STRT-431: Business Strategy

Syllabus
Summer 2018

1Y MBA Program

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Office Hours: Thursdays 11:00 – 12:00 or by appointment
A Few Words about Myself

Jeroen is pronounced “Yer-oon.” As is true for many northern European names, the J is pronounced as a pure Y. It’s Dutch, which is odd, since I’m Canadian.

My training is as a mathematical economist/game theorist. I study primarily auctions and incentive schemes. If you want to learn more about my research, see my home page. The introductions are fairly readable, especially for the work on procurement auctions and on executive stock options.

Course overview and objectives

The fundamental question of strategy is both simple and difficult: “How can a firm make long-run profits?” Learning how to answer this question will be the primary aim of this course. “Raise revenues and cut costs” is the glib answer; this would indeed raise profits, but it avoids the difficult part of the question. Namely, given a firm’s location, products, financing, customers, and legal/regulatory constraints, what can it do to raise revenues? And, given its 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?

The concepts, skills, and analytical tools that you will learn in this course rest on economic principles relating to firms’ underlying organizational objectives. While most businesses exist to generate wealth for their owners, in other contexts, a firm may have to consider stakeholders beyond shareholders. Although the primary focus of this class will be the creation and capture of economic wealth, the concepts and tools discussed in class can be used to formulate strategy with any objective in mind.

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 from among the facts 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.

- **Common sense.** The frameworks and tools we develop in this course need to be applied intelligently. This class teaches you to be a better—meaning more systematic, logical, complete, critical—thinker about strategy. You should not expect to gain from this course just 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.
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 your skills. Not preparing for class or expecting to passively absorb the material will do you about as much good as watching an exercise class.

**Teaching approach**

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

Many of our discussions will be based on business cases. Cases tend not to have correct and incorrect answers. Instead, you will come to recognize better answers and worse answers. 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 a case discussion means more than just reading the case. Each case assignment will include several preparation questions. I suggest reviewing the questions before reading the case. In addition to the memo due on each case (see below), I expect you to be prepared to talk cogently on the case. Especially given the tight schedule we are on, *this will require serious commitment and organization on your part.* **But, it is completely essential to the success of your experience, and your classmate's experience, of this course that you be prepared for cases.**

The other readings are meant in a more background role. There is no explicit preparation task to do as you read the conceptual readings from the textbook or articles, but it is a good idea always to be asking yourself, “Do I believe this argument? Where else does it apply? When would this approach not be useful?”

**Readings**

Readings are contained at the Canvas site, and in a case packet. The recommended textbook is *The Economics of Strategy* by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, Seventh Edition (BDSS on the reading list). Page references are also provided below for students with a copy of the 6th edition of BDSS.
Additional Course Materials

The following materials will be posted on the course's Canvas website in addition to the readings.

- **Assignments**: The website will contain the group case assignments for each case.
- **Slides and handouts from class**: Anything I hand out in class will be posted on Canvas. If you miss something or lose something, you can find it there.

We will employ economics throughout the course. Students who need an economics review should start with “Basic Microeconomics Principles” in BDSS.

Assignments and Assessment

Group case assignments (25%)

During the first class, you will be assigned to a study group. Each group should turn in a memo prior to each case discussion. Discussion questions on each case are posted in the appropriate week of the Canvas site. Please note the following:

- Before writing the memos, be sure that you have done the associated textbook readings, and that AS A GROUP, you have had a thorough discussion of the questions I have posed about the case. Make sure you can relate the readings to the case.
- Memos should be based only on the cases as handed out. Reference to any other source for information about the case is a violation of the honor code (and makes the case much less fun).
- Each memo should be 2 - 3 pages.
- Memos are due by the beginning of class. One person from each group should upload the assignment to Canvas.
- Grading will be based on familiarity with the case, originality, and clarity and depth of thought.
Exam (50%) – TBA

Sample exam questions are posted on the Canvas site.

Class participation (25%)

Your participation will be graded on quality, not volume. I value comments that respond to, elaborate on, lend support to, contradict, or offer a counterpoint to a comment by one of your classmates.

Missing class

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 must do so, 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 lectures. Missing more than one class requires my prior approval.
Schedule of Course Readings

Economics & Strategy: Value Creation and Capture

Session 1 – Tuesday, July 17

- BDSS 1-8, 279 -290
  o (6th) BDSS 1-8, 291 - 302

Session 2 – Tuesday, July 17

- SunEdison Semiconductor (no reading)
- Review the “Economics Primer in BDSS

Session 3 – Friday, July 20

- PERFORMANCE INDICATOR (HBS 9-702-480)
Added Value

Session 4 – Friday, July 20


Session 5 – Tuesday, July 24

- L. Cabral, “TV Power Games: Friends and Law and Order,” April, 2010
- AMC is Thriving by Breaking the Rules of Legacy TV,” The Atlantic, August 13, 2013

Session 6 – Tuesday, July 24

- INTEL CORP. - 1968-2003 (HBS 9-703-427)
- J. Robertson, "Intel Buys Wireless Chip Tech in Mobile-Phone Push," Boston Globe, August 30, 2010
Industry Profitability

Session 7 – Friday, July 27

- BDSS 225 – 233, 247 -271
  - (6th) 236-248, 258-284

Session 8 – Friday, July 27

- GLOBAL AIRCRAFT MANUFACTURING 2002-2011 (Kellogg 5-312-505)
Competitive Advantage: Sources

Session 9 – Tuesday, July 31

• BDSS, 296 - 308
  o 6th 302 - 327
• R. Hutton, “2009 Tata Nano – Second Drive,” Car and Driver, June 2009

Competitive Advantage: Sustainability

Session 10 – Tuesday, July 31

• ENTERPRISE RENT-A-CAR (Kellogg 5-311-508)

Session 11 – Friday, August 3

• BDSS, 70 - 75; 349 - 378
  o (6th) 77 - 81; 363 - 394
Competitive Advantage: Sustainability and Change

Session 12 – Friday, August 3

• STEVE AND BARRY’S – TO SAVE OR NOT TO SAVE (Kellogg: 5-309-501)
• IBM: ADAPTING STRATEGY TO A CHANGING ENVIRONMENT

Competitive Advantage: Strategy and Growth

Session 13 – Tuesday, August 7

• STARBUCKS: A STORY OF GROWTH (Kellogg 5-211-259)

Note: There is no memo due on Wal-Mart. And, you can skim the case somewhat as well.
Competitive Advantage: Strategy and Uncertainty

Session 14 – Tuesday, August 7


Session 15 – Friday, August 10

- NUCOR AT A CROSSROADS (HBS 9-793-039)
Firm Scope: Synergy and the Boundaries of the Firm

Session 16 – Friday, August 10

- BDSS, 55 – 70; 76-85
  - (6th) 61 – 76; 83-92

Session 17 – Tuesday, August 14

- I. Urbina, “In Gulf, It was Unclear Who Was in Charge of Rig,” *New York Times*, June 5, 2010
- BDSS 90 – 122; 383 - 416
  - (6th) 98-127; 401 - 434

Firm Scope: The Boundaries of the Firm in Action

Session 18 – Tuesday, August 14

- THE WALT DISNEY CO.: THE ENTERTAINMENT KING (HBS 9-701-035)
- M. Graser, “Disney Buys LucasFilm, New ‘Star Wars’ Planned,” *Variety*, October 30, 2012

Session 19 – Friday, August 17

- COLA WARS CONTINUE: COKE AND PEPSI IN 2006 (HBS 9-706-447)
Course Summary

Session 20 – Friday, August 17

Exam Friday, August 24
Room 1110 (Section 61)
Room 1120 (Section 62)