COURSE OBJECTIVES AND OVERVIEW

The fundamental question of strategy is: “How can a firm make long-run profits?” “Raise revenues and cut costs” is the obvious answer, but it avoids the difficult part of the question. Namely, given that a firm has specific customers, locations, and legal/regulatory constraints, what can it do to raise revenues? And, given that the firm has specific technologies, processes, and organization, what can it do to cut costs? And finally, what can the firm do on either of these fronts that will not be eroded by the actions of its competitors, imitators, or new entrants? These are the difficult questions, particularly when one asks them in the context of a specific company. The objective of this course is to develop an analytical toolkit to answer these questions.

This course aims to teach you to be a better—meaning a more systematic, logical, complete, critical—thinker about strategy. This involves honing three primary skills.

- **Diagnosis.** Can you identify the salient details of a situation and understand their significance to strategy? We will learn to use various economics frameworks to isolate the details that matter for firm profitability from among the facts.
- **Creativity.** One theme of the course is that you can’t outperform your competitors by doing the same things they are doing. Finding new approaches and new ways to do things is often the key to a successful strategy.
- **Judgment.** You should not expect to gain from this course a body of business-related facts but the skills to evaluate the implications of the facts you face.

This is a “big picture” course. The emphasis of the course is not on understanding conceptually difficult material, but on how to apply simple—but powerful—ideas to think about how a firm achieves its fundamental goals of generating and sustaining profits. Accordingly, we will use cases and in-class exercises inspired by the real world to exemplify the theoretical frameworks introduced in class. This process facilitates experiential absorption of the links between academic theory and managerial practice. To be successful in this course, you must spend time actively and rigorously thinking about the details of the given case and relate your thoughts to the big picture. Not preparing for class or expecting to passively absorb the material will do you about as much good as watching an exercise class from the sidelines.
COURSE FORMAT

Each session will focus on specific concepts related to a firm’s profitability. Session discussions will rely on three elements: conceptual readings, in-class exercises, and business cases. The conceptual readings will provide depth and perspective to the discussion of business cases, and the in-class exercises will help illustrate the strategy-related concepts at play in the cases.

The course is organized into two broad sections. The first section, covered in the first three sessions, focuses on understanding the nature of the markets that firms compete in and the nature of interactions among firms in those markets.

I. Market and competitive analysis (Strategy Assessment)

Session 1: Value Creation/Capture Framework – How does a firm create value for customers, and how can it retain some of that value as profit?
Session 2: Industry Profitability – How do the circumstances of a firm’s industry affect its profitability?
Session 3: Competitive advantage and sustainability – What enables some firms to be more profitable than others, even within the same industry? How can this competitive advantage be maintained over the long term?

The second section covered in the last three sessions considers how a firm should compete and how it should adjust over time.

II. Positioning and dynamics (Strategy Formulation)

Session 4: Internal analysis – How do a firm’s internal structure, resources, and capabilities affect the strategy formulation process?
Session 5: Game theory and added value – How should firms factor the behavior and incentives of rivals into the strategy formulation process?
Session 6: Strategy and change – How should firms adjust their strategies to optimally react to change, particularly when market conditions are highly uncertain?
COURSE REQUIREMENTS AND GRADING

Readings

- There is no required text for the course. However, I will draw on a text *Economics of Strategy* (Fifth Edition) by Besanko, Dranove, Shanley and Schaefer (henceforth, BDSS) for some of my lectures. You are not expected to buy the book, but I would recommend it if you wanted sole ownership of a reference that relates Strategy to microeconomics concepts. If you decide to use the book, you may find useful my references to particular page numbers of the text under each Session’s optional readings below. I have also requested the University library to place this book on reserve.
- Short readings (typically 1-2 page “In the news” items from the popular press) will be occasionally distributed in class. We will quickly read these articles in class and relate them to the session’s concepts.
- I will post slides for each class after the day’s class.

Attendance

Preparation, attendance, and participation are essential in this class. Missing any class time will hamper your ability to learn the material, and will have an impact on your grade through missed participation opportunities as well as any missed assignments. Missing two or more of the six sessions will have a significant impact on your overall grade.

Grading

Your overall grade for the class will depend on four elements as follows.

<table>
<thead>
<tr>
<th>Element</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1. Class participation</td>
<td>20%</td>
</tr>
<tr>
<td>2. Four assignments (individual; 3 case write-ups and Simulation exercise prep)</td>
<td>30%</td>
</tr>
<tr>
<td>3. Progressive case analysis (group exercise)</td>
<td>20%</td>
</tr>
<tr>
<td>4. Take-home final exam (individual)</td>
<td>30%</td>
</tr>
</tbody>
</table>

1. **Class participation**

All class sessions involve active discussion based on the readings and cases, with an emphasis both on theoretical concepts and practical implications. You should be prepared to share your ideas and critically interpret the perspectives presented by others.

Please carefully review the readings and case preparation questions for every class session. Most class participation will be voluntary; however, to ensure that everyone has the opportunity to be involved, individuals will be frequently “cold-called.” Quantity of participation, if lacking in quality, will not be rewarded.

Quality participation typically involves:

- Applying the theory and concepts offered in the readings and lectures
- Providing careful analysis, and helping turn vague ideas into precise statements
- Offering relevant perspectives on the issue, in a way that is accurate and logically consistent
Moving the discussion forward by building on previous contributions with new insights
- Asking good questions. This is a skill to be practiced; good answers are rare, but so are good questions.

2. Assignments (four assignments, each turned-in individually)

Each student is required to turn in write-ups of any three cases of the five assigned cases for Sessions 1-5. The case write-ups are due in hard-copy at the start of the class during which we will discuss the case. Write-ups should be no longer than ONE single-spaced typed page with 12-point font and one inch margins. Diagrams can be used to supplement the text pages and do not count toward this limit. The three write-ups, each counted as an assignment, should focus on answering at least two of the “case preparation questions” available below for the corresponding case.

The fourth assignment is compulsory and requires each of you to register and play the Back Bay Battery simulation game before the start of Session 6. Students must complete ONE FULL ROUND (until 2016 or until fired) before Session 6. The four assignments will be reviewed, but not graded. However points will be deducted if the assignments are not completed.

3. Group project (Progressive case analysis, group exercise)

The project requires self-selected groups of 2-3 members to analyze a case available in your coursepacket. Write-ups should be no more than FOUR single-spaced pages with 12-point font and one inch margins. Diagrams can be used to supplement the text pages and do not count toward this limit. The analysis should focus on answering the questions in the group project guidelines posted on Blackboard. Each group should submit a hard-copy of its analysis at the beginning of Class # 6.

4. Take-home final exam (individual)

The final exam will be posted on Blackboard. It will be strictly individual and due 3 days after the last session. The exam will involve some conceptual questions and questions based on a “mini-case.” It is designed to take about 3 hours of your time.
ACADEMIC INTEGRITY

The four assignments are expected to be individual efforts. In general, you can and should use discussions with classmates to brainstorm issues, evaluate alternative approaches, and consider the merits of recommendations. However, use your own judgment to identify the important issues, to construct arguments and to develop conclusions. You should not consult the Internet, friends at other business schools, or people who have taken the course already for any of the assignments or the final exam. You may study for the final exam with others. However, once the exam has been posted, you should have absolutely no communication about the exam with anyone inside or outside the class (except to seek clarification questions from me).

In the context of this course, it is acceptable to refer to concepts, frameworks, and analytical tools from the readings or class lectures without citation. You may also refer to the case material without citation. However, do not quote or paraphrase analysis from another source and present it as your own.

The consequences of cheating can be failing an assignment or the course, or suspension or dismissal from the university. Please remember that you are governed by the MBA Honor Code. Moreover, every student is obligated to report any suspected violation of that code. You can find more information on the MBA Honor Code at http://w4.stern.nyu.edu/scorp/committee.cfm?doc_id=4797.

STUDENTS WITH DISABILITIES

If you are having trouble in class, I want to know about it as soon as possible. I will do my best to help students who, despite a sincere and solid effort, are experiencing difficulty. If you have a qualified disability and will require academic accommodation during this course, please contact the Moses Center for Students with Disabilities (CSD, 998-4980) and provide me with a letter outlining recommended accommodations.
SCHEDULE OF COURSE READINGS

SESSION 1: VALUE CREATION/CAPTURE

**Performance Indicator case write-up due**

**Key question:**
How does a firm create value for customers, and how can it retain some of that value as profit?

**Required reading:**
- P. Ghemawat and J.W. Rivkin “Creating Competitive Advantage” (HBS 9-798-062)
- CASE: PERFORMANCE INDICATOR (HBS 9-702-480)

**Case preparation questions:**
1. Does the Performance Indicator technology create value when it is incorporated into golf balls?
2. Suppose that Performance Indicator’s technology was widely adopted in golf balls. How would that change value creation and capture in the used ball market?
3. Suppose you are a new ball manufacturer. Is Exhibit 5 a reasonable estimate of the value to your firm of adopting the Performance Indicator technology? Why or why not?

**Optional reading:**
- BDSS, pp. 1-7; 11-34; 362-373

SESSION 2: INDUSTRY PROFITABILITY

**Apple Inc. case write-up due**

**Key question:**
How do the circumstances of a firm’s industry affect its profitability?

**Required reading:**
- CASE: APPLE INC. IN 2010 (HBS 9-710-467)

**Case preparation questions:**
1. Analyze the structure of the personal computer industry over the last two decades. 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?

**Optional reading:**
- BDSS, pp. 327-333; 336-350
SESSION 3: COMPETITIVE ADVANTAGE & SUSTAINABILITY

eHarmony case write-up due

Key questions:
What enables some firms to be more profitable than others, even within the same industry?
How can this competitive advantage be maintained over the long term?

Required reading:
- Threats to Sustainable Competitive Advantage (*Memo* available in Blackboard)
- CASE: EHARMONY (HBS 9-709-424)

Case preparation questions:
1. Why do people want to meet others on-line instead of finding them in the real-world?
2. Does eHarmony have a competitive advantage? If so, where does it come from?
3. Do you think eHarmony’s competitive advantage, if any, is sustainable? Why or why not?
4. Which of the four options should Waldorf pursue?

Optional reading:
- BDSS, pp. 61-67; 373-397; 410-434

SESSION 4: INTERNAL ANALYSIS

NEC and GTE case write-up due

Key question:
How do a firm’s internal structure, resources, and capabilities affect the strategy formulation process?

Required reading:
- CASE: CORE COMPETENCE AT NEC AND GTE (HKU213)

Case preparation questions:
1. To what do Prahalad and Hamel ascribe the difference in performance between NEC and GTE?
2. To what do you ascribe the difference in performance between NEC and GTE?

Optional reading:
- Ratio analysis memo
SESSION 5: GAME THEORY & ADDED VALUE

Intel case write-up due

Key question:
How should firms factor the behavior and incentives of rivals into the strategy formulation process?

Required reading:
- CASE: INTEL CORP. - 1968-2003 (HBS 9-703-427) and Intel Corp, 2005 (HBS 9-706-437)

Case preparation questions:
1. What are the lessons for their future microprocessor business that Intel should have taken away from their experience in the DRAM industry?
2. Intel begins in the microprocessor business without a lot of added value, and ends up with a lot. How and why did Intel's added value change? That is, what crucial watershed moments, events, or decisions brought about that change?
3. Which changes in the late-1990s and early-2000’s in the personal computer industry were the most significant threats to the competitive advantage Intel has had so far? Why?

Optional reading:
- BDSS, p. 34-38; 238-243; 333-335

SESSION 6: STRATEGY & CHANGE

Group-project Progressive case write-up due

Key question:
How should firms adjust their strategies to optimally react to change, particularly when market conditions are highly uncertain?

Required reading:
- CASE/SIMULATION EXERCISE: Back Bay Battery Simulation (HBS 2656; available online)

Exercise preparation:
1. Register and play ONE FULL ROUND of the simulation individually before class (through 2016 or until fired).
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.

Optional reading:
- BDSS, pp. 97-114
OTHER READINGS ON COMPETITIVE STRATEGY

The following are books and articles I have found directly or indirectly related to competitive strategy. These are not required for class and are purely recommendations in case you are interested.

1. “Popular readings” related to competitive strategy


2. “Text-books”
