Advanced Strategy Analysis
New York University, Stern School of Business
Fall, 2012
B65.3328

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Classroom Location: KMEC 3-55

Introduction

Senior managers and those that advise them make significant, path-creating strategic decisions as part of their jobs. Such decisions may include acquiring another firm, introducing a new product or process, responding to a crisis, or forming a strategic alliance. These decisions are not simple, nor are they based on a single function – finance, marketing, operations, etc. And yet our views of these transactions in many MBA courses are based on a single functional approach.

This course focuses on such strategic decisions. It has been designed as an integrative capstone class for your entire MBA program. A significant portion of the class will involve considering how strategic, organizational, marketing, and operational perspectives affect the assumptions that are included in traditional discounted cash flow analysis, but many other points of integration will also be considered. View this class as a “lab” in which to explore and understand how the different functional classes that you have been taking during your MBA fit together.

This class takes two complementary views. First, we discuss the “content” of strategic decisions, including how to apply managerial economics and other perspectives to make the correct decision. Second, we discuss the “process” of strategic decisions, which analyzes the people, processes, and structures that affect how decisions really get made within organizations. Each view is important on its own, as well as interacting with the other to model the actual decisions that get made. We will apply these two views – content and process – to a number of different strategic decisions, some of which will look like ones that you have seen in other courses, and some of which may be more novel. In each case, the “decision” will be the unit of analysis – we are interested in understanding the antecedents, the context, the process, and the outcome the strategic decisions studied.

Broadly speaking, the decisions we will look at fall into three categories – decisions about the boundaries of the firm, decisions about strategic investments, and decisions about the sustainability of competitive advantage over time. The two primary components for the class will be case-driven in-class discussion of the topics, and a semester-long group project. With the understanding that different students learn in different ways, we will take a variety of approaches to in-class activities – readings, lectures, traditional case discussions, small group work, simulations, and experiential exercises.

Who Should Take This Course?

This targets a broad audience, as it is designed as a capstone course for the entire MBA program approached from a strategic decision-making perspective. The obvious application would be for those interested in strategic consulting opportunities, either for a consulting firm or as an internal consultant for a large firm. Based on my experiences in strategy consulting, many of the cases and decisions that you will evaluate will be the types of projects with the types of analyses that strategy consultants might employ. Another obvious application would be for those interested in financial research careers, assessing the rationales behind the key strategic decisions that firms make and how likely they are to be successful. We will rely on the analysis of people in those positions in understanding some decisions, and we will work on learning how to do good research on the decisions of firms based on publicly available
This course provides insight into the strategic decision-making process of the entire top management team, it is helpful for all students with aspirations of taking on general or functional management roles, either in small entrepreneurial settings or in large, established firms.

**This Course in Relation to Other Classes at NYU Stern**

As a capstone course, this course is designed to be taken near the end of a student’s MBA experience. While there are no prerequisites (other than core strategy), I would strongly recommend waiting as long as feasible before taking this class, as there are a number of other courses that may be potentially beneficial to have taken before taking this class. These include courses in finance (covering NPV and other project-level analysis, and financial mechanisms of corporate control), accounting (covering the rigorous analysis of financial statements), marketing (covering brand development, market planning, and competitive positioning), operations (covering statistical analysis, decision-making processes, and firm-level operations management), and management (covering organizational growth, strategy implementation, team dynamics, and leadership). Obviously no single student is expected to have taken all of these classes, but you should seek to build cross-functional teams so that each team possesses most or all of this knowledge.

This course is designed to complement other related classes instead of substituting for them. For example, Competitive Strategy in the Marketplace (B70.2361) takes a competitive approach to strategy, while this class focuses more heavily on the internal functioning of the firm and non-competitive relationships (though competition plays a role here, as well). Additionally, Game Theory & Business Strategy (B65.3323) provides theoretical tools of game theory that can be applied in many of the hands-on cases, exercises, and projects in this class.

**Groups and Group Work**

This class is designed to be 100% group-driven. All assignments either can be completed in groups (homework and case preparation) or are required to be completed in groups (in-class exercises, group project activities). Participation will be graded on an individual basis, but preparation for class in groups is encouraged. Students will form groups at the beginning of the semester and will keep those groups for all assignments throughout the semester. Target group size is five to six students.

In general, the best functioning teams tend to mimic top management teams. Thus, each group would have at least one person with significant operations/statistics coursework (a COO), finance and financial statement coursework (a CFO), marketing and customer-focused coursework (a CMO), and strategic and leadership coursework (a CEO). I expect that all group members will contribute equally over the course of the semester, but I reserve the right (after consulting with team members) to allow group members to rate each member’s contribution for grading purposes.
Learning and Evaluation Components

The grading for this course is built around two primary components – the in-class, case-based experience and the group project. In the end, the only way to get an A or A- in the class is to (a) come to class prepared, be willing to participate, and make quality comments during the semester and (b) complete a high-quality group project. The specific grading breakdown is as follows:

<table>
<thead>
<tr>
<th>In-Class Components</th>
<th>20%</th>
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<tbody>
<tr>
<td>Class Participation</td>
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<tr>
<td>In-Class Activities (Sessions 4-8)</td>
<td>15%</td>
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<tr>
<td>Project Components</td>
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<tr>
<td>Proposal (Session 3)</td>
<td>5%</td>
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<tr>
<td>Draft Project (Session 8)</td>
<td>10%</td>
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<tr>
<td>Peer Project Feedback (Session 9)</td>
<td>5%</td>
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<tr>
<td>Project Presentation (Session 11)</td>
<td>15%</td>
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<tr>
<td>Final Project (post-Sessions 12)</td>
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<td>TOTAL</td>
<td>100%</td>
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Class Participation (20%): The class discussions will be case-based with 1-2 cases or activities per class session. I will keep track of your class participation on a class-by-class basis. Overall, your participation will be graded on your willingness to contribute in a positive way to the classroom discussion (the baseline expectation) and on your ability to offer well-developed and advanced insights that help move the discussion forward. Grading will weighted more towards quality versus quantity of contributions. If you are concerned that this emphasis on in-class participation biases grading against you, meet with me.

In-Class Activities (15%): Sessions 4 through 8 will each feature some sort of in-class activity – an exercise, a group breakout session with a deliverable, or an in-class simulation. In general, grading will be based on completing the assignment adequately and showing significant effort; a limited bonus will be available to individuals/groups that perform the best.

Group Project (65% total): The centerpiece of the class is a semester-long group project. The broad scope of the assignment is to choose a single company (ideally publicly-traded and either single-business or relatively narrow in scope) and follow its history over a long period of time (10+ years). The goal, however, is NOT to write a biography of the company, but to focus on 1-2 key decisions the firm has faced in its past, and on a current challenge facing the firm. Thus you will have 2-3 discrete components with a minimal historical thread to get from one to the next.

For each discrete decision point, you should focus on understanding the decision from the perspective of those that made the decision (not just analyzing the outcome of the decision). We want to understand both the “right” decision to make as well as the actual decision that was made and why it was made. Some ideas of what to cover for each point:

- The context of the decision, both inside the firm and externally
- The types of data that would be useful to make the decision (and what you can recreate)
- The types of analyses that would be useful to understand the decision (and your actual analysis using whatever data are available)
- What other factors that may have affected the decision making process
- What decision was made by the company and how it was intended to create value (for historical decisions), or what options are available to the company going forward (for current challenges)
- Whether the firm adequately supported its strategy, and an evaluation of the efficacy of the decision (for historical decisions only), or what your recommended choice would be and how it should be supported (for current challenges)

In many respects, you can think about each discrete decision as a “mini-case” of the variety that we discuss in class, with the caveat that you are also supposed to do the analysis to answer the case, as well. You should be ready to use tools developed throughout their MBA experience to address these questions, including financial statement analysis, NPV estimates, regression analysis, and strategy and marketing analysis to complete the project. Additional details will be provided in class.

There are five parts of the group project assignment. First, groups will turn in a proposal before Session 3. The proposal can be short, but should identify the firm, the current challenge it faces, and at least one historical decision (you can select more once you do more research). You should also discuss some ideas of data sources that might be useful for the project. This counts for 5% of your grade. Second, groups will turn in a rough draft of their project before Session 8. This draft will be graded (with expectations befitting an early draft) and feedback provided by my teaching assistant (I will look over them as well), and this draft will count for 10% of the grade. Third, in addition to turning its project in to the instructor, each group will also turn their project in to one other group, who will be responsible for reading the project and providing written feedback that the writing group can use to improve their draft. I will grade the feedback given by each group for its quality, completeness, and the degree to which it is effective and constructive for 5% of the overall grade. To be clear, you will not be graded based on the feedback that you receive, but on the feedback that you give. This feedback will be due one week after the draft is turned in – before Session 9. Third, each group will have the opportunity to present their project to the class in Session 11. This presentation will count for 15% of the final grade. Fourth, the written project will be due to me before midnight on Sunday, December 23, 2012, and will count for 30% of the grade.

\[A \text{ Short Note on Proper Citations}^1\]

To most of you this will be probably self-evident, but I want to make sure that we all understand: Copying paragraphs from sources (magazine, newspaper articles, analyst reports etc.) without properly citing them is a SERIOUS offense! Properly citing means: if you copy word-by-word, you have to mark this by enclosing the copied text with quotation marks “ “ and citing the source (MLA and APA format are both fine). Even if you don’t copy word-by-word, but you take someone else’s idea (or their NPV analysis or anything else of the kind), you have to indicate in a citation the source of that idea. This citation has to follow directly the idea (attach a footnote or an endnote). At the end of the paper, you should then list all sources that you have cited in the text. I expect to be able to tell exactly when you are claiming an idea or analysis to be your own and when it has been borrowed.

Let me re-iterate: Non-proper citing is a very serious academic offense that in other courses has led professors to fail students and bring these students to the attention of the academic review board of the University. I think all of us want to avoid any such incident – and it is really easy to avoid such problems. Simply be careful in your papers that you attribute ideas/frameworks etc. that you use to their respective sources.

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1 For the sake of disclosure, this note has been borrowed from Professor Nicolaj Siggelkow at Wharton.
Other Course Policies

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

- Coursepack: The coursepack contains most of the cases and a few of the readings for the class. The coursepack is available through the Harvard Business Publishing website. Do not purchase the coursepack through the NYU Bookstore. Every single student will not need access to the simulations (you will do them in small groups), so if you choose to share coursepacks and such is feasible, that will work with this class:
  
  [http://cb.hbsp.harvard.edu/cb/access/15268924](http://cb.hbsp.harvard.edu/cb/access/15268924)

- Handout Fee: There may be an additional fee that I will collect from you to pay for case handouts. More information later.

- Readings: Log onto Blackboard to access the remainder of the readings and additional case materials. 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). Pre-class slides will be “censored” with full versions available after each class session.

Readings: Most course sessions have at least one assigned reading in addition to the case material; as the semester progresses there will be fewer assigned readings to allow more time for project work. Some of these readings are challenging and will require significant thought to get the full point. I also highly recommend reading the posted slides before class. I will often “thin out” the slides that I present in class, but the online decks will have significantly more detail and can serve as a comprehensive course text. In addition, most class sessions will also have “extra” readings listed. These readings are optional, but may be useful if you are interested in the subject or for the group project work.

Attendance: Attendance, preparation, and participation are essential in this class. If you miss all or part of any class I will assume that your absence is legitimate. Recognize that attendance – including participation in the in-class activities in Sessions 4-8 – provide me objective information about participation.

Laptops: The use of laptops and cell phones during class tend to constitute a distraction, both to you and to those around (and behind) you. In my mind this distraction outweighs any potential benefits in a class like this. Use of an iPad or other tablet for access to cases and slides is acceptable.

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.

In-Class Seating: To help me keep track of class participation, I ask that students pick seats in Session 1 and remain in roughly the same space for the first few classes (so I can feel completely comfortable with who you are). If any student has a significant reason why they need to move seats before then, they should talk with me directly before doing so.
Course Schedule

Session 1:  Topic:  What are the implications of strategic choices for fit & positioning?
             also, Approaches to strategic thinking and analysis
              
              Case:  Levi’s “Personal Pair” (in electronic coursepack)
              Read:  Siggelkow, “Evolution Towards Fit” (Administrative Science Quarterly), focus on pp. 125-129 and 132-150
                     Ghemawat & Rivkin, “Creating Competitive Advantage” (in electronic coursepack)
             Extra:  Liedtka, “Using Hypothesis-Driven Thinking in Strategy Consulting” (Darden Publishing)
                     Martin, “Design Thinking: How Thinking Like a Designer Can Create Sustainable Competitive Advantage” (Harvard Business Publishing)
              
            Case Questions:  1)  What is the potential strategic significance of the Personal Pair proposal? How might it position Levi Strauss relative to its chief rivals?
                            2)  Run the numbers in the case to analyze the profitability and investment per pair of jeans under the proposed program.
                            3)  Would this program create a sustainable competitive advantage? Why or why not?

Session 2:  Topic:  How should post-merger integration be handled?
             also, Decision-making processes in firms
              
              Case:  Lycos: The Tripod Decision (in electronic coursepack)
              Read:  Siggelkow, “Change in the Presence of Fit: The Rise, the Fall, and the Renaissance of Liz Claiborne” (Academy of Management Journal), focus on pp. 838-843 – skim the info on Liz to see how he uses it
                     Rivkin, “An Options-Led Approach to Making Strategic Choices” (HBS Note)
              
            Case Questions:  1)  In late 1997, Bob Davis, CEO of Lycos, is “not overly thrilled with the competitive landscape” (p.3 of the case). Why is Davis worried? How did Lycos get into this tough spot?
                            2)  Was acquiring Tripod the right way to improve Lycos’ competitive position?
                            3)  Now that Tripod has been acquired, what are the internally consistent options for integrating it into Lycos?
                            4)  Which integration option do you support? Why?

PAPER TOPIC PROPOSALS DUE BEFORE SESSION 3
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**Session 3:**

**Date:** 10/10/2012  
**Topic:** Should the firm vertically integrate?  
*also, Doing primary & secondary research*

**Case:** *Arauco: Forward Integration or Horizontal Expansion?* (in electronic coursepack)

**Read:** *Stuckey & White, “When and When Not To Vertically Integrate”*  
* (Sloan Management Review)

**Extra:** *Palich et. al., “Curvilinearity in the Diversification-Performance Linkage: An Examination of Over Three Decades of Research”*  
* (Strategic Management Journal)

**Case Questions:**
1. Should Arauco build the Nueva Aldea project?
2. What are the sources of Arauco’s competitive advantage?
3. Should Arauco own both forests and pulp production facilities? Does the Alto Parana project help you answer this question?

**Session 4:**

**Date:** 10/17/2012  
**Topic:** How should the firm relate to others in its value network?

**Case:** *Power Play: Nintendo in 8-bit Video Games* (in electronic coursepack)  
*WINTEL Simulation (done in class)*

**Read:** *Brandenburger & Stuart, “Value-Based Strategies”* (Journal of Economics & Management Strategy)


**Case Questions:**
1. Nintendo successfully recreated the home video game business following the Atari-era boom and bust. How did it do so?
2. How was Nintendo able to capture value from the home video game business?

**Session 5:**

**Date:** 10/24/2012  
**Topic:** How can the firm use alliances and partnerships to create value?

**Case:** *Hero Honda* (in electronic coursepack)  
*Global Game exercise (in class)*

**Read:** *Hansen & Nohria, “How to Build Collaborative Advantage”* (Sloan Management Review)

**Extra:** *Campbell & Reuer, “International Alliance Negotiations: Legal Issues for General Managers”* (Business Horizons)

**Case Questions:**
1. For Hero-Honda, why did each party enter into the strategic alliance?
2. Were the parties’ objectives compatible?
3. From Hero’s perspective, should the alliance have been managed differently?
4. What challenges does Hero face going forward?
Session 6:
Topic: How valuable is a strategic asset to the firm?
10/31/2012
Case: *A-Rod: Signing the Best Player in Baseball* (in electronic coursepack)
Read: *Barney, “Strategic Factor Markets”* (Management Science)

Case Questions:
1) We’ll run the numbers in class, but think about the NPV of the costs and revenues associated with signing Alex Rodriguez.
2) What costs and revenues can we readily quantify? Which take more work? Which are completely unquantifiable?
3) Should the Rangers sign Alex Rodriguez? Why or why not?

Session 7:
Topic: How should the make decisions about managing multiple projects?
also, How can firms appropriate the gains of their innovations?
11/7/2012
Case: *Capital Budgeting Simulation* (in electronic coursepack)

Case Questions: No questions, but prepare pre-reading for simulation before class

**PAPER DRAFT DUE TO INSTRUCTOR AND REVIEW GROUP BEFORE SESSION 8**

Session 8:
Topic: Should the firm invest in a new product?
11/14/2012
Case: *Airbus A3XX: Developing the World’s Largest Commercial Jet* (in electronic coursepack)
*Ghemawat & del Sol, “Commitment versus Flexibility?”* (California Management Review)

Case Questions:
1) How should Airbus cope with the uncertainty of this decision? What are the pros and cons of alternative choices?
2) What is Boeing’s likely response, and how does that affect Airbus’ choice?
3) How many planes must be sold per year to break even? Is that realistic?

**PEER PROJECT FEEDBACK DUE BEFORE SESSION 9**
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Session 9:  Topic: Why do firms sometimes struggle to succeed?
            11/28/2012 also, Two-sided and platform markets
Case: Microsoft’s Search (in electronic coursepack)

Case Questions: 1) How has Microsoft responded to competitive threats and opportunities in the past? What patterns do you see? What is your assessment?
2) How large is Microsoft’s competitive disadvantage in Internet search and search-related advertising in 2008? If the industry remains on its current trajectory, how will Microsoft’s disadvantage evolve over time?
3) Why is Microsoft pursuing the market for search and search-related advertising?
4) What integrated strategic option should Microsoft’s executives – especially Satya Nadella, Jay Giroto, and Gary Flake – pursue?

Session 10: Topic: How should the firm respond to crises?
12/5/2012 Case: Merck: Managing Vioxx (in electronic coursepack)

Case Questions: 1) Calculate the value of Vioxx over its remaining patent life.
2) How would you evaluate Merck’s efforts to validate the efficacy and safety of Vioxx?

Session 11: IN-CLASS PRESENTATIONS OF GROUP PROJECTS
12/12/2012

Session 12: Topic: How can the firm turn around its poor performance?
12/19/2012 also, Sustaining high performance
Case: TBD – Ripped from the Headlines!
Read: Gavetti & Rivkin, “The Use and Abuse of Analogies” (Harvard Business Review)

Case Questions: TBD

FINAL PROJECT DUE BY MIDNIGHT ON SUNDAY DECEMBER 23, 2012