



## MANAGEMENT 654: COMPETITIVE STRATEGY

Fall 2008

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### 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 positioning in the context of its environment. Next, we focus on the development of firm-specific capabilities that contribute to competitive advantage. We then 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. We also expect that you will think critically about the tools, understand their strengths and limitations and evaluate the consequences of their use.

### TEXT AND READINGS

The course readings and cases are collected in a course pack available from Wharton Reprographics. Individual professors may, from time to time, post additional readings to further elucidate concepts or cases. Note that full chapters of the Ghemawat text are included in the course pack for your reference though only a subset of the pages will be required reading. Please check the syllabus for the specific page assignments.

While no other textbook is required for the course, there are two good books that will give you a nice overview of all of the concepts in the course. Some of the chapters are included in the course pack. These books are easily available from booksellers on line and are also on reserve in Lippincott Library.

- Pankaj Ghemawat, Strategy and the Business Landscape, 2<sup>nd</sup> edition.
- Robert M. Grant, Contemporary Strategy Analysis 6<sup>th</sup> edition.

Also, for further background on analyzing case studies, we have put the following book on reserve:

- William Ellet, 2007. The case study handbook: how to read, discuss, and write persuasively about cases. Boston, Mass.: Harvard Business School Press.

### COMMUNICATION

The primary means of communication outside of class is the course web page on webCafé. You can reach the webCafé 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, case analysis and the final exam.

Factor	Weight
Participation (including individual case write-up)	30%
Team integrative case	20%
Additional team case (see rotating assignments below)	10%
Final exam	40%
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. We 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. We may use cold calling to ensure preparation and to establish an even level of participation throughout the course.

We 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. "Airtime hogs" will not be rewarded.

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. We 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. We will be taking attendance. If you cannot come to class, you should notify your instructor by email in advance of the class. Also, to avoid having your absence 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 your instructor 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 be heavily penalized in their participation grade. 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 two class sessions. The final integrative case is due from all teams on November 25<sup>th</sup>. For the “rotating” assignment, teams will be assigned to write-up answers for the relevant case according to the following schedule.

Teams	Class number	Class date	Due date	Case
N/A	2	10/28	N/A*	Crown Cork and Seal
4 and 5	3	10/30	10/29, 7:00 pm	Coke vs. Pepsi
6, 7 and 8	4	11/04	11/03, 7:00 pm	Dell
11 and 12	5	11/06	11/05, 7:00 pm	Ryanair
Individual assignment	6	11/11	11/11, in class	Sunrise Medical <sup>†</sup>
9 and 10	7	11/13	11/12, 7:00 pm	McKinsey and Toyota
N/A	8	11/18	N/A*	Mini-case: Coca Cola revisited and Amazon
1, 2 and 3	9	11/20	11/19, 7:00 pm	Disney
All teams	10	11/25	11/24, 12:00 noon	Samsung
N/A	11	12/02	12/01, 7:00 p.m. <sup>‡</sup>	Nucor

For the “rotating” assignment, your answer should be a **maximum** of 3 pages of text (12 pt. Times Roman font, single spaced, with margins no less than 1 inch). You may attach 1 or 2 exhibits based on your analysis if they directly support the arguments you make. 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.

For the integrative case (Samsung in Class 10), your team should be prepared to present your answer to one case question in class, in addition to the written assignment. We 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 integrative case. The integrative case will be due on webCafé at **noon on November 24<sup>th</sup>**.

Strong assignments will develop a logical argument using course concepts and, to the extent the case allows, validate this argument with quantitative information.

When submitting your team answers, **please indicate your team number and all team members’ names on the write-up**. After reviewing the write-up, we will post selected examples on the course web site so that other students may have the opportunity to learn from them.

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\* 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.

<sup>†</sup> 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 evaluated if a hard copy is not turned in

<sup>‡</sup> No write-up is required. You only must fill out the survey on webCafé by 7 p.m. the night before class. Every student must fill out the survey.

## INDIVIDUAL ASSIGNMENTS

You will be required to do one case write-up on an individual basis. The goal of this analysis is for you to assess your own personal progress in the course and make sure you know how to apply the concepts covered in the course up to this date. The case, Sunrise Medical, is in your book of readings. We will hand out the case questions on November 4<sup>th</sup> 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 11<sup>th</sup> 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.

In addition, you will be required to fill out the survey response for your answer to the Nucor case (class 11). You can prepare the Nucor case with your team, but each individual must fill out the survey separately. This survey will be posted in webCafé at the appropriate time.

## CASES

Cases give life to management theory and case stories facilitate learning. In this course, they give you an opportunity to put yourself in the shoes of managers as they make strategic choices. We have chosen both recent and more classical 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, 6-8 p.m.** We 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. We will provide more details about the exam during the course.

## ETHICS AND 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 or faculty in this course from previous years. You should not use previously completed case write-ups, summaries of readings or other “cheat sheets.” We will work with your ethics liaisons to clarify the detailed guidelines, and we expect you to follow them.

## COURSE OUTLINE

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Session	Preparation
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### INTRODUCTION

Class 1: Introduction and course overview (Th 10/23)

- Readings: M. Porter, Ch. 1 “The Structural Analysis of Industries” in Competitive Strategy, 1980 pp.3-33.  
M. Porter, Ch. 2 “Generic Competitive Strategies,” in Competitive Strategy, 1980 pp.34-46.
- Case: N/A

### HOW TO COMPETE: Industry context and industry analysis

Class 2: Structural analysis of the industry (Th 10/28)

- Readings: P. Ghemawat, “Mapping the Business Landscape,” Chapter 2, Strategy and the Business Landscape, 2<sup>nd</sup> edition, 2006, pp. 17-28 (see pp. 31-40 if you want further instructions on doing industry analysis).  
  
Optional examples for your reference: D. Besanko, D. Dranove, M. Shanley, S. Schaefer, “Industry Analysis,” Chapter 10 in Economics of Strategy, 2004 (pp. 335-351).
- Case: **Crown, Cork and Seal (#9-793-035)**  
No case write-up due, but we will discuss the following questions in class:
  1. Up to 1989, how attractive have profit opportunities in the container industry been and why?
  2. Given this industry context, how has CC&S performed under John Connelly?
  3. Further discussion: Why has CC&S been able to maintain this performance level for so long? What changes in CC&S strategy would you recommend to Bill Avery in 1989? Specifically, how do you evaluate the opportunities to expand beyond metal containers? How do you assess the opportunity to bid for Continental Can? Be sure to identify the rationale and assumptions behind your recommendations.

### HOW TO COMPETE: Competitive advantage and competitive positioning

Class 3: Continuation of industry analysis and intro to competitive positioning (Tu 10/30)

- Readings: See readings from Class 2 for your analysis of Coke and Pepsi  
  
The following readings will be covered in the 2<sup>nd</sup> half of class in a lecture and discussion introducing competitive positioning:  
  
P. Ghemawat, “Creating Competitive Advantage,” Chapter 3 in Strategy and the Business Landscape 2<sup>nd</sup> edition, pp. 44-55.  
  
R. Grant, “Intra-Industry Analysis,” in Contemporary Strategy Analysis, 6<sup>th</sup> edition, 2008, pp. 117-118.

Session	Preparation
• Case:	<p><b>Coke and Pepsi:</b> (1) A Hundred-Year War: Coke vs. Pepsi, 1890s-1990s (#9-799-117), Optional reading: (2) A. Martin, “Does Coke need a refill?” <i>New York Times</i>, May 27, 2007, (3) graphic: <a href="http://www.nytimes.com/ref/business/20070527_COKE_GRAPHIC.html#">http://www.nytimes.com/ref/business/20070527_COKE_GRAPHIC.html#</a></p> <ol style="list-style-type: none"> <li>1. Why is the soft drink concentrate industry dominated by two firms? Where can firms in the industry achieve scale economies?</li> <li>2. Use the 5-Forces framework to explain why the soft drink concentrate industry has been so profitable.</li> <li>3. Briefly describe how the industry structure has changed in the 1990’s to the present. Can Coke and Pepsi sustain their profits in the U.S. in the wake of the growing popularity of non-carbonated drinks?</li> <li>4. For discussion in class: Are these industry dynamics the same in other countries? (Teams 4 and 5 do not need to address this question in their write-ups.)</li> </ol>
Class 4: Competitive positioning, continued (Th 11/04)	
• Readings:	<p>Refer to the readings for Class 3 for this analysis. If you need further information on doing a value chain analysis, you can look at the following 2 readings:</p> <p>R. Grant, “Using the Value Chain to Analyze Costs,” in <i>Contemporary Strategy Analysis</i>, 6<sup>th</sup> edition, 2008, pp. 235-237.</p> <p>R. Grant, “Bringing It All Together: The Value Chain in Differentiation Analysis,” in <i>Contemporary Strategy Analysis</i>, 6<sup>th</sup> edition, 2008, pp. 255-259.</p>
• Case:	<p><b>Dell:</b> (1) Matching Dell (#9-799-158), (2) C. Lawton, “Consumer Demand and Growth in Laptops Leave Dell Behind,” <i>Wall Street Journal</i>, August 30, 2006., and (3) R. Crum, “Dell to sell desktop PCs at Wal-Mart stores,” <i>MarketWatch</i>, May 24, 2007.</p> <ol style="list-style-type: none"> <li>1. Using information from the case only: What are some of the key choices Dell made in how it competed to distinguish it from its primary competitors in the 1990’s? (Draw a strategic group map and a value chain for Dell).</li> <li>2. Prior to the recent efforts by competitors to match Dell (circa 1997), how big was Dell’s competitive advantage? See if you can use the numbers in the case and reasonable estimates to quantify the advantage on a per-PC basis. How has Dell used this advantage in the market? (Think about the customer willingness to pay.)</li> <li>3. Why was it hard for competitors to respond to the challenge posed by Dell’s competitive advantage in the 1990’s?</li> <li>4. Further discussion: (a) Looking at the Wall Street Journal article in your readings (“Consumer demand and growth in laptops leave Dell behind”): How sustainable was Dell’s position? How can you explain what has happened since the Dell case was written? (b) Looking at the Marketwatch article on Dell’s agreement to sell computers through Wal-Mart, do you agree with the Kurt Soloman analyst? Is this partnership a good idea for Dell? (Teams 6, 7 and 8 do not need to address these questions in their write-ups.)</li> </ol>

Session	Preparation
Class 5: Strategic interaction (Tu 11/06)	
• Readings:	P. Ghemawat, "Anticipating Competitive Dynamics," Chapter 4, <u>Strategy and the Business Landscape</u> , 2 <sup>nd</sup> edition, 2006, pp. 69-85.
• Case:	<b>Ryanair:</b> Dogfight over Europe: Ryanair (A) (#9-700-115) <ol style="list-style-type: none"> <li>1. What is your assessment of Ryanair's launch strategy?</li> <li>2. How do you expect Aer Lingus and British Airways (BA) to respond? Why? (Think about what each brings to the party.)</li> <li>3. Draw the extensive form of the game between Ryanair and the two incumbents. What are the different payoffs to Aer Lingus/BA (treat them collectively as one actor) for different strategic actions? Said differently, how costly would it be for Aer Lingus/BA to retaliate against Ryanair's launch rather than accommodate it? (It will help to develop, using assumptions where needed, a view on the cost structures of Ryanair vs. Aer Lingus/BA.)</li> </ol>

### HOW TO COMPETE, Summary

Class 6: Integrating our understanding of competitive strategy (Tu 11/11)

- Readings: N/A
- Case: **Sunrise:** Sunrise Medical (#9-794-069)
  1. Instructions and questions will be handed out on 11/04. Individual write-ups will be due in hard copy at the beginning of class today.

### WHERE TO COMPETE: Firm capabilities and corporate strategy

Class 7: Introduction to corporate strategy, examining resources and capabilities (Th 11/13)

- Readings: C.K. Prahalad and G. Hamel, "The Core Competence of the Corporation," Harvard Business Review, May-June 1990 pp. 79-91  
J. Barney, Gaining and Sustaining Competitive Advantage, 2<sup>nd</sup> ed., 2002, pp. 156-171
- Cases: **McKinsey:** J. Huey, "How McKinsey Does it," Fortune, November 1, 1993  
**Toyota:** (1) A. Taylor, "How Toyota Defies Gravity," Fortune, December 8, 1997 and (2) "The car company in front," The Economist, January 29, 2005.
  1. What is the unique source of competitive advantage developed by McKinsey and by Toyota? Where in the organizations is it located?
  2. What are the similarities and differences between how the two companies develop and maintain their core competencies?
  3. What challenges have they faced in leveraging these capabilities into new markets/businesses? How did they address these challenges?
  4. Are there certain aspects of their core competencies that have created problems for either company over time? (Teams 9 and 10 do not need to answer this question in their write-ups).

Session	Preparation
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#### Class 8: The scope of the firm (Tu 11/18)

- Readings: P. Ghemawat, "Choosing Corporate Scope," Chapter 6, Strategy and the Business Landscape, 2<sup>nd</sup> edition, 2006, pp. 124-142.  
J. Barney and W. Hesterly, "The Value of Vertical Integration," Strategic Management and Competitive Advantage, 2006, pp. 183-188.
- Case: **Amazon:** (1) N. Wingfield. "New chapter: In the latest strategy shift, Amazon is offering a home to retailers." The Wall Street Journal, September 24, 2003, (2) R. Hof, "Jeff Bezos' Risky Bet," Business Week, November 13, 2006.  
**Coke and its bottlers:** A. Bary, "Welcome back bottlers," Barron's, November, 20 2006.  
No case write-up due. We will discuss the following questions in class:
  1. Horizontal integration. Read the materials on Amazon. What are Amazon's capabilities? How do they create value? What are diversification choices for Amazon? Does their current plan to expand to be a "digital utility" make sense?
  2. Vertical integration. Review the Cola case from Class 3 and read the article on Coke and its bottlers. Why would Coke want to own its bottlers? Does it make more sense to own or to run the concentrate and bottling businesses as separate entities?

#### Class 9: Diversification strategies and vertical linkages (Tu 11/20)

- Readings: N/A
- Case: **The Walt Disney Company:** Wharton Case, "The Boundaries of the Magic Kingdom"
  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). From the perspective of the time of the acquisition, do you see an economic logic for the acquisition? Is the logic one of 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)? Given what we know today, how does your opinion about the value of the acquisition change?

#### INTEGRATION AND SUMMARY

#### Class 10: Integrating and applying concepts (Tu 11/25)

- 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 assignment will be due from all teams on 11/24 at noon.



Session	Preparation
<i>No class on Thursday 11/27 for Thanksgiving break.</i>	
Class 11: Strategic and financial perspectives (Th 12/02)	
• Readings:	<p>P. Barwise, P. Marsh, and R. Wensley, "Why Must Finance and Strategy Clash?" <u>Harvard Business Review</u>, September-October 1989.</p> <p>Additional reading (if you want background on NPV: net present value): R. Grant, "Strategy as a Quest for Value," in <u>Contemporary Strategy Analysis</u>, 6<sup>th</sup> edition, 2008, pp. 35-50.</p>
• Case:	<p><b>Nucor:</b> (1) Nucor at the Crossroads (#9-793-039) and (2) spreadsheet posted in webCafé.</p> <ol style="list-style-type: none"> <li>1. Why has Nucor performed so well in the past?</li> <li>2. How attractive do the economics of thin-slab casting look? Is thin-slab casting likely to afford Nucor a sustainable competitive advantage in flat-rolled products?</li> <li>3. How should Nucor think about the uncertainties surrounding thin-slab casting? What should Nucor's managers do?</li> <li>4. As a consultant to Iverson, would you recommend entering the flat-rolled sheet market with the new CSP technology? Use the spreadsheet posted in webCafé to test out your assumptions about future scenarios and the possible range of net present values. Once you are satisfied with your analysis, go to the survey by logging onto webCafé and fill out your answer about what Iverson should do (you will need to say whether Iverson should invest or not, and you will need to provide your best guess at the NPV of the project). We will review the results in class. Individuals will be called upon to support their conclusions. You may do this work in your learning team, but <b>every</b> individual student must fill out the survey as part of your class participation.</li> </ol>
Class 12: Wrap up and conclusions (Th 12/04)	
• Readings:	Individual faculty may hand out additional readings for this class.
• Case:	N/A

# OVERVIEW OF MANAGEMENT 654 CLASSES AND CONCEPTS

Class	Date	Topic	Analytical tool/ theoretical perspective	Case
1	10/23	Introduction and course overview	Industry analysis Generic strategies	N/A
2	10/28	Structural analysis of the industry	Five forces Competitive advantage	Crown Cork and Seal
3	10/30	Structural analysis of the industry, continued Introduction to competitive positioning	Five forces	Coke and Pepsi
4	11/04	Competitive positioning	Strategic groups Value chain	Dell
5	11/06	Strategic interaction	Competitor analysis Game theory	Ryanair
6	11/11	Integrating understanding of competitive strategy	Review of competitive strategy concepts	Sunrise Medical
7	11/13	Introduction to corporate strategy, examining resources and capabilities	Resource-based view Core competences	McKinsey and Toyota
8	11/18	The scope of the firm	Vertical integration Horizontal integration	Amazon and Coca Cola
9	11/20	Diversification strategies	Diversification strategies Strategic alliances	Disney
10	11/25	Integrating and applying concepts	Integration of strategic concepts	Samsung
11	12/02	Strategic and financial perspectives	Portfolio models of planning Diversification strategies	Nucor
12	12/04	Wrap up and conclusions		N/A