KPPI 441-31 Strategy Beyond Markets

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Office Hours: TBD

Class time: 8.30-10am

What is “strategy beyond markets?”
All economies are defined by formal and informal norms and regulations that structure market competition. These “rules of the competitive game” vary significantly across countries. Many barriers to entry, for example, originate from specific laws and regulations that favor some capabilities over others. The transportation company Uber, for example, is initially at a disadvantage relative to incumbent taxi cab companies. The rules of the competitive game, and in many cases their enforcement, are not fixed constraints. Instead, they are determined, implemented, and interpreted by legislatures and government administrative agencies. Therefore, they are subject to change. In fact, Uber is often able to gain a license to operate by changing the rules of the competitive game in a given jurisdiction.

The analysis and development of successful strategies to shape the rules of the game to an organization’s advantage constitute the domain of beyond-market strategy.

The analytical framework for beyond-market strategy goes beyond that of traditional competitive strategy. Beyond-market strategy is an emerging discipline which combines elements of competitive strategy, political science, and game theory.

Why does it matter?
Successful beyond-market strategy can establish, sustain, or erode a company’s competitive advantage. For example, the rules governing protection of intellectual property impact the advantages to “innovating” firms versus firms that are “fast followers.” Beyond-market issues are also important in determining the profitability of an entire industry. Regulations or taxes, for example, may also hurt or help all players, creating common interests among market rivals.
Readings
The course materials are collected in the course reader, and some readings are made available online. Good cases are necessarily complex and ambiguous. In preparing for case discussions, you may find the complexity and ambiguity frustrating. But it is out of the discussion that is generated by this complexity and ambiguity that the concepts and principles introduced in the lectures will come alive and demonstrate their usefulness.

Teaching Approach
Classes will be conducted on a lecture/case-discussion basis. A typical session will be based on the discussion of one or more cases. Some classes may also include a lecture that addresses a conceptual approach.

During our case discussions, I ask that you deal with the cases as you find them; do not seek outside or post-case data on the firm or industry. If you have post-case or inside information, I will give you the opportunity to share it with the class at the end of our discussion. Let me know about such information in advance, and I will make a point to call on you at the appropriate time.

Course Requirements and Grading
Students are expected to master the content of the readings, to make constructive contributions to class discussions, to make occasional presentations, and to perform adequately or better on examinations and class projects. Grades in the course will be based on the following components:

(1) three mid-quarter group assignments which together will count for 25%;
(2) a mid-term individual examination which will count for 25% in the determination of your grade;
(3) a final group project which will count for 30%, and
(4) class attendance and participation, which will count for 20%.

You will receive a list of randomly selected study group members early in the quarter. Study groups will have 3-7 members. Working with fellow students from different educational and cultural backgrounds is an important part of the Kellogg experience. (I will therefore not be able to accommodate specific group requests.) All group-related grades will be based on group performance and peer evaluation at the end of class.
Mid-quarter group assignments: Group assignments concern a case which is presented in class, and they typically take the form of a short memo outlining a strategy. Group assignments are carried out during class and uploaded on the course website for later grading. Grading will be based on the uploaded document. When uploading your documents please make sure that you follow the following naming convention: [section number]-[assignment name]-[group name]. For example, if you are in section 441-1, you are doing the assignment for the Herbalife case, and your group number is 2, then your submission should be named “441-1-Herbalife-group2.doc.”

Mid-term examination: The mid-term exam will be an individual, in-class, “closed book” exam consisting of: a case analysis with questions concerning recommended strategy. In addition, a few short questions will be asked concerning the required readings, the cases, and the slides prior to the midterm.

Final group project: The final group project is an opportunity to apply your skills to a real world problem. Assuming the fictional role of a consultant, your group will develop a beyond-market strategy for a client and outline it in a 10-15 page case study / report. You choose the topic. Please refer to the online sample materials for more information. This report will count for the grade.
In addition, you will be asked to give a short in-class preview of the report in week 10 (3-6 slides). This presentation will not count for the grade; its purpose is for you to receive feedback on your final group project before you turn it in.

Participation and attendance: Attendance, preparation, and participation are essential for this class to be of value to you. If you have to miss class, please let me know in advance via email.
Since case discussion constitutes most of class time, there is ample opportunity for you to participate. Do not be discouraged if, after the first few classes, you have yet to participate. To increase opportunities for effective participation, I may cold call a student or a study group to open the class discussion. I may also occasionally cold call students during the course of a discussion. If you feel that you are preparing well but that I am not calling on you sufficiently often, please let me know so that I can address the problem.

Bidding, Registration and First Class Attendance Policy
The following information may be useful in your decision to bid or register for this class:

- There is NO mandatory first class attendance
- Study groups will be assigned randomly
- Due to logistical problems I will be unable to permit permanent auditing.
- No prerequisite course
Technology
In the Course Outline you will find references to web-based cases and materials. Slides and class materials will also be posted regularly on the course website.

Note that all materials on the course page are copyright protected. They are only for your personal use and may not be distributed without my prior permission.
COURSE OUTLINE

(Note: In what follows, CR refers to the case reader, which is available electronically for purchase on the course website.)

Session 1: Introduction: Changing the Rules of the Competitive Game – Tuesday, March 31
This session illustrates the types of business problems that the course will help you manage.

Session 2: Foundational Tool: the 4Is -- Friday, April 3
This session introduces the foundational tool for beyond-market analysis. The tool will be introduced in the context of a mining company seeking a license to operate in Romania.

Cases: CR Rosia Montana (A)  
CR Rosia Montana (B)

Preparation questions: Referring specifically to Rosia Montana A:
• Who are the stakeholders in this project – who is impacted, who has an impact?
• Does the Rosia Montana mine have sufficient economic, political, and social support? Locally? Nationally? What type of support would be most critical for the project?
• What was Timis’ “strategy beyond markets”? Given the situation in Romania at the time, was the strategy adequate? What, if anything, could he have done differently?

Session 3: The Art of Coalition Formation I – Tuesday, April 7
This session examines the problem of changing the rules of the competitive game in a fragmented industry. In the Luxury Tax case, three industries seek to repeal a life-threatening tax. Our analysis of this case will help us introduce some conceptual frameworks.

Case: CR Repeal of the Luxury Tax

Readings: CR The Organization of Congress

Preparation questions: Refer to the Luxury Tax case, and assume the role of analyst for a private equity firm who is asked to pick one among the three impacted industries (planes,
boats, automobiles) to invest in. Place yourself immediately after the tax has been passed, and assume that the investment’s holding period is five years. Based on your beyond-market analysis of the tax situation, which of the three industries do you recommend investing in? What BM and competitive strategy factors do you base your recommendation on?

**Session 4: The Art of Coalition Formation II – Friday, April 10**

This session introduces the key factors that drive influence in institutions for collective decision making (legislatures, corporate boards, committees, etc). The focus is on concepts such as agenda setting, pivotal voters, building majorities, and predicting outcomes in collective decision making. These concepts will be applied in the context of the Disney case.

Cases: CR Disney and the Copyright on Mickey Mouse
Preparation questions: refer to the preparation questions at the end of the Disney case.

**Session 5: Advanced Coalition Formation: the Sector Level – Tuesday, April 14**

We will discuss the special considerations that apply when trying to get an entire sector to coalesce behind an agenda. These ideas will be illustrated through the experience of two industries (motion pictures historically, and pharma today) dealing with the threat of government regulation.

Case: N/A
Readings: CR A wake-up call for Big Pharma
CR Why drugs are so expensive in the U.S.
CR Sources of Pharma companies’ market power
CR Value over volume--the most expensive tweet in history
Trainwreck: Martin Shkreli goes to Congress (mp4, available on the course website)
CR Big Pharma's damage control
Valeant's CEO gets fired at a Congressional hearing (mp4, available on the course website)

Preparation questions: For the US pharmaceutical industry consider the following questions:
- Does the US pharma industry face a serious threat of disruptive governmental regulation?
- Can (and should) the industry pre-empt the threat of government intervention?
- Is pre-emption likely to be successful?
Session 6: Integrated Strategies in Concentrated Industries – Friday, April 17
This session considers a case in the car industry at the intersection of trade and regulation. The session will include a simulated Congressional hearing on the topic of a significant increase in CAFE standards.

Case: CR CAFE Standards 2002

Readings: CAFE Standards Debated by Congress (mp4, available on the course website)

Group assignment #1: CAFE standards, due during class
Class will break to allow each group prepare one page answering the questions posed in class regarding the CAFE Standards case. The answer needs to be uploaded on the course site as a word document by the end of the break. In preparation for this assignment, please read the CAFE Standards case and watch the CAFE Congressional hearing video that is posted online.

Session 7: Public Opinion – Tuesday, April 21
Public opinion is extremely influential in the process of “changing the rules of the game.” How can business influence public opinion? In this session we will explore influence on public opinion in relation to beyond-market strategy.

Case: N/A

Readings: CR Under SOPA, “Justin Bieber Would be in Jail”

Group assignment #2: Public Library, due during class
Class will break to allow each group to prepare one or two pages answering the questions posed in class. The document needs to be uploaded on the course site as a word document before the end of the break.
Session 8: Influence in Consensual Democracies – Friday, April 24
This lecture session addresses cross-national differences in management in the beyond-market environment with an emphasis on institutions and the organization of interests.

Case: N/A
Readings: CR “Consensus Democracies” (available on course website).

Session 9: Regulators – Tuesday, April 28
In regulated industries (health care, finance, transportation, utilities, food …), the regulatory relationship can be the key to success. We will introduce regulators, with special reference on how they are different from elected officials and strategies for achieving influence with regulators. The class will be based on the experiences of an insurance company trying to secure regulatory relief, and a pharma company seeking an FDA license.

Case: CR Conseco Senior Health Insurance: A Strategic Problem of Reputation and Regulation
Preparation questions: for Conseco case, refer to the end of the case.

Session 10: Influence in the European Union – Friday, May 1
The EU as a whole has a huge economy and a peculiar institutional context. This session considers how beyond-market strategies must be adapted to the institutional context of the European Union. The readings also provide information on European Union institutions.

Case: CR E-Cigarettes in the EU (available on the course website)
Readings: A Brief History of the EU (mp4, available on the course website)
What are EU institutions (infographics, available on the course website)
What are EU institutions (mp4, available on the course website)
How EU institutions interact to make laws (mp4, available on the course website)
The EU institutions explained by their Presidents (mp4, available on the course website)
How the EU Parliament operates (mp4, available on the course website)
How the EU Council operates (mp4, available on the course website)

**Group assignment #3: E-cigarettes in the EU (due during class)**

Class will break to allow each group prepare one page answering the questions posed in class. The document needs to be uploaded on the course site as a word document by the end of the break. In preparation for this assignment, please read the E-Cigarettes case and watch the videos on the EU that are posted online.

**Session 11: Executing Growth Strategies – Tuesday, May 5**

This session focuses on the beyond-market challenges of executing growth strategies. The goal of this session is to apply the concepts developed in the previous classes to a complex business challenge. The class will be based on cases of the growth challenges of Wal-Mart and Amazon.

**Case:** CR Wal-Mart’s Business Environment

**Readings:**
- CR How Wal-Mart Used Payoffs to Get Its Way in Mexico
- Wal-Mart Comes to Teotihuacán - A New York Times Investigation (mp4, available on the course website)

Preparation questions: Why is Walmart struggling to open new stores? Is it company culture, or lack of beyond-market savvy, or some other problem?

**Session 12: Guest Speaker – Friday, May 8**

The guest speaker will share his experience as public policy and regulatory affairs director.

**Session 13: Uber: Integrating Beyond-Market and Competitive Strategies (Part I) – Tuesday, May 12**

This session will use Uber’s success and challenges to explore the integration of beyond-market and competitive strategy.

**Cases:**
- CR Tusk Strategies’ Campaign for Uber in NYC
- CR Contenders for CEO of Uber

Preparation questions: refer to the case.

**Session 14: Uber: Integrating Beyond-Market and Competitive Strategies (Part II) – Friday, May 15**

This session will use Uber’s success and challenges to explore the integration of beyond-market and competitive strategy.

**Cases:**
- CR Contenders for CEO of Uber
Preparation questions: refer to the case.

Session 15: **In-Class Midterm** – Tuesday, May 19

Session 16: **Guest Speaker** – Friday, May 22
The guest speaker will share his experience as the founder of a startup that faced significant BM challenges.

Session 17: **Integrated Global Strategy: Facebook’s Free Internet Project** - Tuesday, May 26
This session focuses on Facebook’s strategy in growing national markets and the dependence of that strategy on cultural and institutional factors. The class will focus on how the company should confront the corresponding beyond-market challenges in several countries as part of a global strategy.

Readings: Analysis of the mobile phone market in the Philippines
Case: Facebook's free internet in the Philippines
Preparation questions:
  - What made Internet.org successful in the Philippines?
  - Can Facebook’s Philippines strategy be scaled to other emerging countries? What kind of countries would be good targets?

Session 18: **The role and public perceptions of businesses in today’s society** - Friday, May 29
We will discuss the role of businesses in today’s society, and the way in which they are perceived by the public and policymakers. The class will focus on the ethical aspects of beyond market strategy, in light of the several cases discussed during the course.

Session 19: **Final Project Presentations**- Tuesday, June 2
Our last two classes are dedicated to the final project. All details will be discussed in class.

Session 20: **Final Project Presentations**- Friday, June 5
Our last class is dedicated to the final project. All details will be discussed in class.

**Final Group Project due on Tuesday, June 9, at noon Central US Time**