

EMBA 299: Strategy

Jonathan S. Leonard

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Instructor

Professor Jonathan S. Leonard

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Office hours: C210 M,T 7:30-8:00PM, and F689 by appointment

Course Web Page: <https://bCourses.berkeley.edu>

Class meets in C210

CSG Strategy Journal Due Dates:

1. 10/28
2. 11/11
3. 11/22

Final Exam: Monday December 14, 6PM-9PM for both cohorts.

Blue in C210, Gold in C230

Thanksgiving Week Special Schedule

Both cohorts will meet in a combined class in Andersen Auditorium on Monday 11/23.

Introduction

Leaders shape the future to their advantage. This class takes the perspective of the executive leading the business and responsible for developing its strategy. The strategic view asks how the future can be shaped to one's advantage by anticipating other's decisions.

This class will enable you to analyze and design strategies to achieve competitive advantage. Effective strategies fit both the external economic environment in which the firm is operating and the firm's own internal competencies. Strategic analysis is inherently dynamic. Success depends on anticipating reactions both horizontally (rivals and partners) and vertically (upstream and downstream), and setting conditions to benefit from these.

We use game theory and real option theory as organizing frameworks. The course draws heavily on microeconomics and, to a lesser extent, on other core courses. A mix of lectures and strategic games builds the foundation. Case studies illustrate how these concepts can be used to understand companies operating in a complex world.

You will develop skills to diagnose the competitive position of a business, evaluate business strategies, anticipate rival's actions and analyze business options. At the end of the course, you will have the analytic tools to address the following key questions:

- How can a firm generate and capture value?
- How do the fundamental economic forces in an industry affect the firm's ability to make profits?
- How can a firm position itself within an industry to develop and sustain a competitive advantage?
- How is a firm's choice of strategies affected by the strategies of other firms— rivals, partners, and others up and down the value chain?

In any business setting the details matter, and it is easy to drown in them. We'll develop some frameworks you can use to see the forest -the strategic imperative- amidst the welter of information that threatens to overwhelm many managers. While strategy is not a cookbook, it does provide methods to structure strategic decisions and sharpen the focus to a few key empirical questions.

Preparing for class

You are responsible for the material in each reading and case. Come to class prepared to actively discuss your analysis of the business decisions in each case. In business, great ideas that you cannot support do not go far.

In each case, be prepared to tell us what you would do, and why you would do it. Identify the key issues and opportunities facing the firm, evaluate alternative approaches to problems, describe the course of action you recommend, and explain the reasons for your recommendations. Most cases have supporting data available at Study.net as spreadsheets, so you can move quickly to analysis. Where appropriate, use these to build a quantitative analysis to support your recommendations so you can convince your classmates of the merits of your proposal.

The Competitive Strategy Game

The Competitive Strategy Game (CSG) is an integral part of the course. Teams design strategies to compete against each other in four markets with different characteristics. The CSG starts with concepts that you learned in your core microeconomics course, such as demand elasticity, marginal vs. average costs, and fixed vs. sunk costs, and extends them to let you use them in competitions that characterize real marketplaces (which are the key focus of MBA299). Commitment, signaling, and differentiation also come into play.

Students are part of a self-selected team of four members. Use the class BCourses site to register your team membership before 10/20. I reserve the right to reallocate to avoid small teams. Your team will work together to compete in the CSG and prepare the CSG memos. At the end of the semester, you will have an opportunity to apply game theory to free-riders by anonymously reporting on the contribution of other team members. Detailed information about the CSG is posted at the class web-site. A schedule is appended.

Grading

This class follows the Haas grading policy for core courses. Grades are based on:

1. 20% Class participation.
2. 20% CSG Memo #1.
3. 20% Remainder of CSG
4. 40% Final exam.

Class participation counts for a significant part of your grade. I will both cold call students and seek volunteers to speak in class. Quality of class participation is more important than quantity, although zero participation is likely to result in a zero. Trying to maximize “air-time” is counter-productive. If your name card is not up, I will assume that you are unprepared and adjust your class participation grade accordingly. Please use your name card and sit in the same seat each class.

Productive comments are characterized by:

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

Progress: Do your comments move the class discussion forward?

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

Logic: Is your reasoning consistent and logical? Are you using the concepts and frameworks from class to organize your comments?

Originality: Do your comments bring fresh analytical perspectives to bear on the discussion?

In-Class Games:

The class will participate in stylized strategic games in order to learn basic strategic lessons.

Required Text

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

Readings available on Study.net.

For those interested in different perspectives (optional):

D. Besanko, D. Dranove, M. Shanley, S. Schaefer, *Economics of Strategy*

C. Christensen and M. Raynor, *The Innovator's Solution: Creating and Sustaining Successful Growth*

H. Smit and L. Trigeorgis, *Strategic Investment*

Laptop and Electronic Device Policy

To support active engagement and learning, no use of laptops, tablets, cell phones, or any other electronic device is allowed during class.

Schedule

Class schedule subject to change.

A note on readings: Read and analyze readings prior to the class for which they are assigned. For each case, think out a reasoned plan of action for how (and why) you would proceed.

1. Introduction to Strategy

- Lecture: Introduction to Real Options
- Ghemawat: “Competition and Strategy in Historical Perspective”
- Case: Adolph Coors and the Brewing Industry
 - What was Coor’s competitive advantage?
 - Why did the US brewing industry consolidate?
 - Coors was quite successful through the mid-1970s. What was Coor’s strategy?
 - How did Coors’ performance change relative to its competitors in the period from 1977 to 1985? Why?
 - Which options did Coor’s strategy create? Which did it eliminate?
 - What, if anything, might Coors have done differently earlier on?

2. Game Theory and Reaction Functions

- Lecture: Game Theory and Industry Analysis
- Porter, “What is Strategy?”
- Brandenburger & Nalebuff, Ch. 1
- Case: Cola Wars
 - Why is the soft drink concentrate industry so profitable? Why is the bottling business so unprofitable?
 - Explain the differences in bottler’s profitability across retail outlets.
 - What creates power in this vertical chain?
 - How has the competition between Coke and Pepsi affected the industry’s profits?
 - What strategy should Coke and Pepsi take in the face of a shift toward non-carbonated drinks?

3. Channel Conflict and Positioning for Competitive Advantage

- Lecture: Positioning and Differentiation
- Hamel and Prahalad, “Core competence of the corporation”
- Case: Matching Dell
 - How did the personal computer business become so unprofitable?
 - Why has Dell been successful in this industry?
 - How large was Dell’s competitive advantage prior to the decision of competitors to “match” Dell?
 - Using a spreadsheet, calculate Dell’s cost advantage over the team of Compaq and a reseller selling a high-end machine to a corporate customer in 1996. Each team should upload one spreadsheet on BCourses and bring it to class.
 - What impact does the Value-Added Reseller channel have on IBM and Compaq?
 - What should Dell and its rivals do now?

4. Entry, Commitment, and Competitive Analysis

- Lecture: Entry, Commitment and Deterrence
- Coughlan, “Anticipating competitor actions”
- Brandenburger & Nalebuff, Ch. 2
- Case: Xenon Marketing Services
 - What determines the value to XMS of its Charter contracts? Why didn’t XMS take any action to enforce their contracts?
- Case: Ryan Air: Dogfight Over Europe
 - What is your assessment of Ryanair’s launch strategy? How do you expect Aer Lingus and BA to respond? Why?
 - Using a spreadsheet, quantify the costs and benefits to BA of the decision to retaliate or accommodate Ryan’s entry. Do the same for Aer Lingus. Each team should upload one spreadsheet at BCourses and bring it to class.
 - Can the Ryan brothers make any money at their proposed price point?

5. Innovation, Entry, and Real-Options

- Ghemawat, Sustaining Superior Performance: Commitments and Capability
- Haas Innovation Case: Biotech Revolution

What makes a potential innovation attractive as a business proposition?

What criteria should George Rathmann use to decide where to invest his company's scarce resources? Should he bet the company's future on EPO?

How do differences in entry barriers across the markets being considered affect their attractiveness?

For EPO, what are the expected costs at project inception up to the point of FDA approval? What additional costs would you expect to incur to bring the drug to market? What are your expected revenues from the US ESRD market? How do the different EPO target markets differ in their strategic opportunities?

If twenty years of patent protection are not sufficient to attract investment in a new drug, how could an overlapping 7 year period of exclusivity under the Orphan Drug Act change the attractiveness of entry?

How would you leverage the ODA in medical indication markets with target populations of 30,000? 300,000? 30 million?

6. Competitive Dynamics

- Brandenburger & Nalebuff, Chs. 3 & 4
- Case: Bitter Competition: Holland Sweetener

Why should NutraSweet accommodate HSC's entry into the aspartame market?

Why should NutraSweet not accommodate HSC's entry into the aspartame market?

Evaluate the two sets of rationales. How should HSC expect NutraSweet to react?

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

7. Network Effects: Complementor Dynamics and Technology Strategy

- Case: Wintel

What accounts for the winner-take-all dynamics leading to Microsoft and Intel's dominance?

What are the key drivers of profitability for Microsoft? Intel?

Do you expect conflict or cooperation between the two?

If you are Andy Grove making a decision on NSP, should you concede to Bill Gates? Hold your ground? Or, negotiate a compromise?

If you are Andy Grove, which of the above three approaches do you think Bill Gates will pursue?

Are Smartphones different?

8a. Vertical Strategy: Controlling the Value Chain

- Brandenburger & Nalebuff, Ch. 5
- Case: Power Play: Nintendo in 8-bit Video Games

How did Nintendo successfully revitalize the video game business following Atari's boom and bust cycle?

How was Nintendo able to capture the value it created in this business?

8b. Complement Strategy: Capturing Value in the Absence of Property Rights

- Case: IMG

What keeps clients from leaving IMG for rival agents?

Where does the value in the relationship between clients and IMG reside? Is it with the clients? Agents? IMG? Elsewhere?

Which areas of expansion for IMG are most sensible? Which are less compelling?

What are the biggest challenges in structuring an organization like IMG? How may these be overcome?

If you were a competitor to IMG, what would be your strategy to compete against it? Where is IMG most vulnerable?

9. CSG Wrap-up and Course Summary

10. Final Exam

December 14. Blue in C210. Gold in C230.

Competitive Strategy Game

Fortune favors the prepared. The same tends to be true in the CSG, which favors those who have invested time before the game starts to understand how to compete in these markets. CSG workload is front-loaded. The first strategies for each team will be due on October 28. The game concludes on November 24. Each team submits its strategy via the CSG website <http://csg.haas.berkeley.edu> by 10PM on the due date for that particular round. (See schedule below) At rounds 1, 5, and 8, each team is also required to submit a memo explaining the rationale for the strategies it pursued as well as its assessment of how these strategies will lead to competitive advantage.

Memo #1 should be 6 pages or less. This memo should include your calculation of marginal revenue, as well as how much less your costs would be if you sold one less unit. Memo #2 and #3 can be **no more than three pages**. In addition to reflecting in Memo 3 on how your strategies played out or what you learned, please also use a few sentences (on the separate 3rd page) to nominate another team whose behavior you would most like to hear an explanation of (team#, round, behavior you would like explained), and to point out a team (other than yours) whose strategy impressed you (team#, example of what impressed you). Each memo should include a header with cohort, team #, journal #, and the names of team members. Grading of the CSG will be based on a combination of objective and subjective measures of team performance and these three strategy memos. Detailed instructions for the competitive strategy game are posted at BCourses.

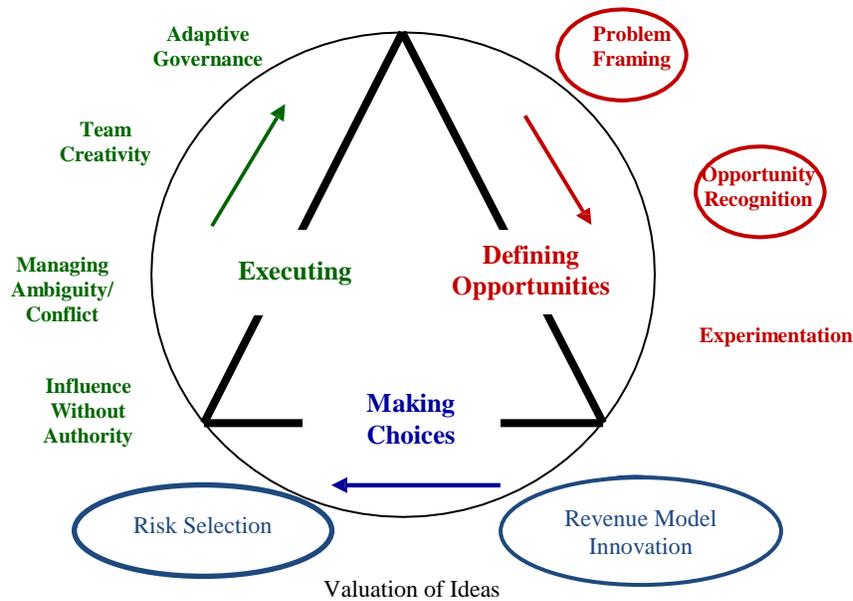
In each class, there will be two separate concurrent games of eight teams apiece. Target team size is 4. Teams are self-selected, subject to re-apportionment to fit the constraints. Use the BCourses site to register your team members.

CSG Schedule: *Submit all moves by 10PM on date indicated.*

October 20	Deadline for Registering your Team at BCourses
October 21	Teams are sent logon and password.
October 28	Strategies for Round 1 due <i>Strategy Journal 1 due</i>
November 1	Strategies for Round 2 due
November 4	Strategies for Round 3 due
November 8	Strategies for Round 4 due
November 11	Strategies for Round 5 due <i>Strategy Journal 2 due</i>
November 15	Strategies for Round 6 due
November 18	Strategies for Round 7 due
November 22	Strategies for Round 8 due <i>Strategy Journal 3 due</i>
November 24	Strategies for Round 9 due

Upload Strategy Journals (one copy per team) at BCourses via the Assignments tab by 10PM on the dates indicated. Make sure to list each of your cohort, team #, and team members' names.

Appendix: Relationship of the Strategy Course to Haas 10 Capabilities



This course develops four of the “Haas Capabilities” that are integrated into the Berkeley Innovative Leader Development (BILD) curriculum.

The Haas Capabilities covered by this strategy course focus largely on the early stages of the cycle: Defining opportunities and making choices given information and uncertainty. This is because strategy is a set of long term plans best determined well before execution.

Problem framing is the first step and crucial in strategy. Business is complicated and it is essential to understand the layout of the game before you make decisions. The better you can understand the players and their potential interactions (past, current, and future), the better you can make moves.

Once you understand the system, you can start the process of gathering information (often through experimentation). In strategy, we learn to recognize the opportunities offered by a position in the strategic space that is unfilled by the current players and resistant to future incursions. For example, Dell found a small but growing segment of the market that was underserved by PC producers and determined a coherent strategy to serve this segment in a way that protected itself from competitors. Finding a way into those segments usually requires finding a novel way to provide value to consumers, or Revenue Model Innovation.

No matter how well you understand the system and discover new opportunities, strategy is always a bet. There are good bets and bad bets, but there are rarely sure things. Therefore, a large portion of strategy focuses on risk selection given uncertainty, where the risk comes not only from uncertainty in the environment (as with other classes), but also from uncertainty about the actions and reactions of other players.

While leadership is certainly crucial to the implementation of any plan, strategy focuses more on understanding and creating a plan long before execution. Strategy is about knowing where to lead.