

MBA 299: Strategy
Jonathan S. Leonard
Spring, 2008

Instructor

Professor Jonathan S. Leonard

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Office hours: F-689 Monday 11:15-12:30 and by appointment

Class Meetings:

Section 1: Monday and Wednesday, 9AM-11AM in C125

Section 2: Monday and Wednesday, 2PM-4PM in C125

Section 3: Tuesday and Thursday, 2PM-4PM in C210

Section 4: Tuesday and Thursday, 4PM-6PM in C210

Midterm Exam: Take Home Exam Distributed April 14.

Final Exam: Tuesday, May 13 9AM-12PM.

Cohort 1 – C125

Cohort 2 – C210

Cohort 3 – C135

Cohort 4 – C220

Course Web Page:

<http://faculty.haas.berkeley.edu/rwang/strategy/mba299.htm>

Introduction

Leaders shape the future to their advantage.

We take the CEO's perspective. This course will teach you how to recognize and capitalize on opportunities in business. Strategy is inherently dynamic. Success depends crucially on anticipating reactions both horizontally (by rivals and partners) and vertically (upstream and downstream). To address these dynamic issues, we will use game theory as an organizing framework for making strategic choices. You will learn specific analytical techniques to diagnose the competitive position of a business and evaluate business strategies.

At the end of the course, you will have the analytic tools to assess the following key strategic 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 obtain a sustainable 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?

Strategy without economics is like swimming without water: lots of hand waving, little forward motion, and yet still somehow a gurgling sound at the end. Clear strategic thinking relies heavily on frameworks previously taught in microeconomics. We will also build on some concepts from other core courses, marketing in particular.

Class Participation / Attendance:

You are responsible for the material in each case. Come to class prepared to actively discuss your analysis of the business decisions in each case.

Class participation counts for a significant fraction 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. 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. Before each case discussion, you should identify the key issues and opportunities facing the firm, evaluate alternative approaches to the problems, describe the course of action that you recommend, and explain the reasons for your recommendations. Be prepared to try to convince your classmates of the merits of your proposal. Keep in mind the following characteristics of valuable class discussion:

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

Advancement: Do your comments move the class discussion forward? Do your comments take the discussion farther or deeper than what has already been said?

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

Logical: 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?

Where appropriate, you should prepare quantitative as well as qualitative analysis to support your assessments and recommendations. Data from case exhibits has been preloaded for most of the cases we will discuss, so you can move quickly to analysis.

Case Memos

Each student team will be required to submit 4 case memoranda (up to two pages, double-spaced) of analysis and recommendations before the case is discussed in class. Each memorandum should focus on one of 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. The two-page limit is for text only. You may attach one additional page of numerical calculations. These memoranda will be graded on a pass/fail basis. If a student is on the borderline for a grade in the course, the memoranda will be reviewed to see if the student receives the higher or lower overall grade in the course. **Memoranda should be emailed to your GSI by 11:00 p.m. of the day that immediately precedes the day of the class session.**

From each set of 2 or 3 cases below, pick one case and submit one memorandum. Total: 4 memos.

1. Cola Wars or Dell or Ryan Air
2. Biotech or RTE Cereal
3. Apple or Wintel
4. Nintendo or IMG

Grading

1. 20% Class participation and Case memos.
2. 20% Performance in the competitive strategy game (CSG). Your performance in the CSG includes submitting a “CSG Journal” at intervals throughout the course. Details will be explained by GSIs.
3. 30% Mid-term exam.
4. 30% Final exam. The final will consist of your analysis of a case.

Required Texts

Readings available on Study.net.

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

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

- Ghemawat: “Competition and Strategy in Historical Perspective”
- Adolph Coors and the Brewing Industry
 - Why did the US brewing industry consolidate?
 - Coors was quite successful through the mid-1970s. What was its strategy historically?
 - How valuable to Coors was “Unpasteurized Pure Rocky Mountain Spring Water”?
 - How important was vertical integration to Coors?
 - How did Coors’ performance change relative to its competitors in the period from 1977 to 1985? Why?
 - Which options did Coors’ strategy create? Which did it eliminate?
 - Should Coors build a brewery in Virginia? Will it be able to improve its position significantly?
 - What, if anything, might Coors have done differently earlier on?

2. Industry Analysis

- Porter, “What is Strategy?”
- Brandenburger & Nalebuff, Ch. 1
- Cola Wars
 - Why is the soft drink concentrate industry so profitable?
 - Why is the bottling business so unprofitable?
 - What creates power in this vertical chain?
 - How has the competition between Coke and Pepsi affected the industry's profits?

3. Competitive Advantage- Cost

- Hamel and Prahalad, “Core competence of the corporation”
- 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. Bring this 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 and Competitive Analysis

- Coughlan, “Anticipating competitor actions”
- Brandenburger & Nalebuff, Ch. 2
- Xenon Marketing Services
 - What determines the value to XMS of its Charter contracts?
 - Why didn’t XMS take any action to enforce their contracts?
- 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 and to Aer Lingus of the decision to retaliate or accommodate Ryan’s entry.
 - Can the Ryan brothers make any money at their proposed price point?

5. Innovation Strategy and Contracting

- Sustaining Superior Performance
- Better Living Through Biotech

How should George Rathmann decide where to invest his company's scarce resources? 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. Innovation Strategy and Contracting II

- Better Living Through Biotech

7 Competitive Dynamics

- Brandenburger & Nalebuff, Chs. 3 & 4
- 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. On balance, what should HSC expect of NutraSweet's reaction?

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

8. Competitive Dynamics II

Bitter Competition: Holland Sweetener

9. Multi-Player Dynamics

- The Ready to Eat Breakfast Cereal Industry

Why has RTE cereal been so profitable? What changes created the current crisis?

Using a spreadsheet, calculate the cost of entering and reaching MES.

Why have private labels been able to enter successfully? How do the cost structures of private label and branded manufacturers differ?

What does General Mills hope to accomplish with its April 1994 reduction in trade promotions and prices?

What are the risks associated with these activities? How do you expect General Mills competitors to respond? How symmetrical are their positions?

What should General Mills do?

10. Complements

- Strategy and the Internet

- Apple

Historically, what were Apple's major competitive advantages?

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

Evaluate Apple's strategies in the 1990s. What accounts for the success of Microsoft relative to Apple?

What are Apple's current competitive advantages? Are these sustainable?

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

11. Network Effects: Complementor dynamics and technology strategy

- 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?

12. Vertical Strategy: Controlling the Value Chain

- Brandenburger & Nalebuff, Ch. 5

- 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?

13. Shaping the Future: Creating value in the absence of property rights

- 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?

14. CSG De-Brief & Course Summary

Competitive Strategy Game

The competitive strategy game is an integral part of the course. In this game teams design strategies to compete against each other in four markets with different characteristics. The CSG starts with concepts that you have learned in your core microeconomics course, such as demand elasticity, marginal vs. average costs, and fixed vs. sunk costs, and extends them to emphasize the competitive interactions that characterize real marketplaces (which are the key focus of MBA299). In each class, there will be two separate concurrent games of eight teams apiece.

The first strategies for each team will be due on April 3, with public announcements due March 31. The game concludes on May 1. Your team will submit its strategy via the CSG website (<http://csg.haas.berkeley.edu>) by 12 noon on the due date for that particular round. (See schedule below) At rounds 2, 6, and 9, each team is required to submit a 1 or 2 page memo explaining the rationale for the strategies it pursued as well as its assessment of how these strategies will lead to competitive advantage. Please note: Each of these memos can be **no more than two pages**. Each memo should include a header with team #, journal #, and the names of team members. Grading of the CSG will be based on a combination of objective and subjective measures of team performance and the strategy memos. Detailed instructions for the competitive strategy game will be distributed and discussed in section.

CSG Schedule

Submit all moves by 12 Noon on date indicated.

March 21	Introduction to CSG- in Section <ul style="list-style-type: none"> Teams are sent logon, password and firm profile
March 31	Round 1 Public Announcement Submission due
April 3	Strategies for Round 2 due (<i>Strategy Journal 1 due April 3</i>)
April 7	Strategies for Round 3 due
April 10	Strategies for Round 4 due
April 14	Strategies for Round 5 due
April 17	Strategies for Round 6 due (<i>Strategy Journal 2 due April 17</i>)
April 21	Strategies for Round 7 due
April 24	Strategies for Round 8 due
April 28	Strategies for Round 9 due (<i>Strategy Journal 3 due April 28</i>)
May 1	Strategies for Round 10 due

Strategy Journals should be submitted to your GSI via e-mail by noon on the indicated date. Hardcopies should be delivered to your GSI at the next Section meeting.

Section

Sections are an integral part of this course and will introduce some material not presented in class. Weekly sections will complement the lectures. Topics addressed in the sections will include the rules and details of the competitive strategy game; how to analyze a case to prepare a discussion, write-up, or final exam; and additional themes in the field of strategy.

GSI for Sections 1&2:

Rob Seamans
seamans@haas.berkeley.edu

Section meetings:

101: F 10:00am-11:30am in C220

201: F 11:30am-1:00pm in C220

Office hours: M 1:00pm-2:00pm,
F 1:30pm-2:30pm and by appointment
location F535

GSI for Sections 3&4:

Richard Wang
rwang@haas.berkeley.edu

Section meetings:

301: F 1:00pm-2:30pm in C220

401: F 2:30pm-4:00pm in C220

Office hours: W 2:00pm-3:00pm,
F 10:30am-11:30am and by appointment
location F535

Section Schedule

Week 1 (3/21)

- Introduction to the competitive strategy game (CSG)
- Review of Bertrand and Cournot competition

Week 2 (4/4):

- How to crack a case.
 - Strategic frameworks: Porter's 5 forces and industry analysis
 - Using numbers to effectively support analysis and strategic recommendations

Week 3 (4/11):

- Strategic frameworks: technology and advantage
- Preparing for round 5 of CSG

Week 4 (4/18):

- Strategic frameworks: game theory

Week 5 (4/25):

- Strategic frameworks: putting frameworks together and prioritizing analyses.

Week 6 (5/2):

- Mock final