

# Management Strategy and Policy (184)

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## 1 Course content

Strategy is “the determination of the long term goals and objectives of a [firm], and the adoption of course of action and the allocation of resources necessary for carrying out these goals” (A. Chandler (1965): *Strategy and Structure*). Managing the policy or strategy of a firm is normally referred to as strategic management, which is the central scheme of this course.

Strategy is concerned with answering two central questions: “What business should we be in?” and “How should we compete?”

The approach of the class is practical and problem oriented. The major part of the course will involve applying concepts, analytic frameworks, and intuition to the strategic issues that real-world companies face. For the class to work well, and for you to benefit from it, preparation for each class meeting is essential: *all students are expected to arrive at class having read the assigned case and prepared to offer and defend their recommendations.*

Preparation for the class in terms of case analysis should strictly be based on your own original work. Acting otherwise breaches ethical standards and will be treated as cheating.

## 2 Assessment

Grade will be determined as follows:

Mid-term exam	25%
Final exam	25%
Written team project	30%
Class participation	20%

See details of grading and evaluations in the appendices.

## 3 Textbook

The required text of the course is: Book: Robert M. Grant: *Contemporary Strategy Analysis* 3rd edition. Basil Blackwell, Cambridge, Mass. 1998 (ISBN: 0-631-20780-5)

## 4 April 3: Introduction

Lecture: Introduction to the course. Introduction to Business Policy. The role and nature of strategy. The strategic role of the general manager. Case study analysis: How to do it.

*Reading:* Grant, Chapter 1.

### 4.1 Analyzing the Industry Environment

How industry structure determines the nature and intensity of competition, and the level of industry profitability? Industry key success factors. Dynamic aspects of competition.

#### 4.1.1 April 5. *No class*

**Important:** There is no class meeting on April 5. However, that means that you should be particularly well prepared for the next class meeting.

Preparation for the next class:

- Read Chapter 3 carefully
- Read and analyze the “Video Game Industry: Power Play (A)” case. Have answers ready for the assignment questions to be able to actively participate in the class discussion.
- Seek out information on what happened in the video game industry since 1990, with specific attention to Nintendo’s competitors, including Sega, Sony and most recently Microsoft.

#### 4.1.2 April 10. Case: Video Game Industry: Power Play (A)

Lecture: How industry structure determines the nature and intensity of competition, and the level of industry profitability?

*Reading:* Grant, Chapter 3.

Assignment questions for the case:

1. Describe the U.S. Video game industry in the following periods: 1972–79, 1980–1990. Who were the key competitors? What were the key technological advances? How easy was to launch substitutes? How profitable was the industry in the given period? What was the market share of the dominant player at the time?
2. Analyze the video game industry in the U.S.A. in the mid-eighties, using Porter’s five forces model.
3. Imagine that you are a lawyer for Nintendo. You need to make an argument for an American court that Nintendo did not abuse its market dominance in order to unlawfully control other players in the industry (ie, competitors, suppliers, buyers, potential entrants and producers of substitutes).
4. Now imagine that you are a lawyer for Atari Corporation. You need to make an argument for the court to show that Nintendo did abuse its market dominance in order to unlawfully control other players in the industry.
5. Do you feel that U.S. cultural traditions should be defended against foreign influence, like the one of Nintendo’s. How do you feel about Nintendo having a dominant ownership in Seattle’s Major League baseball team?

#### **4.1.3 April 12. Case: Bitter Competition: The Holland Sweetener Co vs NutraSweet (A)**

Lecture: Introduction to Game theory and its applicability to analyzing competition and cooperation within an industry.

*Reading:* Grant, Chapter 3.

Assignment questions for the case:

1. Analyze the industry for sweeteners using Porter’s five forces model.
2. How should Vermijs assess the relative likelihood of two scenarios – price war and normal competition – he has in mind?
3. How would a price war affect industry competition?

4. Can you think of reasons why Nutrasweet might adopt an accommodating response to HSC's entry ("normal competition")

#### **4.1.4 April 17. Case: Crown Cork & Seal in 1989**

Lecture: Identifying key success factors.

*Reading:* Grant, Chapter 3.

Assignment questions for the case:

1. How attractive has been the metal container industry over the years? Apply Porter's five forces analysis to answer this question.
2. How well did Crown Cork do under John Connelly? What were the keys to their success?
3. What significant changes are taking place in the industry? How should the new CEO, Bill Avery, respond? Is it finally time to change the Connelly strategy that has been successful for over 30 years?
4. What are the strategic options that are open to Avery?

## **4.2 Intra-Industry Analysis**

Segmentation analysis of industries. Strategic groups. A framework for competitor analysis.

### **4.2.1 April 19. Case: Coca-Cola vs Pepsi Cola and the Soft Drink Industry**

Lecture: Segmentation analysis.

*Reading:* Grant, Chapter 4.

Assignment questions for the case:

1. Why had concentrate producers been so profitable? Use Porter's five forces analysis to answer this question.
2. Why did the Cola industry emerge as a separate segment within the soft drink industry. How did this new segment affect smaller competitors in the soft drink industry?

3. Why was Coke able to dominate the world soft drink industry by 1950? Why was Coke so extraordinarily profitable? How was Pepsi able to gain share in the 1950s, in the 1960s and early 1970s? Consider each period separately, and be specific.
4. What should Pepsi do next?
5. Was the “Pepsi challenge” a good idea?

#### **4.2.2 April 24. Case: Leadership Online: Barnes and Nobel vs Amazon.com**

Lecture: More on intra-industry analysis. Introduction into the concept of a sustainable competitive advantage.

*Reading:* Grant, Chapter 4.

Assignment questions for the case:

1. What do customers value in on-line bookselling? Also, what do customers value in traditional bookselling?
2. If value is created in the on-line bookselling, can this value be captured by Amazon? Use Porter’s five forces analysis to answer this question.
3. Does Amazon have a sustainable competitive advantage?
4. Does Barnes & Noble have a sustainable competitive advantage? If so, can Barnes & Noble extend this competitive advantage to the on-line business?

### **4.3 Resources and Capabilities**

How resources and organizational capabilities confer competitive advantage? Identifying and appraising resources and capabilities. Sustainability and appropriability.

#### **4.3.1 April 26. Case: Wal-Mart Stores' Discount Operations**

Lecture: Resources and capabilities as the basis of profitability. Introduction to value chain analysis.

*Reading:* Grant, Chapter 5.

Assignment questions for the case:

1. Is the retail industry an attractive industry? Use Porter's five forces analysis to answer this question.
2. How did Wal-Mart established its low cost advantage. Use Porter's value chain analysis to answer this question.
3. How sustainable is Wal-Mart's competitive advantage in discount retailing in 1986?

#### **4.3.2 May 1. Case: Southwest Airlines (A) and (B):**

Lecture: More on resources and capabilities. More on the value chain analysis as a useful tool for identifying competitive advantages and also for identifying gaps in firm's resources and capabilities.

*Reading:* Grant, Chapter 5.

Assignment questions for the case:

1. Is the airline industry an attractive industry? (Porter's five forces analysis).
2. What is the strategy of SouthWest Airlines (SWA)?
3. How does SWA establish a low cost position, with fast turnover and high level customer service? Use Porter's value chain analysis to answer this question.
4. Are SWAs competitive advantage sustainable?
5. Should SWA worry about the new challenge that is posed by Continental and United? If yes, why? If not, why not?
6. What are the key threats for the sustainability of SWA competitive advantage?

### 4.3.3 May 3: Mid-term

## 4.4 Industry Evolution and Technological Change

Focus is on innovation and technological change and their effects on competition within technology intensive industries.

### 4.4.1 May 8. Case: Honda (A), and Honda (B)

Lecture: Innovation as a challenge to industry structure.

*Reading:* Grant, Chapter 11.

Assignment questions for the case:

1. Analyze the motorcycle industry using Porter's five forces model. How attractive is this industry?
2. Analyze, compare and contrast the two descriptions of Honda strategy of entering into the U.S.A motorcycle market. How does each case explain Honda's success?
3. What concept of strategy is implied in each case?

### 4.4.2 May 10. Case: Nucor at a Crossroad

Lecture: Innovation, risk and uncertainty. Appropriability: the distribution of the benefits from innovation.

*Reading:* Grant, Chapter 11.

Assignment questions for the case:

1. How attractive is the steel-industry (Porter's five forces)
2. What is Nucor's strategy? Why did they perform so well in the past (Porter's value chain)?
3. Does Nucor have sustainable competitive advantages? What are these?
4. How should Nucor think about the uncertainties surrounding thin-slab casting? What should it do?

## 4.5 The Nature of Competitive Advantage

The nature and sources of competitive advantage. The sustainability of competitive advantage. Competitive advantage in different market settings.

### 4.5.1 May 15. Case: Intel 1968–97

Lecture: Building competitive advantages.

*Reading:* Grant, Chapter 7.

Assignment questions for the case:

1. What was Intel's strategy in DRAMs? What accounts for Intel's dramatic decline in market share in the DRAM market between 1974–1984? To what extent was Intel's failure a result of its strategy?
2. What strategy did Intel use to gain a competitive advantage in microprocessors? What threats has Intel faced in sustaining its competitive advantage in microprocessors and what strategies has it used to deal with each? Why has Intel been able to sustain its advantage in microprocessors, but not in DRAMs?
3. Assess the future prospects of Intel. What is the biggest threat it faces? Whom should it be most worried about? Put yourself in the position of Intel senior management and craft a strategy to deal with these threats.

### 4.5.2 May 17. Apple Computer 1999

Lecture: Sustaining competitive advantages.

*Reading:* Grant, Chapter 7.

Assignment questions for the case:

1. Historically, what were Apple's major competitive advantages?
2. Analyze the structure of the personal computer industry over the last 10 years. How have the dynamics of the PC industry changed?
3. Evaluate Apple's strategies since 1990.
4. What should Steve Jobs do today?

## 4.6 Corporate Strategy

The focus is on the diversification strategy of the firm with special attention to the motives for diversification and to the competitive advantages from diversification.

### 4.6.1 May 22. Case: Cooper Industries Corporate Strategy (A)

Lecture: Corporate strategy. Relatedness in diversification. Motives for diversification. Means of coordinating a complex organization.

*Reading:* Grant, Chapter 15.

Assignment questions for the case:

1. What is Cooper's corporate strategy? What is the motive behind Cooper's diversification strategy? What kind of firms are targeted by Cooper?
2. What does Cooperization mean in practice?
3. Should Cooper Industries acquire Champion Spark Plugs? If so, why? If not, why not?

### 4.6.2 May 24. Case: General Mills: Corporate Strategy

Lecture: Porters Three Essential Tests for diversification and four concepts of corporate strategy.

*Reading:* Grant, Chapter 15.

Assignment questions for the case:

1. What were the motives behind the diversification strategy of General Mills, Inc. under the different "era" in the company's history?
2. Analyze the various diversification decisions in the light of the external opportunities and internal capabilities. In the light of these, which diversification decisions do you think are justified and why? Also, which diversification decisions seem to you unjustified and why?
3. Did the diversification strategy of General Mills permit the company to exploit economies of scope in resources and capabilities?

## **4.7 Globalization Strategy**

Global industries raise issues concerning advantages from operating at global scale versus advantages of national differentiation.

### **4.7.1 May 29. Case: Procter and Gamble**

Lecture: Industry globalization drivers and company level globalization. Global strategy versus multi-domestic strategy.

*Reading:* Chapter 14.

Assignment questions for the case:

1. What do you think of the corporate culture at Procter & Gamble?
2. Describe the evolution of P&G's European business operation.
3. Should P&G proceed with the German launch on the basis of four months test results?
4. If and when the decision was made to launch Vizir, to what extent could this be considered as a European product rather than just a German product?
5. If a coordinated European rollout was planned to what degree should the company standardize its product formulation, packaging, advertising, and promotion?
6. What do you think of the organizational changes proposed by Ferguson?

### **4.7.2 May 31: Project presentations**

### **4.7.3 June 5: Project Presentations**

### **4.7.4 June 7: Project Presentations**

## **A Evaluation**

### **A.1 Mid-term and final exam**

The objective of the exams is to measure your understanding of the concepts, framework and techniques of business policy and strategy. They also capture your understanding of the key points of the cases that have been discussed during the class. The exams have three parts: true and false questions, multiple choice questions and short essay questions.

### **A.2 Written team project**

The objective of the team project is to apply tools of business strategy discussed throughout the course to evaluating the strategy and performance of an enterprise of your choosing. Teams should consist of three or four people.

You will be asked to select a real life company of which you collect information in a way that you are able to provide a detailed analysis of its strategy, using the concepts, tools and intuitions that were acquired during the class. My recommendation is that it should either be a local company that you can collect information from directly or a well known, major company that has a lot of information written about it.

The final project of the engagement will be:

1. A written report that does not exceed 3,000 words (plus charts, tables etc.) and
2. a 15–20 minute oral presentation on the above

Both the written report and the presentation should address the followings: (a) an analysis of the company's present competitive advantage; (b) an analysis of the strategic issue that the company is presently facing; and (c) a set of options and recommendations for the company.

## **B Sources of information**

For larger companies, you will be able to rely upon published data, including annual reports, 10K reports, newspaper articles, press releases, and investment analysts' reports. To identify sources of information you might want

to rely on electronic search facilities that are available through accessing the library. These include search facilities, like ABI/Inform, *Wall Street Journal* INDEX, F&S Index, and Nexis. A number of other electronic data sources are also available. For example, F&S Predicast publishes list of articles relating to major companies that appeared in the national or international business press. For local companies you are advised to collect information directly from the company. Before choosing a company, make it sure that you will be able to access the information that is necessary to complete the task. Lack of information will not be accepted as an excuse for a poor completion of the team project.

## C Grading sheet for Written Final Project

Title: \_\_\_\_\_  
TA: \_\_\_\_\_  
Names: \_\_\_\_\_  
Final Grade: \_\_\_\_\_

- Analysis of the sources of profitability: (30%) \_\_\_\_\_

1. *How well does the paper analyze where the company competes?*  
\_\_\_\_\_ (1–7 points)

Does the paper present a sophisticated five forces analysis of the industry? If it is needed, does the paper present a sophisticated market segmentation analysis?

2. *How well does the paper analyze how the company competes?*  
\_\_\_\_\_ (1–7 points)

Does the paper analyze the degree of market power that the company wields in its industry/market segment? Does the paper analyze the company's competitive advantage in providing value to its customers?

3. *How well does the paper analyze the internal organization of the company?* \_\_\_\_\_ (1–7 points)

Does the paper use a value chain analysis to examine the manner in which the company's internal organization supports or hinders its competitive strategy? Does the paper identify the company's core resources and capabilities?

4. *Does the paper clearly identify the strengths and weaknesses of the company's present competitive advantage?* \_\_\_\_\_ (1–9 points)

Does the paper clearly identify and analyze the sustainable sources of competitive advantage that the company presently enjoys? Does the paper clearly analyze the weaknesses of the company's position in relation to its competitors? Is it clear how this analysis follows from the previous three sections?

- Problem Analysis (25%) \_\_\_\_\_

Does the paper identify the key issues and challenges that the company will need to face in order to deal with the identified problems?

Does the paper use supporting evidence (financial data, cost data, industry experience, related experiences of other firms, etc.) to support its analysis? Does the paper clearly relate the analysis of the problem in relation to the strengths and weaknesses to the company's present competitive advantage?

- Options and Recommendations (35%) \_\_\_\_\_

Does the paper present realistic options that the company could pursue? Is it clearly explained why the recommended course of action is the best option for the company in responding to the identified problem? Are the recommendations clear and precise, backed by careful analysis of the data? Are the recommendations "generic", applicable to almost any company, or are they specifically tailored to the particular conditions of the focal organization? Does the paper engage in an analysis of how competitors will react to the recommendations? Is it explained why competitors will not be able to erode the advantages of the recommendations through imitation? Could the company realistically implement the recommendations, given its internal capabilities and resources?