



BUSINESS STRATEGY AND POLICY MANAGEMENT 223

Spring, 2011
T/TH 1030am – 12:00
Office Hours: TBA or by appointment
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Course Objectives

This is an advanced course in strategic decision-making, designed around a game theoretic framework. We will approach strategic issues using two models. Using game-theoretic models, we will develop and apply techniques for analyzing competitive market interactions. We will examine the intuition underlying the more formal game theoretic models by studying classic eastern philosophy.

Students are expected to integrate concepts from other disciplines, such as, microeconomics, marketing, finance, and decision sciences into a game theoretic analysis. Among topics we will cover are market entry, pricing, vertical integration, diversification, and intra-group cooperative behavior.

Administrative Issues

Course Materials

1. Text, The Book of Five Rings, Miyamoto Musashi (ISBN 0-87773-868-8; Cleary)
2. Text, The Art of War, Sun Tzu (ISBN 0-81333-1951-X; Sawyer)
3. Text, Contemporary Strategy Analysis (7th edition), Robert Grant (ISBN 978-0-4707-4710-0)
4. Class Handouts

Student Evaluation

Class performance is based on two exams, case analyses, and class participation. The relative component weights are as follows:

- First Exam - 35%
- Second Exam - 35%
- Case analyses and class participation - 15%
- Performance in Simulation – 15%

The second examination is optional in the following sense. If class attendance for all classes is equal to or higher than 70% of the number of enrolled students, then this examination is canceled. If it is canceled, then the first examination is worth 35%, case analyses and class participation is worth 32.5%, and simulation performance is worth 32.5%.

If asked, I will provide a limited amount of time for students to discuss the ramifications of this plan in class. However, students are solely responsible for any subsequent actions.



READING ASSIGNMENTS

BASICS

Session 1 (Jan. 13) - Introduction

TOD - *The great begins on the small, much begins with little. (L. Tzu)*

Readings:

- None

Session 2 (Jan. 18) – Assessment

TOD - *It is an honor to be considered a capable person; it inspires confidence. (B. Gracian)*

Focus - assessment, planning, leadership

Readings:

The Art of War - Chapters 1 - 2

Session 3 (Jan. 20) - A Way of life

TOD - *To understand it, you must understand it with certainty. (C. Hsi)*

Focus - preparation for Competitive Strategy

Readings:

The Book of Five Rings - The Earth Scroll

Market Level Strategies

Session 4 (Jan. 25) - Analysis

TOD - *Studying it extensively isn't the same as knowing its essentials, and knowing its essentials isn't the same as actually practicing it. (C. Hsi).*

Focus – Porter's Five Forces

Readings:

Grant – Chapters 1 and 3

Session 5 (Jan. 27) - A Use of Industry Analysis

TOD - *To realize something too late brings no relief, only sorrow. (B. Gracian)*

Focus – Industry Analysis

Readings:

- Case: Coke – Pepsi 2006
 1. Why is the soft drink concentrate industry dominated by two firms? What is the basis for scale economies in this industry?
 2. Why is the soft drink concentrate industry so profitable? (Explain using the Five Forces framework).
 3. Why did Coke and Pepsi decide to take more direct control of their bottling system?
 4. What strategies are Coke and Pepsi following in the 21st Century to protect their market?

Session 6 (Feb. 1) – Game Theory

TOD - *If you fail to direct them in victory, accept the blame yourself. (Ssu-ma Fa)*

Focus – Game Theory

Readings:

- Game Theory

Session 7 (Feb. 3) - Use of the unorthodox

TOD - *Think ahead: today for tomorrow - even many days ahead. (B. Gracian).*

Focus - strategic use of advertising, backward induction

Readings:

- Case: Entry barriers

Questions to address for Entry barriers:

1. As a potential entrant how do you assess the feasible strategy set of the other? Assume the entrant must show a profit by/in quarter 12.
2. Assume firms can advertise as much as they wish. How many firms do you believe will enter the market, and how much will they spend on advertising?
3. Assume you manage the sole incumbent firm in the market. Do you want to lobby for a law that limits the use of advertising? Why?

Session 8 (Feb. 8) - Positional Advantages

TOD - *It is hard to give understanding to someone with no will, and more difficult to give will to someone with no understanding. (B. Gracian)*

Focus – Strategic Advantage

Readings:

- The Art of War - Chapters 5 - 7

Session 9 (Feb. 10) – A discourse in strategy

TOD - *Commitment means entering combat without any concern for life. (W. Liao-Tzu)*

Focus: The Strategic Mind

Readings:

- Mushashi, The Fire Scroll, sections of The Water Scroll

Session 10 (Feb. 15) - Management of Costs

TOD - *Seeing ahead what will take place is wisdom. (C. Tzu)*

Focus: Cost Structures

Readings:

- Grant – Chapter 9

Session 11 (Feb. 17) – Use of Cost Structure

TOD - *It is simply that I was single-minded; that is the only reason why nothing stood in my way. (Lieb Tzu)*

Focus – Costs and Market Decisions

Readings:

- Case: Judo economics

Questions to address for Judo:

1. Suppose each buyer has a willingness-to-pay of \$200 for a single unit of either the incumbent's or entrant's product and it cost either firm \$100 per unit. Formulate a strategy for the entrant. How much money can the entrant earn?
2. Now suppose each buyer has a reservation price of \$200 for one unit of the incumbent's product, and only \$160 for a unit of the entrant's, with the incumbent's cost per unit at \$100, and the entrant's at \$120. Formulate a strategy for the entrant. How much money can the entrant earn?
3. Finally, suppose that each buyer identically values the products of the incumbent and the entrant at \$200 per unit; the incumbent has a per unit cost of \$120, the entrant, \$80. Formulate a strategy for the entrant. How much money can the entrant earn?
4. How much value does the entrant add in each of the games described above? How does the entrant's value added compare with its possible payoffs in each game? Explain the differences (if any) between the two quantities.

Session 12 (Feb. 22) – Perceptions of Cost

TOD - *We should even be as water which is lower than all things, yet stronger even than rocks. (Black Elk)*

Focus – The Use of Costs

Readings:

- Case: MedNet.com
- 1. What is the best argument Heather Yates can make to justify charging Windham Pharmaceuticals for impressions instead of click-throughs? Does she have acceptable alternatives?
- 2. What value to the consumer does a general interest site contribute that a niche site can't? Which is the more defensible model?
- 3. What steps can MedNet take to address emerging competitive threats?

Session 13 (Feb. 24) - Midterm

Session 14 (March 1) – Product Differentiation

TOD - *When a shape stirs it begets not a shape, but a shadow. (Lieh Tzu)*

Focus – Managerial Use of Product Differentiation

Readings:

- Grant – Chapter 10

Session 15 (March 3) – Product Location

TOD - *Dead - I say. There is no death. Only a change of worlds (Seattle, chief of the Suquamish).*

Focus: product variety, location theory

Readings:

- Case: Competition and product variety

Questions to address for competition and product variety

1. Which product types will managers at firms A and B decide to manufacture? State the logic underlying your beliefs.
2. Assume that firm A enters the market first. If A's managers wish to deter entry by B using only 1 product, where should they locate at?
3. Assume A has a monopoly position. What products should A's managers produce and why? Do A's managers want to serve the entire market?
4. Suppose the marginal “psychic costs” of consumers increase. Will this affect the choice of products that the firms produce and why? Will the resulting profits remain the same, or will they change?

Corporate Level Strategy

Session 16 (March 15) – Resources and Capabilities

TOD - *What resolution is to the will, clarity is to the intellect: both are great gifts. (C. Tzu)*

Focus – Organizational Resources and Capabilities

Readings:

- Grant – Chapters 5 and 6

Session 17 (March 17) – Managerial Use of Resources

Focus – Leveraging of Organizational Resources

Readings:

- Case: Wal-Mart in China
 1. Concisely state how Wal-Mart created capabilities to successfully compete in the U.S.
 2. Should managers replicate this domestic model in China? Why? Will Wal-Mart successfully enter the China market?
 3. If you were advising Wal-Mart, give an overview of your strategic plans in China.

Session 18 (March 22) – The Strategy of Leadership

TOD - *Leaders are the roots, the followers are the branches and leaves. Branches and leaves never flourish without good roots. (Lao Tzu)*

Focus - leadership, cooperation

Readings:

- The Art of War - Chapters 3, 4, and 8
- Friends

Session 19 (March 24) – Attainment of Cooperation

TOD - *In warfare: It is not forming a battle array that is difficult; it is reaching the point where men can be ordered into formation that is hard. (Ssu-ma Fa)*

Focus - The basics of cooperation

Readings:

- Social Status
- The evolution of cooperation

Session 20 (March 29) – Diversification

TOD - *The passions are the humors of the mind, and the least excess sickens our judgment. (B. Gracian)*

Focus – Why do Managers Diversify?



Readings:

- Grant – Chapter 16

Session 21 (March 31) – Benefits and Costs of Diversification

TOD - *Reversion is the movement of the Way, strength and hardness always revert to weakness and softness so that strategies conquer by yielding with the turning point. (Lieh Tzu)*

Focus: - Rationales for Diversification

Readings:

- Case: Beatrice, Inc.
 1. What were the sources of value creation in Beatrice's dairy acquisitions? In their food acquisitions? In their acquisitions of unrelated firms?
 2. What organizational competencies, if any, did Beatrice possess? How did they transfer these across business units?

Session 22 (April 5) – The Tao of Strategy

TOD - *I know the Way, I have found it, but I cannot tell you. (Lieh Tzu)*

Focus - mysteries of the cosmos

Readings:

Mushashi, The Wind Scroll; The Scroll of Emptiness



Session 23 (April 7) – Introduction to the Business Strategy Game

Session 24 (April 12) – Preparation for Game

Session 25 (April 14) – Initial Decisions

Session 26 (April 19) – Further Decisions

Session 27 (April 21) – Further Decisions

Session 28 (April 26) – Second Test