Core Strategy
New York University, Stern School of Business
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Office Hours: Wednesdays, 10:00-12:00 (tentative)

Class Timing: Mondays, 9:00-11:50 (Block 2 in KMEC 2-70) and 1:30-4:20 (Block 4 in KMEC 3-65)
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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 a series of 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 the scope (horizontal and vertical) and scale of the firm’s multiple lines of business
• Variance in profitability is tied to the means by which the firm has grown and chosen to accumulate resources and assets
• Variance in profitability is tied to superior decision-making and corporate governance

Obviously, these five answers are interrelated and are not mutually exclusive. Additionally, the role of managerial decision-making is not limited only to the last 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 four 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 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 useful information from previous work experience, this can be very helpful 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. Most of the cases (unless otherwise noted) are part of your electronic coursepack from HBS Publishing. It may be helpful in some cases to have access to the cases during class – you can bring printed copies or use a tablet in class to access the cases. Another option would be to coordinate with 1-2 people sitting next to you to share printed copies of the cases.

**Additional Readings:** There is no single text assigned to this course. Instead, I have selected a mix of classic and modern readings in the area of strategy to provide the background and frameworks for our case discussions. These readings are either in your electronic coursepack or available electronically on our NYUClasses 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.

**Videos:** I cannot always find readings that I love for each week, and so I have created a series of short videos to complement the in-class material. These videos should be thought of as additional readings (and in most cases they replace other readings that I used to use). They also allow me to move lecture-type material out of the classroom, allowing for more time for discussion and interaction in the classroom. I will occasionally repeat and expand on a few slides from the video in class, but I absolutely will not be repeating in the entire video lecture in class.

**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 NYUClasses.

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 each 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.

### Grading for the Course

Course grading will be based on the following:

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tr>
<td>Class Participation, Activities &amp; Attendance</td>
<td>25%</td>
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<tr>
<td>Assignments (incl. Current Events Assignment)</td>
<td>20%</td>
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<tr>
<td>Group Project I (due before Session 7)</td>
<td>15%</td>
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<tr>
<td>Group Projects II (due before Session 12)</td>
<td>15%</td>
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<tr>
<td>Individual Final Assignment</td>
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<td><strong>TOTAL</strong></td>
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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-. 
Participation: Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Learning opportunities are maximized when all students are actively engaged in class discussion. Some ideas on ways to maximize your participation score and what you learn from class:

- Read the assigned reading closely, and the case multiple times, before class
- Look at the guidance questions on the syllabus below and think about potential answers
- Try to link the readings and the case – they are assigned together for a good reason (hopefully)
- Listen carefully to the comments of others – repeating prior comments will lose you points, but building constructively on prior comments can be beneficial
- Be willing to take a chance and actively engage in class
- Think for a second before you put up your hand and answer a few questions:
  - Is what you have to offer novel?
  - Does it move the course discussion along in a significant and relevant way?
  - Is your comment at least semi-structured, or are you planning to talk it out once I call on you? FYI, I’m not a fan of the latter plan.
  - Can you put your idea into the “language” of the class and business?

Small Group Assignments: As noted on the syllabus (I will also remind you in class), some class sessions have a homework assignment to be done before class. Some of these are done individually, some are done as a full study group (you assigned groups through Stern), and some are done in small groups. For the small groups, I expect you to split your study group into two groups of 2-3 students each. I do not care if you use the same small group each time, or if you re-divide your group each time. These are graded based on (a) timely completion, (b) making a good-faith effort, and (c) the quality of the content. I do not expect that any out-of-class assignments should take a significant amount of time (i.e. more than an hour), other than the reading necessary to do the assignment.

Current Events Assignments: As part of your “assignments” grade, each group will be responsible for 15 minutes of class at one point during the semester. Building from a current events article that you feel has important ramifications for strategy, you will present 1-3 slides that lays out the basic issues of the article. Your slides must (a) describe the company in brief, (b) describe the specific issue or event, (c) identify the strategic relevance of what is going, and (d) end with a question to prompt discussion. You have five (5) minutes for this part. Then your group will lead a ten (10) minute discussion about the company and issue. You should NOT do the same company for your current event and your group projects. I will randomly assign the order in which groups will present, but one group will present each and every week from Session 2 to Session 13. Email your slides to me before class.

Group Projects: There are two projects (one on competitive strategy, one on corporate strategy) that are due for the class. These can be done in your study groups. The details of the projects are available later in this syllabus. The projects will be due (electronically) before the start of Session 7 and Session 12. Good projects will have a clear structure that relates to the course content, provide the right data and analysis, offer a coherent and supported answer to an interesting question, and draw insightful conclusions.

Final Assignment: There is a take-home final exam that students must complete individually. This case and the questions will be distributed during the last class, and will be due one week after the final class session.

**Group Projects Information**

For each project, you will pick a particular company (product- or service-based) on which to focus. This may be a company that you know well or have worked for, or a company that you are interested in. Industries on which we focus in class (case or discussion) before the project due date are generally bad ideas for project topics. If you are at all uncertain whether your choice may qualify, please contact me.
Format: The projects are to be completed using PowerPoint, but they will not be presented in class. Thus, they should use the visual tools and orientation of PowerPoint, but they will likely use more text than you “should” on a PowerPoint slide. Only the written slides will be graded, so make the presentation work as a “reading deck”. For each project, you are limited to seven (7) slides of content (excluding the cover and references).

Note: I do not expect “formal” citations, but I expect you to make it clear what you are claiming as your own original contribution and what you have borrowed from elsewhere. All submissions will be made through TurnItIn.com.

Project I (due on NYUClasses before Session 7)
As a team, select one relatively successful firm (or SBU) in a single industry (relatively narrowly defined – check with me if you have questions). Analyze the rationale and sustainability of its leading/strong position. Prepare a short memo (use PowerPoint, <=7 slides) with:

• Basic info on the chosen company, including assessment of strategy, how the strategy creates value, and an assessments of key factors of the overall industry (Five Forces is fine, but not required)
• Strategic group map with 3+ other competitors
• Discussion of four important activities and/or resources that the firm uses to support its strategy, including discussing how the activity/resource supports the strategy
• Discussion of ability of one such activity/resource to provide sustainable competitive advantage (you do not have to conclude that the resource DOES provide an advantage, just assess whether it can and why)
• 2+ key takeaways (i.e. “What did I learn from doing this analysis?”)

Project II (due on NYUClasses before Session 12)
As a team, select one relatively successful multi-business firm. Analyze the rationale and sustainability of its leading/strong position based on its corporate strategy. Prepare a short memo (use PowerPoint, <=7 slides) with:

• Basic info on the chosen company, including assessment of how the firm’s strategy creates value in at least three (3) of its different business lines
• An assessment of the firm’s scope choices (horizontal and vertical), given the various course concepts that we have used to assess firm scope. Why does the firm draw its boundaries as it does?
• An assessment of how the company has accumulated at least a few of its major businesses/resources/knowledge. To what extent do the firm’s choices create value?
• 2+ key takeaways (i.e. “What did I learn from doing this analysis?”)

Data Sources
Some online resource suggestions for data…

• NYU Virtual Business Library
  • http://library.nyu.edu/vbl/
  • Under “Company and Financial Information”
    • D&B Million Dollar DBase and Hoovers Online have basic information
    • Factiva provides ability to search news stories
    • Investext and ValueLine provide analyst reports on companies, industries
    • Mergent Online provides info on products, partners, etc.
    • Datamonitor Reports (available via EBSCO Business Source Premier) provide detailed data and analysis on a limited set of companies
DRAFT SYLLABUS – SUBJECT TO CHANGE

- Other resources:
  - Company annual reports (especially for Project II on firm scope and growth)
  - Company websites (mission statements, organization structure, etc.)
  - Newspaper reports (often find one with detailed, inside access)

Other Course Policies

Course Materials: All materials listed in the course schedule are required for the class. In order to find all of the materials, please follow these instructions:

- Coursepack materials for the course can be purchased directly through HBS Publishing’s website:
  - https://cb.hbsp.harvard.edu/cbmp/access/20231992 (Block 2 and Block 4)

- Log onto NYU Classes to access the remainder of the readings, including the “cases” for Session 4 and 5, other articles for class, memos that I have written covering material, and additional materials for 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 7, the “case” is an online simulation. The URL for the simulation is below. Before Session 7, each individual will need to (a) log onto the website, (b) pay the HBS Publishing fee to gain access to the simulation, and (c) play one full round (until the simulation finishes or you get fired). In class, you will run the simulation through in groups (2-3 students). Note for Mac users – you must use Mozilla Firefox as your browser, not Safari.
  - https://cb.hbsp.harvard.edu/cbmp/access/20241139 (BLOCK 2 ONLY)
  - https://cb.hbsp.harvard.edu/cbmp/access/20241141 (BLOCK 4 ONLY)

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).

Laptops: I do not allow students to use laptops during class time, though you are welcome to bring laptops to class. (Note that each group of 2-3 students will need a laptop for the Strategy Simulation, and groups will need a 1-2 laptops for Session 10.) Laptops, even when used to take notes, constitute a distraction to other students that outweighs any potential benefits. The goal of the course is to build strategy 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 all slides that I show.

Cold Calling: I reserve the right to 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.
Course Schedule

1: September 9

**How do organizations create and capture value?**
CASE: Performance Indicator (HBS 9-702-480)
READ: Ghemawat & Rivkin, “Creating Competitive Advantage” (HBS 9-798-062)

Study Questions:  
1) Why has it been so difficult for Osinski & Winskowicz to get a golf ball manufacturer to sign a contract for their new technology?  
2) How much do you think a potential customer (that is, a golf ball manufacturer such as Bridgestone or Acushnet) should be willing to pay for Performance Indicator’s technology?  
3) What should Osinski & Winskowicz do?

2: September 16

**Why are some industries more attractive than others?**
CASE: Apple Computers in 2006 (HBS 9-706-496)

Assignment (small groups, 2-3 students): Use Porter’s Five Forces to analyze the personal computer market in the mid-1980s based on information in the case. One page (single spaced, one side) max write-up to be brought to Session 2.

Study Questions:  
1) Analyze the structure of the personal computer industry over the period 1984-2006. 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?

3: September 23

**How do different niches create different outcomes?**
CASE: The Boston Beer Company (HBS 9-196-138; focus on the text and only the exhibits required to complete the assignment)
CASE: Additional financial information (on NYUClasses)
WATCH: Video on “Positioning” (on NYUClasses)
READ: Memo on “Ratio Analysis” (on NYUClasses)

Assignment (small groups, 2-3 students): Ratio analysis exercise on Boston Beer due in class AT THE START of Session 3. See assignment details on NYUClasses in the Assignments tab.

Study 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?
4: September 30  
How do firms support their niche choices, and how do “resources” affect profitability?
CASE: McKinsey article, two Toyota articles (all on NYUClasses)  
WATCH: Video on “Value Chain & Resources”  
READ: Barney, “Firm Resources and Sustained Competitive Advantage” (Journal of Management, reprint on NYUClasses)

Study Questions:  
1) What is the unique source of competitive advantage developed by McKinsey and by Toyota? Where in the organizations is it located?  
2) What are the similarities and differences between how the two companies develop and maintain their core competencies?  
3) What challenges have they faced in leveraging these capabilities into new markets/businesses? How did they address these challenges?  
4) Are there certain aspects of their core competencies that have created problems for either company over time?

5: October 7  
How do firms use different levers to create value?  
WATCH: ABCNews video on Whole Foods & John Mackey at https://www.youtube.com/watch?v=f6c8oqK-OIk  

Study Questions:  
1) What is Aldi’s strategy to create value? How do they support that strategy? Are there inconsistencies in their strategy?  
2) Compare this with Whole Foods’ strategy to create value?  
3) Both Whole Foods and Aldi are leaders in private label products. Why does this strategy make sense for each, even though they are very different firms?

6: October 14  
How do competitive interactions affect profitability?  
CASE: Dogfight Over Europe: Ryanair (A) (HBS 9-700-115)  

Study 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?
7: October 21 How do uncertainty and industry evolution affect profitability? 
CASE: Strategic Innovation Simulation: Back Bay Battery (separate coursepack through HBS Publishing) 
WATCH: Video on “Industry Dynamics & Strategy” (on NYUClasses) 

Assignment (full group): Group Project I due
Assignment (individual): Register and play ONE FULL ROUND of the simulation individually before class (through to completion or until fired). Summarize some of the lessons you have learned from running the simulation individually.
Assignment (small groups, 2-3 students): Bring at least one laptop to class.

8: October 28 How do firms gain advantage through scale and horizontal scope? 
CASE: International Management Group (HBS 9-702-409) 
READ: Piskorski, “Note on Corporate Strategy” (HBS 9-705-449)

Study Questions: 1) Where does the value in the relationship between clients and IMG reside? Is it with the agents? With IMG? Elsewhere?
2) Evaluate IMG’s various decisions to enter new areas or lines of business? Which areas of expansion do you consider most sensible, and which are least compelling?
3) What do you perceive to be the biggest challenge in structuring an organization like IMG? How might these difficulties be overcome?
4) If you were a potential competitor to IMG, what strategy would you pursue to compete against it? Where do you think IMG is most vulnerable today?

9: November 4 How do firms gain advantage through considering “make or buy” decisions? 
CASE: Nucleon, Inc. (HBS 9-692-041) 
WATCH: Video on “Markets & Hierarchies” (on NYUClasses) 
READ: Anand, Khanna & Rivkin, “Market Failures” (HBS 9-700-127) 
EXTRA (optional): Stuckey & White, “When and When Not to Vertically Integrate” (Sloan Management Review, reprint on NYUClasses)

Study Questions: 1) What are your recommendations regarding the manufacturing or CRP-1 for Phase I and Phase II clinical trials? What are your recommendations regarding manufacturing for Phase III clinical trials and commercialization?
2) How would you justify your recommendations to would-be investors in the company?
3) What is your recommendation regarding Nucleon’s long-term manufacturing strategy? What should this company look like in 10 years?
10: November 11  
**How do firms create (or destroy) value through their entry mode choices?**

**CASE:** “Ripped from the Headlines” (bring 1-2 laptops per group)

**WATCH:** Video on “Entry Modes” (on NYUClasses)


_Assignment (full 5-6 person group):_ Find one or more articles on a single corporate boundary change (entering a new industry, vertical integration, entering a new geographic market). Entry can be by any means – M&A, internal development, licensing, alliance, joint venture, etc. Bring article(s) and 1-2 laptops per group to class.

11: November 18  
**How do managers organize and govern multi-business firms?**

**CASE:** Alibaba Group (HBS 9-710-436)

**WATCH:** Video on “Post-Merger Integration” (on NYUClasses)

**READ:** Collis, “Managing the Multibusiness Corp” (HBS 9-391-286)

_Assignment (individual):_ The homework sheet for the MicroDesign exercise (handed out in class in Session 10) will be due at the start of this session. Contact me if you did not receive a homework sheet.

_Section 1 Study Questions:_

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

**How do stakeholders affect the ability to create and appropriate value?**
**CASE:** Mattel & the Toy Recalls (HBS 908M10)
**WATCH:** Video on “Internationalization” (on NYUClasses)
**READ:** Porter & Kramer, “Strategy & Society” (Harvard Business Review, reprint on NYUClasses)

*Assignment (full group): Group Project II due*

**Study Questions:**
1) What are the characteristics of the toy industry and how do they affect toy making?
2) What challenges do toy companies face in managing offshore?
3) What are Mattel’s key strengths? What is the nature of the product quality problem faced by Mattel? What organizational practices of Mattel contributed to this problem?
4) What can Mattel do to enhance product quality?
5) Which told should be recalled? What should the recall strategy be?

13: December 9

**Wrap-Up – Where do we go from here?**
**CASE:** Ducati (HBS 701132)
**READ:** McKinsey Quarterly, “Strategy’s Strategist: An Interview with Richard Rumelt” (McKinsey Quarterly, reprint on NYUClasses)
**READ:** Clayton Christensen, “The Past and Future of Competitive Advantage” (MIT Sloan Management Review, reprint on NYUClasses)

**Study Questions:**
1) How did Ducati become the second most profitable motorcycle maker in the world despite its small scale? What is the fundamental economic logic of Minoli’s turnaround?
2) Can Ducati sustain its position in the sports segment? Can Honda or the other Japanese manufacturers stop its growth in this segment?
3) What strategic alternatives are available to Minoli in 2001?
4) Which alternative would you recommend? Why?