Introduction

This course is motivated by a simple question with a set of complicated answers: “What allows certain firms to earn positive economic profits while others deliver negative returns?” To answer this question, we will investigate three potential answers:

- Variance in profitability is tied to the external environment – industry structure and the structural niches occupied by the firms in that industry
- Variance in profitability is tied to the internal functions of the firm – the choices made to support the strategy and the firm’s ability to accumulate and utilize resources (tangible and intangible)
- Variance in profitability is tied to superior managerial decision-making

Obviously, these three answers are interrelated and are not mutually exclusive. Additionally, the role of managerial decision-making is not limited only to the third answer – we assume that managers influence the performance of firms by formulating and implementing strategies that vary in their performance implications.

It is strategy and the process of strategy creation within a firm that is the subject of this course. As a starting point, we’ll use a definition of strategy proposed by business historian Alfred Chandler: Strategy is “The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.” Along the way, we will investigate questions about whether strategy matters at all, whether some strategies always work, and when strategies need to be revisited by managers.

Organization of the Course

Our course consists of three different components that will work together to help us flesh out the concept of strategy and its role in the modern business organization:

Cases: This is a case-based class, and the centerpiece of all of our activities in this class will be our case discussions. We will use cases extensively in this class to illustrate how to apply conceptual frameworks and arguments to actual business situations. For a case discussion to be a valuable learning experience, it is essential that you come prepared to discuss the cases and readings assigned for that class. In addition, the case discussion questions serve as the focus of class discussion. In preparing for the case discussion, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or industry. Seeking material from outside the course or from students who have taken the course before is a violation of the honor code. Of course, if you already have useful information from previous work experience, this can be very helpful in case discussion. Please let me know about it in advance, and I will make a point to call on you at the appropriate time. All cases (other than the articles for Session 3 and the online simulation for Session 5) are part of
your electronic coursepack. It may be helpful in some cases to have access to the cases during class – you can bring printed copies or use a tablet in class to access the cases. Another option would be to coordinate with 1-2 people sitting next to you to share printed copies of the cases. This is especially true of Session 1 (Apple) and Session 4 (RyanAir) and Session 6 (Sunrise Medical).

**Additional Readings:** There is no single text assigned to this course. Instead, a mix of classic and more modern readings in the area of strategy have been selected to provide the background and frameworks for our case discussions. All of these readings are either in your electronic coursepack or available electronically on our course Blackboard site. I will not be lecturing to the readings, but they will be important for conducting our case discussions. Therefore, unless you tell me otherwise (by asking questions), I will assume that you have read the assigned readings, understand the basic concepts in the readings, and can relate them to the cases. NOTE: Some students have had success reading the cases FIRST and then the additional readings, as they have used the case data to inform their reading. Feel free to experiment.

**Lectures:** Mini-lectures before and after class discussions will set the stage or summarize course concepts. This will include some key takeaways from case discussions, when and how to use various frameworks, and suggestions of common mistakes with course frameworks. All slides for these mini-lectures will be made available on Blackboard.

These three sources of information will provide students both a set of tools that are useful in strategic analysis and a basic understanding of when those tools are useful and what their limitations may be. It is important to recognize upfront that *neither strategic analysis nor this course can be as perfectly organized as the outline suggests*. This is not accounting or statistics, which each begin with core, universally accepted principles and then build to harder problems and applications. Instead, business strategy is complicated and messy throughout, and we will be applying new tools and concepts to answer questions that arise throughout the class. The basic “tools” that we will cover include:

- Five Forces Analysis – Analysis of the forces affecting competition in a market.
- Generic Strategies and Strategic Groups – Firm level choice to exploit/neutralize industry forces
- Strategic Ratio Analysis – Using financial and operating information to uncover potential sources of advantage and to discuss sustainability.
- Value Chain – An analysis of the internal activities of the firm that support the chosen strategy
- Resource Based View of the Firm – Determination resources significant in generating firm profits and the extent to which resources are adapted to the firm’s external environment.
- Game Theory – Analysis of the responses of competitors to a firm’s strategies and the implications of these responses for strategic decisions.
- Industry Evolution – Analysis of the lifecycle and evolution of a given industry to understand the key success factors for competitors.
Grading for the Course

This course uses a variant of contract grading, where your final grade is determined (in part) on whether you choose to complete an optional final exam. Thus, there are two basic parts of the grade – a “base grade,” derived from your performance on the required elements of the class, and an optional or “extra credit” portion that is the take-home final exam. The “base grade” is out of 90 points, and so its maximum value is essentially a B+ (A- for perfection, but that seems unlikely). The breakdown for the Base Grade is below (descriptions of different levels of performance on each of these elements are included on the following page):

<table>
<thead>
<tr>
<th>Part</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation &amp; Attendance</td>
<td>30%</td>
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<tr>
<td>Homework/Exercises (6 total, lowest score dropped)</td>
<td>35%</td>
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<tr>
<td>Group Project (due in Session 6)</td>
<td>25%</td>
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<tr>
<td><strong>TOTAL for Base Grade</strong></td>
<td><strong>90%</strong></td>
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Participation: Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Learning opportunities are maximized when all students are actively engaged in class discussion. Some ideas on ways to maximize your participation score and what you learn from class:

- Read the assigned reading closely, and the case multiple times, before class
- Look at the guidance questions on the syllabus below and think about potential answers
- Try to link the readings and the case – they are assigned together for a good reason (hopefully)
- Listen carefully to the comments of others – repeating prior comments will lose you points, but building constructively on prior comments can be beneficial
- Be willing to take a chance and actively engage in class
- Think for a second before you put up your hand and answer a few questions:
  - Is what you have to offer novel?
  - Does it move the course discussion along in a significant and relevant way?
  - Is your comment at least semi-structured, or are you planning to talk it out once I call on you? FYI, I’m not a fan of the latter plan.
  - Can you put your idea into the “language” of the class and business?

Depending on time and the flow of the class, there may be online opportunities for discussion via Blackboard. These postings represent additional opportunities for graded class participation (though these are not a viable substitute for in-class participation, just a supplement). Generally, these online conversations will be topics that we did not get the opportunity to discuss in enough detail during class time that we will continue to address during the time between classes.

Homework: For each session (including Session 1) there will be a graded assignment. In some cases, these will be due in or before class, and these are noted clearly on the syllabus. In other cases, the exercise will be completed entirely in class. These are graded based on (a) timely completion, (b) making a good-faith effort, and (c) the quality of the content. I do not expect that any out-of-class assignments should take a significant amount of time (i.e. more than an hour), other than the reading necessary to do the assignment.

Group Project: In Session 1 you will organize yourselves into groups of 3-5 students for a small group project. The details of the project are available later in this syllabus. The projects will be due electronically before the start of Session 6. Good projects will have a clear structure that relates to the course content, provide the right data and analysis, offer a coherent and supported answer to an interesting question, and draw insightful conclusions. See below for more information.

Final Exam: There is a take-home final exam that students may choose to take. This optional final exam is graded on a 0-10 scale, and represents additional credit above the base grade. Thus, the final exam can raise your grade by as much as three grade steps (from a B- to an A-). Please note that, in contract
grading, the decision of whether or not to complete the final exam should be based on your final grade preferences and expectations, not on your performance in the other elements of the class.

<table>
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<th>TOTAL for Base Grade</th>
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<tr>
<td>OPTIONAL Final Exam</td>
<td>10%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>100%</td>
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Overall, I will follow the school’s guideline for core courses: no more than 30%-35% of enrolled students will receive an A or A-. To some extent, students will self-select based on their choice to complete the final exam. Keep in mind that pursuing an “A” (by turning in the take-home final exam) does not guarantee you of a higher grade. PLEASE NOTE: There will be no opportunities for a makeup of a missed element or for extra credit (beyond the final exam and dropping your lowest scored homework).

**Group Project Information**

**Teams:** Choose your own team of 3-5 total students from the class.

**Assignment:** As a team, select one leading firm (or SBU) in a single industry (relatively narrowly defined – check with me if you have questions). Can be product-based or service-based. Ones you know are OK. Analyze the rationale and sustainability of its leading/strong position.  

*Note:* Industries on which we focus in class (case or discussion) are generally bad ideas for project topics. If you are at all uncertain whether your choice may qualify, please contact me.

**Deliverable:** Prepare a short memo (use PowerPoint, <=7 slides) with
- Basic info on the chosen company, including assessment of strategy and industry analysis
- Strategic group map with 3+ other competitors
- Discussion of four important activities and/or resources that the firm uses to support its strategy
- Discussion of ability of one such activity/resource to provide sustainable competitive advantage
- 2+ key takeaways (i.e. “What did I learn from doing this analysis?”)
- I expect you to clearly cite any data that you draw on other than class material

**Process:** Project is due on Blackboard before the start of Session 6. All work will be done out of class time, though I will give you a few minutes to get organized and arrange schedules during Session 1.

*ONLY the written portion (slides) will be graded, so make the presentation work as a reading deck.*

Some online resource suggestions for data…
- **NYU Virtual Business Library**
  - [http://library.nyu.edu/vbl/](http://library.nyu.edu/vbl/)
  - Under “Company and Financial Information”
    - D&B Million Dollar DBase and Hoovers Online have basic information
    - Factiva provides ability to search news stories
    - Investext and ValueLine provide analyst reports on companies, industries
    - Mergent Online provides info on products, partners, etc.
    - Datamonitor Reports (available via EBSCO Business Source Premier) provide detailed data and analysis on a limited set of companies
- **Other resources:**
  - Company websites (mission statements, organization structure, etc.)
  - Newspaper reports (often find one with detailed, inside access)
Other Course Policies

Course Materials: All materials listed in the course schedule are required for the class (there is a list of optional additional readings after the course schedule). In order to find all of the materials, please follow these instructions:

• Coursepack materials for the course can be purchased directly through HBS Publishing’s website:
  - http://cb.hbsp.harvard.edu/cb/access/11170357 (W3)
  - http://cb.hbsp.harvard.edu/cb/access/11170552 (W5)

• Log onto Blackboard to access the remainder of the readings, including the “cases” for Session 3, other articles for class, memos that I have written covering material, and additional materials for the cases. In addition, I will post slides for each class before class, but probably not much more than a day in advance (just-in-time production).

• For Session 5, the “case” is an online simulation. The URL for the simulation is below. Before Session 5, you will need to (a) log onto the website, (b) pay the HBS Publishing fee of $12.50 to gain access to the simulation, and (c) play one full round (through 2016 or until you get fired). In class, you will run the simulation through in groups. Note for Mac users – you must use Mozilla Firefox as your browser, not Safari.
  - http://cb.hbsp.harvard.edu/cb/access/11170304 (W3)
  - http://cb.hbsp.harvard.edu/cb/access/11170378 (W5)

Attendance: Attendance, preparation, and participation are essential in this class, as in any class based on the case method. Missing any class time will significantly harm your ability to learn the material, and will have an impact on your grade (through missed participation opportunities as well as any missed assignments). If you miss all or part of one three-hour session I will assume that your absence is legitimate. Missing two or more of the six sessions is not generally acceptable in a class this short and will have a significant impact on your overall grade.

Laptops: I do not allow students to use laptops during class time, though you are welcome to bring laptops to class. (Note that each group of 2-3 students will need a laptop for the Strategy Simulation.) Laptops, even when used to take notes, constitute a distraction to other students that outweighs any potential benefits. The goal of the course is to build strategy process knowledge – your ability to correctly apply frameworks and analyses we discuss in class. My experience is that the best way to learn this process is to engage in it actively during in-class case discussions. I will provide you with all slides that I show.

Cold Calling: I reserve the right to cold call students during case discussions. Therefore, students should be prepared to be cold called at any time during class. Cold calling is designed to move discussion along and give all students in class a chance to participate, not to intimidate or create a hostile environment. If you are unprepared for any section and let me know before class (via email or when you arrive in the classroom) I will not cold call you during that session.

In-Class Seating: Students can choose where to sit for Session 1 of class, but I ask that (given the short nature of the class) you stay basically in the same area for each class session. Also, PLEASE bring your printed name cards to class.
Course Schedule

Readings in bold are expected to be completed before coming to class for that session. All materials are available on Blackboard unless otherwise noted.

PC INDUSTRY ANALYSIS ASSIGNMENT (see details below in Session 1 description) DUE IN CLASS IN SESSION 1 (hard copy)

Session 1:
Jan 7, 9am-12pm (W3)  
Case:  Apple Computer, 2006 (in electronic coursepack)
Jan 10, 6-9pm (W5)  
Read:  Porter, “The Five Forces”

Assignment: Use Porter’s Five Forces to analyze the personal computer market in the mid-1980s based on information in the case. One page max write-up to be turned in AT THE START of Session 1.

Case Questions:  
1) Analyze the structure of the personal computer industry over the last 15 years. How have the dynamics of the PC industry changed?  
2) What has been Apple’s source(s) of competitive advantage?  
3) What is Apple’s key problem in the PC market?

RATIO ANALYSIS EXERCISE (“Assignments” Tab on Blackboard) DUE IN CLASS IN SESSION 2 (hard copy)

Session 2:  
Jan 7, 1-4pm (W3)  
Case:  (1) The Boston Beer Company (electronic coursepack), PLUS  
(2) Additional financial information posted on Blackboard  
Read:  (1) Memo on “Positioning” and  
(2) Memo on “Ratio Analysis”

Assignment: Ratio analysis exercise on Boston Beer due in class AT THE START of Session 2. See assignment details on Blackboard in the Assignments tab.

Note: In the Boston Beer Company case, please focus on (a) the text and (b) only those exhibits needed to complete the exercise. We will not use all of the information in the case.

Case Questions:  
The major case questions are contained in the ratio analysis assignment due in class. In addition, consider the following:  
1) How can we use the metrics to quantify the positioning choices made by the firms?  
2) Which firm or type of firms is in the most advantageous position? Why?
Session 3: How do firms support their niche choices, and what role do firm “resources” play in profitability?
Jan 8, 9am-12pm (W3) Case: (1) “How Toyota Defies Gravity,” Fortune, 12/8/97
Jan 15, 9am-12pm (W5) (2) “The car company in front,” Economist, 1/29/05 and (3) “How McKinsey Does it,” Fortune, 11/1/93 (all on Blackboard)
Read: (1) Barney, “Firm resources and sustained competitive advantage” and (2) Memo on “Value Chain”

Assignment: Completed in class.

Case Questions: 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?

RYANAIR EXERCISE (“Assignments” tab on Blackboard) – DUE IN EMAIL TO ME AT LEAST 30 MINUTES BEFORE THE START OF CLASS

Session 4: How do competitive interactions affect profitability?
Jan 8, 1-4pm (W3) Cases: Dogfight Over Europe: Ryanair (in electronic coursepack)
Jan 15, 1-4pm (W5) Read: Memo on “Competitors and Dynamics” (tentative)

Assignment: RyanAir exercise on Blackboard due VIA EMAIL to me at least 30 minutes before the start of the session.

Case Questions: 1) What is your assessment of Ryanair’s launch strategy? 2) How do you expect Aer Lingus and British Airways to respond? Why? 3) How costly would it be for Aer Lingus/British Airways to retaliate against Ryanair’s launch rather than accommodate it?
DRAFT SYLLABUS – SUBJECT TO CHANGE

BACK BAY BATTERY SIMULATION PRE WORK –
DUE BEFORE CLASS FOR SESSION 5

Session 5:

How do managerial choices affect profitability?

Jan 14, 9am-12pm (W3) Case:  Back Bay Battery Simulation (available online; see below)
Jan 17, 6-9pm (W5) Read:  Foster & Kaplan, “Creative Destruction”

Assignment: Students must register online for Back Bay Battery simulation and complete ONE FULL ROUND (until 2016 or until fired) before class.

Case Prep:
1) Register and play ONE FULL ROUND of the simulation individually before class (through 2016 or until fired).
2) Summarize some of the lessons you have learned from running the simulation individually.
3) Ensure that at least one member of the team brings a laptop to the class. In class we will run this simulation in groups.

Note: This simulation is run online. The URL is
http://cb.hbsp.harvard.edu/cb/access/11170304 (W3)
http://cb.hbsp.harvard.edu/cb/access/11170378 (W5)
Mac users will need to use Mozilla Firefox instead of Safari

GROUP PROJECT (“Assignments” tab on Blackboard) –
DUE ON BLACKBOARD BEFORE START OF SESSION 6

Session 6:

How can we build a framework for strategic decision-making?

Jan 14, 1-4pm (W3) Case:  Sunrise Medical (in electronic coursepack)
Jan 19, 6-9pm (W5) Read:  Porter, “What is Strategy?”

Assignment: Completed in class. Group project due before class starts.

Case Questions:
The only real question is, "Should Chandler allow Guardian to introduce the lightweight standard wheelchair?" But in class I’m going to ask you how you would structure your analysis to answer that question. Think about:
1) How relevant is industry structure?
2) How relevant are the core competencies of any of the firms?
3) How important is expected competitive response?
4) What else may be important to consider?

FINAL EXAM:
For those students choosing to complete the take-home final, the case (Edward Jones in 2006: Confronting Success) is included in your electronic coursepack. The question and additional information will be distributed after our last class. The write-up will be due exactly one week after our final class (January 16, 4:00pm). The final exam will be a case write-up exercise, and the response will be no more than five (5) pages long, single-spaced, including any necessary exhibits.
Additional Reading Recommendations

Believe it or not, I get asked a lot for what else people can read on these subjects. The following readings (organized as general readings and by session) are offered as suggestions of additional readings, either to provide more detail on specific subjects or to serve as references in the future. All journal articles are readily available through the NYU online library catalog, and all books should be readily available on Half.com or other resources for textbooks.

General Texts

Grant, Robert M. Contemporary Strategy Analysis. Wiley-Blackwell Publishing, Sixth Edition is 2007. This is probably the most accessible and comprehensive classic on competitive AND corporate strategy, but is somewhat long (~500 pages). A fantastic reference, though.


The External Environment

Really, the Porter (2008) article should be considered the best resource for Five Forces. More generally, Porter’s Competitive Strategy book will have more breadth but still focus on industry and positioning topics.

Strategic Positioning

The general books listed above, as well as Porter’s Competitive Strategy, would be the primary places to turn. Here are some more academic articles worth considering:


Value Chain and Resource-Based View of the Firm

The general books notes above and the Barney article are the best general resources.
Game Theory

Clearly there are TONS of economics-leaning articles and books on game theory, and many more that make it accessible to practitioners. But here are some recent classics that are worth checking out if you are interested, the first a little more about classic game theory and the second about newer, cooperative games.


Industry Dynamics and Change

Practitioner Articles:


Books:

I’d lead with the Christensen book as it is very popular and well-received, even if I have some concerns about its core message. The Brown-Eisenhardt book is also quite good.


Academic articles (pretty accessible by practitioners):

The key elements of the Eisenhardt article are covered in the book above, so skip it if you are reading the book. Nicolaj Siggelkow was my advisor at Wharton, and this article won the award for the most influential article from 2003 in that journal – a pretty big deal in the field.