Overview

What is strategy?

Business strategy is the set of objectives and policies that collectively determine how a business positions itself to increase its returns and create economic value for its owners and stakeholders. Strategy is concerned with answering two central questions: “What businesses should we participate in?” and “How should we compete?”

The purpose of this course is to enable students to analyze and design strategies to obtain a sustainable competitive advantage in the global marketplace. The focus of the course will be on developing strategies tailored to the economic environment in which the firm is operating, i.e. the external fit of its strategies, and to developing

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1 We will be using a single web-page to provide course-related information to all four sections. Because the structure of Catalyst makes it difficult to share information across sections, we will not be making use of it this semester.

2 Strategy is also applicable to organizations operating in the non-profit sector. There the parallel questions are “What activities should our organization pursue?” and “How can we outperform other organizations in delivering against our organizational objectives?”
strategies consistent with the core competencies of the firm itself, i.e., the internal fit of its strategies. Of course, this analysis is inherently dynamic—the efficacy of a strategy depends crucially on anticipating the competitive reactions of rivals within the same market as well as reactions upstream and downstream. To address these dynamic issues, the course will use game theory analysis as an organizing framework for making strategic choices.

As you go through the course, you will also develop skills for identifying managerial issues, finding alternative ways to deal with those issues, and evaluating alternative plans of action. Finally, you will learn specific analytical techniques for diagnosing the competitive position of a business, evaluating business strategies, and identifying and analyzing specific business options.

At the end of the course, students will have analytic tools for assessing the following key strategic questions:

- How can a firm generate value and how can it capture this value in the form of economic profit?
- 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—both rivals and others up and down the value chain?
- How can it preserve its profitability in the face of a changing global business landscape?
- How should a company choose the scope of its activities?

While the course will draw heavily on concepts and frameworks previously learned in microeconomics and, to a lesser extent on other core courses, it is important to recognize that this course is not a capstone course, but rather an introduction to making business choices in a competitive context.

**The Contract**

Because much of the course centers on case discussions, the value-added of the course depends crucially on your active, effective participation. This means that you, the student, must get involved and take the primary responsibility for your learning. The following “contract” outlines your rights and responsibilities:

First, you must be committed to the “4 Ps” of student involvement in case discussions:

1. Preparation: If you do not read and analyze the case, then formulate a plan or strategy for action, the case discussion will mean little.
2. Presence: If you are not present, then you obviously will not benefit from the discussion. Further, you cannot add your unique thoughts or insight to the dialog, and the quality of the discussion is diminished as a result.
3. Promptness: Students entering late or leaving early for various other engagements disrupt the discussion and reduce the professionalism of the environment.
4. Participation: Your learning is best facilitated by regular active participation. You have a responsibility to contribute your insights and judgment to the collective skills and knowledge to be gained from the class.

Second is that you, the student, must accept and maintain ownership of the discussion. If the instructor takes responsibility for ownership of the discussion, the process will become little more than lecturing about the case. In the collective experience of case teachers here at Haas and elsewhere, lecture, in this form, is not the most effective tool to stimulate learning.

Third, in taking ownership of the discussion and contributing to the dialog, it is important to 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 by? Do your comments take the discussion farther or deeper than what has been said up until now?
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 to organize your comments?
Originality: Do your comments bring fresh analytical perspectives to bear on the discussion?

Section
Weekly sections will complement the lectures. Topics addressed in the sections will include the rules and details of the competitive strategy game (see below); how to “pick apart” a case to prepare a discussion, write-up, or final exam; and additional themes in the field of strategy. A component of the sections will be dedicated to “ripped from the headlines” mini-cases submitted by students. An ideal mini-case will look at an issue of current interest with an eye toward applying the concepts and frameworks developed in the class to this issue.

GSI for Sections 1&2:
Ian Larkin, larkin@haas.berkeley.edu
Section meetings:
101: F 3:00-4:30pm in C 210
201: F 1:30-3:00pm in C 210
Office hours: M 1-2pm, F 12-1pm and by appointment, location F402

GSI for Sections 3&4:
Evan Rawley, rawley@haas.berkeley.edu
Section meetings:
301: F 9:30-11:00am in C 220
401: F 12:00-1:30 in C 210
Office hours: Th 11:30-12:30, and by appointment, location F535

Section syllabus
Week 1 (see note below for dates and times):
• Introduction to the competitive strategy game (CSG)/monopoly benchmark exercise

Week 2 (4/1):
• Strategic frameworks: Porter’s 5 forces and industry analysis
• Using numbers to effectively support analysis and strategic recommendations

Week 3 (4/8):
• How to write a good case study
• Strategic frameworks: core competencies and technological frameworks

Week 4 (4/15):
• Preparing for round 5 of CSG
• Strategic frameworks: game theory

Week 5 (4/22):
• Strategic frameworks: Finance, marketing, transaction cost economics frameworks

Week 6 (4/29):
• Review of the case study.
• Strategic frameworks: putting frameworks together and prioritizing analyses, based on a few examples from the headlines.

Week 7 (5/6):
• Mock final
**Note on Week 1 of Section**

The first week of section is officially scheduled for the Friday before Spring Break. The topic – an introduction to the CSG – is very important, and your team’s first CSG move is due on Wednesday the week after Spring Break (March 30). Because many students will leave early for the break, we have scheduled two alternate section times that will meet on other days, and cancelled the two late afternoon Friday sections that day. You are free to attend any of the 4 sections that will be offered for the CSG introduction:

- Thursday, March 17, 10:30am-12noon, C250
- Friday, March 18, 9:30-11am, C 220
- Friday, March 18, 12noon-1:30pm, C210
- Monday, March 28, 4:30-6:00pm, C230

Note: This means that the regular sections starting at 1:30pm and 3:00pm are CANCELLED the first week of class.

**Grading**

Grades are based on the following elements:

1. Attendance and participation: 20%.
2. Performance in the competitive strategy game (CSG): 20%. Your performance in the CSG includes preparing a “CSG Journal” at intervals throughout the course. Details will be explained by GSIs.
3. Case write-ups: 20%. Your CSG group is required to prepare an analysis of the Ryanair case prior to the class discussion (April 6 for Sections 1 and 2 and April 7 for Sections 3 and 4). This write-up should be 3-5 pages long (excluding tables and exhibits). Details will be explained.
4. Final exam: 40%. The final will consist of an analysis of a case.

**Texts**

*Required:*

- A. Brandenburger and B. Nalebuff, *Co-opetition*
- M. Porter, *Competitive Strategy*
- C. Shapiro and H. Varian, *Information Rules*
- Reader on Study.net

**A Note on Readings:** It is expected that you will have *read* the listed readings *prior* to the class for which they are assigned. This is especially important for cases. Please note that the reading assignments are uneven, so please plan ahead.
Course Outline (numbered by class)

1. Adolph Coors and the Brewing Industry
   Readings:  
   - R: Coors
   - R: Ghemawat: “Competition and Strategy in Historical Perspective
   Concepts:  
   - Internal Fit
   - External Fit
   - Strategic value to (and cost of) commitment

2. Cola Wars: Coke vs. Pepsi in 21st Century
   Readings:  
   - R: Cola Wars
   - Porter, Chapter 1
   Concepts:  
   - Industry analysis
   - Five Forces
   - Value Chain
   - Vertical Integration

   Readings:  
   - R: Crown Cork & Seal
   - “Strategy Framework Handout” (will be posted on course website)
   Concepts:  
   - Industry analysis
   - Focus
   - Competitive Advantage

4. Matching Dell
   Readings:  
   - R: Matching Dell
   - R: Porter, “What is Strategy?” Brandenburger & Nalebuff, Ch. 1
   Concepts:  
   - Activity systems
   - Cost-based competitive advantage
   - Threats to sustainability
5. Progressive Corporation

**Readings:**
- R: Progressive
- R: Hamel and Prahalad, “Core competence of the corporation”

**Concepts:**
- Differentiation-based competitive advantage
- Competitive advantage and organizational scope
- Exploiting resources of the firm

6. Dogfight over Europe: Ryanair (A)

**Readings:**
- R: Ryanair
- R: Coughlan, “Anticipating competitor actions”
- Porter, Ch. 4
- Brandenburger & Nalebuff, Ch. 2

**Concepts:**
- Strategic intent
- Competitor analysis
- Game theory

7 & 8. Bitter Competition: The Holland Sweetener Company versus Nutrasweet (A)

**Readings:**
- R: Bitter Competition
- Brandenburger & Nalebuff, Chs. 3 & 4

**Concepts:**
- Value Net
- Threats to added-value: Entry
- Game theory


**Readings:**
- R: Nintendo
- Brandenburger & Nalebuff, Ch. 5

**Concepts:**
- Added value
- Shaping the value chain
10. Leadership Online (A): Barnes & Noble vs. Amazon.com

**Readings:**
- R: Leadership Online
- R: Porter, “Strategy and the Internet”
- R: Ghemawat, “Sustainability of competitive advantage”

**Concepts:**
- Treats to sustainability: substitution
- Responses to substitution threats

11. Microsoft in 2002

**Readings:**
- R: Microsoft
- R: “Microsoft’s midlife crisis”
  Shapiro & Varian, Chs. 5-7

**Concepts:**
- Threats to sustainability: Slack
- Non-market strategy
- Network effects

12. Apple Computer 2002

**Readings:**
- R: Apple
- R: Shapiro & Varian, Ch. 8

**Concepts:**
- Dynamic fit
- Complements


**Readings:** Intel

**Concepts:**
In this case, you will be asked to present key issues and recommendations to the “board” of Intel. This is a capstone case.

14. CSG De-Brief & Course Summary
Discussion Questions

1. Coors
   a. Why did the US brewing industry consolidate?
   b. Coors was quite successful through the mid-1970s. What was its strategy historically?
   c. How did Coors’ performance change relative to its competitors in the period from 1977 to 1985? Why?
   d. Should Coors build a brewery in Virginia? Will it be able to improve its position significantly?
   e. What, if anything, might Coors have done differently earlier on?

2. Cola Wars
   a. Why is the soft drink industry so profitable?
   b. Compare the economics of the concentrate business to the bottling business: Why is profitability so different?
   c. How has the competition between Coke and Pepsi affected the industry's profits?
   d. Can Coke and Pepsi sustain their profits in the wake of flattening demand and the growing popularity of non-carbonated drinks?

3. Crown Cork & Seal
   a. How attractive has the container industry been and why?
   b. How did CC&S achieve superior performance in this industry under John Connelly? Why has it been able to sustain superior performance for so long?
   c. What changes in CC&S strategy would you recommend to Bill Avery? Specifically, how do you evaluate the opportunities to expand beyond metal containers? How do you assess the opportunity to bid for Continental Can? Be sure to explain the rationale and assumptions behind your recommendations.

4. Matching Dell
   a. How did the personal computer business become so unprofitable?
   b. Why has Dell been successful in this industry?
   c. How large was Dell’s competitive advantage prior to the decision of competitors to “match” Dell? Specifically, quantify Dell’s advantage over the team of Compaq and a reseller in serving a corporate customer.
   d. How big is Dell’s remaining advantage?
   e. What should Dell and its rivals do now?

5. Progressive Corporation
   a. Why has Progressive been successful in this industry?
   b. How sustainable is Progressive’s competitive advantage in non-standard?
   c. Can Progressive’s competitive advantage in non-standard be transferred to the standard segment?

6. Ryanair: Dogfight Over Europe
   a. What is your assessment of Ryanair’s launch strategy?
   b. How do you expect Aer Lingus and BA to respond? Why?
   c. What are the costs and benefits of the retaliate versus accommodate strategies for BA? Aer Lingus?
   d. Can the Ryan brother make any money at their proposed price point?

7. Bitter Competition
   a. Offer a set of rationales for why NutraSweet should accommodate HSC’s entry into the aspartame market.
   b. Offer a set of rationales for why NutraSweet should not accommodate HSC’s entry into the aspartame market.
   c. 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. Power Play: Nintendo in 8-bit Video Games
   a. How did Nintendo successfully revitalize the video game business following Atari’s boom and bust cycle?
   b. How was Nintendo able to capture the value it created in this business?

9. Barnes & Noble v Amazon
   a. Compare the willingness to pay of online compared to traditional bookselling.
b. Compare the forecast long-run cost position of a successful online bookseller to B&N’s traditional business model. (Assume that exhibits 4 and 7 in the case reflect average discounts of 10% off list for B&N’s brick and mortar stores and 25% off online.)

c. Assess B&N’s substitution threat from Amazon. How did Amazon respond and to what net effect?

d. Who will be the online leader? Is this a good business to be in in the long run?

10. Microsoft

a. What accounts for Microsoft’s historical success?

b. What accounts for the winner-take-all dynamics leading to Microsoft’s dominance?

c. What are the threats to the sustainability of Microsoft’s position?

11. Apple

a. Historically, what were Apple’s major competitive advantages?

b. Evaluate Apple’s strategies in the 1990s.

c. What are Apple’s current competitive advantages? Are these sustainable?

12. Intel

a. Your assignment is to prepare a presentation to the Board of Directors of Intel assessing their current strategic position and recommending strategies for sustaining competitive advantage going forward. Specifically, each CSG team will prepare a set of three PowerPoint slides:

i. The first of these slides identifies the key challenges currently facing Intel

ii. The second and third slides identify concrete actions that Intel can take to address these challenges and maintain competitive advantage into the future.

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 builds upon (and hopefully reinforces) 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 by emphasizing the competitive interactions that characterize real marketplaces (which are the key focus of MBA299). In each class, there will be 16 teams competing in two games of eight teams apiece.

The first strategies for each team will be due on March 30. The game proceeds through nine rounds of investment and concludes on May 2. Between March 30 and May 2, your team will submit its strategy via the CSG website (http://csg.haas.berkeley.edu) by 12noon on the due date for that particular round. (A full schedule of the 9 rounds will be released separately.) The results of each round of the game will be discussed in class. Following rounds 1, 5, and 9, each team will be required to submit a 1 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 one page; however, supporting exhibits such as graphs, tables, and the like will be permitted as appendices to the memo.

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 separately.

Case Write-Ups

Each CSG group will submit a case write-up on the Ryanair case. These write-ups are due before class #6. The purpose of the case write-up is to encourage in-depth examination of the case and to prepare you for the final exam. Write-ups should be 3-5 single-spaced pages (excluding any tables and exhibits). The write-ups may be primarily qualitative and focused on answering the discussion questions; however quantitative analysis is encouraged, where appropriate, as is extending the analysis beyond the discussion questions. Examples of high quality case write-ups will be posted on the course website.