Introduction

This course is motivated by an interrelated set of three questions that are of great concern to most business organizations: “What determines the financial performance of a firm?” “Why do some firms succeed and others fail?” and “What, if anything, can a firm’s managers do about this?” It is the third question that will particularly occupy our time this semester since we will assume that managers influence the performance of firms by formulating and implementing strategies that vary in their performance implications. To guide us in our studies, we will use a definition of strategy proposed by the business historian Alfred Chandler in his well-known book, *Strategy and Structure*: 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.” Within this very broad definition of strategy, we will make three assumptions that will structure what we learn in the course:

1. Firms do well when they offer value that induces others (e.g., customers, suppliers, complementors, etc.) to want to participate in what the firm is doing more than they want to participate in what other firms are doing. We will call this the firm’s added value.
2. Firms do well when they protect their added value and continue to attract participants, even when other firms are making efforts to attract the same participants with value of their own. We’ll call this a firm’s “sustainable competitive advantage.”
3. Firms do well when they can reinvent and/or expand their added value over time to attract even more participants. We’ll call this the firm’s “path of diversification.”
   We will interpret the term “diversification” strictly as any incremental expansion of a
firm’s product mix. We will not cover all types of diversification in the course, only those that occur within the industries in which a firm already operates.

We will assume, further, that “strategy” has something to do with 1-3 above, and our goal in the course is to find out what this something is and how to manage it. In the process, we will suggest that strategy consists of goals, plans to reach those goals, coherent and consistent patterns of resource allocation and acquisitions, and answers to identity questions such as “What business are we in?” and “What are we all about as a company?”

It should become clear very quickly that strategy is not simply an exercise in financial analysis, nor a set of performance metrics, nor a consultant’s report, nor an abstract industry analysis. It is an embodied set of commitments that defines the company and establishes an agenda for making money over time while building coherence and consistency into what the company does.

To keep track of where we are in studying the topic of strategy, we will follow a sequential “roadmap” that will allow us to build our knowledge gradually and cumulatively:

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<th>Creating Value</th>
<th>Sustaining Value</th>
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<tr>
<td>How much does strategy matter?</td>
<td>Market forces that influence value capture</td>
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<tr>
<td>What is “value” and how can it be created?</td>
<td>Strategies for building a competitive advantage</td>
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<tr>
<td>Organization forces that influence value capture</td>
<td>Market Dynamics And Interaction</td>
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We will start off the course asking the question of whether strategy really matters in controlling the performance of firms. What does the scientific evidence say? What does practice say? We will conclude that there is a great deal of variation in the performance of firms even in the same industries, and we will conclude that strategy is an important element in explaining these differences. We will then address the question of “value” and examine the abstract problem of creating value that encourages others to participate in the firm’s activities. But creating value is not enough, it must be value that can be captured and sustained over time in the face of competitive pressures. So, the problems of value creation and value capture go hand-in-hand, and we will study both issues early in the course to set up a framework for our subsequent discussions. Next we will examine different strategies for building competitive advantage, and talk about the strengths and weaknesses of each. This will set the stage for our investigations into the problem of strategic interaction and the dual issues of combating substitution and imitation threats. We will also cover the popular idea of “judo strategy” as a way of overcoming larger and more established incumbents.
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:

Readings: There is no text assigned to this course. Instead, classic readings in the area of strategy have been selected to supplement what you will learn via our case discussions. Articles from the Harvard Business Review are provided in the electronic case packet from the NYU bookstore (see below for more details). Non-Harvard articles are available electronically on our course Blackboard site. We will be using case materials as our primary learning vehicle and will be introducing and discussing the course concepts via case discussions. You should use the readings for further elaboration and review of the concepts.

Cases: We will use cases extensively in this class to illustrate how to apply conceptual frameworks and arguments to actual business situations. We will delve into some cases together in an open class discussion. Others will be used mainly as examples and will be the basis for illustrating detailed points brought out in class. Most of the cases must be purchased electronically through Xanedu and the Stern Bookstore. Instructions for doing so will be provided via email one month before class begins. One case (Southwest Airlines) is available gratis on the course Blackboard website. You are expected to read each case closely before each class period, and study any assigned case questions closely.

Lectures: Mini-lectures before and/or after class discussions will set the stage or summarize course concepts. Any slides for these mini-lectures will be made available on our course Blackboard site. Most slides will be provided in a single file posted on Blackboard at the beginning of the course. Other slides will be provided at relevant points during the course.

Assignments: Three assignments will form the primary basis for assigning grades in this class. All assignments must be submitted in electronic form by email to the instructor. First, student teams (to be assigned prior to the start of the class by Nabil Rab) will be asked to write up an analysis of the Intel 2003 case. The case write-up is due before the start of the class during which we will discuss the case. Specific assignment questions are provided in the class schedule below. Case write-ups should be no longer than TWO single spaced typed 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. Second, student teams will also be asked to evaluate the internal value chain of Wal-Mart or Steinway & Sons to identify the resources and capabilities that provide these companies with their sustainable competitive advantage. These write-ups are also due before the start of the class period during which we will discuss the Wal-Mart and Steinway cases. Finally, all students will be responsible for individually completing a take home final exam that will cover the entire range of material in the semester. The final exam case is the Husky case that is included in the course packet. You are encouraged to study the final exam case materials before and during the course to prepare for the final exam. However, the specific case questions that will be assigned will not be provided until the last day of class and the exam will be due one week later.

Class Attendance and Participation: This is a short course and each session is important. Everyone is expected to attend all classes and to participate actively in class
discussions and the class Blackboard discussion board. Each case discussion will usually start off with a few “cold calls” about case facts and/or issues. Some of you may feel more comfortable with in-class comments, some of you may feel more comfortable with discussion board contributions. However, everyone should participate in the course conversation in one (or preferably both) of these two venues. We will depend on everyone’s active involvement to make the class successful. Comments, questions, and case insights are all valuable and desired. If you need to miss class, please email the instructor ahead of time to let him know that you will be missing class and why. Note that the Stern School requires class attendance except in the cases of serious illness, family emergency, and/or religious holiday. Remember, everyone’s learning experience in this class depends on everyone’s active participation. We are all interdependent and have an obligation to each other.

**Grade Components:** Grades in the course will be assigned based on the following criteria:

- Intel case writeup (please see assigned questions below): 20%
- Wal-Mart/Steinway case writeup (please see assigned questions below): 25%
- Final exam: 35%
- Class and Discussion Board Contribution: 20%

**Course Schedule (please note: bolded cases and questions are required written assignments)**

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<tr>
<th>Session 1:</th>
<th>Course Introduction: What is strategy?</th>
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<tr>
<td>Sun, 1/03</td>
<td><em>Case:</em> People Express cases and Southwest case</td>
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<td>Morning</td>
<td>READ: Porter, “What is Strategy”</td>
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Case Questions: Compare and contrast the factors that explain PE’s and SWA’s common initial success. Then compare and contrast the factors that can explain why SW was able to prosper over the long-term while PE was so short-lived. Which of these factors were controllable by management and which were uncontrollable?

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<th>Session 2:</th>
<th>Value chains and added value</th>
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<td>Sun, 1/03</td>
<td><em>Case:</em> Bittersweet Competition</td>
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<tr>
<td>Afternoon</td>
<td>READ: Brandenburger and Stuart, “Value based strategies”</td>
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Case Questions: For Bittersweet: 1) List and briefly discuss the factors that allowed Searle/Monsanto to exert bargaining power vis-à-vis suppliers and customers for Aspartame prior to the entry of HSC into the market, 2) From the standpoint of costs and profit margins, compare the attractiveness of entering the market from HSC’s perspective, and the attractiveness of remaining in the market from Monsanto’s perspective. Which was more attractive and why? 3) Based on the case facts at your disposal, what are the
chances that HSC will succeed in taking major market share away from Monsanto. Explain your logic behind this estimate.

Session 3: Analyzing external value chains and value nets

**Case:** Intel, 2003, and Intel 2005 cases (note: the 2005 case is a short update for the 2003 case).

READ: Porter, “How competitive forces shape strategy”
READ: Brandenburger and Nalebuff, “The right game”

NOTE: You can listen to Michael Porter discuss his well known “five forces” framework at this link:

http://harvardbusinessonline.hbsp.harvard.edu/hbsp/hbr/articles/article.jsp?ml_subscriber=true&ml_action=get-article&ml_issueid=BR0801&articleID=R0801E&pageNumber=1

**Case Questions:** For Intel 2003, 2005: 1) Briefly describe the structure of the value chains and value spread in the microprocessor industry in 1981 shortly after IBM first contracted with Intel for the microprocessor that powered the first IBM PC. Then describe the value chain and spread in 1998, and then again in 2003 at the end of the 2003 case, 2) Using our discussion of bargaining frictions, power, the Five Forces framework, and the Value Net, detail the factors that explain why the value chain and the value captured by various firms changed during the period from 1981 through 1998, and then again from 1998 through 2003, 3) What role has AMD played in this industry over time? Note: please review the “history” section of www.amd.com to answer #3. The specific link is:

http://www.amd.com/ghuk/Weblets/0,,7832_10554,00.html, 4) Do you agree with Intel’s strategy as of 2005? Why or why not?

Session 4: Firm capabilities, internal value chains, and positioning

**Case:** Progressive Insurance

READ: Barney, “Looking inside for competitive advantage”

After Progressive case, we will be introducing Walmart and Steinway assignments

**Case Questions:** For Progressive: 1) List Progressive’s resources and capabilities that distinguish it from other insurance companies, 2) Where along the internal value chain do each of these come into play and how do they provide a competitive advantage for the company (if at all)? If you are Peter Lewis, what are you worrying about at the end of the case, and what should you do about it?
Session 5: Cost and Differentiation Positioning Strategies
Sun, 1/10
Morning
Cases: Wal-Mart (odd numbered groups) Steinway (even numbered groups)

After the cases we will be going deeper into imitation and substitution threats if we have time.

Case Questions: For Wal-Mart: Using our capability framework and internal value chain analysis, discuss how Wal-Mart’s resources and capabilities provide competitive advantage along the internal value chain. In doing so, discuss Wal-Mart’s value spread relative to rivals such as Target and K-Mart, and show how this spread is explained by the company’s value chain advantages. To the extent possible, use the information provided in the case to quantify Wal-Mart’s competitive advantage at each stage of the internal value chain. Will Wal-Mart be able to maintain its competitive advantage against rivals in the future? Do its Supercenters and Sam’s Club formats share the same competitive advantages as the Wal-Mart stores? Why or why not? What should be done to maintain the company’s growth and profitability moving forward?

For Steinway: Using our capability framework and internal value chain analysis, discuss how Steinway’s resources and capabilities provide competitive advantage along the internal value chain vis-à-vis rivals such as Yamaha and Bosendorfer. In doing so, discuss Steinway’s value spread relative to rivals such as Yamaha and Bosendorfer, and show how this spread is explained by the company’s value chain advantages. To the extent possible, use the information provided in the case to quantify Steinway’s competitive advantage. Will Steinway be able to maintain its competitive advantage against rivals in the future? If you were a Yamaha strategist, how would you attack Steinway’s market share in concert grand pianos? Note: Please make use of the “Piano Prices” slides available in the course documents section of our Blackboard site. Information on used Steinway prices can be found here: http://www.faustharrisonpianos.com/piano-Inventory.asp

Session 6: Competitive Dynamics: Judo Strategy, Stronger opponents, and managing imitation and substitution threats
Sun 1/10 Afternoon
Cases: Apple Computer 2008
READ: Yoffie & Kwak, “Judo strategy”
Case Questions: Compare the value chains and value nets in which Apple and Microsoft are embedded in 1997 and 2008. How are these different? What are Apple’s capabilities and resources in the computer business? What have been their weaknesses? Was Apple an imitation or a substitution threat to Microsoft in 1997? In 2008? Was Microsoft an imitation or substitution threat to Apple in 1997? In 2008? Evaluate Apple’s strategies in the last ten years since Jobs has taken over again. Has he finally solved Apple’s problems? What should Apple do in the future?

FINAL EXAM: Questions to be answered about the Husky case will be distributed on the last day of class. Exams will be due via electronic submission no later than 9 am Jan 18th.