

Industry & Competitor Analysis

BUS 430 Fall 2001 (MW 1-2:15, Rm 334)

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GOIZUETA
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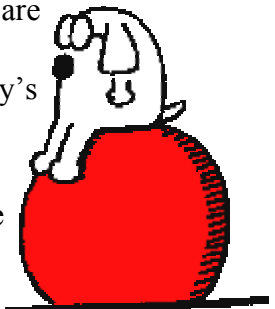
Course Overview and Objectives

This industry and competitor analysis course provides students with the conceptual framework and analytical tools for understanding the dynamics of industry structure and how competitors interact in the marketplace. An understanding of the dynamics of competition and industry evolution is an important input in the development of an effective competitive strategy.

We assume that the profit potential of any firm is a function of: (1) the industries it operates in; and (2) its rivals strategies. Therefore, to enhance profits, a general manager must understand industry structure and the nature of competitive rivalry in the industry. The profits within an industry are affected by many factors, including the macroeconomic environment, industry cost and demand structures, technological change and government behavior. Actions taken by firms to improve competitive position lead to responses by rivals, and the expected sequence of actions and responses must be understood to develop an effective strategy. Rivals' reactions depend on their goals, beliefs, relative resource positions and past actions. Thus, we will study the dynamics of industry structure and competitors by focusing on key attributes of industry structure and competitive moves initiated by industry players.

By the end of this course, students will be able to:

1. Identify frameworks for analyzing an industry and competitors that are appropriate for a variety of settings
2. Analyze and evaluate a firm's performance potential based on an industry's structure.
3. Predict how a rival firm may react to a competitive action.
4. Collect data relevant to the analysis from a variety of publicly available sources.
5. Analyze the data to report to key stakeholders and facilitate critical strategic decisions.



The course has a strong research component: students will apply the concepts, analytical tools, and research methods learned in class to an intensive field project of an industry and competitors, along the lines of a professional consulting report. Thus, although the course may draw from such theories as industrial organizational economics, Schumpeterian economics, and game theory, the emphasis will be on the application and hands-on investigation to produce a consulting report.

Evaluation

Students will be evaluated based on class discussion, presentations, individual case write-ups, and a group written industry and competitor analyses. Most of the class time will be used for discussion and application of theory to actual cases. I expect to do relatively little lecturing. I may also use some class time to allow project teams to meet with me and to discuss progress reports. The de-emphasis of lecture puts added pressure on you to come to class prepared – hence the 25% weight for class participation.

Summary		
Group:	Industry analysis report	20%
	Competitor analysis report	20%
Individual:	Four 2-page case write-ups	35%
	Participation	25%

Group Term Project

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 3-6 people) on the first day of class. Select your own groups, preferably based on a common interest in a research project, complementary functional expertise, and common schedules to ease coordination. Note that group grades will be adjusted by peer appraisals (see next page).

40% of the grade will be a two part group term project in the form of a consulting report reflecting a major industry & competitor analysis. Specific details will be provided for this report but, in general, it will involve two components. First each group will select an industry to study and perform a structured industry analysis so as to answer the question: how can a specific firm (your client) improve its industry position? The industry analysis will involve library and field research. This part of the report will be presented and turned in half way through the course (20%).

The second component of the group project will involve the tracking and analysis of major competitive moves and countermoves by firms within the industry. The assignment will answer the question: Assuming your “client” follows your 1st set of recommendations, how will current industry rivals respond? This analysis will also be based on field and library research. The competitor analysis will identify those competitors who have most effectively seized opportunity and who can most effectively maintain that opportunity over time. This part of the report will be presented and turned in at the end of the course (20%).

Criteria for Written Analysis. The following are the *Key Result Areas* for all written assignments but especially for the group projects. 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.
- Consider Organizational Realities. 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.).

Presentation. In addition to the written report, each group will present results of their analyses at two different stages in the semester. The first presentation will focus on the industry analysis component while the second will address the competitive actions or moves. We will try to create an environment of a consulting presentation. Your two key result areas in the presentation will be: 1) formulating specific actionable recommendations for the *client*, and 2) avoiding the “so what” factor (no new insights and no further work with the client...).

Individual Work (Case write-ups & participation) – no exams!

The remaining 60% of the grade will be based on individual work including: 1) four two-page written case analyses (35% of grade) and 2) in-class participation (25% of grade). We will be covering 8 cases in the course of the semester. You may choose 4 or more to writeup in detail (you are responsible for reading the others). The only constraint on this is that you must do at least one case from each of the 3 modules. I will use your best 4 analyses. This gives you some flexibility in your time management. It is also forgiving if you do poorly on a case.

Case Writeups. The case write-ups will be in the form of executive briefings to your client outlining conclusions of your analysis and action recommendations. These are to be no more than 2 single-spaced pages (preferably one 2 sided page). It’s not easy to fit a rigorous analysis into such a short space but this is what executives often demand. You will find that graphics, tables, and bullets allow you to make

points concisely. The “Executive Briefing on Gallo’s Entry into Fine Wine” (p.17) is included as an example for format and style. Note that most cases will not draw on the 5 forces framework. You will have to figure out how to organize the materials when we are drawing on other materials or frameworks.

In general, on the case writeups, I am looking for a balance between rigorous analysis and effective communication to an executive audience. Accordingly, 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 for style and format.* 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.
4. *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.

Participation. The second individual factor, participation, makes up the remainder of the grade (25%). For the learning process to be really effective, it is necessary that you 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. If for some reason you are not fully prepared on a particular day, let me know before class so that I do not embarrass you inadvertently.

Note that you cannot participate if you don’t attend. I urge you to attend all classes, even if you have not adequately prepared. However, you will not pass the course by simply attending class, you must participate! If you must miss a class, please let me know in advance.

Grading Standards

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

Grade	Grade Distribution for Electives	
A	15% - 25%	}
A-	15% - 25%	
B+	15% - 25%	}
B	15% - 25%	
B-	10% - 15%	
C+ or below	At least 10%	

Note that this distribution may differ from what you’ve experienced in other classes since the standards are fairly new.

Peer Evaluation for Group Project

Group grades will be adjusted by peer appraisal’s of each member’s contribution. 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 A-:

- ◆ The rater allocates a total pool of points to all other members. The points to be allocated equals $10 * (\text{group size} - 1)$. In a group of four, 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	A	A-	B+	A-	

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.

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 three primary sources: a textbook, a packet of Harvard cases, and readings on eReserve in the library. The textbook should be purchased in the bookstore or you may try to get a better deal at www.bestwebbuys.com/books or www.isbn.nu (the best deal I saw was \$9 on a used copy).

- [G&S] Grimm, C. & K. G. Smith, 1997. *Strategy as Action*, Austin, Texas: West Publishing.
- [📖] Readings on eReserve at www.library.emory.edu.
- [🌟] Harvard Cases available at www.Study.net.

The other materials require more explanation. I have tried to save students' money by posting cases and readings electronically. While my packet last year cost over \$180, materials for this semester should be around \$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 other than the 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. Direct your browser to <http://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 (BUS 430).
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 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 Industry & Competitor Analysis (430) course and follow the instructions to purchase the materials. You will be prompted for the course password when registering. The password is "beer" (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. Remember that participation and preparation are necessary for you to get the most out of this course. Icon key: 📖 = on electronic reserve in the library; 📎 = electronic packet at Study.net; 📅 = written assignment due.

Date	Topic/Class activities	Assignments	Pages
1. 9/5	Intro; teams; News; What do analysts & consultants do?	G&S, Ch 1	26
Module 1: Industry Analysis			
2. 9/10	Where do competitive advantages come from?	G&S, Ch 2	17
3. 9/12	Industry structure/profitability: 5 forces, mkt power Exercise: 5 forces analysis of your industry	📖 Grant, <i>Analyzing the Industry Environment</i> 📅: One page project plan due	30
4. 9/17	Speaker: Marilyn A. Pahr, Data for industry research Please bring laptops if possible	G&S: Appendix 8, 204-210 www.cio.com/archive/webbusiness/0796_click_1.html	6
5. 9/19	Measures of market concentration and structure 📎 Case1: Coming Soon: A Theater Near You Exercise: Calculate & interpret Herfindhals	📖 Besanko, Dranove & Shanley: <i>Competitors & Competition (ch.7)</i>	40
6. 9/24	📎 Case1: Coming Soon: A Theater Near You Industry structure (cont)	📅: Theater case writeup due	
7. 9/26	Industry Boundaries and Strategic groups 📎 Case2: Gordon Biersch Brewing	📖 Grant: <i>Intra-Industry Analysis</i> 📅: Project status reports due	18
8. 10/01	Industry boundaries (cont) 📎 Case2: Gordon Biersch Brewing	📅: GB Case writeup due	
9. 10/3	Ed Gordon, Senior Vice President, Wachovia	📖 Zahra & Chaples: <i>Blind spots in competitive analysis</i> Review: www.assistanttreasurer.com .	17
10. 10/8	Group Presentations on Industry Analysis part of project		
11. 10/10	Group Presentations on Industry Analysis part of project	📅: Industry Analysis report due	
12. 10/15	No class: Fall Break		
Module 2: Competitor Analysis			
13. 10/17	Competitor analysis: Action/ Reaction model; Game theory Video: The locaine Powder connection Exercise: Lend me a hand	G&S, Ch 3 📖 Duncan, Ginter, & Swayne, <i>Competitive advantage & internal organizational assessment</i>	18 11
14. 10/22	No Class: Group meetings		
15. 10/24	No Class: Group meetings		
16. 10/29	Predicting competitor actions: Action/Reaction model cont. 📎 Case3: Ready to Eat Breakfast Cereal Industry in 1994	📖 Dixit & Nalebuff: <i>Anticipating your rival's response</i>	25
17. 10/31	📎 Case3: Ready to Eat Breakfast Cereal Industry in 1994	G&S, Ch 8 📅: Case writeup (RTE breakfast cereal)	23
18. 11/5	Wars of attrition Exercise: Washington for sale 📎 Case4: British Satellite Broadcasting vs. Sky Television	📖 Dixit & Nalebuff: <i>Seeing through your rival's strategy</i> G&S, Ch 7 📅: Case writeup	28 25
19. 11/7	Wars and Resources 📎 Case5: Dogfight Over Europe	G&S, Ch 5&6 📅: Case writeup	47
20. 11/12	Multi market competition 📎 Case6: Cat fight in the pet food industry	📅: Cat fight case writeup due	
Module 3: Technology, Uncertainty, and Competitive Advantage			
21. 11/14	Speaker: David Keil, Executive VP of Corporate Strategy and Business Development, Novient Corporation	www.novient.com 📖 Zahra et al, <i>Transforming technological pioneering into competitive advantage</i>	17
22. 11/19	Establishing Technological Standards 📎 Case7: Power Play: Nintendo in 8-bit Video Games	📖 Hill: <i>Competitive strategy and technological standards in winner-take all industries</i> 📅: Case writeup	17
23. 11/21	No Class: Thanksgiving		
24. 11/26	Real Options and uncertainty 📎 Case8: Nucleon [<i>Challenging quantitative case</i>]	Decision theory & Decision Trees (Handout) 📖 Luehrman: <i>Strategy as a Portfolio of Real Options</i> 📅: Case writeup	3 10
25. 11/28	Entrepreneurial Actions; Capturing Value from Innovation Exercise: HumptyDumpty.com	G&S, Ch 4 📅: Project status reports due	24
26. 12/3	Strategic factor markets and entrepreneurial expectations Exercise: HumptyDumpty.com – continued		
27. 12/5	Group Presentations		
28. 12/10	Group Presentations; wrap-up	📅: Competitor Analysis report due	

Detailed Course Schedule

1. **9/5: Introduction/What do analysts & consultants do? Form teams** We will introduce the topic of strategy and go over the course plan. Groups will have a first chance to organize since group work forms a major component of this course.
 - a. Read:
 - 1) G&S: Chapter 1 (26p)
 - b. Discussion Questions: Be prepared to discuss the following in class:
 - 1) What do consultants and analysts do?
 - 2) What skills and knowledge must consultants and analysts have?
 - 3) What industry and/or firm do I want to study this semester?
 - 4) Who do I want to work with on the group project?

Module 1: Industry Analysis

2. **9/10: Where do competitive advantages come from?** We will review several modes of identifying and analyzing competitive advantages. These include a focus on: 1) industry structure, 2) entrepreneurial activity, and 3) organizational resources.
 - a. Read:
 - 1) G&S: Chapter 2 (17p)
 - b. Discussion Questions (no written assignment):
 - 1) Think of an industry that interests you. Does any firm seem to have a competitive advantage over others?
 - 2) If so, why does it have an advantage? How long has it lasted?
 - 3) If not, why are the firms on roughly equal footing?
3. **9/12: Industry structure and profit potential.** Today, we focus more intensively on the structural attributes that make an industry attractive. This is a review of Porter's 5 forces framework that you should have covered in your first strategy course.
 - a. Read:
 - 1)  Grant: Analyzing the industry environment (30p)
 - b.  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 & address of contact to be interviewed (note: I plan to write thanking them for participating).
 - 4) Summary of the planned data collection and analysis
 - 5) Brief time line
 - c. Discussion Questions (No written assignment):
 - 1) Consider an industry you know well. Identify the rivals, buyers, suppliers, substitutes and potential entrants for the industry.
 - 2) Which of these players poses the biggest threat to industry profitability? Why?
 - 3) How might a firm in the industry address the threat and improve its position?
4. **9/17: Library resources and competitor analysis.** Marilyn Pahr will conduct a workshop reviewing resources available for competitor analysis. We will be logging in to the network and exploring online resources. If you have a laptop computer with a network card, please bring it so we have enough computers for everyone. Note, there will be a scavenger hunt – please be on time so we can get started.
 - a. Read

- 1) G&S: Appendix 8, 204-210 (6p)
- 2) Click & Dagger online article: www.cio.com/archive/webbusiness/0796_click_1.html

5. **9/19: Measures of market concentration & structure.** We will use the “Coming Soon” case to analyze the market structures of the studio industry and the theater industries. This includes calculating measures of market structure (please bring calculators or laptops) as well as further analysis of five forces in the two settings. Note that we will be discussing the case for two days and the case writeup is not due until the next class.

a. Read:


1)  Besanko Dranove & Shanley: Competitors & Competition (40p)



b. Discussion Case Assignment (Case1: Coming Soon: A theater near you). We will be spending two days on this case and your written analysis is due on the 2nd day. The 1st day, you should be prepared to discuss the case and calculate basic measures of the market structure. Be prepared to discuss the following questions:

- 1) Which industry, studios or theaters, is more concentrated?
- 2) How would you measure this?
- 3) How might this affect profitability?

6. **9/24: Industry Structure/Case1: Coming Soon: A Theater Near You.** Today we will get into the nitty gritty of the case analysis and discuss recommendations for the client. “Coming soon” case writeups are due after class.

a. Read:

1)  Grant: Analyzing the industry environment (30p)

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

7. **9/26: Industry Boundaries and Strategic groups/Case2: Gordon Biersch Brewing.** We begin exploring where industries intersect and groups within industries. Gordon Biersch is used as a discussion case in this class but the writeup is due next class.


- a. Read:
 - 1)  Grant: Intra industry analysis (18p)
- b.  Group Project Status Report Due. This one-page update should list the following:
 - 1) Team name/members
 - 2) Company and industry to be studied
 - 3) Some anticipated key threats or opportunities evident in your findings about the “client’s” industry structure.
 - 4) A few possible recommendations to address the threat and/or take advantage of the opportunities.
- c. Discussion Case Assignment ( Case2: Gordon Biersch). The actual writeup is due in the next class but we will begin using it as an example of industry boundaries. Consider the following issues:
 - 1) Who are GB’s competitors?
 - 2) What would be the strategic groups in the restaurant industry?
 - 3) What would be the strategic groups in the brewery industry?
 - 4) Where would GB fit in?

8. **10/01: Industry boundaries (cont)/Case2: Gordon Biersch Brewing.** We continue focusing on industry boundaries and make specific recommendations for the Gordon Biersch case. Note that this is the last case for the 1st module. This means that if you didn’t write up the theater case, you should write up the GB case.




- a.  Written Case Assignment ( Case2: Gordon Biersch)
 - 1) Your Client: Gordon & Biersch disagree on how to expand. Biersch hired you to support his position and develop an action plan for expansion.
 - 2) Topic sentence: This executive briefing compares the industries GB is considering for expansion: brewpubs vs. retail bottling. Recommendations include action steps for how to expand.
 - 3) Hint: Ultimately, the task requires comparing the industry dynamics they would face in the alternative expansion paths. Consider the buyers, suppliers, customers, substitutes and rivals in the two industries. You will find that although some of the skills required are quite similar, the industry dynamics differ considerably. What would you recommend to Biersch? Whatever you recommend, you should indicate the challenges they will face and suggest ways of overcoming them.
 - 4) Additional information on the web:
 - a) Gordon Biersch: www.gordonbiersch.com

9. **10/3: Ed Gordon, Senior Vice President, Wachovia.** Mr. Gordon runs a new venture at Wachovia providing outsourcing services for clients’ treasury functions. He will discuss an industry & competitor analysis of the treasury services industry.






- a. Read:
 - 1)  Zahra & Chaples: Blind spots in competitive analysis (17p)
- b. Additional information on the web:
 - 1) www.assistanttreasurer.com



10. **10/8: Group Presentations on Industry Analysis part of project.** Groups will present their industry analysis for the 1st half of the term project.
11. **10/10: Group Presentations on Industry Analysis part of project.** Groups will present their industry analysis for the 1st half of the term project.
- a.  Group Written Assignment. The 1st half of your group project is due today. This report covers and analysis of your “client’s” industry along with your recommendations for how they can improve their competitive position.

10/15: No class: Fall Break.

Module 2: Competitor Analysis

12. **10/17: Competitor analysis: Action/ Reaction model.** We will begin the competitor analysis model in earnest by going over the models and tools in the readings. There will also be a short video (“The locaine Powder connection”) and possibly an exercise focusing on the prisoner’s dilemma.
- a. Read:
- 1) G&S: Chapter 3 (18p)
 - 2)  Duncan, Ginter & Swayne: Competitive advantage and internal organizational assessment (11p)
- b. Discussion questions. Be prepared to discuss the following issues:
- 1) How important is it to predict your rival’s actions?
 - 2) How would you go about doing it?
 - 3) Think of an action a firm took in the current news (new product, M&A, advertising, etc.). How do you think rivals will respond? Was it a good move?
13. **10/22: No Class: Group meetings.** This class is cancelled to allow for groups to meet with each other and to accommodate scheduling of group meetings with the instructor.
14. **10/24: No Class: Group meetings.** This class is cancelled to allow for groups to meet with each other and to accommodate scheduling of group meetings with the instructor.
15. **10/29: Predicting competitor actions.** We continue introducing tools for predicting rival’s responses and actions by focusing on game theory and rival cognition to predict rival actions in a given situation.
- a. Read:
- 1)  Dixit & Nalebuff: Anticipating your rival’s response (28p)
- b. Discussion Case ( Case3: Ready to eat breakfast cereal industry). We will be discussing this case for two days however the actual writeup is due in the second class. You should prepare for the 1st class by considering the questions below:
- 1) What do you think each player/firm will do next? Why?
 - 2) What are the implications for General Mills?
16. **10/31: Case3: Ready to Eat Breakfast Cereal Industry.** We will continue to analyze the case by breaking into groups and attempting to predict actions from firms in the case.
- a. Read:
- 1) G&S: Chapter 8 (23p)
- b.  Written Case Assignment ( Case3: Ready to eat breakfast cereal industry)
- 1) Your Client: General Mills hired you to evaluate their proposed steps to rationalize the industry. How will rivals respond to their move? Recommend steps for GM to take to cope with the competitive dynamics.



- 2) Topic sentence: This executive briefing assesses GM's rivals' likely responses to GM's recent competitive move. Recommendations include a strategy for how General Mills should cope with rivals' responses.
- 3) Hint: First note that this industry has been very cooperative in the past. GM realized that the promotion-based competition only works if there are no generic knock-offs out there. GM has unilaterally stopped this practice and lowered their prices accordingly. Do they want to start a price war or get everyone to change their promotion practices in a "friendly" way? If the top firms slow promotions and cut prices together (no war), what will this do to the incursion of generic brands? What if one or more top firms choose to keep promotions high – what will happen to market shares?

The value of GM's strategy depends on how rivals respond. Take them one by one and consider each rival's likely response by examining:


- ✓ Their market commonality with GM
- ✓ The relative resource strength and resource similarity with GM
- ✓ The anticipated cognition of that rival (e.g., past actions, beliefs about the industry, etc.)

Consider which of the rival responses are most likely to be threatening? Then you should be able to develop steps for how General Mills should respond to or cope with these likely responses – particularly the most threatening or damaging ones.

- 4) Additional information on the web
 - a) General mills: www.generalmills.com

17. **11/5: Wars of attrition/Case 4: British Satellite Broadcasting.** We focus on all out wars in which the key factor is who will drop out first. Class includes an exercise (Washington for sale) and the BSB/ST case.

a. Read:

- 1)  Dixit & Nalebuff: Seeing through your rival's strategy (28p)
- 2) G&S: Chapter 7 (25p)



b.  Written Case Assignment ( Case4: British Satellite Broadcasting vs. Sky Television)

- 1) Your Client: BSB hired you to analyze their position in the war with Sky. They want to know what their alternative courses of action are and what you would recommend..
- 2) Topic sentence: This executive briefing analyzes BSB's position in their war with Sky. Recommendations include action steps for how to proceed given the situation in 1990.
- 3) Hint: They seem to be in a spiral -- "Jane, get me off of this thing." Are they doomed to self-destruct or is there a way out for BSB? Are there any actions that will send signals to Sky? After comparing the two firms resources, you will probably conclude that Sky has a stronger position. What types of actions are available to firms in weak resource positions?

Examine each action to determine its efficacy. How do you expect Sky will respond given what they have done to date? In the end, what is the best option for BSB?



This requires an analysis of how Sky might be expected to respond to a variety of proposed BSB moves. As such, the analysis uses the same tools we used in the RTE cereal case. However, now you have only one rival and hopefully a better sense of how to apply the framework.

18. **11/7: Market entry and wars of attrition/Case5: Dogfight Over Europe.** We continue our discussion of wars of attrition but in a setting where a new entrant threatens an established market. In some respects, this is similar to the RTE cereal industry and the entry of generic or unbranded cereals.

a. Read:

- 1) G&S Chapters 5 and 6 (47p)



b.  Written Case Assignment ( Case5: Dogfight over Europe)

- 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. He 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. 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?

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:

- Ryanair: www.ryanair.ie
- British Airways: www.british-airways.com
- Aer Lingus: www.flyaerlingus.com

19. **11/12: Multi market competition/Case6: Cat fight in the pet food industry.** How does it affect competition when firms compete on more than one front? This is the case in the pet food market where the markets are fairly separate (different customers unless people have both cats and dogs ;-). Note that if you have not written up a case from module 2 or if you have only two cases written up, you may need to write up the pet food case (see the Nucleon case (11/26) for reasons to plan ahead).

a.  Written Case Assignment ( Case6: Cat fight in the pet food industry)

- 1) Your Client: Ralston Purina hired you to assess what actions they should expect next from rivals and to recommend countermoves.
- 2) Topic sentence: This executive briefing analyzes the competitive rivalry in the pet food industry. The recommendations focus on how Ralston-Purina should respond to these dynamics.
- 3) Hint: Consider the following questions:
 - a) Who is best positioned in the pet food industry in 1986? Why?
 - b) Who is poised for a quick aggressive move and who is most likely to wait and see?
 - c) Is anyone likely to withdraw from the industry or any market segments?
 - d) What do you predict for Anderson-Clayton? Why?
 - e) What does all this mean for your client?



4) Additional information on the web:

- a) www.ralston.com

Module 3: Technology, Uncertainty and Competitive Advantage

20. **11/14: Speaker: David Keil**, Executive VP of Corporate Strategy and Business Development, Novient Corporation

a. Read:

- 1)  Zahra, et al: Transforming technological pioneering into competitive



advantage (17p)



b. Additional information on the web:

1) www.novient.com.

21. **11/19: Establishing Technological Standards/Case7: Power Play: Nintendo in 8-bit Video Games.** There are many industries characterized by races to establish technological standards (e.g., telecommunications, PDAs, video games, browsers, operating systems). When is it important to establish your technology as a dominant standard? How do you go about influencing what standards is set and what does it cost you?

a. Read:

1)  Hill: Competitive strategy and technological standards in winner-take-all industries (17p)

b.  Written Case Assignment ( Case7: Power Play: Nintendo in 8-bit Video Games)

1) Your Client: Sega Corp. Hired you to analyze Nintendo's strategy. They have an innovative new game system and want to make sure they reap the gains.

2) Topic sentence: This executive briefing analyzes nintendo's strategy in 8-bit video games. It concludes with recommendations for Sega on how to realize the gains from its own new innovative system.

3) Hint: Consider how Nintendo successfully recreated the home video game business following the Atari-era boom and bust. How was Nintendo able to capture value from the home video game business? What steps/actions contribute to setting a standard and how do these affect the profits once the standard is established?

4) Additional information on the web:


a) www.nintendo.com



11/21: No Class: Thanksgiving

22. **11/26: Real Options and uncertainty/Case8: Nucleon.** 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? 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) Decision theory & decision trees (handout) (3p)

2)  Luerhman: Strategy as a portfolio of real options (10p)

b.  Written Case Assignment ( Case8: Nucleon). *Note that this case is more quantitative than the others. If you don't like quantitative challenges, you should plan ahead and avoid having to do a detailed analysis.*

1) Your Client: Moore hired you to analyze how they should proceed with investments in CRP-1. Conduct an NPV analysis and make a recommendation.

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 is successful) -- still don't know about PIII or FDA approval.
4. PIII success and FDA approval v. failure (note I suggest you fold these two together)

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?

23. **11/28: Entrepreneurial Actions; Capturing Value from Innovation.** Exercise: HumptyDumpty.com. We will be doing a fun group exercise simulating entrepreneurial vision along with strategic factor markets (markets for key inputs that have the potential to yield a competitive advantage).

a. Read:

- 1) G&S: Chapter 4 (24p)

b.  Group Project Status Report Due. This one-page update should list the following:

- 1) Team name/members
- 2) Clients competitive move to be studied
- 3) Some anticipated countermoves on the part of rivals.
- 4) A few possible recommendations for the client (e.g., possible countermoves or modified recommendation from the 1st report.

c. HumptyDumpty.com Exercise:

- 1) Be prepared to discuss the following questions:

- a) If a key resource yields a competitive advantage, how does a firm acquire it without paying out its full value to the previous owner?



- b) Where do entrepreneurial visions come from?
- c) Consider the focal firm for your group project. Is there any resource they have that could be the source of a competitive advantage? How did they get the resource? Was it costly?


24. **12/3: Strategic factor markets and entrepreneurial expectations.** Exercise: HumptyDumpty.com – continued

a. HumptyDumpty.com:

- 1) In your teams, finish building your egg catcher using only the materials purchased at the auction.
- 2) Be prepared to discuss the following questions:
 - a) Did you identify any unique uses for the materials before the auction began?
 - b) Did you end up with any materials you hadn't intended to acquire?
 - c) Were you able to identify unique uses for materials you thought were worthless?
 - d) What material did you acquire at the best bargain? Why did you get it at a bargain?

25. **12/5: Group Presentations.**

26. **12/10: Group Presentations; wrap-up.**

- a.  Group Written Assignment. The 2nd half of your group project is due today. This report covers an analysis of your "client's" rivals and their likely competitive moves. In general, you should consider a proposed recommendation from your 1st report and analyze how rivals will respond. Recommendations are for counter moves or modifications in the original recommendation made in the 1st half of the group project.

Format for the Group Term Paper

1. Executive Summary

- a. Key Information. An executive summary has three parts: 1) State the problem (short version of 1st paragraph in 2a below), 2) cover major points from analysis, and 3) list recommended action steps. You needn't cover everything but this should tell your most important story.
- b. Format. Use a bullet format and be as concise as possible
- c. Sell. Show the CEO why the report is important or he/she will never get beyond the 1st page.

2. Analysis

- a. 1st Paragraph. Begin with the statement of purpose/thesis statement. You may then follow with a few words describing the problem. End the 1st paragraph by describing the sections that follow (e.g., how you will fulfill your "promise").
- b. Little or no background. The executive team does not need this.
- c. Overarching Framework. Some problems involve complex analyses (e.g., 5 forces, internal analysis, resources, organizational control, etc.). If so, you should probably outline your analysis using the appropriate framework. This will help the paper flow smoothly and make sure you cover your bases.
- d. Format. Use side and center headers generously so your thoughts are easy to follow.

3. Recommendations

- a. Benefits and Barriers. You should present the benefits & barriers for each recommendation and then follow through with action steps. The following example illustrates how to accomplish this concisely:

Recommendations

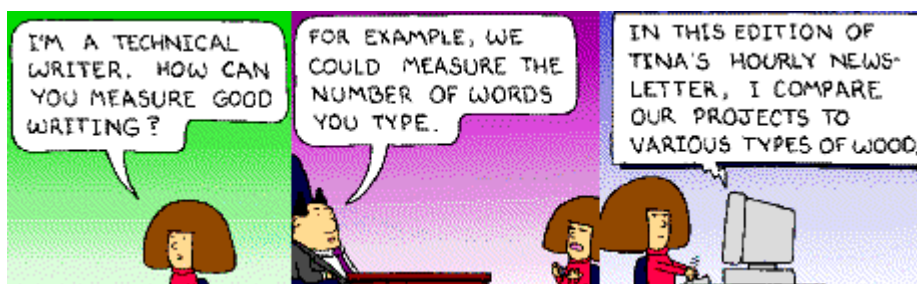
Based on the analysis in the previous section of what caused the problem, the following are recommendations for how to proceed.

Recommendation 1: Develop a corporate strategic plan to set long-term goals for the company. This would be a major step in addressing both the short-run focus and coordination problems.

Benefits	Barriers
<ul style="list-style-type: none"> • forces managers to focus on the long run • generates consensus about goals • raises awareness of competition. 	<ul style="list-style-type: none"> • hard to make the time (given day-to-day) • CEO may dominate -- no real consensus • might not be implemented

Action Steps

- 1.1 Get proposals from consulting firms for facilitating an off-site planning meeting.
 - 1.2 Identify a range of dates that work for the members of the planning team.
 - 1.3 Conduct planning survey to get everyone's input anonymously (avoids CEO influence).
 - 1.4 Identify ways to link individual goals & rewards to the plan.
- b. Next steps. Most cases identify "what they did wrong." Here your recommendations should examine what to do now (at the end of the case) and not what they should have done.

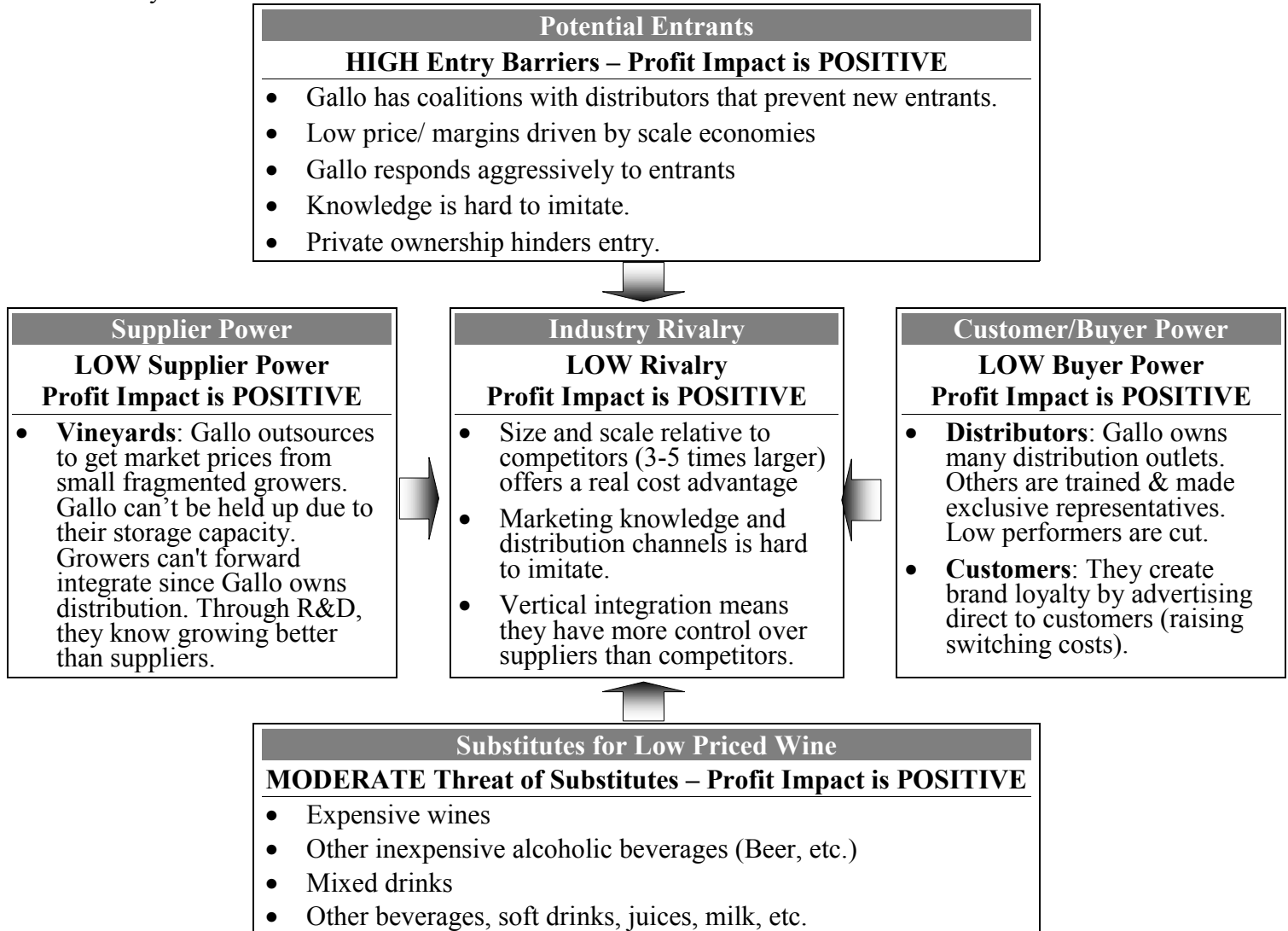


Executive Briefing for Gallo's Entry into Upscale Wines

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).