

EMBA 299: Strategy

Jonathan S. Leonard

Spring, 2013

Instructor

Professor Jonathan S. Leonard

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Office hours: F320 M,T 7:30-8:10PM, and F689 by appointment

Course Web Page: <https://bspace.berkeley.edu>

Class meets in F320

Final Exam: Monday May 20, 6PM-9PM. C230 for both cohorts.

Swap Days

Macro and Strategy will swap class meeting days (same room) on the following 3 days:

3/26 Macro 3/28 Strategy

4/15 Macro 4/17 Strategy

4/16 Macro 4/18 Strategy

Introduction

Leaders shape the future to their advantage. This class takes the perspective of the executive leading the business and responsible for developing its strategy. The strategic view asks how the future can be shaped to one's advantage anticipating other's decisions.

This class will enable you to analyze and design strategies to achieve competitive advantage. Effective strategies fit both the external economic environment in which the firm is operating and the firm's own internal competencies. Strategic analysis is inherently dynamic. Success depends on anticipating reactions both horizontally (rivals and partners) and vertically (upstream and downstream), and setting conditions to benefit from these.

We use game theory and real option theory as organizing frameworks. The course draws heavily on microeconomics and, to a lesser extent, on other core courses. A mix of lectures and simple in-class strategic games builds the foundation. Case studies illustrate how these concepts can be used to understand companies operating in a complex world.

You will develop skills to diagnose the competitive position of a business, evaluate business strategies, anticipate rival's actions and analyze business options. At the end of the course, you will have the analytic tools to address the following key questions:

- How can a firm generate and capture value?
- How do the fundamental economic forces in an industry affect the firm's ability to make profits?
- How can a firm position itself within an industry to develop and sustain a competitive advantage?
- How is a firm's choice of strategies affected by the strategies of other firms— rivals, partners, and others up and down the value chain?
- How can scope be leveraged strategically?

In any business setting the details matter, and it is easy to drown in them. We'll develop some frameworks you can use to see the forest -the strategic imperative- amidst the welter of information that threatens to overwhelm many managers. While strategy is not a cookbook, it does provide methods to structure strategic decisions and sharpen the focus to a few key empirical questions.

Preparing for class

You are responsible for the material in each reading and case. Come to class prepared to actively discuss your analysis of the business decisions in each case. In business, great ideas that you cannot support do not go far.

Come to class prepared to tell us what you would do, and why you would do it. Identify the key issues and opportunities facing the firm, evaluate alternative approaches to problems, describe the course of action you recommend, and explain the reasons for your recommendations. Cases have supporting data to help you understand the business situation. For most cases, these are available at Study.net as spreadsheets, so you can move quickly to analysis. Where appropriate, use these to build a quantitative analysis to support your recommendations so you can convince your classmates of the merits of your proposal.

Groups

Each student should be part of a 4-member team. Use the Wiki provided at the class BSpace site to update your team membership before the first class. I reserve the right to reallocate to avoid small teams. Groups will work together to complete the case memos. At the end of the semester, you will have an opportunity to apply game theory to free-riders by anonymously reporting on the contribution of other team members.

Case Memos

Each team is required to submit three case memoranda (up to four pages, double-spaced) of analysis and recommendations. Each memorandum should focus on the questions that appear in the Case Questions. Write these as if you were writing a recommendation to the major decision-maker in the case. Answer the question posed, using supporting evidence and analytics. The four-page limit is for text only. You may attach an additional page of numerical calculations. Memoranda should be submitted by 10:00 pm the Friday before the class in which the case will be discussed. To turn in your assignment, please submit one copy per team to BSpace (via the Assignments tab). Make sure all of your group members' names are listed on the memo.

From each set of cases below, pick one case and submit one memorandum. Total: 3 memos.

1. Cola Wars or Dell or RyanAir
2. Biotech or Apple or Wintel
3. theLadders or IMG

Grading

This class follows the Haas maximum mean 3.45 GPA for core courses. Grades are based on the following elements:

1. 21% Class participation.
2. 39% Case memos.
3. 40% Final exam.

Class participation counts for a significant part of your grade. I will both cold call students and seek volunteers to speak in class. Quality of class participation is more important than quantity, although zero participation is likely to result in a zero. Trying to maximize “air-time” is counter-productive. If your name card is not up or you do not attend class, I will assume that you are unprepared and adjust your class participation grade accordingly. Please use your name card and sit in the same seat each class.

Productive comments are characterized by:

Relevance: Are your comments clearly related to the case and to the comments of others?

Progress: Do your comments move the class discussion forward?

Facts: Have you used specific facts from the case, from readings, or from personal experience to support the assertions that you are making?

Logic: Is your reasoning consistent and logical? Are you using the concepts and frameworks from class to organize your comments?

Originality: Do your comments bring fresh analytical perspectives to bear on the discussion?

In-Class Games:

The class will participate in stylized strategic games in order to learn basic strategic lessons.

Required Text

A. Brandenburger and B. Nalebuff, *Co-opetition*

Readings available on Study.net.

For those interested in reading further (optional):

D. Besanko, D. Dranove, M. Shanley, S. Schaefer, *Economics of Strategy*

C. Christensen and M. Raynor, *The Innovator's Solution: Creating and Sustaining Successful Growth*

H. Smit and L. Trigeorgis, *Strategic Investment*

Laptop and Electronic Device Policy

To support active engagement and learning, no use of laptops, tablets, cell phones, or any other electronic device is allowed during class.

Schedule

Class schedule subject to change.

A note on readings: Read and analyze readings prior to the class for which they are assigned. For each case, think out a reasoned plan of action for how (and why) you would proceed.

1. Introduction to Strategy

- Lecture: Introduction to Real Options
- Ghemawat: “Competition and Strategy in Historical Perspective”
- Case: Adolph Coors and the Brewing Industry
 - What was Coor’s competitive advantage?
 - Why did the US brewing industry consolidate?
 - Coors was quite successful through the mid-1970s. What was Coor’s strategy?
 - How did Coors’ performance change relative to its competitors in the period from 1977 to 1985? Why?
 - Which options did Coor’s strategy create? Which did it eliminate?
 - What, if anything, might Coors have done differently earlier on?

2. Game Theory and Reaction Functions

- Lecture: Game Theory and Industry Analysis
- Porter, “What is Strategy?”
- Brandenburger & Nalebuff, Ch. 1
- Case: Cola Wars
 - Why is the soft drink concentrate industry so profitable?
 - Why is the bottling business so unprofitable?
 - Explain the differences in bottler’s profitability across retail outlets.
 - What creates power in this vertical chain?
 - How has the competition between Coke and Pepsi affected the industry’s profits?
 - What strategy should Coke and Pepsi take in the face of a shift toward non-carbonated drinks?

3. Positioning for Competitive Advantage

- Lecture: Differentiation
- Hamel and Prahalad, “Core competence of the corporation”
- Case: Matching Dell
 - How did the personal computer business become so unprofitable?
 - Why has Dell been successful in this industry?
 - How large was Dell’s competitive advantage prior to the decision of competitors to “match” Dell?
 - Using a spreadsheet, calculate Dell’s cost advantage over the team of Compaq and a reseller selling a high-end machine to a corporate customer in 1996. Upload the spreadsheet on BSpace/Drop box and bring it to class.
 - What impact does the Value-Added Reseller channel have on IBM and Compaq?
 - What should Dell and its rivals do now?

4. Entry, Commitment, and Competitive Analysis

- Lecture: Entry, Commitment and Deterrence
- Coughlan, “Anticipating competitor actions”
- Brandenburger & Nalebuff, Ch. 2
- Case: Xenon Marketing Services
 - What determines the value to XMS of its Charter contracts?
 - Why didn’t XMS take any action to enforce their contracts?
- Case: Ryan Air: Dogfight Over Europe
 - What is your assessment of Ryanair’s launch strategy?
 - How do you expect Aer Lingus and BA to respond? Why?
 - Using a spreadsheet, quantify the costs and benefits to BA of the decision to retaliate or accommodate Ryan’s entry. Do the same for Aer Lingus. Upload the spreadsheet on BSpace/Drop box and bring it to class.
 - Can the Ryan brothers make any money at their proposed price point?

5. Innovation, Entry, and Real-Options

- Ghemawat, Sustaining Superior Performance: Commitments and Capability
- Haas Innovation Case: Biotech Revolution

What makes a potential innovation attractive as a business proposition?

How should George Rathmann decide where to invest his company's scarce resources? What criteria should he use? Should he bet the company's future on EPO?

Compare the entry barriers across the markets being considered. How do these change the attractiveness of entering these markets?

For EPO, what are the expected costs at project inception up to the point of FDA approval? What additional costs would you expect to incur to bring the drug to market? What are your expected revenues from the US ESRD market?

If twenty years of patent protection are not sufficient to attract investment in a new drug, how could an overlapping 7 year period of exclusivity under the Orphan Drug Act change the attractiveness of entry?

How would you leverage the ODA in medical indication markets with target populations of 30,000? 300,000? 30 million?

6. Competitive Dynamics

- Brandenburger & Nalebuff, Chs. 3 & 4
- Case: Bitter Competition: Holland Sweetener

Why should NutraSweet accommodate HSC's entry into the aspartame market?

Why should NutraSweet not accommodate HSC's entry into the aspartame market?

Evaluate the two sets of rationales. How should HSC expect NutraSweet to react?

In light of this, what strategy would you recommend to HSC?

7a. Complements and Competing Standards

- Case: Apple

Historically, what were Apple's major competitive advantages?

As an Independent Software vendor (ISV) in 1985, would you write for Apple or Microsoft?

How did Apple's IPOD strategy differ from its earlier strategy with PCs?

How sustainable is Apple's competitive position in PCs, MP3 players, tablets, smartphones?

What advice would you offer new CEO Tim Cook?

7b. Network Effects: Complementor Dynamics and Technology Strategy

- Case: Wintel

What accounts for the winner-take-all dynamics leading to Microsoft and Intel's dominance?

What are the key drivers of profitability for Microsoft? Intel?

Do you expect conflict or cooperation between the two?

If you are Andy Grove making a decision on NSP, should you concede to Bill Gates? Hold your ground? Or, negotiate a compromise?

If you are Andy Grove, which of the above three approaches do you think Bill Gates will pursue?

8a. Strategic Signaling

- Porter, Strategy and the Internet
- Case: The Ladders

Evaluate TheLadders' business model. Does it have a competitive advantage? If so, where does it come from?

Why does it make sense to charge executive job seekers, but not lower-level and blue collar job seekers? Is there any other segment of the job search market where TheLadders' approach would work?

If TheLadders has a sound business model, why didn't online recruiting sites like Monster and HotJobs pursue this approach for executive positions?

How serious is the threat to TheLadders from LinkedIn? If you ran LinkedIn, would you change its business model?

Why is the TheLadders underused by the human resources staff within large corporations? What should TheLadders do to boost engagement with this segment?

Should TheLadders charge recruiters to use its site? If so, how much, and for what activities?

8b. Complement Strategy: Capturing Value in the Absence of Property Rights

- Case: IMG
What keeps clients from leaving IMG for rival agents?
Where does the value in the relationship between clients and IMG reside? Is it with the clients? Agents? IMG?
Elsewhere?
Which areas of expansion for IMG are most sensible? Which are less compelling?
What are the biggest challenges in structuring an organization like IMG? How may these be overcome?
If you were a competitor to IMG, what would be your strategy to compete against it? Where is IMG most vulnerable?

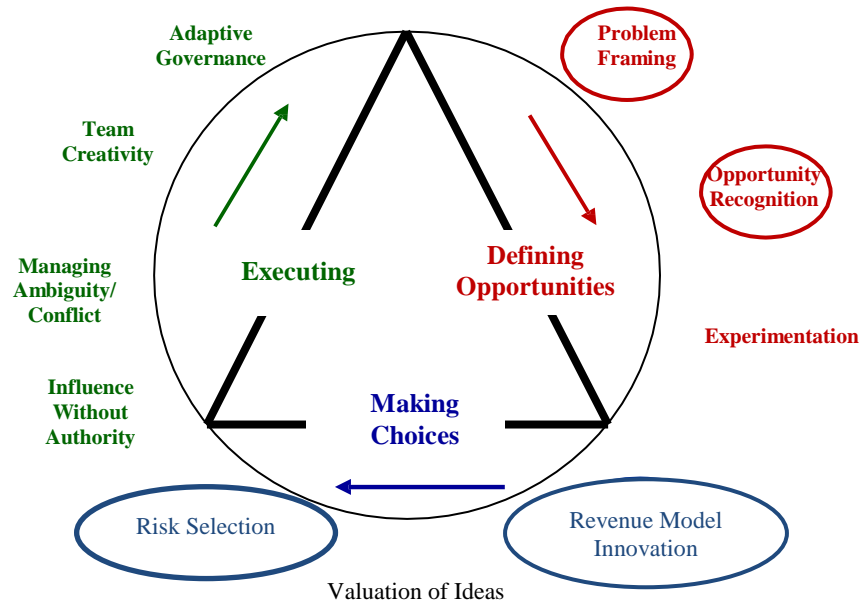
9a. Vertical Strategy: Controlling the Value Chain

- Brandenburger & Nalebuff, Ch. 5
- Case: Power Play: Nintendo in 8-bit Video Games
How did Nintendo successfully revitalize the video game business following Atari's boom and bust cycle?
How was Nintendo able to capture the value it created in this business?

9b. Course Summary**10. Final Exam**

May 20. C230.

Appendix: Relationship of the Strategy Course to Haas 10 Capabilities



This course develops four of the “Haas Capabilities” that are integrated into the Berkeley Innovative Leader Development (BILD) curriculum.

Notice that the four capabilities covered by strategy exist in the early stages of the cycle: **Defining Opportunities** and **Making Choices**. This is because strategy is a set of long term plans best determined (long) *before* **Execution**.

Problem framing is the first step and crucial in strategy. The game of business is complicated and it is essential to understand the layout of the game before one makes decisions. This involves understanding the players and their potential interactions (past, current, and future) as a complex system.

Once one understands the system, one can start the process of **Opportunity Recognition**. In strategy, this usually involves seeing a position in the strategic space that is current unfilled by the current players and will be protected from incursion of future players. For example, Dell found a small but growing segment of the market that was underserved by PC producers and determined a coherent strategy to serve this segment in a way that protected itself from competitors. It is difficult to find a place in the strategic space that is unfilled without some **Revenue Model Innovation**, which is finding a novel way to provide value to consumers.

No matter how well you understand the system and discover new opportunities, strategy is always a bet. There are good bets and bad bets, but there are rarely sure things. Therefore, a large portion of strategy focuses on **risk selection**, where the risk not only comes from uncertainty in the environment (as with other classes), but uncertainty in the actions and reactions of other players.