



## MGMT 7010: STRATEGY AND COMPETITIVE ADVANTAGE

Fall 2023 (Q2)

v. 8/29/23

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### 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 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.

Your grade will be composed of the final paper (54%), three short individual class submissions (3% each) and class participation (37%). The discount rate for late papers is severe. 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. **Please remember to check in to class using the attendance app on Canvas.** If you need to miss a class, it is mandatory to report this using the absence request app. Students with excused absences will be provided access to class recordings. For more details on the apps, please see:

<https://support.wharton.upenn.edu/help/wharton-attendance-absence-and-video-requests-module-for-students>

The TAs for this class are Brittany Mallory ([bmallory@wharton.upenn.edu](mailto:bmallory@wharton.upenn.edu)) and Emily Ulrich ([emulrich@wharton.upenn.edu](mailto:emulrich@wharton.upenn.edu)).

### **Individual final paper (Due 12/15 at noon)**

Select a firm and conduct a “strategy audit” for this firm. Address the following questions:

1. Briefly describe the history of the firm until the present day. (\*)
2. What industry does the firm operate in? Conduct an industry analysis (5 Forces + complementors) from the perspective of an “average” firm. (\*\*)
3. What is the overarching strategy (advantage on WTP or cost?) and positioning (products/customers/geography) of the firm? (\*)
4. What strategic choices has the firm made that implement the above strategy and positioning and which choices are different from those of its competitors? (\*\*\*)
5. How do these choices address (or don’t address) the six forces you identified above? Is the firm more or less affected by any of these forces than the average firm? (\*\*)
6. What is the firm’s positioning relative to its competitors? Conduct an analysis of WTP and cost drivers and plot two efficiency frontiers for two different customer segments. Place your firm and a number of competitors on these plots. (\*\*\*\*)
7. Has the firm created a competitive advantage? If yes, how? If not, why have they failed? (\*)
8. If the firm has created a competitive advantage, how sustainable do you think it is? (\*\*)
  - a. How much of this sustainability is created through tradeoffs that this firm has created/exploited?
  - b. How much of this sustainability is created through interdependencies among its choices? Please spell out some interdependencies.
9. Alternatively to 8 (\*\*): If the firm has not created a competitive advantage
  - a. How much of the failure to achieve a competitive advantage is rooted in the tradeoffs that other firms in its industry have created?
  - b. How much of the failure to achieve a competitive advantage is rooted in the interdependencies that its competitors have created in their strategies? Please spell out some interdependencies.
10. What lessons can we derive from this company’s experience? (\*\*)

The number of \*’s gives you a rough idea of how much space to spend on this section.

Please keep the maximum of the paper to 15 pages of text (plus 2-3 pages of exhibits if needed). Please use double spacing and 12 point font.

### **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.

### **GENERATIVE AI/CHATGPT POLICY**

If you think it’s helpful, you may use chatGPT or other generative AI tools (at your own peril). In the words of our colleague Ethan Mollick, “[chatGPT] is a consummate bullshitter, and I mean that in a technical sense. Bullshit is convincing-sounding nonsense, devoid of truth, and AI is very good at creating it.” The problem with chatGPT is that it will happily make up facts, does not reveal its sources, and/or make up sources (MLA formatted!). In other words, whenever it provides you with a “fact” assume it’s wrong unless you can double check it with another (more reliable!) source. If you copy AI-generated content and use it verbatim, you need to cite it as you would if you had copied content from another source. If you decide to use chatGPT (or another tool) please add one short paragraph at the end of your paper (which will not count against your word count) and describe how and for what purpose you used it (e.g., include the prompts you used).

## 10/23 Session 1: Course Logistics, What is Strategy? Five-Force Analysis

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

Porter, Michael E. 2008. "The Five Competitive Forces that Shape Strategy." *Harvard Business Review*, January, pp. 79-93.

*Study questions:*

Please read the Mintzberg and Waters (1985) piece and review your notes on Five-Force Analysis. The Porter (2008) article is a nice recap of industry analysis.

1. How would you define "strategy"?
2. Who makes strategy? Who should make strategy? In your experience, have strategies been deliberate or emergent?
3. What is a Five-Force Analysis? What makes such an analysis difficult?

## 10/25 Session 2: Complementors

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

*Case:* Power Play (A): Nintendo in 8-bit Video Games, 9-795-102

*Study questions:*

1. Nintendo successfully recreated the home video game business following the Atari-era boom and bust. How did it do so?
2. How was Nintendo able to capture value from the home video game business? Use the Value Net as a starting point for your answer.

## 10/30 Session 3: Value Creation, Value Appropriation

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

*Study questions:*

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?
  - b. What is the added value of each player?
  - c. How much value do you expect each player to capture?
  - d. 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.
2. 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"?

## 11/1 Session 4: Positioning and Complementarities

*Assignment #1: Please submit a copy of Lincoln's activity system by 8am*

Porter, Michael E. 1996. "What is Strategy?" Harvard Business Review (November-December): 61–78.

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.

Optional: Siggelkow, Nicolaj. 2002. "Evolution toward Fit." Administrative Science Quarterly, 47: 125-159.

Optional: Porter, Michael E. and Nicolaj Siggelkow. 2008. "Contextuality within Activity Systems and Sustainability of Competitive Advantage." Academy of Management Perspectives, 22 (2), pp. 34-56.

1. What, in your view, are the five key points in Porter's article?
2. What is the definition of complementarity as given by Milgrom and Roberts?
3. Using the information given in Section 5 of the "Complementarities and Fit" paper, draw an activity system of Lincoln Electric. **Please submit a copy of your activity system by 8am.** (You can scan your hand-drawn graphic if you like; don't waste time on fancy graphics.)

The last two readings are optional. The Siggelkow (2002) paper provides a more longitudinal perspective to the topic of activity systems. The Porter & Siggelkow (2008) article goes into more depth into issues involving complementarities and interactions in general and reviews recent academic research that has been done on this topic.

## 11/6 Session 5: Positioning Applied

*Case:* Trader Joe's, 9-714-419

*Study questions:*

1. How do firms in the supermarket industry make money?
2. What are the key sources of Trader Joe's competitive advantage?
3. What are the main threats to Trader Joe's competitive advantage? Is their advantage sustainable?
4. How would you modify Trader Joe's strategy going forward?

## 11/8 Session 6: Positioning Applied

*Case:* LEGO (A): The Crisis, N9-73-478

*Study questions:*

As this case opens, iconic toymaker LEGO stands on the brink of bankruptcy. Jørgen Vig Knudstorp, LEGO's young and newly appointed CEO, must size up changes in the toy industry, learn from the company's recent moves, and craft a strategy that will put LEGO back on track.

1. What has led the LEGO Group to the edge of bankruptcy?
2. What is your assessment of the management moves during "the growth period that wasn't" and "the fix that wasn't"?
3. As Jørgen, what would you do throughout the LEGO Group in order to turn the company around? Be specific.

## 11/13 Session 7: Connected Strategy

*Individual assignment #2: Please submit your matrix and short explanations by 8am*

Read the Prologue and Chapters 1, 4, 5 and 7 of *Connected Strategy*

*Study questions:*

1. Download the worksheets from: <https://connected-strategy.com/cases/> by clicking on “View Blank Worksheets.” Pick an industry and four firms. Place the firms onto Slide 19 of the downloaded worksheets (“Step 1: Use the Connected Strategy Matrix to map your own activities and the activities of your competitors”). Write a few sentences on why you placed each firm into the particular cell(s) of the matrix (1 page max). **Please submit your matrix and short explanation by 8am.**

## 11/15 Session 8: Increasing Returns and Entry

Grove, Andrew S. 1996. Only the Paranoid Survive. pp. 27–35.

*Case:* Honda (A): 9-384-049

*Study questions:*

1. What is a Strategic Inflection Point? How do you recognize one? (Please try think of ways beyond the ones Grove suggests.) Where in the cases that we have studied did SIPs occur? What are other examples of SIPs?
2. What is the strategy that has allowed Honda to be so successful in the motorcycle industry and, in particular, in the United States?
3. How did Honda come to have this strategy and its associated choices?

## 11/20 Session 9: Barriers to Change

*Case: will be made available after previous class*

## 11/27 Session 10: Competitor Reactions

*Case:* Bitter Competition: HSC vs. Nutrasweet (A): 9-794-079

*Study questions:*

1. As Bob Shapiro, you face competition in Europe and Canada for the first time. What do you do? Launch a price war or accommodate this entry? What are the payoffs for each strategy?

## 11/29 Session 11: Summary Case

*Individual assignment #3: Please submit your questions and answers by 8am*

*Case:* The a2 Milk Company: N9-719-424

*Study question:*

Imagine this case were the final exam for this class. Come up with three questions and sketch out answers for them (bullet points suffice; 2 pages max). In other words, think about which issues that we covered in class are raised in this case. **Please submit your questions and answers by 8am.**

## 12/4 Session 12: Strategy Planning & Wrap-Up

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

*Study questions:*

You don't need to read the HBR article, I will talk about it in detail. It's there for your reference. If you find time, I would recommend reading the strategy survey piece. It provides a nice overview of the field of strategy from both an academic and consulting point of view. I believe you will enjoy it as a "capstone" reading for this class.

1. You are being asked by your boss/your client: "Please help us in drafting up our next strategic plan." What do you do? What questions do you need to have addressed?

*Final Paper Due 12/15 at noon!*