## THE UNIVERSITY OF CHICAGO

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| Booth School of Business |

SYLLABUS

42800 Competitive Strategy, winter 2021

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## A. MAterials

* Readings and cases available on Canvas (Required)
* Garth Saloner, Andrea Shepard, Joel Podolny, *Strategic Management, Wiley.*
* Dixit, Avinash and Barry Nalebuff, *Thinking Strategically*, Norton, 1991.

## B. Course Overview

This course applies tools from microeconomics, industrial organization and organizational economics to competitive decision making. The emphasis is on the application of these concepts to business situations, and as such the course relies heavily on the analysis of case studies. The course is divided in four parts.

* The first part aims focuses on business unit strategy—**Industry analysis and Competitive Advantage**. It introduces tools to understand industry economics and the determinants of industry-wide profitability and goes on to study the determinants of the individual firm’s strategy and profitability, focusing on both organizational and positional aspects.
* The second part introduces basic game theory to analyze **Competitive Dynamics** competitive interactions when the number of players is small and the industry is being shaped by the interactions between these players. This tool is used to analyze issues such as bargaining power, price competition, entry and exit decisions
* The third part introduces **Technology strategy**. Although many of our cases are already in tech heavy industries, there are some specific issues that have to do with those industries and that require attention. Specifically, we study standard setting and technological competition.
* The fourth and final part studies **Corporate strategy**. It discusses issues such as the scope of the corporation, outsourcing, and the role of corporate headquarters in adding value and capturing synergies.

The course is heavily based on case discussions. For each class meeting, study questions will be assigned concerning a case study. We will discuss these questions and the material in the case for a big share of the class period. Students will need to be prepared for those discussions, by reading the case and analyzing it in view of the assignment question and the preparation questions below in the syllabus. 4 times during the course students will be required to hand in their analysis answering the ‘assignment question.’ All required cases and supplementary readings are in the course packet.

Students are expected to read all of the assigned material before class. Specifically, the textbook contains the concepts necessary to analyze the case, and the class will take place under the assumption that students have carefully read the textbooks.

A note on case analysis: Students often ask instructors of case-based classes to hand out their own case analysis after the class has discussed the case. We will not do this. First, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help you learn to distinguish between sensible and senseless arguments. Handing out our analyses would reduce the ambiguity in the cases and partially defeat the purpose of doing cases. (A corollary of this is that being comfortable with the ambiguity inherent in ‘real-world’ situation is a prerequisite to take this course.).

## C. organization of online sessions

Due to the COVID Pandemic, the 2021 sessions will be conducted Online. We will organize the sessions in the following way.

* I will pre-record the lectures—approximately 1 hour, one for each of the 9 sessions. You will be expected to watch those before the class. They will be all available at the start of the term, so that you can watch them at any time up to the date of that specific session.
* We will spend the other two hours of the Session together in Zoom format. In most sessions, we will spend those two hours as follows:

1. A discussion of the Lecture, to go over concepts that students may have found tricky or where further elaboration is needed.
2. A case discussion in Zoom, where I will guide the discussion of the case using the questions that I posted.
3. Student 15-minutes group presentations (on the topics specified below).

## C. Course Requirements and Grading

Based on class participation (15%), four graded assignment questions (20%), one group presentation on a particular topic to the entire class (15%); and a Final Exam (50%).

#### a. Class Participation

I will come to class each day with a teaching plan that will try to achieve a logical progression through the key issues in a given case. To this end, I have prepared study questions to lead the discussion. However, it is important to appreciate that the students in the class are *co-producers* of the class discussions. Students should listen carefully to one another and to build on or critique prior comments. They should also try to resist the temptation to jump to topics that are not specifically open for discussion. When that happens, it is the responsibility of the class and the professor to bring the discussion back on track. The discussion should be a conversation in which all participants recognize that they have an obligation to advance our understanding of the issue at hand. Your contributions to this learning *process* will be appraised in addition to the content of what you contribute.

Some of the specific aspects on which you will be graded include:

* Is the participant a good listener?
* Are the points made relevant to the discussion? Are they linked to the comments of others and to the themes that the class is exploring together?
* Do the comments add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem?
* Is there a willingness to challenge the ideas that are being expressed?
* Is there a willingness to test new ideas, or are the comments “safe” (such as repetition of case facts without analysis or conclusions, or of comments already made by other participants)
* Does the participant integrate material from past classes or readings where appropriate? Do the comments reflect cumulative learning over the course, or does the participant merely consider each case in isolation?

You should be prepared for every class. I may open the class by asking someone to summarize the readings or cases briefly, or answer a short question. With a reading, you should be able to outline the problem that the article addresses, describe the core points of the reading, and, most importantly, offer your analysis of the strengths and weaknesses of the reading’s central argument. With a case, you should be able to identify the key issues, problems, and opportunities facing the central protagonists, to articulate and evaluate alternative approaches to the problems, and to describe the course of action that you recommend and the reasons for your recommendations.

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 us.

#### b. Four Graded write ups

The goal of the write-up is to make your study group debate and then take a clear position on an issue, usually the central question of the case, support your position, and note any issues or potential problems. You should do the write up in your group. *It is not allowed to allocate a case to one student and then not have the group debate and decide on the content. All students in the group are responsible for what is in the write-up and could be asked to explain it.*

**Topic**

Usually, the topic of the write-up is the central question of the case: what should this company/person do? This question is stated below the case as ‘Assignment question’ in section E of this document.

**Format**

The format of the write-up consists of 3 parts:

1. Summary/Recommendation
2. Supporting argument
3. Issues and caveats

**Usage**

I may occasionally call upon someone to present his or her ideas. This does not mean that your write-up was good or bad, only that it is useful for the discussion.

#### c. Group presentation

Each group will volunteer to present an example of a topic at the end of the class. In the class schedule (part E of this document), I list 7 topics (one per day except on the first and last class) on which student groups can deliver their analysis. The analysis will take the form of a presentation supported by a few power point slides on the topic assigned. In all cases, the objective is to *apply* the class concepts to a particular problem, rather than to introduce theoretical ideas or frameworks. Thus the burden on the group is to find a nice example of the particular issue (competitive advantage, strategic interaction, standards…) and to apply the concepts in the reading and class to that example.

#### d. Final Exam

The Final will be a take-home exam with limited space consisting of short answers and medium length case-like questions. It will cover all the material in the course, including cases and all assigned readings. You will be permitted to carry one one-sided page of notes to the exam.

## D. Honor Code

Students enrolled in this class are expected to adhere to the terms of the Booth School’s honor code. In this class, it involves, among other things:

* Students may not discuss with students who have taken the class previously (either in another section or in a prior year)
* Students may freely discuss a case with other students who have not yet discussed the case (for example, with other students in the same section)
* Students may not discuss the final case with **anyone** prior to turning in the answers to the final

## E. Class Schedule

### Part I. BUSINESS UNIT STRATEGY

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| **Session 1. Understanding the Determinants of Profitability: Industry Analysis** |

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| Case: | Enterprise Car Rental |
| Reading: | SS&P: Chapters 1, 2, 6. |

#### Preparation Questions

1. Following the guidelines in SS+P, make a brief industry analysis of the Airport Rental Car Industry
2. Following SSP, describe and analyze Enterprise’s Strategy:
   1. State concisely the scope, competitive advantage and key activities of Enterprise.
   2. Analyze the internal and external fit of its strategy – you need to understand the industry for this.
   3. How sustainable are Enterprise’s competitive advantages? Is this due to its hard to reproduce capabilities? Or to its position?
3. You are hired by Enterprise to determine if it should expand into the airport segment. What is your advice?

#### Assignment Question (not to be handed in, just to practice)

Suppose that Hertz were to enter this segment. Propose the full strategy (scope, competitive advantage, internal and external logic) that Hertz should follow in its competition with Enterprise.

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| **Session 2. Competitive Advantage and Sustainability** |

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| Cases: | Tesla Motors (HBS 714-413) |
| Reading: | Required: SS&P 3, 4 |

#### Preparation Questions

1. Analyze the barriers to entry into the automobile industry.
2. Analyze (describe the What/how/why or Scope, Competitive Advantage and Logic) of the “secret strategy” in p9. Does it correspond to the strategy Musk actually followed? How does it overcome the BTEs you identified above?
3. Is Tesla at a Competitive Advantage or disadvantage? Why?

#### Assignment Question:

*Where should Tesla move next? Should it go mass market? Stay on the premium segment?*

#### Data Exercise 1:

1. How large are economies of scale in this industry? What is the effect of doubling scale on costs?
2. How large are learning curves? What is the effect of quadrupling experiences?
3. Quantify Tesla´s cost advantage or disadvantage versus BMW
4. Try to estimate Tesla’s willingness to pay advantage or disadvantage versus BMW

#### Group Presentation 1. Strategy Identification and Competitive Advantage

Student group will (1) identify the strategy of a firm of their choice; (2) describe the environment in which the firm operates and (3) analyze in depth the competitive advantage of the firm its sources and sustainability of such advantage.

### Part II. Competitive Dynamics

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| **Session 3. Managing Competitive Interactions: Rivalry** | |
| Case: | Microsoft’s search | |
| Reading: | Gertner, Robert: Shrimp Game  Garicano, Luis: “Game Theory: How to Make it Pay  Garicano, Luis and Robert Gertner, “The Dynamics of Price Competition”  SS&P Chapter 8 | |

#### Preparation 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 in Internet search and search-related advertising in 2008? If the industry remains on its 2008 trajectory, how will the disadvantage evolve over time? Has the recent deal with Yahoo changed anything to this expected evolution?
3. Why is Microsoft pursuing the market for search and search-related advertising?

#### Assignment Question

*What are Google's weaknesses? What integrated strategic option should Microsoft’s executives--especially Satya Nadella, Jay Grotto, and Gary Flake--pursue?*

#### Data exercise 2

Taking a search as a unit of analysis, how are Google’s competitive advantages in 2008?

1. Is Google generating higher revenue per search among advertisers? Decompose this difference into price per click and clicks per search
2. How is Google’s average cost position relative to Microsoft? Specifically, how does engineering cost per search and data center costs per search compare with Microsoft?

#### Group Presentation 2. Strategy Dynamics

Analyze a competitive/rivalry situation in one industry with a small group of players. tudy the game they are playing (choices, payoffs, and rules of the game) and provide some insights on the strategies of the players and on the likely future outcome of the interaction.

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| **Session 4. Entry and repositioning: Judo Strategies** | | |
| Cases: | Dogfight over Europe: Ryan Air (A)  In-class case: Dogfight over Europe: Ryan Air (B)  A US Natural Gas Bonanza in China is not a done deal , by Nathaniel Taplin (WSJ, Nov 13, 2017) |
| Reading: | Chevalier, Judy: “The Pros and Cons of Entering a Market”  Chevalier, Judy: “When it Can be Good to Burn your Boats”  SS&P Chapter 9.  Dixit and Nalebuff, Chapters 5 and 6 |

#### Preparation Questions:

1. Describe Ryan Air’s entry strategy
2. Evaluate Ryan Air’s entry strategy
3. Will a pre-emption strategy based on announcements like the one described in the WSJ for the LNG market work? Under what conditions will they change the expectations of potential entrants in the market and thus deter their building additional capacity?

#### Assignment Questions:

*Place yourself in the shoes of the CEO of BA or AEL. How would you respond to Ryan Air’s entry?*

#### Data Exercise 3:

1. Relative cost positions: Can Ryan Air possibly make money at 99 pounds? Estimate the expected costs of Ryan Air using the cost structure of BA and AirLingus (exh 4) and the data in the case.
2. Cost of alternative strategies: Estimate the cost of accommodation for BA and Air Lingus and the cost of matching Ryan Air fares.

#### Group Presentation 3: Entry Games

Study an entry situation in a particular industry with few players and study the entry strategy of the entrant, and the moves and countermoves from incumbents that follow.

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| **Session 5. Creating and Capturing value in the Vertical Chain.** | | |
| Cases: | Cola Wars in 2010  Bike Maker Faces Tactical Shift as Profit Margin Fades Away (a newspaper article) |
| Reading: | Brandenburger Nalebuff Using Game Theory  SS&P Chapter 10 |

#### **Preparation Questions**

1. (Cola) What aspects of industry structure make the concentrate producers so profitable?
2. (Cola) How do Coke and Pepsi manage the value chain? How has competition between Coke and Pepsi affected industry profits in each part of the value chain?
3. (Shimano) How does the entry of Shimano shift the profits along the value chain? How does it affect entry and rivalry?

#### Assignment Question

(Cola) Evaluate Cola’s strategy of buying bottlers, making them stronger, and then selling them again. Would you change this strategy? Do you agree with it?

#### Group presentation 4. Entry, Strategic Investments, Expansion

Study the dynamics of moves and countermoves between players of an industry concerning some large investment or product introduction or expansion decision.

### Part III. INNOVATION, INDUSTRY DYNAMICS

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| **Session 6. Markets with Demand Side Increasing Returns: Strategy when the winner takes it all** |

Case: Google’s Android: Will it shake the up the Wireless industry beyond 2009?

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| Reading: | SS&P Chapter 12 |

#### Preparation Questions

1. Are there network effects in smartphones? What about plain mobiles? What is the difference?
2. Describe the strategies of the two players. Find analogies in previous standard wars.
3. How does Google make money from its strategy?

#### Assignment Question

To what extent are the different stakeholders aligned with Google? Evaluate for each one of them (carriers, app developers, handset manufacturers…) the pros and cons of joining Google in 2009. Are the conditions in place for a strong consortium to succeed? TO answer this question, pick up the perspective of a consultant to either (1) Nokia; (2) ATT or (3) An App developer; and write a memo with your advice including your view on what everyone else will do and why the standard will or not succeed.

#### Group Presentation 5. Value Chain Dynamics

Study the value chains in a particular industry, how it has been evolving over time, and how this evolution leads to changes in which set of players capture the value being created.

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| **Session 7. New Product Introductions. Innovation. Industry Life Cycle** | | |
| Cases: | Netflix: Competitive dynamics in the consumer video market Netflix: Corporate culture (a slide deck) |
| Reading: | “Meeting the Challenge of Disruptive Change”, Clayton M. Christensen and Michael Overdorf, Harvard business review March–April 2000  "Architectural innovation: the reconfiguration of existing product technologies and the failure of established firms." Henderson, Rebecca M., and Kim B. Clark. Administrative science quarterly (1990): 9-30.  SS&P Chapter 11 |

#### Preparation Questions

1. What was Netflix’s original value proposition? How did it change over time?
2. What are some of the critical capabilities that Netflix had to develop as its strategy emerged?
3. What risks did the emergence of VOD create for Netflix? How will the Netflix business model need to change under VOD?
4. Undertake a PARC analysis of Netflix using the Culture deck. In what way is his unusual? How does it fit? Specifically, in your view, what role did the corporate culture of Netflix play in its various successful transitions?

#### Assignment Question

*As you may know, Netflix has recently entered the content production. Is this the right way forward for it? What are its advantages and disadvantages in this field?*

#### Group Presentation 6. Standards and Network Effects

Analyze a ‘real world’ standards game: the source of network effects, the moves the players make to encourage adoption, the potential coalitions of adopters, what the laggards are doing differently to get out of that state, etc.

### Part IV. CORPORATE STRATEGY

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| **Session 8. Scope and Diversification: Leveraging Resources and**  **Capabilities. Organizational limits to Firm Scope** |

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| Cases: | Newell Company: Corporate Strategy  Sears |
| Reading: | SS&P Chapter 14 |

#### Preparation Questions:

1. Pre Rubbermaid and Calphalon, which of Newell’s resources were corporate-level resources? Which of its resources and capabilities were shared or transferred across its divisions? How did these resources and capabilities create value?
2. At that time, did Newell have a corporate advantage? How did the parent company add value to the businesses within its portfolio? What evidence can you provide?
3. What challenges faced the company in the late 1990s?

#### Assignment Questions

*Place yourself pre-acquisitions. Should Newell acquire Rubbermaid Calphalon and Rubbermaid? Why or why not? Would they help it obtain, improve or sustain its corporate advantage.*

#### Group Presentation 7. Disruptive Innovations and Industry dynamics

Study a successful disruptive innovation in a particular industry and the reaction of incumbent firms to this innovation—who succeeded in reacting to it and who did not.

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| **Session 9. Vertical Scope: Vertical Integration, Joint ventures and outsourcing** |
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| Cases: | *Danone vs. Wahaha: Who is having the last laugh?* (HKU766-PDF-ENG) |

#### Preparation Question

1. Why did Danone seek out a JV with Wahaha?
2. How are control rights and revenues divided between the JV partners?
3. How does the power balance between the parties change as time goes on? Was this predictable?
4. Does the contract acknowledge the shift in the realities on the ground? Is the contract self-enforcing, or does it rely on the courts enforcement? Is this smart? Why?

#### Assignment Question

*What has gone wrong? What should Danone have done to avoid it?*