

**The Anderson School of Management  
Management 420  
BUSINESS STRATEGY  
MBA Program**

*Spring 2012*

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**Professor**

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**Teaching Assistants**

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**Class Sessions**

**Section 1**

Tu/Th, 9:45am – 11:45am  
Room: B313

**Section 2**

Tu/Th, 12:45pm – 2:15pm  
Room: B313

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**Office Hours and Extra Help Sessions**

Office Hours: Tu /Th, 4:00pm – 5:00pm  
Extra Help Sessions: See Syllabus Section IX

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

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

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

## **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 apply these frameworks to simulated and real-world situations. These theories and frameworks are designed to help us better understand and analyze management problems and opportunities, and to develop solutions to deal with these situations. As such, each class session will usually have a "theory" reading which explains and develops the framework, and an application reading or exercise.

This case-based approach will require students to become familiar not only with the details of the general theoretical framework, but will also give the student an opportunity to learn about a number of industries. The analysis and discussion of different industry and company situations is the primary

class activity. Preparation of the cases and participation in the discussion is critical to the learning and the success of the class as a whole.

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

Specific readings and study questions for each class are listed at the end of the syllabus. The main reading will typically be a business case. The syllabus provides study questions to be used for preparing each case. The cases are typically accompanied by a selection from our textbook.

Cases: Cases can be downloaded electronically through the HBS press website. We have a special course website: <http://cb.hbsp.harvard.edu/cb/access/13026295> (You will need to register.)

Textbook: We have multiple distribution channel options (electronic and physical) for the course this year. The main textbook for the class is “Economics of Strategy”, 5<sup>th</sup> Edition by Besanko, Dranove, Shanley and Schaefer (henceforth BDSS). There are multiple choices available to you to obtain the book. First, you can purchase a physical copy online through a vendor such as half.com or amazon.com. Second, you can buy a discounted electronic copy. Third, you can buy a binder ready version. The latter two options are available directly from the publisher at the following website: <http://www.wiley.com/WileyCDA/Section/id-410900.html>

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 Assignments	15%
3 Pass/Fail Group Assignments	5%
Midterm	25%
Final Exam	40%
Participation	15%

##### a. Group Assignments

There are 6 short assignments that are related to the case and accompany that day’s readings. The assignment question is meant to help hone your quantitative analysis skills.

The presentation should clearly and concisely answer the group assignment question for the relevant class session. Students should work in their groups on these assignments. Groups should consist of four to six people and reflect the thinking of everyone on the team and *everyone should be prepared to defend his or her answer*. Students may be asked to explain their work during class. 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.

The assignments should be done as a group and submitted by one member of the group. The formatting should follow the example distributed on the first day of class. To make things administratively easier make sure that the same individual from your group submits the assignment

on the my.anderson page for all of your assignments throughout the term. Include your group number and the names of the other members in the write-up..

**Assignments are due in the my.anderson course digital drop box at 9pm the evening before the case is being discussed.**

#### Timeline of Assignment Submission

Pass/Fail	Graded
Apple in 2010 (Week 1)	Cola Wars OR Offshore Drilling (Week 2) Wal-Mart (Week 3)
Samsung Electronics (Week 4)	Ryanair OR BSB vs. SkyTV (Week 6/7)
Arauco (Week 9)	

#### b. Midterm

**The mid-term is scheduled for Session 11, Tuesday, May 8<sup>th</sup>.** It will cover the material learned up to this point. It will be an in-class closed-book exam consisting of short answer and medium length case-like questions. Further details on the format of the mid-term will be made as the exam approaches. It is very important that you attend this class session. **The midterm must be taken on May 8<sup>th</sup>—no exceptions.**

#### c. Final Exam

**The final exam, scheduled for Friday, June 8<sup>th</sup>.** 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. **You must attend the exam on June 8<sup>th</sup>—no exceptions. 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. GRADE COMPLAINTS**

All complaints about grades should first be directed to the teaching assistants. Since I do not grade the exams the teaching assistants are in a better position to explain exactly how points were allocated. I am always available to address questions regarding test taking strategies and how to improve performance. In the event that a grade complaint cannot be resolved the other strategy professor, Subbu Ramanarayanan, who is teaching the other class section will blindly re-grade your exam in its entirety.

## **VII. 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.

### **a. 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. In many cases it will be apparent if you copy prior year solutions for the group assignments.

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

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

### **b. Individual work**

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.

### **c. Group Assignments**

In this course, the primary form of teamwork is in the form of the a) study groups for case preparation and b) group assignments. 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.*

### **d. 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 case discussion. During lectures you are welcome to use your laptops.

**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.*

## VIII. STUDY GROUPS

I strongly encourage students to meet regularly in a study group to discuss each case before class meets. 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.

## IX. PROFESSOR OFFICE HOURS

I will be holding office hours throughout the term. Extra help sessions will be held throughout the quarter and are designed to be informal settings in which students facing difficulty with concepts can ask questions in a relaxed environment. In these sessions, basic questions will be tackled first; only

after all these questions are answered will more advanced questions and topics be addressed. Attending these Extra Help Sessions is completely optional.

Office Hours: 4:00pm – 5:00pm, D515  
Extra Help Sessions: TBD and by appointment

## X. STRATEGY BLOG

Professor Subbu Ramanarayanan and I will maintain a course blog where we will post answers to questions that students ask as well as to disseminate other material relevant to the class.

The website address is: <http://uclastrategy.blogspot.com>





## XI: GENERAL COURSE OUTLINE

<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	Apple*	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	Review & Transition: From Industry to Strategy		
6	April 19	Cost Advantage	Wal-Mart*	Sources of Competitive Advantage
7	April 24	Differentiation Advantage	Samsung*	
8	April 26	Niche Advantage	Airborne	
9	May 1	Corporate Culture	Kent Thiry and DaVita	
10	May 3	Review: Sources of Competitive Advantage		
11	<b>May 8</b>	<b>MIDTERM EXAM</b>		
12	May 10	Entry Games	Ryan Air*	Competitive Dynamics
13	May 15	Pricing Games	Shrimp Game	
14	May 17	Strategic Interactions	Sky TV vs. BSB*	
15	May 22	Two-sided Markets	Microsoft Xbox	
16	May 24	Horizontal Integration	Cadbury	Corporate Strategy
17	May 29	Vertical Integration	Arauco*	
18	May 31	Diversification	Disney	
19	June 5	Wrap-up		
20	<b>June 8</b>	<b>FINAL EXAM</b>		

## XII: DETAILED COURSE OUTLINE

### PART I: FOUNDATIONS OF STRATEGIC ANALYSIS

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

##### Case:

Equity Bank (Stanford GSB E260)

<http://gsbapps.stanford.edu/cases/documents/E260.pdf>

(Note: This case is not available from the HBS course website.)

##### Readings:

- BDSS pages 1-7 (Introduction)
- BDSS pages 11-40 (Basic Microeconomic Principles) [Review]
- BDSS pages 97-114 (Historical Perspective) [Optional, but very interesting]

##### 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 the functional policies consistent with its strategy?
3. Is Equity Bank's strategy well-suited to the competitive environment that it faces? Why? Is Equity Bank well-positioned relative to other banks? Relative to NGOs?

##### Key Concepts:

introduction to strategic management, historical perspective

##### 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**

### Case:

Apple in 2010 (HBS 9-710-467)

### Readings:

- BDSS pages 365-375 (Value Creation and Value Capture)
- BDSS pages 205-216 (Market Definition and Market Structure)
- BDSS pages 327-351 (Five Forces Industry Analysis)

### Study Questions:

1. Identify Apple's current strategy. How does it differ from Apple's strategy in the late 1990s, shortly after the return of Steve Jobs?

### Pass/Fail Group Assignment Question:

1. Conduct an industry analysis of the personal computer industry. (For this purpose, it may be helpful to initially focus on competitors making computers that use the Windows operating system; i.e., exclude Apple.) Is it an "attractive" industry? How strong are the competitive "forces" in this industry? Have these forces been changing over time?

### Key Concepts:

willingness to pay, value creation, value capture, industry analysis, 5 forces, 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: Value Chain Analysis**

#### Case:

Cola Wars Continue: Coke and Pepsi in 2006 (HBS 9-706-447)

#### Readings:

- BDSS pages 217-235 (Competitors and Competition)
- BDSS pages 41-60 (Economies of Scale and Scope)

#### 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 has competition between Coke and Pepsi affected industry profits (value capture) in each part of the value chain?
4. In the wake of flattening demand and the growth of non-carbonated drinks, how can Coke and Pepsi maintain their profitability?
5. If you could choose your perfect vertical chain, how much competition would there be in your own industry and in all the other industries of the vertical chain? Include suppliers of suppliers as well as buyers of buyers.

#### Graded Group Assignment Question: (choose this or the question for Offshore Drilling)

1. Using Exhibit 8 estimate economies of scale in advertising using regression analysis. In your conclusions you should go beyond simply stating whether economies of scale exist or not. Describe what the parameters of your model actually imply.

#### Key Concepts:

value chain, economies of scale, economies of scope

#### 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: Demand and Supply Dynamics**

### Case:

Offshore Drilling (HBS 9-799-111)

### Readings:

- BDSS pages 21-34 (Refresher on supply and demand)

### 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. Is the offshore drilling industry attractive? Is it becoming more or less attractive? What segments are the most and least attractive? Why?

### Graded Group Assignment Question: (choose this or the question for Cola Wars)

1. 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.

### Key Concepts:

supply curve, demand curve, market equilibrium, fixed vs. marginal costs, cyclical

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

### Lecture:

Foundations of Strategy

### Readings:

- BDSS pages 290-295 (Quality Competition)
- BDSS pages 359-397 (Competitive Advantage)

### Study Questions:

1. Consider the cases we have covered. Identify the strategies of the key firms involved.
2. Please come prepared to ask questions that you may have about the material up to this point.

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

### **Class 6: Cost Advantage**

#### Case:

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

#### Readings:

- BDSS pages 41-60 (Economies of Scale and Scope) [Refresher]
- BDSS pages 410-426 (Sustainable Competitive Advantage Part I)

#### Study Questions:

1. How do the complementarities between Wal-Mart's various activities impact average costs? As an example consider their investments in information technology and the distribution network.
2. How do Wal-Mart's retail prices compare to those of its competitors?
3. What advice would you give K-Mart in the mid 1980s? What relevant choices do they have?
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?

#### Graded Group Assignment Question:

1. Based on the information in the case, prepare an analysis of Wal-Mart's costs relative to a more typical discount retailer. Specifically, construct a table comparing Wal-Mart's cost structure with the industry average (as shown 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?

#### Key Concepts:

cost advantage, strategic cost analysis, complementarities

#### Extending the Concepts:

Grant, Robert M. "Cost Advantage", *Contemporary Strategic Analysis*, 5<sup>th</sup> Ed, Chapter 9.

Rumelt, Richard, "Numbers 101: Margins, Markups and Break-Evens," UCLA Anderson School Note.

Porter, Michael E., "What Is Strategy?" *HBR*, Nov-Dec 1996.

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

## **Class 7: Differentiation Advantage**

### Case:

Samsung Electronics (9-705-508)

### Readings:

- BDSS pages 61-67 (Learning Curves)
- BDSS pages 290-295 (Quality Competition)

### Study Questions:

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?

### Pass/Fail Group Assignment Question:

1. 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?

### Key Concepts:

differentiation advantage, learning curve



## **Class 8: Niche Advantage**

### Case:

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

### Readings:

- BDSS pages 290-295 (Quality Competition)
- BDSS pages 393-397 (Strategic Positioning)

### Study Questions:

1. How attractive is the express mail industry?
2. How has Airborne survived, and recently prospered in the industry? Is its success attributable to its capabilities, its position, industry attractiveness?
3. How does Airborne's cost structure compare to FedEx?

### Key Concepts:

Niche Advantage; Sustainability

### 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)

### Reading:

- BDSS pages 536-561 (Environment, Power, and Culture)
- BDSS pages 470-506 (Incentives)

### 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:

culture as a competitive advantage, incentive systems

## **Class 10: Review: Sources of Competitive Advantage and Q&A Session**

### Reading:

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

## **Class 11: MIDTERM EXAMINATION (May 8<sup>th</sup>)**

## PART III: COMPETITIVE DYNAMICS

### Class 12: Entry Games

#### Case:

Dogfight Over Europe: Ryanair (A) (9-700-115)

#### Readings:

- BDSS pages 34-38 (Game Theory)
- BDSS pages 299-324 (Entry)

Graded Group Assignment Question: (choose this or the question for BSB vs SkyTV)

1. Consider three types of responses to Ryanair's entry:
  - a. BA and Aer Lingus massively retaliate, matching Ryanair's fares across the board to all customers;
  - b. BA and Aer Lingus partially retaliate, matching Ryanair fares for only the 100,000 customers likely to switch to Ryanair (through sophisticated targeted marketing and pricing), and
  - c. BA and Aer Lingus accommodate Ryanair's entry and do not change prices.

Calculate the implications of each response for Ryanair, Aer Lingus, and British Airways. How would you expect Ryanair's rivals to respond?

#### 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. Beyond your calculation, what else do you think goes into the decision by Aer Lingus and British Airways on whether to accommodate or retaliate?
5. Do you expect the Chain-Store Paradox to be relevant in this situation?

#### Key Concepts:

entry, entry deterrence, game theory, extensive form games, repeated interaction

#### Extending the Concepts:

Garicano, Luis, "Game Theory: How to Make it Pay," *Mastering Strategy*.

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**

### Case:

Shrimp Game

### Readings:

- BDSS pages 221-234 (Refresher: Cournot and Bertrand Competition)
- BDSS pages 238-260 (Commitment)
- BDSS pages 264-289 (Dynamics of Pricing Rivalry)
- Shrimp Game Handout: see course website

### Group Study Question:

1. Read and review Cournot and Bertrand Competition and commitment in game-theoretic settings. Come prepared to play the shrimp game. In particular, prepare a spreadsheet that calculates your optimal pricing strategy given the prices of other competitors.

### Key Concepts:

equilibria in strategic games; pricing strategies, retaliation, collusion, first-mover advantage

## **Class 14: Wars of Attrition**

### Case:

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

Spreadsheet (to be distributed)

### Readings:

- BDSS pages 319-323 (War of Attrition)

### Graded Group Assignment Question: (choose this or the question for Ryanair)

1. 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?

### Study Questions:

1. Beyond the numerical analysis performed above, who do you think is more likely to “win” this war of attrition? Why?
2. Suppose that BSB and SkyTV negotiated a merger. What would you expect the terms of that merger to look like based on the assignment?

### Key Concepts:

war of attrition, normal form games, value of commitment

## **Class 15: Two-sided Markets**

### Case:

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

### Readings:

- BDSS pages 426-436
- Yoffie, D. and Kwak, M. "With Friends like These: The Art of Managing Complementors", *Harvard Business Review*, September 2006.

### Study Questions:

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 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: 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?

### Key Concepts:

demand side increasing returns, network effects, two-sided markets

### 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: CORPORATE STRATEGY

### Class 16: Mergers, Acquisitions and Integration

#### Case:

Cadbury Schweppes: Capturing Confectionery (A) (HBS 9-708-453)

#### Readings:

- BDSS pages 507-531 (Strategy and Structure)

#### Study Questions:

1. Suppose that instead of putting their company up for auction Adams merged with Cadbury. Provide rationales for the following two profit scenarios:
  - a. **A)  $\pi_1(\text{Merged Company}) > \pi_1\text{Cadbury} + \pi_1\text{Adams}$**
  - b. **B)  $\pi_1(\text{Merged Company}) < \pi_1\text{Cadbury} + \pi_1\text{Adams}$**
2. How would you change the organizational structure of Cadbury Schweppes following a successful acquisition of Adams?
3. What information does Cadbury need to know in order to make the best bid possible? How do considerations about changes in the competitive forces in the industry following the acquisition of Adams by each of the potential bidders affect your bid considerations?

#### Key Concepts:

horizontal integration, auctions with externalities, organizational structure

## **Class 17: Vertical Integration**

### Case:

Arauco (A): Forward Integration or Horizontal Expansion (HBS 9-705-474)

### Readings:

- BDSS pages 119-146 (Vertical Integration)

### Group Assignment Question:

1. Compute the quasi-rents, that is the additional profit for both parties of the relationship between the pulp mill and its closely located plantations (50% of pulp mill capacity) for the Alto Paraná operations over what the pulp mill and the closely located plantations could achieve in terms of profits if they did not trade with each other and instead each party had to trade with its respective second-best option. You may ignore loading costs and assume that there are no quality differences from using different suppliers.
2. How is each party's profit in the relationship affected by their outside options? Should Arauco own both forests and pulp production facilities? How would you graphically communicate the result to an audience?

### Study Questions:

1. Suppose an analyst argues that Arauco should vertically integrate so that they have a constant demand for pulp. Is this a good argument?
2. Why is Arauco disintegrated with ocean shipping, but integrated with energy production and R&D?
3. Provide both good and bad rationales for Arauco to integrate into paper production.

### Key Concepts:

vertical integration, quasi-rents, outside options, bargaining, boundaries of the firm



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

### Case:

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

### Readings:

- BDSS pages 175-197 (Diversification)

### 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?
4. Is it sensible for Disney to move into music for young adults (e.g., Hannah Montana)? Could a record studio do a better job?

### Key Concepts:

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.

## **Class 19: Wrap-up**

Review of material covered in the course

## **Class 20: FINAL EXAMINATION (June 8<sup>th</sup>)**