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.

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.
This is a distinctly “big picture” course. The goal is not to equip you with a lot of analytical formulas, but instead 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.

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 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.

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

**Course Content**

The course covers six 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 competitive pressures does a firm face in its industry?
- **Competitive Advantage** – What enables some firms to be more profitable than others, even within the same industry?
- **Sustainability** – 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 firms be involved and which should they 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 spent 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.

There is no explicit preparation task to do as you read the conceptual readings on the syllabus and in the textbook, 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?”

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.

Readings

A Study.Net course packet, which includes the cases on the syllabus and some conceptual articles, is required and can be accessed via the course Canvas site. In addition, there is a PDF document posted in the Modules section of the course Canvas site that contains the rest of the required reading that we will be discussing in class, mostly popular press articles.¹ A few of the “readings” for class are actually videos or audio. You can find links to these in the assignment for the corresponding day on the Canvas site.

The readings for each day are listed at the end of this syllabus. You can also find them in the Assignments section of the Canvas site. Click on the day to see a list of the readings and a link to the day’s assignment (if any).

The recommended textbook is The Economics of Strategy by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, 6th Edition. The textbook readings are for background and reference. They are not required reading. Some students find them a useful resource for clarification of the conceptual material.

I will expect you to have read and to be prepared to discuss all material assigned for the day, except the material in the textbook.

¹ Splitting the readings into two packets saves you about $100 worth of copyright permission costs.
Additional Course Materials

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

- **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**: The website will contain the preparation questions and case assignments for each case, as well as preparation guidance and occasional assignments for “non-case” days. These will be in the “Assignments” section of the Canvas site. You will submit your assignments and preparation question responses using the ForClass application, which you should access by going to the Assignments section of Canvas, clicking on the relevant assignment, and following the provided link.

- **Slides and handouts from class**: Class slides will be posted in the Modules section of the Canvas site under “Day-by-Day.” I will also bring hard copies to class. Anything additional that I hand out in class will also be posted. If you miss something or lose something, you can find it there.

- **Extras and Updates**: I will also post in the “Day-by-Day” section of the Canvas site 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 (10% + 10%)**

During the quarter, you will be assigned to write a response to preparation questions for 7 cases. The first two of these assignments will be structured around a set of focused questions, while the remaining five will be one-page analyses of a broader preparation topic. One of the first two case assignments (chosen randomly) will be graded by me on a 20-point scale. This case assignment will be worth 10% of your final grade. The other seven assignments will be graded on a 3-point scale (no-credit/half-credit/full-credit) by a teaching assistant under my supervision. Together these seven case assignments will account for 10% of your final grade. 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 “Assignments” section of the course’s Canvas website.

**Group assignments (10%)**

At the start of the quarter, you will be assigned to a group. You can find your group in the Modules section of Canvas under the heading “Course Documents.” During the quarter, your group will complete two assignments that are each worth 5% of your final grade.

The first group assignment is an added value negotiation exercise that has two components. The first component is the negotiation itself, due by Wednesday, September 27th at 6:00pm. The second component is a short debrief assignment based on your negotiation, which is due by 6:00pm on Thursday, September 28th. These two parts are collectively worth 5% of your final grade and will be scored on a credit/no-credit basis.
The second group assignment is a series of questions related to *The Wall Street Journal* article “Diamond Industry Makeover Sends Fifth Avenue to Africa,” included in your popular press reading packet. This assignment is due by 6:00pm on November 16th, and is worth 5% of your final grade.

**Note on formatting:** The formatting of both individual and group assignments should be 1-inch margins, 10- or 12-point font, and 1.5-spacing. Assignments should be uploaded through the “Assignments” section of Canvas.

**Exam 1 (20%) – Thursday, October 19**

The first exam for the course will be an in-class exam based on material from the first half of the course. The 90-minute exam will be given during the first half of class in Week 5 (Thursday, October 19). More detailed information about the content and format of the exam will become available as its date approaches.

**Exam 2 (35%) – Thursday, December 7**

The second exam is two hours long, and will be taken during the usual class time (6:00PM – 8:00PM) in the usual classroom.

*Please do not make plans that conflict with either exam. Exam dates are not flexible.*

**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. Without justification, a simple opinion or viewpoint is not very valuable; you should respond to, elaborate on, lend support to, contradict, or correct a comment by your classmates. Counter-productive comments include opinions without a justifying argument, pure repetition of previous point, and rambling, vacuous or disparaging comments.

Discussion constitutes a large portion of our class time; you will have ample opportunity to participate. I will call on 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 the preparation questions provided in advance.

On some days, you will be asked to submit a survey response to one or more of the preparation questions. Your completion of these responses will also be considered as part of your class participation grade.

**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 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 will affect your final grade.

**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.

1. **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.

2. **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.

3. **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.

4. **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.

5. **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 figure out what I think is interesting about them. Apply the frameworks from class to understand them better.

6. **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.

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**Contact information**

**Contact information:** You can reach me by email at d-barron@kellogg.northwestern.edu. I will be available for office hours at Wieboldt Hall before class on Thursday from 5:00 to 6:00 PM. I am also very happy to meet with you by appointment at other times during the week. If you need to reach me by phone, my office phone is 847-467-5246. Email is a much more reliable way to leave me a message than voicemail.
Classroom Etiquette

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

- **Electronics that lay flat on the desk only.** You are welcome to use tablets and other electronic devices that lie flat on the desk to take notes during class. You may not use laptops or mobile phones in class. Recent research has convincingly shown that students retain less material when they take notes on a laptop, and that this poor performance can extend to students sitting near those using electronic devices. If you are interested in more information, I’ve posted some articles summarizing this research along with the original research articles on the course Canvas website. 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 climbing to your seat and settling in while they are trying to pay attention to the class. **If you are absent or late more than twice, it will lower your class participation grade.**

- **Seating chart.** Your assigned seat for the quarter will be the seat you choose for the second class session (Thursday, September 28). I use assigned seats to help me keep track of class discussion, and also to have a place to direct prospective students and visitors to sit.

- **Beverages and snacks.** Out of courtesy to your classmates, please don’t bring anything messy, noisy, or smelly to eat or drink in class.

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. The same rules apply to groups for group assignments. You should not consult the Internet, friends at other business schools, or people who have taken the course already.

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.**
Schedule of Course Readings

Value Creation and Capture

September 21


Strategy and tradeoffs
- J. Jargon, “McDonald’s Set to Offer All-day Breakfast,” Wall Street Journal, September 1, 2015.

Strategy and context
- Video: Ashish Thakkar interview, CNN African Voices (Video available on Canvas)

The profit function
- **Optional**: “Note on Benefits and Costs,” Kellogg Technical Note (Available on Canvas)
- “Note on Market Equilibrium,” Kellogg Technical Note

Value creation and capture
- **Optional**: Besanko, Dranove, Shanley, and Schaefer, pp. 1-8, 10-31, 293-304.

September 28, Part 1

- PERFORMANCE INDICATOR (HBS 9-702-480) (Study.net case packet)
- MAERSK LINE AND THE FUTURE OF CONTAINER SHIPPING (HBS 9-712-449) (Study.net case packet)

Added Value and Irreplaceability

September 28, Part 2

Added value

Added value in the smartphone industry

Added value in pharmaceuticals

Added value in cable television

October 5, Part 1

• “The Early Personal Computer Market in the United States,” Kellogg Technical Note (Study.net case packet)
• INTEL CORP. - 1968-1997 (HBS 9-797-137) (Study.net case packet)

Industry Profitability

October 5, Part 2

Industry analysis

Rivalry

Entry barriers


October 12

Supplier power

Buyer power

Industry analysis of the e-cigarette industry

Industry analysis of Linear Technology

The Global Aircraft Industry
• THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (Study.net case packet only)
• Video: Boeing 787, USA Today (Video available on Canvas)

Exam 1 will be taken in class during Week 5 on Thursday, October 19.

The exam will begin promptly at 6:00, and will end at 7:30. We will have a second half of class as usual. 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.

Competitive Advantage: Sources

October 19, Part 2

Assets, activities, advantage

Cost- and benefit-based competitive advantage

Niche-based competitive advantage


October 26, Part 1

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

Competitive Advantage: Sustainability

October 26, Part 2

Heterogeneity

Inimitatibility
• Audio: D. Charles, “In Haiti, Aid Groups Squabble Over Rival Peanut Butter Factories,” NPR, October 5, 2012. (Audio link available on Canvas.)

Appropriability

Foresight

November 2

Strategy and change
• Podcast of Episode 561 “NUMMI 2015” 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.)
• IBM: ADAPTING STRATEGY TO A CHANGING ENVIRONMENT (This will be available on Canvas.)
• NUCOR AT A CROSSROADS (HBS 9-793-039) (Study.net case packet)
• Optional: Besanko, Dranove, Shanley, and Schaefer, pp., 390-394.

Boundaries of the Firm

November 9

Coordination and synergies

Challenges to coordination

Incentive and information costs of coordination

Opportunism and uncertainty costs of coordination

Foreclosure and the mark-up fallacy
November 16
- THE WALT DISNEY CO.: THE ENTERTAINMENT KING (HBS 9-701-035) (Study.net case packet)

Strategy and Growth

November 30, Part 1
- STARBUCKS: A STORY OF GROWTH (Kellogg 5-211-259) (Study.net case packet)

Wrap-up/Summary

November 30, Part 2

Exam 2 will be taken from 6:00PM – 8:00PM on Thursday, December 7

Exam 2 will be given in our usual classroom.