

January 20, 2018



DEPARTMENT OF ECONOMICS

COMPETITIVE STRATEGY SPRING 2018

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Office Hours: Tuesday, 2-4 PM, Monroe 252

Course overview and objectives

This is a course for undergraduate economics majors interested in applications of price theory and industrial organization (IO). It examines the causes and consequences of industry structure and firm profitability, principally in the context of strategic decisions made by firms. It combines elements of price theory, including demand, costs, and welfare economics, IO concepts including the forms of market competition, barriers to entry and exit, exclusive dealing and other forms of contracting, anti-competitive tactics and antitrust, pricing with market power, non-price competition, platform competition and two-sided markets, intellectual property and dynamic competition, and problems and solutions arising due to information asymmetries and transaction costs.

Any student with an interest in applied microeconomics would benefit from this course. It is aimed at those students interested in careers in consulting and economic litigation, with an emphasis on antitrust. It is equivalent in structure and rigor to an MBA strategy course, so would serve students who hope to further their education beyond an undergraduate degree well too.

The course is taught at the intermediate level. Students should be comfortable with basic calculus and elementary game theory (both non-cooperative and cooperative games, such as the prisoner's dilemma, tragedy of the commons, tit-for-tat strategies, etc.). Classes are a mixture of lecture and discussion. The discussion centers on business school cases, supplemented by articles taken from the business press. Preparation and in-class participation are essential parts of the course.

The fundamental question of strategy is both simple and difficult: "How can a firm earn long-run profits?" Learning how to answer this question using the tools of economics is the primary aim of this course.

A glib (aka definitional) answer to this question is "Raise revenues, cut costs, and sell more stuff." This would indeed raise profits (if margins are positive), but it avoids the difficult part of the question. Namely, given a firm's specific locations, products, financing, customers, competitors, and legal/regulatory constraints, what can it do to raise revenues? And, given a firm's specific products, technology, organization, and processes, what can it do to cut costs? How are attempts to do either linked by market forces? And finally, what can it do on either of these fronts

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that will not be eroded by the actions of its competitors, imitation, or new entry? These are all difficult questions, particularly when one asks them in the context of a specific company.

You will find that the primary emphasis of the course is not on understanding conceptually difficult material. Instead, the course will focus on learning how to apply simple—but powerful—ideas to specific situations. This will involve three primary skills.

- *Diagnosis.* Can you identify the salient details of a situation and understand their strategic significance and implications? The goal is to pick out what really matters among the facts at hand and to use economic frameworks to understand the significance of those details.
- *Creativity.* One theme of the course is that you can't outperform your competitors by simply doing the same things they are doing. Finding creative, unique approaches and ways to do things is often the key to a successful, profitable strategy.
- *Judgment.* The frameworks and tools we develop in this course need to be applied intelligently. This class teaches you to be a better—meaning a more systematic, logical, complete, and critical—thinker about strategy. You should not expect to gain from this course a body of business-related facts. Instead, the aim is to teach you skills that will help you understand the significance of whatever set of facts you face in future contexts.

This is a distinctly “big picture” course. The goal is not to equip you with a lot of analytical formulas, but instead to give you a foundation for thinking about how a firm achieves its fundamental goal of maximizing long-run profitability. As you gather more tools in other classes, you will have a sense of how they work together in generating long-run profitability.

To be successful in this course, you must spend time actively thinking about the issues. There is no module to download, no formula to memorize, and no answer to find in a book. This course is about building your most fundamental skills in business, namely strategic thinking. Not preparing for class or expecting to passively absorb the material will do you about as much good as watching an exercise class from the sidelines.

The concepts, skills, and analytical tools that you will learn in this course rest on economic principles relating to firms' underlying organizational objectives. In particular, a business exists to generate wealth for its owners. Although the primary focus of this class will be the creation and capture of economic wealth, a variety of other objectives may apply to certain firms in particular contexts. The concepts and tools discussed in class can be used to formulate strategy with any objective in mind.

Course content

The course covers seven major topics. These topics are intellectual tools and conceptual frameworks that are useful for answering the question “How can a firm earn long-run profits?”

- Value Creation and Capture – How does a firm create value for customers, and how can it retain some of that value as profit?
- Industry Profitability – Why are some industries more profitable than others?
- Competitive Advantage – Why are some firms more profitable than others, even within the same industry?
- Sustainability – How can a firm maintain, over the long term, the profit arising from its competitive advantage?
- Flexibility vs. Commitment - What are the pros and cons of acting now, vs. waiting to gather more information?
- Scope of the Firm – In which business opportunities and stages of production should firms be involved and which should they leave to other firms?
- Growth – How should a firm negotiate the pressures that growth places on a successful strategy?

Prerequisites

The sole formal course prerequisite is Econ 3010. Beyond that the only prerequisites are an understanding of basic price theory and a willingness to think hard, like an economist – intermediate supply-demand analysis rigorously applied. There is not a lot of math, and virtually no econometrics. Rather, the emphasis of the course is to learn to use basic price theory to understand the nature of strategic problems in business. More advanced topics are drawn from the fields of microeconomics and industrial organization, with topics including pricing strategy, information asymmetries, externalities, contracting, real options, cooperative games, theory of the second-best. Because of my own background, there will be a heavy dose of antitrust economics and policy thrown in at various junctures.

Teaching Approach

Because the aim of the course is build your own critical and analytical thinking abilities, you will spend much of your time preparing for and engaging in class discussion.

Many of our discussions will be based on business cases. Cases tend not to have a single, tidy solution. However, there are always better and worse answers, and valid and invalid inferences. Cases *never* contain all the information you would like to have to make a decision—in this way they are very much like real life. You may find it frustrating to be pushed to make a decision or take a stand when you are not sure whether it is the right one; this is the nature of real-world business decision-making. Cases often offer conflicting information. They will require you to make judgment calls. This kind of ambiguity is also a feature of real-world business decisions. Strategy is a field that asks a big question, and so necessarily draws on many of the other functional areas of business. This course aims to give you an overall vision of how the different areas fit together in contributing to the success of the firm.

Preparation

Preparing for a case discussion means more than just reading the case. Each case assignment will include several preparation questions, as well as a written assignment that will help you articulate some of your thinking about the case in advance of the discussion. I encourage you to review the questions *before* reading the case, and make some notes *after* reading the case in order to be prepared for class.

There is no explicit preparation task to do as you read the conceptual readings on the syllabus, but it is a good idea always to be asking yourself, “Do I believe this argument? Where else does it apply? When would this approach not be useful?”

Much of our time in class will also be spent in discussing articles that describe current issues facing companies in a variety of industries and countries. You are expected to have read and to be prepared to discuss these articles, even when there are not explicit preparation questions provided for these. As you read the articles, you should think about how the conceptual tools that are the topic of the day are useful for understanding the issue described in the article.

If for some reason you are not prepared for class, I expect you to let me know in advance. You don’t need to give me an explanation. However, **if you haven’t told me otherwise, then you have implicitly committed to be ready to contribute to the class if I should call on you.**

READINGS

The required readings for the course are divided into two sets. One set of readings is in a **required case packet**. **This is available for purchase from Harvard Business School Publishing.** This packet includes most of the cases for the course (others will be posted to Collab) and some conceptual articles. On the course schedule at the end of this syllabus, and in the preparation assignments on Collab, these readings are indicated with the words “case packet.”

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The remainder of the required readings can be accessed through the course website on Collab.

A few of the “readings” for class are actually videos or audios. You can find these in the relevant tabs on the Collab website.

The recommended textbook is *The Economics of Strategy* by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 6th Edition. The textbook readings noted in the schedule of readings are for background and reference. They are **not** required reading. Some students find them a useful resource for clarification of the conceptual material. You can get an earlier edition at a lower cost without much drop-off in quality, but you will have to locate the relevant passages on your own.

I will expect you to have read and to be prepared to discuss *all* required material assigned for the day, except the material in the textbook.

Background readings - See **Schedule of Course Readings** below.

Additional Materials

The following materials will be posted on the course’s Collab website.

- **Course announcements:** Course announcements will be emailed to you via Collab. I generally put critical course-related information in an email rather than announcing it in class, so please do pay attention to such emails.
- **Assignments:** The website will contain preparation questions and case assignments for each case, as well as preparation guidance and occasional assignments for “non-case” days. These will be in the “Assignments” section of the Collab site. You will also submit your assignments through this section of the website.
- **Slides and handouts from class:** Class slides will be posted to the Collab site for each scheduled class day. Anything additional that I hand out in class will also be posted. If you miss something or lose something, you can find it there.
- **Extras and Updates:** I will also sometimes post additional items related to our class discussion. These items, labeled “Extras and updates” are **optional** reading. They give further information about companies or issues we have discussed in class or provide additional examples where the tools or frameworks discussed in class would have useful application.

Assignments and Assessment

Individual case assignments (20%)

During the semester, you are required to write a one-page response to a preparation question for 10 of the 11 assigned cases. These case assignments will be graded on a credit/no-credit basis, 2 points each. I will provide guidelines for self-assessment after the cases have been turned in. I will not provide detailed comments on individual write-ups.

Together these 10 case assignments will account for 20% of your final grade. The preparation questions and assignments for each case will be posted in the “Assignments” section of the Collab site. You may discuss these assignments with members of a study group (no more than 5 students/group), or with others in the course, but the final write up must be your own. See the “Academic Integrity” section of the syllabus for more detailed guidance. You will submit your assignments online through Collab.

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Professor-graded assignments (10%)

For TWO of the above one-page assignments I (or a TA under my direction) will provide detailed review and comments. One such case will be graded before the midterm, the other after the midterm but before the final. These will each count for an additional 5% of your final grade. I will not announce which cases will be graded in this manner in advance.

Note on formatting: The formatting of the assignments should be 1-inch margins, 10- or 12-point font, and 1.5 line-spacing. Assignment write-ups should be uploaded via the “Assignments” section of Collab.

Exam 1 (25%) – THURSDAY, MARCH 1

The first exam for the course will be an in-class exam based on material from the first half of the course. More detailed information about the content and format of the exam will become available as its date approaches.

Exam 2 (35%) – Final Exam Period

The second exam will be during exam week. The second exam is a two-hour exam.

Please do not make plans that conflict with either exam. Exam dates are not flexible.

Class participation (10%)

The class participation grade provides you with an *added* incentive to prepare for class—the value of your own learning should be the primary incentive. Case discussions work well as learning tools when everyone participates.

Your participation will be graded on quality, not volume. You should provide insights, observations, inferences, or conclusions that not only express your viewpoint, but *also* defend your analysis. Your comment should be relevant to the topic at hand, and should advance the discussion. A simple opinion or viewpoint is not very valuable without any justification. I value comments that respond to, elaborate on, lend support to, contradict, or correct a comment by one of your classmates. Counter-productive comments include opinions without a justifying argument, pure repetition of previous point, and rambling, vacuous or disparaging comments.

Discussion constitutes a large portion of our class time; you will have ample opportunity to participate. I will cold call in class, both to give you an incentive to prepare for class, and to make sure the discussion does not collapse to a handful of students. At a minimum, everyone in class should be prepared to answer all of the preparation questions provided in advance.

Missing Classes (1.25 hrs. = 1 class)

Learning to articulate your arguments and to evaluate and respond to the arguments of others is an important part of what you will learn in this class. If you miss class, you will miss this, and there isn't a way to “make it up.” In addition, your participation in class is a key component of the learning for all students, and therefore missing class creates a negative externality. Similarly, entering the class late is disruptive and creates a negative externality for your classmates. As a result, you should make every effort not to miss or be late to your class section. If you miss your class section or are late to your section more than twice, it will begin to lower your class participation grade. If you must miss class, you should do the readings, prepare and turn in the assignments on time (late assignments will be accepted, but there will be points deducted if they are late), and arrange to get notes from a classmate about what you missed in class. Recall that I will post the presentation slides (and anything else that I hand out in class) to the Collab website. You do not need to inform me that you will be missing class - I take attendance every class. Excessive absences can affect your final grade.

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Grading

The assignments have a core set of findings that, if evidently understood, indicate **control** of the topic. I assign grades so that evidence of control is roughly equal to average, or slightly above average, performance. Typically, evidence of control would yield a grade of about 80-85%.

Beyond these core issues are more complex and/or subtle findings and conclusions that indicate deep understanding and **mastery** of the course concepts.

It is important that you understand the implications of my grading scale. Course grades are assigned, using the weights above. The following guidelines for this course will be applied: no more than 30-40% A/A-, 10% or more C, and 50-60% or so B+/-.

Scores on graded submissions are weighted and added up. The distribution of scores is then fit to the distribution. I will post relevant summary statistics for the various deliverables after they are graded.

As noted above, deliverables are structured so that any student with decent command of the material should be able to “get” the core ideas. There will also be, by design, some “deeper” insights that go beyond these core ideas, and that require mastery of the material. Typically, these deeper insights will constitute 10-20% of the grade for an assignment.

Two things to note are 1) that the grading system necessarily entails that some very good, often excellent work, might not guarantee an A, if a large number of the submissions are uniformly very good or excellent. The good news is that really bad work might not guarantee a C either (I guess that’s good news— although true in theory, it certainly has never happened!), and 2) that relatively small differences in overall performance can fall on one side or the other of a letter-grade threshold.

You are welcome to inquire any time as to where you stand in the class.

How to study for this course

The aim of this course is to make you more rigorous, critical, precise, and thorough in your analysis of strategy issues. In short, it is to change the way you think. The only way to do this is to practice it steadily throughout the semester. You can’t learn it by “cramming” it all in just before the exam. You should think of this course like sports, or exercise, or learning a musical instrument: you can’t really learn anything, and you certainly can’t get better at it, by just watching from the sidelines. Practically, here are the most important steps to doing this.

1. **Come to class prepared.** There is no substitute to this. If you haven’t read and thought about the material, you won’t get very much out of what is going on.
2. **Engage in class discussion.** Class time is not entertainment, and you shouldn’t expect to just sit back and listen. Engaging means both listening critically to what other people are saying in order to evaluate whether you think their arguments are right, and speaking up when you think you have something to contribute.
3. **Summarize and synthesize.** After every class session, write yourself a one- or two-page summary of what was covered in class: what did we talk about, and what lessons were you supposed to take away? Note that the purpose of this is to do it *yourself*. Forcing yourself to summarize and synthesize this way is how you internalize and obtain ownership of the material. If your study group splits this up and each does a day, you’ve missed the point; it’s not about *having* the one page write-up, it’s about *creating* it.
4. **Review the preparation questions.** Go back and review the preparation questions after class. What is your answer to the question after hearing the discussion? Pay particular attention to how the frameworks from the course help you to answer the question.

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5. **Practice.** The only way to get good at thinking in a new way is to practice it. When you meet a strategy issue somewhere else (in the news, talking with someone, in another course, out shopping), use the tools and frameworks of the course to understand it. The purpose of the individual strategy analysis is to get you into the habit of doing this. Another good way to practice is by using the “Extras” posted in the “Day-by-Day” section of the Collab site. When you read them, try to figure out what I think is interesting about them. Apply the frameworks from class to understand them better.

6. **Consider studying with a group.** Some people find it helpful to study and discuss things with a group, some don't. You are looking for a group that discusses carefully and thoroughly, but doesn't descend into a protracted argument about who's right. Once you've discussed as much as you productively can, drop it and pick up the discussion in class rather than beating it to death.

Case and class preparation: Some guidelines

What makes a “good answer?” The most important thing is to know the difference between **explaining** and **describing**. Consider the following answers to the question “Why is MooseCorp earning high profits?”

- “They were profitable because they had strong patents” (Descriptive)
- “They were profitable because they had strong patents, which **prevented imitation**” (explaining using **strategy** concept)
- “They were profitable because they had strong patents, which created a **barrier to entry**” (explaining using **economics** concept)

In this sense, the strategy and economics concepts are the more abstract principles or themes that you must relate to the salient case facts.

Second, note that you can often push the analysis much deeper. I call this “Peeling the Onion.” That is, when you think you've offered an explanation, ask yourself “what happens next?” Here's an example

- “The profitability protection afforded by the patents is, however, at risk – competitors will try to “invent around” them, they will use litigation to challenge them, consumers will sue or lobby for access, and eventually the patents will expire. This holds implications for the firm's current patent advantage and its underlying innovation strategy, including...”

Third, and finally, clear, concise explanations are essential. Thinking and writing are highly complementary skills. If your writing is not clear, then neither is your thinking. Ask yourselves what is important or essential. What is a detail that can be ignored? Avoid **laundry lists** and/or “**kitchen sink**” **explanations**. It's often helpful to have someone else read what you've written. **Read for clarity. If it's not clear to the reader, it's not clear!!**

Contact information

Contact information: You can reach me by email at mjm8w@virginia.edu . I will be available for office hours Thursdays, 2-4PM in Monroe 252 or by appointment. If you need to reach me by phone, my office phone is 312-925-3315. Email is a much more reliable way to leave me a message than voicemail.

Classroom Etiquette

Students are expected to respect UVA's Honor Code.

Other rules:

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- **No electronics** (except for assistive technologies with appropriate accommodation notification).¹ You may not use tablets, laptops, mobile phones, or related devices in class. Recent research has shown consistently that students retain less material when they take notes on a laptop, and that this poor performance can extend to students sitting near those using electronic devices. If you are interested in more information, I've posted some articles summarizing this research along with the original research articles on the course Collab website. Given these negative effects, I decided to not allow the use of electronics in class. Violating this policy will meaningfully impact your class participation grade.

If you are texting, surfing the internet, or otherwise distracting me and/or your classmates, you will be instructed to leave the classroom.

No recording of lectures is allowed without my permission. Unapproved recordings violate the intellectual property rights embodied in my copyrights, and will be treated as a violation of the Honor Code, since they are effectively stealing.

- **Punctuality.** Class will start on time. It is distracting to your classmates for you to be climbing to your seat and settling in while they are trying to pay attention to the class. **If you are absent or late more than twice, it will lower your class participation grade.**
- **Seating chart.** Your assigned seat for the course will be the seat you choose for the second class. I use assigned seats to help me keep track of class discussion and attendance, and also to have a place to direct prospective students and visitors to sit.
- **Beverages and snacks.** Out of courtesy to your classmates, don't bring something messy, noisy, or smelly to eat or drink in class.

Additional guidance on will be provided during the semester, as needed.

ACADEMIC INTEGRITY

Students are expected to respect UVA's Honor Code at all times. The consequences of cheating can be failing an assignment or the course, or suspension or dismissal from the university.

Assignments

Written assignments must be the efforts solely of the individual or group turning them in. For individual assignments, you may use discussion with classmates to brainstorm issues, evaluate alternative approaches, and consider the merits of recommendations. Use your own judgment to identify the important issues, to construct arguments and to develop correct conclusions. The same rules apply to groups for group assignments. You are not to consult the Internet, friends at other business schools, or people who have taken the course already.

Exams

You may study for exams with others. However, once the exam has begun, you should have absolutely no communication about the exam with anyone inside or outside the class. You will be allowed to bring in one 8.5 x 11 inch, double-sided sheet of notes to the exams. You must bring a hard copy page of notes, not an electronic file, and it must be readable without magnification devices.

Plagiarism

¹ Any student requesting accommodations related to a disability or other condition is required to register with the appropriate UVA office and provide me with an accommodation notification from that office, preferably within the first two weeks of class. All information will remain strictly confidential.

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The members of any academic community are expected not to present as their own ideas or material from other sources. UVA's academic integrity guidelines state: "A conscientious writer always distinguishes clearly between what has been learned from others and what he or she is personally contributing to the reader's understanding."

If you use text that is **exactly, mostly, or even partially someone else's words**, it needs to be attributed to that source and the quoted portion needs to be in quotation marks. If you use text that is **paraphrased** from another source, it needs to be attributed. This applies even if it something you yourself wrote that was handed in as an assignment or published elsewhere.

I **strongly** recommend against the practice of cutting and pasting from a source into a "working document" that will eventually become the final document handed in, unless you insert the appropriate quotation marks and citations at the same time. This is especially true for group assignments where another group member may not realize that something you put into the document needs a citation.

In the context of this course, it is acceptable to refer to concepts, frameworks, and analytical tools from the readings or class lectures without citation. You may also refer to the material in cases without citations. However, do not quote or paraphrase analysis from another source and present it as your own.

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Schedule of Course Readings

Background and References:

The recommended textbook is *The Economics of Strategy* by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 6th Edition. The textbook readings are for background and reference. They are **not** required reading. Some students find them a useful resource for clarification of the conceptual material. *You can get an earlier edition at a much lower cost without any drop-off in quality*, but you will have to locate the relevant passages on your own. These can be found on amazon.com.

Background readings that any budding microeconomist should read:

Landsberg, S. *Price Theory*.

Coase, R. "The Problem of Social Cost," in Coase, R. *The Firm, the Market, and the Law*.

Coase, R. "The Nature of the Firm," in Coase, R., *The Firm, the Market, and the Law*.

Williamson, O. *Markets and Hierarchies*.

Williamson, O. *The Economic Institutions of Capitalism*.

Schelling, T. *Strategy and Conflict*.

Schelling, T., *Micromotives and Macrobaviors*

Schelling, T., *Choice and Consequence*

Carlton, D. and J. Perloff *Modern Industrial Organization*.

Cabral, L. *Introduction to Industrial Organization*.

Porter, M. *Competitive Strategy*.

More advanced readings for this course include

Tirole, J. *The Theory of Industrial Organization*

Phlips, L. *The Economics of Price Discrimination*

Phlips, L. *The Economics of Imperfect Information*

Phlips, L., *Competition Policy: A Game Theoretic Approach*

Hirshleifer, J., and P. Riley *The Economics of Information and Uncertainty*

Dixit, A., and R. Pindyck, *Investment Under Uncertainty*.

Chevalier-Rognant and Trigeorgis, *Competitive Strategy*.

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Sessions 1&2 (January 18, 23)

Introduction to Strategy

- Syllabus, pp. 1-9.

Introduction to strategy

- M. Porter, "What is Strategy?" *Harvard Business Review*, Vol. 74, Nov/Dec 1996, pp. 39-73. (case packet)
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 1-8.

Strategy and tradeoffs

- J. Mouawad, "The Race to Build a Better Business Class," *New York Times*, August 3, 2013.
- A. Gasparro and H. Haddon, "Whole Foods Aims to Cut Prices but Keep its Cachet," *Wall Street Journal*, April 16, 2017.
- Amazon Press Release, "Amazon and Whole Foods Market Announce Acquisition to Close this Monday, Will Work Together to Make High-Quality, Natural and Organic Food Affordable for Everyone," August 24, 2017.

Strategy and context

- "A Guide in Africa," *The Economist*, February 23, 2013.
- Video: Ashish Thakkar interview, *CNN African Voices* (Video available on Collab)
- D. Olopade, "Africa's Tech Edge," *The Atlantic*, May 2014.
- J. Crabtree, "M-Pesa's Cautious Start in India," *Financial Times*, December 27, 2012.

Strategy and saying no

- C. Sciaudone and J. Brice, "Brazilian Airline Azul Avoids Brazil's Busiest Route," *Bloomberg Businessweek*, August 7, 2014.

Sessions 3&4 (Jan 25, 30)

Value Creation and Capture

Value creation and capture: Microeconomic Foundations of Strategy

- Moore, M.J. "Microfoundations of the Value Creation and Capture Framework." *UVA Draft Technical Note* (to be posted).
- Moore, M.J. "L-Shaped Supply Curves," *UVA Draft Technical Note* (to be posted).
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 10-31, 293-304.

The profit function

- C. Oster, "On the Hook: How AIG Wagered on a Maverick of the Bail-Bond Business and Lost," *Wall Street Journal*, April 10, 2001.

Value creation and capture: Benefit- and Cost-based Strategies

- G. Castonguay and D. Pearson, "Car Makers Try to Make Bigger Profits on Smallest Models," *Wall Street Journal*, March 7, 2014.
- M. Graham, "Amazon Brings Free Same-day Delivery to Chicago," *Chicago Tribune*, October 21, 2015.
- P. Sonne, "Unilever Takes Palm Oil in Hand," *Wall Street Journal*, April 24, 2012.
- M. Fackler, "Space's Trash Collector? A Japanese Entrepreneur Wants the Job," *New York Times*, November 28, 2016.

Value creation and capture in the digital economy

- E. Rusli, "Instagram Pictures Itself Making Money," *Wall Street Journal*, September 8, 2013.
- V. Goel and S. Ember, "Instagram Announces Plans to Expand Advertising," *New York Times*, June 2, 2015.
- J. Stewart, "How a Money-Losing Snap Could Be Worth \$24 Billion," *New York Times*, March 2, 2017.
- J. Marshall and Y. Koh, "The Problem with Twitter Ads," *Wall Street Journal*, April 30, 2015.

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Session 5 (Feb 1)

Value Creation and Capture Case Study

CF Industries

- CF INDUSTRIES (Kellogg 5-316-500) (*case packet*)

Session 6&7 (Feb 6, 8)

Added Value and Irreplaceability

Added value

- L. Cabral, "TV Power Games: *Friends* and *Law & Order*," April, 2010.

Added value in the smartphone industry

- A. Troianovski, "How the iPhone Zapped Carriers," *Wall Street Journal*, December 21, 2011.
- A. Efrati, "Samsung Sparks Anxiety at Google," *Wall Street Journal*, February 25, 2013.
- J. Cheng, "Samsung Drops Android for New Smartwatch," *Wall Street Journal*, February 23, 2014.

Added value in pharmaceuticals

- M. Cortez, "Express Scripts Raises Pressure on Gilead for Drug Price," *Bloomberg*, April 8, 2014.

Added value in cable television

- O. Gibson, "Sky and BT Retain Premier League TV Rights for Record 5.14bn," *The Guardian*, February 10, 2015.
- "NBA Could More Than Double Its Annual Rights Fees in New TV Deals; Incoming Commissioner Adam Silver Will Be Key Decision-maker in 2014," *Advertising Age*, June 5, 2013.
- A. Sharma and M. Futterman, "Fox Sports, Latest Underdog, Takes on ESPN," *Wall Street Journal*, July 25, 2013.

Session 8 (Feb 13)

Added Value Case Study

- INTEL CORP. - 1968-1997 (HBS 9-797-137) (*case packet*)

Sessions 9-10 (Feb 15, 20)

Industry Profitability

Industry analysis

- M. Porter, "The Five Competitive Forces that Shape Strategy," *Harvard Business Review*, Reprint #R0801E. (*case packet*)
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 285-288.

Rivalry

- N. Kleinfeld, "In Manhattan Pizza War, Price of Slice Keeps Dropping," *New York Times*, March 30, 2012.
- S. Kapner and S. Terlep, "The Cosmetics Counter Was Long Immune to Discounting. Not Anymore," *Wall Street Journal*, July 10, 2017.
- C. Paris, "South African Regulator Raids Container Operators for Alleged Price Fixing," *Wall Street Journal*, September 29, 2016.

Entry barriers

- S. Needleman, "Street Fight: Food Trucks vs. Restaurants," *Wall Street Journal*, August 9, 2012.
- T. Aepfel, "Remade in the USA: Detroit's Wages Take on China's," *Wall Street Journal*, May 22, 2012.
- S. Reed, "What BP's New Oil Strike Means," *Bloomberg Businessweek*, September 1, 2009.

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- T. Mickle and A. Abkowitz, “iPhone’s Toughest Rival in China is WeChat, a Messaging App,” *Wall Street Journal*, July 30, 2017.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 258-264, 239-248, 196-206.

Substitutes

- J. Mitchell, “A Tough Lesson for College Textbook Publishers,” *Wall Street Journal*, August 27, 2014.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 258-264, 239-248, 196-206.

Supplier power

- A. Gasparro, S. Needleman, and R. Dezember, “Sysco Buys Rival US Foods for \$3.5 Billion to Create Food-Distribution Giant,” *Wall Street Journal*, December 11, 2013.
- T. Mann, “Big Manufacturers Tighten Supply Chains as Low-Growth Forecasts Spread,” *Wall Street Journal*, December 23, 2015.

Buyer power

- D. Ingram, “Comcast, Time Warner Cable to Face ‘Monopsony’ Claims in Antitrust Case,” *Reuters*, April 23, 2014.

Industry analysis of Linear Technology

- G. Anders, “Pricing Power: In a Tech Backwater, A Fortress Rises,” *Wall Street Journal*, July 10, 2007.

Session 11 (Feb 22)

Industry Profitability Case Study #1

Five Forces Analysis of Large Frame Aircraft Manufacturing

- D. Michaels, “Boeing and Airbus Duke it out to Win Lucrative Iberia Deal,” *Wall Street Journal*, March 10, 2003.
- THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (*case packet*)
- Video: Boeing 787, *USA Today* (*Video available on Collab*)
- S. Carvalho, “Boeing Plans to Develop New Airplane to Replace 737 MAX by 2030,” *Reuters*, November 5, 2014.

Session 12 (Feb 27)

Industry and Government case study

- ANTITRUST REGULATIONS IN A GLOBAL SETTING: THE EU INVESTIGATION OF THE GE-HONEYWELL MERGER (HBS 9-204-081 (*case packet*)).

Session 13 (MARCH 1)

MIDTERM EXAM – THURSDAY, MARCH 1. No makeups, no exceptions. Do not schedule any conflicting activities for this class.

Session 14 (Mar 13)

Industry Profitability and Long-run Industry Structure

- Hubbard, T. “Industry Profitability.” mimeo.
- Hubbard, T. “Industry Structure,” mimeo.

Session 15 (Mar 15)

Industry Profitability Case Study #3, Part 1 – Economics

- MINING POTASH (Kellogg KEL647) (*case packet*).

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Session 16 (Mar 20)

Industry Profitability Case Study #3, Part 2 – Strategy

- MINING POTASH (Kellogg KEL647) (case packet).

Session 17 (Mar 22)

Sources of Competitive Advantage

- P. Thiel, “Competition is for Losers,” *Wall Street Journal*, September 12, 2014.
- P. Leinwand and C. Mainardi, “The Coherence Premium,” *Harvard Business Review*, June 2010, Reprint #R1006F. (case packet)

Assets, activities, advantage

- J. Whalen, “Alternative Medicine: A Big Drug Maker Moves to Play Down Mass-Market Pills,” *Wall Street Journal*, September 20, 2004.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 301-327, 177-180.

Cost- and benefit-based competitive advantage

- S. Clifford, “Where Wal-Mart Failed, Aldi Succeeds,” *New York Times*, March 29, 2011.
- N. Singer and R. Abelson, “Can Johnson & Johnson Get Its Act Together,” *New York Times*, January 15, 2011.

Niche-based competitive advantage

- R. Pogrebin, “Third Place? In Auction World, Phillips is Making Strides,” *New York Times*, November 29, 2016.
- Video: M. Gladwell, “Choice, Happiness, and Spaghetti Sauce,” TED, February 2004. (Video available on Collab.)
- K. O’Keefe, “The Cheapest, Richest Casino in Macau,” *Wall Street Journal*, February 5, 2014.
- Audio: Episode 627 “The Miracle Apple” by the National Public Radio podcast *Planet Money*. (Link available on Collab)

Session 18 (Mar 27)

Sources of Competitive Advantage Case Study

- ENTERPRISE RENT-A-CAR (Kellogg 5-311-508) (case packet)

Session 19 (Mar 29)

Sustainable Competitive Advantage

Heterogeneity

- M. Delio, “Loud Hogs for Easy Riders,” *Salon.com*, May 19, 2003.

Inimitability

- A. Troianovski, “German Firms Seed Web Shopping in the Developing World,” *Wall Street Journal*, January 14, 2014.
- Audio: D. Charles, “In Haiti, Aid Groups Squabble Over Rival Peanut Butter Factories,” *NPR*, October 5, 2012. (Audio link available on Collab)
- J. Rockoff, “Pharmaceutical Scouts Seek New Star Drugs for Cancer, Diabetes,” *Wall Street Journal*, March 9, 2014.

Appropriability

- B. Philbin and C. Driebusch, “Merrill Plots Raid on a Vulnerable Rival,” *Wall Street Journal*, October 1, 2012.

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- S. Hansen, “How Zara Grew Into the World’s Largest Fashion Retailer,” *New York Times*, November 9, 2012.

Foresight

- J. Stewart, “How, and Why, Apple Overtook Microsoft,” *New York Times*, January 29, 2015.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp., 363-390, 77-83.

Session 20 (Apr 3)

Sustainable Competitive Advantage, cont.

Strategy and change

- L. Scism, “Driverless Cars Threaten to Crash Insurers’ Earnings,” *Wall Street Journal*, July 26, 2016.
- Audio: Podcast of Episode 403 “NUMMI” by the radio program *This American Life*. (Link available on *Collab*) (This is a 1-hour podcast. You may listen to it while you commute, at the gym, washing dishes, etc., but you do need to listen to it before class.)

The evolution of bookstores

- E. McClelland, “How Borders Lost Its Soul,” *Salon.com*, February 19, 2011.
- Video: J. Bezos, “Web and Internet Pioneers,” June 1997. (Video available on *Collab*)
- E. Klein, “Amazon Workers Rediscover Grapes of Wrath,” *Bloomberg*, September 28, 2011.
- B. Jopson, “Amazon Finds Upside to Sales Tax Payment,” *Financial Times*, July 10, 2012.
- J. Letzing, “Amazon Adds that Robotic Touch,” *Wall Street Journal*, March 19, 2012.
- C. Armistead, “Balancing the Books: How Waterstones Came Back from the Dead,” *The Guardian*, February 3, 2017.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp., 390-394.

Session 21 (Apr 5)

Adaptability - Flexibility vs. Commitment

- Dixit, A., and R. Pindyck “The Options Approach to Capital Budgeting.” *Harvard Business Review*. (case packet).

Session 22 (Apr 10)

Sustainability Case Study

- NUCOR AT A CROSSROADS (HBS 9-793-039) (case packet)
- Video: “Making New from Old,” *CBS News 60 Minutes*, February 15, 2009. (Video available on *Collab*)
- J. Miller, “Why Netflix is Actually Aiming for More Cancellations,” *Vanity Fair*, May 31, 2017.

Sessions 23&24 (Apr 12, 17)

Adaptability Case Studies

- ACID RAIN: SOUTHERN COMPANY (A) (HBS 9-792-060) (case packet)
- IBM: ADAPTING STRATEGY TO A CHANGING ENVIRONMENT (Posted to *Collab*)

Session 25 (Apr 19)

Boundaries of the Firm, Part 1

Coordination and synergies

- N. Wingfield, “A New Phase for World of Warcraft’s Lead Designer: His Own Start-Up,” *New York Times*, September 11, 2016.
- A. Martin, “Car Sharing Catches on as Zipcar Sells to Avis,” *New York Times*, January 2, 2013.

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- C. Holahan, "Google's DoubleClick Strategic Move," *Businessweek*, April 14, 2007.
- S. Ovide, "Microsoft's Web Woes to Wipe out Profit," *Wall Street Journal*, July 3, 2012.

Challenges to coordination

- L. Stevens and G. Bensinger, "Amazon Seeks to Ease Ties with UPS," *Wall Street Journal*, December 22, 2015.
- G. Bensinger, "Amazon Finds Air Freight Partner," *Wall Street Journal*, March 9, 2016.
- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 61-76, 83-92.

Session 26 (Apr 24)

Boundaries of the Firm, Part 2

- *Optional*: Besanko, Dranove, Shanley, and Schaefer, pp. 98-127, 401-421, 132-144, 146-158.

Incentive and information costs of coordination

- A. Zimmerman and N. Shah, "American Taste for Cheap Clothes Fed Bangladesh Boom," *Wall Street Journal*, May 12, 2013.
- R. Huq, "The Economics of a \$6.75 Shirt," *Wall Street Journal*, May 16, 2013.
- A. Gupta and H. Wang, "How Nestlé Finds Clean Milk in China," *Bloomberg Businessweek*, June 20, 2013.

Opportunism and uncertainty costs of coordination

- E. Dou, "Taiwan's PC Design Firms Brace for Change," *Wall Street Journal*, November 15, 2012.

Foreclosure and the mark-up fallacy

- S. Carey and A. Gonzalez, "Delta to Buy Refinery in Effort to Lower Jet-Fuel Costs," *Wall Street Journal*, April 30, 2012.

To integrate or not to integrate

- C. Terhune, "Growing Pains: To Bag China's Snack Market, Pepsi Takes Up Potato Farming," *Wall Street Journal*, December 19, 2005.
- V. O'Connell, "Diamond Industry Makeover Sends Fifth Avenue to Africa," *Wall Street Journal*, October 26, 2009.
- D. Cimilluca, B. McKay, and J. McCracken, "Coke Nears Deal for Bottler," *Wall Street Journal*, February 25, 2010.
- M. Esterl, "Coke Under Pressure as Sales Abroad Weaken," *Wall Street Journal*, July 30, 2014.

Session 27 (Apr 26)

Synergy Case Study

- THE WALT DISNEY CO.: THE ENTERTAINMENT KING (HBS 9-701-035) (*Study.net case packet only*)
- M. Graser, "Disney Buys LucasFilm, New 'Star Wars' Planned," *Variety*, October 30, 2012.

Session 28 (May 1)

Strategy and Growth

- N. Wingfield, "Worries that Microsoft is Growing Too Tricky to Manage," *New York Times*, September 8, 2013.
- M. Yglesias, "Apple May Have Finally Gotten Too Big for Its Unusual Corporate Structure," *Vox*, November 27, 2016.
- STARBUCKS: A STORY OF GROWTH (Kellogg 5-211-259) (*case packet*)
- J. Jargon, "Howard Schultz Stepping Down as Starbucks CEO to Focus on Higher-End Shops," *Wall Street Journal*, December 1, 2016.

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Session 29 (May 3)

Course Summary

The final exam will be taken on the scheduled day during exam week

Room location for the final exam will be announced later in the semester.