A Few Words about Myself

Sarit is pronounced “Sa-rit.” I’m originally from Israel and fascinated by new technologies.

My research area is industrial organization. I study primarily markets with network effects and entrepreneurship. I’m interested in fintech markets and the blockchain technology and have developed a Fintech Strategy course that covers these markets. If you want to learn more about my research, reach out to me or see my home page.

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.

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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.
• **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.

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 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.

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

The required readings for the course are divided into two sets. One set of readings is in a required Study.net case packet. This includes most of the cases for the course and some background readings on conceptual articles. On the course schedule at the end of this syllabus, and in the preparation assignments on Canvas, these readings are indicated with the words “Study.net case packet.” (Once you have purchased this packet, you can access the readings online through the Canvas website, you can download or print them as PDFs.)

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.

A few of the “readings” for class are actually videos or audio recordings. You can stream these from the preparation assignment page or download the (large) video files from the Modules section of the course Canvas site.

Note that all the readings, videos, and audio recordings are required. We will discuss or refer to all of the readings during class, and you are expected to have read and thought about them before coming to class. The daily preparation assignments give you thought questions that will guide you to the most important issues in the readings.

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. The textbook is useful primarily 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.
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**: 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.

- **Extras and Updates**: In the Modules 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 (10%)**

During the quarter, there are 4 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.

**Individual case reflection assignments (15%)**

During the quarter, there are 3 cases for which you will be assigned to write a one-page response to a question that reflects back on class discussion. These assignments will be graded on a 1-5 points basis. The purpose of these questions is to have you think back about what you learned during the class case discussion and help you internalize the concepts we covered in class. The assignment is due few days after class—making sure the thoughts about the case discussion are still “fresh” in your head. As with the individual assignment, you will submit your assignments online through the course’s Canvas website.

**Group assignments (25%)**

There are two group assignments during the quarter, due before Week 3, Week 6, and Week 10. These assignments will be posted and submitted in the “Assignments” section of the Canvas site. You will be asked to submit a peer-review at the end of the quarter—assessing the contribution of all group members.

**Final Exam (35%)**
The final exam will be during the Kellogg-specified exam period. The exam is a two-hour exam. More detailed information about the content and format of the exam will become available as its date approaches.

**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, 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.

**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 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. **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 Modules 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.

### Contact information

**Contact information:** You can reach me by email at s-markovich@kellogg.northwestern.edu. I am also happy to meet with you during office hours or by appointment.

### Classroom Etiquette

Students are expected to respect Kellogg’s Code of Student Etiquette at all times. Class will start on time. Make sure you enter the Zoom meeting few minutes before class starts. **Excessive tardiness will lower your class participation grade.**

### 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.

### Exam

You may study for the exam with others. However, once the exam has begun, you should have absolutely no communication about the exam with anyone inside or outside the class.

### 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.

### On Flexibility

At the time of writing of this syllabus, many things are up-in-the air with respect to the exact format of how we will teach in the age of coronavirus, and of course even what we think is decided could get over-turned by events. So, while I will stick as much as possible to the broad outlines on things like gradings and expectations, I reserve the right to make change as circumstances merit.

More importantly, I think it is important to realize that all of us are figuring out how to do this. As we learn what works and what does not, we will adjust! Indeed, a key theme of this course is that strategy is too complicated for there ever to be a “complete plan” of how things will work. Instead, things are necessarily dynamic, unfolding with circumstance. That couldn’t be more true than today.

### 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.

### Norms for Remote Classes

**Accessing classes:** you can access class meetings via the Zoom tab on Canvas.

Please read the Zoom guidelines file posted on Canvas carefully. Few highlights:

- **Slides and handouts:** There will be slides and sometimes in-class exercises for you to refer to during class. They will be available in the Modules section of the Canvas site under the relevant session. Please download them to your tablet, print them, or otherwise **make sure you can access them during class**.
• **Video:** You are required to have your video camera on when you are in class in order to enhance everyone’s communication. The only exception is if you have technical issues such as insufficient internet connection.

• **Chat:** During class, you will **not be able to send global chat messages.** You should also not send me private chats since I will not check them as I am conducting class. If you need send me a **message during class, do it through our VCM.**

• **Digital hand raise:** Use the digital **"hand raise” function in the participant window** to volunteer to answer a question, or to ask a question. Both our VCM and I will monitor digital hand raises to see when questions arise. I prefer content questions to come this way rather than as a private message to Henrique but you can also always send questions via a private message to Henrique. I will regularly pause to ask for questions. Please put your hand down if your question has been answered, or if someone makes the same comment as you intended to make. I may also use the yes/no response in the participant window.

• **Use the “clap” action if you have an immediate response to another question.** This will let me know that you want to directly build on a previous comment.

• **Cold call:** I will be cold-calling for answers to some questions and asking for volunteers for others. **Cold calls are randomized** using a list I generate before class.

• **Mute:** Please keep your microphone **on mute unless you are talking.** With so many participants, we need to minimize background noises as much as possible.

**Your learning environment:** I know that you will be taking the course in a variety of different real-world settings. Outside life will sometimes intrude – a child crying, a dog barking, and so on. This is absolutely fine! To the extent possible, however, you should try to replicate an “in-class” learning environment: minimize distractions in your learning space, avoid checking your email during class, and close other tabs on your computer. I recommend wearing a headset with a microphone, rather than relying on your computer’s build-in equipment.

### 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>Performance Indicator case assignment (individual)</td>
<td>Saturday, September 26th</td>
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<tr>
<td>Joint venture negotiation assignment (group)</td>
<td>Thursday, October 1st at 9am</td>
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<tr>
<td>Intel case assignment (individual reflection)</td>
<td>Friday, October 3rd at 9am</td>
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<tr>
<td>Global aircraft industry case assignment (individual reflection)</td>
<td>Tuesday, October 20th at 9am</td>
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<tr>
<td>Enterprise case assignment (individual)</td>
<td>Saturday, October 24th at 9am</td>
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<tr>
<td>E-cigarette market (group)</td>
<td>Saturday, October 30th at 9am</td>
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<tr>
<td>Nucor case assignment (individual reflection)</td>
<td>Tuesday, November 10th at 9am</td>
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<tr>
<td>AB InBev case assignment (individual)</td>
<td>Saturday, November 14th at 9am</td>
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<tr>
<td>Starbucks case assignment (individual)</td>
<td>Saturday, November 21st at 9am</td>
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<tr>
<td>Diamond industry (group)</td>
<td>Saturday, November 21st at 9am</td>
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<tr>
<td><strong>Final Exam</strong></td>
<td><strong>Open window: December 4-8th, 2 hours long</strong></td>
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Schedule of Course Readings

Value Creation and Capture

1. **Week 1 (Saturday, September 19th)**
   - An introduction to strategy
     - Optional: “Note on Benefits and Costs,” *Kellogg Technical Note* (*This note, available on Canvas, reviews some fundamental concepts of microeconomics.*)
     - Optional: “Note on Market Equilibrium,” *Kellogg Technical Note*
   - 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

2. **Week 2 (Saturday, September 26th)**

   Value creation and capture
   - PERFORMANCE INDICATOR (HBS 9-702-480) (*Study.net packet*)
### Added Value and Irreplaceability

3. **Week 3 (Saturday, October 3rd)**

   **Added value**

   **Added value in the smartphone industry**

   **Added value in cable television**

   - Case: INTEL (*Study.net packet*)

### Industry Profitability

4. **Week 4 (Saturday, October 10th)**

   **Industry analysis**

   **Rivalry**

   **Entry barriers**

   **Substitutes**

   **Supplier power**

   **Buyer power**


5. **Week 5 (Saturday, October 17th)**

   **Industry analysis of Linear Technology**
Global Aircraft Manufacturing
• THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (*Study.net case packet*)
• N. Kitroeff and D. Gelles, “Claims of Shoddy Production Draw Scrutiny to a Second Boeing Jet,” *New York Times*, April 20, 2019. **SKIM ONLY, you will have the basic idea in a couple pages.**

Midterm Review
• Go over sample midterm and come prepared to answer the questions in the exam

Reading for Group Assignment (due next week)

Competitive Advantage: Sources

6. Week 6 (Saturday, October 24th)

   **Assets, activities, advantage**

   **Cost- and benefit-based competitive advantage**

   **Niche-based competitive advantage**

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

   **Optional:** Besanko, Dranove, Shanley, and Schaefer, pp. 301-327, 177-180.

Competitive Advantage: Sustainability

7. Week 7 (Saturday, October 31st)

   **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

Strategy and change
- 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.)

The evolution of Amazon’s Competitive advantage

8. Week 8 (Saturday, November 7th)
- NUCOR AT A CROSSROADS (HBS 9-793-039) (Study.net case packet)

Boundaries of the Firm

Coordination and synergies

Challenges to coordination

9. Week 9 (Saturday, November 14th)

Incentive and information costs of coordination

Foreclosure and the mark-up fallacy
• Case: EVALUATING VERTICAL INTEGRATION AT AB INBEV ACROSS THE GLOBE (Kellogg 5-118-002)

Reading for Group Assignment (due next week)

10. Week 10 (Saturday, November 21st)

Strategy and Growth

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

Wrap-up/Summary

Final Exam: During Exam Week