



THE UNIVERSITY OF CHICAGO
Graduate School of Business

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Competitive Strategy

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SYLLABUS (Updated, March 28, 2005)

A. ADMINISTRATIVE INFORMATION

Contact Information

Materials

- Course Packet (Required)
- Besanko, David, David Dranove, Mark Shanley, Scott Shaefer *Economics of Strategy*, Wiley (Required)
- Dixit, Avinash and Barry Nalebuff, *Thinking Strategically*, Norton, 1991. (Required)

B. COURSE OVERVIEW

This course applies tools from microeconomics, industrial organization and organizational economics to competitive decision making. The emphasis is on the application of these concepts to business situations, and as such the course relies heavily on the analysis of case studies. The course is divided in three parts. The first part introduces tools to understand industry economics and the determinants of industry-wide profitability; it then studies the determinants of the individual firms strategy and profitability, focusing on both organizational and positional aspects. The second part studies firm and industry dynamics, focusing on technological discontinuities and changes in competition and the reaction of individual firms to these changes in their environment. The third part introduces basic game theory as a tool to analyze competitive interactions when the number of players is small and the industry is being shaped by the interactions between these players. This tool is used to analyze issues such as bargaining power, price competition, entry and exit decisions, standard setting and technological competition.

The course is heavily based on case discussions. Students will be expected to prepare in depth up to two cases per week. For each class meeting, study questions will be assigned concerning a case study. We will discuss these questions and the material in the case for most of the class period. Before each case discussion, each student will be required to submit a memorandum (up to two pages) of analysis and recommendations (for a total of around 12 to 15 memoranda). Group work is encouraged, but not required on these short memoranda. Memoranda with up to three names on them are acceptable. All required cases and supplementary readings will be in the course packet.

A note on case analysis: Students often ask instructors of case-based classes to hand out their own case analysis after the class has discussed the case. We will not do this. First, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good arguments and bad arguments. This course is designed to help you learn to distinguish between sensible and senseless arguments. Handing out our analyses would reduce the ambiguity in the cases and partially defeat the purpose of doing cases. (A corollary of this is that being comfortable with the ambiguity inherent in 'real-world' situation is a prerequisite to take this course.).

C. COURSE REQUIREMENTS AND GRADING [REPLACES SECTION IN PACKAGE]

Grades

Based on class participation (35%), case write-ups (10%), two group blog contributions to Strategy Today (20%; 10% each one) and an in-class case-based final, which students will receive and have time to prepare at home for several days (35%).

a. Class Participation

Professors will come to class each day with a teaching plan that will try to achieve a logical progression through the key issues in a given case. To this end, study questions (see section F below) have been prepared to lead the discussion. However, it is important to appreciate that the students in the class are *co-producers* of the class discussions. Class members need to listen carefully to one another and to build on or critique prior comments. Class members should also try to resist the temptation to jump to topics that are not specifically open for discussion. When that happens, it is the responsibility of the class and the professor to bring the discussion back on track. The discussion should be a conversation in which all participants recognize that they have an obligation to advance our understanding of the issue at hand. Your contributions to this learning *process* will be appraised in addition to the content of what you contribute.

Some of the specific aspects on which you will be graded include:

- Is the participant a good listener?
- Are the points made relevant to the discussion? Are they linked to the comments of others and to the themes that the class is exploring together?
- Do the comments add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem?
- Is there a willingness to challenge the ideas that are being expressed?
- Is there a willingness to test new ideas, or are the comments “safe” (such as repetition of case facts without analysis or conclusions, or of comments already made by other participants)
- Does the participant integrate material from past classes or readings where appropriate? Do the comments reflect cumulative learning over the course, or does the participant merely consider each case in isolation?

You should be prepared for every class. If for some reason you are not prepared, please let us know before the start of class. We may open the class by asking someone to summarize the readings or cases briefly, or answer a short question. With a reading, you should be able to outline the problem that the article addresses, describe the core points of the reading, and, most importantly, offer your analysis of the strengths and weaknesses of the reading’s central argument. With a case, you should be able to identify the key issues, problems, and opportunities facing the central protagonists, to articulate and evaluate alternative approaches to the problems, and to describe the course of action that you recommend and the reasons for your recommendations.

Before a case is analyzed in class, you should neither read an analysis of the cases nor discuss it with students who have previously discussed it in class (either in a previous year or in a different course or section). Similarly, you should not share the notes handed in class with another student

who may take the course at some later time. If you are in violation of this policy, or know of someone who is, please discuss it with us.

Also, make sure that we have your picture. The Dean of Students supplies us with photos of all registered students. If you did not supply the GSB with a photo when you registered please bring a picture to class with your name on the back and hand it to the instructor.

b. Case Write-ups

You can find in your package several study questions for each case (they are in the package under Case Questions). One of them is often boldfaced. For most of the class period, we will consider these questions and the material in the case.

Each student will submit a two-page memorandum of analysis and recommendations at the beginning of each week starting on Week 2. You may miss one week. This means you need to hand in a total of 8 memoranda. This memorandum should focus on one of the questions that appear in bold in the Case Questions. If you are working in a group, we will accept one memorandum from the group and count it for all students in the group. Each memorandum should be typed and double-spaced. Write these as if you were writing a recommendation to the major decision-maker in the case. The two-page limit is for text only. You may attach as many numerical calculations as you wish. Memoranda will not be accepted after the class has met. A memorandum will be given credit if it is handed in and no credit if it is not. Initially, therefore, we will not grade them. However, we will use the memoranda to determine final grades for those students who are on the border of an A or B, the border of a B or C, or the border of a C, D, or F.

The memoranda count for 10% of the final grade. The memoranda will have greater importance for those students on the A / B, B / C, or C / D / F borders.

c. In class final case write-up

During week 10, I will give you a case to take home and read, but I will not give you any questions. You can write individually all over the case itself as well as prepare additional notes with tables, calculations, etc. of up to 1 single sided page (8 1/2 by 11). No group collaboration or use of outside information is allowed in preparing for the exam. On the date the exam is scheduled, I will hand in the questions and you will write, using your notes and cheat sheet.

d. Blog: STRATEGY TODAY

As a way to increase the relevance to you of the strategy class, I am starting a new experiment: a class blog. The blog will be located at <http://www.strategytoday.blogspot.com/>. You will be expected to write, in a group of 3 people, 2 blog entries over the course of the term. These blog entries should deal with a current issue affecting business Strategy in the news. For example, the entry could be “General Motors to purchase Ford”. It would have the following broad structure:

- You would discuss the news, preferably recent but not necessarily from the previous couple of days, with some links to newspaper accounts of what you are talking about.
- You would then discuss the reactions by business analysis (in I-Banks or in the press)
- You would then add a discussion/analysis of some issue that is overlooked, or some personal take on the issue. Are the analysts on the right track? What is wrong with the conventional wisdom? The premium should be on being provocative and leading people to pose questions that

they had not thought about, rather than on making a boring on the one hand on the other hand analysis (you are not economists here!).

This would add up to a 700-1000 words piece roughly. To see good examples of what I have in mind, go to Slate.com (www.slate.com) and check out what people such as Jack Shafer and William Slatan or, on business matters Daniel Gross. For example: <http://www.slate.com/id/2115217/> is a great example.

Other students are welcome to post comments on your post. I will evaluate the 2 contributions of each group; they will count for 20% of your grade. But I will not grade you on the comments/responses etc. you may post on other students' articles; you may write them, and that will be fun for all of us, but this part is not obligatory.

Writing and Submitting your Contribution

Here are some specific instructions on how to go about this:

1. Write your posts in Microsoft Word, and then send the files as an attachment.
2. Your analyses are due by 7pm Monday-Thursday and 5pm Friday. You hand them in by e-mailing the file to my TA in charge, Rachel Soloveichik. Her e-mail address is rachelsoloveichik@msn.com. She will post all files handed in the morning of the next day to the blog. Be sure to check regularly on the blog site, to read what is going on. Feel free to comment and discuss on others' contributions as the term advances.
3. Give your analysis a catchy title that captures the substance of what you want to say. See the Gross article above for example. He wants to say that Investment Banks are purchasing physical assets in the energy industry. He does not title: "New strategies for Investment banks" that is a really bad title. A good title but less catchy would have been "Investment banks pursue asset heavy strategy"; a genius title is the one that he actually chose: "The New Enrons (and we mean that in a good way)".
4. Your analysis should include links to the articles you are referencing. To do this, proceed as follows: suppose you want to make xxx a hyperlink to www.google.com. Type xxx in, then highlight xxx and right click. In the middle of box is the option hyperlink. Select that option. You will be offered the option to type in a url that xxx will link to. Type or paste in www.google.com. Now if you click on xxx you will go to Google. Note: many papers require registration: WP, NYT, Chicago Trib; some papers require subscription for the online edition—WSJ, FT. To the extent that the actual content is not important to your argument but just the factual news, try to rely on open news sources, so that everyone can click and follow the links included.
5. Put the names of all the writers at the bottom of the text. If your name is not included you will not receive credit for the assignment. Your names will be included in the post.
6. Be careful when you write your assignments: on the Internet everything lasts forever and can be searched. Thus no profanities, insults, discriminatory, sexist or racist language is allowed. Be careful also with the spelling and the grammar—this will be 'published' for everyone to see (maybe your mother and grandmother?) and you want it all to be clear and cleanly written.

How Dates will be allocated

Groups must reserve ahead of time dates they want to post. At most, 4 groups can post on one day. E-mail your preferred days to the TA. When you e-mail her give the names of each person in your group. We will then allocate dates on a first-come first served basis. We will post a

calendar on the blog that describes which groups will be posting when. If there are already 4 groups posting on a date, don't e-mail me, that date is not available.

D. HONOR CODE

Students enrolled in this class are expected to adhere to the terms of the GSB's honor code. In this particular class, it involves, among other things:

- Students may not discuss with students who have taken the class previously (either in another section or in a prior year)
- Students may freely discuss a case with other students who have not yet discussed the case (for example, with other students in the same section)
- Students may not discuss the midterm case with **anyone** prior to turning in the answers to the midterm

E. CLASS SCHEDULE

Part I. Market Context and Firm's Competitive Advantage

Characteristics of an industry that affect the firm's profitability. Implications for firm's strategy. Firm level strategy. Cost and benefit drivers. Analyzing the relative market position of a firm. Strategy formulation and evaluation. Organization and Competitive Advantage. Determinants of sustainability of advantage. Intro to Corporate Strategy. Synergies. Organizing for synergies.

Week 1. Understanding the Market Context: Industry Analysis

Case: Crown Cork & Seal in 1989 (HBS 9-793-035)

Reading: BDSS: Chapter 10

Week 2. Sources of Competitive Advantage: Low Cost and Vertical Differentiation

Cases: Airborne Express (A) (HBS 9-798-070)

 Husky Injection Molding Systems (HBS 9-799-157)

Reading: BDSS: Chapter 11

Week 3. Organization and Competitive Advantage I: Business Unit

Cases: Bombardier TEG (A) (HBS 9-796-002)
Enterprise (a set of newspaper articles)

Reading: BDSS: Chapter 12

Week 4. Organization and Competitive Advantage II: Corporate Strategy

Cases: The Walt Disney Co.: The Entertainment King (HBS 9-701-035)

Jacobs Suchard: Reorganizing for 1992

Reading: BDSS: Chapter 5.

Staff Commission Report 9/11 Commission

Part II. Dynamics of Firm and Industry

Industry life cycle. First and Second mover advantages. Internal and external changes in environment. Technological discontinuities.

Week 5. Dynamics of Firm and Industry I: Entrepreneurial Firms

Case: EMI and the CT Scanner (A) (HBS 9-383-194)

EMI and the CT Scanner (B) (HBS 9-383-195)

Reading BDSS: Chapter 13

Week 6. Dynamics of Firm and Industry II: Changing Industry Structure. Technological Discontinuities

Cases: Adolph Coors in the Brewing Industry (HBS 9-388-014)
Kodak (HBS 9-703-503)

Readings: Bower, Joseph and Clayton M. Christensen. 1995. "Disruptive Technologies: Catching the Wave." (HBS 95103).
BDSS: Chapter 13

Part III. Competitive Dynamics: Game Theory and Strategic Interactions

Review of basic concepts in game theory required to analyze oligopolies. Static and Dynamic Pricing games. Changing the Rules of the Game. Entry Deterrence. Entry Strategies. Using commitments to alter rivals' behavior. War of Attrition. Standard Setting. Antitrust Implications.

Week 7: Intro to Game Theory. Understanding Bargaining Power. Competing for the Market and in the Market

Reading: Garicano, Luis: Shrimp Game
Garicano, Luis: "Game Theory: How to Make it Pay"

Cases: Power Play (A): Nintendo (HBS 9-795-102)
Power Play (B): Sega

Week 8. Price Wars, Tacit Coordination and the Rules of the Game.

Cases: (Video games cases continued)
Cola Wars Continue: Coke and Pepsi in the Twenty-First Century

Reading: Garicano, Luis and Robert Gertner, "The Dynamics of Price Competition"
BDSS.Chapter 6, 8 (*skim, recommended only*)
Dixit and Nalebuff, Chapter 4

Week 9. Entry: Entry Opportunities, Entry Strategies, Entry Deterrence and Preemption

Cases: Dogfight over Europe: Ryan Air (A)
In-class case: Dogfight over Europe: Ryan Air (B)

The Ready to Eat Breakfast Cereal Industry in 1994 (A)

Reading: Chevalier, Judy: “The Pros and Cons of Entering a Market”

BDSS. Chapter 9 (*skim, recommended only*)

Week 10. Wars of Attrition, Standards, Commitments. Course Wrap-up

Case: Sky Television

Reading: Farrell, Joseph and Garth Saloner, “Competition, Compatibility and Standards: The Economics of Horses, Penguins and Lemmings”, in Gabel, *Product Standardization and Competitive Strategy*, Elsevier 1987, 1-21

Peter Grindley, “Video Cassette Recorder: The Value of Cooperation”, chapter 4 in *Standards, Strategy and Policy*, Oxford University Press, 1995

Chevalier, Judy: “When it Can be Good to Burn your Boats”

BDSS. Chapter 7 (*skim, recommended only*)
Dixit and Nalebuff, Chapters 5 and 6

F. STUDY QUESTIONS

*Note: Questions in **bold** should be answered for the case memos.*

- Week 1: A
- 1. Using SS&P Chapter 6, perform an industry analysis of the U.S. metal can industry in 1989. Be prepared to discuss buyer and supplier power, competition and barriers to entry and the value chain in which the industry participates. Is this an industry in which the average metal can company can expect to earn an attractive return over the long run?**
 - Key Data : MES and penalty for producing below it:* (a) Using Reynolds plant as a starting point, calculate the minimum efficient scale for a 2 piece can plant; use this estimate to estimate MES relative to market size. (b) Estimate the cost penalty of producing below MES—for example at 50% of capacity. Make your assumptions explicit
 2. What has been Crown Cork's strategy under Connelly? How does its strategy respond to (fail to respond to) the challenges and opportunities in its external environment?
 3. Should CCS acquire Continental Can?
- Week 2: A
1. How and why has the express mail industry structure evolved in recent years?
 2. How have the changes affected small competitors?
 - 3. How has Airborne survived, and recently prospered in its industry? What are the sources of Airborne's competitive advantage?**
 - Key Data: Drivers of cost position:* Use the data in exhibit 3 of the case and in the text to argue your position on the basis of a comparison between the cost of shipping an overnight letter on Airborne and FedEx. Specifically, using the information given and your understanding of what influences each cost item, estimate each item that affects the cost for Airborne and compare it to the FedEx cost.
 4. Is Airborne's position sustainable? What must Robert Brazier, Airborne's President and COO, do in order to strengthen the company's position?
- Week 2: B
1. What is Husky's strategy? Why has the company been so successful in the period prior to its recent problems?
 - 2. Are the Husky injection molding systems worth the premium price the company charges?**
 - Key Data: Drivers of Buyer Value:* Calculate how much more a Thinwall system and a PET system by Husky is worth than one of the competitor. Are they worth the premium? What are the drivers of this value?
 3. What has caused Husky's recent difficulties?
 4. How should Schad and the company respond?
- Week 3: A
1. Describe and evaluate Bombardier's strategy for the U.S. railcar market.
 - 2. Describe and evaluate Morrison Knudsen's strategy for entering this**

industry.

3. What are Bombardier's main strategic options in light of MK's entry? Which strategy should it adopt?

Week 3: B

1. Perform an industry analysis of the rental car industry. What is the source of Enterprise's superior performance?
2. **How does Enterprise differ from other rental car agencies? Why is this key?**
3. Should Enterprise expand into other segments of the rental car industry? If so, which? And why?

Week 4. A

1. What do you think were the key success factors for Disney during the Walt Disney years?
2. Evaluate Disney's corporate strategy during the Walt Disney era. What role did Disney's array of businesses play in its success? Which divisions provided greater "synergy" than others? Why?
3. **Assess Disney's corporate strategy under Eisner. How has the underlying logic changed since the days of Walt Disney? Do you think Disney's corporate strategy has become more or less compelling?**

Week 4. B

1. What are the key sources of cross-border synergies?
2. **What are the costs of trying to appropriate these synergies? What are the key trade-offs derived from centralization?**
3. Read the 9/11 Staff Report on the FBI that will be linked by the instructor carefully. What are the differences in the type of mission between crime fighting and counterintelligence? What are the costs of trying to capture synergies here?

Week 5

1. **Case A: Should EMI license its invention? What are the pros and cons of such a decision? What do you think of the argument that EMI made that it would be a bad idea to license to X-ray firms, because the X-ray firms would be reluctant to cannibalize their own business?**
2. Case B: What is EMI's competitive position in 1976? What conclusion do you draw about EMI's strategy in the CT scanner market between 1972 and 1976?
Key data: estimate the future demand for scanners in the new term.

Week 6: A

1. Describe and evaluate Coors' historic strategy (through 1974).
2. **What strategic assets and liabilities did Coors have in 1975 that would affect its strategy going forward?**
3. Describe and evaluate Coors' strategy from 1975-1985. What other strategic options did Coors have in 1975? Remember that a strategic option has a scope, source of competitive advantage, and logic. Which option should Coors have chosen and why?
4. Given your analysis of the 1975-1985 strategy, what should Coors do in 1985?

Week 6 B

1. Describe and evaluate Kodak's historic strategy in photographic film.
2. As early as 1981, Kodak executives were aware that the era of photographic film may be ending. Summarize and evaluate their response to this threat over

the past twenty years.

3. **How much confidence do you have in Kodak's new strategy? Which portions of the strategy are most likely to fail and which are most likely to succeed.**
4. What would you do if you were Daniel Carp?

Week 7A 1. Read and analyze the Shrimp Exercise description. Be prepared to participate

Week 7B 1. **How did Nintendo's strategy expand the size of video game industry PIE? How did this strategy allow it to capture a big slice of the PIE?**
2. Evaluate NEC's and Sega's strategies for challenging Nintendo in video games.
3. Evaluate Nintendo's decision to delay introducing a 16-bit video game system. What are Nintendo's options concerning backward compatibility? Why would the trade-offs you identify be different here than in PC OS or software?

Week 8b 1. What aspects of industry structure make the concentrate producers so profitable?
2. **How do Coke and Pepsi manage the value chain? How has competition between Coke and Pepsi affected industry profits in each part of the value chain?**
3. In the wake of flattening demand and the growth of non-carbonated drinks, how can Coke and Pepsi maintain their profitability?

Week 9A 1. Can Ryan Air make money at the launch fare price of 98?
Key data: Estimating cost of entrant. Calculate the expected costs of Ryan Air using the cost structure of BA and AirLingus (exh 4) and the data in the case.
2. **How would you expect Ryan Air's rivals to respond? Why?**
Key Data: Estimate the cost of accommodation for BA and Ryan Air and the cost of matching Ryan Air costs.
3. What is your evaluation of the entry strategy in the light of your answer to question 2?

Week 9B 1. Why has RTE cereal been such a profitable business? What changes have led to the current industry crisis?
2. **Profits have not been dissipated by entry. Why? What are the costs of entering this market? Analyze them from the perspective of a giant consumer goods company not yet in the market (say P&G).**
3. Why did things change? What are the entry costs to the private label brands?
4. How would you react to this entry if you were an incumbent? Analyze this from the perspective of each incumbent

Week 10 1. **Evaluate the structure of this industry in terms of its attractiveness to incumbents. Key data: use the spreadsheets 5 and 6 (in electronic form in the web site) and undertake some sensitivity analysis to answer the following question**
1. How do you expect competition to look in this industry in the long-run? Can the two rivals survive in this industry? Why?
2. Choose one of the companies and analyze its actions, considering the way it tries to

affect what its rival will do.