

MGT 525: COMPETITIVE STRATEGY

COURSE OVERVIEW

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Note that there is an assignment for the first class. In addition, please read this document carefully. It contains important information about assignments and norms. We will not cover all of this material in class.

Course Perspective

This course teaches analysis of strategic decisions facing an organization. The primary emphasis is on decisions at the line of business level, although we will also consider strategy at the corporate level. The primary source of analytical method is economics. We cover traditional strategy topics such as competitive advantage and sustainability as well as modern game theory models of competition. A central integrating idea is anticipating the response of other actors in the industry and recognizing that often an organization's profits depend on the actions of other firms. We study non-profits as well as for-profits. Class sessions are a mixture of applications (cases and other examples) and lectures. Our perspective is that of the general manager who has overall responsibility for the performance of the firm or of a business unit within the firm.

Course Requirements

Textbooks: Besanko, Dranove, Shanley and Schaefer, *Economics of Strategy*, 3rd edition, Wiley, 2004. (BDSS)
Financial Times, *Mastering Strategy: The Complete MBA Companion in Strategy*, Prentice Hall, 2000. (MS)

Grading:

Class Participation: 30%
Final Project: 30%
In-Class Midterm: 25%
Written Assignments: 15%

Detailed information on each of these requirements is provided after the course schedule. The assignment questions for the first class appear at the end of the syllabus.

Course Schedule

I. BASICS OF STRATEGY

1. & 2. Introduction to Competitive Strategy (August 31, September 7)

Note: Assignment questions for this class are at the end of the syllabus.

Reading: Scott Morton, “Why Economics has Been Fruitful for Strategy,” (MS, pages 26 – 31).
Porter, “What is Strategy?” *Harvard Business Review*, November 1996.
This entire document.

Case: Adolph Coors in the Brewing Industry, HBS Case 9-388-014.

3. Industry Analysis (Special Date and Time: September 9, 12:45 – 2:05 for Section 1 and 2:15 – 3:35 for Section 2)

Reading: BDSS Chapter 10 (all pages).

Case: Crown, Cork and Seal in 1989, HBS Case 9-793-035.

4. Strategy Identification and Evaluation (September 12)

Reading: Saloner, Shepard and Podolny. “Business Strategy,” Chapter 2 in *Strategic Management*.

Case: BIC Pen Corporation (A), HBS Case 9-374-305.
BIC Pen Corporation Supplement, HBS Case 9-378-086.

II. COMPETITIVE ADVANTAGE

5. First Mover Advantages (September 14)

Reading: BDSS Chapter 11 (pages 355 – 362 and 382 – 402 only).

Case: Wal-Mart Stores, Inc., HBS Case 9-794-024.
Wal-Mart in 2002, HBS Case 9-702-466.

6. Positioning (September 19)

Reading: BDSS Chapter 11 (pages 362 – 372 and 402 – 408 only).

Case: Airborne Express (A), HBS Case 9-798-070.

7. Coopetition and the Value-Net (September 21)

Reading: Reread BDSS Chapter 10 (pages 333 – 335 only).

Case: Wintel (A): Cooperation or Conflict?, HBS Case 9-704-419.

III. STRATEGIC INTERACTION

8. Concentrated Markets (September 26)

Reading: BDSS Chapter 6 (pages 199 – 218 and 228 – 229 only).
Garicano, “Game Theory: How to Make it Pay,” (MS, pages 32 – 39).

Case: Cola Wars Continue: Coke and Pepsi in the Twenty-First Century, HBS Case 9-702-442.

9. Strategic Interaction Game (September 28)

Reading: BDSS Chapter 6 (pages 218 – 228 only).
Brandenburger and Nalebuff, “The Right Game: Use Game Theory to Shape Strategy,” *Harvard Business Review*, July-August 1995.

Case: Shrimp Game (details will be distributed in class on September 26).

10. Strategic Complements/Substitutes Framework (October 3)

Reading: BDSS Chapter 7 (pages 232 – 250 only).
Scott Morton, “Strategic Complements and Substitutes,” (MS, pages 57 – 64).

11. Quantity Competition/Entry Decisions (October 5)

Reading: BDSS, Chapter 1 (pages 35 – 39 only).
Chevalier, “When it Can be Good to Burn Your Boats,” (MS, pages 47 – 51).

Case: DuPont’s Titanium Dioxide Business (A), HBS Case 9-390-112.

12. Price Competition (October 10)

Reading: BDSS Chapter 8 (pages 259 – 290 only).
Garicano and Gertner, “The Dynamics of Price Competition,” (MS, pages 39 – 46).

Case: Airline Industry Pricing (clippings).
The Pharmaceutical Industry and Medicaid Rebates in 1991.

IV. INDUSTRY DYNAMICS AND COMPETITION

13. Flexibility and Real Options (October 12)

Reading: BDSS Chapter 7 (pages 250 – 256 only).
Gertner, “How Real Options Lead to Better Decisions,” (MS, pages 240 – 245).

Case: Arundel Partners: The Sequel Project, HBS Case 9-292-140.

14. Entry Strategies (October 24) – Professor Barry Nalebuff

Reading: BDSS Chapter 9 (pages 297 – 310).
Chevalier, “The Pros and Cons of Entering a Market,” (MS, pages 51 – 57).

Case: The USA Today Decision: Making Headlines Across the Nation, HBS Case 9-792-030.

15. Commitment and Wars of Attrition (October 26) – Professor Barry Nalebuff

Reading: BDSS Chapter 9 (pages 321 – 325 only).

Case: British Satellite Broadcasting vs. Sky Television, HBS Case 9-794-031.

16. Judo Strategy (October 31)

Reading: BDSS Chapter 9 (pages 320 – 321 only).

Case: AOL Europe vs. Freeserve (A), HBS Case 9-703-409.

V. CORPORATE STRATEGY

17. Horizontal Scope/Diversification (November 2)

Reading: BDSS Chapter 2 (pages 72 – 76 and 85 – 95 only) and Chapter 5 (pages 170 – 187 only).

Case: The Walt Disney Company: The Entertainment King, HBS Case 9-701-035.

18. Vertical Scope (November 7)

Reading: BDSS Chapter 3 (all pages).
Gertner and Knez, “Vertical Integration: Make or Buy Decisions,” (MS, pages 146 – 151).

Case: Benneton S.p.A., HBS Case 9-389-074.

19. Strategic Alliances and Joint Ventures (November 9)

Reading: BDSS Chapter 4 (all pages).
Reuer, “Collaborative Strategy: The Logic of Alliances,” (MS, pages 345 – 350).

Case: Xerox and Fuji Xerox, HBS Case 9-391-156.

20. Strategy and Not-for-Profit Organizations (November 14)

Case: KQED-TV San Francisco, Stanford GSB Case PM-29.

21. In-Class Midterm (November 16)

VI. TECHNOLOGY STRATEGY

22. Network Effects (November 28)

Reading: BDSS Chapter 12 (pages 442 – 446 only).
Goolsbee, “Why the Network Effect is so Striking,” (MS, pages 21 – 25).

Case: Online Auctions, Stanford GSB Case EC-7.
Searching for Revenue on the Internet: Yahoo! Acquires Overture, Stanford GSB Case EC-36.

23. Compatibility and Standards (November 30)

Reading: Shapiro and Varian, “The Art of Standards Wars,” *California Management Review*, 1999.

Case: The Long Battle for an Instant Messaging Standard, Stanford GSB Case SM-138.

VII. APPLICATIONS: NEW VENTURES, NON-PROFITS, STRATEGIC CHANGE

24. New Ventures (December 5)

Reading: BDSS Chapter 11 (pages 373 – 382 only).

Case: Performance Indicator, HBS Case 9-702-480.

25. Strategic Change (December 7)

Reading: BDSS Chapter 13 (pages 452 – 459 and 465 – 467 only).

Case: Netflix: Opening or Closing Credits in Online Movie Distribution, Stanford GSB Case SM-131.

26. Synthesis of Course Material in Non-Profit Setting (December 12)

Case: The Brigham and Women's Hospital in 1992, HBS Case 9-792-095.

Evaluation

Class Participation/Attendance: (individual)

You are responsible for the material in each case. I will cold call students to start the discussion, but will also seek volunteers to speak in class. Quality of class participation is more important than quantity. Trying to maximize "air-time" is *not* the best strategy. Consider the following questions when assessing the quality of your participation:

1. Are the points relevant to the discussion? Are they linked to the comments of others and to the themes of the class? Do they significantly advance the discussion?
2. Does the speaker sustain a line of argument or point of view through a significant part of the class session, or is it an isolated comment?
3. Do the comments add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem? Comments that simply repeat case facts get no credit.
4. Is there a willingness to challenge, in a constructive way, the ideas that are being expressed? Playing "devil's advocate" often exposes new perspectives and provokes interesting debate. Such contributions are particularly valued.
5. Is there a willingness to test new ideas, or are all comments "safe" (for example, repetition of case facts without analysis and conclusions, or a comment already made by someone else)?

Preparation for a case study involves more than just having read the case. You should be prepared to offer original and thoughtful analysis in which your claims are supported by evidence, logic, and possible calculations. Many students find it helpful – and I encourage you – to discuss the case with your classmates prior to the class. The most effective way to prepare for class is to try to answer the preparation questions for each class after you have read the case and the textbook material.

Learning in this class happens both inside the classroom and out; you will cheat yourself of much of what you could have learned if you do not prepare. I will bring the stack of face cards of students in the class and cold-call from it regularly to raise the cost of not preparing. Occasionally, a student may be forced to attend class unprepared. Please let me know before the start of class if for some reason you were not able to prepare

adequately for that class. This will adversely affect your participation grade but not as much as being unprepared without having notified me.

Because a case-oriented course relies on class participation for its success, attendance at every class is considered extremely important. Students who miss class will not receive class participation credit for that class. I do not allow or require “make-up” work for a missed class. If you must miss class, most handouts will be available at the class website. Also, please arrive on time and stay from beginning to end. It is extremely disruptive to your classmates (and me) if you arrive late or leave while the class is in session. Absence during any part of class adversely affects your participation grade.

Written Assignments: (groups of three or fewer)

Written assignments will consist of case write-ups and short problem sets. You will do two case write-ups over the course of the semester. Case write-ups can be done in groups with up to three members. You should immediately send your top three choices of dates on which you would like to turn in your case analyses to the TA. The TA will assign you two dates (from your three choices if at all possible) so as to spread the cases across the semester. The earlier you request your dates, the more control you have over the topic you write about. Each case analysis should be 3 to 4 pages long, and is due *at the beginning of class* on the day the chosen case is to be discussed. Note that an analysis is not a summary of the case. A case analysis should focus on issues of “how” and “why,” supported by the factual “whos,” “whats,” and “whens” from the case. A case write-up answers the preparation questions and draws some conclusions from those questions and the reading material.

The short problem sets should be done in the same groups as the case write-ups. Instructions for each assignment will be posted on the class webpage at the appropriate time.

The case write-ups and problem sets must contain a page written and signed by each author describing what that author’s contributions to the project were. You will be required to evaluate the participation of other members of your written assignment groups at the end of the semester.

In-Class Midterm: (individual)

The exam will be a closed-book exam covering all the material in the course up to that point. It will occur in class on Wednesday, November 16.

There will be no final exam for the course.

Final Project: (groups of three or fewer)

Assignment:

The final project is a paper analyzing a strategic decision of an organization. This could be a for-profit firm or a non-profit organization. You should choose a single organization for the object of your analysis so that you can develop specific recommendations from its standpoint. Of course, you will need to assess the positions of actual, or potential, competitors in performing your assessment. Choose a topic that highlights one or more aspects of competitive strategy that we will cover in class.

Your paper should analyze the organization's environment and competitors, explain why its strategy is effective or not, use concepts from the course to explain why, and make criticisms of past choices and recommendations for the future (taking account of any expected changes in the environment or other firms' behavior). Your project should clearly define the issue(s) facing the organization of interest, analyze the situation using the concepts and tools of the course and develop a specific plan of action for the organization.

If you have contacts at the organization of interest it is useful to engage them in your project, however this is not necessary – your project can be based entirely on publicly available information. You are strongly encouraged to choose a company where substantial amounts of information are publicly available, or you will be able to get information from someone inside the company. You may analyze current or historical situations.

Goals:

The main goal of the project is to make you think carefully about applying the concepts of competitive strategy to an industry and firm that interests you and where you have to decide for yourself what the important issues are and what the course of action should be. Remember that you should choose a topic related to ideas covered in the course. If you have any doubts about your topic, please talk to me.

Deadlines:

The project will be due on the last day of class but I will ask that you meet several checkpoints during the course of the quarter:

- Monday, September 26: Submit member(s) of your group to the TA.
- Monday, October 24: Submit a proposal to me by email. The proposal should give a brief description of your organization and industry and should provide an overview of the problem you propose to analyze. You should also describe the

- sources you have available for getting information on the company. The proposal should be ½ to 1 page long.
- Monday, December 12: Final paper is due by 5 p.m. Papers can be turned in to: a) Geri Spadacenta in Room 004 of 55 Hillhouse, b) mail or FedEx to Brian Viard, Yale School of Management, 135 Prospect Street, New Haven, CT 06520, or c) a web upload site that I will establish. Final projects *will not be accepted by fax or email*. Late papers will be downgraded by one grade per day.

Grading:

You should try to choose something creative, enlightening and somewhat complex. Your paper should clearly state the issue you are addressing. Some research on the details is essential, but the key to a successful paper is to analyze, not just describe. You will be graded on how well you answer the relevant questions such as:

- What is the precise issue facing the firm?
- What underlying industry or firm factors are creating the issue?
- How will the firms in the industry lose or gain from the issue as they are currently positioned?
- What specific actions should the focal firm take to respond to the issue and why?
- How are the competing firms likely to respond to the focal firm's actions?

rather than on how much effort went into the research. You should focus your discussion to allow for a specific and substantive *analysis* of how the firm uses one or more of the techniques we have discussed in class. Papers with description but no analysis will receive a low grade. The biggest mistake that students make is devoting the vast majority of their page allocation to a description of the situation and providing very little in the way of analysis or recommendations. I will give a higher grade for accomplishing a more difficult analytical task; this is to provide an incentive for you to find and understand a complex competitive situation.

Peer Evaluation:

You will be asked to evaluate the participation of the other members of your final project group at the end of the semester.

Feedback:

I am happy to meet with your group at any point during the quarter to discuss your project. I would be happy to look at a 1 – 2 page outline and give feedback on it at any time.

Restrictions:

You may work in groups of up to three people. All group sizes will be held to the same standard. Thus, it is to your advantage to work in a larger group if you can do so efficiently. Your group may be different than your group for the written assignments. The papers should be no more than 15 pages, single-spaced using a 12-point font and a 1-inch margin. You may also include up to 5 pages of supporting data or exhibits. Be sure to include references in your paper where necessary.

Do not choose a strategic issue that is featured in a case that has been used in a course at Yale SOM. You may not submit a paper that has been written for a different course. If you wish to work on a joint project for two courses, see me first.

Project Ideas:

A company in an industry with a small number of firms is usually a good place to start in generating ideas. If you have a company or industry in mind, try the following. Is there a particular decision that faces this industry/firm that has important implications and could be analyzed? As you read through the syllabus, think about how each topic applies to the decision. What would an industry analysis reveal as the biggest challenges? Does the decision or event help or hurt the firm's ability to earn profit? What is the firm's added value after the decision/event? And so on.

Other Logistics

1. Given the importance of class participation, I will learn your names as quickly as possible. To facilitate that, please use a name card during class.
2. Please do not use laptops, cellular phones or other electronic devices during class.
3. Please do not eat during class. Beverages are fine.

Honor Code Issues

My goal is that each individual student gains valuable learning through this course. Since some of the assignments in this course may be accomplished in groups (if you so choose), here is my policy on group work for my class:

1. I encourage you to discuss the cases in preparing for class with any student who has not already attended class. However, I expect you to present in class case analyses that you personally participated in preparing.
2. For the written assignments, it is important that you demonstrate how well you and your group members understand the course concepts. For this reason, do not consult with those outside of your group for these.

3. For the final project, you may consult with others outside of your group for factual information but the project write-up itself should reflect the analysis of your group and be your group's own written work.
4. No student's name should appear on a group project or written assignment if the student has not substantively contributed to the production of the project. The contribution of all students need not be exactly equal for each assignment, but all students should have participated in a significant way to the production of the project or written assignment.
5. All written assignments submitted for this course must contain a page written and signed by each author describing what that author's contributions to the project were. Please use language that is quantitative in nature such as none, all, a majority, 75%, etc. Each author must make his or her own statement.

Assignment Questions for First Class

Adolph Coors in the Brewing Industry

1. Analyze competition in the brewing industry in 1985. Why did the brewing industry become more concentrated?
2. What factors accounted for Coors's competitive advantage in the mid-1970s (through 1974)? Was it sustainable? Refer to data in the case to defend your position.
3. Why has Coors's performance since deteriorated?
4. Did Coors make any strategic mistakes? If so, what should they have done differently and why? If not, explain why their strategy was correct.