Management G200: Strategic Management
Fall Quarter 2008 Syllabus

Tuesday Evening, 5:20 – 7:20 PM

Professor James Dana

MAILING ADDRESS:
Northeastern University – 301 LA
360 Huntington Ave.
Boston MA 02115-5000

OFFICE LOCATION:
Room 306 Lake Hall
43 Leon Street
Boston, MA 02115

PHONE: (617) 373-7517

E-MAIL: j.dana@neu.edu

OFFICE HOURS:
By appointment at 306 Lake Hall
and before class Tuesday 4:30 PM to 5:10 PM at 89 Broad St.

I. Course Description

A. <u>Course Overview and Objectives</u>:

Business strategy is the set of objectives and policies that collectively determine how a firm generates wealth for its owners. Over the semester, you will be introduced to concepts and frameworks that can be used to analyze and formulate business strategies. You will learn practical analytical techniques for diagnosing a firm's competitive position, identifying strategic managerial issues, formulating and evaluating alternative plans of action, and anticipating the consequences of specific strategic decision.

The course will ask,

- What allows some firms to sustain their economic profits over long periods of time, while for other firms these profits quickly disappear?"

To answer this question we will focus both within the firm, at the resources, organization, and capabilities of the firm, as well as on the external environment, at the competitors, suppliers, and customers.

Many of the concepts, skills, and analytical tools that you will learn in the course will build on a foundation of microeconomic principles. These principles derive from underlying organizational objectives; in particular that a business exists to create and capture wealth (above and beyond the cost of capital) for its owners. The ability of a particular firm to do this rests on the overall profitability of its industry, the specific resources the firm has at its disposal, and the firm's choice of strategic position within the industry. Sustaining success depends on how easily other firms can and choose to emulate a firm's strategy and whether the firm can adapt to changing environmental conditions through time.

The course is loosely organized into three broad topic areas:

- *Competitive Advantage* – Identification of factors that drive value creation, firm profitability, and competitive advantage.
- *Industry Analysis* – Assessment of the competitive pressures present in a firm's environment.
- *Sustainability and Dynamics* – Identification of factors that slow imitation, protect competitive advantage, and facilitate adaptation in a changing environment.

Other major topics covered include:

- *Microeconomic tools for strategy*
- *Value Creation/Capture Framework* – A simple but powerful model of consumer and firm interactions that translates stylized economic analysis into powerful strategic principles.
- *Competition and Changing the Game* – How can firms anticipate the behavior of rivals and how can they build that behavior into the strategy formulation process?
- *The Vertical Scope of the Firm* – Which opportunities and stages of production should it be involved in and which should it leave for others to undertake?
- *The Horizontal Scope of the Firm* – Which products, customers, and activities associated with those products should a firm produce?
- *Strategic Fit* – How can a firm exploit complementarities across products, across activities, and across its strategic position within those activities to increase value creation and to increase sustainability?

The broad topic structure is an attempt to organize what you learn into a framework for evaluating business strategy. *However, no class in strategic management is easy to organize.* This is not a class in physics or statistics, which begins with basic, universally accepted principles, and then builds to harder problems and applications. Instead, strategy is inherently complicated throughout. We will be learning new tools throughout the class, but none of the cases are easy to analyze until you have grasped most, if not all, of the tools in the course. This can be initially frustrating to students. However, by the end you will feel the class coming together and be more prepared to approach the complex strategy decisions you will encounter in your careers.

B. <u>Teaching Approach</u>:

The approach toward teaching and learning strategy in this course is primarily inductive. Students will come to understand the concepts and principles outlined above largely through examples — this is the essence of the case study method. The goal is to carefully study specific business situations and decisions to develop broader principles about business strategy. This broader understanding can then be applied in a wide variety of managerial contexts.

Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find the complexity and ambiguity frustrating. The problem presented in the case may not have one "correct" answer; however, there may be a set of insights and solutions that is better than others. The assigned readings and lectures will complement the cases by providing useful background information and further explanation of the important concepts. As we discuss the cases, we will apply the concepts and principles introduced in the readings and lectures to identify those solutions that have the best probability for success.

For a case discussion to be a valuable learning experience, it is essential that all students come prepared to discuss the cases and readings assigned for that class. Group and individual work will be assigned to facilitate your preparation for each case – these questions will ultimately serve as the focus of classroom discussion. I ask that you deal with the cases as you find them: unless specifically directed, do not do additional research to find outside or post-case data on the firm or industry. To the extent that you already have post-case or inside information, let me know and I will give you the opportunity to share it with the class at an appropriate point in the discussion.

C. <u>Assignments and Assessment</u>:

While group work is largely optional, at the start of the quarter all students should form study groups. The groups will be assigned extra preparation questions for cases during the term as described below. In addition, I encourage the students to use their groups in advance of case discussions to prepare the cases. The following summarizes the student responsibilities for the quarter and their contribution to the course grade:

<u>Written Case Assignments:</u>

1. <u>Group Case Assignments</u>:
Each group will be assigned two in-depth case assignments during the quarter. Groups will be assigned to cases randomly – I will let you know which cases each group is responsible early in the semester. The group case assignments will collectively comprise 15% of the course grade. Working in a group is optional. Students can elect to turn in these assignments individually.

2. <u>Individual Weekly Assignments</u>:
Most weeks, students will be asked to prepare a short weekly assignment. In some cases, this will be a one or two paragraph answer to one of the case questions. In other cases it will be a question based on a reading assignment or material covered in class. Students are welcome to work on these assignments together, but each student should turn in the assignment.

    These individual assignments will be collected online or in class, but feedback on these assignments will be minimal. Students who have questions about their assignment after reading the answer key should contact the instructor. Completion of the individual weekly assignments will collectively comprise 10% of the course grade. Students who miss class must still turn in these weekly assignments.

<u>Exam I</u>: The first exam for the course will be a take-home exam based on material from the first half of the course. The exam will consist of short answer questions and problems. Exam I will be worth 25% of the course grade. The exam will be distributed and collected via our online Blackboard course page.

<u>Exam II</u>: All students will sit for the second exam during the exam period for this course: Tuesday, December 16th, 2008 from 5:20 to 7:20 PM. The exam will consist of short answer

questions and problems, some of which may be based on a case distributed before the exam. Exam II will cover the entire course, with greater emphasis on material covered after Exam I and will be worth 25% of the course grade.

Class Participation: *Attendance, preparation, and participation* are essential in this class, as in any class based on the case method. Obviously, you cannot participate if you are not present, so frequent absences will lead to a reduced participation grade. Learning opportunities are maximized when all students are actively engaged in class discussion. Active engagement means that you are *listening carefully* to the comments of other students and seeking opportunities to make comments that move the class discussion forward.

Case discussion constitutes over half the class time, so there will be ample opportunity for everyone to participate. Do not be discouraged if, after the first few classes, you have yet to speak up much. If you keep preparing the cases, chances are very good that you will have something valuable to say during the class discussion. To increase opportunities for effective participation, I will cold call students during the course of a discussion. Students in groups that are preparing the in-depth assignment for a particular case should expect to be called on during that case discussion. *If you feel that you are prepared but that I am not calling on you often enough, please let me know so that I can address the problem.*

Class participation will comprise the remaining 25% of the course grade. Your participation score will be assigned at the end of the term based on my assessment of your contributions throughout the quarter (I will make notes after each class session to facilitate my recollection.) Class participation will be evaluated primarily on effort early in the course, shifting toward evaluation of content as the course goes on. The evaluation of content will be based on the following:

- *Relevance*: Are your comments clearly related to the case and to the comments of others?
- *Advancement*: Does your comment move the class discussion forward? Does it take the discussion farther or deeper than the previous comments?
- *Support*: Have you used specific data from the case, from readings, or from personal experience to back up the assertions that you are making?
- *Logic*: Is your reasoning consistent and logical? Do you use economic concepts correctly?

D. Readings:

The textbook is *Strategic Management* by Garth Saloner, Andrea Shepard, and Joel Podolny (SSP on the reading list). A case packet including cases and some other readings is also required. Additional assigned readings will be posted to our Blackboard course site.

E. Managerial Economics

While I will make use of concepts from managerial economics throughout the course, I recognize not every student has a strong background in this material. Therefore, I will try to introduce the relevant economic concepts as I use them. *Please do not hesitate to contact me if you have questions or concerns, particularly about the managerial economics used in class.*

F. Additional Course Materials:

Students are responsible for checking the Blackboard course site EVERY WEEK before class to download assignments, handouts, and additional assigned readings.

G. Class Room Etiquette and the Honor Code

Students are expected to act professionally in the classroom. Therefore, laptops are permitted for use during class time for taking notes only. If students choose to take notes on a laptop during class, they should sit in the back of the classroom so that they do not bother other students. Chat programs, web surfing, and other non-class related activities on laptops are strictly prohibited. Failure to adhere to this policy will jeopardize a student's class participation grade.

Students are expected to abide by Northeastern University's and CBA's Honor Code at all times. Specific guidance on Honor Code issues will be provided during the quarter, as needed.

H. Disabilities

Any student who feels he or she may need an accommodation based on the impact of a disability should contact me privately to discuss his or her specific needs. Please contact the Northeastern University Disability Resource Center to obtain more information on services for students with disabilities, to find out disabilities are eligible for accommodations, and to coordinate your request for accommodations. The Disability Resource Center is located in 20 Dodge Hall and their phone number is 617-373-2675.

I. Nameplates

I will provide you a nameplate at our first class. Please bring it, or another name plate with both your first and last name in large print, and place this in front of you during every class session, so that I can learn your name and give each of you appropriate credit for class participation.

II. Syllabus

Topic: Introduction to Strategic Management and Competitive Advantage

- Class Session 1 – September 16

SSP: Chapter 1 – Introduction

SSP: Chapter 2 - Business Strategy

SSP: Chapter 3 - Competitive Advantage

Topic: Organization Design and Competitive Advantage

- Class Session 2 – September 23

M. Porter, "What is Strategy?" *Harvard Business Review*, Vol. 74, Nov/Dec 1996, p. 39-73 (HBS 96608).

SSP: Chapter 4 - Internal Context: Organization Design

CASE: Southwest Airlines--2002: An Industry Under Siege (HBS 9-803-133) Rev. March 11, 2003.

Preparation Questions:

1) How does this company make money even when other airlines don't? What are the most important contributors to its financial success?
2) How should management respond to the fact that Southwest Airlines has fallen to next-to-last place among major airlines in on-time performance as of September, 2002?
3) Once operations are fully stabilized, would you recommend to the management of the airline that it resume its historic growth rate of from 10% to 15% per year? Why?
4) If you would recommend a resumption of previous growth rates, what form should this growth take? For example, should it be achieved within the current network or through an expanded network? By means of a greater proportion of long-haul flights (over three hours in length) or not? Why?
5) If you would not recommend a resumption of previous growth rates, how would you suggest dealing with the consequences of reduced growth, whatever they may be?

- Class Session 3 – September 30

SSP: Chapter 4 - Internal Context: Organization Design, section 4.4 to 4.7

SSP: Chapter 5 - Organization and Competitive Advantage

CASE: Pizza Hut, Inc. (HBS 9-588-011)

Preparation Questions:

1) In the "Chicken and Burgers" article, do you think Mr. Kazi would be equally valuable as a manager of company-owned units? Explain.
2) Why do you think some of Pizza Hut's units are franchised and others are company owned?
3) Does the IPHFHA create or destroy value in the vertical chain?
4) Why is there disagreement between Pizza Hut and its franchisees over the home-delivery strategy? (What are Pizza Hut's objectives? What are the objectives of the franchisees?)

Topic: Industry Analysis

- Class Session 4 – October 7

SSP: Chapter 6 - Industry Analysis

M. Porter, The Five Competitive Forces that Shape Strategy, Harvard Business Review, January 2008 (HBS R0801E)

CASE: Cola Wars Continue: Coke and Pepsi in 2006 (HBS 9-706-447)

Preparation Questions:

1) Analyze the profitability and long run attractiveness of the soft drink industry. Which of Porter's Five Forces are strong threats to profitability? Which are weak? Why?
2) Compare the concentrate business and the bottling business. How are they different and why?
3) How has the competition between Coke and Pepsi evolved? How has that competition affected industry profitability?
4) What factors will affect the future profitability of Coke and Pepsi? Is the soft drink industry now more or less attractive?

Topic: Product Differentiation and Competition

- Class Session 5 – October 14

SSP: Chapter 7 - The Spectrum of Competition and Niche Markets

CASE: Supermercados Disco: Regional Strategy (HBS 9-599-127)

Preparation Questions:

1) Analyze Disco's strategy and performance? How well is it doing?
2) What is Disco's competitive advantage? Is it transferable to other markets?
3) What other industries are localized strategies, such as Disco's, likely to work?
4) Should Disco be pursuing international expansion?
5) Evaluate the acquisition of Santa Isabel and the alliance with Royal Ahold?

Topic: Competing in Concentrated Markets: Shaping Your Industry

- Class Session 6 – October 21

SSP: Chapter 8 - Competition in Concentrated Markets

SSP: Appendix - Applying Game Theory to Strategic Management

CASE: De Beers: Addressing the New Competitiveness Challenges: (HBS 9-706-501)

Preparation Questions:

5) What roles does DeBeers play in the diamond industry?
6) Identify ways that DeBeers is creating new value and destroying existing value.
7) Why do the major diamond producers agree to do business with DeBeers?

Topic: Entry and the Advantage of Incumbency

- Class Session 7 – October 28

  SSP: Chapter 9 - Entry and the Advantage of Incumbency

  CASE: The Ready-to-Eat Breakfast Cereal Industry in 1994 (A) (HBS 9-895-191)

  Preparation Questions:

  1) What are the key drivers of purchasing decisions in RTE cereal? How price sensitive have cereal consumers traditionally been?
  2) Characterize the extent of economies of scale in ready-to-eat cereals. Are economies of scale in manufacturing sufficient to explain why the industry has been so highly concentrated?
  3) There has been virtually no significant new entry into the cereal industry since World War II, and yet there have been numerous introductions of new brands by existing cereal manufacturers. If a new cereal by an existing manufacturer can make a profit, why can't a branded cereal by a new entrant make a profit?
  4) What impact does the use of coupons and trade promotions in the RTE cereal category have on industry profitability? Do they affect the ability of firms in this business to attain cooperative pricing outcomes? Do they "soften" or "toughen" competition?
  5) How should Kellogg respond to General Mills' April 1994 initiative? How should Post respond?

- Class Session 8 – November 4

  CASE: VALUJET (KEL043)

  Preparation Questions:

  1) What elements of ValuJet's strategy created value for ValuJet's consumers?
  2) What elements of ValuJet's strategy did not create value for ValuJet's consumers?
  3) What elements of ValuJet's strategy increased Delta's incentive to price aggressively?
  4) What elements of ValuJet's strategy decreased Delta's incentive to price aggressively?
  5) What is the logic of combining the different aspects of ValuJet's strategy?
  6) Why might Delta "accommodate" ValuJet? How could Delta have made itself less vulnerable?

- No Class Veteran's Day – November 11

Topic: The Value Chain

- Class Session 9 – November 18

SSP: Chapter 10 - Creating and Capturing Value in the Value Chain

CASE: ZARA: FAST FASHION (HBS 9-603-497)

Preparation Questions:

1) What can you learn by comparing Inditex's operating economics and capital efficiency with Inditex's international competitors?
2) How do the distinctive features of Zara's business model affect its operating economics? Compare Zara to an average retailer with similar posed prices?
3) How does Zara's quick-response capability add value? Does it create competitive advantage? Is it sustainable?
4) Are Zara's advantages scalable? Will they survive international expansion?
5) How does Zara's quick-response capability impact competition with rival firms?

Topic: Strategic in a Changing Environment: Sustainability and Industry Dynamics

- Class Session 10 – November 25

SSP: Chapter 11 - Strategic Management in a Changing Environment

CASE: Apple Inc., 2008 (HBS 9-708-480)

Preparation Questions:

1) Historically, what were Apple's major competitive advantages?
2) How has the PC industry changed over the past 15 years? How have these changes affected Apple?
3) Evaluate Apple's strategic evolution. What are the major strategic moves it has made? How successful have they been?
4) Has Steve Jobs finally solved Apple's long-standing problems? How is the iPod different?

- Class Session 11 – December 2

SSP: Chapter 12 - Strategy in Markets with Demand-Side Increasing Returns

Satterthwaite, M. 1997. An Abbreviated History of Atari and the Video Game Industry in the Early 1980s.

CASE: Nintendo Co, Inc. (HBS KEL087)

Preparation Questions:

1) How did Nintendo avoid the same fate that Atari suffered in 1983?
2) How and why did Nintendo control the quality of the software generated by independent software producers for its game machine? How and why did Nintendo support high profit margins for its independent software producers?
   a) Why didn't Nintendo just develop software in-house?
   b) Why didn't Nintendo simply encourage vigorous and unrestricted competition among its independent software producers?
3) What decisions did Nintendo make that might have been designed to forestall rival entry into the home video game console market?
4) Why was Nintendo slow to innovate and enter the 16-bit Video Game market?

Topic: Globalization and Corporate Strategy

- Class Session 12 – December 9

SSP: Chapter 13 - Globalization and Strategy

SSP: Chapter 15 - The Strategy Process

CASE: Robert Mondavi and The Wine Industry (HBS 9-302-102)

Preparation Questions:

1) Evaluate the structure of the wine industry. How and why is it changing? Is it an attractive industry? Why or why not?
2) What are the implications of these changes for Mondavi?
3) Analyze the economics of owning an independent 100-acre vineyard in Napa valley.
4) What are Mondavi's key strategies? Why is it pursuing international joint ventures?
5) How does Mondavi's strategy compare to small independent wineries? How does Mondavi's strategy compare with larger firms such as Gallo, Diageo, Fosters, Allied-Domecq and others?
6) What recommendations would you make to Mondavi?