

Strategic Analysis for Leaders, Analysts and Consultants Spring 2009

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Course Overview and Objectives:

The central questions of this course are:

- What allows certain firms in certain industries to earn positive economic profits?
- Why can certain firms sustain their economic profits over long periods of time, while for other firms these profits quickly disappear?

Three characteristics describe the approach to these questions:

- First, we will focus on the high level strategic decisions which firms face: entry into new industries, positioning, firm size and scope, capital investment, etc., while spending less time on managerial issues.
- Second, we will seek broad principles that can be applied across many firms and markets, rather than behavioral issues and/or institutional details that apply only in restrictive scenarios. Finally, we will derive these broad principles from microeconomic theory. As such, potential answers will be subjected to the rigor of economic analysis to test their validity and applicability.

This course emphasizes the need to look outward to the environment and inward to the firm's resources and capabilities and operating policies. As such, we describe a firm's strategy as the formulation of "competitive strategy", "corporate strategy" and "organizational strategy". Competitive strategy involves identifying structurally attractive industries and developing the most attractive position within that industry, where attractiveness is driven by absolute conditions combined with the resources and capabilities the firm brings to that position. Businesses create value by operating in positions within industries that, by virtue of the characteristics of industry, the position and the firm, are defensible from the encroachment of competitors and deterioration of the environment as a whole. Corporate strategy focuses on the management and understanding of multi-product, multi-location and multi-business firms. Although we devote limited time to the topic, organizational strategy involves developing policies within each functional area of the business unit that are integrative and consistent with the firm's plan for creating value.

The overall topics and structure of the course are as follows:

1. Tools for the Analysis of Business Strategy:

- Five Forces Analysis -- Analysis of the forces affecting competition in a market.
- Positioning Analysis – Firm level choice to exploit/neutralize industry forces
- Added Value – Source of firm's leverage in the vertical chain to which it belongs
- Resource Based View of the Firm – Determination resources significant in generating firm profits and the extent to which resources are adapted to the firm's external environment.
- Consonance Analysis – Assessment of the value creation and capture prospects of a firm.
- Value Added Analysis – Quantification of contribution of component activities of the firm to its overall profitability.
- Game Theory – Analysis of the responses of competitors to a firm's strategies and the implications of these responses for strategic decisions.

2. Key Questions in the Analysis of Business Strategy:

- What are the primary sources of a firm's competitive advantage?
- What position does or should the firm "occupy"?
- What are firm resources? How can resources be developed and acquired?

3. Key Questions at the Corporate Strategy Level:

- What determines the boundaries of firms? At what "levels" does the firm's strategy apply? That is, what set of activities should a firm be engaged in and at what scale?
- Why do multi-product, multi-location and multi-business firms exist? How do they create value?
- How should these activities be organized to optimize the performance of the firm? How are multi-product, multi-location and multi-business firms managed?

4. Dynamic Issues:

- How can advantage be sustained through time?
- What advantages arise from being the first-mover in a market? Are these advantages especially large in high-technology industries?
- What prevents other firms from imitating the strategies of successful first movers?
- How should firms weigh the risks and benefits from investments in new resources and capabilities, particularly when market conditions are highly uncertain?

Course Administration

The only way to be prepared for each session is to start preparing early. A useful guideline to keep in mind is a 3-hour class will demand 4 - 6 hours of preparation time.

While this course does convey some "tricks" for identifying strategic issues, it is more about developing analytical skills and executive intuition and demeanor. If you are diligent about preparing for class, you will sharpen your ability to think, read, write, speak, and present your arguments logically.

This is not a lecture course and you are responsible for a large portion of your own and your peers' development. You are required not only to attend classes but also to carefully prepare for each class, contribute actively as well as listen carefully to others. The emphasis on case analysis makes it crucial that preparation for class is of consistently high quality.

Classroom Policies:

Laptops, Smartphones, & Other Electronic Devices: May not be used in class.

Attendance: Required and part of grade. Faculty will excuse absences only in the case of documented serious illness, family emergency, religious observance, or civic obligation. If you will miss class for religious observance or civic obligation, you must inform your instructor no later than the first week of class. Recruiting activities are not acceptable reasons for absence from class. Absence from the first day of an intensive course will result in removal from the course.

Arriving Late, Leaving Early, Coming & Going: Students are expected to arrive to class on time and stay to the end of the class period.

Course Grading:

Course grades will be determined as follows:

- Attendance and participation: 5 points for each class attended with some participation (30 points in total) – you may miss any class for any reason but will lose 5 points and IT DOES NOT MATTER WHAT THE REASON. To participate it must be apparent that you have done the reading for that class session.
- Homeworks: 5 points each (20 points in total) – NOT ACCEPTED BY E-MAIL FOR ANY REASON
- Final Exam 50 points. The final exam covers the assigned sections of Strategy Essentials as well as the case take aways.

Guidelines for Discussion/Case Preparation:

Although you are given specific case questions, you should process all cases approximately as the framework below suggests. When you are asked to turn in one or more of the case questions, your write up should reflect insights drawn from the thorough process described here.

1. High Level Understanding of Key Issues:
 - What are the most pressing key issues the firm is facing? Be sure to revisit this question after you have completed an indepth analysis
2. Analysis of External Environment:
 - Porter's 5 Forces plus Complements, and
 - Macroenvironmental analysis
3. Analysis of Firm Level Assets, Capabilities, and Resources:
 - Assessment of firm's strengths and weaknesses
 - Are any of the firm's resources or other sources of competitive advantage? Are whose advantages sustainable? What are the firm's core capabilities?
 - What do the firm's financial statements say about its health? Trends? Comparison to competitors?
4. Analysis of business-level positioning strategy used by the firm:
 - What is the overall positioning of the firm is in its market?
 - How is the positioning strategy supported (or not) by its functional strategies?
 - Evaluate the positioning strategy in the context of the competitive and/or cooperative dynamics of the industry. Be sure to include any appropriate quantitative analysis of the advantage this position yields (or fails to yield) over the firm's competitors.
5. Analysis of the corporate-level strategy of the firm:
 - Identify the businesses the company is in (or is considering entering), how they are related (or unrelated), and whether and how they *create additional value in their combination*. Be specific and detailed. If it is unclear that value is created, try to assess why the firm might have chosen to enter those businesses.
 - Identify and analyze the methods of entry the firm has used to enter those businesses. Were the methods of entry used (or proposed) the best choice given the firm's objectives,

environment, strengths, weaknesses, and strategy? Be sure to include any appropriate financial analysis to support your assessment.

6. Recommendations

- Recommendations should respond to the key issues of the case, and must be *specific* and *actionable*. They must not be obvious “so what” platitudes, and they must be *consistent with the analysis*. You should evaluate the impact of each recommendation on the firm’s environment, strengths, weaknesses, and strategy. Do not forget to consider the firm’s financial standing when making recommendations.

Readings:

1. Course Packet through NYU bookstore
2. Strategy Essentials Handbook (will be posted to Blackboard at the start of the course)

Additional Course Materials:

I will rely on our course website for communication of administrative issues related to the course. I will also post the following items on the website:

Class	Topics and Reading Assignments
	Introduction, External & Analysis, Competitive Advantage
3/10	<p>Introduction to Strategic Management and Industry Analysis</p> <p>Readings:</p> <ol style="list-style-type: none"> 1. “What Is Strategy?” By: Porter, Michael E. Harvard Business Review, Nov/Dec96, Vol. 74 Issue 6, p. 61-78 2. Strategy Essentials – A. Value Creation and B. Industry Analysis
3/24	<p>Prepare: Delta Airlines (A) (9-704-403) (In coursepack)</p> <ol style="list-style-type: none"> 1. During the 1990s, none of the five largest air carriers in the United States earned its cost of capital. Why do such low rates of return on investment persist in the airline industry? 2. Despite the challenging industry environment, airlines like Southwest Airlines and JetBlue earn enviable returns. How? 3. Why have all of the low-cost subsidiaries of legacy airlines, including Delta Express, failed? 4. What will happen to Delta Air Lines if it continues to respond to low-cost airlines in the way it has in the past? Can you size up, roughly, the financial consequences of continuing with the status quo? <p>For the (B) case:</p> <ol style="list-style-type: none"> 5. What is the logic of Delta’s Song initiative? 6. What is your assessment of Song? Will it succeed? <p>Homework: In 500 words, explain why sustaining profits is so difficult in the airline industry.</p>

Business-Level Strategy and Competitive Dynamics	
3/31	<p>Internal Analysis. Corporate Social Responsibility</p> <p>Read:</p> <ol style="list-style-type: none"> 1. “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility” Porter and Kramer (HBR Dec 2006)--Posted to Blackboard 2. Strategy Essentials – E. Resource Based View and I. Externalities and CSR <p>Prepare: De Beers in the Millennium (HBS 706518)</p> <ol style="list-style-type: none"> 1. The De Beers organization was successful at monopolizing the trade of gem quality rough stones for over a century. Please explain the mechanisms by which the firm managed to sustain its central position in the diamond trade for as long as it did. 2. Why has De Beers given up monopolizing rough stones? That is, De Beers had a strategy that served it well for decades. What caused this strategy to lose consonance (“fit” with the conditions in its environment)? 3. Evaluate De Beers’ branding strategy (not just for itself but for the majority of rough it distributes) <p>Homework: Write two hundred words citing evidence from the case that De Beers is “good vs. evil”.</p>
4/7	<p>Network Externalities</p> <p>Pizza and Movie night!!</p> <p>We will watch Triumph of the Nerds in class</p>
4/14	<p>Network Externalities</p> <p>Read:</p> <ol style="list-style-type: none"> 1. Strategy Essentials –D. Sustainability and Preemption <p>Prepare: Google (9-806-105)</p> <ol style="list-style-type: none"> 1. What were the key factors behind Google’s early success? 2. Do you expect the search business to become more concentrated (i.e., dominated by fewer firms)? Is search a winner-take-all business? 3. In renewing its deal with AOL, could Google afford to pay AOL more than 100% of the revenue generated from AOL searches? How did Microsoft’s maximum affordable bid for AOL’s search traffic compare to Google’s? <p>Homework: In 250 words -- Do you think Google has its best days behind them or ahead of them?</p>

4/21	<p>Firm Boundaries</p> <p>Readings:</p> <ol style="list-style-type: none"> 1. “The World Chocolate Confectionary Industry”, by Yip and Coundouriotisv (distributed in class) 2. Chapter 14 (“Global Strategies and the Multinational Corporation”) from Robert M. Grant, <i>Contemporary Strategy Analysis</i> 6th Edition <p>Prepare: Nestle-Rowntree A+B (IMD) (Distributed in Class)</p> <ol style="list-style-type: none"> 1. Why has Rowntree emerged as a takeover target? 2. From the perspective of Nestlé’s management, was are the objectives for the second half of the June 8th meeting? Same question but from the perspective of Rowntree. 3. Lay out the potential synergies of the combined entity. What forces impact Nestlé’s shareholders ability to see those synergies in their share values? 4. What is the right price for the acquisition? <p>Homework: 200 words...do you like this acquisition for Nestle?</p>
Final	<p>Closed Note, Closed Book in Class Final (2 hours) Covers Strategy Essentials (assigned portions) and the case take aways.</p>