

**DEPARTMENT MGMT 223 – Business Strategy and Policy**  
Fall 2016

---

## **INSTRUCTOR(S)**

---

Professor Luis A. Rios  
Phone: 215.898.6826  
Email: [luisrios@wharton.upenn.edu](mailto:luisrios@wharton.upenn.edu)

<https://mgmt.wharton.upenn.edu/profile/30540/>  
Office: 2019 Steinberg Hall-Dietrich Hall  
Office hours: By appointment or TBA

## **TEACHING ASSISTANTS AND OFFICE HOURS TBD**

## **COURSE DESCRIPTION AND OBJECTIVES**

This course encourages students to analyze the problems of managing the total enterprise in the domestic and international setting. The focus is 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. This 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 goal of the course is for students to develop an analytical 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. The course will be anchored in case studies, but will supplement these with analysis of real firms in current settings, as well as through a competition which will run during the second half of the course. For this, groups will act as venture capitalists. They will pick a portfolio of real projects seeking funding, based on their analysis of their potential. We will then track the performance of the projects in real time, and make decisions about dropping projects, increasing virtual backing, etc.

## **TEXT AND READINGS**

- The bulkpack includes a collection of readings and cases and is available from Wharton Reprographics.

## GROUP PROJECTS

Early in the course, students form groups that will work during the semester on the Kickstarter Tournament and the final project. For the tournament, Groups will pick a portfolio of projects seeking funding in Kickstarter, justify their logic using the toolkit that we have studied, and place virtual investment capital on the projects. We will have regular updates on each group's portfolio and use this as a testbed to apply the strategic frameworks in real time. The outcome of the projects themselves will be minimally related to the grade received, rather, performance will be assessed based on demonstrating a grasp of the concepts.

For the final project, Groups can choose from a menu of topics including the organizational development of a firm over its entire history, an analysis of a firm's responses to a competitive shock (technological, regulatory, demand), an assessment of the logic of a firm's competitive position, or a contrast between two qualitatively distinct positions within the same industry. More information will be provided on the first day of class.

## GRADING

Grading is based on a number of different components as outlined in the following table.

<b>Factor</b>	<b>Weighting</b>
Individual assignments	
• Participation	35%
• Individual case write up	10%
• Mid-term exam	10%
Project team assignments	
• Presentation	10%
• Kickstarter Tournament	10%
• Final Report	25%
Total	100%

## INDIVIDUAL CASE WRITE UP

You will be required to do one case write-up on an **individual basis**. The case, VIZIO, is in your course pack. Each student will be responsible individually for an analysis of the case which is limited to **3 pages** (single-spaced, 1 inch margins, Times Roman 12 pt. font) of text and an optional 1 page

of exhibits. This assignment is due 9/23 (electronically). It is an individual assignment and **should not** be done with your project team.

## MID-TERM EXAM

There will be an in-class exam. You will be provide with a brief, case-like, statement of a company's situation and asked to analyze it drawing on relevant course concepts.

## PARTICIPATION

Your participation in class is expected to help both your learning and that of your peers. Cold-calling will be fair-game, but we encourage creative thinking and acknowledge that in strategy, there is often no "right answer." A productive learning environment requires active engagement of all class members. Three factors determine good class participation. First, given thorough and careful preparation, you should be able to identify the important managerial issues related to the case and/or readings. Second, you should be able to use that analysis to define a concise and logical position on the issues, arguing how a particular concept is illustrated in the case or suggesting how the substantive problem presented in the case can be solved. Third, you should be able to analyze constructively the positions your classmates take.

Individual's contribution will be assessed each class period. We keep regular notes on class participation, and track both quality and frequency of participation. Your contribution will be evaluated along the following scale:

- 3 — This person's contributions in class reflect thorough analysis of the case and other required readings. Ideas are substantive, reflecting clear, well-reasoned insights grounded in strategic concepts and frameworks. Positions are well substantiated, and persuasive. If this person were not a member of the class, the quality of the discussions would diminish considerably.
- 2 — This person's contributions in class reflect preparation of the case and other required readings. Some useful insights are provided, building in p frameworks introduced in class. Support is offered for new ideas. If this person were not a member of the class, the quality of the discussions would diminish.
- 1 — This person's contributions in class reflect some preparation of the case and other required readings. If this person were not a member of the class, the quality of the discussions would diminish only marginally.
- 0 — This person has said little or nothing in this class. If this person were not a member of the class, the quality of the discussions would not be changed.
- -1, -2, -3 — This category captures two types of "participation." The first is contribution based on inadequate preparation. Ideas lack substance, and provide little or no constructive direction for the class. In fact, if this person were not a member of the class, valuable airtime would be saved. The second category reflects disruptive or unprofessional conduct that interferes with the learning or dignity of classmates and peers.

## CLASSROOM EXPECTATIONS – CONCERT RULES

- Class starts and ends on time
- Sit according to the seating chart
- Late entry or reentry only under exceptional circumstances
- Name tents displayed
- All phones, laptops and other electronic devices turned off when we are not using them as part of the class.

## PROPER CITATION AND USE OF PRIOR MATERIALS

All students will be assumed to have carefully read and understood the University's guidelines on citations and plagiarism, which are found at:

[http://www.upenn.edu/academicintegrity/ai\\_citingsources.html](http://www.upenn.edu/academicintegrity/ai_citingsources.html)

Graders are instructed to flag any suspicious passages for audit, and any violations will be result in significant consequences, including but not limited to, grade deductions and/or reporting to the University. This will apply especially to the use of materials prepared by other students in prior terms, such as previously completed case write ups or summaries of readings.

## SUMMARY OF CLASS SESSIONS

(Cases, questions, and readings subject to change)

### 8/26 W Class 1: **What is Strategy? Markets, Rents, and “Sustainable Advantage” (part 1)**

- Readings: Porter, M, 1996, What is Strategy? HBR 74 (6) 61-78  
Mahoney, J. T., & McGahan, A. M. 2007. The field of strategic management within the evolving science of strategic organization. *Strategic Organization*, 5: 79-99.
- Preparation Introductions. Something about yourself. Why are you interested in strategy? Be prepared to discuss what you think strategy is (or is not).

### 8/31 M Class 2: **What is Strategy? Markets, Rents, and “Sustainable Advantage” (part 2)**

- Readings: Porter, Michael E. 2008. “The Five Competitive Forces that Shape Strategy.” *HBR*, January, 2008 pp. 79-93.
- Case: *Google, Inc.* HBS #: 915004-HCB-ENG  
Case Discussion Questions:
  1. Is Google's leadership position in online search sustainable? What actions

should they take?

2. Can Microsoft leverage its position in PC operating systems to dominate online search? Why? Why not?
3. Five-years from now, will any firm generate substantial profits from online search?
4. Are old-fashioned frameworks like SWOT still useful in thinking about a modern case like Google?

### 9/2 W Class 3: **Industry Analysis**

- Readings: P. Ghemawat, "Mapping the Business Landscape," Chapter 2 of *Strategy and the Business Landscape* 2<sup>nd</sup> edition.
- Case: *Cola Wars Continue: Coke and Pepsi in 2006*
  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 cola concentrate industry is so profitable.
  3. How has the industry structure changed in the 1990s 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?

### 9/7 M Class 4: **But Does Industry Still matter?**

- Readings: Hagel, John, John Seely Brown, and Lang Davison. "Shaping strategy in a world of constant disruption." *HBR* 86.10 (2008): 80-89.
- Preparation: *Reflect on Google and Coke/Pepsi cases.*
  1. How is industry context critical for understanding the dynamics that will matter most for a firm?
  2. Is the soft drink industry fast moving? What about internet search? When was the last time you used a non-google search engine?
  3. How is industry context different if you are an incumbent or an entrant?
  4. Do we need to rethink the concept of industry altogether?

### 9/9 W Class 5: **Strategic Thinking**

- Readings: Giovanni Gavetti and Jan. W. Rivkin, "How Strategists Really Think: Tapping the Power of Analogy" (HBS R0504C)
- Case: Rent the Runway HBS 812-077

Case Discussion Questions:

1. Is this the “Netflix” of fashion? What parts of the analogy hold more (less)?
2. What is their product?
3. If successful, how easy is this to imitate?
4. Come up with your own “the Blank” of “Blank” idea and share with class. Write a short description (ungraded but mandatory). I will ask for volunteers in class to share their ideas.

9/14 M Class 6: **Value Creation**

- Readings: Brandenburger, Adam, and Harborne Stuart. 1996. “Value-Based Business Strategy.” *Journal of Economics and Management Strategy* 5 (1): 5–24.

- Case: Performance Indicator, HBS 702-480

Case Discussion Questions:

1. Whom should PI target its technology in the market?
2. Why do you think the PI technology has not gained traction?
3. How does PI technology create value? For whom?

9/16 W Class 7: **Value Appropriation**

- Readings: Cohen, Wesley M., Richard R. Nelson, and John P. Walsh. *Protecting their intellectual assets: Appropriability conditions and why US manufacturing firms patent (or not)*. No. w7552. National Bureau of Economic Research, 2000.

- Case: The LEGO Group: Publish or Protect? HBS 613-079

1. Is secrecy an option for LEGO?
2. What do you recommend?
3. How might your decision differ if LEGO was a start-up?

9/21 M Class 8: **Value Chain and Interdependent Activity Choices**

- Reading R. Grant, “Bringing it all together: The value chain in differentiation analysis,” in *Contemporary Strategy Analysis*, 6<sup>th</sup> edition, 2008 pp 255-259
- Preparation Group project: Pick one of your favorite cases, and match it to a current issue facing a firm right now. Prepare a short statement on how application of the lessons from a case might help resolve the issue facing the firm. We will discuss as a group and get feedback on how well the case matches to the issue.

9/23 W **First day of Kickstarter tournament:** VIZIO case due by 5:00 pm

9/28 M Class 9: **Discussion of VIZIO/ Teams announce their picks for tournament –**

9/30 W Class 10: **Industry Dynamics**

- Readings: Eisenhardt, Kathleen M., and Donald N. Sull., Netflix's "House of Cards" secrets: The real story behind Kevin Spacey and Frank Underwood's meteoric ascent. Salon.com 4/26/2015
- Case *Flat-Screen Televisions*. INSEAD Case 12/19/2014
  1. Think about the co-evolution of TVs and content over time.
  2. How is this like an ecosystem?

10/5 M Class 11: **Competitive Positioning**

- Readings: P. Ghemawat, "Creating Competitive Advantage," Chapter 3 in *Strategy and the Business Landscape*, pp. 44-54.
- Case *Matching Dell*, HBS 9-799-158
  1. How and why did the personal computer industry come to have such low profitability?
  2. Why has Dell been so successful despite the low average profitability in the PC industry?
  3. Prior to the efforts by competitors to match Dell (circa 1997), how big was Dell's competitive advantage? See if you can use the numbers in the case and reasonable estimates to quantify the advantage on a per-PC basis. How has Dell used this advantage in the market? (Think about the customer willingness to pay.)
  4. How effective have competitors been in responding to the challenges posed by Dell's competitive advantage?

10/7 W Class 12: **Midterm exam (in class)**

10/12 M Group Meetings

10/14 W Group Meetings

10/19 M Class 15 **Resources and Capabilities**

- Readings: C. Montgomery and D. Collis, Chapter 2 "Resources and Rents" in *Corporate Strategy: Resources and the Scope of the Firm*. Irwin: New York, NY.
- Case: Tesla Motors, Wharton Case
  1. What are Tesla Motors' key resources and capabilities? How were they developed? How are they being leveraged?
  2. Is Model S a good or a bad idea?

## 10/21 W Class 16 **Managing Growth in the Early Years**

- Readings C. Shapiro and H. Varian (1999). "The art of standards war". *California Management Review*, 41(2): 8-32.
- Case *Leerink Swann & Co: Creating Competitive Advantage* HBS 406-060
  1. What are the key elements of Leerink Swann's business operations during its first 10 years? How did the firm a) establish its business, b) gather expertise, c) organize its operations, and d) coordinate its interdependent production process?
  2. What implications for Leerink Swann's future are posed by changes a) in health-related industries, b) in the talent market, c) among the firm's competitors, and d) among the firm's customers?
  3. How well positioned is Leerink Swann for future challenges in the investment banking business? Is this the right time to expand that business, or would you recommend a different growth strategy to Jeff Leerink? Why?
  4. What will you further recommend to Jeff Leerink in order to both, a) secure Leerink Swann's existing competitive advantage, and b) seize the full value of the strategic opportunity in investment banking? Given your choice, what organizational design choices does Leerink Swann have to make?

## 10/26 M Class 17 **Corporate Scope**

- Readings Reading: P. Ghemawat, "Choosing Corporate Scope," Chapter 6, *Strategy and the Business Landscape*, pp. 124-140.
- Case Extending the "easy" Business Model: What should easyGroup do Next? INSEAD Case 303-093-1
  1. Evaluate easyGroup's corporate scope. Whether and how would the different businesses (airline, car rental, internet cafes) be profitable? To what extent are these businesses leveraging common resources?
  2. Should easyGroup enter the Cinema business? If so, how?

## 10/28 W Class 18 **Application of Concepts Exercise**

- Preparation Group project: Pick one of your favorite cases, and match it to a current issue facing a firm right now. Prepare a short statement on how application of the lessons from a case might help resolve the issue facing the firm. We will discuss as a group and get feedback on how well the case matches to the issue.

### 11/02 M Class 19 **Specialization vs Division of Labor**

- Readings: J. Barney and W. Hesterly (2006), "Evaluating a Firm's Internal Capabilities," in *Strategic Management and Competitive Advantage*, pp. 74-112.
- Cases: *Virtualis Systems (A)*. HBS Case 800-003, November 1999. (Revised October 2009.)
  1. Should Virtualis have specialized in software rather than hosting?
  2. When should startups adopt "specialization"?

### 11/04 W Class 20 **Firm Maturity and the Threat of Obsolescence**

- Case: *Emerging Business Opportunities at IBM (A)*
  1. Why do large companies like IBM find it so difficult to create new businesses? What are the primary barriers to success?
  2. What is your evaluation of the "horizons of growth" model? What are the distinguishing features of emerging H3 businesses?
  3. How did the EBO management system evolve over time? What are the key elements of the current EBO management system? What is your evaluation of this system?
  4. Any action recommendations for Harreld with respect to those businesses now reaching H2 status, the number of EBOs, or other issues?

### 11/09 M Class 21 **Corporate Social Responsibility: the other kind of "sustainable"**

- Readings: Trudel, R, and R Cotte. "Does it pay to be good." *MIT Sloan Management Review* 50.2 (2009): 61-68.  
Hobbes, M. "The Myth of the Ethical Shopper." Huffington Post .  
<http://highline.huffingtonpost.com/articles/en/the-myth-of-the-ethical-shopper/>
- Cases: *E-Cigarettes: Marketing Versus Public Health* HBS 514-059
  1. CSR sounds simple—e.g. "don't be evil." But the devil is in the details. Think about this case in terms of competitor response (from tobacco companies), institutional response (regulators) and consumer response (instead of switching from harmful cigarettes to vape, some consumers switched from nothing to vape, thus increasing risk of becoming smokers).
  2. We will use this case to discuss the importance of incorporating strategic thinking into CSR initiatives. Rather than saying let's be more responsible in our strategy, perhaps we should be more strategic in our CSR.
  3. In the age of instant information, is any strategy that does not address the triple-bottom line really sustainable?

11/11 M Class 22 **Rivalry**

- Case: Dogfight over Europe: Ryanair (A), HBS 9-700-115
  1. What is your assessment of Ryanair's launch strategy?
  2. How do you expect Aer Lingus and British Airways (BA) to respond? Why? (Think about what each brings to the party.)
  3. What are the different payoffs to Aer Lingus/BA (treat them collectively as one actor) for different strategic actions? Said differently, how costly would it be for Aer Lingus/BA to retaliate against Ryanair's launch rather than accommodate it? (It will help to develop, using assumptions where needed, a view on the cost structures of Ryanair vs. Aer Lingus/BA.)

11/16 W Class 23 **Emerging Market Entry**

- Case: *Development of Food Retailing in India (A): Entry and Growth of Domestic and Foreign Players (Costantini, J, 2014)*

Questions will be given at the beginning of class, and we will work through this in real time.

11/18 W Class 24 **Results and discussion of Kickstarter Tournament.**

11/23 M Class 25 **Prepare Term Projects and Presentations**

11/25 W NO Class Thanksgiving break

11/30 W Class 26 **Presentations**

12/02 M Class 27 **Presentations**

12/02 W Class 28 Wrap