



MANAGEMENT 654: COMPETITIVE STRATEGY
Fall 2009

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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 on Study.net. Individual professors may, from time to time, post additional readings to further elucidate concepts or cases. There is a required text for the course, Pankaj Ghemawat, *Strategy and the Business Landscape*. You may use either the 2nd or 3rd edition of this book. In instances where the required reading refers to specific page numbers, the pages for both editions are listed if they differ.

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>.

GRADING

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 | 30% |
| Samsung case (team write-up) | 15% |
| Sunrise case (individual write-up) | 15% |
| 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 will 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.

Of course, the underlying condition for class participation is attendance. We expect you to attend all sessions. Specifically, according to the MBA office, there is no recruiting reason for which you should miss class. We will be taking attendance. Arriving late is disrespectful to your colleagues and, for attendance purposes, is treated as a distinct event from being present at the start of class. If you cannot come to class, you should notify your instructor by email in advance of the class. Finally, 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.

WRITTEN ASSIGNMENTS

There are two written assignments required during the terms: one individual and one learning-team based. Your learning team is responsible for submitting answers to the study questions associated with the Samsung case on Wednesday November 11th. 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. Teams must post your assignments to the project folder for your team on the course Web Café site **by 8:00 am the day of** that class session and bring a hard copy of the write-up to the class session.

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.

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 18th 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 25th 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. **You should post your response by 7pm Sunday December 6th.**

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 has been **tentatively** scheduled for Thursday December 17, 3-5 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 any issues that may emerge.

COURSE OUTLINE

INTRODUCTION

Class 1: Introduction and course overview (Mon 11/2)

POSITIONING

Class 2: Introduction to Positioning (Wed 11/4)

- Readings: P. Ghemawat, “Creating Competitive Advantage,” Chapter 3 in *Strategy and the Business Landscape*, pp. 44-54.
- Case: **Edward Jones**
 1. What are some of the distinctive choices Edward Jones has made in its competitive position?
 2. Have recent changes in the competitive environment made those choices more or less viable?

Class 3: Activity Systems and Positioning (Mon 11/9)

- Readings P. Ghemawat, “Creating Competitive Advantage,” Chapter 3 in *Strategy and the Business Landscape*, (pp. 54-65 3rd edition, 55-65 2nd edition).
- Case:
Dell: (1) Matching Dell, (2) J. Scheck, “Dell’s Revival Strategy Runs into Trouble” *Wall Street Journal*, November 28, 2008., and (3) J. Scheck, B. Worthen, and J. DiColo “Dell to Buy Perot in Catch-up Deal,” *Wall Street Journal* September 22, 2009.
 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).
 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.)
 3. Why was it hard for competitors to respond to the challenge posed by Dell’s competitive advantage in the 1990’s?
 4. Further discussion: Looking at the two Wall Street Journal articles in your readings: (a) How can you explain what has happened since the Dell case was written? (b) What do you think of Dell’s recent initiatives (selling through retail channels such as Best Buy, expanding into new product categories such as music players, moving into services)?

Class 4: Positioning and Competitive Advantage (Wed 11/11)

- Case: **Samsung**
 1. What are the sources of Samsung’s cost advantage in DRAM in 2003?
 2. What are the sources of Samsung’s price premium in DRAM in 2003?
 3. What recommendation would you make to Chairman Lee regarding Samsung’s response to the

threat of large-scale Chinese entry?

Industry Analysis and Competitive Dynamics

Class 5: Industry Analysis (Mon 11/16)

- Readings: P. Ghemawat, "Mapping the Business Landscape," Chapter 2, *Strategy and the Business Landscape*.
- Case **Cola Wars Continue: Coke and Pepsi in 2006**
 1. Why is the soft drink concentrate industry dominated by two firms? Where can firms in the industry achieve scale economies?
 2. Use the 5-Forces framework to explain why the soft drink concentrate industry has been so profitable.
 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?

Class 6: Strategic interaction (Wed 11/18)

- Readings: P. Ghemawat, "Anticipating Competitive Dynamics," Chapter 4, *Strategy and the Business Landscape*, pp 68-81 (3rd Edition) pp. 69-81 (2nd Edition).
- Case: **Ryanair: Dogfight over Europe: Ryanair (A)**
 1. What is your assessment of Ryanair's launch strategy?
 2. How do you expect Aer Lingus and British Airways (BA) 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/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.)

Class 7: Complements and the Ecology of Competition (Mon 11/23)

- Readings A. Brandenburger and B. Nalebuff. Chapter 2, "Co-opetition", *Co-opetition* Doubleday: New York, NY. .
- Case **E-Books in 2009: Did the Long Heralded Revolution Finally Arrive?**
 1. How is value created in the E-book market?
 2. Who is competing in this industry?
 3. Analyze why efforts by Adobe and Microsoft were met with limited success?
 4. Contrast the recent choices by Amazon and Sony to compete in the E-book market? Are these business models sustainable?

Corporate Strategy

Class 8: Bridging Business Unit Strategy and Corporate Strategy (Wed 11/25)

- Case **Sunrise Medical**

Instructions and questions will be handed out on 11/18. Individual write-ups will be due in hard copy at the beginning of class today.

Class 9: Firm capabilities and resources (Mon 11/30)

- Readings: C. Montgomery and D. Collis, Chapter 2 “Resources and Rents” in **Corporate Strategy: Resources and the Scope of the Firm**. Irwin: New York, NY.

- Case: **Leerink Swann & Co: Creating Competitive Advantage**

1. What are the key elements of Leerink Swann’s business operations during its first 10 years? How did the firm a) establish its business, b) gather expertise, c) organize its operations, and d) coordinate its interdependent production process?
2. What implications for Leerink Swann’s future are posed by changes a) in health-related industries, b) in the talent market, c) among the firm’s competitors, and d) among the firm’s customers?
3. How well positioned is Leerink Swann for future challenges in the investment banking business? Is this the right time to expand that business, or would you recommend a different growth strategy to Jeff Leerink? Why?
4. What will you further recommend to Jeff Leerink in order to both, a) secure Leerink Swann’s existing competitive advantage, and b) seize the full value of the strategic opportunity in investment banking? Given your choice, what organizational design choices does Leerink Swann have to make?

Class 10: The scope of the firm (Wed 12/2)

- Readings: P. Ghemawat, “Choosing Corporate Scope,” Chapter 6, *Strategy and the Business Landscape*.

- 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?

Class 11: Strategic investments and corporate strategy (Mon 12/7)

- Case: **Nucor at the Crossroads** and spreadsheet posted in webCafé.
 1. Why has Nucor performed so well in the past?
 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?
 3. How should Nucor think about the uncertainties surrounding thin-slab casting? What should Nucor's managers do?
 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). **Surveys should be filled out by 7pm Sunday December 6th.** 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 **every** individual student must fill out the survey as part of your class participation.

Class 12: Wrap up and conclusions (Wed 12/9)