UNIVERSITY OF PENNSYLVANIA
WHARTON SCHOOL

MANAGEMENT 211
COMPETITIVE STRATEGY AND INDUSTRIAL STRUCTURE

Fall, 2014
Office Hours: Tuesdays by appointment,
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Professor Louis Thomas
2111 SHDH

ADMINISTRATIVE ISSUES

Course Overview

This is an advanced course in the economics of strategy. 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

- Course Pack from Study.net
- Class Handouts

Evaluation

Grades will be based on one in class examination, case analyses, and class participation. The relative
Weights of the components are as follows:

- In class examination 50%
- Written Industry Analysis 30%
- Class participation 20%

I. Course Introduction

August 27th : Session 1 – Introduction

Readings

A Note on Microeconomics for Strategists (HBS # 9-799-128)

II. Competitive Strategy

A. Price Competition

September 3rd : 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?

September 8th : 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 imply greater profitability. Why isn't this true for the coffee industry?

B. Strategies to Lessen Price Competition

September 10th : 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

September 15th Session 5- Sunk Costs and Market Structure/ Market Share Dominance or Fragmentation

Readings

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

September 17th Session 6: Advertising Sunk Costs Continued/ Stackelberg Follower

Readings:

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?

September 22rd Session 7: Sunk Costs and Structure/ Stackelberg Leader

Readings**:**

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

September 24th Session 8-Capacity Preemption

Readings

Intel Corp., 2005 (HBS # 9-706-437)
Responding to Imitation, Intel (9-709-450)

September 29th Session 9: Credible Spatial Preemption in the Very large Aircraft Market

Readings:

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

October 1st Session 10- Innovation and quick imitation

Readings

Case: Minnetonka (N9-795-163)

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

October 6th Session 11: Power Play

Readings:

Power Play (B): Sega in 16-bit Video Games (9-795-103)

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?

IV. Corporate Strategy

A. Diversification and Market Entry

October 8th Session 12- Entry Choices / Entrant's Advantage

Readings

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

October 13th Session 13-Entry Choices / Incumbent's Advantage

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

October 14th Session 14- Comcast and Video on Demand

Readings:

"Comcast wants to Challenge the World, …. " Fortune, October 18, 2004

October 20th Session 15: Verizon

Readings:

"Verizon's Gutsy Bet", BusinessWeek, August 4, 2003

October 22nd Session 16: NBC series Law and Order

Readings :

"Crime Pays", Fortune, March 21, 2005

October 27th Session 17: Diversification through new product entry

Readings:

Fox News: We Report We Decide

Questions:

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?

October 29th 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?

November 3rd Session 19: Credible Spatial Preemption

Readings

Case: The Ready-to-Eat Cereal Industry in 1994 (9-795-191,9-796-122)

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?

November 5th Session 20: Preemption in Movie Release Dates

Readings

Case: Paramount Pictures: The Transformers Dilemma (HBS # W12144-PDF-ENG)

November 10th Session 21 - Capacity Preemption

Readings

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?

November 12th Session 22- In Class Mid Term Examination

November 17th Session 23 Competitive Cost Analysis : Optional Class Topic

B. Vertical Contracting

November 19th Session 24- Vertical Competition

Readings
Vertical Restrictions

C. Game Theory and the Art of Schmoozing: Managing your career

November 24th Session 25: Internal Labor Markets and Job Tournaments: Associate/Partner Game and the Art of Schmoozing

Readings

Baron and Kreps, " Internal Labor Markets"

Kreps and 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)

December 1st Session 26: Economics of Corporate Culture and Organizations

Readings

Johnson & Johnson (A) (384-053)

Questions

What is the purpose of the Credo?

December 3rd : Session 27 Economics of Organizations and Leadership

Readings:

An Economic Perspective on Leadership
Putting Leadership Back into Strategy

December 8th Session 28: Economics as a tool for Managerial Decision Making

Readings
The Six Mistakes Executives Make in Risk Management
Fog of War Video (to be viewed in class)

Instructions on Written Analysis:

The written analysis should be based on a strategic situation of your choice. Your chosen situation must be one where a manager or other individual must take into the account the strategy of rivals before making his/her strategic choice. You should then apply some of the economic models discussed in class to analyze the strategic choices made.

Your paper should include the following:

General background: 2-3 pages: You should provide some general description of the key decision makers (e.g., firms). You should also describe the strategic choices (e.g., price, market entry, new products, advertising) available to the decision makers/managers and what options they ultimately chose.

8-10 pages of Analysis of strategic decisions made in light of the economic models from class.

Suggested Paper Length including all exhibits: 12-15 pages, doubled spaced, 12 point font, One inch margin, header(team member names)

Team size: 3-5 students

Date Due: by 5pm, Monday, December 12th

One on one meeting:

Each team is strongly encouraged to have a brief one on one meeting with Professor Thomas. At least one week prior to the meeting, each team should submit electronically the following information

1. Brief outline of proposed topic and areas of analysis

2. 1-2 page brief description of your proposed topic area and relevant economic models from class

Keep in mind the higher the quality of the documentation you submit, the higher the quality the feedback.

Delivery Instructions: Students should post their papers to web café no later than the due date. Pdf format preferred.

Example of prior paper topics. Some prior papers are also available on web café

Google v
Apple (iPhone v Android)
Facebook (search and social media)
Microsoft (chrome)

Cloud Computing (Amazon)

Hybrid Automobiles

Stephen Starr Restaurants

Historical Examples
- Wars (Battle of Bull Run, Iraqi)
- Romeo and Juliet

Political or Policy Debates
- Elections (US Presidential, India Congress Party)