STRT 431: Business Strategy

Syllabus
Spring 2018 PTMBA Program

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Office Hours: One hour before class.
A Few Words about Myself

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

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 (http://www.kellogg.northwestern.edu/faculty/directory/swinkels_jeroen.aspx). 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.

**Course Content**

The course is organized into two sections. The first focuses on understanding the firm’s environment and the fundamental elements in developing strategies.

1. **Strategy Assessment: Analytical Frameworks and Diagnostic Tools**
   - Value Creation/Capture Framework – How does a firm create value for customers, 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?

The second section of the course considers some of the major strategic decisions faced by firms. This section of the course will draw on the perspectives from the first part of the course, and also add some conceptual tools useful for specific decisions.

2. **Strategy Formulation**
   - Competition – How should firms factor the behavior and incentives of rivals into the strategy-formulation process?
   - Boundaries and Scope of the Firm – In which business opportunities and stages of production should firms be involved and which should they leave to other firms?
   - Change – How should firms adjust their strategies to optimally react to change, particularly when market conditions are highly uncertain?
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. It is completely essential to the success of your experience, and your classmate’s experience, of this course that you be prepared for cases. I WILL cold-call regularly, and lack of preparation will have a very serious impact on the participation component of your grade.

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

A course packet, which includes the cases on the syllabus, is required. In addition, you should download from Canvas the additional articles we will be discussing each class. To make printing easy for you, I have posted a large file with all of the articles merged into a single pdf document.

The textbook is The Economics of Strategy by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, Sixth Edition (BDSS on the reading list). I strongly recommend getting this text. Page references are also provided below for students with a copy of the fifth 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.

Assignments and Assessment

**Group case assignments (25%)**

During the first class, you will form 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 at the beginning of class. Please post them to Canvas.

- Grading will be based on familiarity with the case, originality, and clarity and depth of thought.

**BECAUSE OF THE TIMING OF THE MAKEUP CLASS, NO MEMO IS DUE ON PERFORMANCE INDICATOR. BE READY TO DISCUSS!!!!**
Exam (50%) – Monday June 11, 6-9 PM

Sample exam questions will be provided in advance of the exam.

Class participation (25%)

Your participation will be graded on quality, not volume. You should provide insights, observations, inferences, or conclusions that not only express your viewpoint, but also defend your analysis. 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 offer a counterpoint to a comment by one of your classmates. Counter-productive comments include opinions without a justifying argument, points that are outside the flow of the discussion, pure repetition of a 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 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.

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 – Monday April 9

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

Session 2 – Monday April 9

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

Session 3 – Wednesday April 11

• PERFORMANCE INDICATOR (HBS 9-702-480)

  NO MEMO IS DUE ON PERFORMANCE INDICATOR! BUT BE VERY READY TO DISCUSS!
Added Value

Session 4 – Wednesday April 11


Session 5 – Monday April 16

- 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 – Monday April 16

- 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 – Monday April 23

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

Session 8 – Monday April 23

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

Session 9 – Monday April 30

- BDSS, 296 - 308
  - 6th 302 - 327

Competitive Advantage: Sustainability

Session 10 – Monday April 30

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

Session 11 – Monday May 7

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

Session 12 – Monday May 7

- 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 – Monday May 14

- 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 – Monday May 14

• J. Miller, “Why Netflix Is Actually Aiming for More Cancellations,” Vanity Fair, June 1, 2017

Session 15 – Monday May 21

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

Session 16 – Monday May 21

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

Session 17 – Friday June 1

• I. Urbina, “In Gulf, It was Unclear Who Was in Charge of Rig,” New York Times, June 5, 2010
• V. O’Connell, “Diamond Industry Makeover Sends Fifth Avenue to Africa,” Wall Street Journal, October 26, 2009
• BDSS 90 – 122; 383 - 416
  o (6th) 98-127; 401 - 434

Firm Scope: The Boundaries of the Firm in Action

Session 18 – Friday June 1

• 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 – Monday June 4

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

Session 20 – Monday June 4

Exam will take place on Monday June 11, 6:00-9:00