

The Anderson School of Management
Management 476
BUSINESS STRATEGY
EMBA Program

Spring 2012

Professor

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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 476 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 476 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 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.

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.

V. EVALUATION AND GRADING

The class will be graded as follows:

3 Graded Group Memoranda	30%
2 “Pass/Fail” Group Memoranda	10%
3 individual homework assignments	15%
Final Exam	30%
In-class Participation	15%

a. Group Memoranda

Five 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 three 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 course digital drop box at 9pm the evening before the case is being discussed.**

Out of these five group memoranda, three will be graded (represented by the bolded memos below). The remaining two will be evaluated on a pass/fail basis (in other words, you just need to submit the memorandum to get the assigned points). 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

Cola Wars (Class 2)
Wal-Mart (or) Matching Dell (Class 3/Class 4)
Ryan Air (or) Microsoft's Search (Class 5/Class 6)
Toys R Us (Class 8)
SMR Related Strategy Analysis (Class 9)

***Note:** One of the graded group memoranda (due in week 9) is designed to be an opportunity for you to apply the tools and frameworks discussed in the Strategy course to your SMR project. This exercise is not intended as a substitute (or addition) to SMR – rather, the objective is to help integrate the key takeaways from the course and focus on a strategic problem/analysis relevant to your SMR project, the results of which can then be used in your final SMR project report as well. Since this project is unique to each SMR team, I will hold meetings with each team in the middle of the quarter to discuss project topics relevant to each team.

b. Individual Assignments

There will be three individual assignments to help you check your understanding of the material covered. You may write these individually or with ONE partner of your choosing; in the latter case, you should each submit an individual assignment with both your names on the assignment. It is recommended to attempt these assignments individually first, to maximize their instructional value. Assignments are to be submitted electronically and will be due by midnight on the following days (Sundays):

Timeline of Individual Assignments

Assignment 1: Sunday, April 15
Assignment 2: Sunday, April 29
Assignment 3: Sunday, May 13

These are scheduled to be on weekends when you do not have class, in order to better spread out the total workload of the course. You are welcome to submit them earlier, if convenient.

c. Final Exam

The final exam will cover all material discussed in the course and will be open notes and open book. More information about the format and style of the final exam will be revealed in class.

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. Comments disagreeing with/challenging the course of the discussion are welcomed as long as they are made in a constructive fashion. 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. ETHICAL GUIDELINES

As a member of the UCLA Anderson academic community, the highest standards of academic behavior are expected of you. Please make yourself aware of the standards and adhere to them. Some of these standards are discussed below, but please note that this discussion is not exhaustive. If you are unsure whether some particular course of action is proper, please consult the professor or the teaching assistant for further clarification.

- Please cite all sources while submitting written assignments. Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material.
- 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 476 courses in previous years.
- Do not consult materials outside the course unless explicitly asked to in the instructions of the assignment.

VII. OUTLINE OF MGMT 476

<u>Class</u>	<u>Date</u>	<u>Session</u>	<u>Case</u>	<u>General Concept</u>
1	April 6 9:00 – 12:30	Introduction	Equity Bank	Strategy Definition
		Industry Analysis	Crown, Cork and Seal	External Environment
2	April 7 8:30 – 12:00	Value Chain Analysis	Cola Wars: Coke and Pepsi	
		Transition—From Industry to Strategy		
3	April 20 1:30 – 5:00	Cost Advantage	Wal-Mart	Sources of Competitive Advantage
4	April 21 8:30 – 12:00	Niche Advantage	Matching Dell	
		Review: Sources of Competitive Advantage		
5	May 4 1:30 – 5:00	Entry Games	Ryan Air	Competitive Dynamics
		Strategic Interactions	Airbus vs. Boeing	
6	May 5 8:30 – 12:00	Markets with Demand Side Increasing Returns	Applications: eBay & Facebook	
			Microsoft's Search	
7	May 18 9:00 – 12:30	Managing Complementors	Xbox	
			Wintel Simulation	
8	Jun 1 9:00 – 12:30	Extra Help Session		
		Non-Market Strategy	Toys R Us	Other Topics
9	Jun 2 8:30 – 12:00	Corporate Culture	Kent Thiry and DaVita	
		Diversification	Disney	
		Course Wrap		
10	June 15 9:00 – 12:30	FINAL EXAM		

VIII. DETAILED COURSE OUTLINE

Session 1 Strategy Definition; Industry Analysis

Readings:

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

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

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?
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Readings:

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

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

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?

Session 2
Value Chain Management; Transition to Strategy

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).

Case: Cola Wars Continue: Coke and Pepsi in the 21st Century (HBS 702442)

PASS/FAIL MEMORANDUM 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?

Lecture: Foundations of Strategy

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

Study Question:

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

Session 3
Sources of Competitive Advantage: Cost Leadership

Readings:

- Grant, Robert M. “Cost Advantage”, *Contemporary Strategic Analysis, 5th 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.

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

GRADED MEMORANDUM (OPTION # 1) 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?

Session 4
Sources of Competitive Advantage: Niche Advantage; Sustainability

Readings:

- Grant, Robert. “Differentiation Advantage”, *Contemporary Strategic Analysis, 5th Ed*, Chapter 10.
- Saloner, Shepard and Podolny, “The Spectrum of Competition and Niche Markets”, *Strategic Management*, Chapter 7, pp. 149-157.

Case: Matching Dell (HBS 799158)

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?

Lecture: Value Creation and Competitive Advantage

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

Session 5
Applications of Game Theory: Entry Games; Strategic Interaction

Readings:

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

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

GRADED 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?**

Case: Airbus vs. Boeing (HBS 707447)

Readings: None

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?

Session 6
Markets with Demand Side Increasing Returns (DSIR)

Readings:

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

Case: Microsoft’s Search (HBS 709461)

GRADED MEMORANDUM DUE (OPTION #2)
(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 Giroto and Gary Flake – pursue?

Session 7
Managing Complementors

Readings:

- Yoffie, D. and Kwak, M. “With Friends like These: The Art of Managing Complementors”, *Harvard Business Review*, September 2006.

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

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?

In-class Strategy Simulation: Wintel

Session 8
Non-Market Strategy

Case: Toys “R” Us (HBS 703035)

Readings: None

PASS/FAIL MEMORANDUM DUE
(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.

Extra Help Session: Review of Course concepts and Practice Final

Session 9
Culture and Corporate Strategy

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

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

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?

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.

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

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?