What aspects of industry structure make the concentrate producers so profitable?
2. Compare the economics of the concentrate business to the bottling business. What is the profitability so different?
3. How do Coke and Pepsi manage the value chain?
4. **How has competition between Coke and Pepsi affected industry profits (value capture) in each part of the value chain?**
5. In the wake of flattening demand and the growth of non-carbonated drinks, how can Coke and Pepsi maintain their profitability?

Key concepts introduced: Value chain management

#### Extending the Concepts:

Porter, Michael. *Competitive Advantage*. 1985. Free Press: New York.

Fine, Charles H. *Clockspeed: Winning Industry Control in the Age of Temporary Advantage*. 1999. Basic Books: New York.

#### **Class 4: Industry Analysis Basics: Demand and Supply Dynamics (HBS 9-799-111)**

Case: Offshore Drilling (HBS 9-799-111)

Readings: Rumelt, “Note on Strategic Cost Dynamics,” UCLA Anderson School Note

Begin Reading: Besanko, Dranove, Shanley and Schaefer, Chapter 11, “Strategic Positioning for Competitive Advantage,” *The Economics of Strategy*, 3<sup>rd</sup> Edition, Wiley, pp. 358-408. (Found in the custom book—read about half of this.)

#### Study Questions:

1. Why does the offshore drilling industry experience such severe cycles in rig dayrates and profitability? What determines how low prices fall in the downturns? What determines how high they rise in upturns?
2. **Derive the industry supply curve. What does the industry supply curve look like? Draw it out. If you owned a fully-utilized fleet of jack-up rigs in the Gulf of Mexico, how would you decide whether and when to stack some of your rigs as oil prices and rig dayrates fall? Be specific and use numbers wherever possible.**
3. Is the offshore drilling industry attractive? Is it becoming more or less attractive? What segments are the most and least attractive? Why?

Key concepts: supply curve; fixed costs v. marginal costs; cyclicity

#### Extending the Concepts:

#### **Class 5: Pause: From Industry to Strategy**

Lecture: Foundations of Strategy

Readings: SSP, Chapter 2; Chapter 3, pp. 55-62

#### Study Questions:

1. Consider the cases we have covered. Identify the strategies of the key firms involved.

## **PART II: CLASSICAL STRATEGIC ANALYSIS: SOURCES OF COMPETITIVE ADVANTAGE**

### **Class 6: Sources of Competitive Advantage I: Low-Cost**

Case: Wal-Mart Stores Discount Operations (9-387-018)  
Wal-Mart-Tables.xls spreadsheet (to be distributed)

Readings: Grant, Robert M. *Contemporary Strategic Analysis, 5<sup>th</sup> Ed*, Chapter 8.  
Rumelt, "Numbers 101: Margins, Markups and Break-Evens," UCLA Anderson School Note.

#### **GRADED MEMORANDUM DUE**

**(Please answer Study Question #2; see Section V.A., pp. 4-5 of syllabus for guidelines.)**

#### Study Questions:

1. How has Wal-Mart been able to outperform its competitors?
2. **Based on the information in the case, prepare an analysis of Wal-Mart's costs relative to a more typical discount retailer. Specifically, make a table comparing Wal-Mart's cost structure with the industry average (as reflected by the data in Exhibit 3), and list your assumptions. Why does Wal-Mart have superior profitability? (Your group memorandum should consist of your table and brief conclusion drawn from your analysis.)**
3. How do Wal-Mart's retail prices compare to those of its competitors?
4. Will Wal-Mart be able to sustain its success in the United States?
5. To what extent can Wal-Mart extend its competitive advantage internationally?

Key concepts introduced: Strategic cost analysis, Cost drivers

#### Extending the Concepts:

Postrel, Steve, Notes on Strategic Advantage, mimeo, 2007.

Porter, M., Chapter 3: "Cost Advantage," *Competitive Strategy*, Free Press, 1985.

## **Class 7: Sources of Competitive Advantage II: Niche Positioning**

Case: Airborne (A) (HBS 9-798-070)

Readings: SSP, pp. 39-56

### **GRADED MEMORANDUM (OPTION #1) DUE**

**(Please answer Study Question #3; see Section V.A., pp. 4-5 of syllabus for guidelines. Please choose this Airborne Assignment or the Samsung Assignment in the next class period. Choose only one memo to submit for a grade.)**

#### Study Questions:

1. How and why has the express mail industry structure evolved in recent years?
2. How have the changes affected small competitors?
3. **How has Airborne survived, and recently prospered in its industry? What are the sources of Airborne's competitive advantage? Begin with an analysis of cost. [Note: Use the data in Exhibit 3 of the case and in the text to argue your position on the basis of a comparison between the cost of shipping an overnight letter on Airborne and FedEx. Specifically, using the information given and your understanding of what influences each cost item, estimate each item that affects the cost for Airborne and compare it to the FedEx cost.] Then, analyze how the results of this analysis fit into the overall competitive advantage of Airborne.**
4. Is Airborne's position sustainable? What must Robert Brazier, Airborne's President and COO, do in order to strengthen the company's position?

Key Concepts: Niche Strategy; Cost Drivers

#### Extending the Concepts

Porter, Michael. *Competitive Advantage*, 1985. Free Press. New York.

## **Class 8: Sources of Competitive Advantage III: Differentiation**

Case: Samsung Electronics (9-705-508)

Readings: Rumelt, “Numbers 101: Units and Units Conversion,” UCLA Anderson School Note.

Finish Reading: Besanko, Dranove, Shanley and Schaefer, Chapter 11, “Strategic Positioning for Competitive Advantage,” *The Economics of Strategy*, 3<sup>rd</sup> Edition, Wiley, pp. 358-408. (Found in the custom book—read the remaining half.)

### **GRADED MEMORANDUM (OPTION #2) DUE**

**(Please answer Study Question #2 and #3; see Section V.B., pp. 4-5 of syllabus for guidelines.**

**Please choose this Assignment or the Airborne Assignment in the previous class period.**

**Choose only one memo to submit for a grade.)**

#### Study Questions:

1. What kind of competitive advantage are the Chinese entrants seeking? How close are they to achieving that advantage?
2. **Is Samsung’s competitive advantage built around being low-cost, or being differentiated? Or both? For each basis of competitive advantage (low-cost or differentiation) identified above, discuss the underlying sources that contribute to this advantage. Using data from the case and the exhibits, quantify your answers to the extent possible.**
3. **Based on the above analysis, what recommendation would you make to Chairman Lee regarding Samsung’s response to the threat of large-scale Chinese entry?**

Key concepts introduced: Willingness to Pay (WTP); Differentiation; Dual Advantage

#### Extending the Concepts:

Ghemawat, P., “Threats to Added Value,” *Strategy and the Business Landscape*, Addison Wesley Longman, 2001, pp. 84-105.

Grant, R., Chapter 9: “Differentiation Advantage,” *Contemporary Strategy Analysis* (4th edition), Blackwell Business.

Oster, S., Chapter 14: “Product Positioning and Strategic Marketing,” *Modern Competitive Analysis* (3rd edition), Oxford University Press.

## **Class 9: Organizational Strategy**

Case: 3M (HBS 9-395-016)

Readings: SSP, Chapter 5

“Connect and Develop: Inside Procter & Gamble's New Model for Innovation”  
by Larry Huston and Nabil Sakkab (HBR, March 2006).

### Study Questions:

1. What are the distinctive features of 3M’s organizational culture?
2. What policies and practices support exploration at 3M?
3. **Are there some types of markets or products in which you would expect 3M to be more likely to be successful? Are there other types of markets or products in which you would expect 3M to be less successful? Why?**
4. Consider the policies adopted by DeSimone. What is the likely impact of these policies on innovation at 3M?

Key concepts introduced: VSR, Exploration vs. Exploitation

### Extending the Concepts:

March, James. "Exploration and Exploitation in Organized Learning," *Organizational Science* (Vol. 2, No. 1, February 1991).

Benner, Mary, and Michael L. Tushman, "Exploitation, Exploration, and Process Management: The Productivity Dilemma Revisited," *Academy of Management Review* 28 (2003): 238–256

## Class 10: Building Competitive Advantage: A Review

## Class 11: MIDTERM

### PART III: COMPETITIVE DYNAMICS

## Class 12: Competitive Dynamics I: Entry Games

Case: Dogfight Over Europe: Ryan Air (A) (9-700-115)

Readings: SSP, pp. 231-238; 416-421  
Garicano, Luis, "Game Theory: How to Make it Pay," *Mastering Strategy*.

#### Study Questions:

1. Is the Ireland-UK air travel market attractive?
2. What is Ryan Air's strategy?
3. Can Ryan Air make money at the launch fare price of £98?
4. **How would you expect Ryan Air's rivals to respond? Why? Consider three types of responses: a) BA and Aer Lingus massively retaliate, matching Ryan Air's fares across the board to all customers; b) BA and Aer Lingus partially retaliate, matching Ryan Air fares for only the 100,000 customers likely to switch to Ryan Air (through sophisticated targeted marketing and pricing), and c) BA and Aer Lingus accommodate Ryan Air's entry and do not change prices. In light of your answer, do you think that Ryan Air's strategy will be successful?**

Key Concepts: Entry Deterrence

#### Extending the Concepts:

Biggadike, E. R., *Corporate Diversification: Entry Strategy and Performance*. Cambridge, MA, Harvard University Press, 1976.

Hammond, J. S., Keeney, R. L., & Raiffa, H., "The Hidden Traps in Decision Making," *Harvard Business Review*, OnPoint Edition, Nov 15, 2000.

Kahneman, D. and D. Lovallo, "Timid Choices and Bold Forecasts - A Cognitive Perspective on Risk-taking." *Management Science* vol. 39, 1993, pp. 17-31.

Oster, S., Chapter 4 “Understanding the Impediments to Entry,” *Modern Competitive Analysis* (3rd edition), Oxford University Press.

Porter, M., Chapter 14: “Defensive Strategy,” and Chapter 15: “Attacking an Industry Leader,” *Competitive Strategy*, Free Press, 1985.

### **Class 13: Competitive Dynamics II: Pricing Games**

Lecture: Game Theory Basics  
Catch-Up and Group Work

Readings: SSP, Appendix A3, A4 (pp. 410-416)  
Garicano, Luis and Robert Gertner, “The Dynamics of Price Competition,”  
*Mastering Strategy*.

Catch-Up Day  
In-Class Strategy Simulation Exercise

Key Concepts: Equilibria in strategic games; pricing strategies

#### Extending the Concepts:

Brandenburger, Adam and Barry J. Nalebuff. “The Right Game: Use Game Theory to Shape Strategy,” *Harvard Business Review*, 1995.

Saloner, Garth. "Game Theory and Strategic Management: Applications, Contributions, and Limitations," Chapter 5 in *Fundamental Issues in Strategy*, R. Rumelt, D. Schendel, and D. Teece eds., Boston: Harvard Business School Press, 1994, 155-194.

Saloner, Garth, "Modeling, Game Theory, and Strategic Management," *Strategic Management Journal*, 12 (Winter 1991), 119-36.

## **Class 14: Competitive Dynamics III: Wars of Attrition**

Case: British Satellite Broadcasting vs. Sky Television (HBS 9-794-031)

Readings: Lieberman, M. and D. Montgomery, "First-Mover Advantages," *Strategic Management Journal*, Vol. 9, Summer 1988.

Chevalier, Judy, "When it Can be Good to Burn your Boat," *Mastering Strategy*.

### Study Questions:

1. Evaluate the structure of this industry in terms of its attractiveness to incumbents.
- 2. How do you expect competition to look in this industry in the long-run? Can the two rivals survive in this industry? Why? (You can use the financial analysis in Exhibit 6 or 7 to guide your thinking. Think about how you might augment this to determine how many firms will survive in the industry.) Assume an 18% discount rate and that all dish revenue and costs are already included in the financials provided in the case.**
3. Choose one of the companies and analyze its actions, considering the way it tries to affect what its rival will do.
- 4. Briefly describe the game between BSB and Sky in October, 1990. Prepare a matrix that quantifies each company's payoff if each has choices between "fight" and "exit". What are the implications of your analysis for the management of BSB?**

Key Concepts: First-mover (dis)advantages, Competitor assessment, Endogenous sunk costs

### Extending the Concepts:

Brandenberger, A. and B. Nalebuff, *Co-opetition*, Doubleday, 1996.

Dixit, A., and B. Nalebuff. *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*, W.W. Norton, 1991.

Dixit, A., and S. Skeath. *Games of Strategy*. W.W. Norton, 1999.

Gertner, R. and Knez, M., "Game Theory in the Real World," in *Mastering Strategy*, pp. 250-255.

Oster, S., Chapter 13 "Understanding Rivalry: Game Theory," *Modern Competitive Analysis* (3rd edition), Oxford University Press, pp 245-260.

## **Class 15: Competitive Dynamics IV: Standards Setting and DSIR**

Case: Microsoft Xbox: Changing the Game (HBS 9-707-501)

Readings: SSP, Chapter 12

### Study Questions:

1. Evaluate NEC's and Sega's strategies for challenging Nintendo in video games.
2. Evaluate Nintendo's decision to delay introducing a 16-bit video game system.
3. How attractive is the videogame console industry in 1999?
4. How do game publishers increase the size of PIE in the industry?
5. **Should MS allow any developer to publish games? Should it charge royalties to developers? Who should produce the Xbox machines?**
6. Imagine you are Michael Dell in September 1999: do you take the Xbox deal?

Key Concepts: Demand Side Increasing Returns (network effects), Switching costs

### Extending the Concepts:

Katz, M.L. and C. Shapiro, "Systems Competition and Network Effects," *Journal of Economic Perspectives*, Spring 1994.

Shapiro, C. and H. Varian, Chapter 7, "Networks and Positive Feedback," *Information Rules*, Harvard Business School Press, 1999, pp. 173-225.

Shapiro, C. and H. Varian, "The Art of Standards Wars," *California Management Review*, Winter 1999.

## **Class 16: Competitive Dynamics V: Technological Discontinuities**

Case: TiVo 2007: DVRs and Beyond (HBS 9-708-401)

Readings: SSP, Chapter 11

Bower, Joseph and Clayton M. Christensen. 1995. "Disruptive Technologies: Catching the Wave," *Harvard Business Review*, (HBS 95103)

### Study Questions:

1. Assess TiVo's historical strategy. What are the key achievements? What are the key (current) weaknesses?
2. Evaluate Tom Roger's vision for the future of TiVo. Will it succeed? Why? Why not?
3. **Tom Roger's strategic options going forward: which of the following would you recommend that he follow? Explain and justify your answer with a comprehensive strategic analysis.**
  - a. **Stay the course: Do whatever it takes to make the Comcast deal succeed and continue the standalone business in parallel.**
  - b. **Be the Microsoft of DVRs: Drop the standalone hardware part of the business and focus on developing the best interactive TV software platform that would run on OEM-produced hardware.**
  - c. **Be the Google of interactive TV: Develop the best advertising platform (tagging, Product Watch, Product placement)**
  - d. **Be the next Nielsen: Develop the best possible ARM (Audience Research and Measurement) business**

Key concepts: Disruptive technologies, Technology strategy, Appropriability

### Extending the Concepts:

Grant, R., Chapter 11 "Technology-Based Industries and the Management of Innovation," *Contemporary Strategy Analysis* (4th edition), Blackwell Business

Afuah, A., Chapter 2 "Models of Innovation," *Innovation Management*, Oxford University Press, 1998.

Scotchmer, S., Chapter 3 "A Primer for Nonlawyers on Intellectual Property," *Innovation and Incentives*, MIT Press, 2004.

## PART IV: NON-MARKET AND CORPORATE STRATEGY

### Class 17: Non-Market Strategy: Environmental Positioning

Case: Patagonia (HBS 9-703-035)

Readings: Porter, M. and Kramer, M., "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility", *Harvard Business Review*, Dec 2006  
Gertner, R. and M. J. Knez, "Vertical Integration: Make or Buy Decisions," in *Mastering Strategy*, pp. 146-150.

#### Study Questions:

1. How important to Patagonia's overall corporate strategy is its environmental position? Is it a driver of profits, a tax on the business, or irrelevant?
2. **Why does Patagonia choose to own its own stores and the fabric lab? Why does it choose to subcontract production of its products? Be specific about how the environmental position influences these choices.**
3. How would Patagonia's strategy differ if it was a publicly held company?

Key Concepts: Non-Market Strategy, Vertical Integration

#### Extending the Concepts:

Vogel, D. Chapters 1&2 "The Market for Virtue: *The Potential and Limits of Corporate Social Responsibility*" Brookings Institute Press, 2005

Reinhardt, F. "Environmental Product Differentiation: Implications for Corporate Strategy." *California Management Review*. 40(4): 43-73. Summer 1998.

Ginsberg, J. & P. Bloom "Choosing the Right Green Marketing Strategy." *Sloan Management Review*. 46(1): 79-84. 2004.

Grant, R., Chapter 6: "Organization Structure and Management Systems," Chapter 13: "Vertical Integration and the Scope of the Firm," Chapter 14: "Global Strategies and the Multinational Corporation," Chapter 15: "Diversification Strategy," and Chapter 16: "Managing the Multibusiness Corporation," *Contemporary Strategy Analysis* (4<sup>th</sup> edition), Blackwell Business.

## **Class 18: Managing a Diversified Firm**

Case: The Walt Disney Co.: The Entertainment King (HBS 9-701-035)

Readings: SSP, Chapter 14

Morck, R. and Yeung, B., “When Synergy Creates Real Value,” in *Mastering Strategy*, pp. 129-134.

### Study Questions:

1. Evaluate Disney's corporate strategy during the Walt Disney era. What role did Disney's array of businesses play in its success? Which divisions provided greater “synergy” than others? Why?
2. In what areas, and by what mechanisms, have decisions by Eisner and top management from the 1980s onward created value for Disney shareholders? Where have they failed to create value? (Be as specific and quantitative as possible, based on the financial data in the case.)
3. What is your assessment of Eisner’s performance at Disney up to 2002? (Be sure to specify your evaluation criteria.) In your opinion, should the board have removed him as CEO of the company at that time?
4. **As of the end of the case, should Disney divest any of its divisions? If so, which ones? What should be the criteria for deciding whether a division should be divested? Be as specific as possible—and be more specific than “synergy.” What kind of synergy, or what other criteria?**

Key Concepts: Diversification, Scope of the Firm, Synergies

Extending the Concepts:

Besanko, D., D. Dranove and M. Shanley, Chapter 14: “Agency and Performance Measurement” and Chapter 15: “Incentives in Firms,” *Economics of Strategy* (3<sup>rd</sup> edition), Wiley.

Collis, D. and C. Montgomery, Chapter 3: “Scale and Scope within an Industry” and Chapter 4: “Diversified Expansion,” *Corporate Strategy: A Resource-Based Approach*, Irwin, 1997.

Oster, S., Chapter 9: “Organizational Structure and Strategic Planning,” Chapter 10: “Corporate Diversification” and Chapter 11: “Vertical Linkages,” *Modern Competitive Analysis* (3<sup>rd</sup> edition), Oxford University Press, 1999.

Williamson, O., “The Theory of the Firm as Governance Structure: From Choice to Contract,” *Journal of Economic Perspectives*, Summer 2002.

## **Class 19: Wrap-Up**

Review your notes.

## **Class 20: Final Examination (June 5)**