

MHR 423 STRATEGIC MANAGEMENT

Spring Semester 2011

Tuesdays & Thursdays, 1170 Grainger

Lecture 1: 9:30 – 10:45

Lecture 2: 11:00 – 12:15

WEB SITE: <http://courses.bus.wisc.edu>

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COURSE DESCRIPTION

This course explores how firms achieve competitive advantages. You will learn how to formulate effective firm strategies and how to assess whether existing firm strategies are appropriate for achieving competitive advantages. The course is organized around three themes: (1) analysis of firm external and internal environments and strategies for a sustained competitive advantage, (2) analysis of competitive interaction, and (3) defining and managing corporate firm boundaries.

Formulating effective strategies requires a sound understanding of a firm's external and internal environment. Thus, in the first theme of the course we study tools and frameworks that allow us to analyze industry structures (external analysis) and a firm's value creating resources and processes (internal analysis). We will also study how to achieve and sustain a competitive advantage. One particular aspect that we will examine in quite some detail is how to achieve and sustain competitive advantages in industries that exhibit network effects. In the second theme of the course, we explore competitive interactions. Almost every firm action is met by a response by its competitors, and this response likely affects the value of the initial action. We thus will study frameworks that allow us to anticipate firm responses. The third theme is concerned with how to determine and manage a firm's vertical, horizontal, and corporate boundaries. The premise is that firms often operate in more than one business, which raises issues with respect to defining an optimal mix of businesses as well as managing that mix.

REQUIRED COURSE MATERIAL

All course materials *other than cases* are posted online on the course webpage. The course webpage is accessible via <http://courses.bus.wisc.edu>. It is each student's responsibility to download all class materials from the class webpage.

Cases are held electronically at Harvard Business School. Please follow the link below to access the cases. You will be asked to create an account and purchase the case package. It is the responsibility of each student to purchase and download the case package.

<http://cb.hbsp.harvard.edu/cb/access/7851794>

GRADING & PERFORMANCE MEASURES

Grading Policy:

The School of Business' grading policy requires that the mean grade for this class be no higher than 3.3 and that the amount of A's be capped at 30%.

Performance Measures:

Presentation	20%
Briefing Note	15%
Case Analysis	20%
Final Exam	25%
Class Participation	20%

Presentation (20%)

There will be a set of presentations on February 22nd and February 24th. These are group presentations, with approximately four to five students per group. (Exact group sizes will vary according to final class size and will be determined once class has started).

Each group will play the role of an analyst firm that is charged with assessing the strategy of a two-sided platform mediated business of your choice. (That choice is only limited in that you cannot pick an example that we discuss in more detail in class). You can look into the past and analyze the strategy that a company has chosen. If you choose this path, you will need to assess why the chosen strategy was a success or a failure, and if it was a failure, what should have been done differently. Alternatively, you can look into the future (especially if the business of your choice is only emerging), and develop recommendations on what strategy that business should pursue (and why). For either path, your analysis needs to explicate issues regarding platform control as well as network mobilization. You need to submit your choice of company by February 15th. All presentations need to be uploaded to the class webpage by February 22nd at 9:00 AM.

You will only submit your presentation. No other materials will be submitting. Attendance during both presentation classes is required for your presentation to be valid and receive a grade. The class audience and I will grade the presentation. We will discuss further assignment details in class as the due date approaches.

Briefing Note (15%)

You are expected to prepare a briefing note on a particular firm strategic action as described in a newspaper article of your choice. The strategic action under study can be current or from the past – the only requirement is that it relates to a topic and concept we discussed in class. The purpose of the briefing note is for you to elaborate how the firm action illustrates one (or more) of the concept(s) that we have discussed in class. Put differently, this briefing serves for you to demonstrate that you can connect the knowledge acquired in class to what is happening in the business world.

Upload the assignment to the class webpage anytime during the semester and at the very, very latest by April 26th at 3:00 PM. Please attach the news clipping to your analysis. I urge you to regularly follow the business press to identify a suitable example, and not to wait to the last minute. March 10th is set aside for independent study and you may use that time to prepare this assignment. The note should be approximately 1 page (absolute max 1.5 pages, single spaced, 12 pt font). You have a choice of completing this assignment individually or as a team of two.

Case Analysis (20%)

For this assignment you will use the information from a case to assess Walt Disney's corporate strategy in 2000/2001. In particular, for the following three Walt Disney businesses you are asked to assess (i) the scope question and (ii) the ownership question:

- 1) Retailing (i.e., selling consumer products through Walt Disney's Disney Stores)
- 2) Broadway Shows
- 3) ABC (i.e., TV Networks/Stations and Cable "Networks")

Note that you have to answer both the scope and the ownership question. This means that assessing a business to be beyond Walt Disney's boundaries does not imply that you can skip the ownership question for that business. Instead, you would have to analyze whether, given Walt Disney's choice with respect to the scope question, its answer to the ownership question is appropriate. Make sure that you carefully develop your analysis -- coherence and logic matter for your score.

This assignment has to be uploaded to the class webpage by April 19th at 9:00 AM. It should be a maximum of 3 pages (single spaced, 12 pt font). You have a choice of completing this assignment individually or as a team of two or maximally three. Do not discuss the assignment with anyone outside of your team. We will talk about further details for this analysis as the due date approaches.

Class Participation (20%)

The overall success of this class heavily relies on class discussions. As a result, quality class participation figures prominently in the grade make-up. Quality class participation consists of comments that show evidence of class preparation, add to our understanding of the situation, clarify or develop further earlier comments, and test new ideas rather than present a simple repetition of facts without analysis or conclusions.

I frequently call on individuals whose hands are not raised. You should let me know before the start of a class if you have been unable to prepare adequately for that class. This still affects your day's grade (by limiting your ability to contribute), but prevents embarrassment as you will not be cold-called. Class preparation is as much a prerequisite for participation as class attendance. I expect you to attend class on a regular basis (and to arrive on time).

I am happy to discuss your participation at any point during the semester. I will also provide official participation feedback to each of you during the semester (on March 3rd & April 7th). I view this feedback to provide a platform for further discussion and I thus encourage you to respond to my assessment. This will help align our views on your class participation, encourage consistent participation throughout the term, and avoid surprises at the end of the semester.

Final Exam (25%)

Lecture 1: The final exam is scheduled for May 10th from 12:25PM – 2:25PM.

Lecture 2: The final exam is scheduled for May 13th from 7:45AM – 9:45AM.

This is an individual exam that will test your understanding of the frameworks, theories, and examples discussed in class. Successful completion of this exam requires you to prepare, attend, and participate in all classes. You will also have to secure the notes from classmates should you miss a class – anything that we discuss during class time is fair game for this exam. Similarly, anything contained in the readings is fair game. This is a closed-book exam but you are permitted to bring to the exam a total of 8 pages of your own notes.

OTHER ADMINISTRATIVE DETAILS

No Laptop, No PDA, and No Cell Phone Policy

Using laptops, PDAs, and cell phones during class time is distracting and disrespectful to the instructor and your fellow students, and therefore prohibited. Please discuss with me a possible exemption from this policy if you require a laptop for note taking purposes.

Adjustments in Syllabus

This syllabus provides a guideline for what to expect in this class. As we go through the semester, I might adjust the syllabus to accommodate unforeseen events (such as unexpectedly lengthy class discussions, current events that are worthy a discussion, etc). These adjustments might affect homework assignments (both in terms of timing and content). I will announce any adjustments in class and on the course webpage. It is your responsibility to stay informed about these changes.

Feedback

I am happy to discuss the course, your progress, or any other issues of interest to you on an individual basis. See me in class or email to set up an appointment to meet in my office. Please do not wait until the end of the semester to see me regarding problems with the course material or your performance. Your performance in this class is important to me. Please come by to discuss potential problems early in the semester.

Academic Integrity

The School of Business has developed an Academic Integrity Policy that affirms the academic integrity rules and guidelines set out by the University of Wisconsin. (see <http://www.bus.wisc.edu/mba/honorboard/>) Your work and conduct will be held accountable under this policy and academic dishonesty will be prosecuted pursuant this policy. Part of this policy relates to the originality of your work. All your work must be original; for instance, you are prohibited to use notes, handouts, or cases from students who have covered the material used in this class previously. Please visit the link above and familiarize yourself with the Academic Integrity Policy.

CALENDAR OVERVIEW

#	Date	Due	Topic
INTRODUCTION & OVERVIEW			
1	Jan 18 (T)		Introductions & Administrative Details
2	Jan 20 (R)		Overview & Framing
BUSINESS STRATEGY (INTERNAL/EXTERNAL ANALYSIS) & COMPETITIVE ADVANTAGE			
3	Jan 25 (T)		Industry Analysis - concepts
4	Jan 27 (R)		Industry Analysis – <i>Dell case</i>
5	Feb 1 (T)		Firm Internal Analysis & Business Strategy – Concepts
6	Feb 3 (R)		Firm Internal Analysis & Business Strategy – <i>Dell case cont'</i>
7	Feb 8 (T)		Business Strategy & Competitive Advantage – <i>eHarmony case</i>
8	Feb 10 (R)		Comp. Advantage & Network Effects – Concepts
9	Feb 15 (T)	Submit Co. for Pres.	Comp. Advantage & Network Effects – Concepts
10	Feb 17 (R)		Speaker
11	Feb 22 (T)	Presentation	Presentations – Competing in markets with network effects
12	Feb 24 (R)		Presentations – Competing in markets with network effects cont'
13	Mar 1 (T)		Other Sources of Competitive Advantages - Concepts
ANALYZING COMPETITIVE INTERACTION			
14	Mar 3 (R)	(Particip. Feedback)	Game Theory and Business Strategy – concepts
15	Mar 8 (T)		Game Theory and Business Strategy – concepts cont'
16	Mar 10 (R)		Independent Study, e.g., prepare Briefing Note
☺ SPRINGBREAK ☺			
17	Mar 22 (T)		Competitive Interaction Analysis - <i>Bitter Competition case</i>
18	Mar 24 (R)		Competitive Interaction Analysis - <i>Bitter Competition case cont'</i>
19	Mar 29 (T)		Changing Competitive Interaction (PARTS) – Concepts
20	Mar 31 (R)		Changing Competitive Interaction (PARTS) – Concepts con'

CORPORATE STRATEGY: DEFINING & MANAGING FIRM BOUNDARIES

21	Apr 5 (T)		Corporate Strategy – exercise
22	Apr 7 (R)	(Particip. Feedback)	Vertical & Horizontal Diversification Boundaries – concepts
23	Apr 12 (T)		Unrelated Diversification – concepts
24	Apr 14 (R)		Managing Across Corporate Businesses – concepts
25	Apr 19 (T)	Case Analysis	Corporate Strategy – <i>Walt Disney case</i>
26	Apr 21 (R)		Corporate Strategy – <i>Walt Disney case – cont'</i>
27	Apr 26 (T)	Briefing Note	Managing Within & Across Corporate Businesses – exercise
28	Apr 28 (R)		Corporate Strategy and LBOs – <i>Berkshire Partners case</i>
29	May 3 (T)		Wrap up & Discussion of Final Exam
30	May 5 (R)		Review Session

May 10th (T)**LECTURE 1: 12:25PM - 2:25PM**

May 13th (F)**LECTURE 2: 7:45AM - 9:45AM**

DETAILED COURSE CALENDAR

INTRODUCTION & OVERVIEW

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| 1 | Jan 18 (T) | Content:
Introductions and review of syllabus |
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| 2 | Jan 20 (R) | Content:
We will highlight some points from the Porter article to discuss what strategy is and how it is linked to achieving a competitive advantage.
Preparation: <ul style="list-style-type: none">• Read ‘What is Strategy?’ (Porter, 1996, Harvard Business Review, Vol. 74, No. 6) |
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BUSINESS STRATEGY (INTERNAL/EXTERNAL ANALYSIS) & COMPETITIVE ADVANTAGE

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| 3 | Jan 25 (T) | Content:
As we study how to analyze a firm’s external analysis, we will consider frameworks that allow us to understand an industry’s structure and profitability. We will also use today’s class to form groups that will be used throughout the semester for in-class group exercises.
Preparation: <ul style="list-style-type: none">• At home, think about why the commercial airline industry is, on average, much less profitable than the pharmaceutical industry or even the Child Day Care Service Industry. Come prepared to share three or four factors that you believe shape an industry’s (average) profitability. |
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| 4 | Jan 27 (R) | Content:
We will use the Dell case to perform an external analysis of the PC industry.
Preparation: <ul style="list-style-type: none">• Read ‘The Five Competitive Forces that Shape Strategy’. Make sure that you read this article before you look at the case.• Read ‘Matching Dell’ (case), pages 1 – 6 and relevant exhibits. As you study the case, evaluate each of the five forces that have shaped the PC industry and think about how the PC industry became structurally so unattractive. |
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| 5 | Feb 1 (T) | Content:
We will now turn to firm internal analysis. We will discuss the concept of value creation and review tools for analyzing how a firm may create value. We will also review Porter’s generic business strategies.
Preparation: <ul style="list-style-type: none">• Read ‘Strategic Positioning: Cost Advantage & Benefit Adv.’ (Besanko et al.) |
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6	Feb 3 (R)	<p>Content:</p> <p>We will turn back to the Dell case to examine how firm internal analysis can help us understand how Dell has been creating value.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read ‘Matching Dell’ (case), especially pages 6-14 and relevant exhibits. As you prepare the case, think about why exactly Dell had been so successful despite the average low profitability in the PC industry. In particular, what are some of the value creating activities that allowed Dell to enjoy a competitive advantage (at least for a while)?
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7	Feb 8 (T)	<p>Content:</p> <p>We continue our discussion of business strategy and competitive advantage by studying eHarmony. The case nicely illustrates a focused differentiation strategy, and how it might create a competitive advantage. The case will also allow us to start a discussion of industry network effects as one source of a <u>sustained</u> competitive advantage.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read ‘eHarmony’ (case). As you prepare the case, think about why people might want to meet others on-line instead of finding them in the ‘real world’. Also, do you think that eHarmony has a competitive advantage, and if so, where might it come from?
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8	Feb 10 (R)	<p>Content:</p> <p>We will dig into the detailed dynamics of markets with network effects. Network effects are one mechanism by which a firm can sustain its competitive advantage. Network effects characterize a great share of the so-called New Economy, and they have distinct challenges and implications for strategy formulation. We will spend the next two classes exploring these challenges and implications.</p> <p>Preparation :</p> <ul style="list-style-type: none"> • Prior to class, think of examples of two sided network effects. i.e., two-sided platform mediated businesses. What might be the factors for a single firm (or very few firms) to dominate some markets with network effects, whereas other markets seem to be able to accommodate multiple players?

9	Feb 15 (T)	<p>Content:</p> <p>We will continue our discussion of network effects/platform mediated businesses.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Prior to class, think about strategies that a company might pursue to get its platform mediated business off the ground. Also contemplate the pricing strategy that a firm with a two-sided platform mediated business should pursue. Should it charge both sides (versus just one) for participating in the platform, and should it charge one side more than the other? • After class, read ‘Strategies for two sided markets’ (Eisenmann et al) <p>!! Submit your choice of company for the presentation !!</p>
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10	Feb 17 (R)	<p>Content:</p> <p>We will have a class speaker.</p>
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11	Feb 22 (T)	<p>Content:</p> <p>Presentations: Markets with Network Effects</p> <p>!! Upload your presentation to the class webpage by 9:00 AM !!</p>
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12	Feb 24 (R)	<p>Content:</p> <p>Presentations: Markets with Network Effects cont’</p>
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13	Mar 1 (T)	<p>Content:</p> <p>We will wrap up this class theme by analyzing how a firm may sustain a competitive advantage through sources other than network effects. For instance, we explore which type of resources can lead to a long lasting competitive advantage, and what other structural sources of competitive advantage may exist.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Prior to class, think of firms that have maintained a competitive advantage over longer periods of time, and try to identify the resources and/or structural (market) elements that have enabled them to maintain their advantage • After class, read Sustainable Competitive Advantage (Besanko et al.)

ANALYZING COMPETITIVE INTERACTION

14 Mar 3 (R)

Content:

We will spend the next two classes reviewing some basic ideas from theory. Game theory provides useful concepts for analyzing competitive interactions, i.e., situations in which the fates of competitors are interdependent (which is almost always the case!). We will begin today's session by looking at situations in which players make their moves sequentially, before analyzing simultaneous games.

Preparation:

- **Read** "Game Theory and Business Strategy" (in case package downloaded from Harvard Business School).

15 Mar 8 (T)

Content:

We will continue with the primer on game theory. Specifically, we will continue reviewing games in which players move simultaneously, and we will discuss ideas from behavioral game theory.

Preparation:

- **Read:** Anticipating your Rival's Response & Seeing through your Rival's Response (Dixit & Nalebuff)
- **Read:** Exuberance Is Rational (Lowenstein, New York Times Magazine)
- **Read:** How Real People Think in Strategic Games (Robinson)

16 Mar 10 (R)

Content:

Independent Study – No class meeting. Use time to prepare Briefing Note

☺ **SPRINGBREAK** ☺

17 Mar 22 (T)

Content:

Using the Bitter Competition case, we will spend the next two classes examining the competitive interaction between NutraSweet and Holland Sweetener Company in the battle for the aspartame market.

Preparation:

- **Read:** Bitter Competition: The Holland Sweetener Company vs. NutraSweet – A (case). As you study the case, think about how Vermijs should expect NutraSweet (NS) to respond to the Holland Sweetener Company's (HSC) entry into the European and Canadian Aspartame markets.
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18 Mar 24 (R) **Content:**
We will continue with the Bitter Competition case. Case E recaps the battle between NS and HSC until ca. 1991 and describes the scenario with which we will kick off today's session.
Preparation:

- **Read:** Bitter Competition: The Holland Sweetener Company vs. NutraSweet – E (case). (Note that this case needs to be downloaded separately from the webpage at Harvard Business School. You will be provided the relevant link).

19 Mar 29 (T) **Content:**
We will discuss the PARTS framework. This framework build on game theory and helps managers change the game of business in their favor. The framework also is useful for debriefing the battle between NS and HSC.
Preparation:

- TBA

20 Mar 31 (R) **Content:**
We will continue with the PARTS framework
Preparation:

- **Read:** The Right Game: Use Game Theory to Shape Strategy (Brandenburger & Nalebuff)

CORPORATE STRATEGY: DEFINING & MANAGING FIRM BOUNDARIES

21 Apr 5 (T) **Content:**
For the remainder of the course, we will analyze how to define and manage a firm's vertical and horizontal corporate boundaries. We will begin this module with an in-class exercise that will get us thinking about the various boundaries
Preparation:

- None!

22 Apr 7 (R) **Content:**
We discuss concepts that help us analyze a firm's vertical and horizontal boundaries
Preparation:

- **Read:** Note on Corporate Strategy (Piskorski) [in case package downloaded from Harvard Business School]
- **Read:** When and When *Not* to Vertically Integrate (Stuckey & White)

23	Apr 12 (T)	<p>Content:</p> <p>We will finish our discussion of vertical and horizontal diversification strategies and also review how unrelated diversification may (or may not!) create economic value.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read: Corporate Diversification (Barney), esp. pages 419 – 426 (Diversification to Exploit Financial Economies of Scope), also read pages 426 – 435 (Diversification to Exploit Anticompetitive Economies of Scope)
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24	Apr 15 (R)	<p>Content:</p> <p>We will study the “Corporate Triangle”. This concept provides guidance for coordinating and controlling across multiple businesses, and also introduces the notion of a <u>sustained</u> corporate advantage. Time permitting we will also do an in-class exercise.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read: Creating a corporate advantage (Collis & Montgomery, 1998, Harvard Business Review, Vol. 76, No. 3)
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25	Apr 19 (T)	<p>Content:</p> <p>We will discuss the Walt Disney case.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read: Walt Disney: The Entertainment King (case). As you prepare the case, think about how Walt Disney’s corporate strategy has changed over time. <p>!! Case Analysis is due !!</p>
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26	Apr 21 (R)	<p>Content:</p> <p>We will continue our analysis of the Disney case</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Re-Read: Walt Disney: The Entertainment King (case)
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27	Apr 26 (T)	<p>Content:</p> <p>We will use this class period for an in-class exercise that demonstrates some of the coordination and negotiation issues that arise within multi-business firms.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read: In-class exercise materials (distributed in the previous class) <p>!! Very, very last chance to hand in Briefing Note !!</p>

28	Apr 28 (R)	<p>Content:</p> <p>We will use the Berkshire Partners case as a bookend to our segment on corporate strategy, and to study how unrelated diversification strategies may create value.</p> <p>Preparation:</p> <ul style="list-style-type: none"> • Read: Berkshire Partners (case). As you prepare the case, think about how Berkshire Partners is attempting to add value. • Read: Leveraged Buyouts (Hooke). [This reading is optional].
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29	May 3 (T)	<p>Content:</p> <p>We will wrap up the class and discuss the final exam.</p>
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30	May 5 (R)	<p>Content:</p> <p>Today will serve as a review session for the final exam. Bring your questions and any remaining confusion about anything we have covered in this class, and we will create clarity.</p>
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	May 10 (T)	<u>LECTURE 1: Final Exam, 12:25PM – 2:25PM</u>
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	May 13 (F)	<u>LECTURE 2: Final Exam, 7:45AM – 9:45AM</u>
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