



MANAGEMENT 654: COMPETITIVE STRATEGY

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Professor Sarah Kaplan
Phone: 215.898.6377
Email: skaplan@wharton.upenn.edu
Webcafe: <http://webcafe.wharton.upenn.edu>

<http://www-management.wharton.upenn.edu/kaplan/>
Office: 2019 Steinberg Hall-Dietrich Hall
Office hours: Tuesday and Thursday 3:15-4:15
(Other hours by appointment)

COURSE DESCRIPTION

This course focuses on the competitive strategy of the firm, examining issues central to its long- and short-term competitive position. Students act in the roles of key decision-makers or their advisors and solve problems related to the development or maintenance of the competitive advantage of the firm in a given market. The first module of the course develops frameworks that are useful in analyzing a firm's competitive environment. We then focus on the development of firm-specific capabilities that contribute to competitive advantage. Next, we address the economic logic and administrative challenges associated with diversification choices about horizontal and vertical integration.

The goal of the course is for you to develop an analytic tool kit for understanding strategic issues and to enrich your appreciation for the thought processes essential to incisive strategic analysis. I also hope that we can think critically about the tools, understand their strengths and limitations and evaluate the consequences of their use.

TEXT AND READINGS

The bulkpack includes a collection of readings and cases and is available from Wharton Reprographics. The textbook for the course – Robert M. Grant, Contemporary Strategy Analysis 5th edition – is **optional**. You are not required to purchase or read this text for the course. However, it provides a good overview and is a very useful reference if you need further clarification on a particular topic. The appropriate pages in the Grant text are indicated in the syllabus as optional reading. It is available at the Penn Bookstore. Several copies will also be on reserve at the Reserve Desk at Lippincott Library.

COMMUNICATION

The primary means of communication outside of class is the course web page on Webcafé. You can reach the Web Café room for the course at <http://webcafe.wharton.upenn.edu>.

YOUR GRADE

Your grade will depend both on developing a deep knowledge of the concepts and on applying this knowledge in class discussion, on case analysis and on the final exam.

Factor	Weighting
Individual assignments	
• Participation	20%
• Individual case write up	10%
• Final exam	35%
Team assignments	
• “Create your own case” (Class 3)	5%
• Additional team case (see rotating assignments below)	10%
• Samsung case	20%
Total	100%

CLASS SESSIONS AND PARTICIPATION

Each class will consist of a combination of lecture and discussion of the day’s topic. On most days, we will use case analysis to explore the issues at hand. Careful preparation is essential. I expect you to read all of the assigned materials for each session in advance of the class. In class, you should be prepared to analyze the concepts from the case and the readings and to discuss any questions provided in the syllabus. If you cannot answer the questions, you are not prepared for class. I may use cold calling to ensure preparation and to establish an even level of participation throughout the course.

I expect you to participate actively in class to help your learning and that of your peers. A productive learning environment requires active engagement of all class members. Three factors determine good class participation. First, given thorough and careful preparation, you should be able to identify the important managerial issues related to the case and/or readings. Second, you should be able to use that analysis to define a concise and logical position on the issues. Please avoid pure repetition of case facts. You should be able to show how a particular concept is illustrated in the case or suggest how the substantive problem presented in the case can be solved. Third, you should be able to analyze **constructively** the positions your classmates take. Quality, not quantity, will determine the effectiveness of your comments.

To the extent that you prepare well, we can shift the focus of the class away from lecture and towards analytical and critical discussion of the cases and frameworks. However, this much more interesting way of conducting the class sessions is only possible if you have done the basics already in preparing for class.

Of course, the underlying condition for class participation is attendance. I expect you to attend all sessions (and be on time!). Specifically, according to the MBA office, there is no recruiting reason for which you should miss class. I will use a sign up sheet in class to take attendance. If you sign in for someone other than yourself, both people will receive a grade of "NC" for the class and may be considered for ethical violations. If you cannot come to class, you should notify me by email in advance of the class. Also, in order for your absence not to be counted against your participation grade, please submit a 1 page write-up responding to the study questions for the case from the class you missed to me via email as soon as possible after the missed class.

Given the short duration of this course, it is critical to start each class on time. To that end, late arriving students will have a much higher probability of being cold-called soon after their arrival. And in order to facilitate lively, in-depth discussions and out of respect for each other, there are two simple ground rules regarding mobile devices and laptop computers: 1) please remember to turn off your phone, Blackberry and/or other communication devices; and 2) no laptops open during class.

TEAM ASSIGNMENTS

Your learning team is responsible for submitting answers to the study questions in the syllabus for four class sessions. Three of these assignments apply to all teams at the same time: two “mini cases” (classes 3 and 8) and the “integrative” case (class 11) (see the table below for a summary). For the fourth “rotating” assignment, in each remaining class session, two teams will be assigned to write up answers for the relevant case. Assignments are:

Teams	Class date	Due date	Case
5 and 6	11/01	10/31, 7:00 pm	Coke vs. Pepsi
All teams (1-12)	11/03	11/02, 7:00 pm	Mini-case: Example of positioning (pick your own case)
3 and 4	11/08	11/07, 7:00 pm	Dell
1 and 2	11/10	11/9, 7:00 pm	Ryanair
11 and 12	11/15	11/14, 7:00 pm	McKinsey and Toyota
Individual assignment	11/17	11/17, start of class	Sunrise Medical*
All teams (1-12)	11/22	N/A†	Mini-case: Amazon
9 and 10	11/29	11/28, 7:00 pm	Disney
7 and 8	12/01	11/30, 7:00 pm	Nucor
All teams (1-12)	12/06	12/05, noon	Integrative case: Samsung

For the “rotating” assignment, your answer should be a **maximum** of 3 pages (12 pt. Times Roman font, single spaced, with margins no less than 1 inch). It is not necessary, but you may attach 1 or 2 exhibits based on your analysis if they directly support the arguments you make. Strong assignments will develop a logical argument using course concepts and, to the extent the case allows, validate this argument with quantitative information.

For the integrative case (Samsung in Class 11), your team should be prepared to present your answer to one case question in class, in addition to the written assignment. I will distribute an assignment sheet later in the course with information about the questions, the specific format of the write-up and the in-class presentation for the Samsung case.

* Individual assignment. Do not do this assignment in your teams. Please bring hard copy to class and turn in at the beginning of class. Your case will not be graded if a hard copy is not turned in

† No assignment to turn in. Teams should discuss this as preparation for the class and individuals should be prepared to answer the questions in the syllabus.

The “mini cases” are slightly shorter exercises that all teams are responsible for preparing, but only one (class 3) requires you to turn in an assignment. The specifics of the assignments are described below in the details of the relevant session.

For the “rotating” assignments, teams must post your assignments to the project folder for your team on the course Web Café site **by 7:00 pm the evening prior** to that class session. The integrative Samsung case will be due on Web Café at **noon on December 5**. When submitting your team answers, **please indicate your team number and all team members’ names on the write-up**. After reviewing the write-up, I will post selected examples on the course web site so that other students may have the opportunity to learn from them.

INDIVIDUAL CASE WRITE UP

You will be required to do one case write-up on an individual basis. The case, Sunrise Medical, is in your course pack. I will hand out the case questions on November 8 in class. Each student will be responsible individually for an analysis of the case which is limited to **2 pages** (single-spaced, 1 inch margins, Times Roman 12 pt. font) of text and an optional 1 page of exhibits. Two pages may not seem like a lot of space, but this will force you to be concise and focus only on the most critical issues. This assignment is **due November 17 at the start of class**. Please bring in a hard copy. It is an individual assignment and **should not** be done in your learning team.

CASES

Cases give life to management theory. In this course, they give you an opportunity to put yourself in the shoes of managers as they make strategic choices. We have chosen the cases in the course to elucidate particular strategic concepts. Many of the cases focus on a critical moment in time for a company. Therefore, it is not appropriate to do research on what has happened to the company since the time the case was written. As managers, you will never have the luxury of 20/20 hindsight when you need to make strategic choices. The goal of the case preparation and discussion is to hone your own analytical skills using the information at hand.

FINAL EXAM

The final exam will **tentatively** take place on December 15, 3-5 p.m. I will confirm this day and time with you once the MBA program office has finalized the schedule. We will provide you with a short case or set of articles regarding a particular company strategic decision. We will then ask you to analyze the situation using the concepts from the course and write up this analysis. I will provide more details about the exam during the course.

USE OF PRIOR MATERIALS

This is a core course for the Wharton MBA. As such, the course covers similar material from year to year. It is **never** appropriate to use materials prepared by students in this course from previous years. You should not use previously completed case write ups, summaries of readings or other “cheat sheets.” (Hint: the very fact that they are called “cheat sheets” should clue you in to the idea that they are not appropriate to use.) I will work with your ethics liaison to clarify the detailed guidelines, and I expect you to follow them.

COURSE OUTLINE

Session	Preparation
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INTRODUCTION

Class 1: Introduction and course overview (Th 10/27)

- Readings: J. Barney, “What is strategy?” pp. 6-24 in Gaining and Sustaining Competitive Advantage, 2nd edition, 2002.
- Case: N/A

HOW TO COMPETE, Part I: Industry analysis

Class 2: Structural analysis of the industry (Tu 11/01)

- Readings: M. Porter, Competitive Strategy, pp. 3-33.

Optional examples: D. Besanko, D. Dranove, M. Shanley, S. Schaefer, “Industry Analysis,” Chapter 10 in Economics of Strategy, 2004 (*pp. 335-351 only*).

Optional: R. Grant, “Analyzing the Industry Environment,” in Contemporary Strategy Analysis, 5th edition, 2005, pp. 68-91.
- Case: **A Hundred-Year War: Coke vs. Pepsi, 1890s-1990s (#9-799-117)**
 1. Lay out a supply chain for the CSD industry.
 2. Why is the cola *concentrate* industry dominated by two firms? What is the basis for scale economies in *concentrate* production? In *bottling*?
 3. Use the 5-Forces framework to explain why the cola concentrate industry is so profitable. How does this compare to the bottlers? What factors might explain the difference in profitability between these two
 4. Why would the concentrate makers want to own bottlers?
 5. Further discussion: Are these dynamics the same in other countries? Can Coke and Pepsi sustain their profits in the U.S. in the wake of the growing popularity of non-carbonated drinks? (Teams 5 and 6 do not need to address these questions in their write ups.)

HOW TO COMPETE, Part II: Competitive advantage and competitive positioning

Class 3: Industry analysis and competitive positioning (Th 11/03)

- Readings: P. Ghemawat, “Creating Competitive Advantage,” in Strategy and the Business Landscape 2nd edition, pp. 44-63.

M. Porter, “What is Strategy?” Harvard Business Review, November-December 1996.

R. Grant, “Intra-Industry Analysis,” in Contemporary Strategy Analysis, 5th edition, 2005, pp. 124-126.

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	Optional: R. Grant, "Sources of cost advantage," in <u>Contemporary Strategy Analysis</u> , 5 th edition, 2005, pp. 255-266
• Case:	<p>Choose your own case</p> <ol style="list-style-type: none"> 1. In your learning teams, select two leading firms with different strategies from one of the following industries: (a) Product-based: consumer products or consumer electronics; or (b) Service-based: consulting or investment banking. 2. As a team, submit 2-3 slides (by Wednesday 11/02, 7 pm in the Webcafe folder) and be prepared to present in class: (a) the value chain for the company (b) a comparison of each firm's distinctive choices along each component of the value chain and (c) a strategic group map for the industry.

Class 4: Competitive positioning, continued (Tu 11/08)

- Readings: N/A
- Case: Matching Dell (#9-799-158)
 1. Why has Dell been so successful despite the low average profitability in the PC industry? What are some of the key choices Dell has made in how it competes to distinguish it from its primary competitors?
 2. Prior to the efforts by competitors to match Dell, how big was Dell's comparative advantage (circa 1997)? In addition to your assessment of Dell's relative cost position, what is your view of buyers' willingness to pay for a Dell machine?

Hints: To size up Dell's competitive advantage, you need to analyze both cost and differentiation. To analyze differentiation, you need to compare (a) the willingness of customers to pay for a typical PC from Dell and (b) the willingness to pay for a PC from the Compaq/reseller team. Similarly, to analyze costs you need to compare Dell's cost of producing and delivering a PC with those of the Compaq/reseller team. The case contains enough information to quantify the cost differential. The case allows you to compare willingness to pay only qualitatively. To quantify relative costs, consider a typical PC equipped for the business market. From Exhibit 10b, you can calculate the price that Dell charged for such a machine in 1996. Next, you can use Exhibit 6 to calculate Dell's cost of goods sold (COGS) for such a machine. Using information in the case, identify the major categories of cost differences between Dell and the Compaq/reseller team; as they provide a typical corporate PC, how do the costs differ? Finally, try to quantify the savings or extra costs associated with each difference.
 3. Why has it been hard for competitors to respond to the challenge posed by Dell's competitive advantage? How sustainable is Dell's position. (Teams 3 and 4 do not need to address this question in their write-ups.)

Class 5: Strategic interaction (Th 11/10)

- Readings: L. Garicano, "Game Theory: How to make it pay," Mastering Strategy, pp. 32-39.
A. Dixit and B. Nalebuff, "Anticipating Your Rival's Response," Chapter 2 in Thinking Strategically, pp. 31-55.

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	Optional: R. Grant, "Contribution of Game Theory" and "Competitor Analysis," in <u>Contemporary Strategy Analysis</u> , 5 th edition, 2005, pp. 106-117.
• Case:	<p>Dogfight over Europe: Ryanair (A) (#9-700-115)</p> <ol style="list-style-type: none"> 1. What is your assessment of Ryanair's launch strategy? 2. How do you expect Aer Lingus and British Airways to respond? Why? (Think about what each brings to the party.) 3. Draw the extensive form of the game between Ryanair and the two incumbents. What are the different payoffs to Aer Lingus and British Airways for different strategic actions? Said differently, how costly would it be for Aer Lingus and British Airways to retaliate against Ryanair's launch rather than accommodate it? (It will help to develop, using assumptions where needed, a viewpoint on the cost structures of Ryanair vs. British Airways/Aer Lingus.)

HOW TO COMPETE, Part III: Firm capabilities and the resource based view

Class 6: Understanding differences in firm level performance (Tu 11/17)

- Readings: G. Hamel and C.K. Prahalad, "The Core Competence of the Corporation," Harvard Business Review, May-June 1990.
J. Barney, "Firm Resources and Sustained Competitive Advantage," Journal of Management, 1991.
Optional: R. Grant, "Role of Resources and Capabilities," in Contemporary Strategy Analysis, 5th edition, 2005, pp. 132-159.
- Cases: **McKinsey & Company (#9-396-357) and Toyota case (2 articles in bulkpack)**
 1. Read pages 1-12 only for the McKinsey case. Read two articles on Toyota in the bulkpack.
 2. What is the unique source of competitive advantage developed by McKinsey and by Toyota? Where in the organizations is it located?
 3. What are the similarities and differences between how the two companies develop and maintain their core competencies?
 4. Why has it been hard for their competitors to imitate their strategies?
 5. Are there certain aspects of their core competencies that have created problems for either company over time? (Teams 11 and 12 do not need to answer this question in their writeups).

HOW TO COMPETE, Summary: Integrating insights

Class 7: Integrating our understanding of competitive strategy (Th 11/17)

- Readings: G. Saloner, A. Shepard, J. Podolny, "Competitive Advantage," pp. 41-56 in Strategic Management, 2001.
- Case: **Sunrise Medical (#5-794-094)**
 1. Instructions and questions will be handed out on 11/08. Individual write-up will be due at the beginning of class today.

WHERE TO COMPETE: CORPORATE STRATEGY

Class 8: The scope of the firm (Tu 11/22)

- Readings: D. Besanko, D. Dranove, M. Shanley, S. Schaefer, “The Horizontal Boundaries of the Firm: Economies of Scale and Scope,” Chapter 2 in Economics of Strategy, 2004 (*pp. 72-95 only*).
- D. Besanko, D. Dranove, M. Shanley, S. Schaefer, “The Vertical Boundaries of the Firm,” Chapter 3 in Economics of Strategy, 2004 (*pp. 105-118, 127-138 only*).
- Optional: R. Grant, “Motives for Diversification,” in Contemporary Strategy Analysis, 5th edition, 2005, pp. 450-466.
- Optional: R. Grant, “Transaction Costs and the Scope of the Firm,” in Contemporary Strategy Analysis, 5th edition, 2005, pp. 389-404.
- Case: **Amazon mini case (two articles in bulkpack).**
 1. Read the two articles of the Amazon mini case in the bulkpack and use the Amazon.com website to gather information for this analysis.
 2. Before class, visit the Amazon.com website and select the “Apparel and Accessories” product category. Click on “seller directory” and select the Footlocker brand. Highlight an item and evaluate the shipping method. What can you infer about the relationship between Amazon.com and Footlocker? What are the risks and benefits of this kind of arrangement?
 3. As you review the readings, keep in mind Amazon.com’s corporate strategy as an example. Consider the following questions: (a) What is the supply chain of book retailing from author to consumer? (b) What are possible vertical integration and diversification choices for Amazon? (c) What were Amazon’s original capabilities for bookselling? How has Amazon leveraged these capabilities (or not) in its diversification efforts?
 4. You will use this information in an in-class exercise. Performance on this assignment will contribute to your participation grade.

Class 9: Diversification strategies and vertical linkages (Tu 11/29)

- Readings: D. Collis and C. Montgomery, “Creating Corporate Advantage,” Harvard Business Review, May-June 1998.
- Case: **The Walt Disney Company (to be handed out in class & available on WebCafé)**
 1. Think about Disney’s choices about horizontal and vertical integration. Analyze the linkages among Disney’s business units: a) To what extent are the business units leveraging common resources? b) Are the linkages among the business units of the type that could not be coordinated using contracts among independent firms? Does the answer to these questions play out differently among different parts of their operations?
 2. Consider Disney’s acquisition of the ABC television network (ABC/Capital Cities). Do you see an economic logic for the acquisition? Is the logic one of

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	scope economies or vertical integration? To what extent does the logic of vertical integration play out differently in the context of broadcast television versus cable properties (such as ESPN)?

Class 10: Corporate strategies for growth (Th 12/01)

- Readings: P. Barwise, P. Marsh, and R. Wensley, "Why Must Finance and Strategy Clash?" Harvard Business Review, September-October 1989.

Optional: R. Grant, "Strategy as a Quest for Value," in Contemporary Strategy Analysis, 5th edition, 2005, pp. 39-57.
- Case: **Nucor at a Crossroads (#9-793-039)**
 1. Why has Nucor performed so well in the past?
 2. How attractive do the economics of thin-slab casting appear to be? Is thin-slab casting likely to afford Nucor a sustainable competitive advantage in flat-rolled products? How should Nucor think about the uncertainties surrounding thin-slab casting?
 3. As a consultant to Iverson, would you recommend entering the flat-rolled sheet market with the new CSP technology?

INTEGRATION AND SUMMARY

Class 11: Integrating and applying concepts (Tu 12/06)

- Readings: N/A
- Case: **Samsung Electronics (#9-705-508)**

Questions and further instructions will be handed out in class well in advance of the due date. For advanced planning, you should know that the team assignment will be due on 12/05 at 12 noon.

Class 12: Wrap up and conclusions (Th 12/08)

- Readings: C. Christensen, "The past and future of competitive advantage," MIT Sloan Management Review, Winter 2001, pp. 105-109.

R. Foster and S. Kaplan, "Creative Destruction," in McKinsey Quarterly, Number 3, 2001.
- Case: N/A

OVERVIEW OF MANAGEMENT 654 CLASSES AND CONCEPTS**PROF. SARAH KAPLAN**

Class	Date	Topic	Analytical tool/ theoretical perspective	Case
1	10/27	Introduction and course overview	The concept of strategy	N/A
2	11/01	Structural analysis of the industry	Five forces	Coke vs. Pepsi
3	11/03	Industry analysis and competitive positioning	Generic strategies Strategic groups Value chain Strategic fit	Choose your own case
4	11/08	Competitive positioning, continued	Competitive positioning Competitive advantage Intra-industry analysis	Dell
5	11/10	Strategic interaction	Competitor analysis	Ryanair
6	11/15	Understanding differences in firm level performance	Resource based view Core competence	McKinsey and Toyota
7	11/17	Integrating understanding of competitive strategy	Review of competitive strategy concepts	Sunrise Medical
8	11/22	The scope of the firm	Vertical integration Horizontal integration	Amazon
9	11/29	Diversification strategies	Diversification strategy Strategic alliances	Disney
10	12/01	Corporate strategy	Portfolio models of planning Capital budgeting	Nucor
11	12/06	Integrating and applying concepts	Integration of strategic concepts	Samsung
12	12/08	Wrap up and conclusions		N/A