

The Anderson School of Management  
Management 420  
**BUSINESS STRATEGY**  
MBA Program, Sections 3 & 4

*Spring 2012*

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**Professor**

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**Teaching Assistants**

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**Class Sessions**

**Section 3**

Tu/Th, 8:00a – 9:30a  
Room: D301

**Section 4**

Tu/Th, 9:45a - 11:15a  
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 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 your core 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, industry analysis, competitor analysis, firm and industry evolution, strategic responses to external changes, corporate strategy (diversification strategy and managing the multi-business enterprise), and non-market 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 applying 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.

The class sessions are organized into four modules. In the first module we will explore the nature of strategy and the forces of competition that operate at the industry level. The second module explores generic strategies to achieve competitive advantage and provides some practice quantifying these advantages. The third module examines strategic management in dynamic environments, exploring network effects, competitive dynamics and game theory. The fourth module explores cases on advanced topics such as “corporate strategy” where we shift our focus to issues such as managing diversified firms.

#### IV. REQUIRED READINGS

Specific readings and study questions for each class are listed in Sections IX and X of this document, beginning on page 9. The main reading will typically be a business case. The syllabus also provides study questions to be used for preparing each case. The cases are typically accompanied by a textbook chapter and/or other readings. A few optional teaching notes are provided to review some basic quantitative, economic and accounting concepts.

Course Binder: The course binder containing the cases and readings is printed by Academic Publishing Services (APS) and can be purchased at the Lu Valle Commons bookstore (starting March 15). If you prefer an electronic version, you may buy an e-course pack available online at [http://www.study.net/r\\_mat.asp?crs\\_id=30024530](http://www.study.net/r_mat.asp?crs_id=30024530).

Textbook: We will be using a custom text for the course. 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 chapters from a textbook by Grant, R., Contemporary Strategy Analysis, Seventh Edition. The custom text is priced around \$65 and is available for purchase from the Lu Valle Commons bookstore on campus. You may also order it online at [www.uclastore.com](http://www.uclastore.com).

Extending the Concepts: Although the course binder includes 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”.

#### V. EVALUATION AND GRADING

The class will be graded as follows:

3 Graded Group Memoranda	15%
3 “Pass/Fail” Group Memoranda	5%
Midterm	25%
Final Exam	40%
Participation	15%

### a. Group Memoranda

Six times during the quarter, students must submit a two-page memorandum of analysis and recommendations concerning a case to be discussed in class. The memorandum should clearly and concisely answer the **bold-faced study question** for the relevant class session. Groups should consist of four to six people and reflect the thinking of everyone on the team (*everyone should be prepared to defend his or her answer*). 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 up to two additional pages of numerical calculations, tables, graphs or diagrams as you wish in an appendix. You may be asked to present your analysis 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. ***Assignments are due in the my.anderson course digital drop box at 9pm the evening before the case is being discussed.***

**Out of these six group memoranda, three will be graded (represented by the bolded memos below).** The remaining three will be evaluated on a pass/fail basis. If the student is on the borderline for a grade in the course, all memos will be read carefully to see if the student receives a higher or lower overall grade for the course.

#### Timeline of Memorandum Submission

**Crown, Cork and Seal (Week 1)**  
Cola Wars (or) Offshore Drilling (Week 2)  
**Wal-Mart (Week 3)**  
**Samsung Electronics (or) Matching Dell (Week 4)**  
Ryan Air (or) Airbus vs. Boeing (Week 6/7)  
Microsoft's Search (or) Toys R Us (Week 9/10)

### b. Midterm

**The mid-term exam is scheduled for Session 11, Tuesday, May 8.** 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.

### c. Final Exam

**The final exam is scheduled for Friday, June 8.** You must take the exam on this date, so 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?

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. 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 me learn student names as quickly as possible, please 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.

## 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

I 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

I will be holding regular office hours through the quarter. A few times in the quarter, I will also hold Extra Help sessions. These 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. Attending these Extra Help sessions is completely optional.

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

OH: Tuesdays and Thursdays, 11:30a – 12:45p

EH: Schedule to be announced

## IX: OUTLINE OF MGMT 420

<u>Class</u>	<u>Date</u>	<u>Session</u>	<u>Case</u>	<u>General Concept</u>
1	April 3	Introduction	Equity Bank	Strategy Definition
2	April 5	Industry Analysis	Crown, Cork and Seal	External Environment
3	April 10	Value Chain Analysis	Cola Wars: Coke and Pepsi	
4	April 12	Demand and Supply Dynamics	Offshore Drilling	
5	April 17	Transition—From Industry to Strategy		
6	April 19	Cost Advantage	Wal-Mart	Sources of Competitive Advantage
7	April 24	Differentiation Advantage	Samsung Electronics	
8	April 26	Niche Advantage	Matching Dell	
9	May 1	Corporate Culture	Kent Thiry and DaVita	
10	May 3	Review: Sources of Competitive Advantage		
11	<b>May 8</b>	<b>MIDTERM</b>		
12	May 10	Entry Games	Ryan Air	Competitive Dynamics
13	May 15	Pricing Games	Simulation Game	
14	May 17	Strategic Interactions	Airbus vs. Boeing	
15	May 22	Managing Complementors	Xbox	
16	May 24	Demand Side Increasing Returns	Microsoft's Search	
17	May 29	Non-Market Strategy	Toys R Us	Corporate and Non-Market Strategy
18	May 31	Diversification	Disney	
19	June 5	Wrap		
20	<b>June 8 (FRIDAY)</b>	<b>FINAL EXAM</b>		

## X: DETAILED COURSE OUTLINE

### PART I: FOUNDATIONS OF STRATEGIC ANALYSIS

#### Class 1 : Introduction; Strategy Definition

**Case:** Equity Bank (Stanford GSB #E-260)

#### **Readings:**

- Saloner, Shepard and Podolny, “Introduction”, *Strategic Management*, Chapter 1
- Saloner, Shepard and Podolny, “Business Strategy”, *Strategic Management*, Chapter 2

#### **Study Questions:**

1. Write a one-sentence statement that summarizes Equity Bank’s strategy.
2. What do you think of Equity Bank’s strategy? Are their functional policies consistent with their strategy?
3. Is Equity Bank’s strategy well-suited to the competitive environment that it faces? Why/Why not? Is Equity Bank well-positioned relative to other banks?

**Key concepts introduced:** Introduction to strategic management

#### **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, Robert M. “The Concept of Strategy”, *Contemporary Strategy Analysis, 5th Ed*, Blackwell Business, Chapter 1

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

**Case:** Crown, Cork and Seal in 1989 (HBS 793035)

### **Readings:**

- Saloner, Shepard and Podolny, “External Context – Industry Analysis”, *Strategic Management*, Chapter 6
- Porter, M.E. “Understanding Industry Structure,” (HBS Note 707493)

### **GRADED MEMORANDUM DUE**

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

### **Study Questions:**

- 1. 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:** Value creation, Value capture, Industry analysis, Five (six) forces, Potential Industry Earnings (PIE), Bargaining power

### **Extending the Concepts:**

Grant, Robert M. “Industry Analysis: the Fundamentals”, *Contemporary Strategic Analysis*, 5<sup>th</sup> Ed, Blackwell Business, Chapter 3

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

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

**Case:** Cola Wars Continue: Coke and Pepsi in the 21<sup>st</sup> Century (HBS 702442)

#### **Readings:**

- Saloner, Shepard and Podolny, “Creating and Capturing Value in the Value Chain”, *Strategic Management*, Chapter 10, pp. 239-249 (Capturing Value); pp. 256-263 (Creating Value).

#### **PASS/FAIL MEMORANDUM (OPTION 1) DUE**

(Please answer Study Question #4; see Section V.A., pg. 4 of syllabus for guidelines.)

#### **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. Why 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: Demand and Supply Dynamics**

**Case:** Offshore Drilling (HBS 799111)

**Readings:** None

**PASS/FAIL MEMORANDUM (OPTION 2) DUE**  
(Please answer Study Question #2; see Section V.A., pg. 4 of syllabus for guidelines.)

**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; cyclical

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

**Lecture:** Foundations of Strategy

**Readings:** Saloner, Shepard and Podolny, “Competitive Advantage”, *Strategic Management*, Chapter 3.

**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**

**Case:** Wal-Mart Stores Discount Operations (HBS 387018)  
Wal-Mart-Tables.xls spreadsheet (to be distributed)

**Readings:**

- Grant, Robert M. “Cost Advantage”, *Contemporary Strategic Analysis, 5<sup>th</sup> Ed*, Chapter 9. (*Note: This chapter can be found in the custom text at the very end, after page 442.*)
- Rumelt, “Numbers 101: Margins, Markups and Break-Evens,” UCLA Anderson School Note.
- Porter, M. E., “What Is Strategy?” *HBR*, Nov-Dec 1996.

### **GRADED MEMORANDUM DUE**

(Please answer Study Question #2; see Section V.A., pg. 4 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. Explain any counter-intuitive comparisons you come across in your analysis. 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

**Extending the Concepts:**

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

## Class 7: Sources of Competitive Advantage II

**Case:** Samsung Electronics (9-705-508)

### Readings:

- Grant, Robert. "Differentiation Advantage", *Contemporary Strategic Analysis, 5<sup>th</sup> Ed*, Chapter 10. (*Note: This chapter can be found in the custom text at the very end, after page 442.*)
- Rumelt, "Numbers 101: Units and Units Conversion," UCLA Anderson School Note.

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

**(Please answer Study Question #2 and #3; see Section V.A., pg. 4 of syllabus for guidelines. Please choose this Assignment or the Dell Assignment in the next class period. Choose only one memo to submit for a grade.)**

1. What kind of competitive advantage are the Chinese entrants seeking? How close are they to achieving that advantage?
2. **What were the sources of Samsung's cost advantage in DRAMs in 2003? In particular, how much of the cost advantage is derived from differences in input costs vs. differences in productivity. For the purposes of this analysis, you may use data from Exhibit 7a and the case to compare Samsung's raw material and labor costs with those of its competitors (weighted average). Assume that Samsung enjoys a 5% additional volume discount on raw materials relative to its competitors. Can Samsung's low-cost advantage withstand the Chinese threat on costs?**
3. **Does Samsung also possess a differentiation advantage? Discuss the underlying sources that contribute to this advantage.**
4. 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?

## **Class 8: Sources of Competitive Advantage III; Sustainability**

**Case:** Matching Dell (HBS 799158)

**Readings:** Saloner, Shepard and Podolny, "The Spectrum of Competition and Niche Markets", *Strategic Management*, Chapter 7, pp. 149-157.

### **GRADED MEMORANDUM (OPTION # 2) DUE** **(Please answer Study Question #3; see Section V.A, pg. 4 of syllabus for guidelines)**

#### **Study Questions:**

1. How and why did the Personal Computer industry come to have such low profitability?
2. What has been Dell's strategy? How does its strategy respond to (or fail to respond to) the challenges and opportunities in its external environment?
3. **Prior to the recent efforts of competitors to match Dell (1997-1998), how big was Dell's competitive advantage? Specifically, calculate Dell's advantage over the team of Compaq and a reseller serving a corporate customer.**

**Additional Info:** For the purposes of this assignment, focus on computing Dell's relative cost advantage over the team of Compaq and a reseller serving a corporate customer in 1996. You can use Exhibit 10b to calculate the price that Dell charged for such a machine and Exhibit 6 to compute Dell's COGS to build such a machine. Using information in the case, identify the major categories of cost difference between Dell and the Compaq/reseller team. In the process of providing a typical corporate PC, how do the costs they incur differ? You may assume that the cost of capital is 20%.

4. What kinds of strategies have Dell's competitors followed? Have they been successful?
5. What should Dell's primary rivals do now?

**Key concepts introduced:** Niche Advantage; Sustainability; Activity Systems

#### **Extending the Concepts:**

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

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

## **Class 9: Corporate Culture**

**Case:** Kent Thiry and Davita (Stanford GSB #OB-54)

**Readings:** Saloner, Shepard and Podolny, “Internal Context: Organization Design”, *Strategic Management*, Chapter 4, pp. 65-75 (Org design) and pp. 88-89 (Culture).

### **Study Questions:**

1. What did Thiry do to effect the changes at DaVita? Why did it work?
2. Describe his leadership style and philosophy. What makes him so effective in this situation?
3. What's the role of the corporate culture at DaVita? How important do you think it is?
4. Can you manage a corporate culture? How?

**Key concepts introduced:** Culture as competitive advantage

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## **Class 10: Review: Sources of Competitive Advantage**

**Readings:** Ghemawat, P. and Rivkin, J. 2006. “Creating Competitive Advantage” (HBS Note 798062), focus on pp. 1-9

## **Class 11: Midterm Exam**

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## **PART III: COMPETITIVE DYNAMICS**

### **Class 12: Entry Games**

**Case:** Dogfight Over Europe: Ryan Air (HBS 700115)

#### **Readings:**

- Garicano, Luis, “Game Theory: How to Make it Pay,” *Mastering Strategy*.

#### **PASS/FAIL MEMORANDUM DUE (OPTION #1)**

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

#### **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 Introduced:** Entry Deterrence, Applications of Game Theory

#### **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.

## **Class 13: Pricing Games**

In-Class Strategy Simulation Exercise

### **Readings:**

- Saloner, Shepard and Podolny, *Strategic Management*, Appendix A3, A4 (pp. 410-416)
- Garicano, Luis and Robert Gertner, "The Dynamics of Price Competition," *Mastering Strategy*.

Key Concepts: Equilibria in strategic games; pricing strategies

**Class 14: Strategic Interaction in a Duopoly**

**Case:** Airbus vs. Boeing (HBS 707447)

**Readings:** None

**PASS/FAIL MEMORANDUM DUE (OPTION #2)**

**(Please answer Study Questions #3 & #4; see Section V.A, pg. 4 of syllabus for guidelines)**

**Study Questions:**

1. What are the drivers of value creation and value capture in this industry?
2. As of 1992, who is doing better: Boeing or Airbus? Explain.
3. **What would be the value of a new VLCT to both companies?**
4. **If you were Airbus, how would you respond to Boeing? Should Airbus collaborate with Boeing in the development of the VLCT?**

**Key Concepts Introduced:** Competitor Analysis; Learning Curves

## **Class 15: Industry Analysis Dynamics; DSIR; Complementors**

**Case:** Microsoft Xbox: Changing the Game (HBS 707501)

### **Readings:**

- Saloner, Shepard and Podolny, “Strategy in Markets with Demand Side Increasing Returns”. *Strategic Management*, Chapter 12
- Yoffie, D. and Kwak, M. “With Friends like These: The Art of Managing Complementors”, *Harvard Business Review*, September 2006.

### **Study Questions:**

1. How attractive is the videogame console industry in 1999? How do game publishers increase the size of PIE in the industry?
2. Should MS allow any developer to publish games? Should it charge royalties to developers? Who should produce the Xbox machines?
3. Imagine you are Michael Dell in September 1999: do you take the Xbox deal?

**Key Concepts Introduced:** Demand Side Increasing Returns, Competitor Analysis

### **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: Markets with Demand Side Increasing Returns**

**Case:** Microsoft's Search (HBS 709461)

### **Readings:**

- Saloner, Shepard and Podolny, "Strategy in Markets with Demand Side Increasing Returns". *Strategic Management*, Chapter 12

### **PASS/FAIL MEMORANDUM DUE (OPTION #1)**

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

### **Study Questions:**

1. How has Microsoft responded to competitive threats and opportunities in the past? What patterns do you see? What is your assessment?
2. **How large is Microsoft's competitive disadvantage (with respect to Google) in Internet search and search-related advertising in 2008? Provide quantitative evidence to the extent possible. If the industry remains in its current trajectory, how will Microsoft's disadvantage evolve over time?**
3. Why is Microsoft pursuing the market for search and search-related advertising?
4. What integrated strategic option should Microsoft's executives – especially Satya Nadella, Jay Grotto and Gary Flake – pursue?

**Key Concepts Introduced:** Demand Side Increasing Returns, Competitor Analysis

### **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.

## **PART IV: ADVANCED TOPICS**

### **Class 17: Non-Market Strategy**

**Case:** Toys “R” Us (HBS 703035)

**Readings:** None

#### **PASS/FAIL MEMORANDUM DUE (OPTION #2)**

**(Please answer Study Question #3; see Section V.A, pg. 4 of syllabus for guidelines)**

#### **Study Questions:**

1. Is toy retailing an attractive industry?
2. What are the reasons behind Toys “R” Us’ success in this industry? Do you believe this success is sustainable?
3. **Which of the options being considered by Toys “R” Us in Jan 1992 would you recommend? Why?**
4. How would you implement your recommendation? Be specific on what you would do and how you would do it.

**Key Concepts Introduced:** Market Power

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

**Case:** The Walt Disney Co.: The Entertainment King (HBS 701035)

### **Readings:**

- Morck, R. and Yeung, B., “When Synergy Creates Real Value,” in *Mastering Strategy*
- Gertner, R. and M. J. Knez, “Vertical Integration: Make or Buy Decisions,” in *Mastering Strategy*, pp. 146-150.

### **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?
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?

**Key Concepts Introduced:** Diversification, Scope of the Firm, Synergies

### **Extending the Concepts:**

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.

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

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## **Class 19: Course Wrap**

Review of material covered in the course

## **Class 20: Final Examination (June 8)**