UNIVERSITY OF PENNSYLVANIA
WHARTON SCHOOL

MANAGEMENT 211/711: COMPETITIVE STRATEGY AND INDUSTRIAL STRUCTURE

Fall, 2010   Professor Louis Thomas
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ADMINISTRATIVE ISSUES

Course Overview

This is an advanced course in strategic management. This course will have a particular strong emphasis on competitive strategy and will apply some basic tools from economics to examine the strategic decisions that managers make. We will examine those decisions concerning pricing, capacity investment, advertising, new product introductions, research and development, and organizational design. The course will integrate traditional economic models with case study materials.

Course Materials

- Bulk Pack

- Class Handouts

Evaluation

Grades will be based on two exams, case analyses, and class participation. The relative weights of the components are as follows:

- First exam   50%

- Written Industry Analysis   30%

- Class participation   20%

I. Course Introduction

Session 1 – Introduction

Readings

Game Theory and Business Strategy (HBS# 9-705-471)
Competitor Analysis (HBS # 9-701-120)
A Note on Microeconomics for Strategists (HBS # 9-799-128)

II. Competitive Strategy

A. Price Competition

In this section we will examine the strategies incumbent firms can use to maintain their position in the product market. We will examine the use of price and advertising as barriers to entry.

Session 2:   Competitive Pricing: Anticipating Rival Response

Readings**:**
 "The Mother of All (Pricing) Battles": The 1992 Airline Price War (KEL006)
"How to Fight a Price War" (HBR, March-April 2000)

Questions:

1. Under what conditions will American Airlines pricing scheme restore higher industry price levels?
2. Why do you think scheme failed?

Session 3: Competitive Pricing: Threats and Commitment

Readings

The Coffee Wars
US Retail Coffee Market (A)   (HBS# 9-582-087)

US Retail Coffee Market (B) (HBS# 9-582-088)
Can Anyone win the Coffee War?
How to Escape a Price War

Questions for Coffee Industry

1. Evaluate General Food's Strategy to deter P&G .   In light of the models discuss the
    results of this strategy.

2. There are only two or three major competitors in this industry. Generally, one would
    think that few players implies greater profitability. Why isn't this true for the coffee
    industry?

B. Strategies to Lessen Price Competition

Session 4: Contracts with customers

Readings:

Practices that Credibly Facilitate Oligopoly Coordination
Reconsider "Mother of All Pricing Battles.."

Questions:

1. Reconsider American Airlines value pricing scheme? Under what conditions will it
    work?

II. Industry Analysis

B. Sunk Costs and Market Structure

**Session 5- Sunk Costs and Market Structure/ Market Share Dominance or
    Fragmentation**

Readings

Sunk Costs and Market Structure
Advertising Sunk Costs and Credible Spatial Preemption

Anheuser-Busch and the U.S. Brewing Industry (HBS # 9-799-026)

Session 6: Advertising Sunk Costs Continued/ Stackelberg Follower

<u>Readings</u>:

Case: Coors (9-388-014)

Questions

1. Why did the brewing industry consolidate?
2. What factors accounted for Coors's advantage in the mid-70's?
3. Why has Coors's performance since then deteriorated?

Session 7: Sunk Costs and Structure/ Stackelberg Leader

<u>Readings</u>**:**

Case: Gillette launch of sensor (9-792-028)

Questions

1. What sort of competitive game has been played out historically in the wet shaving industry?
2. How well did Gillette respond to BIC's attack in disposables?
3. Should FLAG have been introduced as a disposable or as a cartridge razor?
4. Do the economics for Sensor appear attractive?
5. How aggressively should Symons launch Sensor?
6. When should a company cannibalize its own products?

Dynamic Sunk Costs

Session 8-Races for New Technology

<u>Readings</u>

"Intel's Billion Gamble" (To be Handed Out prior to class)
"The Leader's (Dis) Advantage (HBS# 9-701-084)

Session 9: Credible Spatial Preemption in the Very large Aircraft Market

Airbus A3XX: Developing the World's Largest Commercial Jet (A) (HBS 9-201-028)

Questions:

1. Which firm Boeing or Airbus would you predict based on Game Theory to be the first to introduce a product in the VLA segment
2. How do you explain the apparent outcome?

III. Technology Competition

A. Innovation with Rapid Imitation

Session 10- Innovation and quick imitation

Readings

Case: Minnetonka (N9-795-163)
        Innovation and Imitation (9-187-160)

Questions

1. What was Minnetonka's strategy prior to the launch of Softsoap?

2. Compare Minnetonka's experiences in the soap and toothpaste business. How do you explain the differences?

3. Why did Minnetonka shift from "mass to class" in the mid-1980's?

Questions for Innovation and Imitation

1. You are the strategic manager at firm A. You decide to spend $C on new product advertising. You realize that managers at firm B will probably copy your product and follow you into the market. You believe that managers at B will also spend $c on advertising. For various levels of advertising dollars, predict the response of B's managers. Given these beliefs, what should you do?

2. Suppose that marketing research has predicted that $9.5 million must be spent on new product advertising. What strategic choice would you make?

3. The probability of success has now increased to 90%. Would this change in beliefs affect your optimal strategy given in question 2?

C. New Product Competition

Session 11: Power Play

Readings:

Power Play (B): Sega in 16-bit Video Games (9-795-103)
Power Play (C): 3DO in 32-bit Video Games (9-795-104)

1. Evaluate NEC's and Sega's strategies for challenging Nintendo in the video game business.

2. Why did Nintendo delay introducing a 16-bit video game system?

3. Evaluate Trip Hawkins' strategy for changing the video-game game.

IV. Corporate Strategy

A. Diversification and Market Entry

Session 12- Entry Choices / Entrant's Advantage

Readings

Judo in Action (HBS # 9-703-454)
ValuJet Airlines (KEL043)

Session 13-Entry Choices / Incumbent's Advantage

Readings
AOL Europe vs. Freeserve (A) (HBS # 9-703-409)

Session 14- Comcast and Video on Demand

Readings: TBA

Session 15: Verizon

Readings: TBA

Session 16: NBC series Law and Order

Readings : TBA

Session 17: Diversification through new product entry

Readings:

Fox News: We Report We Decide
What does The Fox News Channel Mean by " Fair and Balanced"? Why have they been
    so successful?
Why have both MSNBC and CNN struggled given Fox's strategy?

Session 18: Multipoint Competition:

Readings
Cat Fight in the Pet Food Industry (A), (HBS# 9-391-189)

Questions:

Pet Food

1. Why did the bidding for Anderson escalate? Why so high?
2. Is the Quaker acquisition a threat? For which firm?
3. What should Purina do? Again, consider the nature of the strategic threat?
4. Why do prices begin to rise?

Session 19: Credible Spatial Preemption

Readings

Case: The Ready-to-Eat Cereal Industry in 1994 (9-795-191,9-796-122)
Case: The Ready-to-Eat Breakfast Cereal Industry: Product Proliferation and
    Preemption (HBS# 9-706-408)

Questions

1. Why has RTE cereals been such a profitable business? What changes have led to the
    current industry "crisis?

2. Why have private labels been able to enter this industry successfully? How do the
    cost structures of private label and branded cereal manufacturers differ?

3. What does General Mills hope to accomplish with its April 1994 reduction in trade promotions and prices?
4. What are the risks associated with these actions? How do you expect General Mills' competitors to respond?

5. What should General Mills do?

Session 20 - Capacity Preemption

<u>Readings</u>

Case: Dupont (HBS # 9-390-112)

Questions

1. What are the major cost drivers in this industry and what is their impact on Du Pont's Competitive position?

2. Should Du Pont pre-empt?

Session 21- In Class Mid Term Examination

B. Vertical Contracting

Session 22- Vertical Competition

<u>Readings</u>
Vertical Restrictions
Video Games (A) and (B) reconsidered

C. Game Theory and the Workplace

Session 23: Internal Labor Markets and Job Tournaments: Associate/Partner Game and the Art of Schmoozing

<u>Readings</u>

Baron and Kreps, " Internal Labor Markets"

Kreps amd Baron, " Promotion and Career Concerns"
View Video Clip " Sex and the City: Season 1, Episode 3, " Bay of Married Pigs" "

Bain & Co., Inc.: Making Partner (HBS # 899066)

Session 24 : Corporate Culture, Leadership, and Game Theory

<u>Readings</u>

Johnson & Johnson (A) (384-053)

<u>Questions</u>

What is the purpose of the Credo?

Session 25: Game Theory and Managerial Decision Making/ Panicking and Choking

<u>Readings</u>
Tzu Sun and the Art of War
Fog of War Video
Black Swan Theory