



M&S 431: Business Strategy Summer Quarter 2007 Syllabus

Section 61
Tuesday and Friday
10:30 AM – Noon

Section 62
Tuesday and Friday
1:30 – 3:00 PM

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Office Hours: Friday 3-4pm
or by Appointment

I. Course Description

A. Course Overview and Objectives:

For the purposes of this course, we will define business strategy as the set of objectives and policies that collectively determine how a firm generates wealth for its owners. Over the quarter, you will be introduced to concepts and frameworks used to analyze and formulate business strategies. You will learn practical analytical techniques for diagnosing a firm's competitive position, identifying managerial issues, evaluating alternative plans of action, and anticipating the consequences of specific decision options.

The course will focus on two main questions:

- What allows certain firms in certain industries to succeed — that is, earn positive economic profits — while other firms fail?
- Why can certain firms sustain their economic profits over long periods of time, while for other firms these profits quickly disappear?

The concepts, skills, and analytical tools that you will learn in the course rest upon a foundation of economic principles. Foremost among these is the principle that a business exists to create and capture wealth, above and beyond the cost of capital, for its owners. The ability of a particular firm to do this rests on the overall profitability of its industry, the specific resources the firm has at its disposal, and the positioning of the firm in a sector of the industry where its resources enable it to compete successfully. The ability of a firm to sustain success depends on whether other firms can successfully emulate its strategies and whether the firm can adapt to changing environmental conditions through time.

The course is organized into two sections:

1. Strategy Assessment: Analytical Frameworks and Diagnostic Tools

- Value Creation/Capture Framework – Simple but powerful model of consumer and firm interactions that translates economics to strategy.
- Five Forces Analysis – Assessment of the competitive pressures in an industry.
- Company Analysis – Identification of factors most important to a firm's profitability and the extent to which they are adapted to the firm's external environment.
- Dynamics and Sustainability – The role of time-related economic considerations in strategy; particularly relevant in fast-moving, contemporary industries and environments.

2. Strategy Formulation: Economic Fundamentals for Successful Initiatives

- How should firms factor the behavior and incentives of rivals into the strategy formulation process?
- How does a firm's competitive environment influence the types of products it should offer?
- Which business opportunities and stages of production should firms be involved in and which should they leave for others to undertake?
- How should firms weigh the risks and benefits from investments in new resources and capabilities, particularly when market conditions are highly uncertain?

This overall structure is designed to help organize what you learn into an overall framework for evaluating business strategy. **However, it is important to recognize upfront that this class can not be as perfectly organized as a simple outline would suggest.** This is not accounting or statistics, which begin with core, universally accepted principles, and then build to harder problems and applications. Instead, strategy is complicated throughout, and we will be learning new tools to answer new questions that arise throughout the class. This can be initially frustrating to students, but hang in there!! By the end nearly all students find the class coming together and feel more prepared to approach the inherently complex issues of strategy they will face in the “real world.”

B. Teaching Approach:

The approach toward teaching and learning strategy in M&S 431 is primarily **inductive**. Students will come to understand the concepts and principles outlined above largely through examples — this is the essence of the case study method. The goal is to carefully study specific business situations and decisions to develop broader principles about business strategy. This broader understanding can then be applied in a wide variety of managerial contexts.

Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find the complexity and ambiguity frustrating. The problem presented in the case may not have one "correct" answer; however, there may be a set of insights and solutions that is better than others. The assigned readings and lectures will complement the cases by providing useful background information and further explanation of the important concepts. As we discuss the cases, we will apply the concepts and principles introduced in the readings and lectures to identify those solutions that have the best probability for success.

For a case discussion to be a valuable learning experience, it is essential that all students come prepared to discuss the cases and readings assigned for that class. Group and individual work will be assigned to facilitate your preparation for each case – these questions will ultimately serve as the focus of classroom discussion. I ask that you deal with the cases as you find them: unless specifically directed, do not do additional research to find outside or post-case data on the firm or industry. To the extent that you already have post-case or inside information, I will give you the opportunity to share it with the class at an appropriate point in the discussion.

C. Assignments and Assessment:

At the start of the quarter, each student will be assigned to a study group. The groups will turn in the group case assignments that will be due during the term as described below. In addition, I encourage the groups to meet in advance of class discussions of cases to talk about the cases and the case discussion assignments. The following summarizes the student responsibilities for the quarter and their contribution to the course grade:

Written Assignments: There are four categories of written assignments, corresponding to the cases we will discuss in class, which will be required during the quarter. Specific details on all assignments (including when and how they are to be submitted) will be provided in advance of their due date on the course website. Each category is described below:

1. Group Case Assignments:

Each group will be responsible for completing two in-depth case assignments during the quarter. These assignments will be distributed among the groups so that (1) each group does one case assignment from the first half of the quarter and one assignment from the second half of the quarter and (2) the assignments are distributed such that each case is covered by an equal number of groups. Groups will be assigned to cases randomly – I will let you know which cases each group is responsible for in the first class session. The two group case assignments will collectively comprise 10% of the course grade.

2. Individual Case Assignments:

These will be one-page case write-ups due for each of the cases for which there is no group assignment to turn in. These will be collected and reviewed (but feedback on these assignments will be less extensive than on the group case assignments).

3. Individual Essay:

At some point during the quarter, I ask that you submit a short **individual essay** (750 words) relating the course material to your professional experiences. The essay is due one week after the relevant course material has been covered. You do not have to hand-in the individual case assignment for the week you submit this essay. This essay together with the four individual case assignments will collectively comprise 5% of the course grade.

4. Group Capstone Analysis:

All groups will prepare a case analysis in conjunction with the capstone cases on Apple & Dell, due the last day of the quarter (8/15). This assignment will comprise 10% of the course grade.

Midterm Exam: The first exam for the course will be a closed-books, closed notes exam consisting of short answer questions and problems based on material from the first half of the

course. The exam will be during class time on July 20th. I will provide detailed information about the content of the exam as its date approaches. The midterm exam will be worth 30% of the course grade.

Final Exam: The Final Exam will be a “take-home” exam. The exam will consist of essay questions based largely on material from the second half of the course. Sample exam questions will be provided in advance of the exam. The exam will be posted on the course website August 17th 5PM, and is due August 20th 9AM. The Final Exam will be worth 30% of the course grade.

Class Participation: **Attendance, preparation, and participation** are essential in this class, as in any class based on the case method. Obviously, you cannot participate if you are not present, so frequent absences will lead to a reduced participation grade. Learning opportunities are maximized when all students are actively engaged in class discussion. Active engagement means that you are **listening carefully** to the comments of other students and seeking opportunities to make comments that move the class discussion forward.

Case discussion constitutes over half the class time, so there will be ample opportunity for everyone to participate. Do not be discouraged if, after the first few classes, you have yet to speak up much. To increase opportunities for effective participation, **I will occasionally cold call students** during the course of a discussion. Students in groups that are preparing the in-depth assignment for a particular case should be especially prepared to be called on during that case discussion. If you feel that you are preparing well but that I am not calling on you often enough, please let me know so that I can address the problem. Chances are very good that if you have invested quality time to prepare the case, you will have something valuable to say during the course of the class discussion.

Class participation will comprise the remaining 15% of the course grade. Your participation score will be assigned at the end of the term based on my assessment of your contributions throughout the quarter (I will make notes after each class session to facilitate my recollection.) Class participation will be evaluated primarily on effort early in the course, shifting toward evaluation of content as the course goes on. The evaluation of content will be based on the following:

- **Relevance:** Are your comments clearly related to the case and to the comments of others?
- **Advancement:** Does your comment move the class discussion forward? Does it take the discussion farther or deeper than the previous comments?
- **Support:** Have you used specific data from the case, from readings, or from personal experience to back up the assertions that you are making?
- **Logic:** Is your reasoning consistent and logical? Do you use economic concepts correctly?

The purpose of the above list is not to discourage you from participating!! Rather, the points are intended to push you to present full and complete thoughts rather than sound bites. Also, do not feel compelled to speak incessantly, filibuster, etc. This will only serve to annoy your fellow students (and the professor).

D. Readings:

The textbook is The Economics of Strategy by David Besanko, David Dranove, and Mark Shanley and Scott Schaefer, Fourth Edition (BDSS on the reading list). Page references are provided below for students with a copy of the 3rd edition of BDSS. A course packet, which includes the cases and additional articles on the syllabus, is also required.

E. Additional Course Materials:

Students are responsible for checking the course website to download the slides, notes, and additional articles they wish to use for further review. I will post new materials each Tuesday and Friday by 6pm. Since these materials will be available on my website, I will not regularly pass them out in class.

1. **Lecture Slides:** An outline version of each lecture's slides will be posted prior to class. The posted outline version will omit some details that will be introduced during the lecture; still you may want to print a hard copy and bring it with you to class to follow along. The complete version of each lecture will be posted after it is covered in all sections.
2. **Case Discussion Assignments (Group/Individual):** These will be posted in advance of the case discussion. Groups are encouraged to meet prior to every case, to help students organize their thinking about the issues relevant for the firm and its industry.
3. **Lecture Notes/Case Summaries:** I will prepare a detailed breakdown of each lecture and a summary of each case that we discuss. These materials will be provided so that students can **listen** and **participate** in class, rather than take notes!! The lecture notes and case summaries will be available to download after they are covered in all sections.

I will also provide links to additional articles and websites that may be relevant or just interesting. Often there are follow up issues with particular cases that students find very informative.

F. Classroom Etiquette, Honor Code, etc.

Due to the nature of this course, there will be no need for students to have electronic devices in operation during class time. Students requesting exceptions should contact the professor prior to the first class.

Students are expected to abide by Kellogg's Honor Code and Code of Student Etiquette at all times. Specific guidance on Honor Code issues will be provided during the quarter, as necessary.

G. Microeconomics Tutorial

While Microeconomics is not a prerequisite for Management & Strategy 431, we will employ basic economics throughout the course. I will introduce the most important relevant economic concepts briefly in the first lecture. Students who need additional economics review should start with the material in the BDSS textbook (p. 9-35) and the on-line Microeconomics Tutorial (available on the Kellogg website). Please do not hesitate to contact me with additional questions or concerns.

II. Syllabus

Course Part 1 — Strategy Assessment: Analytical Frameworks and Diagnostic Tools
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Topic 1.1 — Economics & Strategy: An Introduction

- Class Session 1 – June 22

P. Ghemawat, “Origins of Strategy,” Chapter 1 of *Strategy and the Business Landscape*

BDSS, p. 1-8 (3e: 1-8)

- Class Session 2 – June 26

M. Porter, "What is Strategy?" *Harvard Business Review*, Vol. 74, Nov/Dec 1996, p. 39-73.

BDSS, p. 346-358 (3e: 358-373)

C. Oster, “How AIG Wagered on a Maverick of the Bail-Bond Business and Lost,” *Wall Street Journal*, April 10, 2001

- Class Session 3 – June 27, **NOTE!!! MAKE-UP CLASS!**

Case: PERFORMANCE INDICATOR (HBS 9-702-480)

Topic 1.2 — Industry Analysis

- Class Session 4 – June 29

BDSS, p., 313-318; 320-328 (3e: 328-333; 335-343)

D. Michaels, “Airbus and Boeing Duke it Out to Win Lucrative Iberia Deal,” *Wall Street Journal*, March 10, 2003

"Of God, Larry Ellison, and Antitrust," *The Economist*, 3/2004

- Class Sessions 5 & 6 – July 3 & 6

Case: CROWN CORK & SEAL IN 1989 (HBS 9-793-035)

Topic 1.3 — Company Analysis

- Class Session 7 – July 10

BDSS, p. 358-363; 403-415 (3e: 373-380; 424-438)

J. Whalen, “A Big Drug Maker Mover to Play Down Mass-Market Pills,” *Wall Street Journal*, September 20, 2004

- Class Session 8 – July 11 **NOTE!!! MAKE-UP CLASS!**

Case: ENTERPRISE RENTAL CAR (based on the following articles)

G. Jacobson, “Enterprise’s Unconventional Path; Rental Car Giant Successfully Shuns Industry Shakeout,” *The New York Times*, January 23, 1997, p. 4-5

B. O’Reilly, “The Rent-A-Car Jocks Who Made Enterprise #1; Forget Hertz and Avis, Enterprise’s Quiet Invasion of Small-Town America”

Topic 1.4 — Game-Theoretic Approach to Strategy Formulation

- Class Session 9 – July 13

A. Brandenburger and B. Nalebuff, “The Right Game: Using Game Theory of Shape Strategy,” *Harvard Business Review*, July-August 1995, p. 57-71.

BDSS, p. 35-39 (3e: 35-39)

- Class Session 10 – July 17

Case: DE BEERS CONSOLIDATED MINES LTD. (A) (HBS 9-391-076)

90 MINUTES CLOSED-BOOK MIDTERM EXAM WILL BE ADMINISTERED IN CLASS ON FRIDAY, JULY 20

Course Part 2 — Strategy Formulation: Economic Fundamentals for Successful Initiatives

Topic 2.1 — Strategic Positioning for Competitive Advantage

- Class Session 12 – July 24

BDSS, p. 203-207; p. 363-384 (skim) (3e: 214-218 excluding ex. 6.5; 383-408(skim))

C. Binkley, “Numbers Game: Taking Retailers’ Cues, Harrah’s Taps into the Science of Gambling,” *Wall Street Journal*, November 22, 2004

- Class Session 13 – July 27

Cases: SOUTHWEST AIRLINES: 1993(A) (HBS 9-694-023)

JETBLUE: STARTING FROM SCRATCH (HBS 9-801-354)

Topic 2.2 — Vertical Integration and Firm Scope

- Class Session 14 & 15 – July 31 & August 3

T. Hubbard, “Integration Strategies and the Scope of the Firm,” in *Mastering Strategy*

C. Oster, “Insurers, to Control Costs, Take Over Car Repair Work,” *Wall Street Journal*, April 8, 2003

C. Terhune, “Growing Pains: To Bag China’s Snack Market, Pepsi Takes Up Potato Farming,” *Wall Street Journal*, December 19, 2005

C. Terhune, “Taste Test: U.S. Thirst for Mexican Cola Poses Sticky Problem for Coke,” *Wall Street Journal*, January 11, 2006

- Class Session 16 – August 7

Case: SKYPE (HBS 9-806-165)

Topic 2.3 — Dynamic Analysis and Sustainability

- Class Session 17 – August 8 **NOTE!!! MAKE-UP CLASS!**

BDSS, p. 415-422 (3e: 438-446)

“Triumph of the Nerds: The Rise of Accidental Empires,” video

CAPSTONE CASES: DELL & APPLE

- Class Sessions 18, 19 & 20 – August 10, 14 & 15 **NOTE!!! MAKE-UP CLASS! Aug. 15!!!**

Cases: MATCHING DELL (HBS 9-799-158)

DELL: NEW HORIZONS (HBS 9-502-022)

APPLE COMPUTER IN 2002 & 2005 (HBS 9-702-469 & 9-705-469)

D. Darlin, “Falling Short of A+; Dell is Trying to Bounce Back from a Bad Year,” *New York Times*, June 15, 2006.

J. Snell, “Apple & Intel: What you need to know,” *Macworld*, June 8, 2005.

Additional materials, TBA

<p style="text-align: center;">Take Home FINAL EXAM Posted Friday, August 17th 5PM, due by 9AM Monday, August 20th</p>