Required Readings

The required readings are in the course pack, available at the NYU Bookstore, 726 Broadway. (There is no textbook.) There will be an additional reading distributed in class.

Overview

The course has three learning objectives.

1) Provide you with the theory to understand why a given company is (or is not) profitable. (For potential entrepreneurs, this theory becomes a tool to assess whether your proposed venture will be profitable in a competitive environment.)

2) Provide you with perspectives for assessing the sustainability of a given company’s profitability. We will place special emphasis on understanding and evaluating the key assumptions and judgments underpinning your assessments.

3) Enable you to identify the substantive issues behind the trends and frameworks in the strategy field.

To achieve these objectives, the course will utilize both case discussions and lectures. One of the key challenges of strategy is that decisions have to be made with limited and ambiguous information. Cases will provide us with a great way to simulate the ‘messiness’ of real-world decisions. Additionally, and concurrently, the course will provide an introduction to recent work in game theory providing formal foundations for the economics of strategy.

The course is loosely organized around the themes of value creation, value capture, and sustainability. Additionally, the course will provide a brief introduction to competitive dynamics.

Value and Competition  The foundation for understanding why a firm makes money, sometimes called a firm’s “competitive advantage.”


**Sustainability**  The question of whether or not a company will continue to be profitable.

**Competitive Dynamics**  Understanding what firms might do when they have well-defined strategic options.

**Requirements and Grading**

Grading will be based on six elements:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Initial Profitability Assessment</td>
<td>16%</td>
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<tr>
<td>Attendance</td>
<td>(see below)</td>
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<tr>
<td>Case Questions</td>
<td>24%</td>
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<tr>
<td>Class Participation</td>
<td>20%</td>
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<tr>
<td>Final Paper</td>
<td>40%</td>
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**Initial Profitability Assessment**

This is a brief (no more than one page) description of why your current company is profitable. It should include an answer to this question: why hasn’t competition eliminated your profits? This assessment can be done for your company, for a business unit in your company, or for a product line in your company. For those of you in currently unprofitable companies, I am assuming that at least one product line or business unit is profitable. If not, you can write about why profits have been eliminated. You will receive full credit for this assignment if you complete it by the first class.

**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. If you miss all or part of one three-hour session, I will assume that your absence is for legitimate reasons (as defined in Default Policies for Stern Courses). 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.

**Case Questions**

For each class, there will be a survey question (or questions) on Blackboard. They must be answered by 10:00pm the night before class. Each survey question counts 4% of your grade. The survey question will often be a simple question, and you will get full credit for any reasonable answer. The challenge is that in class, you must be sufficiently prepared to defend your answer.

**Class Participation**

Class Participation comprises 20% of your grade. Class participation is judged on the extent to which you appear prepared, the relevance and depth of your comments, the
degree to which you listen carefully and respond to your peers, and your willingness to take chances in order to further the educational experiences of others. Note that questions that clarify both your understanding and the understanding of your classmates are a form of good participation.

Final Paper

The remaining 40% of your course grade will be based on a paper due Sunday, January 23, at 11:00pm. There are two options for the final paper.

Option 1: Write a critique of your Initial Profitability Assessment. Redo the assessment using the concepts covered in the course, being sure to provide
- an analysis of why your product line/business unit/company is (or is not) currently profitable, and
- an assessment of the sustainability of the product line/business unit/company’s profitability.

Option 2: Write a paper about a firm that has a specific, motivating question. For example, should the firm change strategy? Is its current strategy sustainable?
- The paper should provide an analysis of why the firm is (or is not) currently profitable.
- It should provide an analysis of the motivating question, as well as a recommendation.
- It should include an assessment of the sustainability of the firm’s profitability (or expected profitability if a change in strategy is being recommended).

For both options, the recommended maximum length of the paper is 10 pages. (Concise writing will be rewarded.)

Option 2 may be written as a group paper.
Classroom Policies

Please remember that Business School classes take place in an environment that supports learning and encourages the exchange of ideas. Behavior that distracts students and the professor negatively affects the learning environment. For example,

- using electronic devices (including laptops) for purposes not authorized by the professor,
- arriving late to class or leaving early, and
- walking in and out during class

are particularly detrimental to the classroom environment. Consequently, we will follow the policies in Default Policies for Stern Courses. The following two excerpts from that document are particularly relevant to our class:

**Laptops, Cell Phones, Smartphones, & Other Electronic Devices**
May not be used in class.

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

Arriving late or leaving class early will have impact on the course grade.

**In-Class Seating**
Given the importance of class participation and the compressed nature of this course, I will ask that students sit in the same seats for each class.
COURSE SCHEDULE

Day 1, Morning (Sunday, 1/9): Introduction; Value and Competition

- **Case:** Harnischfeger Industries: Portal Cranes

- **Assignment Questions:**
  1. How much value is created in the sale of a portal crane? Who is capturing the value?
  2. What are Harnischfeger’s strategic options? What should Harnischfeger do?

- **Case Question:** What is the most a buyer would pay to a portal crane company for a portal crane and associated equipment maintenance and parts?

Day 1, Afternoon (Sunday, 1/9): Value and Competition (cont.)

- **Cases:** Wal-Mart Stores in 2003, Wal-Mart 2007

- **Assignment Questions:**
  1. What are the sources of Wal-Mart’s cost advantages? Can these advantages be copied by competitors? NOTE: In class, to discuss Wal-Mart’s cost advantages, we will be using Wal-Mart and Kmart data from Exhibit 5 of the 2003 case and Target data from Exhibit 6 of the 2007 case.
  2. Is Wal-Mart’s strategy sustainable?
  3. What do you think are Wal-Mart’s major problems (if any) in the near future?

- **Case Question:** What is the single most important source of Wal-Mart’s cost advantages?
Day 2, Morning (Saturday, 1/15): Profitability and the Value Gap

- **Case:** Airborne Express (A)

- **Assignment Questions:**
  1. How has Airborne survived, and recently prospered? What are the sources of Airborne’s profitability? [Note: Look at the cost items listed in Exhibit 3 of the case. Using the information given in the case and your understanding of what influences each cost item, estimate how Airborne’s costs might differ from FedEx’s costs.]
  2. Does the express mail industry have a future? Is Airborne’s position sustainable?

- **Case Question:** From Exhibit 3 of the case, the total cost of a FedEx overnight letter is $8.55. What is your estimate of the total cost of an Airborne overnight letter?

- **Reading:** Please read through Chapter 6 of *Value Creation and Competition* (distributed on Day 1 of the course)

Day 2, Afternoon (Saturday, 1/15): Sustainability

- **Case:** Mark Twain Bancshares, Inc.

- **Assignment Questions:**
  2. What is the source of MTB’s competitive advantage? What key business practices support this competitive advantage and how?
  3. How sustainable is MTB’s competitive advantage? In particular, how easily could a competitor—either someone else that wishes to mimic MTB’s strategy or a large, money-center bank such as Citibank—steal away MTB’s customers?
  4. In what way, if any, do the author’s arguments in the reading “The Judgment Deficit” influence your assessment of MTB’s sustainability?

- **Case Questions:**
  In MTB’s target customer segments, would they have a value gap advantage over Citibank (if Citibank were to compete with them)? If you answered ‘yes’ to the first question, would it be a net WTP advantage, a net SC advantage, or both?

- **Reading:** “The Judgment Deficit”
Day 3, Morning (Sunday, 1/16): Competitive Dynamics (Entry)

- **Case:** *Dogfight over Europe: Ryanair (A)*

- **Assignment Questions:**
  1. Can Ryanair make money at the launch fare price of £98?
  2. How would you expect Ryanair’s rivals to respond? Why?
  3. What is your evaluation of the entry strategy in the light of your answer to Question 2?

**NOTE:** The Ryanair of today is very different from the Ryanair at the time of the case. Please base your analysis on the case facts only.

- **Case Questions:** Do you agree with Ryanair’s decision to launch a Dublin-London route? If yes, what fare price would you launch at?

- **Reading:** “Game Theory and Business Strategy”; Chapter 7 of *Value Creation and Competition*

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Day 3, Afternoon (Sunday, 1/16): Network Effects

- **Case:** *Google, Inc.*

- **Assignment Questions:**
  1. What were the key factors behind Google’s early success?
  2. Do you expect the search business to become more concentrated? Is search a ‘winner-take-all’ business?
  3. What is the source of Google’s profitability? Is its profitability sustainable?

**Case Question:** Seven years from now, do you expect Google’s profits to be significantly greater than they are now, about the same, or significantly smaller?