

Yale School of Management
Competitive Strategy
MGT 525
T/Th 8:30am, 10:10am, and 1:00pm

Prof. Florian Ederer
Spring 2020

Competitive Strategy

This course teaches analysis of strategic decisions facing an organization. The primary emphasis is on decisions at the line of business (rather than corporate) level, and the primary source of analytical method is economics. We cover traditional strategy topics such as capabilities and sustainability as well as modern game theory models of competition. A central integrating idea is anticipating the response of other actors in the economy and recognizing that often an organization's profits depend on the actions of other firms. We study nonprofits as well as for-profits. Class sessions are a mixture of applications (cases and other examples) and lectures.

Textbook

Besanko, Dranove, Shanley, and Schaefer, Economics of Strategy (Wiley), any edition. The 7th Edition is the most recent, but the syllabus has pages mainly for 3rd, 4th, 5th, and 6th edition. I think the 5th edition is the best. The hardcover is currently selling for \$65.00 (new), \$25.75 (used), and renting for \$17.96 on Amazon – though you should feel free to buy it from any other retailer (or student) if you think that Amazon has too much market power. Trust me, this is one of the best textbooks you will ever use in your career so I suggest buying a used copy.

Contact Information

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Your TAs for the course will be Lulu Chang, Nupur Kala, Rehan Kukar, Alex Politakis, Nathan Shekita, and Emily Turner. They will attend class, take attendance, mark participation, and help with grading. Course information and documents will be posted on the course web page. You should check it for all course materials and any changes to the schedule. I will not hold regular office hours (as no one comes!), but will be available for appointments—which you should feel free to schedule. I am happy to discuss the course, your progress, or any other issues of concern to you, individually, or in groups. Please e-mail to set up a time to talk. In particular, please be sure to contact me if you feel you are having problems participating in class for any reason and we can design a solution together. Alternatively, the TAs are a good place to ask if you have a question.

Class Participation and Attendance (individual)

Class participation counts for a significant fraction of your grade.

You are responsible for the material in each case. I will cold call students and will also seek volunteers to speak in class. Quality of class participation is more important than quantity. Trying to maximize “air-time” is not the best strategy.

Preparation for a case study involves more than just having read the case. You should be prepared to offer original and thoughtful analysis in which your claims are supported by evidence, logic, and possible calculations. Many students find it helpful—and I encourage you—to discuss the case with your classmates prior to the class. The most effective way to prepare for class is to try to answer the preparation questions for each class after you have read the case and the textbook material. These questions have been carefully designed to integrate the textbook and case readings and to help you focus on the conceptual issues of the day.

Learning in this class happens both inside the classroom and out; you will cheat yourself of much of what you could have learned if you do not prepare. I will use a computer program in class to cold call students regularly to raise the cost of not preparing. Please display your name card in every class.

If you have come to class unprepared, been late, or missed class altogether, you may make it up by turning in written answers to the preparation questions for the missed session within one week (you may turn them in during class one week later). Starting with a student’s third absence, written answers will no longer count 100% toward the missed class, but will provide (declining) partial credit for the class. Please **DO NOT** appear in the other section of the class without warning the relevant TAs in advance. It is very difficult to keep track of attendance and participation if students change sections.

Policy on Children in the Classroom

Yale University does not have a formal policy on children in the classroom; together with Kevin Williams I adopted my own:¹

- 1) All babies (bottle-feeding, nursing, ...) are welcome in class as often as is necessary;
- 2) For older children, I understand that unforeseen disruptions in childcare often place parents in the position of having to miss class to stay home. You are welcome to bring your child to class in order to cover gaps in class. This is not meant to be a long-term solution.
- 3) I ask that all students work with me to create a welcoming environment that is respectful of all forms of diversity, including diversity in parenting status;
- 4) In all cases when your children come to class, please sit in the front, close to the door. This will allow you to step outside in case your child needs special attention.
- 5) I maintain the same standards and expectations for all students. However, please contact me if you are having difficulty with school-parenting balance.

Case Write-ups and Written Assignments (groups of three or fewer)

You will do 2 case write-ups over the course of the semester. Case write-ups can be done in groups with up to three members. You should immediately sign up for two dates on which you would like to turn in your case analyses. The TAs will spread the cases across the semester, so the earlier you

¹ Thanks to Melissa Cheyney and many others on Twitter for this suggestion.

request your dates, the more control you have over the topic you write about. Each case analysis should be 4 pages long, and is due at the beginning of class on the day the chosen case is to be discussed. Note that an analysis is not a summary of the case. A case analysis should focus on issues of “how” and “why,” supported by the factual “whos,” “whats,” and “whens” from the case. A case write-up answers the preparation questions and draws some conclusions from those questions and the reading material.

You will be asked to evaluate the participation of other members of your case write-up group at the end of the semester.

Exams (individual)

There are two exams in which individual performance will determine your score. The first will be a closed-book midterm exam covering all the material in the course up to that point. It will take place in the last class before spring break (March 3). The second exam will occur in class at the end of the course (May 5) and will also be closed-book. For both exams you may prepare a 2-sided letter-sized cheat sheet.

Final Project (groups of five or fewer)

The final project is a paper analyzing one or more of the competitive practices discussed in class as applied by a firm or industry of the student’s choice. Please work in groups of four or five. Your paper should analyze the firm’s environment and competitors, explain why its strategy is effective or not, use concepts from the course to explain why, and make criticisms of past choices or recommendations for the future (in light of any expected changes in the environment or other firms’ behavior). You should focus your discussion to allow for a specific and substantive **analysis** (i.e., independent, critical thought) of how the firm uses one or more of the techniques we have discussed in class. Papers with description but no analysis will receive a low grade. In the past, the most common mistake on the part of students has been to write about a general business problem, quoting heavily from the enthusiastic business press, without analysis and use of class concepts. A paper will earn a higher grade for accomplishing a more difficult analytical task; this is to provide an incentive for you to find and understand a complex competitive situation. Note that projects involving only scope of the firm and no other class concepts, or only industry analysis, are typically not very complex. You may analyze current or historical situations.

Feel free to choose a company that interests you because you worked there, hope to work there, or are interested in the industry. You are strongly encouraged to choose a company where substantial amounts of information are publicly available or you will be able to get information from someone inside the company.

If you feel stuck finding a topic, but have a company or industry in mind, try the following. Is there a particular decision that was made or event in this industry/firm that has important implications and could be analyzed? As you read through the syllabus, think about how each topic applies to your decision. What would an industry analysis reveal as the biggest challenges? Does the decision or event help or hurt the firm’s ability to earn profit? What is your firm’s added value after the decision/event? Why does your company choose the scope of activities or the degree of vertical integration it does? And so on.

You will be asked to supply a list of your group members to the TAs the week after spring break. At that time, I will assist in “matchmaking” for students who would like to add members to their groups or who want to join groups. You must submit a proposal for your project on or before Friday, April 3. Please send it to my email address florian.ederer@yale.edu. The proposal should give a brief description of your company and industry and should provide an overview of the problem you propose to analyze. You should also describe the sources you have available for getting information on the company. I will provide feedback on the proposal.

In your paper you should:

- Include only that background information that is relevant for the problem at hand.
- Clearly separate the company information and presentation of the problem from the analysis.
- Write clearly and concisely.
- Apply ideas from this course.
- Be creative in your analysis, but also thorough and systematic.
- Use no more than 15 pages. Limit your discussion of industry facts to 5 pages or you will find that you do not have room for your analysis.

If you would like a rough draft evaluated and critiqued, that should be turned in 2 full weeks before the due date of the final paper. This will give me time to give you feedback and give you time to respond to it. This is optional, but sometimes students find it helpful and it reduces risk.

The final paper is due on Wednesday, May 6. Please hand in a **hard copy** to my course assistant Trish Guccione on the third floor of Evans. The hardcopies should contain a page signed by each author describing his or her contribution to the project and certifying that the SOM Honor Code was followed.

Issues of Academic Integrity

The Discipline Committee has recently encouraged faculty to make clear to students what their expectations are for individual and collaborative work.

Group Work

Group work is valuable because it lets a student produce more complex and difficult pieces of analysis than he or she could generate alone during the time allotted. Not only that, the process of discovering facts and arguing about their analytical significance to one’s peers is a very valuable skill that (in our opinion) should be practiced and improved in business school. However, group work carries with it inherent problems of how to distribute the work (approximately) equally. Here is the policy for our class: No student’s name should appear on a group project if the student has not substantively contributed to the production of the project. The contributions of all students need not be exactly equal, but all students should have participated in a significant way to the production of the project / write-up.

An example of unacceptable conduct:

Student X agrees to produce a case write-up, putting Student Y’s name on the case write-up.

Student Y agrees to repay Student X by producing a subsequent assignment.

Plagiarism

The members of any academic community are expected not to present ideas or material from other sources as their own. In the context of this course, it is acceptable to, for example:

- Refer to concepts, frameworks, and analytical tools from the readings or class lectures without citation. For example, you may refer to the five forces, added value, sustainable competitive advantage, signaling, and so on without citing the source.
- Refer to the material in cases without citations. For example, you do not need to cite the HBS case in your case analysis when you refer to factual information from the text or tables.

In the context of this course it is unacceptable to:

- Quote or paraphrase analysis from another source and present it as your own. For example, it would be unacceptable to find an analysis of your case project company on the web and quote or paraphrase it in the analysis you hand in without correctly attributing it. Note that there is a difference between consulting a source and then forming your own opinion based on what you have read, and “lifting” material directly.

In group work, all group members are responsible for the integrity of work that is submitted. Students have gotten into trouble for this in the past. Group members should always question other members about the source of material and analysis that is being included in group projects. If a group member has any concerns about the integrity of material being submitted by the group, that group member should discuss those concerns with the instructor.

Grading

Class Participation	20%
Written Assignments	20%
Exams	40%
Final Paper	20%

Laptops

I do not want any open laptops in class because several studies have shown that they reduce learning. If necessary, please take notes on a tablet or other computer that lies flat on the desk, or with pen and paper. If you have a particular problem with this request, please see me.

Schedule

Before each class you should read the assigned material and answer the associated preparation questions.

FUNDAMENTALS OF STRATEGY

1. Review: Industry Analysis

Tuesday January 21

Case: Cola Wars Continue: Coke and Pepsi in 2010 (HBS Case 9-711-462)

Readings: BDSS-3: Chapter 10 "Industry Analysis"
BDSS-4: Chapter 10 "Industry Analysis"
BDSS-5: Chapter 12 "Industry Analysis"
BDSS-6: Chapter 8 "Industry Analysis"
WSJ – Peter Thiel: "Competition is for Losers"

2. Competitive Advantage

Thursday January 23

Case: Airborne Express (HBS Case 9-798-070)

Readings: BDSS-3: pp 382-391 (Quality Competition) and pp 465-489 (Strategic Positioning)
BDSS-4: pp 276-285 (Quality Competition) and pp 378-384 (Strategic Positioning)
BDSS-5: pp 290-295 (Quality Competition) and pp 393-397 (Strategic Positioning)
BDSS-6: pp 323-327 (Strategic Positioning)

3. First Mover Advantage and Sustainability

Tuesday January 28

Case: Wal-Mart Stores' Discount Operations (HBS Case 9-387-018)

Jordan, "How to compete with Amazon," Fortune Oct 24, 2013

Readings: BDSS-3: Chapter 12 "Sustaining Competitive Advantage"
BDSS-4: Chapter 12 "Sustaining Competitive Advantage"
BDSS-5: Chapter 14 "Sustaining Competitive Advantage"
BDSS-6: Chapter 11 "Sustaining Competitive Advantage" to pp 383

4. Oligopoly

Thursday January 30

Case: Collection of articles posted on Canvas

Readings: BDSS-3: pp 199-217 and Chapter 8 "The Dynamics of Pricing Rivalry"
BDSS-4: pp 191-208 and Chapter 8 "The Dynamics of Pricing Rivalry"
BDSS-5: Chapter 10 "The Dynamics of Pricing Rivalry"
BDSS-6: Chapter 7 "Dynamics: Competing Across Time" pp 235-262

STATIC COMPETITION

5. Cournot and Bertrand

Tuesday February 4

Case: Shrimp Game Instructions (prepare to play in class)

Readings: "Game theory: how to make it pay," Garicano, Mastering Strategy
BDSS-5: pp 221-234 (Refresher: Cournot and Bertrand Competition)
BDSS-5: pp 238-260 (Commitment)
BDSS-5: pp 264-289 (Dynamics of Pricing Rivalry)

6. Strategic Complements and Substitutes

Thursday February 6

Readings: BDSS-3: pp 232-250
BDSS-4: pp 223-239
BDSS-5: Chapter 9 “Strategic Commitment” (omit real options)
BDSS-6: Chapter 7 “Dynamics” pp 227-234
“Strategic complements and substitutes,” Scott Morton, Mastering Strategy

7. Pricing and Market Segmentation

Tuesday February 11

Readings: Collection of articles posted on Canvas
HBR: “Selling into Micromarkets”

8. Competition and Financial Condition

Thursday February 13

Readings: “Capital Structure and Product Market Competition: Evidence from the Supermarket Industry,” Judy Chevalier
“Financial Condition and Airline Price Wars,” Meghan Busse
Optional: “Capital-Market Imperfections and Countercyclical Markups: Theory and Evidence,” Judy Chevalier and David Scharfstein

9. Competition in an Auction Setting

Tuesday February 18

Readings: Paul Klemperer: “Auction Theory: A Guide to the Literature” p. 4-9
Paul Klemperer: “What Really Matters in Auction Design”
Collection of articles posted on Canvas

10. Bundling

Thursday February 20

Case: “Microsoft vs Lotus” and “The Concert Series”
Readings: NPR: “History and Future of Cable’s Bundling”
Time: “Cable Industry Frets Over Future of Your Television Bundle”
Wired: “Bundled Cable Channels Are Here to Stay — And That’s a Good Thing”

11. Two-Sided Markets and Platform Competition

Tuesday February 25

Case: Microsoft XBOX: Changing the Game? (HBS Case 9-707-501)
Readings: “Why the network effect is so striking”, Goolsbee, Mastering Strategy
BDSS-3: Networks and Standards pp 554-555
BDSS-4: Networks and Standards pp 417-422
BDSS-5: Networks and Standards pp 429-433
BDSS-6: Networks and Standards pp 381-383
Optional: “Vertical Integration and Exclusivity in 2-sided markets,” Robin Lee

12. Business Model Competition

Thursday February 27

Case: Netflix in 2011 (HBS Case 9-615-007)
Readings:

13. In-class EXAM

Tuesday March 3

===== SPRING BREAK =====

DYNAMIC COMPETITION

14. Entry

Tuesday March 24

Case: Ryanair (HBS Case 9-700-115)
Readings: BDSS-3: pp 297-310
BDSS-4: Chapter 9 “Entry and Exit”
BDSS-5: Chapter 11 “Entry and Exit”
BDSS-6: Chapter 6 “Entry and Exit” pp206-222
“The pros and cons of entering a market,” Chevalier, *Mastering Strategy*

15. Entrants as Incumbents

Thursday March 26

Case: Red Bull (HBS Case 9-714-401)
Readings: BDSS-3: pp 297-310
BDSS-4: Chapter 9 “Entry and Exit”
BDSS-5: Chapter 11 “Entry and Exit”
BDSS-6: Chapter 6 “Entry and Exit” pp206-222

16. Exit, Commitment, and Wars of Attrition

Tuesday March 31

Case: British Satellite Broadcasting versus Sky Television (HBS Case 9-794-031)
Readings: “When it can be good to burn your boats”, Chevalier, *Mastering Strategy*
BDSS-3: pp 320-325
BDSS-4: pp 306-309
BDSS-5: pp 319-323
BDSS-6: pp 214-215

17. Signaling and Reputation

Thursday April 2

Readings: Sections on limit pricing and entry deterrence
BDSS-5: pp 309-314
BDSS-6: pp 206-210
Newspaper articles on Canvas
Optional: Reputation in Online Auctions: The Market for Trust

Final Paper Proposal due 3pm

Friday April 3

18. Dynamic Pricing and Coasean Dynamics

Tuesday April 7

Readings: Collection of articles posted on Canvas

19. Innovation and Learning by Doing

Thursday April 9

Case: Samsung Electronics (HBS Case 9-705-508)
Readings: BDSS-3: pp 196-202 (Learning Curve) and pp 382-391 (Quality Competition)
BDSS-4: pp 94-104 (Learning Curve) and pp 276-285 (Quality Competition)
BDSS-5: pp 61-67 (Learning Curve) and pp 290-295 (Quality Competition)
BDSS-6: pp 77-81 (Learning Curve)
Optional: “Toward an Understanding of Learning by Doing: Evidence from an Automobile Assembly Plant,” Steven Levitt, John List, and Chad Syverson

ANTITRUST

20. Predatory Pricing

Tuesday April 14

Case: United States v. American Airlines DOJ Complaint 1999
Readings: BDSS-3: pp 310-320
BDSS-4: pp 296-306
BDSS-5: pp 315-323
BDSS-6: pp 211-220

21. Antitrust Law and Merger Policy

Thursday April 16

Case: DOJ A-B InBev and Grupo Modelo Complaint 2013
Readings: Merger Guidelines, Sections 1-5 (also at www.ftc.gov/bc/docs/horizmer.htm)
“Basic US Antitrust Law,” Fiona Scott Morton

CORPORATE STRATEGY

22. Horizontal Scope & Diversification

Tuesday April 21

Case: Disney: Reawakening the Magic (HBS Case 9-717-483)
Readings: BDSS-3: pp 85-100 and 170-195
BDSS-4: pp 86-99 and 163-184
BDSS-5: pp 54-67 and 175-197
BDSS-6: pp 71-93
“How boards can say nay to M&A,” Gertner, *Mastering Strategy*

23. Vertical Scope

Thursday April 23

Case: Benetton S.p.A. (HBS Case 9-389-074)
Readings: BDSS-3: Chapter 3 “Vertical Boundaries of the Firm”
BDSS-4: Chapter 3 “Vertical Boundaries of the Firm”
BDSS-5: Chapter 5 “Vertical Boundaries of the Firm”
BDSS-6: Chapter 3 “Vertical Boundaries of the Firm”
“Integration strategies and the scope of the firm,” Hubbard, *Mastering Strategy*
FT: “Apple’s in-house chip design unit gives it smartphone edge”

24. Corporate Structure and Decentralization

Tuesday April 28

Case: Alibaba Group (HBS Case 9-710-436)
Readings: BDSS-5: Chapter 17 “Strategy and Structure”
Inc.: “Valve’s Flat Hierarchy Isn’t for Everyone”
NYT: “Google to Reorganize as Alphabet to Keep Its Lead as an Innovator”

STRATEGY IMPLEMENTATION

25. Strategy in a Changing Environment

Thursday April 30

Case: The De Beers Group (HBS Case 9-717-430)
Readings: “Organizational Ambidexterity in Action,” O’Reilly & Tushman, *Harvard Business Review*

CONCLUSION

26. Course Synthesis and 30 Minute Exam

Tuesday May 5

Case: eHarmony (HBS Case 9-709-424)
Optional: “Everything I Ever Needed to Know about Economics I Learned from Online Dating,” Paul Oyer, HBR Press (especially Chapter 3)

Final Paper due 3pm

Wednesday May 6