



Management 223: Business Policy

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Fall 2010

Course description

The Business Strategy and Policy course focuses on the competitive strategy of the firm, examining issues central to its long and short-term competitive position. Students act in the roles of key decision-makers or their advisors and solve problems related to the development or maintenance of the competitive advantage of the firm in a given market. The first module of the course develops an understanding of key strategic frameworks using theoretical readings and case-based discussions. Students will learn concepts and tools for analyzing the competitive environment, strategic position and firm-specific capabilities in order to understand the sources of a firm's competitive advantage. In addition, students will address corporate strategy issues such as the economic logic and administrative challenges associated with diversification choices about horizontal and vertical integration. The second module of the course will be conducted as a multi-session, computer-based simulation in which students will have the opportunity to apply the concepts and tools from Module 1 to make strategic decisions.

The goal of the course is for students to develop an analytic tool kit for understanding strategic issues and to enrich their appreciation for the thought processes essential to incisive strategic analysis. This course offers students the opportunity to develop a general management perspective by combining their knowledge of specific functional areas with an appreciation for the requirements posed by the need to integrate all functions into a coherent whole. Students will develop skills in structuring and solving complex business problems.

Prerequisites: MGMT 100 and MGMT 101; seniors and juniors that have completed introductory courses in economics, finance, marketing and accounting. If you do not have these prerequisites, you must provide evidence to me of your preparedness for the course.

Course material, textbooks, and computer simulation

The bulkpack includes a collection of readings and cases and is available from study.net. There is no required textbook for this course, but I put the following textbook on reserve:

- Pankaj Ghemawat, Strategy and the Business Landscape (2nd edition or 3rd edition). Note that either edition will work for this class as there are no substantial changes in the chapters covered in this course.

Also, for further background on analyzing case studies, I have also put the following book on reserve:

- William Ellet, 2007. The case study handbook : how to read, discuss, and write persuasively about cases. Boston, Mass.: Harvard Business School Press.

There will be a computer-based simulation during the course. We will provide the appropriate material to you at the time. There will be an approximately \$50 charge for the right to use the simulations which will be charged directly to your bursar's account based on your enrollment in the class.

Communication

The primary means of communication outside of class is the course web page on webCafé. You can reach the webCafé room for the course at <http://webcafe.wharton.upenn.edu>.

If you do not have a Wharton e-mail account, please go to the following website to apply for an account: <http://accounts.wharton.upenn.edu/account.user/>. You need a Wharton account in order to gain access to webCafé.

Your grade

Your grade will depend both on developing a deep knowledge of the concepts and on applying this knowledge in four areas which are the four components of the grade: class discussion, individual case analyses, team-based simulation and team final paper. **The discount for late assignments is severe.** Please note that you cannot take this class with a pass/fail option.

Factor	Points
Individual participation	
Class participation	15
Added value exercises	6
Individual case write-up (3 write-ups in total for 8 points each)	24
Team assignments	
Simulation (5 points for submission of the strategic plan, 10 points for the final write-up)	15
Outline of final paper	5
Final paper presentation	5
Final paper	30
Total	100

Class sessions and participation

Class discussion

Each class will consist of a combination of lecture and discussion of the day's topic. On most days, we will use case analysis or simulations to explore the issues at hand. Careful preparation is essential. I expect you to read all of the assigned materials for each session in advance of the class. In class, you should be prepared to analyze the concepts from the case or simulations and the readings and to discuss any questions provided in the syllabus. If you cannot answer the questions, you are not prepared for class. I may use cold calling to ensure preparation and to establish an even level of participation throughout the course.

Class participation

I expect you to participate actively in class to help your learning and that of your peers. A productive learning environment requires active engagement of all class members. Three factors determine good class participation:

1. Given thorough and careful preparation, you should be able to identify the important managerial issues related to the case and/or readings.
2. You should be able to use that analysis to define a concise and logical position on the issues. Please avoid pure repetition of case facts. You should be able to show how a particular concept is illustrated in the case or suggest how the substantive problem presented in the case can be solved.

3. You should be able to analyze constructively the positions your classmates take. **Quality**, not **quantity**, will determine the effectiveness of your comments.

Other issues: Punctuality, laptops

Punctuality matters so class can start and finish on time. Repeated late arrivals will negatively affect the participation grade. Finally, please **do not use laptops in class**.

Learning Teams

You will be asked to form teams of 4 students for the course. You will work in these teams to run the simulations and to prepare a final paper analyzing a company using the strategy frameworks covered in this course. You may also want to use your teams as a discussion group in preparing the cases for class discussion. The webCafé site will have a tool for this sign up process. You are required to **sign up for a team by Tuesday, September 28 before class**. If you are having trouble locating other team members, please send me an email and I will find you an appropriate team. This course requires extensive work in teams outside of class. You are expected to participate actively in teamwork.

In order to assure appropriate effort across the team, I will ask each of you to evaluate confidentially the efforts of your teammates after the class is over by using the form below. I will take these ratings into account in establishing the final grades for each person.

SAMPLE TEAM MEMBER EVALUATION FORM

Please rate the contribution (effort and quality) to the team performance in the conceptualization, development, and presentation of the business plan. Do not rate yourself. Assign a score of 1-10 to each team member other than yourself. Note: the column does not add up to 10. The scale is from:

1: Person was extremely under-committed in all of your interactions (i.e. did not read materials in advance, did not put effort into the actual simulations, or research and writing for the final paper), to:

10: Person was extremely committed in all of your interactions (i.e., the person could not have done anything more to contribute to the simulation and to the final paper project)

Team Name and Team Letter:

Your Name:

Team Member's Name (Not including yourself)

Effort: scale 1 (low) – 10 (high)

Applications of theories: Cases and simulations

Cases and simulations give life to management theory. In this course, they give you an opportunity to put yourself in the shoes of managers as they make strategic choices both by studying cases of companies in a variety of industries and by playing the role of managers in a computer-based simulation.

I have chosen the cases in the course to elucidate particular strategic concepts. Many of the cases focus on a critical moment in time for a company. Therefore, it is not appropriate to do research on what has happened to the company since the time the case was written. As managers, you will never have the luxury of 20/20 hindsight when you need to make strategic choices. The goal of the case preparation and discussion is to hone your own analytical skills using the information at hand.

I will also use a computer-based simulation of business problems during the course. This is an opportunity to apply the frameworks in dynamic situations. You should run this simulation in your learning teams. I will provide more information about the simulation in class. The simulation requires at least one team member to have a personal computer.

Exercises and individual case write-ups

Each student is individually responsible for **one set of exercises** and **3 short case analyses** over the course of the term.

The set of exercises on added value will be an easy and direct application of concepts from the class. This assignment will allow you to check your comprehension of some key concepts. It will be graded on a pass/fail basis and is due on Tuesday, September 21.

Each of the 3 write-ups is limited to 1 page (single-spaced, 1 inch margins, Times Roman 12 pt. font) of text and an optional 1 page of exhibits. One page may not seem like enough space, but it will force you to focus on the most important issues and write concisely.¹ Do not use a smaller font or smaller margins for these assignments. I need space in the margins to make comments. These will be due at the beginning of the relevant class. No late assignments will be accepted. These are individual assignments and should not be done in your learning team. You can pick any 3 cases from the following list. If you do more than 3, I will take the 3 highest grades. Each write-up is worth 8 points. 24 total points are possible for this part of your grade.

Final paper

The final paper is a team project and consists of the analysis of a company or companies that your team chooses to study. The paper will give you an opportunity to apply the concepts and frameworks from

¹Mathematician and philosopher Blaise Pascal (1623-1662) once apologized to one of his correspondents: "I made this letter so long only because I did not have time to make it shorter" (*Lettres provinciales*, Letter XVI, December 14, 1656).

Mandatory exercise	Date due (hard copy to be handed in at the beginning of class)
Exercises on added value	Tuesday, September 21
Case (do write up for at least 3 of these cases, pick any that you want)	Date due (hard copy to be handed in at the beginning of class)
Formula One Racing	Thursday, September 23
Dell	Tuesday, September 28
Samsung	Thursday, September 30
Ryanair	Tuesday, October 05
Cola Wars	Thursday, October 07
eBooks industry	Thursday, October 14
Sunrise Medical	Tuesday, October 19
Disney	Thursday, October 21
Nucor	Tuesday, October 26

the course to real life situations. The paper is a **research** paper. As such, it should be written in a style different from that of the case studies you will read in this class, which are pedagogical, not research, material. In your paper, I expect **critical** and **original** thinking about a real company, using available sources of information and leveraging concepts reviewed in the class. This paper should read like a hard nosed analysis made by an outsider (competitor, potential investor, prospective employee) and that satisfies the highest academic standards in terms of rigor and citation of sources. In particular, it should not read like an commercial uncritically lauding the achievements of the company. On Tuesday, September 28, I will hand out instructions for the paper. The topic for your paper is due in a one paragraph write-up on Tuesday, October 19 at the beginning of class. A detailed outline of your paper is due on Thursday, November 11 in class. Your paper is due on Tuesday, December 12 at 5 p.m. (uploaded to webCafé folder and hard copy delivered to my office).

Handing in assignments

All due dates and assignments are indicated in the syllabus. Late assignments will not be accepted. For individual assignments, please make sure your name is clearly indicated at the top of the page or on a cover page. For team assignments, make sure your team letter and all team members' names are indicated at the top of the page or on a cover page.

A note of proper citation

To most of you, this will probably be self-evident, but I want to make sure that we are all on the same page. Copying paragraphs or even paraphrasing sources (magazines, newspaper articles, books, analyst reports, web pages, etc.) without properly citing them is a serious offense. Properly citing means (1) if you copy word for word, you have to mark this by enclosing the copied text with quotation marks and cite the source; (2) if you take someone's idea but put it in your own words, you still need to indicate in a citation the source of the data or the idea. This citation has to follow the idea directly (either attach a footnote or endnote): it is not enough to list your sources in the bibliography of the paper (though you should do this as well). At the end of the paper, you should then list all sources that you have cited in the text. **Failure to cite (plagiarism) is a very serious academic offense that will lead to a failing (F) grade** and potentially to other sanctions. To avoid such an incident, be very careful in your papers to attribute ideas, data, frameworks, etc., to their respective sources.

Course outline

Introduction

Class 1: Introduction, course overview and the history of business strategy (Thursday, September 09)

- Readings: P. Ghemawat: "Competition and Business Strategy in Historical Perspective", Business History Review 76 (Spring 2002): 37–74.
- Case: N/A

Class 2: The concept of strategy: Introductory case (Tuesday, September 14)

- Readings: N/A
- Case: Intel Corp., 1968-2003 (#9-703-427).
 1. What was Intel's strategy in DRAM's? Why did Intel decline in the DRAM market?
 2. How were they able to create and sustain a competitive advantage in microprocessors? What are the main threats to the sustainability of this competitive advantage?
 3. Why did Intel choose to enter new businesses such as networks, wireless, communications and online services under Craig Barrett? Do these choices make sense?

How to compete, Part I: Competitive advantage and competitive positioning

Class 3: Foundations: creating, capturing and adding value - Part 1 (Thursday, September 16)

- Readings:

1. A. Brandenburger and B. Nalebuff, “Game Theory”, Chapter 3 in Co-opetition, Doubleday, 1996, pp. 40-56. (Concentrate on pp. 40-49.)
2. A. Brandenburger and H. Stuart “Value-Based Strategies”, Journal of Economics and Management Strategy, 1996, pp. 5-24

Class 4: Foundations: creating, capturing and adding Value - Part 2 (Tuesday, September 21)

- Readings:
 1. Cf. class 3.
 2. Optional: O. Chatain and P. Zemsky: “Value Creation and Value Capture with Frictions”, Wharton-INSEAD Alliance working paper 2009/35/ST/ACGRE.
- Deliverable: Exercises on added value.

Class 5: Getting into the driver’s seat (Thursday, September 23)

- Case: Formula One Racing (#9-703-412).
 1. What is Mr. Eccelstones’s added value in Formula One? In the past? At the time of the case?
 2. How much value has Mr. E captured? How did he do it?
 3. What are the threats to Mr. E and the companies that he created?

Class 6: Competitive positioning I (Tuesday, September 28)

- Readings:
 1. P. Ghemawat, “Creating Competitive Advantage”, Chapter 3 in Strategy and the Business Landscape, 3rd edition, Prentice Hall, 2009.
 2. O. Chatain, “Note on Back-of-the-Envelope Analyses in Strategy”. Concentrate on the cost analysis part.
- Case: Revitalizing Dell (#9-710-442).
 1. What are some of the key choices Dell has made in how it competes to distinguish it from its primary competitors?
 2. Prior to the efforts by competitors to match Dell (circa 1997), how big was Dell’s comparative advantage? See if you can use the numbers in the case and reasonable estimates to quantify the advantage. How has Dell used this advantage in the market? (Think about the customer willingness to pay.)

3. Why was it hard for competitors to respond to the challenge posed by Dell's competitive advantage in the 1990's?

- Deliverables:

1. You must complete your signup for teams on WebCafé today.
2. I will hand out instructions for the final paper assignment today.

Class 7: Competitive positioning II (Thursday, September 30)

- Readings: D. Besanko, D. Dranove, M. Shanley and S. Schefer "Sustaining Competitive Advantage", Chapter 12, Economics of Strategy, 3rd Edition, John Wiley & Sons, Inc, 2004.
- Case: Samsung Electronics (# 9-705-508)
 1. What are the sources of Samsung's cost advantage in DRAM in 2003?
 2. What are the sources of Samsung's price premium in DRAM in 2003?
 3. What recommendation would you make to Chairman Lee regarding Samsung's response to the threat of large-scale Chinese entry?

How to compete: Industry context

Class 8: Strategic interaction (Tuesday, October 05)

- Readings: B. Greenwald & J. Kahn, "Games companies play: A structured approach to competitive strategy. Part II: Entry/preemption games" Chapter 11, Competition Demystified, Portfolio, 2005, pp. 220-237.
- Case: Dogfight over Europe: Ryanair (A) (#9-700-115).
 1. What is your assessment of Ryanair's launch strategy?
 2. How do you expect Aer Lingus and British Airways to respond? Why?
 3. Draw the extensive form of the game between Ryanair and the incumbents.
 4. What are the different payoffs to Aer Lingus/British Airways (treat them collectively as one actor) for different strategic actions? Said differently, how costly would it be for Aer Lingus/British Airways to retaliate against Ryanair's launch rather than accommodate it? (It will help to develop, using assumptions where needed, a viewpoint on the cost structures of Ryanair vs. British Airways/Aer Lingus.)

Class 9: Structural analysis of the industry: The Five Forces (Thursday, October 07)

- Readings:
 1. M. Porter “The Five Competitive Forces That Shape Strategy”, Harvard Business Review, January 2008, 79-93.
 2. A. Brandenburger “Porter’s Added Value: High Indeed!,” Academy of Management Executive, 2002, pp 58-60.
- Case: Cola Wars Continue: Coke and Pepsi in 2006 (#9-706-447).
 1. Why is the soft drink concentrate industry dominated by two firms? What is the basis for scale economies in this industry?
 2. Use the 5-Forces framework to explain why the soft drink concentrate industry is so profitable.
 3. How has the industry structure changed in the 1990’s to the present? Can Coke and Pepsi sustain their profits in the U.S. in the wake of the growing popularity of non-carbonated drinks?

Class 10: Structural analysis of the industry: Complements (Thursday, October 14)

- P. Ghemawat and D. Collis, “Mapping the Business Landscape”, Chapter 2 in Strategy and the Business Landscape, 3rd edition, Prentice Hall, 2009. (Skim 5 forces, concentrate on value net.)
- Case: The ebooks industry, 2009 (Wharton Case).
 1. How is value created in the E-book market?
 2. Who is competing in this industry?
 3. Analyze why efforts by Adobe and Microsoft were met with limited success?
 4. Contrast the recent choices by Amazon and Sony to compete in the E-book market? Are these business models sustainable?

Where to compete: Firm resources, capabilities and corporate strategies

Class 11: Integrating understanding of competitive advantage (Tuesday, October 19)

- Readings: N/A (This case will review the concepts already covered in prior readings. Please refer back to those readings and concepts to analyze this case.)
- Case: Sunrise Medical Inc.’s Wheelchair products (#9-794-069).
 1. Analyze the structural drivers of profitability in the wheelchair industry in 1993. Does the future look less or more promising?

2. What is Quickie's strategy in the wheelchair industry? What is Guardian's strategy in wheelchairs? Does either have a competitive advantage in wheelchairs and, if so, is it sustainable?
3. Should Chandler allow Guardian to introduce a lightweight standard wheelchair?

- Deliverable: Write ups on final paper topics due at the beginning of class.

Class 12: Managing vertical and horizontal scope (Thursday, October 21)

- Readings: P. Ghemawat, "Choosing Corporate Scope," Chapter 6, Strategy and the Business Landscape, Prentice Hall, 3rd edition, 2009.
- Case: The Boundaries of the Magic Kingdom, 2009 (Wharton Case).
 1. Think about Disney's choices about horizontal and vertical integration. Analyze the linkages among Disney's business units: a) To what extent are the business units leveraging common resources? b) Are the linkages among the business units of the type that could not be coordinated using contracts among independent firms? Does the answer to these questions play out differently among different parts of their operations?
 2. Consider Disney's acquisition of the ABC television network (ABC/Capital Cities). From the perspective of the time of the acquisition, do you see an economic logic for the acquisition? Is the logic one of scope economies or vertical integration? To what extent does the logic of vertical integration play out differently in the context of broadcast television versus cable properties (such as ESPN)? Given what we know today, how does your opinion about the value of the acquisition change?

Class 13: Corporate strategies for growth (Tuesday, October 26)

- B. Greenwald & J. Kahn, "Valuation from a Strategic Perspective: Improving Investment Decisions", Chapter 16, Competition Demystified, Portfolio, 2005, pp. 322-341.
- Case: (1) Nucor at a Crossroads (#9-793-039), (2) Spreadsheet posted on WebCafé.
 1. Why has Nucor performed so well in the past?
 2. How attractive do the economics of thin-slab casting look?
 3. Is thin-slab casting likely to afford Nucor a sustainable competitive advantage in flat-rolled products?
 4. How should Nucor think about the uncertainties surrounding thin-slab casting? What should Nucor's managers do?

- Optional NPV exercise: As a consultant to Iverson, would you recommend entering the flat-rolled sheet market with the new CSP technology? Use the spreadsheet posted in webCafé to test out your assumptions about future scenarios and the possible range of net present values.

Integration and summary

Class 14: Recap session – Q&As (Thursday, October 28)

- Readings: N/A.
- Case: To be announced.

Class 15: Integrating and applying concepts (Tuesday, November 02)

- Readings: N/A
- Case: N/A

We will introduce the Business Strategy Game simulation and provide instructions for running the simulation over the next several class sessions.

Class 16: Integrating and applying concepts (Thursday, November 04)

- Readings: N/A
- Business Strategy game
 1. Review the spreadsheets in the game.
 2. What can you say about the current footwear industry structure and profitability?
 3. What are the main kinds of strategic decisions that your company can make?

Class 17: Integrating and applying concepts (Tuesday, November 09)

- Readings: N/A
- Business Strategy game
 1. Your team should decide on a basic strategic position for your firm. Then, implement the strategy by making a set of decisions. Submit these decisions according to the schedule in the instructions. Play two rounds of the game. In class, we will discuss the following questions:
 2. What strategic position have you chosen for your firm?
 3. How did your decisions reflect that position?

4. What were your expectations before you saw the results of the first round? Were there any surprises? If so, what?

- Deliverable: Outline of final paper due at the beginning of class.

Class 18: No class: Time for team meetings/running simulation (Thursday, November 11)

Class 19: Integrating and applying concepts (Tuesday, November 16)

- Readings: N/A
- Business Strategy game
 1. Play one more round of the game. Submit the decisions according to the overall schedule for the simulation. Reflecting on the results from the first three rounds of the game, determine if you should maintain your original strategy or change it. Then, go to the strategic planning page and fill out the strategic plan for your business (you will only be able to access this after the 3rd round runs). Print out the strategic plan and bring it to class. In class, we will discuss the following questions:
 2. Is the strategy reflected in your strategic plan different from your plan of attack for the first 3 rounds?
 3. What challenges did you face in developing the plan?
 4. Is this planning exercise realistic? Why or why not?
- Assignment to hand in: Hand in a printout of your strategic plan. This is a team assignment, so only hand in one printout per team.

Class 20: No class: Time for team meetings/running simulation (Thursday, November 18)

Class 21: Integrating and applying concepts (Tuesday, November 23)

- Readings: N/A
- Business Strategy game
 1. Run 3 more rounds of the game according to the schedule established in the instructions. Compare your results to those you anticipated in your strategic plan. In a one page write-up, answer the following questions:
 2. Did you get the results you anticipated in your strategic plan? Why or why not?
 3. What was the strategy that you chose to implement? In retrospect, what should you have done?
 4. What lessons about strategy do you take away from this exercise?

- Assignment to hand in: Hand in one page answering the questions above at the beginning of class. This is a team assignment, so only hand in one page per team.

Class 22: Group presentations of final paper (Tuesday, November 30)

Class 23: Group presentations of final paper (Thursday, December 02)

Class 24: Group presentations of final paper (Tuesday, December 07)

Class 25: Wrap up and conclusions (Thursday, December 09)

- Readings:
 1. C. Christensen, “The past and future of competitive advantage,” MIT Sloan Management Review, Winter 2001, pp. 105-109.
 2. D. Lovallo, L. Mendonca “Strategy’s strategist: An interview with Richard Rumelt,” McKinsey Quarterly, 2007, Issue 4, pp56-67
- Case: N/A
- Deliverable: Final paper is due on Tuesday, December 12 by 5 p.m. uploaded to webCafé folder and hard copy delivered to my office at SHDH 2023.