

Strategic Management

Fall 2016

BUSOR-AD 116
Professor Alicja Reuben
alicja.reuben@nyu.edu

Course purpose

This course provides an advanced approach to strategic management. This course has two broad goals. A first is to continue to understand why some companies are financially much more successful than others. Second, we will analyze how individual companies plan strategies to surpass others in the market. To gain a better understanding of strategic issues and begin to master the analytic tools that strategists use, we will study the strategic decisions of companies in many different industries and countries, ranging from U.S. technology firms to a Spanish apparel producer.

The course material is grouped in three modules. The first, titled “Competitive Advantage,” shows what companies can do to outperform their rivals. The second module, “Competitive Dynamics,” analyzes the competitive moves of rival firms. This module relies heavily on game-theoretic concepts. In the final module, “Corporate Scope,” we will ask when it makes sense for companies to diversify and globalize their business.

Teaching and Learning Methodologies

The primary objective of Strategy Formulation is to allow you to analyze the sources of companies’ competitive advantage. This skill is not only critical for positions in general management but also for those who aspire to careers in banking and consulting. The course will provide the analytic tools to analyze competitors, predict competitor behavior, and understand how firms can develop and sustain advantages over time.

Intended Learning Outcomes

The primary focus of this course is related to the three modules that comprise the course. In the first, “Competitive Advantage” module, students will obtain a good grasp of the characteristics of firms that outperform their rivals within an industry. Students will learn to identify advantages derived from the increase of a firm’s customers’ willingness to pay or a decrease of the suppliers’ willingness to sell. Students will be familiar with the exercise of maximizing profits from a practical perspective. In the second “Competitive Dynamics” module, students will utilize tools such as game theory and behavioral player analysis to observe how competitors exercise rivalry within an industry. In the third “Corporate Scope” module, students will learn the industry-level changes that firms undergo. We will discuss diversification and globalization.

A secondary focus is to maximize student’s potential in the strategic management industry by equipping them with an understanding of how complex organizations operate and of how successful firms maintain their success. Regardless of your major or your future career plans, such an understanding will enable you to work more effectively within a strategic context, whether that context is a small start-up company, a family business, a large financial institution, or a non-for-profit institution. In other words, the course will provide you with tools and skills that you can use to increase your own personal career success.

Three minute memos

At the end of each class, I will ask you to write down one thing you learned during the course of that class and a connection to a real-world event within your observation of business operations. There is also an optional space for highlighting any areas of confusion or anything that affected your learning experience. These “three minute memos” are not graded, but they are collected. These memos play three critical roles. First, the research on adult learning is clear that this kind of reflection, connection, and integration can double your retention and knowledge of the material. That’s an excellent return on three minutes. Second, the memos allow me to see where your interests and experiences align with the course topics so that I can customize my teaching to your needs. Third, they provide you with a regular opportunity to communicate what you think is working, and not working, in class. I personally read every memo.

Course grading

Grading will be based on class participation, class presentations, a midterm, and a final examination.

These components of your grade are weighted as follows:

- | | |
|-------------------------------------|--|
| 1. Class participation | 15% |
| a. Contribution to class discussion | 10% |
| b. Attendance and Engagement | 2.5% |
| c. Professionalism | 2.5% |
| 2. In-class quizzes | 10% |
| 3. Midterm project | 45% |
| a. Midterm Paper | 25% (21% - instructor, 4% - other group members) |
| b. Midterm Presentation | 20% |
| 4. Final exam | 30% |

1. Class Participation

Participation is an essential part of the course and is important for your own learning experience and the learning experience of your classmates. Class participation will be evaluated based on demonstrated preparation through involvement in class discussion and group exercises. You are expected to be prepared for and actively participate in class. At the time of the Mid-term, you will be provided with feedback about your participation.

- a. Contribution to class discussion

With regard to participation itself (i.e., talking in class), quality (the thoughtfulness of your comments) counts more than quantity (how frequently you talk), although simply waiting to offer a couple well-prepared comments throughout the course and staying silent otherwise will not earn you a very good participation grade. Your goal should be to contribute in a meaningful and (reasonably) consistent way to the class discussions. Quality in-class comments 1) go beyond the facts of a particular reading or case and offer unique insights, 2) provide links between the topic under discussion and other cases, the reading, or outside situations, and/or 3) extend, build upon, or constructively critique others'

contributions. Those who will receive the highest participation grades not only speak up with reasonable frequency but are willing to take risks with their comments.

Your participation is essential—for both your own learning and that of other students. Because this is a case-based course, much of the learning will take place in our collective discussion of the business cases. I expect that every student will arrive well prepared and able to answer the day's assignment questions. It is essential that you participate often enough so that I can assess the quality of your thinking.

b. Attendance and Engagement

Because class participation is essential for the course, unexcused absences will significantly impact your overall grade. If you cannot attend class due to unavoidable circumstances, you are expected to notify me of your absence by email prior to class.

It is hard to distinguish between what absences should and should not be excused. To deal with this, I use the following “leave” policy: You have one personal/sick day to use at your discretion. This means that your participation grade will be unaffected if you were to miss one in-class exercise or case discussion. Be careful in how you use this day. If you were to use this day to sleep in, you might regret it later when you have to miss class because of a raging headache or stomach bug.

In the case of unexpected prolonged absences due to personal emergencies where it would not be reasonable for you to notify me beforehand of your absence, I may request some sort of documentation after the emergency in order for us to make arrangements for the missed time. Note. A slip from the student health center saying that you went to the student health center is not sufficient documentation.

Engagement during class discussion goes beyond participating actively. It has to do with reflecting your comments on those provided by your classmates and clearly demonstrating that you are eager to learn and effectively doing so.

c. Professionalism

I care a great deal about fostering honest in-class discussion and aim to make the class atmosphere as relaxed and psychologically “safe” as possible. This is by design. I firmly believe that students are most likely to truly learn and engage in the course material in this type of environment. And, it's the most fun too! Even in this environment, we cannot forget our obligations to treat each other with respect and courtesy. These obligations include, but are not limited to the following:

- Refraining from using electronic devices of any kind. They distract not just you, but everyone around you. The personal use of computers, phones, tablets, etc. degrade everyone's learning experience.
- Not being disruptive by coming late to class (even a minute late) or engaging in personal conversations with classmates during class.
- Never using racial, ethnic, religious, or any other prejudicial slur.
- Following instructions by, for instance, not emailing assignments that are supposed to be uploaded and not emailing someone with a question that is answered in this syllabus.
- Informing me and/or your group members well in advance of any issues.

I include professionalism as part of your grade simply to ensure that we remember these obligations. If you were to engage in unprofessional behavior (which I do not anticipate any of you will do), your professional grade will suffer accordingly.

2. In-class Quizzes

Throughout the course, I will occasionally give in-class pop quizzes that will consist of 5 fill-in the blank questions. Questions will focus primarily on conceptual topics rather than facts of the case. However, both types of questions may appear, so it is advisable to be familiar with both. The quizzes are not created to be duplicitous, but rather to make you feel comfortable with the material and introduce you to the types of knowledge that I expect you to derive from the course. Remember that these quizzes while rare will consist of a small portion of your grade. Thus, you ought not to be concerned if you happen to do worse than you expect on one or two. The quizzes will be graded based on your demonstrated understanding of the concepts and cases.

3. Midterm Group Project

The midterm project will be a group write-up of the Samsung Electronics case, due in electronic format. You will be asked to prepare a response to a set of assignment questions.

a. Midterm Paper

Your midterm paper will be between 2,500 words and 4,000 words. You will write the paper as a group. To ensure that you have all contributed equally, I will have each person rate every other team member,

and this will consist of 4% of your final grade. Teammate evaluation (4% of final grade). Each student will be required to evaluate the contributions of their fellow teammates on the final presentation and paper.

The feedback will be both numerical and free-response. Responses will be anonymous in the sense that you will not find out how any of your individual teammates evaluated you and they will not find out how you evaluated them (i.e., the identity of an individual feedback sender's evaluations of a target feedback receiver will not be known to the feedback receiver). This is designed to encourage the most honest evaluations.

The details of the assignment will be provided to your several weeks before the due date.

Late paper submissions, no matter how close to the deadline, will automatically receive a 25% grade reduction for the assignment. Each 24 hours that passes after the assignment is due will result in an additional 25% reduction.

b. Midterm Presentation

The majority of your midterm grade is comprised of the presentation. As with the paper, the details of the presentation assignment will be provided.

The presentation will last 10 minutes to 15 minutes and will take place during one week. The presentation date for each team is TBD. The number of teams will determine the exact time each team has to present.

4. *Final Exam*

The final exam will be a case. The exam is open book; you are welcome to refer to the course reader and your notes during the exam. The time and date are TBD.

Academic Integrity

Integrity is critical to the learning process. All students will need to agree to abide by the NYU Stern Student Code of Conduct, which includes a commitment to:

- Exercise integrity in all aspects of one's academic work including, but not limited to, the preparation and completion of exams, papers and all other course requirements by not engaging in any method or means that provides an unfair advantage.

- Clearly acknowledge the work and efforts of others when submitting written work as one's own. Ideas, data, direct quotations (which should be designated with quotation marks), paraphrasing, creative expression, or any other incorporation of the work of others should be fully referenced.
- Refrain from behaving in ways that knowingly support, assist, or in any way attempt to enable another person to engage in any violation of the Code of Conduct.

The entire Stern Student Code of Conduct applies to all students enrolled in Stern courses and can be found here: www.stern.nyu.edu/uc/codeofconduct

Class readings and preparation

The required reading for each day's classes, including cases and assignment questions, are below. The readings include Harvard Business School cases, which you will need to buy (details are available here <http://cb.hbsp.harvard.edu/cbmp/access/48911135>). For other readings, please visit www.thecasecentre.org and use the Case CoursePack code C-844-279862-STU.

I recommend group work throughout the course, particularly when working through the assignment questions for the day. Strategy is an analytical course and your preparation should reflect that fact. In preparing for strategy classes, I strongly recommend that you read the assignment questions before you read the case study. The assignment questions will help you focus on the aspects of the case that we will be debating in class.

Additionally, I recommend that you read the business section of your preferred newspaper (let's hope it has a business section!), The Wall Street Journal, and specialized magazines, like The Economist or BusinessWeek.

Course syllabus

NOTE: Assignments and readings are due at the beginning of class for the date under which they are listed. (CP) refers to the HBS Course Pack; (CC) means that the reading or assignment is available on Case Centre.

Class 1: Competitive advantage (Oct 26)

Readings

Innovation and Renovation: The Nespresso Story (CP)

Assignment Questions

1. What can Yannick Lang do to overcome Nespresso's financial troubles?
2. What are Nespresso's unique abilities than can lead to that success?

Class 2: Cost Leadership (Oct 31)

Readings:

Wal-Mart – In Search of Renewed Growth (CC)

Walmart around the World (CP)

Assignment Questions

3. Walmart has been far more profitable than the average competitor in the discount retailing industry. What are the sources of Walmart's competitive advantage?
4. Should Lee Scott concentrate his efforts to promote Walmart's future growth by moving upscale?
5. Can Walmart replicate its success in the United States in international markets?

Class 3: Differentiation (Nov 2)

Readings

ZARA: Fast Fashion (CP)

Assignment Questions

1. What are the distinctive elements of Zara's business strategy?
2. As an advisor to Amancio Ortega, would you recommend franchising the Zara stores for faster expansion?

Class 4: Network externalities and platforms (Nov 7)

Readings

Apple Inc. in 2015: Vision and Strategy (CC)

Google Inc. (CP)

Assignment Questions

1. *Apple*: Why was Apple one of the most profitable computer companies in the world in the late 1980s and early 1990s? Why was Apple a “troubled” company for much of the rest of the 1990s?
2. *Apple*: Why were Apple's iPod and iPhone so successful?
3. *Apple*: Does Apple have a competitive advantage in the mobile space going forward?
4. *Google*: What were the key factors behind Google's early success?
5. *Google*: Is Google's dominance sustainable?
6. *Google*: Can this model be extended to other businesses, such as YouTube?

Class 5: Industry analysis (Nov 9)

Readings

The Cola Wars Continue: Coke and Pepsi in 2010 (CP)

Assignment Questions

1. Why is the structure of the soft drink concentrate business so attractive? How do the “Five Forces” play out in the soft drink industry?
 - a. What are the barriers to entry?
 - b. What are substitutes for soft drinks?
 - c. How powerful are suppliers to the industry?
 - d. How much leverage do buyers of soft drink possess?
 - e. How intense is competition among the soft drink manufacturers?
2. How was Pepsi able to gain market share for so many years?
3. Which firm is in the best position to capitalize on current trends in the industry?

Class 6: Non-market strategies (Nov 14)

Readings

Eli Lilly & Company’s CSR Dilemma (CC)

Assignment Questions

1. Why is the Pharmaceutical industry so profitable?
2. Does the Pharmaceutical industry have an obligation to provide drugs at a discounted price to developing countries or others with lesser means?
3. What is the right CSR strategy for Eli Lilly? Should Eli Lilly increase support for MDR-TB treatment or should it concentrate its resources on chronic diseases such as diabetes?

Class 7: Midterm (Nov 16)

Readings

Samsung Electronics (CP)

Assignment Questions

Assignment questions correspond to the midterm project. This class is dedicated to class presentations.

Class 8: Competitor analysis (Nov 21)

Readings

Dogfight over Europe: Ryanair (A) (CP)

Uber versus Lyft (CP)

Assignment Questions

1. *Ryanair*: What is your assessment of Ryanair's launch strategy?
2. *Ryanair*: How do you expect Aer Lingus and British Airways to respond to Ryanair's launch? Why?
3. *Uber vs Lyft*: What might Lyft have done differently before Uber's entry announcement? After the announcement?
4. *Uber vs Lyft*: What should Uber and Lyft do now? Think of the outcome, recognizing that each has a choice to fight or exit.

Class 9: Price wars & collusion (Nov 23)

Readings

Maersk Shipping: Is the Price Right? (CC)

Assignment Questions

1. How do you evaluate the historic/existing pricing strategy of Maersk? What is the objective of this strategy? Can this objective be achieved?
2. What are the key assumptions behind the "Contribution Matrix" in Exhibit 10 of the case? How reasonable are these assumptions? Given the assumptions, what action would you recommend?

Class 10: Diversification (Nov 28)

Readings

PepsiCo's Restaurants (CP)

Assignment Questions

1. Should PepsiCo buy California Pizza Kitchen?
2. Should PepsiCo buy Carts of Colorado?
3. In 2015, should PepsiCo spinoff the beverage business?

Class 11: More diversification (Nov 30)

Readings

The Walt Disney Company: If you give this Mouse a focus (CC)

Assignment Questions

1. What accounts for Disney's success over such a long time? And what does Disney contribute to the businesses it owns that improves their individual performance?
2. Did Disney diversify too far under the leadership of Michael Eisner?
3. Consider the corporate strategy of Disney in the Bob Iger era. Was Pixar a good acquisition for Disney?

Class 12: Global strategy (Dec 5)

Readings

Alibaba's Taobao (CP)

Yum! China (CP)

Assignment Questions

1. *Alibaba's Taobao*: Why was eBay unsuccessful in Japan?
2. *Alibaba's Taobao*: How did Taobao beat eBay in China?
3. *Yum! China*: What are the similarities and differences between KFCs in China vs. fast food restaurants in the U.S.?
4. *Yum! China*: What special challenges did Yum face in exporting the KFC model, and how did Sam solve them?

Class 13: Capstone I (Dec 7)

Readings

Globalization of CEMEX (CP)

Assignment Questions

1. What benefits do multinational companies exploit from globalization in an industry as apparently localized as cement?
2. How has CEMEX managed to outperform its leading international competitors in the cement industry?
3. Where should CEMEX focus its international expansion efforts?

Class 14: Capstone II (Dec 14)

Readings

General Motors 2.0: What happened? What's next? (CC)

Assignment Questions

1. What explains GM's fall from grace?
2. Should GM have a captive finance group? And what should be the strategy for the "New GM"?