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.

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.
• **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. 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. In particular, a business exists to generate wealth for its owners. To that end, 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, 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 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?
- 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 a case discussion means more than just reading the case. Each case assignment will include several preparation questions, as well as a written assignment that will help you articulate some of your thinking about the case in advance of the discussion. I encourage you to review the questions before reading the case, and make some notes after reading the case in order to be prepared for class.

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?"

Much of our time in class will also be spent in discussing articles that describe current strategy issues facing companies in a variety of industries and countries. You are expected to have read and to be prepared to discuss these articles, although there will not be explicit preparation questions provided for these. As you read the articles, you should think about how the conceptual tools that are the topic of the day are useful for understanding the issue described in the article.

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, is required and can be accessed via the course Canvas site. In addition, there is be a PDF document posted on the Home section of the course Canvas site which contains the rest of the required readings that we will be discussing in class, mostly popular press articles.¹

A few of the “readings” for class are actually videos or audios. You can find these in the Modules section of the course Canvas site.

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 group case assignments, the individual case assignments, and the preparation questions for each case. These will be in the “Assignments” section of the Canvas site. You will also submit your assignments through this section of the website.

- **Slides and handouts from class:** Class slides will be posted to Canvas at least 1 hour before class 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 “EXTRA” or “UPDATE” are optional reading. The UPDATES give further information about companies or issues we have discussed in class. EXTRAs 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 6 cases for which you will be assigned to write a one-page response to a preparation question. These case assignments will be graded on a credit/no-credit basis. Together these six case assignments will account for 15% of your final grade. You will submit your assignments online through Canvas.

**Group assignments (30%)**

There are three group assignments during the quarter, due before Week 3, Week 5, and Week 10. These assignments will be posted and submitted in the “Assignments” section of the Canvas site. Each will account for 10% 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. Both types of assignments should be uploaded via the “Assignments” section of Canvas. For the group assignment, please be sure that the name of each of the group members is on the assignment.

**Final Exam (40%)**

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 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 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 handed out 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 miss class or are late more than once, 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 to 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. 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. The purpose of the individual strategy analysis is to get you into the habit of doing this. Another good way to practice is by using the EXTRAs posted on 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.
5. **Consider studying with a group.** Some people find it helpful to study and discuss things with a group, some don't. You are looking 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.

### Classroom Etiquette

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

- **Electronics.** You may not use laptops, mobile phones, or related devices in class unless directed to do so. Violation of the digital workflow and electronics policies will impact your class participation grade. It is distracting to your classmates to sit beside or behind you while you surf, text, or game.

- **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 one week, it will lower your class participation grade.**

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 case 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 case assignments. The group should not consult the Internet, friends at other business schools, or people who have taken the course already.

### 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.

**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.
Schedule of Course Readings

Value Creation and Capture

1. Week 1 (Saturday, September 24th)
   - “Note on Market Equilibrium,” Kellogg Technical Note
   - J. Jargon, “McDonald’s Set to Offer All-day Breakfast,” Wall Street Journal, September 1, 2015.
   - Video: Ashish Thakkar interview, CNN African Voices (Video available on Canvas)

2. Week 2 (Saturday, October 1st)
   - PERFORMANCE INDICATOR (HBS 9-702-480) (Study.net packet)
   - MAERSK LINE AND THE FUTURE OF CONTAINER SHIPPER (HBS 9-712-449) (Study.net packet)

Added Value and Irreplaceability

3. Week 3 (Saturday, October 8th)
   - Added Value in the Cell Phone Industry
   - Added Value in the Television and Online Streaming Industry
     - “The Early Personal Computer Market in the United States,” Kellogg Technical Note
     - INTEL CORP. - 1968-1997 (HBS 9-797-137) (Study.net packet)
Industry Profitability

4. Week 4 (Saturday, October 15th)

5. Week 5 (Saturday, October 22nd)
   - THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (Study.net packet)
   - Video: Boeing 787, USA Today (Video available on Canvas)
   - Midterm Review

Competitive Advantage: Sources

6. Week 6 (Saturday, October 29th)
   - ENTERPRISE RENT-A-CAR (Kellogg 5-311-508) (Study.net packet)
Competitive Advantage: Sustainability

7. Week 7 (Saturday, November 5th)

- Audio: D. Charles, “In Haiti, Aid Groups Squabble Over Rival Peanut Butter Factories,” NPR, October 5, 2012. (Available at http://www.npr.org/blogs/thesalt/2012/10/05/161954259/in-haiti-aid-groups-squabble-over-rival-peanut-butter-factories; link also available on Canvas.)
- Podcast of Episode 403 “NUMMI” by the radio program This American Life. Available at http://www.thisamericanlife.org/radio-archives/episode/403/nummi (link available on Canvas), or by going to www.thisamericanlife.org and searching the archive for “NUMMI.” You can listen to it streaming for free or download it from iTunes or Amazon for $0.99. (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.)

- Optional: Besanko, Dranove, Shanley, and Schaefer, pp. 77-81, 363-394.

8. Week 8 (Saturday, November 12th)

- NUCOR AT A CROSSROADS (HBS 9-793-039) (Study.net packet)

Boundaries of the Firm


9. Week 9 (Saturday, November 19th)

- COLA WARS CONTINUE: COKE AND PEPSI IN 2010 (HBS 711462) (Study.net packet)

10. Week 10 (Saturday, December 3rd)

**Strategy and Growth**

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

**Wrap-up/Summary**

**Exam Period: Final Exam**