

Strategy I (Competitive Strategy)
New York University, Stern School of Business
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Introduction

This course is motivated by a simple question with a set of complicated answers: “What allows certain firms to earn positive economic profits while others deliver negative returns?” To answer this question, we will investigate three potential answers:

- Variance in profitability is tied to the external environment – industry structure and the structural niches occupied by the firms in that industry
- Variance in profitability is tied to the internal functions of the firm – the choices made to support the strategy and the firm’s ability to accumulate and utilize resources (tangible and intangible)
- Variance in profitability is tied to superior managerial decision-making

Obviously, these three answers are interrelated and are not mutually exclusive. Additionally, the role of managerial decision-making is not limited only to the third answer – we assume that managers influence the performance of firms by formulating and implementing strategies that vary in their performance implications.

It is strategy and the process of strategy creation within a firm that is the subject of this course. As a starting point, we’ll use a definition of strategy proposed by business historian Alfred Chandler: Strategy is “The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.” Along the way, we will investigate questions about whether strategy matters at all, whether some strategies always work, and when strategies need to be revisited by managers.

Organization of the Course

Our course consists of three different components that will work together to help us flesh out the concept of strategy and its role in the modern business organization:

Cases: This is a case-based class, and the centerpiece of all of our activities in this class will be our case discussions. We will use cases extensively in this class to illustrate how to apply conceptual frameworks and arguments to actual business situations. For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class. In addition, the case discussion questions serve as the

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focus of class discussion. In preparing for the case discussion, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or industry. *Seeking material from outside the course or from students who have taken the course before is a violation of the honor code.* Of course, if you already have such information from previous experience, this can be very useful in case discussion. Please let me know about it in advance, and I will make a point to call on you at the appropriate time. All cases (other than the group project and the online simulation) are part of your electronic coursepack. *I ask that all students print the cases and bring them to class.*

Additional Readings: There is no single text assigned to this course. Instead, a mix of classic and more modern readings in the area of strategy have been selected to provide the background and frameworks for our case discussions. All of these readings are either in your electronic coursepack or available electronically on our course Blackboard site. I will not be lecturing to the readings, but they will be important for conducting our case discussions. Therefore, unless you tell me otherwise (by asking questions), I will assume that you have read the assigned readings, understand the basic concepts in the readings, and can relate them to the cases. NOTE: Some students have had success reading the cases FIRST and then the additional readings, as they have used the case data to inform their reading. Feel free to experiment.

Lectures: Mini-lectures before and after class discussions will set the stage or summarize course concepts. This will include some key takeaways from case discussions, when and how to use various frameworks, and suggestions of common mistakes with course frameworks. All slides for these mini-lectures will be made available on Blackboard.

These three sources of information will provide students both a set of tools that are useful in strategic analysis and a basic understanding of when those tools are useful and what their limitations may be. It is important to recognize upfront that *neither strategic analysis nor this course can be as perfectly organized as the outline suggests.* This is not accounting or statistics which begin with core, universally accepted principles and then build to harder problems and applications. Instead, business strategy is complicated and messy throughout, and we will be applying new tools and concepts to answer questions that arise throughout the class. The basic “tools” that we will cover include:

- Five Forces Analysis – Analysis of the forces affecting competition in a market.
- Generic Strategies and Strategic Groups – Firm level choice to exploit/neutralize industry forces
- Value Chain – An analysis of the internal activities of the firm that support the chosen strategy
- 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.
- Game Theory – Analysis of the responses of competitors to a firm’s strategies and the implications of these responses for strategic decisions.
- Value Added Analysis – Quantification of contribution of component activities of the firm to its overall profitability.

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Grading for the Course

This course uses a variant of contract grading, where your final grade is determined (in part) on whether you choose to complete an optional final exam. Thus, there are two basic parts of the grade – a “base grade,” derived from your performance on the required elements of the class, and an optional or “extra credit” portion that is the take-home final exam.

The “base grade” is out of 90 points, and so its maximum value is essentially a B+ (A- for perfection, but that seems unlikely). The breakdown for the Base Grade is below (descriptions of different levels of performance on each of these elements are included on the following page):

In addition, there is a take-home final exam that students may choose to take. This optional final exam is graded on a 0-10 scale, and represents additional credit above the base grade. Thus, the final exam can raise your grade by as much as three grade steps (from a B- to an A-). Please note that, in contract grading, the decision of whether or not to complete the final exam should be based on your final grade preferences and expectations, *not* on your performance in the other elements of the class. All students on track for something lower than a B- will be contacted by me before the final class.

Class participation	20%
Ratio Exercise (session 2)	5%
Homework Assignments (2-3 total)	5%
Group Mini-Project (session 3)	20%
Quizzes (two, sessions 3 and 5)	40%
<hr/> TOTAL for Base Grade	90%
 OPTIONAL Final Exam	10%
<hr/> TOTAL	100%

Depending on time and the flow of the class, there may be online opportunities for discussion via Blackboard. These postings represent additional opportunities for graded class participation (though these are *not* a viable substitute for in-class participation, just a supplement). Generally, these online conversations will be topics that we did not get the opportunity to discuss in enough detail during class time that we will continue to address during the time between classes.

The quizzes will cover the application of course concepts to new “case” situations, and will not directly test your knowledge of the cases covered in class. However, the quizzes will be smaller versions of the case discussions in class, so these represent good practice for the quizzes.

Overall, I will follow the school’s guideline for core courses: no more than 30%-35% of enrolled students will receive an A or A-. To some extent, students will self-select based on their choice to complete the final exam. Keep in mind that pursuing an “A” (by turning in the take-home final exam) does not guarantee you of a higher grade. PLEASE NOTE: Due to the compressed nature of this class, there will be no opportunities for a makeup of a missed element or for extra credit (beyond the final exam).

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	Participation	Quizzes	Group Project	Exercises
Excellent (B+)	Meets “Acceptable” standard below <i>and</i> more than once contributes an exceptional insight that offers a “so what” about the analysis or a question that shows deep insight into organizational implications	Shows adequate understanding of course concepts, can apply them with no mistakes, and draws insightful conclusions based on analysis	Addresses the questions asked and draws relevant, exceptional and generalizable conclusions based on analysis	All completed adequately
Acceptable (B)	Actively and voluntarily involved in class, helps keep discussion going, can apply frameworks to case facts	Shows basic understanding of course concepts, can apply them adequately, and draws basic conclusions	Addresses the questions asked and presents some basic conclusions drawn from the analysis	All completed adequately
Needs Improvement (B-)	Requires encouragement to contribute to class, but is able to provide basic insight into questions asked and case facts	Understands basic concepts but makes some mistakes applying them to facts; conclusions are too observational	Understands basic concepts but makes some mistakes applying them to facts; conclusions are too observational	All completed adequately
Unacceptable (C or lower)	Does not willingly participate and when called upon fails to adequately answer questions asked	Unable to show understanding of frameworks and analysis techniques	Unable to show understanding of frameworks and analysis techniques	Inadequate or missing

Other Course Policies

Course Materials: All materials listed in the course schedule are required for the class (there is a list of optional additional readings after the course schedule). I know everyone is busy, but I have tried very hard to minimize out-of-class assignments, so please carefully prepare what I have assigned. In order to find all of the materials, please follow these instructions:

- Go to this link <http://www.bookstores.nyu.edu/professional.store/course.winterintensive.html> at the bookstore and purchase the coursepack listed for my class. It will provide a link to xanEdu that you will need for four of the cases, one reading, and the final exam.
- Log onto Blackboard to access the remainder of the readings, including the other articles for class, memos that I have written covering material, and additional materials for one of the cases. In addition, I will post slides for each class before class, but probably not much more than a day in advance (just-in-time production).
- For Session 5, the “case” is an online simulation. The URL and the code for the simulation will be distributed later. Before class, you will need to (a) log onto the website, (b) pay the HBS Publishing fee of \$12.50 to gain access to the simulation, and (c) play one round *before class*. In class, you will run the simulation through in groups.

Attendance: Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Missing any class time will significantly harm your ability to learn the material, and will have an impact on your grade (through missed participation opportunities as well as any missed assignments/quizzes/etc.). If you miss all or part of one three-hour session I will assume that your absence is legitimate. Missing two or more of the six sessions is not generally acceptable in a class this short and will have a significant impact on your overall grade.

Laptops: I do not allow students to use laptops during class time, though you are welcome to bring laptops to class. (Note that you will need your laptop for the Group Project, and each group will need a laptop for the Strategy Simulation activity.) Because I will not be testing “case facts” on the quizzes or the final exam, taking notes on case details will not be helpful. Instead, I will be testing process knowledge – your ability to correctly apply frameworks and analyses we discuss in class. My experience is that the best way to learn this process is to engage in it actively during in-class case discussions. I will provide you with “key takeaways” electronically throughout the class, as well as electronic copies of any slides that I show. Laptops, even when used to take notes in class, also constitute a significant distraction to other students in the classroom that outweighs any potential benefits.

Cold Calling: Although not the only means by which I will run class discussions, I will cold call students during case discussions. Therefore, students should be prepared to be cold called at any time during class. Cold calling is designed to move discussion along and give all students in class a chance to participate, not to intimidate or create a hostile environment. If you are unprepared for any section and let me know before class (via email or when you arrive in the classroom) I will not cold call you during that session. If I cold call you and you wish to “pass”, you may do so by passing to the person either to your left or right in the classroom.

In-Class Seating: Given the importance of class participation and the compressed nature of this course, I will ask that students sit in the seats that will be assigned during Session 1 of class. Please let me know if there are any specific issues with the seating chart.

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Course Schedule

Readings in **bold** are expected to be completed before coming to class for that session. All materials are available on Blackboard unless otherwise noted.

Session 1: Why are some industries more attractive than others?
Aug 22, 9am-12pm *Case: **Apple Computer, 2006** (in electronic coursepack)*
*Read: **Porter, “The Five Forces”***

- Case Questions:
- 1) Analyze the structure of the personal computer industry over the last 15 years. How have the dynamics of the PC industry changed?
 - 2) What has been Apple’s source(s) of competitive advantage?
 - 3) What is Apple’s key problem in the PC market?

**RATIO ANALYSIS EXERCISE ON BLACKBOARD –
DUE IN CLASS IN SESSION 2**

Session 2: How do different niches create different outcomes?
Aug 22, 1pm-4pm *Case: **The Boston Beer Company** (electronic coursepack), PLUS
additional financial information posted on Blackboard*
*Read: (1) Memo on “**Positioning**” and (2) Memo on “**Ratio Analysis**”*

Note: In the Boston Beer Company case please focus on (a) the text and (b) the exhibits needed to complete the exercise. We will not use all of the information in the case.

- Case Questions: The major case questions are contained in the ratio analysis assignment due in class. In addition, consider the following:
- 1) How can we use the metrics to quantify the positioning choices made by the firms?
 - 2) Which firm or type of firms is in the most advantageous position? Why?

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Session 3: How do firms support their niche choices, and what role do firm “resources” play in profitability?

Aug 23, 1pm-4pm

Case: no case

Read: (1) Barney, “Firm resources and sustained competitive advantage” and (2) Memo on “Value Chain”

Project Details: In class you will be put into teams. Each team will select a leading firm in an industry. You can consider either product-based (e.g., consumer products or consumer electronics) or service-based (e.g., consulting or investment banking) industries. Feel free to pick an industry which one or more team members are very familiar. You may also use online library resources to find out more about your company.

As a team, you will prepare 5-6 slides and turn in those slides as part of your grade. The WRITTEN slides will be graded, but (time permitting) one group will present their slides and we will use those slides as a basis for conversation – so be prepared to present just in case.

The slides should contain: (a) a brief description of the firm and its industry, (b) a strategic group map comparing your firm with other firms in the industry, (c) an identification of 2-3 important resources/activities that support the firm’s strategy, and (d) an assessment of the ability of one resource/activity to lead to sustained competitive advantage. You should also offer 1-2 key takeaways that you have learned from completing this group project.

QUIZ #1 ADMINISTERED IN CLASS SESSION 3

RYANAIR EXERCISE ON BLACKBOARD – DUE IN CLASS IN SESSION 4

Session 4: How do competitive interactions affect profitability?

Aug 29, 9am-12pm

Cases: Dogfight Over Europe: Ryanair (in electronic coursepack)

Read: Ghemawat, “Competitive Dynamics” (in electronic coursepack)

Case Questions:

- 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/British Airways to retaliate against Ryanair’s launch rather than accommodate it?

BACK BAY BATTERY SIMULATION PRE WORK – DUE BEFORE CLASS FOR SESSION 5

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Session 5:
Aug 29, 1pm-4pm

How do managerial choices affect profitability?
*Case: **Back Bay Battery Simulation** (available online; see below)*
*Read: **Foster & Kaplan, “Creative Destruction”***

- Case Prep:
- 1) Register and play at least one round of the simulation *individually* before class.
 - 2) Summarize some of the lessons you have learned from running the simulation individually.
 - 3) Ensure that at least one member of the team brings a laptop to the class. In class we will run this simulation in groups.

Note: This simulation is run online. Once its URL is posted (sometime before class), each student is required to register an individual account and purchase access to the online simulation from Harvard Business Publishing (\$12.50 per person).

QUIZ #2 ADMINISTERED IN CLASS SESSION 5

Session 6:
Aug 30, 1pm-4pm

How can we build a framework for strategic decision-making?
*Case: **Sunrise Medical** (in electronic coursepack)*
*Read: **Porter, “What is Strategy?”***

- Case Questions:
- The only real question is, "Should Chandler allow Guardian to introduce the lightweight standard wheelchair?" But in class I'm going to ask you how you would structure your analysis to answer that question. Think about:
- 1) How relevant is industry structure?
 - 2) How relevant are the core competencies of any of the firms?
 - 3) How important is expected competitive response?
 - 4) What else may be important to consider?

FINAL EXAM:

For those students choosing to complete the take-home final, the case (**Robert Mondavi Winery**) is included in your electronic coursepack. The questions and additional information will be distributed after our last class. The write-up will be due exactly one week after our final class (September 6, 4:00pm). The final exam will be a case write-up exercise, and the response will be no more than five (5) pages long, single-spaced, including any necessary exhibits.

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Additional Reading Recommendations

Believe it or not, I get asked a lot for what *else* people can read on these subjects. The following readings (organized as general readings and by session) are offered as suggestions of additional readings, either to provide more detail on specific subjects or to serve as references in the future. All journal articles are readily available through the NYU online library catalog, and all books should be readily available on Half.com or other resources for textbooks.

General Texts

Grant, Robert M. Contemporary Strategy Analysis. Wiley-Blackwell Publishing, Sixth Edition is 2007.

This is probably the most accessible and comprehensive classic on competitive AND corporate strategy, but is somewhat long (~500 pages). A fantastic reference, though.

Ghemawat, Pankaj. Strategy and the Business Landscape. Harvard Business School Publishing, Third Edition is 2008.

The “other” strategy textbook really worth talking about. It is shorter (160 pages), but really, really dense and challenging to get through. Again, not a book to really sit down and just read.

The External Environment

Really, the Porter (2008) article should be considered the best resource for Five Forces. More generally, Porter’s Competitive Strategy book will have more breadth but still focus on industry and positioning topics.

Strategic Positioning

The general books listed above, as well as Porter’s Competitive Strategy, would be the primary places to turn. Here are some more academic articles worth considering:

- Caves, Richard and Michael Porter. “From entry barriers to mobility barriers.” *Quarterly Journal of Economics*, 1977.
- McGee, John and Howard Thomas. “Strategic groups: Theory, research and taxonomy.” *Strategic Management Journal*, 1986.
- Cool, Karel and I. Dierickx. “Rivalry, strategic groups and firm profitability.” *Strategic Management Journal*, 1993.

Value Chain and Resource-Based View of the Firm

The general books notes above and the Barney article are the best general resources.

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Game Theory

Clearly there are TONS of economics-leaning articles and books on game theory, and many more that make it accessible to practitioners. But here are some recent classics that are worth checking out if you are interested, the first a little more about classic game theory and the second about newer, cooperative games.

- Brandenburger, A. and B. Nalebuff. “The Right Game”, Harvard Business Review, 1995.
- Brandenburger, A. and H. Stuart. “Value-Based Strategies”, Journal of Economics and Management Strategy, 1996.
- Dixit, A. and B. Nalebuff. Thinking Strategically: The Competitive Edge in Business, Politics and Everyday Life. W.W. Norton Publishing, 1993.
- Dixit, A. and B. Nalebuff. The Art of Strategy: A Game Theorist’s Guide to Success in Business and Life. W.W. Norton Publishing, 2008.

Industry Dynamics and Change

Practitioner Articles:

- Barwise, P., P. Marsh and R. Wensley. “Must finance and strategy clash?” Harvard Business Review, 1989.
- Christensen, C. “The past and future of competitive advantage.” Sloan Management Review, 2001.

Books:

I’d lead with the Christensen book as it is very popular and well-received, even if I have some concerns about its core message. The Brown-Eisenhardt books is also quite good.

- Brown, Shona and Kathy Eisenhardt. Competing on the Edge: Strategy as Structured Chaos. Harvard Business School Press, 1998.
- Christensen, Clayton. The Innovator’s Dilemma. Collins Business, 2003.
- D’Aveni, Richard. Hypercompetition. Free Press, 1994.
- Utterback, James. Mastering the Dynamics of Innovation. Harvard Business School Press, 1996.

Academic articles (pretty accessible by practitioners):

The key elements of the Eisenhardt article are covered in the book above, so skip it if you are reading the book. Nicolaj Siggelkow was my advisor at Wharton, and this article won the award for the most influential article from 2003 in that journal – a pretty big deal in the field.

- Eisenhardt, Kathy. “Making fast strategic decisions in high-velocity environments.” *Academy of Management Journal*, 1989.
- Siggelkow, Nicolaj. “Change in the presence of fit: The rise, the fall and the renaissance of Liz Claiborne.” *Administrative Sciences Quarterly*, 2003.