Overview

The course has three objectives.

1) Provide you with the theory to understand why a given company is (or is not) profitable. (For potential entrepreneurs, this theory becomes a tool to assess whether your proposed venture will be profitable in a competitive environment.)

2) Provide you with perspectives for assessing the sustainability of a given company’s profitability. We will place special emphasis on understanding and evaluating the key assumptions and judgments underpinning your assessments.

3) Enable you to identify the substantive issues behind the trends and frameworks in the strategy field.

To achieve these objectives, the course will utilize case discussions, exercises, and lectures. One of the key challenges of strategy is that decisions have to be made with limited and ambiguous information. Cases will provide us with a great way to simulate the ‘messiness’ of real-world decisions. Additionally, and concurrently, the course will provide an introduction to recent work in game theory providing formal foundations for the economics of strategy. This will require both exercises and lectures.

A typical assignment for a class will include both a case preparation and an exercise. About half of the class will be spent discussing the case, and the other half discussing the exercise. Note that this course uses two pedagogical extremes: ambiguous cases and precise exercises.

The course is loosely organized around four themes.

Value and Competition The foundation for understanding why a firm makes money, sometimes called a firm’s “competitive advantage.” This material is based on recent advances in cooperative game theory for modeling business strategy.

Strategic Moves These include major business decisions like whether or not to enter a business or what customer segments to target. This theme includes what strategy people call sustainability: the question of whether or not a company will continue to be
In addition to cooperative game theory, elementary applications of non-cooperative game theory provide the foundation.

*Tactical Moves*  The execution of major strategic moves often includes a ‘smaller’ game consisting of tactical moves. The analysis of these moves also uses non-cooperative game theory, but there is typically an added issue: strategic uncertainty may play a central role. The course will show how recent advances in epistemic game theory provide a deeper understanding of strategic uncertainty.

*Corporate Strategy*  The question of whether or not a company should be in multiple businesses. Game-theoretically, corporate strategy looks at both merging games and merging players within a game.

**Required Readings**

There is no textbook for this course. There is a casebook, and additional exercises will be posted on the class website.

**Requirements and Grading**

Grading will be based on four factors:

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<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tr>
<td>Class Preparation</td>
<td>24%</td>
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<td>Class Participation</td>
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<td>Mid-term Diagnostic Quiz</td>
<td>20%</td>
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<td>Final Paper</td>
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**Class Preparation & Attendance**

Class Preparation comprises 24% of your grade. For every class, there will be a short-answer (typically a number or Yes/No response) survey question (or questions). If the class has less than 30 students, I will ask for your answers at the beginning of each class. If the class has more than 30 students, I will set up on-line surveys that must be answered by 10:00pm the night before class. You will get full credit for class preparation as long as you answer the survey questions with a response *that you can defend in class.* Answers do not have to be ‘correct.’ In fact, many of the questions will not have ‘right or wrong’ answers.

Proper preparation in this course is essential. It is important that you attend the classes, but it is even more important that you come prepared.
Class Participation

Class Participation comprises 16% of your grade. Class participation is judged on the extent to which you appear prepared, the degree to which you listen carefully and respond to your peers, the relevance and depth of your comments, and your willingness to take chances in order to further the educational experiences of others. Please bring your tent (name) card to class.

In-class Diagnostic Quiz

There will be an in-class, diagnostic quiz on November 18. It will only take up part of the class time, and it will comprise 20% of your grade.

Final Paper

The remaining 40% of your course grade will be based on a short paper due Monday, December 16, 9:00am.

The paper should be about a firm, and there should be a specific, motivating question. For example, should the firm change strategy? Is its current strategy sustainable?
- The paper should provide an analysis of why the firm is (or is not) currently profitable.
- It should provide an analysis of the motivating question, as well as a recommendation.
- It should include an assessment of the sustainability of the firm’s profitability (or expected profitability if a change in strategy is being recommended).

The recommended maximum length of the paper is 10 pages. (Concise writing will be rewarded.)

You may write the paper either in a group or individually.

A Final Comment

Please remember that classes take place in an environment that supports learning and encourages the exchange of ideas. Behavior that distracts students and the professor negatively affects the learning environment. For example,
- using electronic devices (including laptops) for purposes not authorized by the professor,
- arriving late to class or leaving early, and
- walking in and out during class
are particularly detrimental to the classroom environment. Such conduct is disrespectful to classmates and instructors. Students that fail to conduct themselves properly face, at a minimum, a substantial penalization in the class participation portion of their grade.
COURSE SCHEDULE

Class 1 (Monday 9/9): Introduction: Value and Competition

- **Case:** Harnischfeger Industries: Portal Cranes
- **Assignment Questions:** (Be prepared to discuss these questions in class.)
  1. How much value is created in the sale of a portal crane? Who is capturing the value?
  2. What are Harnischfeger’s strategic options? What should Harnischfeger do?
- **Survey Question:** What is the most a buyer would pay to a portal crane company for a portal crane and associated equipment maintenance and parts?

Class 2 (Monday 9/16): Unrestricted Competition

- **Exercise:** Contributed Value Exercises
- **Assignment:** Be prepared to discuss the questions in the Contributed Value Exercises.
- **Survey Questions:**
  1) In Part (a) of Question 1, what is the maximum value that can be created?
  2) In Question 2, which firm is likely to make the most money – A, B, or C?
  3) In Question 3, what is the maximum value that can be created?

Class 3 (Monday 9/23): Profitability and the Value Gap

- **Case:** Airborne Express (A)
- **Assignment Questions:**
  1. How has Airborne survived, and recently prospered? What are the sources of Airborne’s profitability? [Note: Look at the cost items listed in Exhibit 3 of the case. Using the information given in the case and your understanding of what influences each cost item, estimate how Airborne’s costs might differ from FedEx’s costs.]
  2. Does the express mail industry have a future? Is Airborne’s position sustainable?
- **Survey Question (case):** From Exhibit 3 of the case, the total cost of a FedEx overnight letter is $8.55. What is your estimate of the total cost of an Airborne overnight letter?

- **Exercise:** A Positioning Game
- **Survey Questions (exercise):**
  1) Where do expect Firm A to end up locating? (Your answer should be a number between 0 and 100, inclusive.)
  2) Where do expect Firm B to end up locating?
Class 4 (Monday 9/30): Introduction to Sustainability; Implications of Capacity Limitations

- **Case:** DuPont's Titanium Dioxide Business (A)
- **Supplement:** TiO2 Diagram (on Courseworks)
- **Assignment Questions:**
  Download the TiO2 Diagram from Courseworks. This diagram should help you as you read the case.
  1. What is DuPont's advantage in Titanium dioxide? Using Exhibit 6, compare the costs at DuPont’s New Johnsonville plant with a typical competitor’s plant, say Kerr-McGee and/or American Cyanamid.
  2. What are the reasons why DuPont achieved the advantages you identified in Question 1?
  3. As Chairman of DuPont’s Executive Committee, would you vote for the “maintain” strategy or the “growth” strategy? Why?
- **Survey Questions (case):**
  1. As Chairman of DuPont’s Executive Committee, would you vote for the “maintain” strategy or the “growth” strategy? (Maintain/Growth)
  2. What is your estimate of the maximum WTP (in cents per lb.) for a pound of Rutile TiO2?
  3. What is your estimate of the maximum WTP (in cents per lb.) for a pound of Anastase TiO2?

- **Exercise:** TBD
- **Survey Question (exercise):** TBD

Class 5 (Monday 10/07): Modeling Strategic Moves

- **Case:** Dogfight over Europe: Ryanair (A)
- **Assignment Questions:**
  1. Can Ryanair make money at the launch fare price of £98?
  2. How would you expect Ryanair’s rivals to respond? Why?
  3. What is your evaluation of the entry strategy in the light of your answer to Question 2?
  
  **NOTE:** The Ryanair of today is very different from the Ryanair at the time of the case. Please base your analysis on the case facts only.
- **Survey Questions (case):** Do you agree with Ryanair’s decision to launch a Dublin-London route? (Yes/No) If yes, what fare price would you launch at?
- **Optional Reading:** “Game Theory and Business Strategy”
- **Exercise:** Fear of Fighting
- **Survey Questions (exercise):**
  1) In Question 1 of the exercise, what is your answer, i.e. how much money can the entrant make?
2) In Question 2 of the exercise, what is your answer, i.e. how much money can the entrant make?

Class 6 (Monday 10/14): First Mover Advantages

- **Cases:** Wal-Mart Stores in 2003, Wal-Mart 2007
- **Assignment Questions:**
  1. What are the sources of Wal-Mart’s cost advantages? Can these advantages be copied by competitors? NOTE: In class, to discuss Wal-Mart’s cost advantages, we will be using Wal-Mart and Kmart data from Exhibit 5 of the 2003 case and Target data from Exhibit 6 of the 2007 case.
  2. Is Wal-Mart’s strategy sustainable?
  3. What do you think are Wal-Mart’s major problems (if any) in the near future?
- **Survey Question (case):** Which of the following do you think contributes the most to Wal-Mart’s cost advantages: a) bargaining power with suppliers, b) efficient management, c) efficient marketing expenses, d) other?

- **Exercise:** First Mover Advantage?
- **Survey Questions (exercise):**
  1) Satellite Television, Question 1: What is the likely outcome of this game? a) Firm 1 enters, Firm 2 stays out; b) Firm 1 stays out, Firm 2 enters; c) Both firms enter; d) Neither firm enters
  2) Satellite Television, Question 3: What is the likely outcome of this game? a) Firm 1 enters, Firm 2 stays out; b) Firm 1 stays out, Firm 2 enters; c) Both firms enter; d) Neither firm enters
  3) Discount Retailing, Question 1: What is the likely outcome of this game? a) WalMart builds store and distribution center; b) WalMart builds store only; c) WalMart stays out
  4) Discount Retailing, Question 3: What is the likely outcome of this game? a) WalMart builds store and distribution center; b) WalMart builds store only; c) WalMart stays out

NO CLASS (Monday 10/21)

Class 7 (Monday 10/28): Applied Epistemic Game Theory

- **Case:** There is no case for this class.
- **Exercises:** Fear of Failure; An Entry Game
- **Assignment:** Be prepared to discuss the questions in both exercises.
- **Survey Questions (exercises):**
  1) Fear of Failure: If both players believe that the new product's probability of success is greater than 50%, should the entrant enter? (Yes/No)
  2) Entry Game: Should player E1 enter market 1? (Yes/No)
NO CLASS (Monday 11/04)

Class 8 (Monday 11/11): Strategic Moves (cont.)

- **Case:** British Satellite Broadcasting vs. Sky Television
- **Supplement:** SkyBSB Payoffs (on course website)
- **Assignment Questions:**
  1. How might BSB have been able to identify News Corp. as a potential competitor prior to Rupert Murdoch’s announcement of the launch of Sky television?
  2. What might BSB have done differently before Sky’s entry announcement? After the announcement?
  3. Do you believe that the game played out in a way consistent with your view of the players’ payoff matrix? (See Case Question Instructions below for how to construct your payoff matrix.)
  4. The traditional analysis of this story says that this competitive battle was costly for both parties. If you agree with this statement, why was it so costly? If you disagree, why do you disagree?

**Survey Question Instructions:** Download the spreadsheet SkyBSB Payoffs. (This spreadsheet is based on Exhibits 6 and 7 of the case.) Look at the worksheet “Payoff Matrix.” Note that to use the payoff matrix in this worksheet, you will need to assess each player’s estimate of its market share in the event that both players stay in the market. This means that you have to enter numbers in row 7 of the two sheets titled BSB Payoff, Sky stays and Sky Payoff, BSB stays. Answer the two Case Questions.

**Survey Questions:** What is BSB’s payoff if both BSB and Sky stay in the game? What is Sky’s payoff if both BSB and Sky stay in the game?

- **Exercise:** War of Attrition Exercise
  NOTE: To help you with this exercise, the War of Attrition worksheet on CourseWorks calculates your expected profit from a strategy given your beliefs.
  **Survey Questions (exercise):**
  1) If you were to play this game against a randomly chosen classmate, how many periods will you stay in before quitting. (Your answer can be any integer from 0 to 31. Answer 31 if you would stay in (fight) forever.)
  2) Suppose that you knew that in any given period, there was a 30% chance that the other player would quit (assuming they hadn’t quit already). Would you recommend staying in? (Yes/No)
Class 9 (Monday 11/18): Strategy and Tactics; Quiz (in class, open notes)

- **Quiz** (in class, open notes)
- **Case**: Pricing for Profit
- **Exercise**: Credit Card Pricing Exercise
- **Assignment Questions**:
  1. Why had the UK credit card industry been so profitable in the 1980’s? What factors were the greatest threats to continued profitability?
  2. Should the industry move to a pricing structure with annual fees?
  3. As Barclays (or Lloyds), what uncertainties would you want to consider in determining whether or not to introduce an annual fee?
- **Survey Question (case)**: Should the industry move to a pricing structure with annual fees? (Yes/No)
- **Survey Question (exercise)**: If the bank has a choice between charging no fee and a fee of $10, which would you recommend? (Fee/No Fee) (In choosing your answer, assume that you are free to choose the optimal interest rate, given your choice of a $10 fee or no fee.)

Class 10 (Monday 11/25): Corporate Strategy: The Traditional View

- **Case**: The Walt Disney Co.: The Entertainment King
- **Assignment Questions**:
  1. What do you think were the key success factors for Disney during the Walt Disney years?
  2. Evaluate Disney's corporate strategy during the Walt Disney era. What role did Disney's array of businesses play in its success? Which divisions provided greater “synergy” than others? Why?
  3. Assess Disney's corporate strategy under Eisner. How has the underlying logic changed since the days of Walt Disney? Do you think Disney's corporate strategy has become more or less compelling?
- **Survey Questions**:
  1. Since the days of Walt Disney, do you think Disney's corporate strategy has become more or less compelling? (Yes/No)
  2. Consider the following businesses that Disney entered from 1991 to 2001: Baseball Team, Celebration FL, Disney cruise ship, ESPN Stores, Hockey Team, Hyperion Books, Miramax, Starwave, Vacation Club, Hyperion Books. Which entry makes the least sense?
- **Optional Reading**: “Choosing Corporate and Global Scope”
- **Exercise**: Bundling Exercise
- **Survey Questions (exercise)**:
  1. In Question 3, is it profitable for firm A to bundle? (Yes/No/It depends)
  2. In Question 7, is it profitable for firm A to bundle? (Yes/No/It depends)
Class 11 (Monday 12/02): Corporate Strategy: The Resource View; Efficient Choice

- **Case:** Danaher Corporation
- **Assignment Questions:**
  1. Why has Danaher been so successful over the past two decades? What do you see as the core attributes of its strategy that have allowed it to sustain superior performance during this period?
  2. How easy or difficult is it for other companies to mimic or emulate what Danaher does? Why?
  3. How far can Danaher’s advantage travel? Specifically, what types of businesses are best suited to applying the DBS? And, what types of businesses are not well suited to this model?
  4. What are the biggest challenges that Danaher is likely to confront during the next 10-15 years? What can Larry Culp do to prepare the organization for these challenges?

**Survey Question:** Do you think Danaher will continue to sustain its superior performance over the next decade? (Yes/No)

- **Optional Reading:** “Competing on Resources”

- **Exercise:** Exercise will be distributed in class.

Class 12 (Monday 12/09): Platform Competition; Review

- **Case:** Betfair vs. U.K. Bookmakers
- **Assignment Questions:**
  1. Why do people gamble? What aspects of the experience does Betfair improve upon, and what does it ignore?
  2. What aspects of Betfair’s business model inter-link to create a powerful interactive system? In particular, why did these choices make it successful in its competitive battle with Flutter.com?
  3. How do the bookmakers and Betfair interact? How big is the price advantage on Betfair? (Hint: go to a bookmaker’s website, such as www.ladbrokes.com, and calculate the over-round for a particular event and then compare it to Betfair.com. How would you account for Betfair’s commission?) Does the competitor compete for the same customers? In what other ways do they interact?

**Survey Question:** Do you agree with Betfair’s decision to use decimal odds instead of traditional fractional odds?