Industry & Competitor Analysis

BUS 430 – Fall 2006

Instructor:	Russell Coff	Phone:	(404) 727-0526
Email:	Russ_Coff@bus.emory.edu	FAX:	(404) 727-6313
Course page:	www.bus.emory.edu/rcoff/Bus430.html	Office hrs:	M/W 3:00-4:00

EMORY GOIZUETA BUSINESS SCHOOL

10/17/06 1:04 PM

Course Overview and Objectives

This course offers you an opportunity to delve further into some strategy topics that you may have only touched upon earlier. This course integrates quantitative and qualitative analysis much more than the required strategy course. As such, you will apply and integrate the knowledge and skills you've gained across the curriculum (particularly from finance, DIA, O&M, and strategy).

Corporate Diversification and Strategy in Turbulent Environments

The broad focus of the course is on strategic management in uncertain and turbulent environments. Managers often throw up their hands and argue that planning isn't useful when the landscape is shifting. However, with the right set of tools, strategic management can have an even greater impact in this setting. We place special emphasis on strategy formulation under uncertainty, corporate/multi-business strategy and competitive interaction – three topics that were only touched upon in the required course.

Learning Objectives

Our primary goal is to synthesize the set of tools and knowledge students have gained to address challenging strategic management problems. By the end of this course, students will be able to:

1. Analyze competitive interaction w/in industries & predict rivals' actions using resource differentials;
2. Analyze how firms can create value based on strategies that span industry boundaries (corporate strategy, joint ventures, and M&A);
3. Apply tools to make strategic decisions under uncertainty in a turbulent environment; and
4. Apply/integrate knowledge and skills learned across the curriculum (especially quantitative & qualitative data analysis).

The purpose is not to inflict new theory or new buzzwords but to make you use what you know to address business problems. Pedagogically, this course is case-based and relies extensively on learning through groups. Groups help you cope with the workload and develop more rigorous analyses.

Who should take this course?

This course is valuable for those who aspire to formulate and evaluate business strategy. This objective may fit well for those who seek careers in consulting, entrepreneurship, general management, and investment banking (among others).

Evaluation

Students will be evaluated based on both their individual and group participation. This includes group case writeups, presentations, and discussion leadership, as well as individual participation in class discussion and a case-based final exam. The de-emphasis of lecture puts added pressure on you to come to class prepared – hence the heavy focus on group and individual preparation and participation.

Summary		
Group:	5 Written case analyses (ppt)	30%
	2 Living case 1pg briefs	10%
Individual:	Participation	30%
	Final exam	30%

Assignments

Group Assignments. Coordination is a major part of management. This is especially true of strategic management, which demands the close coordination of an executive team on highly complex issues. Accordingly, we will form groups (of about 4 people) on the first day of class. Select your own groups, preferably based on complementary functional expertise and common schedules to ease coordination. Note that group grades will be adjusted by peer appraisals (see next page).

*Group case analyses/presentations (30%)***.** Since this is a case-based course, it is essential that you come prepared to each class. Your group is responsible for coming to class prepared to present their analysis of 5 of the 8 cases we will be covering. This means posting a brief presentation to the course conference that covers the problem, the analysis performed including assumptions made), and the solutions you would recommend. Pay attention to any clarification of the assignment that is in the syllabus (the case may not always be clear on what the problem is). Your posting should be made before 8:00am on the day it is to be discussed in class. Guidelines for presentations:

- ✓ Presentations should be 2-5 slides with no fonts smaller than 24pt.
- ✓ Quantitative analysis can be inserted in the slides (as needed) and backed up in a spreadsheet.
- ✓ Post presentations to the course conference before 8:00am the day the case is to be discussed in class. Include your group number in the subject line of the email and in the file name of the presentation (e.g., Team 2 → LeviPersonalPairTeam2.ppt).
- ✓ If a spreadsheet is needed, please attach that as well using the same file naming convention.

I will select one group to actually present their analysis in class. I will notify them and post it to the conference as soon as I can on the day of class. However, before completing the assignment, you will not know whether you will present so all groups should be prepared. Groups are responsible for fielding questions about their analysis and leading discussion of the case briefly as well.

Living Case Analysis (10%). We will have 2 living cases during the course of the semester. These involve guest facilitators who will provide the class with background materials for a current business problem that they face. Groups are responsible for developing one-page analyses covering conclusions from your analysis and recommendations. I will provide these briefs to the guests for comments.

Individual Assignments. The remaining 60% of the grade will be based on individual work including class participation and the final exam.

Participation. Participation makes up half of the individual grade (30% of the total grade). For the learning process to be effective, you must carefully prepare the cases/readings before class and actively participate in the case discussion during class. I expect you to be fully prepared for each class and may call upon you to start the discussion or answer a specific question during the class on any day.

Ability to present one's ideas concisely and persuasively and to respond effectively to those of others is a key success factor in any managerial position. One of my goals is to help you sharpen that ability. Accordingly, I expect you to effectively participate in the class-analyze, comment, question, discuss. Participation enables you to learn from your colleagues and to help them learn from you - which is what the case method is all about. I also expect the class to help deal with people who monopolize the discussion without contributing to the learning process of others.

Final exam. The other half of your individual grade is a case-based final exam (30% of your grade). This will involve preparing an analysis of a challenging case in a limited time frame. I will have safeguards to make sure that individuals work independently despite the fact that this is a take-home exam and violations of the honor code will carry serious penalties. I will provide more details about this as the time approaches. There will be no midterm exam.

Grade Distributions

You are, by now, familiar with the suggested grading guidelines for elective classes (A≈20%; A-≈20%; B+≈20%; B≈20%; and ≤B-≈20%). I do not follow these in a mechanical fashion (e.g., a forced curve). If a classmate does good work, that will not automatically reduce your chances of getting a good grade. However, the course is sufficiently challenging that top grades will not be easy to come by.

Peer Evaluation for Group Assignments

Group grades will be adjusted by peer appraisals of each member’s contribution. This will help you to enforce norms of strong effort for all members. The average of peer ratings can raise or lower an one’s group portion of the grade by up to one grade. This is a *zero-sum* exercise – not all members can get grades above the group grade. However, if people pull their weight or there is disagreement about individual contributions, all members will get the same grade (averages will approach 10 points).

Example: At the end of the semester each person will allocate points to all other members. The following example illustrates the process for a group with 4 members with a group grade of A-:

- The rater allocates a total pool of points to other members. The point "pool" equals 10*(group size-1). In a group of 4, each member would allocate 30 points among the others.
- Each member allocates so that major contributors get more points while others get fewer. The following example illustrates what the results might look like:

	Members				Total
Raters	**Anne**	**Bill**	**Connie**	**David**	**Allocated**
Anne		13	4	13	30
Bill	17		3	10	30
Connie	14	7		9	30
David	16	10	4		30
Average	15.67	10.00	3.67	10.67	40
Adjusted Group Grade	A	A-	B+	A-	

Teaching Methods

We will be using two main approaches in this class: case analysis and experiential exercises. While both are highly interactive and discussion-oriented, they accommodate different types of learning. Most of the cases have quantitative elements and the analysis tends to be quite structured and rigorous. This is ideal for those who are analytic or left-brained learners. The experiential exercises include activities like negotiations, bidding wars, and contests with building toys. These tend to be more creative and facilitate right-brained learning. Most of your courses do not emphasize both approaches. Please recognize that even if you don't like a particular activity, others may benefit greatly from it. You can find additional information about right- and left-brained learning at:

- Hemispheric dominance test & information: http://www.mtsu.edu/~studskl/hd/learn.html
- Learning styles resources: http://www.tangischools.org/schools/phs/techno/dayfour.htm

Academic Integrity

The assignments above and on the schedule are clearly marked as individual or group – there should be no confusion. I expect you to uphold the highest standards of academic integrity. Academic integrity is enforced at the Goizueta School. The penalties are rather severe and violators typically get the most serious of the alternative penalties. I don't relish the thought of putting anyone through this but it behooves all of us to make sure that academic integrity is taken seriously.

Course Materials

We will be using course materials from two primary sources: Harvard cases at study.net [🕸] or readings and other cases on eReserve in the library [📖]. See the instructions for each below.

Readings at the Library's Reserves Direct service (📖):

This includes most of the course readings. The following are the instructions for retrieving materials. Unfortunately, in many cases, it is not possible to provide direct links to readings. In those cases, once you have found the eReserve reading list for the course, you will need to click through a few links to find the pdf file for the readings.

1. Direct your browser to http://ereserves.library.emory.edu/business/.
2. Log in using your OPUS/Eagle/Dooley ID and password.
3. Follow the instructions to add "B430 Industry and Competitor Analysis."
4. Click on the course listing to view all of the eReserve readings.
5. You will see a list of readings arranged roughly in the order that they appear on the syllabus (some are out of order due to last minute changes).
6. **Study.net Cases**. If you have already set-up your study.net account, paid for your cases and have a user id and password (see below), click on the case title. You will be prompted for your study.net user id and password only once per live session. If you have not purchased your cases, click on the link to Study.net, register, pay for your cases and set up your user id and password.
7. Many of the pdf files are quite large (4-5M) if you are using a dial up connection. You may wish to right click and use the "save as" option to save the file to your hard disk before viewing. You may also be able to use a download manager.

For technical problems, please contact the support desk at Goizueta at (404) 727-0581. For any other questions about eReserves, please contact the business librarian, Marilyn Pahr, via FirstClass at Marilyn_Pahr@bus.emory.edu, or by telephone at (404) 727-3979.

Case Packet at Study.net ():

Most of the cases are on reserve at www.Study.net. Here, you can pay your material's fee and download the cases one at a time (or through the library's direct links above) or pay an additional fee for a hard copy. The following are basic instructions for getting materials from Study.net.

1. Direct your browser to www.Study.net.
2. Register as a student (button on the left) by completing a web form.
3. Press the <New Courses> button on the left *(Note the button for student instructions in case you have any problems).*
4. Select "Emory University" from the list of schools and press the <List Courses> button.
5. Find my BBA Industry & Competitor Analysis (430) course and follow the instructions to purchase the materials. You may wish to consider the option to get a hard copy (about $10). This may save you some time and conserve your GBS printing allocation.

Overview of the Schedule*

The course is divided into three modules that explore different aspects of strategy under uncertainty. For each session, I've indicated topics and what you must do to prepare for class. Remember that participation and preparation are necessary for you to get the most out of this course. Icon key: 🕮 = eReserve in the library; 🕸 = ePacket at Study.net; 🗐 = written assignment; 💻 = quantitative case.

Date	Topic/Class activities	Required Assignments*	Pages
	Module 1: Competitive Interaction		
1. 8/31	Intro/ Predicting rival responses Exercise: Paper Chase	🕮Dixit & Nalebuff: Anticipating your rival's response	25
2. 9/5	Judo Strategy: Exploiting rival resource advantages; Case	🕮Yoffie & Kwak, How to meet and beat a stronger opponent 🕮Duncan, Ginter, & Swayne: Comp adv & internal org assessment	15 11
3. 9/7	Review of regression analysis	🕮 Overby, Regression Analysis	6
4. 9/12	Leveraging Resources and Strategy; Case	🕸Case1: Levi's Personal pair 💻 🕮Dixit & Nalebuff: Seeing through your rival's strategy (skim)	8 28
5. 9/14	Corporate Secrecy and Competitive Intelligence	🕮Vibert: A Primer on Competitive Intelligence 🗐 Analyze the insider trading patterns for the firms in the handout	26
6. 9/19	Competition to acquire strategic assets; Case	🕸Case2: A-Rod: Signing the best player in baseball💻 🕮Sunstein & Thaler (2003): *Who's on First?*. *The New Republic.*	5 8
7. 9/21	Entrepreneurial creativity & strategic factor mkts Exercise: Shaping a business plan	🕮Amabile: Motivating Creativity in Organizations	20
	Module 2: Corporate Strategy and M&A		
8. 9/26	Overview of Corporate Strategy	🕮Goold and Luchs, Why diversify? Four decades of thinking (skim)	15
9. 9/28	Vertical integration; Case	🕸Case3: Disney's "The Lion King" 🕮Stuckey & White, When & when not to vertically integrate (skim)	12 12
10. 10/3	Managing core competence; Micro Design intro Video Case: 3M Laserdisk	🕮Coyne, Hall & Clifford: Is your core competence a mirage?	13
11. 10/5	The role of corporate headquarters Exercise: Micro-Design technology transfer	🗐 Negotiation strategy worksheet due (Ind. assignment)	
12. 10/6 *Friday*	Living Case I: The Weather Channel Companies, H. Lewis, VP & Gen Mgr (1:00-2:30 in rm 304)	🕮Zahra & Chaples: Blind spots in competitive analysis 🗐 Read TWCC background & 1p writeup	17
10/10	No class (Fall break)		
13. 10/12	Mergers and Acquisitions; Case Video Case: "Jack & me"	🕸Case4: The GBS Acquisition 💻 🕮Lubatkin & Lane, Psst...The merger mavens still have it wrong!	7 14
14. 10/17	Bidding under uncertainty, M&A & human assets Exercise: Simulated corporate acquisition	🕮Chanmugam, et.al., The intelligent clean room: Ensuring value capture in mergers and acquisitions	7
15. 10/19	**Catch-up day**; M&A, Micro Design, & Decision trees	🕮Coles & Rowley, Revisiting Decision Trees (skim)	5
16. 10/24	Using Alliances as a Corporate Strategy tool; Case discussion	🕸Case5: Hero Honda Motors (India) Ltd. 🕮Campbell & Reuer, International Alliance Negotiations	11 8
	Module 3: Technology, Uncertainty, and Competitive Advantage		
17. 10/26	Structuring Strategic Alliances Exercise: Global Game	🕮Norman, Are Your Secrets Safe?	10
10/31-11/2	No class (Strategic Mgt Society Conference)	http://www.smsweb.org/activities/conferences/index.html	
18. 11/7	Strategy under uncertainty: the need for flexibility Exercise: Heads up	🕮Coles & Rowley, Revisiting Decision Trees (skim) 🕮Zahra et al, Transforming Technological Pioneering into Competitive Advantage	5 17
19. 11/9	Trees, forests, and risk; Case	🕸Case6: Merck & Co.: Evaluating a drug licensing opportunity 💻	6
20. 11/10 *Friday*	Living Case II: Creative Digital Group, Joe Schab, CEO 1:00-2:30 in 204	🗐 Read Creative Digital Group background & 1p writeup	
21. 11/14	Valuing flexibility: a real options approach	🕸Luehrman: Real options: getting started with the numbers	11
22. 11/16	Black/Scholes valuation method; Case	🕸Case7: Real Options Polaris Energy 💻	6
23. 11/21	Exercise: Real Options in Real Organizations	🕮Janney/Dess, Can real-options improve decision-making? 🕮Coff & Laverty, Real Options on Knowledge Assets	15 7
11/23	No class (Thanksgiving)		
24. 11/28	Credible commitment vs. real options; Case	🕸Case8: Airbus A3xx: Developing the largest commercial jet💻	10
25. 11/30	Imitation, Speed, & flexibility in planning Exercise: Razing the Ivory Tower	🕮Nutt, Expanding the search for alternatives in during strategic decision-making	15
26. 12/5	Flexibility and strategic decision-making	🕮Eisenhardt, Speed and strategic choice	15
12/7	Course wrap-up & evaluation; prep for exam		
12/12	No class (Take home final exam)		

* Additional *optional* readings are not listed here. You must check the detailed schedule below for links to these.

Detailed Course Schedule

Module 1: Competitive Interaction

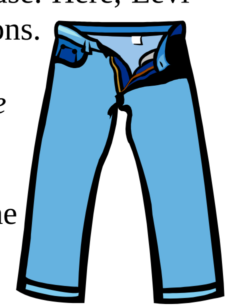
1. **8/31: Introduction; Predicting Rival's Responses; Paper chase.** We will introduce the topics of the course and go over the syllabus. Groups will have a first chance to organize. This is a lecture/discussion day in which I introduce the course and we organize ourselves for the rest of the semester. The "Paper Chase" exercise is used to introduce the topic of competitive interaction in a dynamic environment.
   a. Read:
      1) 🕮Dixit & Nalebuff: *Anticipating your rival's response (24p – skim if you've already read this)*

   b. Discussion Questions: Be prepared to discuss the following in class:
      1) How is it different to approach a problem as a general manager as opposed to a functional perspective (marketing, finance, accounting, operations, etc.)?
      2) How can a firm gain a competitive advantage over competitors?
      3) How do we determine whether a firm has a competitive advantage?

2. **9/5: Judo Strategy**. How can a firm compete effectively against a stronger rival? The trick, it would seem is to turn their strengths against them – the essence of a judo strategy. How, then should a firm respond to such a challenge? What are the implications for competitor analysis?
   a. Read:
      1) 🕮Yoffie & Kwak: *Mastering Balance: How to meet and beat a stronger opponent (15p)*
      2) 🕮Duncan, Ginter, and Swayne, *Competitive advantage and Internal Organizational Assessment (Skim 11p)*
   b. Discussion Questions: Be prepared to discuss the following in class:
      1) What are Judo strategies? How would you apply this practically?
      2) How is Judo strategy linked to the resource-based view?
      3) How can we apply tools used for analyzing resources (e.g., rivals and internal analysis) to develop a Judo-based strategy?

3. 9/7: **Regression Analysis.** This session is reserved for a review session on applied regression analysis. This will be a very hands-on session geared towards using the software to run basic analyses. This session will be taught by Eric Overby, one of our own PhD students.
   a. Read:
      1) 🕮Overby, *Regression Analysis (6p)*

4. 9/12**: Leveraging Resources & Strategy – Levi's Personal Pair Case**. We build on our understanding of Judo strategy and resources by analyzing the Levi's personal pair case. Here, Levi Strauss is asked to evaluate an investment that has strategic and competitive implications.



   a. Read:
      1) 🕮Dixit & Nalebuff: *Seeing through your rival's strategy (28p – skim if you've already read this)*
   b. Written Case Analysis (Case1: Levi's Personal Pair)
      1) *Your Client*: Heidi Green hired you to analyze their decision to introduce the Personal Pair custom jean product.
      2) *Hint*:
         a) What is the potential strategic significance of the Personal pair proposal? How might it position Levi Strauss relative to its chief rivals?

   b) Run the numbers in the case to analyze the profitability and investment per pair of jeans under the proposed program (see the blank column of Exhibit 1). Note that the numbers were provided by a 3rd party (CCTC) interested in promoting the investment & joint venture. That doesn't mean it is a bad idea though…
   c) Are there any assumptions you think are unreasonable?
   d) Would this program yield a differentiation advantage? Why/Why not?
   e) If the program were to run afoul of predictions, how and why would you expect problems?
   f) What might prevent rivals from imitating this product?
   g) What counter measures would you suggest to Heidi to address concerns about rivals?
  3) *Links* (optional follow up – not required to complete the case analysis):
   a) Levi-Strauss: www.levistrauss.com
   b) Original Spin: www.levi.com/Original_Spin/faq_index.html
   c) Mass customization article: http://www.cio.com/archive/enterprise/021598_mass_content.html
   d) Mass customization links: http://www.managingchange.com/masscust/overview.htm

5. **9/14: Corporate Secrecy and Competitive Intelligence**. How do firms develop data to guide their analyses and decisions regarding rivals? In this session, we explore some common data sources. We then move further into the use of insider trading data to guide competitor intelligence.
 a. Read:
  1) *Vibert: A Primer on Competitive Intelligence (26p)*
  2) **Optional**: Ahuja, Coff and Lee (2005): *Managerial Foresight and Attempted Rent Appropriation: Insider Trading on Knowledge of Imminent Breakthroughs*. *Strategic Management Journal Forthcoming.*
 b. Group Written Assignment: Reading the tea leaves of insider trading. You will receive a list of firms that had unusual insider trading patterns. Your task will be to research what was going on in the firms at that time from the perspective of a key rival (a rival will be supplied for each company). Then consider what action steps your client should take in response. Each group will informally present their findings and recommendations (e.g., no Powerpoint needed) for two of the companies listed in the table (to be handed out).
 c. Discussion Questions: Be prepared to discuss the following in class:
  1) Consider an industry you know well. If you were conducting competitor intelligence on a rival in that industry, where would you go for information?
  2) What moral/legal considerations arise from such activities?

6. **9/19**: **Competition to acquire strategic assets**. Given that competitive advantages may result from strategic assets, we explore the question of how firms go about acquiring such critical assets. Accordingly, we evaluate the Texas Rangers' decision of whether or not to acquire Alex Rodriguez for a 10 year $252M contract.

 a. Read:
  1) Sunstein & Thaler (2003): *Who's on First?*. *The New Republic.(8p)*
  2) **Optional**: Barney (1986): *Strategic Factor Markets: Expectations, Luck, and Business Strategy*. *Management Science 32(10) 1231-1241.*
 b. Group Case Assignment (Case2: A-Rod: Signing the best player in baseball)
  1) *Your Client*: You were hired by Mike Cramer, President and COO of Southwest Sports Group, to evaluate the proposed 10-year $252M contract with Alex Rodriguez. Should the team sign A-Rod? Under what conditions would they want to do so?

2) *Hint*: Consider the following questions.
   a) Regression. They think that A-Rod can help them win 8 more games/yr (p4). What is this worth in terms of attendance? To address this you should analyze the data in Exhibit 6. You might want to consider the following issues in developing a regression model:
      - You wish to predict gate receipts based on games won. The coefficient on games won tells you the impact of an additional game won. Once you know how wins translates to attendance, you can begin to determine the value of Cramer's 8 game estimate.
      - Are observations independent? You have multiple observations for each team: 1) are these independent of each other, and 2) do the predicted parameters apply across teams (e.g., does "games won" stimulate more gate receipts in some markets than others?). While there are some complex econometric techniques to address this question, one possibility is to use the mean adjusted data provided (e.g., data are adjusted by the team norms for each variable).
      - Time. You might note that gate attendance depends on last year's record as well as the current season. This is especially true when you account for season tickets. You can control for this by including lagged wins in the model along with the current year.
   b) NPV analysis. Once you have a sense of how winning games affects revenue, how might this affect cash flows/profitability? Consider the following:
      - Does A-Rod increase the probability of getting into the playoffs? There are 14 American League (AL) teams and 4 of them make it to the 1^{st} round of playoffs. The 2^{nd} round, AL Championship, involves 2 teams and the World Series includes only 1 AL team. Accordingly, consider the following probability estimates (not in the case):
         - Probability that a team makes it to the 1^{st} round of playoffs is 4/14=28%
         - A-Rod may increase the Rangers chances of making the playoffs to as much as 6/14=42%
         - Probability of advancing to the AL Championship=50% (conditional on making it to the playoffs)
         - Probability that the Rangers advance to the World Series= 25% (conditional on making it to the playoffs – with or without A-Rod)
         - Note: The Rangers were a "middle of the pack" team averaging 80 wins/season in the 11 yrs covered in Exhibit 6. The average number of wins for the 4^{th} place teams was 91 during this period. It does seem likely that 8 more wins/year would increase their chances of making the playoffs considerably.
      - The NPV analysis should focus on the incremental costs and the incremental benefits should the Rangers agree to the negotiated contract with A-Rod.
   c) Sensitivity analysis? How certain are you of your estimates?
   d) How do the Rangers rivals enter into this decision? Is a competitor analysis needed? If so, what type of analysis?
3) *Links* (optional follow up – not required to complete the case analysis):
   a) Texas Rangers: http://rangers.mlb.com/
   b) Alex Rodriguez: Official Major League Baseball Page
   c) Major League Baseball: www.mlb.com

7. **9/21: Entrepreneurial creativity and strategic factor markets**. The A-Rod case helps to highlight how hard it can be to realize value from a strategic asset that is of comparable value to rivals. Here, we complement this perspective by examining the role of entrepreneurial creativity in finding new and higher value uses for existing resources. We will do this through an exercise called: Shaping a business plan.
   a. Read:
      1) Amabile: *Motivating Creativity in Organizations (20p)* California Management Review

b. Discussion Questions: Be prepared to discuss the following in class:
   1) How can firms generate creative strategies? Where do they come from?
   2) Can you increase the likelihood of generating creative strategies? How?
   3) Can creativity be a source of sustained competitive advantage? When and why?

Module 2: Corporate Strategy and M&A

8. **9/26: Overview of Corporate Strategy – Managing-multi business firms**. We begin a module on how to create value in the multibusiness firm. So many prominent firms have multiple businesses and yet, as we shall see, the prospects for creating value are actually quite limited. This class will involve some lecture and discussion to refresh you on the topic, which was covered briefly in your required strategy course.
   a. Read:
      1) Goold and Luchs, *Why diversify? Four decades of thinking (15p – skim this if you covered corporate strategy well elsewhere)*
      2) **Optional**: Palich, Cardinal, & Miller (2000): *Curvilinearity in the Diversification-Performance Relationship: An examination of over three decades of research*. Strategic Management Journal, 21: 155-174.
   b. Discussion Questions
      1) Consider a firm that has multiple lines of business and answer the following questions:
         a) Can you think of any good reasons why the firm's portfolio might be worth more together than if they spun each company off?
         b) Which of the value creation strategies described in the Goold and Luchs article do they seem to apply?
         c) What competencies must the firm have to execute the value creation strategy successfully?

9. **9/28: Vertical Integration**. We will discuss the Lion King case including some problems with defining and managing core competence. In addition, the Lion King case will focus us on the value of and need for vertical integration. Our client, Lucasfilm Animation, has few of the lines of business that Disney has and this will focus on how to leverage an asset (e.g., film), when you don't own all of the complementary resources.
   a. Read:
      1) Stuckey & White, *When and When Not to Vertically Integrate (skim 12p)*
   b. Written Case Analysis (Case3: Disney's "The Lion King")

      1) *Your Client*: Lucasfilm Animation (LA) might be interested in applying Disney's strategy. You were hired to analyze the strategy and identify what businesses LA needs to own to pull off the strategy for their first solo movie (still a big secret). LA is a much more focused film producer with no theme parks, cruise lines, TV networks, cable stations, etc.
      2) *Hint*: This scenario pushes you to think critically about the minimum lines of business that Disney needed to own to pull off their strategy. What are the alternatives for LA? Can they still do it?
         a) *Premise*: "George Lucas has finally taken the plunge into computer-animated feature films. Having missed out on "Monsters, Inc.," "Shrek" and "Ice Age" -- which grossed $112 million in DVD and video sales over a single weekend last year -- the dean of digital filmmaking has established a separate company, LucasFilm Animation, to compete with Bay Area powerhouses PDI/DreamWorks and Pixar." (*San Francisco Chronicle*)

   b) Lucasfilm Animation does not own the array of complementary businesses that Disney deployed in the Lion King. How should that affect their strategy? Can it still be accomplished?
3) *Links* (optional follow up – not required to complete the case analysis):
   a) www.lucasfilm.com
   b) www.pixar.com
   c) www.dreamworksanimation.com

10. **10/3: Managing Core competence & knowledge-based assets**. This class focuses on the notion of core competence. What is it and how can a multi-business firm create value using a core competence. In class, we will view a short video case involving 3M's optical recording project (CD). I will also introduce the Micro Design discussion case.
    a. Read:
       1) 🕮 Coyne, Hall & Clifford: *Is your core competence a mirage?* (13p) McKinsey Quarterly
       2) **Optional**: Prahalad & Hamel (HBR, 1990, issue 3), *Core competencies of the Corporation* (14p – skim) (http://ejournals.emory.edu/direct/?issn=0017-8012&origin=1)
    b. Discussion questions:
       1) What action steps are required to manage core competencies? What must the corporate headquarters accomplish?
       2) What are the challenges associated with such a strategy? How difficult is it to pursue?

11. 10/5**: Role of the headquarters**. We will be doing a simulation of a technology transfer in a multi-business corporation. Each person will take the role of one of the division managers and negotiate the terms of the transfer. This is a fun exercise and it highlights many of the management dilemmas inherent in a creating value in this setting.
    a. Read:
       1) Micro Design role worksheet and background (Handout)
    b. 🗐 Individual written assignment: Negotiation worksheet (Micro-Design handout)
       1) *Negotiating Objective Worksheet*: The exercise requires you to negotiate with another member of the class on the appropriate terms for transferring the technology. Not surprisingly, you will be evaluated based on your division's bottom line. You are to study your briefing and make some decisions about what your ideal agreement would look like. I will collect these worksheets at the start of class so make notes on your analysis elsewhere.

12. **10/6**: **Living Case #1: The Weather Channel Companies (TWCC)**. We will be analyzing the competitive environment for our client, TWCC. In particular, groups will prepare an executive briefing about a specific rival that predicts what actions the rival will take, and recommends proactive steps for TWCC. H Lewis (VP and General Manger & Goizueta MBA '90) will join us – expect a lively and interactive discussion! **Note that this is a Friday class (1:00-2:30, rm 304)**
    a. Read:
       1) 🕮Zahra & Chaples: *Blind spots in competitive analysis (17p)*
       2) Profiles of the Weather Channel and each of its rivals (to be handed out in class)
    b. 🗐Group Writeup (Living Case #1: The Weather Channel). Your group will be assigned a specific Weather Channel rival to analyze. Prepare a 1 page briefing as follows.
       1) *Your Client*: "H", The Weather Channel's director of Corporate Development hired you to analyze the firm's rivals, predict how they are most likely to attack and recommend counter measures for TWCC.

2) *Hint*: Use the tools of the course to analyze the rival's and try to predict their next move. In some cases, this will be a game theoretic analysis to predict actions that they might identify as having the greatest payoffs given their resource base. In other cases, you may want to do an analysis of their corporate focus to see what lines of business they are building.
3) *Links:*
   a) The weather channel: www.weather.com/index.html
   b) Accuweather: www.accuweather.com
   c) Digital cyclone: www.digitalcyclone.com
   d) Weather news international: www.wni.com

10/10: No class (Fall break)

13. **10/12: Mergers and Acquisitions.** Clearly M&A is one way that corporations grow and build new lines of business. In this class, we extend our discussion of value creation in a multi-business firm to the M&A arena. Class will revolve around the GBS case but will include a brief documentary video ("Jack & Me") about an employee in a target who tried to interview his new boss.
   a. Read:
      1) 🕮Lubatkin & Lane, Psst...The merger mavens still have it wrong! (14p)
      2) **Optional**: Coff, R. 1999. *How Buyers Cope with Uncertainty When Acquiring Firms in Knowledge-Intensive Industries: Caveat Emptor*. Organization Science, 10(2): 144-161.
   b. Written Case Analysis (Case4: The GBS Acquisition)
      1) *Your Client*: Craig Andrews hired you to assess Eastern Manufacturing Corporation's strategy to acquire the GBS network.
      2) *Hint*: Consider the following.
         a) Value Creation Strategy: Which of the strategies is EMC TRYING to use to create value (perhaps more than one)? They won't create value if they aren't trying. Also, see the "Guilty until proven innocent" slide – do you think the strategy will be successful?
         b) Valuation Models. There are several ways that you might attempt to value GBS. The two most likely are using multiples and using a straightforward NPV approach.
            (a) Multiples. Which of the multiples makes the most sense? Perhaps an average? First, which of the targets is most similar to GBS? Second, which of the buyers might have similar value creation opportunities as EMC? Third, which of the transactions is most structured like the proposed GBS deal? Even having considered these, the multiples may have factors embedded in them that do not reflect the GBS context.
            (b) NPV Model. You will need to make some assumptions. What is GBS worth as is? What is GBS worth once EMC makes operational changes? What is the time horizon for valuation? The time horizon for implementing the proposed changes?
         c) Bid Range: Use the range of estimates to recommend an opening bid for EMC. Note that if it is too low, it may draw in rival bidders (consider 1st Union's acquisition of Wachovia for a mere 6% premium). You should also indicate the highest you feel EMC should go in its bidding process if a rival bidder were to emerge.
         d) Recommendations for Andrews: Finally, assume that EMC closes the deal using your bidding strategy. What should they do next to begin realizing the gains envisioned. What are the barriers to their implementing your recommendations?

14. **10/17: Bidding under uncertainty/M&A involving human assets**. We will extend the discussion of M&A to transactions involving human assets. Part of the time will be spent on a simulated acquisition of Gourmet Adventures. After our experience discussing the GBS case, how would you think human assets would affect the process?

a. Read:
   1) 🕮Chanmugam, Shill, Mann, Ficery and Pursche (2005), The Intelligent Clean Room: Ensuring value capture in mergers and acquisitions, J. of Business Strategy, 26(3): 43-49.
   2) **Optional**: Coff (2003), *Bidding wars over R&D intensive targets: Knowledge, opportunism and the market for corporate control*, Academy of Management Journal.
b. Discussion questions
   1) Compare the GBS acquisition with the takeover of a traditional manufacturing firm. How would your recommended bidding strategy differ in the two situations?
   2) How would your approach to the due diligence differ?
   3) How would your recommendations differ between the two settings?

15. **10/19: Catch-up day, M&A, Micro Design, Decision trees**. We will use this day to catch up on topics we have skimmed through and learn to develop decision trees using Precision Tree software.
   a. Read:
      1) 🕮Coles & Rowley, *Revisiting Decision Trees (5p – skim this refresher if you need it)*

16. **10/24: Using Joint Ventures & Alliances as a Corporate Strategy Tool**. One way to manage competencies is to own them directly. Another is to contract with strategic partners. Like the Lion King case, The Hero-Honda Motors alliance opens up a discussion of when to use each approach.
   a. Read:
      1) 🕮Campbell & Reuer, International Alliance Negotiations (8p)
      2) **Optional**: Dyer, kale & Singh, (2001): *How to make strategic alliances work*. Sloan Management Review, 42(4): 37-43.
   b. Written Case Analysis (Case5: Hero Honda Motors (India) Ltd.)
      1) *Your Client*: Brijmohan Munjal, Chairman of Hero Honda Motors (HHM), hired you to analyze their alliance with Honda Motor Company and to make recommendations on how to proceed from 2003 forward.
      2) *Hint*: Consider the following questions.
         a) Why did each party enter into the strategic alliance? How did it fit into their strategies?
         b) Were the parties' objectives compatible? Why? Why not?
         c) Should the alliance have been managed differently from Hero's perspective? How?
         d) What challenges do they face moving forward? How should they respond?
      3) *Links* (optional follow up – not required to complete the case analysis):
         a) Hero Honda Motors: www.herogroup.com/honda.htm
         b) Honda: www.honda.com/
         c) Hero group: www.herogroup.com

17. **10/26**: **Structuring Strategic Alliances**. Hero Honda case, we explored some of the advantages and pitfalls in using strategic alliances as a tool for corporate strategy. Strategic alliances are often used to gain access to strategic resources. As such, they can devolve into "learning races." We continue with an exercise, the global game, which explores these issues further.
   a. Read:
      1) 🕮Norman, Are Your Secrets Safe? (10p)
   b. Discussion questions
      1) How can firms safeguard their strategic assets and still leverage them through alliances?
      2) How important is trust in alliance management? How can firms manage this aspect?
      3) How do "learning races" affect the dynamics of alliance formation and management?

10/31 – 11/2: No class (Strategic Management Society Conference)

Module 3: Technology, Uncertainty, and Competitive Advantage

18. **11/7: Strategy Under Uncertainty: The need for flexibility.** How do firms make investments under great uncertainty? This class begins our focus on making strategic decisions under uncertainty. First we will do the exercise, "getting a head" to discuss the role of luck in innovations.
    a. Read:
        1) 🕮Zahra et al, *Transforming Technological Pioneering into Competitive Advantage (17p)*
        2) 🕮Coles & Rowley, *Revisiting Decision Trees (5p – skim this refresher if you need it)*

19. 11/9**: Trees, Forests and Risk: A Real Options Approach**. When we use a simple discounted cash flow approach to value new opportunities, we typically account for uncertainty through the discount rate (e.g., higher Beta in the WACC). However, this may have grave implications on our time horizon – projects must pay back quickly to be judged as having merit. What are the implications for investing in sustainable competitive advantage? We then focus on the Merck case and their strategy for adopting new technologies through licensing technology developed by others.
    a. Read:
        1) 🕮Luehrman: *Investment opportunities as real options: getting started with numbers (11p)*
        2) **Optional**: Bowman & Moskowitz: *Real options analysis and strategic decision-making*. Organization Science 12(6): 772-777.
    b. Written Case Analysis (Case6: Merck & Co.: Evaluating a Drug Licensing Opportunity) 💻
        1) *Your Client*: Rich Kender hired you to analyze Merck's decision of whether or not to invest in LAB's new drug Davanrik.
        2) *Hint*: The following hints may be of use:
            a) Consider the following questions:
                - How has Merck been able to achieve substantial returns to capital given the large costs and lengthy time to develop drugs?
                - Should Merck license Davanrik? If so, how much should they be willing to pay?
                - How would your analysis change if the costs of launching Davanrik for weight loss were $225M instead of $100M as given in the case?
                - What types of option value are embedded in this decision? What are Merck's alternatives to access this potential?
            b) Sensitivity analysis: The case provides sufficient information to build a decision tree. What types of sensitivity analysis would be most valuable?
        3) Links on real options:
            a) Real option valuation: www.adainc.com/approach/rov.html
            b) PriceWaterhouse services: www.pwcglobal.com/ca/eng/about/svcs/fas_cvc-ose_rov.html
            c) About real options: www.real-options.com
            d) Real Options links: www.puc-rio.br/marco.ind/ro-links.html

20. **11/10**: **Living Case II: Creative Digital Group.** Our second living case involves the analysis of a competitive challenge in which strategic partners (ad agencies) are vertically integrating into your client's space. Joe Schab, CEO of Creative Digital Group must decide how to respond. Should they continue to partner with ad agencies? Should they buy or grow their own ad agency? **Note that this is a Friday class (1:00-2:30, rm 204)**
    a. Group written assignment. (Living Case #2: Creative Digital Group). Like the other living case, the assignment here is a one page group-level executive briefing. I will be handing out additional information (scenario and data) well ahead of this session. This is just to let you know that it is coming…

1) *Your Client*: Creative Digital Group, a full service interactive media company, faces a strategic threat as ad agencies implement digital media capabilities in house. Joe Schab hired your group to analyze the strategy they should pursue.
2) *Hint*:
   a) More to come…
3) *Links*:
   a) Creative Digital Group: www.creativedigitalgroup.com
   b) Avenue A/Razorfish (http://www.avenuea-razorfish.com/)
   c) Digitas (http://www.digitas.com/)
   d) Smaller firms: Agency.com (www.agency.com); Organic (www.organic.com); Others…

21. **11/14: Valuing Flexibility Using a Real Options Approach.** Here we explore some alternative methods for the quantitative evaluation of real options. We focus on both the Black/Scholes method and Luehrman's approach for approximating this value. We will focus on using some existing Black Scholes calculators – no need to memorize the formula…
    1) *Links* to online Black Scholes calculators:
       - http://janroman.net.dhis.org/BlackScholes.php
       - http://www.blobek.com/black-scholes.html
       - http://arec.arizona.edu/arec313/optval.htm

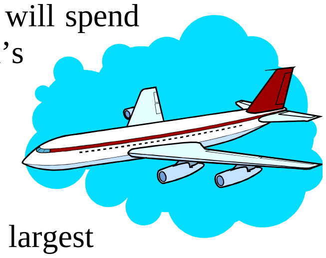
22. **11/16: Applying the Black/Scholes Valuation Method**. In this session, we apply the methods from the last session to measure option value inherent in an investment that Polaris is considering. Because the opportunity is structured around stock options, it is more natural to use the Black/Scholes method.
    a. Written Case Analysis (Case7: Polaris Energy)
       1) *Your Client*: Sam Michaels, VP of the Advanced Pollution Control Technologies section at Polaris Energy Corp. hired you to analyze the decision to invest in Spectrum's new technology for removing nitrogen oxides (NO_X).
       2) *Hint*: Consider the following questions.
          a) Describe the real options embedded in the investment and operational practices of electric utility companies such as Polaris.
          b) Evaluate Polaris' investment in Spectrum. What is the value of the proposed deal to Polaris? To Spectrum? Here are some valuation hints:
             - There is sufficient information in the case to apply Luehrman's approach to approximating the Black & Scholes model or you may use the Black & Scholes model directly.
             - To do this, you must value the options that have different time horizons separately.
             - It may be appropriate to perform sensitivity analyses for parameters when you are unsure of their value.
          c) What are the potential pitfalls of structuring this deal as a real option? Do the benefits outweigh the costs?
       3) *Links* (optional follow up – not required to complete the case analysis):
          a) Acid rain: www.epa.gov/airmarkets/acidrain/
          b) Reducing NO_X: www.eia.doe.gov/cneaf/electricity/nox_emissions/contents.html

23. **11/21: Real Options Meet Real Organizations**. We now turn to the question of how real options work in organizations – beyond valuation techniques. In the exercise, "Brother can you spare a few mil?" we simulate some of the organizational issues surrounding real options. How would options work in practice?

a. Read:
   1) Janney & Dess, *Can real-options analysis improve decision-making?(15p)*
   2) Coff & Laverty, *Real Options on Knowledge Assets (7p)*
b. Discussion Questions:
   1) What are some possible challenges in applying a real options approach?
   2) How does real option valuation differ from financial options?
   3) How would you cope with the challenges you identified?

11/23: No class (Thanksgiving)

24. **11/28: Credible Commitment v. Real Options**. Options are all about the value of flexibility. In this class, we examine some of the potential costs of maintaining flexibility. We will spend the class on an analysis of Airbus's decision to invest $13B in the world's largest commercial jet.



a. Read:
   1) **Optional:** Prahalad & Hamel (HBR): *Strategic Intent (14p)* (http://ejournals.emory.edu/direct/?issn=0017-8012&origin=1)
b. Written Case Analysis (Case8: Airbus A3xx: Developing the world's largest commercial jet)
   1) *Your Client*: Noël Forgeard (Airbus CEO) hired you to analyze the decision about whether to move foreword with the A3XX jumbo jet.
   2) *Hints*: The following are some hints (note, your assignment is to respond to Noël Forgeard and not to answer each question below. Nevertheless, these may help you get started):
      a) *Coping with Uncertainty*. How should they cope with the uncertainty in this decision? What are the pros & cons to alternative methodologies? You will need to justify your approach briefly.
      b) *Boeing's Response*. The case suggests several possible Boeing responses and you may come up with some novel ones on your own. Consider each possibility:
         - What resources would be required for each possible response? What might be the perceptions of the anticipated payoff?
         - How do Boeing and Airbus compare in their ability to withstand competition?
         - How will Boeing's response affect Airbus' decision & strategy?
      c) *Breakeven*. How many planes must be sold per year to break even? The following are some key assumptions to consider.
         - Expenditures:
           - Assume Airbus' to be a single entity using equity financing (unlevered cost of capital using CAPM =11% -- parameters given on p8),
           - Exhibit 10 is a starting point for assuming the timing of cash outlays.
         - Revenue**:**
           - The "realized" price/plane is $225M (p8). Analysts estimate operating margins at 25-30% -- higher than Boeing's margins.
           - Revenue might be considered as the terminal value from a perpetuity growing from 2008 at the rate of inflation (2%, p8). Alternately you could plot a different growth trajectory.
           - What is the demand for very large aircraft likely to be?
           - Can they sell enough planes annually to make the venture worthwhile?
   3) *Links* (optional follow up – not required to complete the case analysis):
      a) Airbus: www.airbus.com
      b) Airbus A380 Navigator (requires 1024x768 screen resolution):
      c) Boeing: http://www.boeing.com/index.html

25. **11/30: Imitation, Speed & Flexibility in Planning.** We continue discussing flexibility and strategy but now turn to a process focus on the organization. We will conduct an exercise called "Razing the Ivory Tower" that simulates some of these processes and provides additional fodder for class discussion.
    a. Read:
        1) 🕮Nutt, *Expanding the search for alternatives during strategic decision-making (15p)*.
        2) **Optional**: Rivkin (2000): *Imitation of Complex Strategies*. Management Science, 46(6): 824-844.

    b. Discussion Questions:
        1) What processes or capabilities lend themselves to imitation? Which ones are especially hard to match?
        2) What are the best ways to add flexibility to a strategy process?
        3) What are the best ways to add speed to a strategic decision-making process?
        4) Are there any incompatibilities between speed and flexibility?

26. **12/5: Flexibility in Strategic Decision Making.** We will continue to discuss how to inject flexibility into strategy decision-making processes. This includes a discussion of formal planning and group decision-making techniques.
    a. Read:
        1) 🕮Eisenhardt, *Speed and strategic choice: How do managers accelerate decision making (15p)*
    b. Discussion Questions:
        1) What processes or capabilities lend themselves to imitation? Which ones are especially hard to match?
        2) What are the best ways to add flexibility to a strategy process?
        3) What are the best ways to add speed to a strategic decision-making process?
        4) Are there any incompatibilities between speed and flexibility?

27. **12/7: Wrap-up/ Student Feedback**. We will conclude with a brief overview and answer any questions related to the final exam. We will then complete formal course evaluations and discuss next steps & areas for improvement in the course.

12/7 – 12/12: No class (Prepare for take home final exam)