

MGMT 701: STRATEGY AND COMPETITIVE ADVANTAGE

Spring 2021

SYLLABUS

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This class is designed to be an upper-level course in strategy. It provides concepts and ideas for the tool-kit of the manager involved in the strategy process. We start out with the question of how value can be created and, more importantly, appropriated. This leads to the general issue of how a competitive advantage can be built. We will focus in our discussion on new concepts that have been developed around the notions of complementarities and fit. In the next section of the course, we look at the question of what decisions managers can make to sustain a competitive advantage. In the last section of the course, we will be dealing with strategy making in the face of environmental changes.

Early in the course we will form student groups who will work during the semester on the final project. At the end of the semester, each group will present their work. There is a brief project description in Appendix A of this syllabus. More details will be added at the beginning of week 3 (after teams have been formed). Appendix B contains suggested research sources.

There are 7 components of the course grade:

Grade Component	% Weight	Due Date
Group Midterm Memo (Description on Canvas Assignment)	12	April 7 by 11:59pm EST
5 Short Take Home Individual Quizzes	15	February 1 & 22, March 22 (double quiz) & 29
Submission of Peer Grading (Quizzes)	7	Your anonymous peer grading is due within a fixed # of days after the quiz.
Class Participation	7	Discussed in Session 1
Submission of Thorough and Thoughtful Peer Project Reviews	10	Discussed in Session 1
Team Peer Assessment (Your Contribution to Team)	7	Discussed in Session 1
Team Project	42	Sign up your team + team members by February 1 on Course Spreadsheet

The discount rate for late or missed deliverables is severe. A quiz can be taken with either section and potentially made up on the same day of the quiz if the TA is willing/able. In grading there is a subjective aspect. I will consider your overall course citizenship. In order to pass this class, you have to make a good-faith effort with respect to class attendance, participation and the paper.

Please note that this syllabus is subject to change with prior announcements. All slides will be posted after each class on Canvas.

Suggested reference books for this class are:

1. *Valuation: Measuring and Managing the Value of Companies* (Wiley Finance) by McKinsey & Company Inc., Tim Koller, et al. – any edition you prefer. (The 7th edition is the most recent.)
2. *Connected Strategy* (2019, HBR Press) by Nicolaj Siggelkow and Christian Terweisch.

Optional and Interesting:

The Lords of Strategy: The Secret Intellectual History of the New Corporate World by Walter Kiechel.

I may be able to make personalized book recommendations after we meet to discuss your project.

Course Delivery/Content

The course follows an interactive, discussion driven format. My expectation is that you come to class having read the required assignments. We will review/cover the following frameworks:

Frameworks Revisted or Introduced:

- Context analysis
- Porter's Five Forces
- Market Structure
- Positioning Analysis and Strategy
- Resisters of "Commoditization"
- Resource Based View
- Will use some marketing frameworks such as the 4 P's and Experience, Search and Credence classification
- Evaluation of Corporate Scope
- Unbundling the Business
- Corporate Social Responsibility + Sustainability as they relate to competitive advantage
- Real Options
- Bit of Game Theory
- Some Tech Strategy

Tools

- Using financial metrics as "footprints" for strategy evaluation
- Breaking down ROIC and ROIC Waterfall
- Market Sizing
- Activity Mapping
- 2x2 table for structuring analysis
- Strategic Plan Key Components
- WTP-C "wedge"
- Value added analysis
- Relative Cost analysis

Brief Course Outline

1. Market Attractiveness—Market level opportunities and constraints:
 - a. Analysis of the forces (**Porter's Five Forces**) affecting competition in a market.
 - b. What is the **structure of the market**?
 - c. Can the analyst broadly determine how a firm should position itself in this space to exploit available opportunities and avoid constraints identified in industry analysis?
2. Firm assessment—Firm-level opportunities and constraints. Each of the following questions should be supported by **financial metrics** whenever possible.
 - a. What competencies does the firm possess? That is, what key activities does the firm generally perform better than the typical player in this space?
 - b. How **unique and valuable are the firm's resources**? How can additional resources be developed and acquired cost effectively by the firm?
 - c. What sustainable, tangible, or intangible strategic assets does the firm possess? We use the terms strategic assets interchangeably with competitive advantage.
 - d. What, precisely, is the source of the firm's **leverage in the vertical chain** to which it belongs? Where along this value chain is "the scarcity"?
3. How does increasing or decreasing the boundaries of the firm affect prospects for value creation?
 - a. Can the firm **deepen or leverage its advantage** by entering new businesses, vertically integrating, or expanding geographically?
 - b. If a firm should expand its boundaries to include more than one business unit, what is the **best mode of entry into a new line of business** (e.g., through acquisitions, alliances, franchises, or joint ventures)?
 - c. How can management coordinate the different businesses to **create economic value** for the firm?
4. Sustaining performance over time.
 - a. What prevents other firms from **imitating or recreating the firm's strategic assets**? What factors, forces or other preempts or restricts direct competition?
 - b. Generally, what **risks of obsolescence** does the firm's product or process for making the product face?
 - c. How should the firm weigh the risks and benefits from **investments in new resources and capabilities**, particularly when market conditions are highly uncertain?
 - d. How should the firm address organizational issues such as slack and perverse incentives?
 - e. How might constituents affected by the firm's **negative externalities** use government and public opinion to diminish the firm's advantage? How does the firm manage in the context of producing nontrivial externalities?

HIGH LEVEL KEY POINTS FROM CORE AND ADVANCED STRATEGY

STRATEGY: Adapting to the environment and guiding organizational actions with the aim of achieving leverage over customers and/or suppliers and sustaining that leverage over time in order to achieve economic profits. Being cognizant of using “power” judiciously so as to maintain the quality of important relationships among players in the firm’s ecosystem.

THINKING ALLOCENTRICALLY NOT EGOCENTRICALLY: If you are asked to consider why a firm takes an action (say it lowers the price of its product) you should consider the “direct effect” – what is the effect on the firm under consideration. However, the action will generate reactions and repercussions – those are often the critical impacts on the firm. Think about the world from the points of view of all constituents who affect the firm’s value:

- **Customers:** What needs are customers seeking to satisfy? What dimensions of customer needs does the firm’s product satisfy? What has changed since the firm took the action?
- **Competitors:** How will they react to the firm’s actions? Under which conditions could they destroy the firm’s competitive advantage?
- **Entrants, substitutes, and complementors:** Does the firm’s action generate any reaction or impact on these parties?
- **Suppliers:** What benefit do suppliers receive from dealing with the firm? Has that benefit changed? Include a deep consideration of human capital as a key supplier.
- **Prospective acquirers or targets:** In what ways are the firm’s assets and resources more valuable to others than they are to the firm? What impact does the firm’s actions have on parties the firm might want to acquire?

THINK VALUE CREATION AND VALUE CAPTURE: The most value creating businesses are not the ones winning zero sum battles (one off transactions, exploiting workers, pounding on suppliers) ...it is the businesses that discover win-win exchange opportunities—transactions that simultaneously create “utility” for buyers, convert competitors to complementors, create opportunities for suppliers and, of course, profits for the firm. The cornerstone of good strategy formulation is the value-creation proposition. A viable value-creation proposition is a business concept that identifies attributes that consumers value and embeds those attributes in a product or service that costs less to produce than consumers are willing to pay. A superior value-creation proposition does this better than the value creation propositions of direct rivals, potential imitators, or producers of substitute goods. A firm with a superior value-creation proposition will capture more value than a firm with a weaker value-creation proposition even in the face of intense price competition that drives the economic profits of the marginal firms to zero.

STRATEGIC CHOICES ENTAIL TRADEOFFS: Effective strategists understand that it is rarely possible to beat your competitors on every dimension simultaneously. Good strategy usually entails making tradeoffs about the business unit’s scope (i.e., horizontal and vertical boundaries); about how to compete (i.e., positioning); and about where to compete (i.e., target markets). Firms that outperform their competitors end up being “where the puck is” (that is to say, anticipate the future landscape better) come up with fact-based conjectures on where the market is going and invest in the assets and capabilities suited to operating in that market.

THE IRON LAW OF STRATEGY: Your expectation should be that similarity breeds zero profits. As firms become more alike in their strategies, product offerings, positions, capabilities, and access to resources, competition intensifies and economic profits may be driven down zero – this could take many, many years or a few months – but it’s a reasonable expectation.

GOOD STRATEGY IS OFTEN NOT FORMULATED WITH A HIGH DEGREE OF CERTAINTY: Good business strategy is typically formulated under conditions of considerable uncertainty and ambiguity. It requires that managers take a deep look into the future, but with an appreciation that history can repeat itself. Managers need to be aware that opportunities for resolving ambiguities and adjusting resource commitments accordingly are, to a degree, within their control and should be alert to opportunities to take advantage of this flexibility. The difficult thing about strategy is that each industry and each firm has idiosyncrasies that make it nearly impossible to generalize. The more exposure you get the better your intuition will get and you will learn where to put your “weights” —that is, which actions will have the biggest impact on the firm’s profits.

FACT-BASED DIAGNOSIS, FOOTPRINTS, AND THE IMPORTANCE OF ASKING WHY? The most persuasive analyses and diagnoses are those that are fact-based. Look for “footprints” or “fact patterns” even with fragmentary, imperfect data. The most powerful “engine” to get a deeper level of understanding of a complex, ambiguous situation is to identify fact patterns and then ask, “Why do I see these patterns?” This helps you begin the process of forming hypotheses about the causes of the fact patterns that you see and may even suggest additional analysis which may help confirm or disconfirm these hypotheses.

I. PREVIEWS: CLASSES 1-2

1/20 SESSION 1: COURSE LOGISTICS AND CONTENT OVERVIEW

OUTLINE OF CONTENT DISCUSSION (I sometimes include a topic outline such as below—but not for all sessions):

- 1) Plan to drive enterprise value which = NPV of earnings. Relates directly to earnings per unit of capital invested, ROIC.
- 2) To sustain earnings, need bargaining power which is related to how uniquely the firm's output benefits upstream and/or downstream players.
- 3) The attributes of goods/services drive demand (WTP). Output should include all highly weighted attributes.
 - a) Don't overdue high weight but low variance attributes.
 - b) The term strategy is most relevant in the context of deciding on tradeoffs:
 - i) Be "high tail" in high weight, high variance attributes,
 - ii) Don't overshoot the mark on high weight low variance attributes,
 - iii) Don't let "vision" get in the way of learning what the market actually demands.

READ: Mintzberg, Henry, and James A. Waters. 1985. "Of Strategies, Deliberate and Emergent." Strategic Management Journal 6: 257–272.

REVIEW (These items are on Canvas under files in folder "Readings Not on Study.Net"): (1) The Strategic Yardstick You Cannot Ignore (2) Underlying Drivers of ROIC. (3) Cheat Sheet on financial metrics. You would not need to memorize any metrics for a quiz, but you would need to consider how to interpret and compare metrics (across time, companies, each other).

PREPARATION FOR CLASS DISCUSSION (I seek voluntary participation and sometimes cold call with kindness)

1. How would you define "strategy"?
2. Who makes strategy? Who should make strategy? In your experience, have strategies been deliberate or emergent?
3. Be unvarnished—is a five forces analysis truly useful? Any "real world" examples?
4. Do light online research about the auto industry. Which firms have the highest share of the US market? Which car makers earn $ROIC > WACC$ (for autos – or let's just go with 8%). How attractive is the auto industry? Why? What do you think about Tesla's long-term prospects?

1/25 SESSION 2: SITUATION ANALYSIS—NO READING ASSIGNED FOR THIS SESSION**OPTIONAL VIEWING:**

If you want to refresh on Porter's 5 Forces plus complements: <https://youtu.be/W0hySWGhkj4>

If you want to refresh "competitive advantage": <https://youtu.be/Q1lkBSWreVI>

If you want to refresh on financial ratios:

https://www.youtube.com/watch?v=WJsSgT_on6s&feature=youtu.be

OUTLINE OF CONTENT DISCUSSION:

- 1) The key inputs for strategy development are learned through creative, unbiased, qualitative, and quantitative analysis of conditions within and surrounding the market.
- 2) Frameworks get in the way if analysts over-estimate the value of frameworks – at best they are a start, very gentle guidance on what to look for. We will cover them, of course. However, when asked to apply them we will also see the big range of responses different people generate using the same framework – sometimes due to error in understanding the terms but other times due to different interpretations of the same facts.
- 3) We will apply:
 - a) Porter's 5 Forces
 - b) Five External Factors: Taste, Technology, Regulations, Capital Markets and Globalization
 - c) What is added value?

PREPARATION FOR DISCUSSION:

Recall the key points from your discussion of the cola industry in MGMT 611 & 612; what are the "generic" responses to each of the five forces? **OPTIONAL:** Take a look at the market sizing tutorial on the Canvas Site under files in a folder named "Market Sizing Tutorial".

II. VALUE CREATION, APPROPRIATION, AND FIT: CLASSES 3 - 12**1/27 SESSION 3: COMPLEMENTORS**

READ: Brandenburger, Adam M., and Barry J. Nalebuff. 1996. Co-opetition pp. 11–34.

Case: Intel Corporation: 1968-1997, 9-797-137

PREPARATION FOR DISCUSSION:

1. How did Intel create a competitive advantage in DRAMs?
2. Why did Intel get out of DRAMs in 1985?
3. How did Intel build a competitive advantage in microprocessors? How has the company managed to sustain this advantage?

2/1 SESSION 4: VALUE CREATION, VALUE APPROPRIATION –QUIZ (1) [2-3 SHORT QUESTIONS ON INDUSTRY ANALYSIS)

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

Watch (Click): [Willingness to pay, Value Creation and Value Capture](#)

Or use URL: <https://www.youtube.com/watch?v=u1QoucGH5CE>

PREPARATION FOR DISCUSSION:

Please review the concepts of value creation, value appropriation, and added value from your notes from MGMT 611/612. If you need, please read Sections 1-6 of the Brandenburger/Stuart paper. To check your understanding of the concepts of value creation and added value answer the following questions:

1. There are three firms, labeled A, B, and C, each able to produce a single unit of a product. There are numerous suppliers, each of which can supply the necessary input to only one firm; each supplier has a supplier cost (or opportunity cost) of \$4. There are two buyers, each interested in buying at most one unit. Both buyers have a willingness-to-pay of \$9 for each firm's product.
 - a) What is the total value of this game? What is the added value of each player?
 - b) How much value do you expect each player to capture?
2. Now suppose a slight change to the game. Everything is the same for firms B and C as before. But now, suppliers have a supplier cost of \$5 for supplying firm A, and buyers have a willingness-to-pay of \$11 for firm A's product. Recalculate the added values of the players, and find how much value each player will capture, in the second game.
3. There are three firms, labeled A, B, and C, each able to produce a single unit of a product. There are numerous suppliers, each of which can supply at most one firm. Each supplier has a supplier cost of \$2 of supplying firm A, a supplier cost of \$3 of supplying firm B, and a supplier cost of \$5 of supplying firm C. There are two buyers, each interested in buying at most one unit. Each buyer has a willingness-to-pay of \$10 for firm A's product, a willingness-to-pay of \$12 for firm B's product, and a willingness-to-pay of \$13 for firm C's product. Thus, firm A is the cost leader in this market, and firm C is the differentiator or high-quality provider.
 - a) What is the total value of this game?
 - b) What is the added value of each player?
 - c) How much value do you expect each player to capture?
 - d) How does this example relate to Porter's claim that firms should avoid becoming "stuck in the middle"?
4. Compare and contrast Microsoft and Intel in terms of value creation and value capture in the PC ecosystem (based on what you know or online research).
5. Read Warren Buffett 1997 Email Exchange (on Canvas under files in folder "Readings Not on Study.Net")

2/3 SESSION 5: POSITIONING AND COMPLEMENTARITIES

Milgrom, Paul, and John Roberts. 1992. *Economics, Organization, and Management* Chapter 4, pp. 108–116.

Milgrom, Paul, and John Roberts. 1995. “Complementarities and Fit: Strategy, Structure and Organizational Change in Manufacturing.” *Journal of Accounting and Economics* 19: pp 191-196, 199-205.

PREPARATION FOR DISCUSSION:

What is the definition of complementarity as given by Milgrom and Roberts? Also skim the IATA Report on the Airline Industry (on Canvas under files in folder “Readings Not on Study.Net”)

2/8 SESSION 6: POSITIONING APPLIED: LOW COST

Case: Airborne Express (A), 9-798-070

Porter, Michael E. 1996. “What is Strategy?” *Harvard Business Review* (November- December)

PREPARATION FOR DISCUSSION:

1. How has the express mail industry structure evolved in recent years? How have the changes affected small competitors?
2. How has Airborne survived and prospered in its industry?
3. Quantify Airborne’s sources of advantage (this means you need to crunch some numbers). Since the case does not allow you to compare willingness to pay across companies more than qualitatively, we will focus on costs. Specifically, compare the costs of an overnight letter shipped by Airborne Express to one shipped by Federal Express.
4. What must Robert Brazier, Airborne’s President and COO do in order to strengthen the company’s position?
5. Why hasn’t ecommerce been as much of a boon for Fed Ex and UPS as we might have guessed it would be?

2/10 SESSION 7 AND 2/15 SESSION 8: POSITIONING APPLIED: DIFFERENTIATOR**Unbundling the Corporation (HBR Article Product 4533)****OUTLINE OF CONTENT DISCUSSION: Positioning**

1. Market segmentation – how broad or focused should the firm be in response to market forces?
2. Criteria to carve up markets includes: Demographics, geographics, economics, psychographics, chronologies, teleologies, etc.
3. Want some subset of the market in which firm can exercise some degree of “monopoly (or market or bargaining) power”
4. That is, a subset of the market in which the firm can avoid profit destroying price and feature competition
5. What are the drivers of price and feature competition (state of competing is also referred to as “commoditization”)?
6. Unbundling the Corporation –the investments in assets and capabilities that shield the firm from price/feature competition can be classified into 3 buckets:
 - a) Relationship capital
 - b) Infrastructure
 - c) Innovative capacity

PREPARATION FOR DISCUSSION:

Do online research on TJX and Zara—how do they perform financially (margins, revenues, market caps, ROIC, etc.) Determine if you would label them as competitors or substitutors. How do their business models of the differ? NOTE BENE: I am not going to cold call students to test their research on these companies. Spend some time looking at them to the extent you have interest.

2/17 SESSION 9: GROUP TIME (OFFICE HOURS)**2/22 SESSION 10: POSITIONING APPLIED – TAKE HOME QUIZ (2) AFTER HD DISCUSSION ON DRIVERS OF COMMODITIZATION – DUE IN 72 HOURS**

Case: Posted Home Depot Group Presentation from Previous Term – Posted under Files “Readings Not on Study.Net” →last item is a subfolder “Projects from Fall 2020

PREPARATION FOR DISCUSSION

1. How do retailers make money? In other words, what do they “arbitrage”?
2. What are the key sources of Home Depot’s competitive advantage?
3. What are the main threats to Home Depot’s competitive advantage? Is their advantage sustainable?
4. How would you modify Home Depot’s strategy going forward?
5. Value-added practice questions (on Canvas under files in folder “Readings Not on Study.Net”)

2/24 SESSION 11: POSITIONING APPLIED

Case: Domino's Pizza (HBS 512004-PDF Authors David E. Bell, Phillip Andrews, Mary Shelman)

Read: Dominos Franchise Costs (on Canvas under files in folder "Readings Not on Study.Net")

PREPARATION FOR DISCUSSION:

1. Use capital IQ to determine how profitable is Dominos. Who would you compare Dominos to?
2. What is the Dominos value chain...who are their suppliers and who are their customers?
3. Explain how Dominos adds value for its customers?
4. Are Dominos investments "preemptive"?

3/1 SESSION 12: DOMINO'S PIZZA (CONTINUED) AND TAKE HOME QUIZ (3) SHIFTED TO 3/22

III. SUSTAINABILITY OF A COMPETITIVE ADVANTAGE: CLASSES 13-15

3/3 SESSION 13: MARKET STRUCTURE

Read: Chapter 4 from *Strategy Essentials* and The Economics and Politics of Market Concentration by Thomas Philippon (both are on Canvas under files in folder "Readings Not on Study.Net")

We will discuss the concentration of US industries

OUTLINE OF CONTENT DISCUSSION: What Is Market Structure?

- a) Perfect vs monopolistic competition, oligopolies and monopolies
- b) Most (all?) firm positions can be classified into one of 4 "generic" market positions (or strategies)

3/8 SESSION 14: VERTICAL INTEGRATION

HBS Case: Sherwin Williams: Splashing Into the Low VOC Paint Market

WATCH: Vertical Integration: <https://www.youtube.com/watch?v=NVyPNy-pZS0&t>

PREPARATION FOR DISCUSSION:

Read the case and form a general idea for how SW has become such a formidable and profitable player in this industry. What is SW's "strategy"?

3/10 NO WHARTON CLASSES

3/15 SESSION 15: CONNECTED STRATEGY

Case: Posted Peleton Group Project

HBS 806131-PDF Winner-Take-All in Networked Markets by Thomas R. Eisenmann

WATCH (Connected Strategy): <https://www.youtube.com/watch?v=vUBHpDWcNqY>

WATCH: Platform Ecosystems: <https://www.youtube.com/watch?v=yAFSRq-NYTY&t>

WATCH: Agency Problems: <https://www.youtube.com/watch?v=RKplaCgZFM&t>

PREPARATION FOR DISCUSSION:

1. Is the market in which Peleton competes a Winner Take All
2. Can you make a counter case to the teams optimistic case for Peleton? What key assumptions does their analysis hinge on?

3/17 SESSION 16: GROUP TIME (OFFICE HOURS)

3/22 SESSION 17: MANAGERIAL DECISION MAKING. ALSO, TAKE HOME QUIZ (3+4) ON MARKET STRUCTURES (DECK FROM PREVIOUS CLASS PLUS CHAPTER 4 OF *STRATEGY ESSENTIALS*) AND VALUE ADDED – THIS QUIZ IS NOT TWICE AS LONG, BUT WILL COUNT AS QUIZZES 3+4

Kahneman, Daniel, Dan Lovallo, and Olivier Sibony. 2011. "Before You Make that Big Decision." *Harvard Business Review* (June): 51–60.

HBS Case 709489-PDF: The Walt Disney Company and Pixar, Inc.: To Acquire or Not to Acquire?

PREPARATION FOR DISCUSSION:

Read the Kahneman et al. HBR article. As you reflect on your own decision making, and of that which you have experienced in the organizations that you have worked for, which of the decision-making pathologies that Kahneman describes have you been able to observe? **Also, please recall the key points from the Disney discussion you had in the core management course. Read Summary of Katzenberg memo and Pixar Timeline** (Both are on Canvas under Files in folder "Readings Not on Study.Net")

Case Questions (for discussion)

1. Which is greater: the value of Pixar and Disney in an exclusive relationship or the sum of the value that each could independently generate (making deals with companies each chose to along the way)?
2. If the value is greater in an exclusive relationship – why ownership rather than contracting? What ongoing challenges do you perceive as likely?

3/24 SESSION 18: ACV, ERC AND GV

READ: New Yorker Article on Anthony Levandowski and Noncompetes and Chapter 7 from *Strategy Essentials* (Both are on Canvas under Files in folder “Readings Not on Study.Net”)

3/29 SESSION 19 AND TAKE HOME QUIZ (5) ON “EMPLOYED RESOURCE VALUE” (THE RESOURCE BASED VIEW)—72 HOURS:

Case: Posted Presentation on Silicon Valley Bank

PREPARATION FOR DISCUSSION:

1. How well does Silicon Valley perform financially?
2. In what way is Silicon Valley Bank more profitable than, say, JP Morgan Chase?
3. What is SVB’s “hook” or source of (arguably, some degree of) financial advantage
4. **Read Silicon Valley Bank Article (on Canvas under Files in folder “Readings Not on Study.Net”)**

3/31 AND 4/5 SESSIONS 20 AND 21: INFORMATION ASYMMETRY AND ENTRY.
VALUE ADDED ANALYSIS

718481-PDF Walmart Inc. takes on Amazon.com

PREPARATION FOR DISCUSSION:

1. What are the challenges of competing in the discount retail industry? Apply Porter’s 5 Forces and a macro-environmental analysis.
2. What are Wal-Mart’s key resources and capabilities?
3. Listen to the podcast “Business Wars” by Wondery – Season 37 episodes 1-7
4. What competitive advantages does Wal-Mart have? Quantify the sources of Wal-Mart’s competitive advantage in retailing.
5. Review Organizational Structure on **(on Canvas under Files in folder “Readings Not on Study.Net”)**
6. Compare and contrast Wal-Mart vs Amazon’s e-commerce strengths and weaknesses?

4/7 SESSION 22: ARCHITECTURAL, DISRUPTIVE CHANGE, CHANGE IN THE PRESENCE OF FIT
(BOEING GROUP MEMO IS DUE ON 4/7)

Bower, Joseph L., and Clayton Christensen. 1994. "Disruptive Technologies: Catching the Wave." Harvard Business Review, January-February: 43–53.

Henderson, Rebecca M. and Kim B. Clark. 1990. "Architectural Innovation: The Reconfiguration of Existing Product Technologies and the Failure of Established Firms." Administrative Science Quarterly 35: 9–30.

Siggelkow, Nicolaj. 2001. "Change in the Presence of Fit: The Rise, the Fall, and the Renaissance of Liz Claiborne." Academy of Management Journal, 44, pp. 838-857.

PREPARATION FOR DISCUSSION:

1. How do Henderson and Clark explain that leading firms are frequently upset by entrants?
2. How does Christensen explain that leading firms are frequently upset by entrants?
3. Is tight fit among activities a liability when the environment changes?
4. Is the reasoning developed by these authors transferable outside the realm of technological innovation? How?

4/12 NO WHARTON CLASSES

4/14 SESSION 23: SUMMARY CASE: WE WILL DISCUSS BOEING IN CLASS.

Optional: Lafley, A.G., Roger L. Martin, Jan W. Rivkin, Nicolaj Siggelkow. 2012. "Bringing Science to the Art of Strategy" Harvard Business Review, September, pp. 56-66.

Optional: Competition and Business Strategy in Historical Perspective, 9-798-010

[Frameworks Deck](#) on Canvas under Files in folder "Readings Not on Study.Net")

IV. IT'S YOUR TURN

4/19, 4/21, 4/26, 4/28 & 5/3: TENTATIVELY GROUP PRESENTATIONS (SESSIONS 24-28)

APPENDIX A:

Group Project Description: Students should work in groups of 5-6 people

Goals:

The course project is an opportunity to apply the concepts of competitive strategy to a company scenario that interests you. Your team has to determine what are the interesting and important issues facing the company you choose. Your team will be should discuss your project with me a few times during the term. If we jointly agree on the direction and substance of your project – then I am more able to calibrate the weight I give the peer reviews. Some teams take me up on the offer to meet often and some teams go rogue – it’s up to you. I do have good judgement on presentations that go over well and zoom is a great tool for group meetings.

What:

You are going to develop a presentation and a fully annotated Power Point deck (or Google presentation, whichever). In the early stages of your project, your analysis should include as many of the components below as are relevant. Once you have a clear idea of what are the components of value of the company and in what aspects the company is outstanding vs weak, you can then decide on the project narrative you would like to pursue. On canvas, you will find a document named “Detailed Course Framework” – please refer to this for both a list of concepts covered and an explanation of concepts. Most concepts are covered in more detail in strategy essentials (also on the course site).

Goal:

The goal of the project is to convey to the class a useful lesson on a topic that is a key driver of enterprise value. Frame your lesson as applicable to other settings—that is, useful. Collectively, the projects should be insightful so that they are a substitute for management and leadership experience. Below is the “donut” we refer to in class as the components of enterprise value. Consider how these components map to your company. For example, you could show that a high share of company X’s value is the result of the industry the company operates in. Or you could explain how ingeniously the company is positioned – almost defying the odds of being profitable in a rugged/unattractive industry. Plan for the project to be around a narrative you tease out of a comprehensive understanding of the company you choose. Convey generally useful knowledge in a way is more efficient than learning it in the trenches.

A list of companies that groups have analyzed in the past is given below– you may choose from this list or choose another company. The benefit of choosing from this list is I can give you my impression of how interesting the result might be from my past experience with other teams in past terms. However, nothing is as interesting or motivating as analyzing a company you are truly interested in. I would almost categorically say – you should not choose a private firm unless you have access to financials and a lot of qualitative information that you are able and willing to share. Here is a brief checklist of questions to look into when choosing a company:

- How well does the typical player in the industry perform? Calculate a few average performance metrics for 50+% of the market to get a sense for how “good” or attractive is the industry overall. ROIC, ROE, ROA, Margins, Revenue growth, etc.

- How well does the firm you have chosen to study perform? If you want to explain a valuable company – be sure the company is as profitable as you believe. You might also be interested in explaining poor performance – a company in decline or a company that failed to live up to its previous hype.
- What key “points of variance” does the firm enjoy?
 - On the WTP side? That is, is the company’s output judged as superior?
 - On the Cost side? Is the company’s output judged as comparable but the firm has a cost advantage? It is possible that both WTP and C are advantaged.
- What “moats” surround the firm’s point(s) of variance?
- Looking forward, what factors are likely to impact the performance of the firm and the market in which the firm competes over time?
- We will be going over a “framework for evaluating enterprise value” – once we’ve covered this framework, we can discuss your project productively and get to an interesting and useful narrative.

You should try execute the above in a creative, enlightening, and somewhat nuanced way. Go much deeper beyond the platitudes and shallow analysis that is often found in the press and equity analyst reports. A company in an industry with a small number of firms is usually a good place to start – there is much more interesting stuff going on in these industries. A list of suggested topics is given below. You are free to choose from this list, although this is by no means required. If you opt for your own topic, please keep your topic similarly discrete and more “narrow and deep” in proposed analysis.

Some research on the details is essential, but the key to a successful presentation is to analyze and teach vs. describe. Do not present material that is more efficient to read. You will be graded on how you answer questions such as, “why is the firm doing what it is doing?” Or “why is competition in the industry evolving the way it is?” **The biggest mistake which students make is devoting the majority of their time/page allocation to a description of the industry or company and providing very little in the way of analysis. This approach is particularly problematic for complex products/services – have to figure out a way to present such that presenting is better than reading. If helpful, you can assign a short pre-read for your presentation.**

Here are a set of questions to work through but your team and I should meet to determine an area of focus for your topic

1. Industry analysis
 - a) Five Forces
 - b) Industry Structure
2. Positioning:
 - a) Physical occupation of a subset of the industry with tangible and intangible assets
 - b) Description of the “real estate” the firm occupies – relationships, infrastructure or innovative capacity?
 - c) “Peeing” in the pool – or ruining this market for firms who might follow subsequently. What are the moats?
3. Resource based view (or idiosyncratic value): Are there key people or other “un-ownable” inputs that generate a meaningful share of the firm’s profits? How is an equilibrium achieved?
4. Corporate Scope:
 - a) What are the firms vertical, horizontal, and lateral boundaries?
 - b) Could the firm increase WTP by changing its boundaries?
 - c) Could the firm more effectively monetize or exploit its “monopoly” by changing its boundaries?
 - d) Could the firm decrease C by changing its boundaries?
 - e) Does the firm face a “Hobson’s choice” – extensive control is necessary but difficult to profit from?
5. What organizational attributes ensure that productivity (human/financial capital and use of the firm’s key strategic assets) allocated to best use? Are the people notably engaged?
6. Is there potential for sustained marketing advantages?
 - a) Any interesting channel issues?
 - b) Effective feedback of WTP for expensive product attributes?
 - c) How effective is communication? Use of social media? Revenue model?
7. Is there potential for sustained operational advantages?
 - a) Is the firm “on the frontier”?
 - b) Notable use of managerial accounting?
8. Are there financing choices that are critical to the firm’s “strategy”?
9. Any notable threats on the firm’s horizon?

Potential Topics: Often the project entails a contrast between two competitors. Here are some examples of projects from the past (repeating a past project is great as there is always something new to delve into). You do not have to choose from this list – choose any company that your team is sincerely interested in and that your classmates are likely to be interested in:

Adobe	Netflix
Amazon	Nike
American Tower	Nintendo
Beyond Meat	Nvidia
Blue Origin	Paypal
Chewy	Qualcom
Chipotle	Regis
Choice Hotels	Shake Shack
CVS	Simon Property Group
Disney	Space X
Dominos	Spirit
Estee Lauder	Spotify
Fedders	Square
FedEX	Stabucks
Ferrari	Tesla
Ford	The Gap
Hershey	Transdigm
IMAX	UPS
Levi Stauss	UBER
Lockheed	Ulta
Lululemon	Under Armour
LVMH	Uniqlo
Match.com (online dating)	Verisk
McCormick (spices)	Vestas
McDonald's	Wingstop
Microsoft (its cloud business)	

Below are some ideas additional project ideas more my industry:

Financial

- Visa/Mastercard and payments in general.
- Banking is many discrete industries. In a manner of speaking, where is the money?

Tech

- How does the equity market treat some stocks as “options”?
- Why the “race to space” (Blue Origin, Space X, etc.)?
- What is (fill in the blank with a lesser known tech firm who operates in a high profile value chain)’s “added value” and prospects for value capture? Will their ROIC be sustainably above their WACC at some point?
- Does (Google, Amazon, Disney, Apple, etc.) have a governance/management issue?
- Spotify, Netflix and others face daunting “COGS”—choose one and figure out if you like their future prospects?
- Who will be profitable among the sharing economy players? Will regulations catch up? What are the implications of regulatory adaptation to sharing?
- Oracle vs Salesforce: if they had to do it over again, what might they do differently?
- Horrify us with how much FAANG violate the spirit (if not the letter) of US antitrust laws.
- Gaming, streaming, sharing, hardware, hardware components, platforms, autos, rockets, etc..
 - What is the industry landscape?
 - Who is winning in terms of economic returns?
 - Describe the ecosystem. Where are the profits concentrated and why?
 - How is the market evolving? (i.e., packaged games vs downloads.)
 - How do companies win?
 - Any ESG issues to consider?

Consumer Goods

- Determine the strategic implications of the changes in the food retail landscape for a consumer-packaged goods firm such as Campbell’s, Kraft, Smucker’s – distinguish high value to weight (batteries) vs. low value to weight products (soda).
- Compare the prospects of being a CPG start up today vs. 20 years ago.
- Why is chicken more profitable than beef? Look at Sanderson Farms, Tyson.

Media

- Why has the media landscape concentrated to the extent that it has? What has happened to the customer acquisition/retention costs for advertisers?
- Net neutrality and its effect on the value of a firm. Choose a firm and consider how the elimination of net neutrality affects that firm’s value. (i.e., Disney, Time Warner, Netflix, etc.)
- Prospects of major music labels? Where does the potential for profits lie in the music ecosystem?

Retail / Restaurant

- Check out the Wondery podcast “Business Wars” – choose a war and apply course material to it
- Take a retail chain (Gap, Lulu, Best Buy) and determine what factors (taste, technology, regulations,

globalization and capital market issues) improve and constrain this chains prospects over the next few years. Do not forecast or develop a strategic plan – determine what is happening imminently.

- What is Amazon’s most profitable business? Long term prospects?
- What is Estee Lauder’s “monopoly”?
- What is LVMH’s corporate strategy?
- How well does McDonald’s, Chipotle, Starbucks, (or the chain of your choice) do, really? Is their corporate scope right? Why or why not? How much do returns vary by geographic market and why?
- Specialty retail

General Topics

- Most profitable cruise line business? Rules of winning in this business?
- Why are chicken firms (i.e., Purdue) so vertically integrated relative to beef?
- What business is on the glide path to commoditization but we don't see it yet?
- What is unlikely to be commoditized for a long time?
- How will a horizontal roll up of X create value?
- Identify an industry that is notably more concentrated today than it was 10-15 years ago? Why has MES increased and which firm exploited this change in MES well?
- Find two competitors in the same industry but with different ROICs – can you determine the effect of this difference on the earnings of human capital.
- Does CSR pay?
- Choose an industry and determine the effect of ratings/rankings: For example, college rankings.
- Choose a sports league (NFL, NBA, etc) and explain how value creation and value capture works from the perspective of a team owner.
- Auto industry? Best turnaround candidate, firm with best corporate strategy, etc.
- Do car dealerships add net value to the auto value chain or should they be “disintermediated”?
- Key to high QSR returns
- Key to high retail returns
- Does McKinsey truly have a new business model? Contrast McKinsey 1.0 and 2.0
- What are the keys to a successful pharma acquisition of a biotech?
- Find a firm that does an outstanding job discerning performance of its people – and determine if this has improved the value of the firm by a significant amount.
- Find a public but somewhat “off the radar” firm with a high and sustained ROIC and explain what is its “monopoly.”
- Look at what we would call “old, smelly industries,” like steel, trains, industries with a long lifespan and low obsolescence infrastructure
- Businesses with accumulated liability as a result of negative externalities on labor, environment, off-loading risk to external parties. Essentially, socially unconscientious firms where the lack of conscientiousness is not talked about presently. Look at ways to quantify the liability and do a better job of accessing the value of the enterprise.
- “Vices” are good business: choose among cigarettes, guns, other

Once you choose your project and team members, put this information in the [Course Spreadsheet](#)

A short note on proper citations

To most of you this will be probably self-evident, but I want to make sure that we all understand: Copying paragraphs from sources (magazine, newspaper articles, analyst reports etc.) without properly citing them is a SERIOUS offense! Properly citing means: if you copy word-by-word, you have to mark this by enclosing the copied text with quotation marks “ ” and citing the source. Even if you don’t copy word-by-word, but you take someone else’s idea, you have to indicate in a citation the source of that idea. This citation has to follow directly the idea (attach a footnote or an endnote). At the end of the paper, you should then list all sources that you have cited in the text.

Let me re-iterate: Non-proper citing is a very serious academic offense that in other courses has led professors to fail students and bring these students to the attention of the academic review board of the University. I think all of us want to avoid any such incident – and it is really easy to avoid such problems. Simply be careful in your papers that you attribute ideas/frameworks etc. that you use to their respective sources.

APPENDIX B:

Information Sources: You may want to explore and draw from the following sources of information:

I have connected with several former students on [LinkedIn](#) and they are generally receptive to meetings – especially now that we are all familiar with zoom. If you connect yourself on LinkedIn – teams have a great hit rate.

You might may be able to set up a virtual meeting with a University Librarian. Be prepared and know your data and information needs before you meet.

In general, you can get a lot done on your own through the virtual business library.

Here are some examples of subscriptions you have access to that are business focused:

Company Analysis:

1. Mergent Online: Company profiles, financials, analyst reports, SWOT analyses. Specializes in public companies, but has some private firm coverage as well.
2. Thomson ONE: A more sophisticated alternative to Mergent but only works in Explorer and only covers public companies. It has broader broker report coverage and more sophisticated searching across reports (Compatibility plugins for Firefox and Chrome exist on Windows).
3. Pitchbook and CB Insights: Research startups. Who’s funding, competing, acquiring.
4. Industry & Market Research
 - IBIS World: Templated industry reports with core information on growth and trends
 - B2C: Mintel Academic has consumer market research
 - Passport: International consumer market research
 - B2B: BCC Research (industrials)
 - Gartner: IT/tech
 - A bit of everything: MarketResearch.com and Statista
5. Market Analysis Tools:
 - Simmons Insights: Consumer insights survey dataset with crosstabs focused on behaviors, brands, and preferences. Start with the “Brand Catalyst” and “Sales Catalyst” interfaces.
 - Simply Analytics: Demographic, consumer, and business data mapping platform.
6. Consulting Firm Reports/White Papers
7. Google Advanced Search: Keywords + Filetype: PDF+Deloitte, PricewaterhouseCoopers, McKinsey, Bain, etc.

Below are websites that may contain some useful information. I do my best to keep the links up-to-date but some may have expired. You can find these sites via a Google search as well.

Country-level

- [World Economic Forum Global Competitiveness Report](#)
- [Economist Intelligence Unit Country Reports](#)
- [Institute for Strategy and Competitiveness \(Porter\)](#)

World Bank

- [Doing Business Guides](#)
- [Business Environment](#)
- [Investment Climate](#)
- [Investing Across Borders](#)
- [Enterprise Surveys](#)
- [Private Sector Data](#)
- [Governance Indicators](#)

United Nations

- [Foreign Direct Investment Report](#)
- [Investment Prospects](#)
- [Gap Minder World View](#)
- [International Labor & Employment Statistics \(compendium of web resources from Int'l. Labor Organization \(ILO\)\)](#)
- [International Comparative Labor Statistics from U.S. Bureau of Labor Statistics](#)
- [Transparency International Corruption Perceptions](#)
- [Ghemawat Global Strategist Online Resources](#)
- [Business Monitor International](#)
- [CIA World Factbook](#)
- [Heritage Institute Index of Economic Freedom](#)
- [IHS Global Insight](#)
- [ISI emerging markets](#)
- [Factiva](#)

Industry- and Firm-level

- Use online financial information – Capital IQ, Bloomberg
- Statista has a lot of good data
- American Fact Finder (US Census data);
http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ECN_2007_US_44SSSZ5&prodType=table
- [Business Monitor International](#)
- [Euromonitor](#)
- [Orbis \(includes Datamonitor\)](#)
- [EBSCO Business Source Complete](#)
- [ISI emerging markets](#)
- [Factiva](#)
- [PROMT](#)
- Professor Aswath Damodaran Online: <http://pages.stern.nyu.edu/~adamodar/>
- [Ghemawat Online Resources](#)