

Strategic Management

BUS 634—Fall 2001

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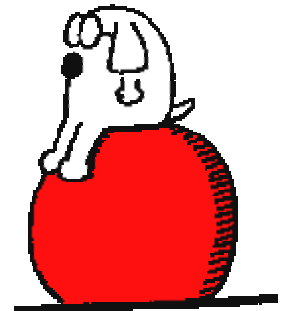
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Course Objectives

This course examines how firms gain and maintain a competitive advantage. To be successful, the firm's strategy must permeate all departments and functional areas. As such, this course integrates knowledge and skills gained from your studies in the functional areas of business (e.g., marketing, organizational behavior, finance, accounting...). In drawing on these tools, we explicitly apply a *general management* point of view – we will analyze decisions and strategies in light of the *total enterprise*. We will also spend a fair amount of time on corporate strategy – how do firms create value with multiple business units. These issues will help you understand and cope with issues you will face in the business world. By the end of the course, you will be able to:

1. Analyze industry structure and environmental trends to assess industry potential;
2. Assess a firm's resources for their potential to generate a competitive advantage;
3. Explain how firms can add value across diverse lines of business;
4. Develop strategies for acquiring human assets in mergers and acquisitions;
5. Explain the elements of the strategic management process; and
6. Apply tools to enhance flexibility in a turbulent environment.



Most of your other classes do not examine a corporate environment (e.g., creating value across business units). Rather, they tend to adopt a functional perspective within a given line of business. Given that many of you will be working in a corporate environment at some point, you should have a basic understanding.

Group Assignments (30% of final grade)

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 4-6 people) on the first day of class. The group assignments involve case analyses, class preparation, and in-class exercises. These are described briefly below:

1. Group project (25% of grade). Your group is responsible for a project in which you analyze a firm's industry and/or strategy and make recommendations. I would like you to select a firm that you have access to and can interview at least one manager. The end product will be a presentation at the end of the semester and a 10-15 page report. Note that I also plan to invite your contacts at these firms to the presentations. The topic can be anything that draws on the course material. I have made some suggestions below to jog your thinking:
 - * Industry analysis
 - * Internal analysis of capabilities
 - * Technology/innovation strategy
 - * Real options
 - * Multi-business/corporate strategy
 - * M&A strategy
 - * Planning process
 - * Strategic positioning
 - * Competitor analysis/rivalry
2. Group Class Preparation (5%). In some cases, we will debate analyze subcomponents of a case. Groups are responsible for preparing and presenting these analyses as part of the case discussion. In addition, we have two guest speakers in which I will be asking groups to prepare executive briefings. This is an effort to reframe guest speakers as living cases rather than "guest lectures."
3. Class Exercises. The exercises are fun but that doesn't mean you shouldn't take them seriously. They may be your greatest opportunity to learn to apply the course materials before your boss calls upon you to apply it (or you have to live through a corporate restructuring, etc.).

Individual Assignments (70% of final grade)

The class also involves three major individual assignments: 1) case writeups, 2) participation, and 3) readings. These are discussed below:

1. Individual case writeups (40% of grade). You are responsible for 3 writeups of the 10 eligible cases (there are two discussion cases that are not eligible for this assignment). This allows you to choose which cases you wish to complete based on your schedule. Given the group project, I urge you to get this out of the way early in the semester. Each writeup will be two pages and single spaced (see the Gallo and Monsanto examples on page 18). Take special note of the grading criteria for written assignments. The Gordon Biersch and MicroDesign cases are for discussion only. Note, if you do poorly on a case and want to write up a 4th case, I will average it in equally with the others (as opposed to dropping it). Only 4 cases are permitted.

Note that 7 of the 10 cases have some quantitative components. However, the most challenging of the quantitative cases are positioned at the end of the course (particularly Airbus A3XX, Nucleon, and the CBN acquisition). You may want to consider this if you like quantitative challenges and/or have a tendency to procrastinate.

2. Participation (30% of grade). I will record participation in each class. Participation is a critical part of the learning process. Through your contributions (or lack thereof) you can either bump up a close call or lose a top grade that was almost "in the bag."
3. Readings. Most of the readings are in the packet since there is no text book. Many of them are taken from the *Academy of Management Executive*, which is targeted for executives and is designed to bridge the gap between cutting edge research and practice. While I don't grade separately for readings, you will find it hard to do well without doing the reading.

Grading Criteria for Written Assignments

The following are the *Key Result Areas* for all written assignments. Read them very carefully before you start any assignment and again before you turn it in.

- ◆ Rigor of Analyses. Your group's term paper and your mini cases (executive briefings) should bring in all course content that is germane to the problem. Don't spend time restating the facts given in the case, you should assume some knowledge of the company. For quantitative cases, remember that strategic decisions often have key elements that cannot be quantified – a full analysis must include all relevant factors. Also, all assumptions must be realistic and justified with sound logic.
- ◆ Realistic recommendations. You will be graded on whether you are aware of organizational realities that may act as barriers to certain strategies (e.g., politics, culture, and informal rewards). Also, consider the organizational consequences and changes necessary to initiate any bold moves.
- ◆ Clarity of Writing. For the most part, papers should be addressed to a managerial audience. This means that you should outline carefully, write clearly, and include an executive summary (see the format guidelines for the group term paper). Given that the writing and analysis will probably be divided up among your team for the term paper, make certain that the paper reads smoothly (e.g., consistent writing style, format, etc.).

Grading Standards

I will stick closely to the suggested grading guidelines for MBA core classes. In other words, you can anticipate the following distribution of grades:

- | | |
|---|-----|
| ◆ Distinction (DS) | 15% |
| ◆ High Performance (HP) | 35% |
| ◆ Performance Standard (PS) | 40% |
| ◆ Low Performance (LP) & No Credit (NC) | 10% |

Diversity, Group Effectiveness & Peer Evaluation

I urge you to take advantage of the diversity of perspectives and skills in your GBS class. All of your colleagues are here because they are conscientious students with a keen desire to excel. Team members with diverse backgrounds and international experiences can enhance your learning and help you develop interesting projects. In the business world, you rarely have carte blanche to choose your team.

I recognize that this may raise concerns that some group members who you don't know well may not pull their weight. Accordingly, group grades will be adjusted using a peer appraisal system where each member rates all other members. This will help you to enforce and assure norms of strong effort for all group members. The average of peer ratings can raise or lower an individual's group portion of the grade by up to ½ grade. This appraisal is a *zero-sum* exercise -- all members of the group cannot get grades above the group grade. However, if people generally pull their weight or there is not broad agreement about who put in the time and effort, all group members will get the same grade (the averages will all approach 10 points).

Example: At the end of the semester each person will complete a worksheet to 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 all other members. The points to be allocated equals $10 \times (\text{group size} - 1)$. In a group of four, each member would have 30 points to allocate to 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	

Note: In order to change from peer appraisal to the same group grade for each member, I need the request in writing with signatures from all group members.

General Tips on How to Approach Executive Briefings (Cases)



Here are some general hints on how to approach the cases:

1. Avoid laundry lists. Focus and organize your analysis. Look for a framework from the readings or class that helps you to organize and present your analysis.
2. Don't summarize the case. The audience (your client) is very familiar with the situation and requires further analysis. This "so what" factor is a common problem in consulting.
3. Check the Gallo example. It's not easy to get a rigorous analysis and recommendations into a 2 page executive briefing. Note the use of tables, graphics, and bullets to make points concisely (see page 18).
4. Consulting scenario. Don't forget the consulting scenario & try to have some fun with it. Think about who your client is and what he/she would like to see in your report.
5. Quantitative and qualitative analysis. Most often, it is impossible to quantify all relevant factors for a strategic decision. For quantifiable elements, provide assumptions made to cope with missing information. Be sure to incorporate both qualitative and quantitative aspects of your analysis (even for the most quantitative of cases).

Academic Integrity

The assignments are clearly marked as individual or group – there should be no confusion. I expect you to uphold the highest standards of academic integrity. Contrary to what some believe, 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

I have tried to save students' money by posting readings electronically. While my packet last year cost over \$200, materials for this semester should be about \$30. In exchange for this substantial cost reduction, there may be some inconvenience in getting materials. Please let me know if you have any serious trouble. Throughout the syllabus, eReserve readings in the library are noted with “” while cases at Study.net are marked with “.

Readings on eReserve at the Library ():

This includes most of the readings for the course since there is no textbook. The library has graciously deemed that they can post these materials on the web at no cost to students. The following are the instructions for retrieving materials.

1. Go to www.library.emory.edu
2. Click on the dark blue "Reserve Desk" button near the top left corner of the page.
3. Type "Coff" into the "Lookup Items" text box, and press Enter.
4. Click on "Coff, Russell" in the list of instructors.
5. Select the appropriate class.
6. You will see a list of readings on reserve arranged alphabetically by title. (Unfortunately, it was not possible to arrange them in chronological order matching their sequence in the syllabus.)
7. When you find the reading that you want, click on the corresponding light blue "View" button.
8. On the next page, there will be an "electronic access" link to the appropriate Adobe Acrobat "PDF" file. When you click on that link, the PDF file will be opened in a new browser window.
9. If you repeat this process to download a 2nd file from E-Reserves, but you kept the window from the 1st file open, the 2nd PDF file may appear in THE SAME browser window where the 1st PDF file had appeared.

For technical problems, please contact either the support desk at Goizueta at (404) 727-0581 or the Emory Support Desk at (404) 727-7777. For any other questions about E-Reserves, please contact librarian Marilyn Pahr via FirstClass, at Marilyn_Pahr@bus.emory.edu, or by telephone at (404) 727-3979.

Case Packet at Study.net ():

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 pay an additional fee and they will send you a hard copy. The electronic versions of the cases cost about half what the case would be if I put it in a course packet here. 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 Strategic Management (634) course and follow the instructions to purchase the materials. You will be prompted for the course password when registering. No surprises, it's "Coke" (case sensitive). You may wish to consider the option to get a hard copy (about \$13). This may save you some time.


Overview of Class Schedule




For each session, I have indicated themes that will be introduced and what you need to do in preparation for class. This is just an overview – refer to the detailed description of assignments on the following pages.

Date	Topic/Class Activities	Assignments	Pages
1. 9/10	Introduction; Teams; What is strategy?	Grant: <i>Concept of strategy (ch1)</i>	23
2. 9/12	Strategic position & generic strategies Discussion Case: Gordon Biersch	Grant: <i>Sources of competitive advantage (ch7)</i> Porter, <i>What is Strategy?</i>	19 17
Module I: Industry Analysis			
3. 9/17	Analyzing industry profit potential Video: Industry Analysis (Porter)	Grant: <i>Analyzing the industry environment (ch3)</i>	30
4. 9/19	Buyer & Supplier power; Mid-course evaluation I Case1: Coming Soon – A theater near you	2 page individual case writeup Proposals due for group projects	
5. 9/24	Hypercompetition: Rivalry & Competitor analysis Exercise: The paper chase	D'Aveni, <i>Coping with hypercompetition: The new 7S's framework</i> Dixit & Nalebuff: <i>Anticipating your rival's response</i>	12 24
6. 9/26	Rivalry and market entry Case2: Dogfight Over Europe [Q]	2 page individual case writeup Cooper & Smith, <i>How firms respond to threatening technologies</i>	14
Module II: Internal Analysis			
7. 10/1	Sustained advantage: Value chain analysis	Barney, <i>Looking inside for competitive advantage</i> Duncan, Ginter, & Swayne, <i>Comp adv & internal org assessment</i>	12 11
8. 10/3	Sustainability of differentiation advantages Case3: Levis Personal Pair (handout) [Q]	2 page individual case writeup	
9. 10/8	Sustainability of cost advantages Case4: Wal*Mart [Q]	2 page individual case writeup	
10. 10/10	Knowledge Management Dilemmas Case5: Thomas Weisel Partners	Coff, <i>Breaking out of the Human Asset Trap (may be a handout)</i> Eccles & Crane, <i>Managing Through Networks in Investment Banking</i> 2 page individual case writeup	18 20
10/15	No class: Fall Break		
Module III: Value Creation in Multi-business Firms			
11. 10/17	Corporate Strategy: Managing-multi business firms	Goold and Luchs, <i>Why diversify? Four decades of thinking</i>	15
12. 10/22	No class – group meeting		
13. 10/24	Guest: Ed Gordon, Senior Vice President, AssistantTreasurer.com (Wachovia)	Group project status reports due	
14. 10/29	Managing Core competence; Intro to Micro Design Video Case: 3M Laserdisk	Prahalad & Hamel, <i>Core competencies of the Corporation</i> Collis & Montgomery, <i>Creating Corporate Advantage</i>	14 14
15. 10/31	Discussion Case: Micro-Design technology transfer	Negotiation strategy worksheet due (Individual assignment)	
16. 11/5	Core competence & vertical integration Case6: Disney's "The Lion King"	Stuckey & White, <i>When and When Not to Vertically Integrate</i> 2 page individual case writeup	12
17. 11/7	Mergers and Acquisitions; Mid-course evaluation II Case7: The CBN Acquisition (handout) [Q] Video Case: "Jack & me"	The Case Against Mergers, <i>Business Week</i> Lubatkin & Lane, <i>Psst... The merger mavens still have it wrong!</i> 2 page individual case writeup	14 14
18. 11/12	Acquisitions involving human assets Exercise: Simulated corporate acquisition	2 page individual case writeup Ashkenas, DeMonaco, & Francis: <i>Making the Deal Real: GE Capital</i>	12
Module IV: Technology, Uncertainty, and Strategy Implementation			
19. 11/14	Leveraging Technologies in a global environment Case8: Product Development at Dell [Q]	2 page individual case writeup Zahra et al, <i>Transforming technological pioneering into comp adv</i>	17
20. 11/19	Technological uncertainty and real options Case9: Nucleon [Q] Exercise: Heads up	Coff, <i>A Primer on Decision Trees</i> Luehrman: <i>Strategy as a Portfolio of Real Options</i> 2 page individual case writeup	3 10
11/21	No Class: Thanksgiving		
21. 11/26	Living Case: The Weather Channel Course Materials Evaluation	Group executive briefing for the Weather Channel	
22. 11/28	Putting it all on the line... Case10: Airbus A3XX: Developing the world's largest commercial jet [Q]	Prahalad & Hamel, <i>Strategic Intent</i> 2 page individual case writeup	13
23. 12/3	Speed and flexibility in planning and execution Exercise: Razing the Ivory Tower	Eisenhardt, <i>Speed and strategic choice</i> 1 page summaries due for group projects	15
24. 12/5	Mini-presentations/Discussion of group projects		
25. 12/10	Mini-presentations/Discussion (cont'd); Wrap-up Group projects due		

Icon key: = eReserve in the library; = ePacket at Study.net; = written assignment; = lecture day; [Q] = Quantitative case


Detailed Course Schedule


1. **9/10: Introduction; What is strategy?** 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.
 - a. Read:
 - 1)  Grant: Concept of strategy (ch1) (23p)
 - 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. **9/12: Strategic position & generic strategies.** We will review the concept of generic strategies (you should have covered this in marketing). We will discuss the implications of generic strategies for positioning the whole organization (as opposed to just pricing or advertising decisions). The Gordon Biersch case provides an opportunity to discuss strategic positioning and the competitive attributes at the convergence of two industries (restaurants and retail bottling).
 - a. Read:
 - 1)  Discussion Case: Gordon Biersch
 - 2)  Grant: Sources of competitive advantage (19p)
 - 3)  Porter, What is Strategy? (17p)
 - b. Discussion Questions (no written assignment):
 - 1) Think of an industry that interests you and map the players on to Porter's generic strategies. Are all of the niches filled?
 - 2) Which of Porter's generic strategies does Gordon Biersch apply? Is it a good strategy?
 - 3) How should they expand?



Module 1: Industry and Competitor Analysis

3. **9/17: Analyzing industry profit potential.** This module explores the structural attributes that make an industry attractive. I will probably show a short video of Michael Porter presenting the five forces framework. We will then continue to explore these issues using the Gordon Biersch Case.
 - a. Read:
 - 1)  Grant: Analyzing the industry environment (30p)
 - b. Discussion Questions (No written assignment):
 - 1) Identify the buyers, suppliers, substitutes and potential entrants for Gordon Biersch *restaurants*.
 - 2) Identify the buyers, suppliers, substitutes and potential entrants for Gordon Biersch *bottled beer*.
 - 3) Is the industry structure favorable (profitable) in either of these cases?
 - 4) Can Gordon Biersch manage the "forces" to make either of these industries more favorable?

4. **9/19: Buyer/Supplier power.** We will use the "Coming Soon" case to go further into five forces analysis and to allow you an opportunity to apply the framework. We will end the class with the first mid-course evaluation.
 - a.  Group Project Plan Due. This one-page plan should list the following:
 - 1) Team name/members
 - 2) Company and industry to be studied

- 3) Name and address of contact to be interviewed (note: I plan to invite them to the presentations).
- 4) Summary of the planned data collection and analysis
- 5) Brief time line

b.  Written Case Assignment  Case1: Coming Soon: A theater near you)

- 1) Your Client: As a Solomon Smith Barney analyst, you were hired to analyze the industry for a new stock issue for Cineplex Odeon theaters that SSB is underwriting.
- 2) Topic Sentence: This executive briefing analyzes the movie theater industry to identify the profit potential of Cineplex Odeon theaters.
- 3) Hint: First, take a close look at the assignment scenario above (Client). This differs from the types of assignments most professors ask for in case analyses. It also differs a bit from the problem the case writer tried to lay out. Here, you are an industry analyst for an investment bank (Solomon Smith Barney, SSB). They are underwriting a stock issue for Cineplex Odeon (CO). In other words, CO is raising more capital to expand its operations by selling more stock. SSB (your employer) will use your analysis to price and sell the stock through their retail brokerage outlets. Your job is to evaluate the CO's prospects – how can CO use the capital in ways that suggest strong performance in the future?

Before you write up the analysis & recommendations check out the Gallo example again for formatting and style. It's not easy to get a rigorous analysis and recommendations into a 2 page executive briefing. Also, don't forget the consulting scenario & try to have some fun with it ;-)

The Gallo example is a useful starting point. A 5 forces analysis should tell you how the industry structure in theaters affects CO's prospects. This is particularly true with respect to supplier power (studios). In fact, you may find it useful to map out both industries to understand the dynamics. Have there been any changes in industry structure over time that suggest a more promising environment for CO in the future? Is there anything that CO can do to improve their situation/position? How would additional capital help?

The first step in applying a five forces analysis is always to figure out which stakeholders go in each box. Consider:

- What products, services, or assets must firms buy or rent from others?
- Who buys the product from firms?
- What are the barriers to entering the industry?
- What are viable substitutes for the customers listed above?

Then you need to tackle the bargaining power issue. What factors grant each buyer or supplier bargaining power?



Clearly SSB would like you to make the new stock issue look good so it sells. This is an ethical dilemma that analysts often face. If they say what SSB wants and it turns out to be wrong, what happens to their credibility? Their career?

4) Additional information on the web:

- a) CO: www.cineplexodeon.com
- b) Association of theater owners: www.natoonline.org
- c) Predicting a comeback? www.bouldernews.com/business/12bthea.html

5. **9/24: Hypercompetition, rivalry and competitor analysis.** This class focuses on the center box in the five forces. In particular we will focus on competitive advantage in very fast paced or high velocity industries. Class will feature a simulation of such an industry (the paper chase) and discussion. It'll wake you up...

a. Read:

- 1)  D'Aveni, Coping with hypercompetition: The new 7S's framework (12p)
- 2)  Dixit & Nalebuff: Anticipating your rival's response (24p)

b. Discussion Questions:

- 1) What determines the sustainability of a positional advantage (e.g., a profitable industry)?
- 2) Think of some industries that appear to be hypercompetitive. What makes them that way?




3) Can you think of some firms that are able to thrive in this environment? Why/Why not?

6. **9/26: Rivalry and market entry.** What happens when an industry with cozy/polite competition is invaded by a young upstart firm wanting to shake things up? We explore such a dogfight scenario in the European airlines industry. How does this resemble the paper chase from last class?

a. Read:

1)  Cooper & Smith, How firms respond to threatening technologies (14p)

b.  Written Case Analysis ( Case2: Dogfight Over Europe: Ryanair)

1) Your Client: Tony Ryan hired your consulting firm to analyze his launch strategy and predict how rivals Aer Lingus and British Airways will respond. Ryan also wants recommendations based on your analysis.

2) Topic Sentence: This executive briefing will analyze Ryanair's market entry and predicts how rivals are likely to respond. Recommendations focus on how Ryanair should react to the anticipated responses.

3) Hint: You are being asked to assess how British Airways and Aer Lingus will respond. You should begin by considering what types of responses are available to them. For example, they might accommodate Ryanair's entry by not changing their prices and allow them to fill their seats. Two other possibilities are untargeted retaliation (cross the board fare cuts) and targeted retaliation (selected fare cuts). The action they choose depends on the loss they expect to experience due to Ryanair's entry and the cost of retaliating.

Lost sales to Ryanair: In its most optimistic plan, Ryanair's hopes to serve about 64,240 passengers annually ($4 \times 44 \times 365 = 64,240$). How many would come from the other airlines? How many from the ferries (new business)? (this gives you a range of the potential loss the airlines may experience) This is the cost of the accommodation strategy (no retaliation).

Untargeted retaliation: Untargeted retaliation means reducing the price on all 500,000 flights they offer between Dublin and London (the route that Ryanair has entered). How far will BA and AL lower their prices? Will it be £98 to match Ryanair? How much lower could they go? (Hint: what costs are fixed and what costs are variable?)

Targeted Retaliation: A targeted program assumes that they are able to offer some reduced fares aimed specifically at the subset of passengers likely to use Ryanair (flight times, etc.). This would be a best case scenario for BA and AL since they don't have to lower prices on all flights. Suppose that they only have to match or beat Ryanair for 100,000 of their 500,000 passengers (since Ryanair's capacity is only 64,240)?

Ryanair's cost structure: How much of an attack Ryanair can withstand? You might start with the cost structure for BA (Exhibit 4) and assume that they move toward US style efficiency (Exhibit 2). In a best case scenario, they would be utilizing all seats and covering more fixed costs (BA and AL are at 60-70% utilization). Can Ryanair make money at £98? How much of a price reduction below this point can they withstand?

4) Additional information on the web:

a) Ryanair: www.ryanair.ie


b) British Airways: www.british-airways.com

c) Aer Lingus: www.flyaerlingus.com

Module II: Internal Analysis

7. **10/1: Sources of sustained advantage and Value chain analysis.** We will begin to look within the firm for sources of competitive advantage. This is a rare lecture/discussion day in which I introduce tools for assessing internal resources that may yield a sustainable competitive advantage.

a. Read:

1)  Barney, Looking inside for competitive advantage (12p)

2)  Duncan, Ginter, & Swayne, Comp adv & internal org assessment (11p)

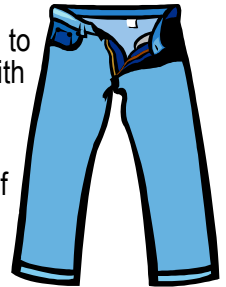
b. Discussion Questions:

- 1) Consider the firm you are studying for your group project. Which generic strategy would you say they are pursuing?
- 2) How are its organization and systems aligned to this strategy (using the value chain)?
- 3) Do they have an advantage? If so, is their advantage sustainable? Why/why not?

8. **10/3: Sustainability of Differentiation Advantages.** This is a case analysis day focused on differentiation advantages. Specifically, we will analyze Levi's Personal Pair program for mass customized jeans.

a. Written Case Analysis (Case3: Levi's Personal Pair – this case will be handed out)

- 1) Your Client: Heidi LeBaron-Leupp hired you to analyze their decision to introduce the Personal Pair custom jeans product.
- 2) Topic Sentence: This executive briefing assesses the prospects for Levi-Strauss to develop a differentiation advantage through the Personal Pair program. I conclude with recommendations for how they should proceed.
- 3) Hint: Here are a few hints:
 - a) 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).
 - b) Are there any assumptions you think are unreasonable?
 - c) Would this program yield a differentiation advantage? Why/Why not?
 - d) If the program were to run afoul of predictions, how and why would you expect problems?
 - e) What factors might prevent rivals from imitating this product?
 - f) What counter measures would you suggest to Heidi to address concerns about rivals?
- 4) Additional information on the web:
 - 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>



9. **10/8: Sustainability of Cost Advantages.** This class focuses on the alignment of systems required to gain a cost advantage over rivals. We will go into detail as we analyze and take apart Wal*Mart's advantages to determine what is sustainable and what is not.

a. Written Case Analysis (Case4: Wal*Mart)



- 1) Your Client: K-mart Corp. hired you to examine why Wal*Mart had been so successful but is faltering. How can they duplicate Wal*Mart's success without stumbling?
- 2) Topic Sentence: This executive briefing assesses the nature of Wal*Mart's advantage and why it deteriorated. Recommendations include a strategy and action steps for what K-Mart can do to gain such an advantage.
- 3) Hint: You need to be able to tell your client (K-Mart, Corp.): 1) how much of an advantage did Wal-Mart have?, 2) what is the source of this advantage?, and 3) is this advantage sustainable over time? Then you can make some recommendations on how K-Mart should proceed. Here are a few hints:
 - a) Begin with the overall strategy. This drives the economic analysis and helps focus you on the big picture. You might start with where they open their stores.
 - b) Economics: What is the extent (%) of WM's advantage compared to the rest of the industry? Map the % advantages onto the value chain to identify what drives the advantage.
 - Exhibit 6 shows aggregated industry economics for 1993. You can use this to compare Wal*Mart's cost structure to that of its rivals. Unfortunately, this is not sufficiently detailed to look at separate elements of the value chain.
 - However, the more fine-grained analysis is in the text allowing you to divide up the advantage into various elements of the value chain. For example, eliminating manufacturers'

representatives reduced purchase prices by 3-4% (p.7). It is easier to put items like these in specific places on the value chain. Other such factors are listed in the case in discussions of merchandising, operations, distribution, vendor relationships, HRM, and management. If you wish, these can be expressed in dollars by multiplying by 1993 sales.

- Value Chain Analysis: The article in the packet focuses on analyzing strengths & weaknesses in each area of the value chain. However, since your client is K-mart, they really need to know the strengths (e.g., what to imitate). You can put the measures (\$ or %) from above right on the value chain to show the importance (or lack thereof) for each source of advantage.
 - c) Operations- Map to value chain: Map all of the cost savings identified to the value chain. What specific policies or organizational attributes lead to the low cost structure identified above?
 - d) Sustainability/Imitability: To what extent could K-mart imitate the policies? (e.g., are they firm specific, socially complex or causally ambiguous?). What dilemmas would they have to resolve? What has changed: The diversification section may help you understand why performance has slowed. It describes how their strategy has changed. Why didn't they stick to the old strategy? Why aren't the new strategies as successful? To what extent can K-mart recreate WM's advantage?
 - e) Note: The Gallo example focuses on 5 forces analysis while the Monsanto example explores corporate strategy. Neither of these fit the Wal*Mart case so you shouldn't copy the examples too closely. However, as I have indicated, the value chain may help you organize your analysis.
- 4) Additional information on the web:
- a) Wal-mart: www.wal-mart.com
 - b) K-mart: www.bluelight.com (though you are not required to research the company).

10. **10/10: Knowledge Management Dilemmas.** The attributes of strategic assets that lead to a sustainable advantage also pose serious management dilemmas (see the Coff article). Knowledge management has become one of the hottest new trends in the consulting industry. We will examine some of these dilemmas within the context of the investment banking industry through the Thomas Weisel case.

a. Read:

- 1)  Coff, *Breaking out of the Human Asset Trap* (this may be a handout)
- 2)  Eccles & Crane, *Managing Through Networks in Investment Banking* (Note this reading is optional but strongly recommended for those without direct experience in investment banking).

b.  Written Case Analysis ( Case5: Thomas Weisel Partners)






- 1) Your Client: Thomas Weisel wants to know what he can learn from his experiences as he designs his new firm from the ground up. He hired you to make recommendations for how he should organize his firm to pursue his business plan.
- 2) Topic Sentence: This executive briefing analyzes Thomas Weisel's plan to identify the optimal design and structure for the firm. Recommendations address how TWP should proceed to develop as a viable competitor.
- 3) Hint: Thomas Weisel has admittedly made a series mistakes. Now he wishes to make a new start. However, the competitive environment has changed greatly since he founded Montgomery Securities. How can he bring his plan to fruition given what he has learned?
 - a) Begin by evaluating TWP's plan. Can a smaller focused firm thrive in the current environment of huge investment banks?
 - b) What lessons can be learned from the experience with the Montgomery Securities/NationsBanc merger? Are there implications for how TWP's current plan?
 - c) What resources will TWP need to pull it off?
 - d) Based on TWP's plan and the resources required, can you anticipate any problems that Thomas Weisel will have to address? What are your recommendations for addressing these problems?





4) Additional resources on the web:

- TWP: www.tweisel.com
- Bank of America IB: <http://corp.bankofamerica.com/portal/homepage/index.jsp>

10/15: No class: Fall Break

Module III: Value Creation in Multi-business Firms

12. **10/17: 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.
- Read:
 -  Goold and Luchs, Why diversify? Four decades of thinking (15p)
 - Discussion Questions
 - Consider a firm that has multiple lines of business and answer the following questions:
 - Can you think of any good reasons why the firm's portfolio might be worth more together than if they spun each company off?
 - Which of the value creation strategies described in the Goold and Luchs article do they seem to apply?
 - What competencies must the firm have to execute the value creation strategy successfully?
13. **10/22: No Class.** I cannot attend class on this date. We will make up for this time through group meetings. First, you should use this class time to coordinate on your group project. Second, we will schedule a time for your group to meet with me and discuss progress on the group project.
14. **10/24: Guest: Ed Gordon, Senior VP, Wachovia, Corp.** Mr. Gordon will describe a living case in his new venture providing outsourcing services for treasury functions. He will lead the class in an industry & competitor analysis of the treasury services industry.
-  Group Project Status Report Due. This one-page status report should list the following:
 - Team name/members
 - Company to be studied
 - Brief description of the analysis conducted/in progress
 - Anticipated key findings from your analysis (3-4 of the most important points)
 - Some likely recommendations to respond to your findings.
 -  Group written assignment. There will be a two page group-level executive briefing assigned for this speaker. 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...
 - Your Client: Ed Gordon hired your group to analyze AssistantTreasurer.com.
 - Topic Sentence: This executive briefing will analyze AssistantTreasurer.com and make recommendations for how to proceed.
 - Hint: More to come...
 - Additional information on the web:
 - www.assistanttreasurer.com
-
15. **10/29: 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. This will be the last of the lecture/discussion sessions in the course.
- Read:
 -  Prahalad & Hamel, *Core competencies of the Corporation* (14p)
 -  Collis & Montgomery, *Creating Corporate Advantage* (14p)

16. **10/31: 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. Written Case Analysis (Case: Micro-Design technology transfer -- 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.
17. **11/5: Core Competence & 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, Dreamworks, 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 (12p)
 - b. Written Case Analysis ( Case6: Disney's "The Lion King")
 - 1) Your Client: Dreamworks (a Disney Rival) is interested in applying Disney's strategy in their new film "Spirit: Stallion of the Cimarron" (due in May of 2002) You were hired to analyze the strategy and identify what businesses Dreamworks needs to own to pull off the strategy. Dreamworks is a much more focused film and TV producer with no theme parks, cruise lines, TV networks, cable stations, etc.
 - 2) Topic Sentence: This executive briefing will analyze how Disney created value across businesses with the Lion King project. Recommendations address ways that Dreamworks can emulate their strategy given the much more focused nature of their business.
 - 3) 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 Dreamworks? Can they still do it?
 - a) *Premise:* An untamed horse in the wild west is captured by the cavalry, is broken, and becomes a mount. The story will be told from the horse's view, with his thoughts heard as narrative.
 - b) Dreamworks 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?
 - 4) Additional information on the web:
 - a) www.upcomingmovies.com/spirit.html
 - b) www.dreamworks.com
18. **11/7: Mergers and Acquisitions.** Clearly M&A is one way that corporations grow. 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 CBN 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)  The Case Against Mergers, Business Week (14p)
 - 2)  Lubatkin & Lane, Psst...The merger mavens still have it wrong! (14p)
 - b. Written Case Analysis (Case7: The CBN Acquisition – this case will be handed out)
 - 1) Your Client: Craig Andrews hired you to assess Functional Dynamics' strategy to acquire the CBN network.
 - 2) Topic Sentence: This executive briefing analyzes how much Functional Dynamics should bid for CBN and concludes with recommendations for next steps to realize their projected gains.

- 3) Hint: Consider the following hints.
- a) *Value Creation Strategy*: First, figure out which of the 6 ways FD is TRYING to use to create value (there may be more than one). They are unlikely to create value if they aren't trying. Also, see the "Guilty until proven innocent" slide -- what is the likelihood that the strategy will be successful?
 - b) *Valuation Models*. There are several ways that you might attempt to value CBN. The two most likely are using multiples and using a straightforward NPV approach.
 - (a) *Multiples*. In the case of the multiples, you need to assess which of the multiples makes the most sense – you may or may not want to use an average. First, which of the targets is most similar to CBN? Second, which of the buyers might have similar value creation opportunities as FD? Third, which of the transactions is most structured like the proposed CBN deal? Finally, which multiple makes the most sense to use? Even having considered these, the multiples may have factors embedded in them that do not reflect the CBN context.
 - (b) *NPV Model*. You will need to make some assumptions here. What is CBN worth as is? What is CBN worth once FD makes the proposed operational changes? What is the time horizon for valuation? The time horizon for implementing the proposed changes?
 - (c) *Valuation Range*. You should use the different valuation methods and assumptions to develop a range of what CBN might be worth to FD. What would be some conservative assumptions? What would be some aggressive assumptions?
 - c) *Bid Range*: Use the range to recommend an opening bid for FD. 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 FD should go in its bidding process if a rival bidder were to emerge.
 - d) *Recommendations for Andrews*: Finally, assume that FD is successful in closing the deal using your recommended bidding strategy. Include recommendations on what they would have to do next to begin realizing the gains envisioned. What are the barriers to their implementing your recommendations?

19. **11/12: Acquisitions 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 CBN case, how would you think human assets would affect the process?

a. Read:

1)  Ashkenas, DeMonaco, & Francis: *Making the Deal Real: GE Capital*



b. Discussion questions

- 1) Compare the CBN 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?




Module IV: Technology, Uncertainty, and Strategy Implementation

20. **11/14: Leveraging Technologies in a global environment**. How do firms make investments under great uncertainty? When we use a simple discounted cash flow approach, we typically account for uncertainty through the discount rate. 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? 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. We will then focus on the Dell case and their strategy for adopting new technologies through global alliances. Ultimately, we will recommend which strategy they should pursue with respect to the battery technology for their new laptop computers.

a. Read:

- 1)  Zahra et al, Transforming Technological Pioneering into Competitive Advantage (17p)
- b. Written Case Analysis ( Case8: Product Development at Dell)
 - 1) Your Client: Mark Holliday hired you to analyze Dell's laptop battery decision and make a recommendation for how they should proceed with respect to the two competing technologies.
 - 2) Topic Sentence: This executive briefing analyzes Dell's choices for battery technologies for the laptop division. Recommendations include action steps for how Dell should proceed.
 - 3) Hint: The following hints may be of use:
 - a) Quantitative: This analysis first involves an assessment of the expected value of the three alternatives. Exhibit 8 is a good starting point for this analysis.
 - b) Qualitative: What issues cannot be fully quantified but are still relevant to the decision?
 - c) Is this a situation in which flexibility is valuable or is full commitment most critical?
 - 4) Additional information on the web:
 - a) Dell: www.dell.com
 - b) Sony: <http://www.sony.co.jp/en/Products/BAT/ION/>

21. **11/19: Technological uncertainty and real options.** We will explore strategies needed to facilitate innovation and efficient investment under great uncertainty. First we will do the exercise, "getting a head" to discuss the role of luck in innovations. Then we will explore the Nucleon case using a real options approach to evaluate the investment decision that they face.

- a. Read:
 - 1)  Coff, *A Primer on Decision Trees* (3p)
 - 2)  Luerhman, *Strategy as a portfolio of real options* (10p)
- b. Written Case Analysis ( Case8: Nucleon)
 - 1) Your Client: Nucleon management (Robert Moore) hired you to evaluate the proposed investment in CRP-1.
 - 2) Topic Sentence: This executive briefing analyzes the investment alternatives for Nucleon's CRP-1 product. Recommendations include action steps for how Nucleon should proceed to develop the opportunity.
 - 3) Hint: Nucleon faces great uncertainty in their investment decision and hence they don't know whether to vertically integrate, license or contract out the decision. In particular, they don't know if CRP-1 will make it through phase I, II, and III trials as well as getting FDA approval. All of these are necessary in order to get any revenue from the project. The case lays out some costs and anticipated benefits associated with each alternative (pilot plant, contract manufacturing, licensing the product now to another company). Enter these into a spreadsheet to support your decision. Note that you will have to make a series of assumptions about the timing and discounting of the costs and benefits. Be sure to adopt realistic but conservative assumptions from the information provided. There are two main approaches you might consider, straight NPV and real options. These are described below:

NPV Approach. For the straight NPV approach, you would value the relevant combinations. The following are probably the most relevant combinations to consider:

 1. Pilot plant + vertical integration (build full plant)
 2. Pilot plant + license later
 3. Contract + vertical integration (build full plant) -- *Hint: can you really do this if you haven't built the pilot plant?*
 4. Contract + license later
 5. License now

Thus, the NPV approach involves plotting out the costs and revenue for each of these combinations to make a choice. The case lists a very high discount rate to reflect the uncertainty of making it through all the phases successfully. You should note that the costs are much more certain and should not be discounted at such a high rate.

Real Option Approach. The real option approach involves drawing a decision tree and assessing the expected value of the 3 immediate options (pilot, contract, license now). This is more complicated than the simple example I showed you but follows the same principles. You don't know the probability of making it through the various phases and getting FDA approval so you should probably do a sensitivity analysis on this in order to recommend a course of action. I would combine the elements of uncertainty and put them where they are with respect to the decisions Nucleon would have to make. Here is the order that makes sense to me:

1. Initial decision (pilot, contract, license now) -- don't know whether it will pass Phases I&II
2. Phase I&II success or failure (for each of the 3 branches in step 1)
3. Build Plant v. license (if PI&II goes well) - still don't know if they'll get through PIII/FDA approval
4. PIII success and FDA approval v. failure (note I suggest you fold these two together to simplify)

So, you would plug in different probabilities of success for 2&4 and see which of the current options has the highest expected value. Note that since you are modeling the greatest sources of uncertainty explicitly, you should not use the high discount rate in the straight NPV approach – that would double count the uncertainty. The discount rate should be the risk-free rate + whatever uncertainty you have not explicitly modeled (e.g., the trials and FDA approval comprise most, but not all of the uncertainty).

Recommendations. Be sure to discuss the strategic pros and cons associated with each alternative. The quant analysis models some strategic issues and ignores others. You have to balance the quant analysis against issues you were unable to quantify in order to make recommendations.

Other Assumptions. Like any such analysis, you have to make a variety of assumptions. Beyond what I've mentioned previously, you might consider some of the following (no need to account for all of them):

- valuation period -- how far out to take the revenues (note that if they are discounted at a high rate, it may not matter)
- perpetuity -- a related question is whether you would add a perpetuity to reflect revenue beyond the valuation period and/or a salvage value (the same note about a high discount rate applies here)
- Timing of costs -- are costs incurred at the start or end of the year (start is more conservative since it is discounted at a lower rate)
- Will there be cost overruns? By how much?

11/21: No class – Thanksgiving

22. **11/26: Living Case – The Weather Channel.** We will be analyzing the competitive environment for our client, The Weather Channel. In particular, groups will prepare an executive briefing about a specific rival and what actions they would predict. We will be joined in class by three members of the Weather Channel's Strategy & Development group: Sarah Davis (VP, Strategy and Development), Mardell Artis (Director Corporate Development), and H Lewis (Director Corporate Development). Expect a lively and interactive discussion!

a. Read:

- 1) Profiles of the Weather Channel and each of its rivals (to be handed out in class)

b. Group level Written Case (The Weather Channel). Your group will be assigned a specific Weather Channel rival to analyze. Prepare a 2 page executive briefing just as you would for the individual case writeups.

- 1) Your Client: Sarah Davis, The Weather Channel's VP of Strategy & Development hired you to analyze the firm's rivals, predict how they are most likely to attack and recommend counter measures for TWC.
- 2) Topic Sentence: This executive briefing analyzes _____ (your group's assigned Weather Channel rival) to determine how it may try to attack or encroach on TWC's lines of business. Recommendations identify contingency plans to respond to the threat.
- 3) 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.

- c. Discussion Questions. In addition to the written group assignment, we would like you to consider any attacks that might appear out of left field.
- 1) Is there a current supplier, customer, or partner that might encroach on TWC business?
 - 2) What is the magnitude of this threat?
 - 3) How should TWC respond?

23. **11/28: Putting it all on the line...** Up to this point, we have looked at situations where a decision could be postponed or the firm could remain flexible. Here we look at a situation where the firm must make an all or nothing decision involving \$13 billion.

a. Read:

- 1)  Prahalad & Hamel, *Strategic Intent* (13p)

b. Written Case Analysis ( Case9: Airbus A3XX: Developing the world's largest commercial jet)

- 1) Your Client: Noël Forgeard (Airbus CEO) hired you to analyze the decision to move forward with the A3XX jumbo jet.
- 2) Topic Sentence: This executive briefing analyzes the A3XX project and makes recommendations for how Airbus should proceed.
- 3) Hint: In analyzing the A3XX decision, you should be aware of both quantitative and qualitative components of the analysis. The following are some hints:

- a) Breakeven. How many planes must be sold per year to break even? To calculate this, you must first discount the anticipated cash outlays. Second, you need to determine how many planes they must sell annually for the associated sales perpetuity to exceed the NPV of the cash outlays. The following are some key assumptions to consider.

Cash Outlays:



- (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 – this doesn't account for cost overruns.
- (c) The R&D and depreciation expenses reduce tax liabilities (tax rate=38%). Capital expenditures (Ex10) are depreciated on a straight line basis over 10 years. The caveat is that expenses may exceed Airbus' income (EBIT<\$1 billion, Ex4A) and may be carried over to future years.

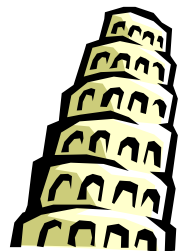
Revenue:

- (d) The "realized" price/plane is \$225M (p8). Analysts estimate operating margins at 25-30%. However, given Boeing's lower margins, you may want to use 20% as an upper bound.
 - (e) Consider the revenue as the terminal value from a perpetuity growing from 2008 at the rate of inflation (2%, p8)
 - (f) This terminal value is taken in 2007 and must be discounted back to compare with the cash outlays.
 - (g) How many planes must be sold annually to cover all costs?
- b) Demand for very large aircraft. Will they be able to sell the planes? Review exhibits 8 and 9 for estimates of the market size and growth rates. What assumptions should you adopt in sizing the market? How/why did Boeing and Airbus reach different conclusions.
- c) Boeing's Response. The case suggests several possible Boeing responses: WTO complaint; stretch version of the 747; cut 747 prices; build a competing super jumbo jet. Consider each possibility in turn:
- (a) What resources are required for the response?
 - (b) How do Boeing and Airbus compare in their ability to withstand competition?
 - (c) How will Boeing's response affect Airbus' decision? What countermeasures might they take?

- 4) Additional resources on the web:
 - a) Airbus: www.airbus.com
 - b) Boeing: www.boeing.com
 - c) <http://aerospationet.ctw.net/dossiers/A3XX.html>
 - d) <http://news.airwise.com/stories/2000/04/955712400.html>
 - e) <http://members.tripod.com/TimeForFlight/a3xx.html>

24. **12/3: Speed and flexibility in planning and execution.** We will be focusing on speed and flexibility in planning processes. The exercise, "Razing the Ivory Tower," will offer a starting point in discussion as well as some comic relief...

- a. Read:
 - 1)  Eisenhardt, Speed and strategic choice: How do managers accelerate decision making (15p)
- b.  Group Project Summary Due. I will distribute these one-page summaries to other students to assist in discussing the projects (the next two sessions). It should include the following:
 - 1) Team name/members & company studied
 - 2) Sentence describing the problem you analyzed.
 - 3) Key findings from your analysis (3-4 of the most important points)
 - 4) Key recommendations to respond to your findings.
- c. Discussion Questions:
 - 1) What are the best ways to add flexibility to a strategy process?
 - 2) What are the best ways to add speed to a strategic decision-making process?
 - 3) Are there any incompatibilities between speed and flexibility?



25. **12/5: Group Presentations/Discussion.** We will discuss the group projects. Rather than allowing class time for formal presentations, I plan to have a less formal discussion in which each group has about 10 minutes to describe their project and their conclusions.

- a. Read:
 - 1) Executive summaries for scheduled presentations

26. **12/10: Group Presentations/Wrap-up.** We will continue discussing group projects. I will then conclude with a brief overview and we will complete final course evaluations.

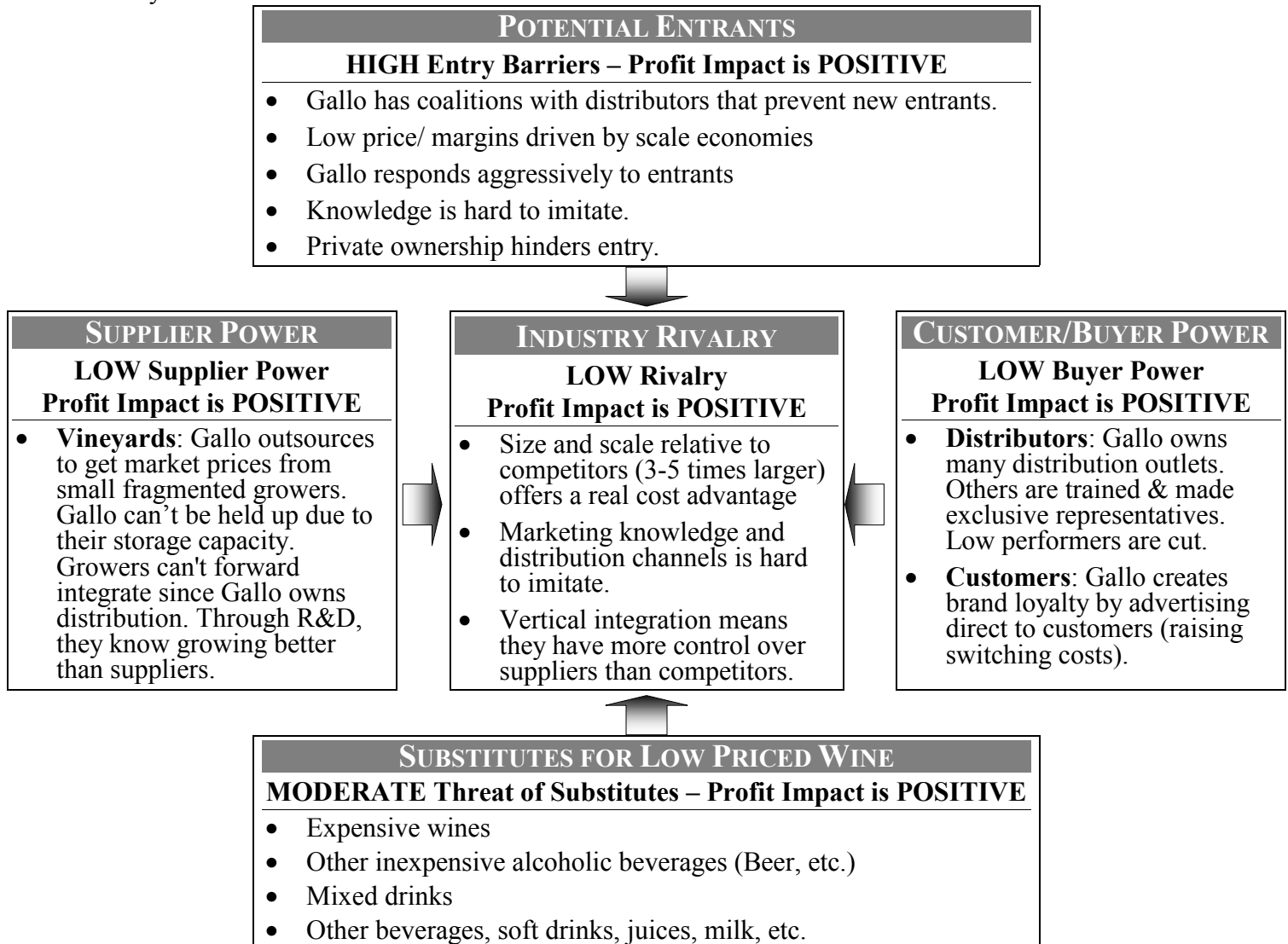
- a. Read:
 - 1) Executive summaries for scheduled presentations
- b. Written Assignments:
 - 1) Final group projects due

Executive Briefing for Gallo's Entry into Upscale Wines

Goizueta Partners Consulting Corporation was hired by Ernest Gallo to evaluate Gallo's entry into the upscale wine market. Accordingly, this executive briefing analyzes how Gallo manages industry structure to enhance their market position and how this may hinder entry into the upscale market. It closes with a focus on how they can leverage these attributes to break into the up-scale wine market.

Gallo has a Very Strong Position in the Low Priced Industry Segment

The following is a summary of Gallo's current industry position in the low price segment of the wine industry.



In sum, Gallo has a very strong position in the low-cost segment of the wine industry. Here, they face few competitors that can match their scale and expertise. In fact, Gallo is 3-5 times the size of their nearest competitor. In terms of advertising expenditures, Almaden, Paul Masson, Inglenook, and Sutter Home form are the most significant competitors. However, Gallo's \$15 million advertising budget outstrips them by 4 to 8 times. This creates very strong brand recognition and Gallo is able to dominate shelf space through exclusive arrangements and owning many of the distribution channels.

Their power over suppliers and distributors grants them leverage over other players to engage in price competition extremely effectively and aggressively.

Gallo's Position is a Barrier to Entry into Upscale Markets

While these advantages grant Gallo a very strong position in the low-priced segment, they also serve as powerful barriers for their entry into the moderate or upscale segments of the wine market. The following points illustrate the dilemmas:

- The reputation as a low cost producer creates an image problem for the upscale market. Gallo's brand recognition actually works against their strategy. Ernest & Julio are too proud to drop their name from the product.
- The distribution channels differ slightly for the upscale market.
- Gallo's technology advantage is geared toward volume rather than quality. All of their structures are oriented toward low costs and some aspects of quality have been sacrificed.
- Size and scale are not much of an advantage in the high end of the market so there are many players and Gallo is not well suited to this type of competition.

Recommendations for How Gallo Can Enter the Upscale Market

Based on this analysis, we make the following recommendations for how Gallo can overcome these barriers and enter the upscale market:

1. Develop a new brand name to avoid association with Gallo's low-priced reputation

Benefits	Barriers
<ul style="list-style-type: none"> • Avoids the association with the Gallo name • Leverages on Gallo's marketing expertise 	<ul style="list-style-type: none"> • Ernest and Julio want their name associated with quality.

2. Identify ways to introduce technology into high quality wine production:

Benefits	Barriers
<ul style="list-style-type: none"> • Leverages on Gallo's technology advantage in the low cost segment to improve quality & consistency. 	<ul style="list-style-type: none"> • Wine connoisseurs are very cautious about new technologies and may snub the products even if they are high quality.

3. Identify new distribution channels and use their muscle in existing channels for the low priced products to get space for the upscale products.

Benefits	Barriers
<ul style="list-style-type: none"> • Extends the distribution advantage from low priced wines and pushes to find new outlets. 	<ul style="list-style-type: none"> • Gallo may not have as much of an advantage in new distribution channels.

4. Hire an outside firm to market the new brand using different channels and promotions than are used for other Gallo products.

Benefits	Barriers
<ul style="list-style-type: none"> • This will create awareness of the new brand independent of Gallo's name. 	<ul style="list-style-type: none"> • This does not draw on the marketing expertise that has served Gallo for many years (it has been handled internally).

Executive Briefing on Monsanto's Diversification Strategy

Goizueta Partners Consulting Corporation was hired by Monsanto shareholders to assess Monsanto's diversification strategy. Accordingly, this executive briefing analyzes why Monsanto failed to create value across lines of business when it diversified from chemicals into biotechnology. It closes with recommendations of steps they can take now to create value across the remaining business units (plant agriculture, animal husbandry, and pharmaceuticals).

Opportunities to Create Value Through Diversification

There are a limited number of strategies available for value creation across lines of business. The following table lists the primary methods, specific opportunities at Monsanto and finally the barriers that ultimately prevented value creation.

Value Creation Strategy	Opportunities to Create Value	Barriers to Creating Value
Operational Economies of Scope	<ul style="list-style-type: none"> ◆ The chemical and biotechnology businesses could share distribution channels in some markets. ◆ Sales & marketing could be combined. ◆ The procedures for regulatory approval may be common to the two businesses. 	<ul style="list-style-type: none"> ◆ The markets & customers do not fully overlap. ◆ The combined functions may not actually be more efficient (e.g., there may not be scale economies). ◆ The distinct cultures (cost v. differentiation) may make it hard to combine the functions.
Transferring Core Competencies	<ul style="list-style-type: none"> ◆ Monsanto may be viewed as having a core competency in research. ◆ They are also effective at working with universities (e.g., Washington University) to license discoveries. 	<ul style="list-style-type: none"> ◆ The science of biotechnology is fundamentally different from chemicals. ◆ The cost-focused culture of chemicals is not compatible with the cutting edge science required in biotechnology.
Vertical Integration	<ul style="list-style-type: none"> ◆ There may be some opportunities to use products from chemicals as inputs for biotechnology research or products. 	<ul style="list-style-type: none"> ◆ The chemicals are commodities – its not clear why internal suppliers would be more efficient.
Internal Capital Markets	<ul style="list-style-type: none"> ◆ Monsanto could funnel cash from the chemicals business (cow) to the biotechnology business. 	<ul style="list-style-type: none"> ◆ Chemicals isn't generating huge amounts of cash. ◆ Its not clear why this would be more efficient than external capital markets.
Restructuring/ Discipline	<ul style="list-style-type: none"> ◆ They are certainly not acquiring biotechnology companies to bust them up or manage them more efficiently. 	<ul style="list-style-type: none"> ◆ If they tried, the key human assets would leave the target and the restructured target would be worth less.
Acquisition Competence	<ul style="list-style-type: none"> ◆ Their biotechnology knowledge helps them identify bargains others miss. 	<ul style="list-style-type: none"> ◆ This only applies after Monsanto acquired the knowledge. ◆ It doesn't explain synergies between chemicals and life sciences.

Monsanto sought to diversify away from the pure chemicals business because it is fundamentally low margin cost-based competition. Biotechnology was particularly attractive since the products and technology are proprietary. In other words, it was differentiation-based and allowed for higher margins.

However, there are many differentiation-based businesses they could have entered. They chose biotechnology because they saw it as complementary to their existing chemical business. Monsanto might have seen some opportunities initially to create value with its core competence in science or by combining marketing and distribution channels.

Why Monsanto Failed to Create Value Across Lines of Business

As the table illustrates, Monsanto faced some serious and unanticipated barriers to creating value across businesses. These are summarized below:

- The cultures for the cost-based chemicals business and the differentiation-based biotechnology business are incompatible. Employees on the two sides of the business became adversaries.
- A competency in conducting applied research (chemicals) differs from a competency in basic research (biotechnology). The former is best organized by market to assure that the innovations have applications. The later is best organized by scientific discipline to facilitate knowledge creation.
- The management team at the corporate headquarters did not actively seek out opportunities for the businesses to interact – they were more concerned with how to build the biotechnology capability.

Recommendations for How Monsanto Can Create Value

Based on this analysis, we make the following recommendations for how Monsanto can create value. In general, Monsanto can create value by separating the businesses. That is, the two businesses are clearly not creating value and may be holding each other back (e.g., destroying value):

1. Sell the chemicals division to DOW or some other competitor:

Benefits	Barriers
<ul style="list-style-type: none"> • Generates cash • Eliminates the drain on the biotechnology business. 	<ul style="list-style-type: none"> • Individuals have viewed DOW as an “arch enemy” and this might not be palatable.

2. Spin off the chemicals division as separate entity:

Benefits	Barriers
<ul style="list-style-type: none"> • Eliminates the drain on the biotechnology business. • Will be seen as granting them their autonomy. 	<ul style="list-style-type: none"> • It doesn’t immediately fulfill the cash needs as well. • How will the assets and liabilities be split?

Action Steps

The following are some initial action steps that should be taken to resolve this issue:

Action Steps	Who	When
1. Meet with investment bankers to identify cash flow implications	CFO	
2. Name a task force to recommend how the assets & liabilities will be distributed	Chairman	
3. Meet with corporate attorneys to discuss fiduciary responsibilities	Chairman	
4. Begin drafting a letter to shareholders – contact major shareholders personally	Chairman	

TIPS ON CONDUCTING YOUR JOB SEARCH (WSJ 2/8/94, p. B1)

Maybe the resume should go the way of the dinosaur. "To me, a resume is a *deselection* device," says Dennis Lunder who, as head of marketing communications at American Greetings Corp. in Cleveland manages about 80 people. "My method is radically different." In six job hunts over nearly 30 years, Mr. Lunder says he sent out "thousands of resumes at a time" with little effect. Now, as a mentor in Hudson Job Search, a volunteer program in Ohio for unemployed executives, Mr. Lunder preaches this gospel:

- ◆ Treat your search as full-time work. Each workday should be structured as a workday, with a schedule of events.
- ◆ Compile a list of the 20 companies you would most like to work for, and then research them. Call the secretary of the executive who is most likely to hire you and ask for the annual report and other corporate materials.
- ◆ Keep researching. Mr. Lunder went to stores that sold American Greetings cards and products, asking the store manager: How is the service? Are you happy with American Greetings products? How can things be improved? He also received permission to accompany a sales rep for a day.
- ◆ Write a one-page personal marketing letter, selling yourself to the person who is hiring, which isn't necessarily the company's human resources executive. Explain what you have learned (including some flattering comments on the company's innovations) and how you would fit in.
- ◆ Enclosing a resume is a one-way ticket to the personnel department. If asked for a resume, tell them you need a week to update it. Then try to focus on the aspects of your career that fit what the company is looking for.
- ◆ Try to set up a 20-minute "informational meeting" with the hiring person. (Don't call it an interview.) If you get the person's voice mail, suggest a time, like 7 a.m. tomorrow.
- ◆ Tell the hiring person what you know and admire about the company, and your skills. Have five smart questions on the company's strategy. Only at the end of the meeting, suggest you are looking for work.
- ◆ Mr. Lunder advises listening to motivational tapes to keep spirits and energy high, and checking whether your target has more job cuts in its future. You wouldn't want to have to do this again.

--Kevin Salwen

Recruiter Questions that are Grounded in Strategic Analysis May Land You a Job

I hope you will be able to use class materials to get a better job and enhance your career opportunities. Recruiters look for a variety of characteristics including enthusiasm about the company (see WSJ article above). You can demonstrate this by asking questions that convey a deep understanding of the issues the company faces. Thus, you must be aware not only of what is in the press, but of what it means for the company and its strategy.

While I will not explicitly assign recruiter questions for the cases, we will talk about them in class. You may want to practice using your understanding of strategic issues to develop effective questions. An exceptional question shows that you understand what makes the firm tick better than other applicants.

The following guidelines should help you evaluate recruiter questions. The setting is HP's move to reenter the PC market after they have failed in the past. Competition is increasingly cost-based. HP's main competence has historically been cutting edge technology (such as workstations rather than cheap machines) but the success in low-end ink jet printers may signal new capabilities.

Effectiveness Criteria		HP Example
A	You're hired!	Now that HP is moving into the PC market again, how are you applying techniques that worked for the inkjet market?
A-	A good question that may be proprietary -- still worth asking.	Now that HP is moving into the PC market again, how are you targeting each of your major competitors?
B+	A probing question that doesn't attack, but the recruiter won't know the answer.	I see that HP is moving into the PC market again. What are HP's targets for market share and financial returns?
B	The question is based on sound analysis but will put the recruiter on the defensive.	I see HP is moving into the PC market. Isn't your R&D-oriented culture incompatible with cost-based competition?
B-	The question doesn't differentiate you since it draws on common knowledge.	Tell me about HP's decision to move into the PC market again.