

Industry & Competitor Analysis

BUS 630 (Evening) – Spring 2008

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Course Overview and Objectives

This course delves deeper into some strategy topics that you may have only touched upon earlier related to how firms gain a competitive advantage over rivals. In addition, since ICA tends to integrate quantitative and qualitative analysis more than other courses, you will have the opportunity to apply knowledge and skills you've gained across the curriculum (e.g., from finance, ISOM, Marketing, O&M, and Strategy).

Building Competitive Advantage

The broad focus of the course is on building competitive advantage with special emphasis on how firms can gain access to new resources or capabilities that may grant a competitive edge. We explore strategic investments that are required to compete effectively in uncertain and turbulent environments. Managers often throw up their hands and argue that planning isn't useful when the landscape is shifting rapidly. However, with the right set of tools, strategic management can have an even greater impact in this setting. We place special emphasis on competitive advantages that stem from valuable and hard-to-imitate resources or capabilities. Accordingly, we will focus much of our energy on the question of how to build, acquire or ally to gain access to such capabilities while maximizing the value that accrues to the company. Given the uncertainty inherent in such investments, we will explore how real options analysis may assist managers in making strategic investments of this type.

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 how firms may develop complementary capabilities that are instrumental to a competitive advantage;
- 2) Analyze how firms can acquire or ally to gain access to strategic resources or capabilities (M&A, joint ventures, etc.);
- 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.

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 4-5 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).

Summary		
Group:	6 Written case analyses (ppt)	40%
Individual:	Participation	30%
	Final exam	30%

Group case analyses/presentations (40%). 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 6 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). Case writeups must be posted to the course conference before 8:00am on the day the case is to be discussed. 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 section and group number in the subject line of the email and in the file name of the presentation (e.g., 0-2 = section 0 group 2 → LevisPersonalpair0-2.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.

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 (DS ≈15%; HP≈40%; PS≈40%; and LP/NC≈5%). 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 HP:

- ✓ The rater allocates a total pool of points to other members. The point "pool" equals $10 * (\text{group size} - 1)$. 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:

Raters	Members				Total Allocated
	Anne	Bill	Connie	David	
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	DS	HP	PS	HP	

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: Cases at study.net or readings 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/> (the link may not work directly from MS Word due to library security).
- 2) Log in using your OPUS/Eagle/Dooley ID and password.
- 3) Follow the instructions to add “B630 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 MBA Industry & Competitor Analysis (630) 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.

Why optional “thought leadership” readings are included:

You will note that there are a number of optional “thought leadership” readings listed in the pages that follow. There is a rigorous research base that underlies this course. Part of the reason why you are attending a program at a top research university is to have faculty who are steeped in the cutting edge of research. While many students may not wish to wade into the sometimes murky waters of research journals, others may want this depth and rigor. These readings are not offered to burden students but to provide additional opportunities for those who are interested.

Overview of the Schedule*

The course is divided into three modules that explore different aspects of building competitive advantages. For each session, I've indicated the topic and assignments.

Session Topic	Brief Overview of Assignments
I. Building/Growing Strategic Assets	
1. 1/30/08 – What drives competitive advantage? (Exercise: Paper Chase). Alignment, Competitive Advantage and Judo (Aldi Mini Case).	Dixit & Nalebuff, Anticipating your rival's response (24p – skim if you've read this) Dixit & Nalebuff, Seeing through your rival's strategy (28p, skim if you've read this) Yoffie & Kwak, Mastering Balance: How to meet & beat a stronger opponent (15p) MiniCase: Discussion questions for 'Aldi Shakes Up Atlanta's Supermarkets' (2p)
2. 2/6/08 – Positioning, Alignment and Fit (Case1: Levis Personal Pair). Complementarities and Multi-business Strategies.	Goold and Luchs, Why diversify? Four decades of thinking (skim, 15p) Optional: Palich, et.al., Curvilinearity in the Diversification-Performance Relationship Case1: Levi's Personal pair (8p)
3. 2/13/08 – The Scope of the Firm; (Case2: Endius, Inc.). Managing core competence (Video Case: 3M Laserdisk).	Case2: Endius Inc.: Alternatives for Developing a New Medical Device (11p) Stuckey & White, When and When Not to Vertically Integrate (skim 12p) Coyne, Hall & Clifford, Is your core competence a mirage? (13p) Optional: Prahalad & Hamel (HBR, 1990, #3), Core competencies of the corp (14p)
4. 2/20/08 – Creating Corporate Value (Exercise: Micro-Design technology transfer). Solving Corporate Dilemmas: Making MicroDesign Work.	MicroDesign role worksheet and background (Handout) Hansen & Nohria, How to Build Collaborative Advantage (8p) Optional: Coff, How Control in Human-asset-intensive Firms Differs from Physical-asset-intensive Firms: A multilevel approach (16p).
II. Acquiring/Allying to Access Resources	
5. 2/27/08 – Competition to Acquire Strategic Assets (Case3: A-Rod). Entrepreneurial Creativity & Factor Markets (Exercise: Shaping a plan).	Case3: A-Rod: Signing the best player in baseball (5p) Sunstein & Thaler, <i>Who's on First?</i> . <i>The New Republic</i> . (8p) Optional: Barney, Strategic Factor Markets (10p) Amabile, Motivating Creativity in Organizations (20p)
6. 3/5/08 – Mergers and Acquisitions (Case4: The GBS Acquisition). Bidding under uncertainty (Exercise: Gourmet Adventures).	Case4: The GBS Acquisition (7p) Lubatkin & Lane, Psst...The merger mavens still have it wrong! (14p) Optional: Coff, How buyers cope when acquiring knowledge-intensive targets (16p). Optional: Coff, Bidding wars over R&D intensive targets (11p)
[3/10/08 – 3/14/08 Spring Break]	
7. 3/19/08 – M&A and Human Assets. Using Alliances to Access Resources (Case5: Hero Honda Motors).	Chanmugam, et.al., The intelligent clean room: Ensuring value capture in M&A (7p) Case5: Hero Honda Motors (India) Ltd. (11p) Campbell & Reuer, International Alliance Negotiations (8p)
8. 3/26/08 – Structuring Strategic Alliances (Exercise: Global Game). Acquiring vs. Allying: Seeking closure on the deal.	Norman, Are Your Secrets Safe? (10p) Dyer, kale & Singh, (2001): How to make strategic alliances work (7p)
III. Planning/Investing & Competitive Advantage	
9. 4/2/08 – Strategic Investments Under Uncertainty (Exercise: Heads up). Trees, Forests and Risk: A real options approach (Case6: Merck & Co.).	McGrath, Keil, and Tukiainen: Extracting Value from Corporate Venturing (7p) Coles & Rowley, Revisiting Decision Trees (skim, 5) Case6: Merck & Co.: Evaluating a drug licensing opportunity (6p) Luehrman: Investment opportunities as real options: getting started with #s (11p)
10. 4/9/08 – Valuing Real Options: Black/Scholes and Beyond. Valuing Real Options (Case7: Real Options at Polaris Energy).	Optional: Bowman & Moskowitz, Real option analysis & strategic decision-making (6p) Case7: Real Options at Polaris Energy (6p)
11. 4/16/08 – Managing Real Options (Exercise: Getting Some Exercise). Credible commitment vs. Options (Case8: Airbus A3xx).	Janney/Dess, Can real-options improve decision-making? (15p) Coff & Laverty, Real Options on Knowledge Assets (7p) Case8: Airbus A3xx: Developing the largest commercial jet (10p) Optional: Prahalad & Hamel (HBR): Strategic Intent (14p)
12. 4/23/08 – Speed & Flexibility in Planning (Exercise: Razing the ivory tower). Flexibility and Strategic Decision-making: Course wrap-up.	Harreld, O'Reilly, & Tushman: Dynamic Capabilities at IBM (21p) Eisenhardt, Speed and strategic choice (15p)

*Hint: Click on the **session topics** to go to the detailed assignments. Icon key: = library eReserve; = Study.net packet.

Detailed Course Schedule

Module 1: Building/Growing Strategic Assets

1. **1/30/08 – What drives competitive advantage? (Exercise: Paper Chase).** We will introduce the topic of strategy and go over the course plan. 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. We will use the “Paper Chase” exercise 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 read this)
- 2) 📖 Dixit & Nalebuff: Seeing through your rival’s strategy (28p, skim if you’ve 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 firms create or gain access to resources that allow them to sustain an advantage?

Alignment, Competitive Advantage and Judo (Aldi Mini Case). Here we focus on how firms must create aligned activity systems in order to gain advantages over rivals. We will go through the Aldi mini case to analyze how each of the entrants might respond to Aldi’s entry. It will help to demonstrate how resources can be a source of an advantage or, conversely, put a company at a competitive disadvantage. This will set the stage for much of the remainder of the semester where we will explore how companies can create or gain access to resources that align the firm to compete effectively.

c. Read

- 1) 📖 Yoffie & Kwak: Mastering Balance: How to meet & beat a stronger opponent (15p)

d. MiniCase Analysis: Aldi Shakes Up Atlanta’s Supermarkets (2p, posted in the conference).

- 1) You were hired by the following client according to the first letter of your last name:
 - a) Last name begins with A – I: Your client is Kroger
 - b) Last name begins with J – R: Your client is Costco
 - c) Last name begins with S – Z: Your client is Whole Foods
- 2) Be prepared to discuss the following questions with respect to your client:
 - a) What is the nature of the problem your client faces;
 - b) Why has Aldi been successful;
 - c) To what extent does Aldi’s entry pose a threat to your client’s Atlanta operations; and
 - d) Recommendations for how your client should respond (spend the most time here).
 - e) Optional: Consider visiting one of the Atlanta stores (closest one to campus is: 3480 Memorial Drive, Decatur, GA 30032)

2. **2/6/08 – Positioning, Alignment and Fit (Case1: Levis Personal Pair).** 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. 🎯 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) Mass customization links: <http://www.managingchange.com/masscust/overview.htm>

Complementarities and Multi-business Strategies. Part of building new capabilities within a firm involves understanding and exploiting complementarities among activities. One aspect of this is taking advantage of synergistic opportunities in a portfolio of businesses. Accordingly, the next few sessions focus 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 first strategy course.

b. 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.

c. 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?

3. **2/13/08 – The Scope of the Firm; (Case2: Endius, Inc.).** Here we explore the Endius case in which managers must choose whether to develop a new product internally or through the use of product design consultants. It is ultimately a decision about the scope of the firm and which capabilities should be internal and which ones should be external.

a. Read:

- 1) 📖 Stuckey & White, When and When Not to Vertically Integrate (skim 12p)

b. 🎯 Written Case Analysis (Case2: Endius, Inc.: Alternatives for developing a new medical device).


- 1) You were hired by Endius CEO Tom Davidson to render an opinion on whether they should develop the initial new product internally or use an external consultant. He has a strong

interest in doing this the right way since he will be funding the product development effort regardless of whether it is internal or external.

- 2) Hint: The scenario pushes you to think critically and strategically about the costs and benefits of each alternative. Consider especially the following issues:
 - a) Direct costs associated with each alternative if everything is on schedule.
 - b) How might delays affect costs for each alternative. What is the likelihood of delays for each approach?
 - c) What qualitative factors should be considered in this decision?

Managing core competence (Video Case: 3M Laserdisk). 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.

c. Read:

- 1)  Coyne, Hall & Clifford: Is your core competence a mirage? (13p)
- 2) Optional: Prahalad & Hamel (HBR, 1990, issue 3), Core competencies of the Corporation (14p – skim)

d. 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?

4. **2/20/08 – Creating Corporate Value (Exercise: Micro-Design technology transfer).** 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)
- 2)  Hansen & Nohria, How to Build Collaborative Advantage (MIT Sloan Management Review, 2004, 46(1): 22-30, 8p)



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.

Solving Corporate Dilemmas: Making MicroDesign Work. In this session, we continue our discussion of the MicroDesign exercise. Here, we will focus on how to systematically address the problems that surfaced in the exercise as we re-design MicroDesign's organization.

c. Read:

- 1) Optional: Coff, [*How Control in Human-asset-intensive Firms Differs from Physical-asset-intensive Firms: A multi-level approach.*](#) Journal of Managerial Issues. 11(4): 389-405.

5. **2/27/08 – Competition to Acquire Strategic Assets (Case3: A-Rod).** Given that competitive advantages may result from strategic assets, this case begins our exploration 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 (Case3: 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 1st round of playoffs. The 2nd 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 1st 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 4th 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) Links (optional follow up – not required to complete the case analysis):
 - ✓ Texas Rangers: <http://rangers.mlb.com/>
 - ✓ Alex Rodriguez: [Official Major League Baseball Page](#)
 - ✓ Major League Baseball: www.mlb.com

Entrepreneurial Creativity & Factor Markets (Exercise: Shaping a plan). 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.

c. Read:

- 1) 📖 Amabile: Motivating Creativity in Organizations (20p)

d. 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?

6. **3/5/08 – Mergers and Acquisitions (Case4: The GBS Acquisition).** 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.
 - ✓ 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.
 - ✓ 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?

Bidding under uncertainty (Exercise: Gourmet Adventures). 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?

c. Read:

- 1) Optional: Coff (2003), *Bidding wars over R&D intensive targets*: Knowledge, opportunism and the market for corporate control, Academy of Management Journal. (11p)


d. 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?

[3/10/08 – 3/14/08 Spring Break]


7. **3/19/08 – M&A and Human Assets.** We will continue our discussion of specific hazards inherent in bidding contests over strategic assets. Here, we will begin to address solutions for managing the dilemmas.


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.

Using Alliances to Access Resources (Case5: Hero Honda Motors). One way to manage competencies is to own them directly. Another is to contract for them from strategic partners. Like the Lion King case, The Hero-Honda Motors alliance opens up a discussion of when to use each approach.

b. Read:

- 1)  Campbell & Reuer, International Alliance Negotiations (8p)

c.  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

8. **3/26/08 – Structuring Strategic Alliances (Exercise: Global Game).** In the Hero Honda Motors 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?

Acquiring vs. Allying: Seeking closure on the deal. Clearly both alliances and acquisitions have their strengths and limitations. We wrap up our discussion of acquiring and gaining access to new capabilities with a discussion of when to buy and when to ally.

- c. Read:
 - 1) 📖 Campbell & Reuer, International Alliance Negotiations (8p)
 - 2) 📖 Dyer, Kale & Singh, (2001): [*How to make strategic alliances work*](#). Sloan Management Review, 42(4): 37-43. (7p)

Module 3: Planning and investing for competitive advantage

9. **4/2/08 – Strategic Investments Under Uncertainty (Exercise: Heads up).** 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) 📖 McGrath, Keil, and Tukiainen: Extracting Value from Corporate Venturing (MIT Sloan Management Review, 2006, 46(1): 50-56, 7p)
 - 2) 📖 Coles & Rowley, Revisiting Decision Trees (5p – skim this refresher if you need it)
 - b. Discussion questions
 - 1) How can firms develop strategy when the competitive environment is changing rapidly?
 - 2) How can decision-makers account for uncertainty when making strategic investment decisions?

Trees, Forests and Risk: A real options approach (Case6: Merck & Co.). 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.

- c. Read:
 - 1) 🎮 Luehrman: Investment opportunities as real options: getting started with numbers (11p)
- d. 🎮 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?
 - ✓ What are the risks associated with the venture from both sides? How might this play out in negotiations?
 - ✓ Should Merck license Davanrik? If so, how much should they be willing to pay?
 - ✓ 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 options portal](#)
 - b) Real options consulting: [Real Options Group](#), <http://www.realoptionsvaluation.com/index.html>, <http://www.voseconsulting.com/>, <http://www.real-consulting.com/>
 - c) About real options: www.real-options.com
 - d) Real Options links: www.puc-rio.br/marco.ind/ro-links.html

10. **4/9/08 – Valuing Real Options: Black/Scholes and Beyond.** We will continue to develop a toolkit for evaluating real options.

a. Read:

- 1) Optional: Bowman & Moskowitz: [Real options analysis and strategic decision-making](#). Organization Science 12(6): 772-777.



Valuing Real Options (Case7: Real Options at Polaris Energy). 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. The Polaris case offers a situation in which not only can a real options approach be used, the option value can be calculated using the Black-Scholes method. As we shall see, this case will ultimately highlight some unexpected pitfalls of a real options approach. We will use existing Black Scholes calculators – no need to memorize the formula...

b. ✨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 (NOX).
- 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: <http://www.epa.gov/acidrain/>

- b) Reducing NOX: www.eia.doe.gov/cneaf/electricity/nox_emissions/contents.html
- c) Links to online Black Scholes calculators:
 - ✓ <http://www.eri.com/scripts23/blackscholes/blackscholes.exe/main>
 - ✓ <http://www.tradingtoday.com/black-scholes>
 - ✓ http://www.soarcorp.com/black_scholes_calculator.jsp
 - ✓ <http://www.blobek.com/black-scholes.html>
 - ✓ <http://arec.arizona.edu/arec313/optval.htm>

11. **4/16/08 – Managing Real Options (Exercise: Getting Some Exercise)**. We now turn to the question of how real options work in organizations – beyond valuation techniques. In the exercise, “Getting Some Exercise” we simulate some of the organizational issues surrounding real options. How would options work in practice?


- a. Read:
 - 1)  Coff & Laverty, Real Options on Knowledge Assets (7p)
 - 2)  Janney/Dess, Can real-options improve decision-making? (15p)
- 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?

Credible commitment vs. Options (Case8: Airbus A3xx). 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.


- c. Read:
 - 1) Optional: Prahalad & Hamel (HBR): Strategic Intent (14p)
- d.  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 forward with the A380 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?
 - b) Breakeven. How many planes must be sold per year to break even? The following are some key assumptions to consider.
 - ✓ Expenditures:
 - a. Assume Airbus’ to be a single entity using equity financing (unlevered cost of capital using CAPM =11% -- parameters given on p8),
 - b. Exhibit 10 is a starting point for assuming the timing of cash outlays.
 - ✓ Revenue:
 - a. The “realized” price/plane is \$225M (p8). Analysts estimate operating margins at 25-30% -- higher than Boeing’s margins.

- b. 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.
 - c. What is the demand for very large aircraft likely to be?
 - d. 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) Airbus A380: www.airbus.com/product/a380_background.asp
 - d) Boeing: <http://www.boeing.com/index.html>
 - e) Boeing 747-8: http://www.boeing.com/commercial/747family/747-8_background.html

12. **4/23/08 – Speed & Flexibility in Planning (Exercise: Razing the ivory tower).** 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)  Harreld, O’Reilly, & Tushman: Dynamic Capabilities at IBM: Driving strategy into action (California Management Review, 2007, 49(4): 21-42, 21p)
- 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?

Flexibility and Strategic Decision-making; Course wrap-up. 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. 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.

- c. Read:
 - 1)  Eisenhardt, Speed and strategic choice: How do managers accelerate decision making (15p)
- d. 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?