

Yale SOM
Competitive Strategy
MGT 525
M/W 1 p.m.

Prof. Fiona Scott Morton
Prof. Judy Chevalier
Fall 2008

Competitive Strategy

This course teaches analysis of strategic decisions facing an organization. The primary emphasis is on decisions at the line of business (rather than corporate) level, and the primary source of analytical method is economics. We cover traditional strategy topics such as capabilities and sustainability as well as modern game theory models of competition. A central integrating idea is anticipating the response of other actors in the economy and recognizing that often an organization's profits depend on the actions of other firms. We study nonprofits as well as for-profits. Class sessions are a mixture of applications (cases and other examples) and lectures.

Textbook

Besanko, Dranove, Shanley, and Schaefer, Economics of Strategy, 3rd Edition or 4th Edition, Wiley, 2004. (BDSS)

(Use any edition of this text; there are 1st and 2nd editions too)

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Your TAs will be Nathan Huttner and TBA. Course information and documents will be posted on the course web page. You should check it for handouts you missed and any changes to the schedule. We will not hold regular office hours (as no one comes!), but will be available for appointments—which you should feel free to schedule. We are happy to discuss the course, your progress, or any other issues of concern to you, individually, or in groups, and with either instructor. Please call or

email to set up a time to talk. In particular, please be sure to contact one of us if you feel you are having problems participating in class for any reason and we can design a solution together.

Class participation /Attendance: (individual)

Class participation counts for a significant fraction of your grade.

You are responsible for the material in each case. We will cold call students to start the discussion, but will also seek volunteers to speak in class. Quality of class participation is more important than quantity. Trying to maximize “air-time” is *not* the best strategy.

Preparation for a case study involves more than just having read the case. You should be prepared to offer original and thoughtful analysis in which your claims are supported by evidence, logic, and possible calculations. Many students find it helpful—and I encourage you—to discuss the case with your classmates prior to the class. The most effective way to prepare for class is to try to answer the preparation questions for each class after you have read the case and the textbook material. These questions have been carefully designed to integrate the textbook and case readings and to help you focus on the conceptual issues of the day.

Learning in this class happens both inside the classroom and out; you will cheat yourself of much of what you could have learned if you do not prepare. We will bring the stack of facecards of students in the class and cold call from it regularly to raise the cost of not preparing. Please use your name card as much as possible to help us out, particularly as we are sharing the class and so both of us will not be there at every session.

If you should have to come to class unprepared, be late, or miss class altogether, you may make it up by turning in written answers to the preparation questions for the missed session within one week (you may turn them in during class one week later). Starting with a student’s third absence, written answers will no longer count 100% toward the missed class, but will provide (declining) partial credit for the class. There may be some circumstances in which the TA can help you identify another section/time where the missed material will be covered. Please ask the TA.

Case write-ups and written assignments: (groups of three or fewer)

You will do 2-4 case write-ups and other written assignments over the course of the semester. Case write-ups can be done in groups with up to three members. You should immediately sign up for two dates on which you would like to turn in your case analyses. The TA will spread the cases across the semester, so the earlier you request your dates, the more control you have over the topic you write about. Each case analysis should be 4-5 pages long, and is due *at the beginning of class* on the day the chosen case is to be discussed. Note that an analysis is not a summary of the case. A case analysis should focus on issues of “how” and “why,” supported by the factual “whos,” “whats,” and “whens” from the case. A case write-up answers the preparation questions and draws some conclusions from those questions and the reading material. The case write-ups and problem sets must contain a page written and signed by each author describing what that author’s contributions to the project were.

The other written assignments will be short problem sets, which should be done in the same homework groups as the case write-ups.

You will be required to evaluate the participation of other members of your case write-up group at the end of the semester.

Exam: (individual)

The exam will be a closed-book exam covering all the material in the course up to that point. It will occur in class on November 19.

Final Project: (groups of three or fewer)

The final project is a paper analyzing one or more of the competitive practices discussed in class as applied by a firm or industry of the student's choice. Please work in groups of two or three. Your paper should analyze the firm's environment and competitors, explain why its strategy is effective or not, use concepts from the course to explain why, and make criticisms of past choices or recommendations for the future (in light of any expected changes in the environment or other firms' behavior). You should focus your discussion to allow for a specific and substantive analysis (i.e. independent, critical thought) of how the firm uses one or more of the techniques we have discussed in class. Papers with description but no analysis will receive a low grade. In the past, the most common mistake on the part of students has been to write about a general business problem, quoting heavily from the enthusiastic business press, without analysis and use of class concepts. A paper will earn a higher grade for accomplishing a more difficult analytical task; this is to provide an incentive for you to find and understand a complex competitive situation. Note that projects involving only scope of the firm and no other class concepts, or only industry analysis, are typically not very complex. You may analyze current or historical situations.

Feel free to choose a company that interests you because you worked there, hope to work there, or are interested in the industry. You are strongly encouraged to choose a company where substantial amounts of information are publicly available or you will be able to get information from someone inside the company.

If you feel stuck finding a topic, but have a company or industry in mind, try the following. Is there a particular decision that was made or event in this industry/firm that has important implications and could be analyzed? As you read through the syllabus, think about how each topic applies to your decision. What would an industry analysis reveal as the biggest challenges? Does the decision or event help or hurt the firm's ability to earn profit? What is your firm's added value after the decision/event? Why does your company choose the scope of activities or the degree of vertical integration it does? And so on.

Some ideas for topics (You may, but need not, choose from this list. We are listing topic ideas that at least one of us finds interesting. You may want to focus your paper on an individual firm.):

- Greeting Card Manufacturers: assess the current state of competition /co-opetition between American Greetings and Hallmark, perhaps focusing on the interplay between online and offline activities.
- Evaluate RealNetwork's business model, and the competition it faces in one of its market segments, or its decisions concerning standards and open-sourcing.
- Evaluate competition between Intel and AMD.
- Examine future strategic options for Regal Cinemas, or another major player in the movie theater industry.
- Examine Toys R Us poor financial performance in recent years, and evaluate strategies for the future.
- Recording industry: evaluate the strategies and performance of a "minor" record label (one possibility is Righteous Babe Records). How are changes in the industry environment likely to improve/hurt the viability of smaller players?
- Radio: Examine a significant radio station owner (one example is Cumulus). How big are economies of scale in this industry? Can they compete successfully with ClearChannel?
- Earth Moving equipment: assess the current state of competition /co-opetition between Komatsu and Caterpillar in the U.S. or internationally.
- Tivo: What (if any) strategies can Tivo undertake to make money in the future, as they face fairly slow customer acceptance and an expanding set of substitutes?
- Illy: Using tools from our discussions of standards and compatibility, examine strategies and competition among manufacturers of coffee pod products (machines, coffee, or both).

You will be asked to supply a list of your group members to the TA by Monday, Oct 27. At that time, we will assist in "matchmaking" for students who would like to add members to their groups or who want to join groups. You must submit a proposal for your project on or before Friday, Nov 7. Send it to judith.chevalier@yale.edu. The proposal should give a brief description of your company and industry and should provide an overview of the problem you propose to analyze. You should also describe the sources you have available for getting information on the company. One of us will provide feedback on the proposal.

In your paper you should:

- Include only that background information that is relevant for the problem at hand.
- Clearly separate the company information and presentation of the problem from the analysis.
- Write clearly and concisely.
- Apply ideas from this course.
- Be creative in your analysis, but also thorough and systematic.
- Use no more than 15 pages. Of these, at least 5 pages should contain analysis, rather than background data.

If you would like a rough draft evaluated and critiqued, that should be turned in by Friday, Nov 21st (2 full weeks before the due date of the final paper). This will give us time to give you feedback and give you time to respond to it.

The final paper is due on Friday, December 5th by 4pm. Please hand in one **hard copy** to Mary Ellen Nichols (55 Hillhouse, Room 004, Garden Level). The hardcopy should contain a page

written and signed by each author describing each author's contribution to the project. There will be no final exam for the course.

Issues of Academic Integrity:

The Discipline Committee has recently encouraged faculty to make clear to students what their expectations are for individual and collaborative work. You should not hesitate to contact one of us if you would like further clarification on the following issues.

Group Work

Group work is valuable because it lets a student produce more complex and difficult pieces of analysis than he or she could generate alone during the time allotted. Not only that, the process of discovering facts and arguing about their analytical significance to one's peers is a very valuable skill that (in our opinion) should be practiced and improved in business school. However, group work carries with it inherent problems of how to distribute the work (approximately) equally. Here is the policy for our class: No student's name should appear on a group project if the student has not substantively contributed to the production of the project. The contributions of all students need not be exactly equal, but all students should have participated in a significant way to the production of the project / write-up.

Example of unacceptable conduct:

Student X agrees to produce a case write-up, putting Student Y's name on the case write-up.
Student Y agrees to repay Student X by producing a subsequent assignment.

All written assignments submitted for this course must contain a page written and signed by each author describing each author's contributions to the project. Please use language that is quantitative in nature such as none, all, a majority, 75%, etc. Each author must make his or her own statement. Due to instances of students trading work (as above) that we have witnessed in the past, we include this requirement for the class.

Plagiarism

The members of any academic community are expected not to present ideas or material from other sources as their own. In the context of this course, it is acceptable to, for example:

- Refer to concepts, frameworks, and analytical tools from the readings or class lectures without citation. For example, you may refer to the five forces, added value, sustainable competitive advantage, signaling, and so on without citing the source.
- Refer to the material in cases without citations. For example, you do not need to cite the HBS case in your case analysis when you refer to factual information from the text or tables.
- In the context of this course it is unacceptable to:
- Quote or paraphrase analysis from another source and present it as your own. For example, it would be unacceptable to find an analysis of your case project company on the web and quote or paraphrase it in the analysis you hand in without correctly attributing it. Note that there is a difference between consulting a source and then forming your own opinion based on what you have read, and "lifting" material directly.

In group work, all group members are responsible for the integrity of work that is submitted. Students have gotten into trouble for this in the past. Group members should always question other members about the source of material and analysis that is being included in group projects. If a group member has any concerns about the integrity of material being submitted by the group, that group member should discuss those concerns with the instructor.

Grading:

Class Participation	25%
Written Assignments	15%
Exam	30%
Final Paper	30%

Laptops:

We do not want any open laptops in class. Please take notes on a tablet or other computer that lies flat on the desk, or with pen and paper. If you have a particular problem with this request, please see one of us.

Schedule

Before each class you should read the assigned material and answer the associated preparation questions.

Fundamentals of Strategy

Introduction and Market Structure

September 3, 8

Case: Coors
Readings: BDSS-3: pp 73-85
BDSS-4: pp 74-85
“Why economics has been fruitful for strategy”, Scott Morton, *Mastering Strategy*
“Strategy and the Delusion of Grand Designs”, Kay, *Mastering Strategy*

3. Capabilities and Industry Analysis

September 10

Case: Crown, Cork and Seal
Readings: BDSS-3: Chapter 10 “Industry Analysis”
BDSS-4: Chapter 10 “Industry Analysis”

4. Position and Differentiation (Day 4)

September 15

Case: Sunrise Medical
Readings: BDSS-3: Chapter 11 “Strategic Positioning” (skip pp 367-375 and 402-408)
BDSS-4: Chapter 11 “Strategic Positioning” (skip pp 354-360 and 378-384)

5. First-Mover Advantage and Sustainability

September 17

Case: Enterprise (newspaper articles)
Hertz Local Edition (newspaper articles)
“You Tube Commercial: <http://www.youtube.com/watch?v=EO40ssHTUTk>”
Readings: BDSS-3: Chapter 12 “Sustaining Competitive Advantage”
BDSS-4: Chapter 12 “Sustaining Competitive Advantage”

6. Complementarities in policies within the firm

September 22

Case: Airborne Express
Readings: Milgrom and Roberts, Economics, Organization, and Management, pp 108-113

7. Asset Mobility

Case: IMG **September 24**
Readings: “How Market Smarts can protect property rights” HBR

Competition

Oligopoly **September 29**

Case: Collection of articles in packet (long distance phone, cigarettes, airlines, NASDAQ)
Readings: BDSS-3: pp199-217 and Chapter 8
BDSS-4: pp191-208 and Chapter 8

Cournot and Bertrand **October 1**

Case: Shrimp Game instruction. Prepare to play in class.
Readings: BDSS-3: pp 218-228
BDSS-4: pp 207-217
“Game theory: how to make it pay”, Garicano, *Mastering Strategy*

10. Strategic Complements and Substitutes lecture **October 6**

Readings: BDSS-3: pp 232-250
BDSS-4: pp 223-239
“Strategic complements and substitutes”, Scott Morton, *Mastering Strategy*

11. Capacity Competition **October 8**

Case: DuPont in Titanium Dioxide
Readings: “Game theory in the real world”, Gertner and Knez, *Mastering Strategy*
BDSS-3: pp 250-256
BDSS-4: pp 240-245

12. Price Competition **October 13**

Case: The Pharmaceutical Industry and Medicaid Rebates in 1991
Readings: BDSS-3: pp 286-290
BDSS-4: pp 286-290

“The dynamics of price competition”, Garicano and Gertner, *Mastering Strategy*

13. Competition and Financial Condition

October 15

Readings: “Capital Structure and Product Market Competition: Evidence from the Supermarket Industry”, Judy Chevalier
“Financial Condition and Airline Price Wars”, Meghan Busse

14. Entry

October 27

Case: USA Today
Readings: BDSS-3: pp 297-310
BDSS-4: pp 286-296
“The pros and cons of entering a market”, Chevalier, *Mastering Strategy*

15. Entry and Judo Economics

October 29

Case: ValuJet Airlines, Judo Economics

Game Theory

16. Game Theory and Added Values

November 3

Case: Nintendo
Readings: “The Right Game: Use Game Theory to Shape Strategy”, Brandenburger and Nalebuff (HBR 7-8/95, pp 57-91)

17. Commitment and Wars of Attrition

November 5

Case: Gas Andes versus TransGas
Boeing and Airbus articles
Game tree diagram
Readings: “When it can be good to burn your boats”, Chevalier, *Mastering Strategy*.
BDSS-3: pp 320-325
BDSS-4: pp 306-309

Scope of the Firm

18. Vertical Scope

November 10

Case: Benetton
Readings: BDSS-3 Chapter 3 “Vertical Boundaries of the Firm”
BDSS-4 Chapter 3 “Vertical Boundaries of the Firm”
“Integration strategies and the scope of the firm” Hubbard, *Mastering Strategy*
OPTIONAL BDSS-3 Chapter 4; BDSS-4 Chapter 4

19. Horizontal Scope

November 12

Case: Masco Industries
Readings: BDSS-3: pp 85-100, and 170-195
BDSS-4: pp 86-99, and 163-184
“How boards can say nay to M&A”, Gertner, *Mastering Strategy*

20. Horizontal Scope and Fragmentation

November 17

Case: Home Depot
Readings: **WSJ article**

21. In-class EXAM

November 19

Innovation and Technology

22. Innovation and Complementary Assets

November 24

Case: EMI & the CT Scanner (A) (9-383-194, Rev. 11/01), (B) (9-383-195, Rev. 3/85)
Readings: BDSS-3: Chapter 13
BDSS-4: Chapter 13

23. Network Effects

December 1

Case: Apple Computer
Readings: J. Farrell and G. Saloner, “Competition, Compatibility, and Standards: The Economics of Horses, Penguins, and Lemmings,” in Gabel, *Product Standardization and Competitive Strategy*, Elsevier, 1987, pp 1-21.
BDSS-3: pp 442-446
BDSS-4: pp 417-422

“Why the network effect is so striking”, Goolsbee, *Mastering Strategy*

THANKSGIVING BREAK

Antitrust

24. US Antitrust Law

December 3

Readings: “Basic Antitrust Law”, Fiona Scott Morton
Browse through some recent cases on the DOJ web page: www.usdoj.gov/atr/
Case: U.S. v American Airlines 1999

25. Abuse of a Dominant Position and Merger Policy

December 8

Case: Aspen Ski Versus Aspen Highlands (A) and (B)
Readings: EU Law
Merger Guidelines, sections 1-5 (also at www.ftc.gov/bc/docs/horizmer.htm)

26. Synthesis of Course Material in a Non-profit Setting

December 10

Case: The Brigham and Women’s Hospital in 1992