

Preparation Questions

Session 1: Industry Analysis (Cola Wars Continue: Coke and Pepsi in 2010)

1. Why, historically, has the soft drink industry been so profitable?
2. Compare the economics of the concentrate business to that of the bottling business: Why is the profitability so different?
3. How has the competition between Coke and Pepsi affected the industry's profits?
4. How can Coke and Pepsi sustain their profits in the wake of flattening demand and the growing popularity of non-CSDs?

Session 2: Competitive Advantage (Airborne Express)

1. What is Airborne Express's position in the express delivery industry? How is it differentiated from its competitors?
2. Exhibit 3 in the case records Federal Express's average costs (per package). Using information and clues in the case, as well as assumptions, create a comparison table of Airborne Express's costs. ***Be prepared to explain in class how you obtained your answers.***
3. Choose one policy at Airborne that would be very costly for FedEx to adopt and explain why. Explain why it is not costly for Airborne to have that policy.
4. Use your answers to 1 and 2 to evaluate a) distance-based pricing as a new pricing policy for Airborne, b) international expansion, and c) the threat posed by FedEx.

Session 3: First-Mover Advantage (Wal-Mart)

1. Did Wal-Mart have a first-mover advantage in its early days? Why?
2. Think about Wal-Mart's capabilities and position over time and note any changes. Why did Wal-Mart adopt advanced IT early?
3. Are its competitive advantages sustainable?
4. What advice would you give K-Mart in the mid-1980s? What relevant choices does it have?
5. Does Amazon have a first-mover advantage? What is it and why is it/not sustainable?

Session 4: Oligopoly

1. Rank the five industry examples in order of intensity of competition. Airlines appear twice and the two time periods should be ranked separately.
2. For each industry, write down and evaluate its market structure, the cost structure of the product (marginal, fixed, opportunity), the nature of information about price, and historical or personal relationships among firms or managers. [Stick to the time frames in the readings.]
3. What features of an industry cause intense price competition?

Session 5: Cournot and Bertrand (Shrimp Game)

1. Be prepared to play the Shrimp Game as described in the handout provided on the course web page. What quantity will you choose? Remember your goal is to maximize your own profits. You might want to prepare a spreadsheet that calculates your optimal pricing strategy given the prices of other competitors.
2. Consider how your strategy should change if one market participant can make credible output commitment or if the profit structure is changed such that the most profitable producer earns an additional bonus.

Session 6: Strategic Complements and Substitutes

1. How is a reaction function constructed? What hypothetical question should a manager ask to build the reaction function of her competitor?
2. In a duopoly graph, draw a commitment by firm 1 that leaves firm 2 worse off.

Session 7: Pricing and Market Segmentation (Articles)

1. What role does “big data” play in developing an opportunity map?
2. In the Time article, the Business Travel Coalition (BTN) argues that personalized pricing is bad for competition and will lead to higher prices. Are they are correct? Why?
3. What are some of the other ways firms can price discriminate against consumers without using market segmentation techniques? For example, Amazon has tried to charge consumers different prices for media. What other options are available? Think about whether these alternative options may be more or less profitable to market segmentation, and whether or not they carry the same risks.

Session 8: Competition and Financial Condition (Supermarkets and Airlines)

For the Chevalier article you may want to skip section IV and from the second paragraph of 428 to section C on page 430.

1. How does a competitor’s LBO affect local non-LBO rivals in the supermarket industry?
2. Assume supermarkets compete according to differentiated Bertrand. What happens to prices after an LBO? (The study contains necessary information, but not the answer to the question).
3. How should the results of this study affect the decision of a supermarket executive who is considering taking her firm private in an LBO?
4. Do the findings in the Busse paper contradict those in Chevalier? You may want to consult the optional reading for your answer.

Session 9: Competition in an Auction Setting (Articles)

1. Which of the 4 auction types are equivalent to each other?
2. What attributes of the US auction described by the New York Times might have resulted from learning from past mistakes?
3. Suppose you are bidding on an oil and gas tract. What is the winner’s curse in this situation? What would differ if you were extracting oil from a neighboring tract?

Session 10: Bundling (Office Suites and Concerts)

1. The Microsoft vs. Lotus case presents a situation designed to highlight one of the reasons why companies sometimes offer their products or services in bundles. What is it?
2. Evaluate the consequences of offering a single ticket for the concert series either in place of, or in addition to, offering tickets for each concert separately. What are the profits in each case?
3. Evaluate the argument against bundling in the TV channel market from a consumer perspective. How would you expect consumer surplus in this market to change? (You may want to refer to your calculations in Question 2.)

Session 11: Two-sided Markets and Platform Competition (Microsoft XBOX)

1. Draw up the conventional industry value chain to show how consumers, console makers, operating system developers, game developers, and labor/raw materials developers relate. How does the Microsoft business model contrast with the conventional business model?
2. Should Microsoft 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: What data would you need to see to decide whether you would take this deal?
4. How do the insights of this case translate to other platform industries such as mobile phone operating systems or online movie and TV viewing?

Session 12: Business Model Competition (Netflix in 2011)

1. Why was Netflix so successful in the DVD rental business? Why was its service attractive to customers and profitable?
2. Why was Blockbuster so unsuccessful in responding to Netflix?
3. What are Netflix's strategic options in the video-on-demand business? Which option should it pursue and why?

Session 13: Midterm Exam

1. Be prepared to answer questions on material covered in the first half of the course.

Session 14: Entry (Ryanair)

1. What is your assessment of Ryanair's launch strategy?
2. How do you expect Aer Lingus and British Airways to respond? Why?
3. How costly would it be for Aer Lingus and British Airways to retaliate against Ryanair's launch rather than accommodate it?
4. Can the Ryan brothers make money at the £98 fare they propose?

Session 15: Entrants as Incumbents (Red Bull)

1. At the time Red Bull entered the US market, would Coke have been at a competitive advantage if it had attacked Red Bull? If so, what were its sources of advantage? Why didn't it attack aggressively?
2. Is there anything that Coke or Red Bull should have done differently?

3. How was Monster Drinks able to catch up with Red Bull? Why didn't Red Bull react more aggressively? Should Red Bull or Monster have done things differently?

Session 16: Exit, Commitment, and Wars of Attrition (SkyTV vs BSB)

1. In the time frame of the case, both firms are losing money at a substantial rate. Why does each firm continue and why are investors willing to invest equity in these business plans?
2. 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". Use the data in the case to calculate the payoffs to each of these outcomes. Specifically use the financial analysis in Exhibit 6 or 7 to guide your thinking. Assume an 18% discount rate and that all dish revenue and costs are already included in the financials provided in the case. Given the payoffs you calculate what is the Nash equilibrium of the game these companies are playing?
3. Is there a key strategic decision that either side should have taken or did take to resolve the war in its favor? Why is it important for a firm that its commitments are credible?

Session 17: Signaling and Reputation

1. Suppose a rival "signals" to you that it has lower costs in an attempt to keep you out of a certain segment. Do you believe them? What must be true for you to believe them?
2. A reputation for a certain kind of behavior (fairness to suppliers, for example) is desired by many companies, but clearly not all deserve it. How can truly fair companies try to set themselves apart?

Session 18: Dynamic Pricing and Coasean Dynamics (Entertainment)

1. In what types of markets do we expect dynamic pricing to be particularly valuable? How would prices respond if sales were greater/less than predicted?
2. Consumers have an incentive to wait for sales. Given your answer to (1), why does this not happen in airline markets? Why are airlines so successful at changing prices, but prices are adjusted differently in much of retailing?
3. Why do some artists remove their content from streaming services? Why don't all artists restrict their content?

Session 19: Innovation and Learning by Doing (Samsung)

1. What kind of competitive advantage are the Chinese entrants seeking? How close are they to achieving that advantage?
2. Does Samsung also possess a differentiation advantage? Discuss the underlying sources that contribute to this advantage.
3. Samsung appears to be further down the learning curve relative to their competitors. Is this sustainable or will other firms catch up?
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?
5. What were the sources of Samsung's cost advantage in DRAMs in 2003? In particular, how much of the cost advantage derives from differences in input costs relative to 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). What does this imply about the viability of Samsung's current position?

Session 20: Predatory Pricing (United States vs. American Airlines)

1. Suppose you were the CEO of a firm in a duopoly market where predatory pricing was legal. You are considering a predatory pricing strategy. Under what conditions (cost structure, type of capital, behavior of others) would you find predatory pricing attractive?
2. What proof would an economist or a judge need to conclude that a firm was engaging in harmful predation?
3. Do you think American Airlines was guilty of predatory pricing? Why?

Session 21: Antitrust Law and Merger Policy (DOJ A-B InBev and Grupo Modelo)

1. What is a Herfindahl Index? How is it used in merger control?
2. What is your reaction to the complaint? What pieces of evidence do you find most convincing? In what ways is the story weak /what is missing?
3. Identify the arguments for "unilateral effects" and the arguments for "coordinated effects."
4. What function does a "maverick" play in market competition? How would you identify one?
5. OPTIONAL: Which antitrust law carries criminal penalties for violation (i.e., you will go to jail if you break it)?
6. OPTIONAL: What is the US leniency program?
7. OPTIONAL: Why is the treble damages provision of US antitrust law so important?

Session 22: Horizontal Scope and Diversification (Disney)

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. How did Iger turn around Disney?
4. Should Disney expand in scope? In which direction would it make sense to expand scope? Or should it divest operations?

Session 23: Vertical Scope (Benetton)

1. What parts of the supply chain does Benetton choose to outsource rather than keep in-house? What are the advantages to Benetton of outsourcing these activities?
2. What are Benetton's distinctive capabilities? Relate them to your answer in part 1.
3. What is a relationship-specific investment? Is there any relationship specific investment among Benetton's contractors? If so, how could/has Benetton solve/d any problems created by the relationship specific investment?

Session 24: Corporate Structure and Decentralization (Alibaba Group)

1. How does Alibaba Group create a corporate advantage? (Why are the businesses under one roof?) Is this corporate advantage sustainable?

2. Is the current degree of competition among the business unit appropriate? Do you think that Jack Ma should encourage more cooperation? If so, how?
3. As Alibaba develops new businesses, how should the firm incorporate them into the organizational structure? What are the benefits and costs of having new businesses report directly to Jack Ma?
4. What should Jack Ma and his C-Suite be concerned about? Should Jack Ma centralize more functions at the corporate level? If so, which ones? Should Jack Ma create a Chief Operating Officer position?
5. Where should the new business initiatives (mobile platforms and financing small businesses) reside organizationally? At corporate or within the individual business units?

Session 25: Strategy in a Changing Environment (The De Beers Group)

1. Why (and how) did De Beers change its strategy in 2000 from controlling the supply of diamonds to driving the demand for them?
2. Why did De Beers launch the IIDV project in 2014 and the Lightbox Jewelry division in 2018? Do these businesses make sense?
3. As a member of the De Beers Executive committee in November 2015, would you approve Tom Montgomery's proposal to convert IIDV into a new business unit focused on the reselling market?
4. How would you characterize the process of crafting strategy at the De Beers Group? What are the advantages and disadvantages of how it formulates strategy?
5. Why do newly-mined diamonds sell for such high prices? Why do pre-owned diamonds sell for such low prices?

Session 26: Course Synthesis (eHarmony) and Final Exam

1. What are the factors a user takes into account when switching between products with Demand Side Economies of Scale (or, alternatively, network externalities)?
2. Does eHarmony have a competitive advantage? If so, where does it come from?
3. Which of the four options should Waldorf pursue?
4. What makes this case so different from what we have seen in the video game platform industry?