Course Overview and Objectives

The fundamental question of strategy is both simple and difficult: “How can a firm earn long-run profits?” Learning how to answer this question will be the primary aim of this course.

A glib answer to this question is “Raise revenues and cut costs.” This would indeed raise profits, but it avoids the difficult part of the question. Namely, given a firm’s specific locations, products, financing, customers, and legal/regulatory constraints, what can it do to raise revenues? And, given a firm’s specific products, technology, organization, and processes, what can it do to cut costs? And finally, what can it do on either of these fronts that will not be eroded by the actions of its competitors, imitation, or new entry? These are all difficult questions, particularly when one asks them in the context of a specific company.

You will find that the primary emphasis of the course is not on understanding conceptually difficult material. Instead, the course will focus on learning how to apply simple—but powerful—ideas to specific situations. This will involve three primary skills.

- **Diagnosis.** Can you identify the salient details of a situation and understand their strategic significance and implications? The goal is to pick out what really matters among the facts at hand and to use economic frameworks to understand the significance of those details.
- **Creativity.** One theme of the course is that you can’t outperform your competitors by simply doing the same things they are doing. Finding new approaches and new ways to do things is often the key to a successful, profitable strategy.
- **Judgment.** The frameworks and tools we develop in this course need to be applied intelligently. This class teaches you to be a better—meaning a more systematic, logical, complete, and critical—thinker about strategy. You should not expect to gain from this course a body of business-related facts. Instead, the aim is to teach you skills that will help you understand the significance of whatever set of facts you face.

This is a distinctly “big picture” course. Its purpose is to give you a foundation for thinking about how a firm achieves its fundamental goal of profitability. As you gather more tools in other classes, you will have a sense of how they work together in generating long-run profitability.

Different sections of this course are taught in close coordination, even across professors. You will find much of the language in this syllabus (although not all) to be identical across different professors.
To be successful in this course, you must spend time actively thinking about the issues. There is no module to download, no formula to memorize, and no answer to find in the book. This course is about building one of your most fundamental skills in business, namely strategic thinking. Not preparing for class or expecting to passively absorb the material will do you about as much good as watching an exercise class from the sidelines.

Course Content

The course covers five major topics. These topics are intellectual tools and conceptual frameworks that are useful for answering the question “How can a firm earn long-run profits?”

- **Value Creation and Capture.** How does a firm create value, and how can it retain some of that value as profit?
- **Industry Profitability.** What features of a firm’s economic environment threaten – or enhance – its ability to be profitable?
- **Competitive Advantage.** What enables some firms to be more profitable than others, even within the same industry? How can a firm maintain over the long term the profit arising from its competitive advantage?
- **Boundaries of the Firm.** In which business opportunities and stages of production should a firm be involved and which should it leave to other firms?
- **Growth.** How should a firm negotiate the pressures that growth places on a successful strategy?

Teaching Approach

Because the aim of the course is to build your own critical and analytical thinking abilities, you will spend much of your time preparing for and engaging in class discussion.

Many of our discussions will be based on business cases. Cases tend not to have a single, tidy solution. However, there are always better and worse answers, and valid and invalid inferences. Cases never contain all the information you would like to have to make a decision—in this way, they are very much like real life. You may find it frustrating to be pushed to make a decision or take a stand when you are not sure whether it is the right one; this is the nature of real-world business decision-making. Cases often offer conflicting information. They will require you to make judgment calls. This kind of ambiguity is also a feature of real-world business decisions. Strategy is a field that asks a big question, and so necessarily draws on many of the other functional areas of business. This course aims to give you an overall vision of how the different areas fit together in contributing to the success of the firm.

Preparation

Preparing for class discussion means more than passively reading the assigned materials. Much of our class time will be spend in discussion of either business cases or articles that describe current strategy issues facing companies in a variety of industries and countries. For each day, there will be a preparation assignment that will guide you in how to think about the cases and articles as you read them. I encourage
you to review the preparation questions before reading, and make some notes after reading in order to be prepared for class. On some days you will have written graded assignments that will help you articulate some of your thinking in advance of the discussion.

If for some reason you are not prepared for class, I expect you to let me know before class. I know that you are juggling other classes and other commitments; you don't need to give me an explanation. However, if you haven't told me otherwise, then you have implicitly committed to be ready to contribute to the class if I should call on you. Note that giving me such a notice will not negatively impact your class participation grade.

Readings

The daily preparation assignments posted on Canvas will tell you everything you need to do to prepare for class. Each assignment has a Read heading which tells you what you need to read (or listen to or watch). A heading labeled Think gives you preparation questions that will guide you what to look for in the readings. If there is a deliverable to hand in, the daily assignment will have a Write heading which will give you instructions for the deliverable.

The daily preparation assignments list three categories of readings.

- **Required readings.** Most of the items listed are required readings. You should read these before class, and be prepared to discuss them in class. I will cold-call students to talk about these readings.

- **Background readings.** Some items are labeled “Background.” These are articles that we will talk about in class. You should also read these readings before class. I may invite discussion of these articles, but I will not cold-call students to talk about these readings.

- **Optional readings.** Items labelled “Optional” are truly optional. I may mention them in class, but we will not discuss them. You should definitely read these if you are interested, but don’t need to if you are not. I will also post additional optional readings on Canvas for students who are interested in additional applications of the concepts from class.

The recommended textbook for the course is The Economics of Strategy by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 7th Edition. The textbook readings are for background and reference. They are not required reading, and are listed as “optional.” The textbook is useful primarily for clarification of the conceptual material.

You can find all of the readings from the Canvas course site. Some of the required readings are part of a Study.net case packet. This includes most of the cases for the course and some conceptual background readings. (Once you have purchased this packet, you can access the readings online through the Canvas website, you can download or print them as PDFs, or for a small additional fee, you can order a hard copy reader with the entire contents.)

The remainder of the required readings are in a “popular press” article packet that can be found on the course’s Canvas site. This packet is a single large PDF that can be printed as a hardcopy reader, or can be downloaded to a device. You can also use the links from the preparation assignments to access the readings one-by-one.
A few of the “readings” for class are actually videos or audio recordings. You can stream these from the preparation assignment page.

**I will expect you to have read and to be prepared to discuss all material assigned for the day, except material explicitly designated as “background” or “optional.”**

### Additional Course Materials

The following materials will be posted on the course’s Canvas website.

- **Class recordings.** Each class will be recorded. These recordings are intended solely to facilitate learning by students registered for this class. The recordings may not be copied, or otherwise reproduced, posted, shared, or transmitted without explicit permission of the instructor and Kellogg School of Management.

- **Course announcements.** Course announcements will be emailed to you via Canvas. I generally put critical course-related information in an email rather than announcing it in class, so please do pay attention to such emails.

- **Assignments.** You can find all the course assignments in the “Assignments” section of the Canvas site, both non-graded preparation assignments as well as deliverables that you must submit. You will submit your assignments via Canvas.

- **Slides and handouts from class.** Class slides will be posted in the Modules section of the Canvas site under “Day-by-Day.” Any additional handouts will also be posted. If you miss something or lose something, you can find it there.

- **Extras and updates.** In the “Day-by-Day” section of the Canvas site I will also post items related to our class discussion. These items, labeled “Extras and updates” are optional reading. They give further information about companies or issues we have discussed in class or provide additional examples where the tools or frameworks discussed in class would have useful application.

### Assignments and Assessment

**Individual case assignments (15%)**

During the quarter, there are 7 cases for which you will be assigned to write a one-page response to a preparation question. These assignments will be graded on a credit/no-credit basis. The preparation question and assignments for each case will be posted in the “Assignments” section of the Canvas site. You may discuss these assignments with members of your study group, or with others in the course, but the final write up should be your own. See the “Academic Integrity” section of the syllabus for more detailed guidance. You will submit your assignments online through the course’s Canvas website. You will not receive individual feedback on these assignments, but I am happy to review and discuss your overall performance or performance on an individual assignment in office hours or by appointment.

**Note on formatting:** The formatting of individual assignments should be 1-inch margins, 10- or 12-point font, and 1.5-spacing.
Group assignment (5%)
At the start of the quarter, you will be assigned to a group. There is one group assignment during the quarter, a joint venture group negotiation exercise due by 5pm on Sunday, June 28 (the day before session 2). This assignment will be posted in the “Assignments” section of the Canvas site and submitted online.

Midterm exam (25%) – Monday, July 20
The midterm for the course will be a 90-minute, in-class exam during class session 5 on Monday, July 20. More detailed information about the content and format of the exam will become available as its date approaches.

*Please do not make plans that conflict with the midterm exam. The midterm exam date is not flexible.*

Final exam (40%)
The final exam will be a timed take-home exam to be taken during the exam period. More detailed information about content and format of the exams will become available as we approach the dates.

Class participation (15%)
The class participation grade provides you with an *added* incentive to prepare for class—the value of your own learning should be the primary incentive. Case discussions work well as learning tools when everyone participates.

Your participation will be graded on quality, not merely frequency. You should provide insights, observations, inferences, or conclusions that not only express your viewpoint, but also explain your reasons. Your comment should be relevant to the topic at hand, and should advance the discussion. A simple opinion or viewpoint is not very valuable without any justification. I value comments that respond to, elaborate on, lend support to, contradict, or correct a comment by one of your classmates. Counter-productive comments include opinions without a justifying argument, pure repetition of previous point, comments that are no longer germane to the current conversation, and rambling, vacuous or disparaging comments.

Discussion constitutes a large portion of our class time; you will have ample opportunity to participate. I will cold call in class, both to give you an incentive to prepare for class, and to make sure the discussion does not collapse to a handful of students. At a minimum, everyone in class should be prepared to answer all of the preparation questions provided in advance.

**Attendance Policy.** Learning to articulate your arguments and to evaluate and respond to the arguments of others is an important part of what you will learn in this class. If you miss class, you will miss this, and there isn’t a way to “make it up.” As a result, you should make every effort not to miss class. **If you miss class or are late more than twice, it will lower your class participation grade.** (Kellogg provides exceptions for religious holidays, funeral attendance, and student/dependent hospitalization.) If you must miss class, you should do the readings, prepare and turn in the assignments on time (late assignments will not be accepted), and arrange to get notes from a friend about what you missed in class. Recall that I will post the presentation slides (and anything else that I hand out in class) to the Canvas website after each lecture. Excessive absences or late arrivals will affect your final grade.
Exam and Graded Assignment Due Dates

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Due Date and Time</th>
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<tbody>
<tr>
<td>Joint venture negotiation assignment (group)</td>
<td>Sunday, June 28 before 5:00 pm</td>
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<tr>
<td>CF Industries case assignment (individual)</td>
<td>Monday, June 29 before class</td>
</tr>
<tr>
<td>Intel case assignment (individual)</td>
<td>Monday, July 6 before class</td>
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<tr>
<td>Global aircraft industry case assignment (individual)</td>
<td>Monday, July 13 before class</td>
</tr>
<tr>
<td><strong>Midterm exam</strong></td>
<td><strong>Monday, July 20 in class</strong></td>
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<tr>
<td>Enterprise case assignment (individual)</td>
<td>Manday, July 27 before class</td>
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<tr>
<td>Nucor case assignment (individual)</td>
<td>Monday, August 3 before class</td>
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<tr>
<td>Disney case assignment (individual)</td>
<td>Monday, August 10 before class</td>
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<tr>
<td>Starbucks case assignment (individual)</td>
<td>Monday, August 24 before class</td>
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<tr>
<td><strong>Final exam</strong></td>
<td><strong>Take-home during exam period</strong></td>
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How to Study for This Course

The aim of this course is to make you more rigorous, critical, precise, and thorough in your analysis of strategy issues. In short, it is to change the way you think. The only way to do this is to practice it steadily throughout the quarter. You can’t learn it by “cramming” it all just before the exam. You should think of this course like sports, or exercise, or learning a musical instrument: you can’t really learn anything, and you certainly can’t get better at it, by just watching from the sidelines.

Practically, here are the most important steps to doing this.

- **Come to class prepared.** There is no substitute for this. If you haven’t read and thought about the material, you won’t get very much out of what is going on.

- **Engage in class discussion.** Class time is not entertainment, and you shouldn’t expect to just sit back and listen. Engaging means both listening critically to what other people are saying in order to evaluate whether you think their arguments are right, and speaking up when you think you have something to contribute.

- **Summarize and synthesize.** After every class session, write yourself a one- or two-page summary of what was covered in class: what did we talk about, and what lessons were you supposed to take away? Note that the purpose of this is to do it **yourself**. Forcing yourself to summarize and synthesize this way is how you internalize and obtain ownership of the material. If your study group splits this up and each does a day, you’ve missed the point; it’s not about **having** the one page write-up, it’s about **creating** it.

- **Review the preparation questions.** Go back and review the preparation questions after class. What is your answer to the question after hearing the discussion? Pay particular attention to how the frameworks from the course help you to answer the question.

- **Practice.** The only way to get good at thinking in a new way is to practice it. When you meet a strategy issue somewhere else (in the news, talking with someone, in another course, out
shopping), use the tools and frameworks of the course to understand it. Another good way to practice is by using the "Extras" posted in the “Day-by-Day” section of the Canvas site. When you read them, try to understand how the frameworks from class to understand them better.

- **Consider studying with a group.** Some people find it helpful to study and discuss things with a group, some don’t. Look for a group that discusses carefully and thoroughly, but doesn’t descend into a protracted argument about who’s right. Once you’ve discussed as much as you productively can, drop it and pick up the discussion in class rather than beating it to death.

**Contact Information**

**Contact information:** You can reach me by email at kieu-trang.nguyen@kellogg.northwestern.edu. I will also be available for virtual office hours on Zoom on Tuesdays, from 4:00 to 5:00 pm, each week.

**Classroom Etiquette**

Students are expected to respect Kellogg’s Code of Student Etiquette at all times.

- **Turn off mobile phones and other unnecessary electronics during class.** You should strive to create an “in-class” environment during class. This means closing other windows on your computer, putting your phone in airplane mode, and removing other electronic distractions. If possible, you should also consider taking class notes by hand; recent research has convincingly shown that students retain less material when they take notes on a laptop. Violating this policy will meaningfully impact your class participation grade.

- **Punctuality.** Class will start on time. It is distracting to your classmates for you to be entering class while they are trying to pay attention. See the “Attendance Policy” section above for more information.

Additional guidance on will be provided during the quarter, as needed.

**Academic Integrity**

Students are expected to respect Kellogg’s Honor Code at all times. The first point of the Kellogg Honor Code is “Not to seek an unfair advantage over other students, including but not limited to giving or receiving unauthorized aid during completion of academic requirements.” The consequences of cheating can be failing an assignment or the course, or suspension or dismissal from the university.

**Assignments**

Written assignments are expected to be the efforts solely of the individual or group turning them in. For individual assignments, you may use discussion with classmates to brainstorm issues, evaluate alternative approaches, and consider the merits of recommendations. Use your own judgment to identify the important issues, to construct arguments and to develop correct conclusions. You should not consult the Internet, friends at other business schools, or people who have taken the course already. The same rules apply to groups for group assignments. All written assignments will be **cross-referenced against a database** of published sources and other student assignments. No credit will be given for assignments
in which there is evidence of plagiarism. (See below for more information about what constitutes plagiarism.)

Exams
You may study for exams with others. However, once the exam has begun, you should have absolutely no communication about the exam with anyone inside or outside the class. You will be allowed to bring in one 8.5 x 11 inch, double-sided sheet of notes to the exams. You must bring a hard copy (paper) page of notes, not an electronic file.

Plagiarism
The members of any academic community are expected not to present as their own ideas or material from other sources. Northwestern’s academic integrity guidelines state: “A conscientious writer always distinguishes clearly between what has been learned from others and what he or she is personally contributing to the reader’s understanding.” See http://www.northwestern.edu/uacc/plagiar.html for more information.

If you use text that is exactly, mostly, or even partially someone else's words, it needs to be attributed to that source and the quoted portion needs to be in quotation marks. If you use text that is paraphrased from another source, it needs to be attributed. This applies even if it something you yourself wrote that was handed in as an assignment or published elsewhere.

I strongly recommend against the practice of cutting and pasting from a source into a “working document” that will eventually become the final document handed in, unless you insert the appropriate quotation marks and citations at the same time. This is especially true for group assignments where another group member may not realize that something you put into the document needs a citation.

In the context of this course, it is acceptable to refer to concepts, frameworks, and analytical tools from the readings or class lectures without citation. You may also refer to the material in cases without citations. However, do not quote or paraphrase analysis from another source and present it as your own.

Unauthorized Recordings
Class sessions will be recorded in Zoom and made available to class participants. Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact AccessibleNU. Unauthorized use of classroom recordings – including distributing or posting them – is also prohibited. Under the University's Copyright Policy, faculty own the copyright to instructional materials – including those resources created specifically for the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display, or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording, or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.
Session 1: Readings for June 22


Value Creation and Capture

An introduction to strategy
- Optional: “Note on Benefits and Costs,” Kellogg Technical Note. (This note reviews some fundamental concepts of microeconomics. See Canvas for answers to the review exercises.)

Strategy and tradeoffs

Strategy and context
- Optional: Besanko, Dranove, Shanley, and Schaefer, pp. 1-7; pp. 8-29 is additional economics review.

The profit function
  - Optional: D. Barron, M. Busse, and C. Garthwaite, “Note on Market Equilibrium.” (This note reviews some key insights of microeconomics that underlie many of the strategy tools we will use in the course.)

Value creation and capture
Session 2: Readings for June 29

Value Creation and Capture (continued)

Value creation and capture in the digital economy
- MoviePass Supplemental Note

Case: CF Industries
- CF INDUSTRIES (Kellogg 5-316-500) (*Study.net case packet*)

Added Value and Irreplaceability

Added value

Added value for tech employees
- Background:

Added value in the smartphone industry

Added value in broadcast media
- Optional: D. Pierce, “All Sports Everything,” *The Verge*, January 28, 2015. (This is good, but it is long. I’ll mention some of the content in class, but you should read it only if you are specifically interested.)
- Optional: L. Rose, “Ellen Pompeo, TV’s $20 Million Woman, Reveals Her Behind-the-Scenes Fight for ‘What I Deserve’,” *Hollywood Reporter*, January 17, 2018 (This is a very nice illustration of what it means for an individual to realize – and capture – her own added value. Colorful, occasionally profane – read it if it interests you.)
Session 3: Readings for July 6

Added Value and Irreplacability (continued)

Case: Intel

- INTEL (Study.net case packet)

Industry Profitability

Industry analysis


Rivalry


Entry barriers


Substitutes


Supplier and buyer power


Industry analysis of Linear Technology

Session 4: Readings for July 13

Industry Profitability (continued)

Case: Global aircraft industry
- THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (Study.net case packet)
- Video: Boeing 787, USA Today. (Video available on Canvas)
- Optional: T. Hepher, “Airbus Delivers First A330neo in Boeing 787 Dogfight,” Reuters, November 26, 2018. (Read this if you are interested in how competition for the Boeing 787 has evolved. We will touch on this only briefly in class.)
- Optional: J. Sindreu, “Airbus Shows Danger of Wanting it Bigger and Faster,” Wall Street Journal, February 14, 2019. (Read this if you are interested in what has happened to the A380. We will touch on this only briefly in class.)

Competitive Advantage: Sources

Assets, activities, advantage

Assets, activities, advantage in grocery delivery
- Video: “China’s Tech Giant Alibaba Goes Offline with New Supermarkets,” VICE News, November 14, 2018. (Video available on Canvas)

Competitive necessities

Cost-based competitive advantage
Session 5: Readings for July 20

Competitive Advantage: Sources (continued)

Benefit-based competitive advantage

Niche-based competitive advantage
- Background: Audio: Episode 627 “The Miracle Apple” by the National Public Radio podcast *Planet Money*. (Link available on Canvas)
- Optional: Hermès’s Refusal to Change is Its Most Radical Gesture Yet,” *New York Times*, February 15, 2019. (This is a great profile of a company that has chosen a strongly-differentiated position and is utterly uncompromising in defending it. Long and detailed, but a good read if you are interested.)

Midterm exam will be taken in class during session 5 on Monday, July 20.

*The exam will begin promptly at 6:00 pm. Please be in your seat at least 5 minutes before the start time so that you and the rest of the class can start the exam on time.*
Session 6: Readings for July 27

Competitive Advantage: Sources (continued)

Case: Enterprise
- ENTERPRISE RENT-A-CAR (Kellogg 5-311-508) (Study.net case packet)

Competitive Advantage: Sustainability

Heterogeneity

Inimitatibility

Appropriability

Foresight
- Optional: Besanko, Dranove, Shanley, and Schaefer, pp. 70-75; 349-368.
Session 7: Readings for August 3

Competitive Advantage: Sustainability (continued)

Strategy and change

Challenges of adapting to change
- Audio: Podcast of Episode 403 “NUMMI” by the radio program This American Life. (Link available on Canvas) (This is a 1-hour podcast. You may listen to it while you commute, at the gym, washing dishes, etc., but you do need to listen to it before class.)

Case: Nucor
- NUCOR AT A CROSSROADS (HBS 9-793-039) (Study.net case packet)
Session 8: Readings for August 10

Boundaries of the Firm


Coordination and synergies


Challenges to coordination

- Optional: Besanko, Dranove, Shanley, and Schaefer, pp. 68; 75-85; 124-129.

Case: Disney

- THE WALT DISNEY CO.: THE ENTERTAINMENT KING (HBS 9-701-035) (Study.net case packet)
Session 9: Readings for August 17

Boundaries of the Firm (continued)

Market vs. integration


Incomplete contracts


Incentive costs of coordination


Information costs of coordination


Opportunism and uncertainty costs of coordination

- Optional: T. Hsu and R. Abrams, “Subway Got Too Big. Franchisees Paid a Price.,” New York Times, June 28, 2019. (This is a great example of relationship-specific investments and hold up. If you read it – it’s long – there is no need to read the whole thing or pay attention to all the details.)

Foreclosure and the mark-up fallacy


Boundaries of the firm examples: Potato chips


Microchips


Disney video streaming

Session 10: Readings for August 24

Boundaries of the Firm (continued)

Case: Coke and Pepsi
- COLA WARS CONTINUE: COKE AND PEPSI IN 2010 (HBS 711462) (*Study.net case packet*)

Strategy and Growth

Case: Starbucks
- STARBUCKS: A STORY OF GROWTH (Kellogg 5-211-259) (*Study.net case packet*)

Wrap-up/Summary

Final exam will be a timed take-home exam to be taken during the exam period.

More detailed information about content and format of the final exam will become available as we approach the end of the quarter.