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 a firm do to cut costs? And finally, what can a firm 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.

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 need to consider the world of 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 a certain firms in particular contexts. 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 to understand conceptually difficult material. Instead, the course will focus on learning how to apply simple—but powerful—ideas to specific situations. This involves three primary skills:

- **Diagnosis.** Can you identify the salient details of a situation and understand the strategic significance and implications presented? The goal is to pick out the salient points from the facts and to use economic frameworks to understand the significance of those details.
• *Creativity.* One theme of the course is that you cannot outperform competitors by doing the same things they are doing. Finding new approaches and new ways to approach a situation 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 (i.e., a more systematic, logical, complete, critical) thinker about strategy. You should not expect to learn 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 specific analytical tools. Instead, the aim of the course is to provide 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 fit into understanding 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 reasoning 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 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 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?
• Growth – How should a firm negotiate the pressures that growth places on a successful strategy?

**Teaching approach**

Because the aim of the course is 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. I suggest reviewing the questions before reading the case.

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?”

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 work, 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 course packet, which includes the cases on the syllabus, is required. This course packet is available from the following link: https://www.study.net/kellogg/.

In addition to the study.net course packet, this course also relies on a large number of readings from the popular press that are mandatory. These readings are available in two formats that will provide identical readings:

1) An additional reading packet available for download from the Canvas website. This packet contains all of the readings for which you have purchased copyrights using your student fees.

2) You also have the option of downloading the article one-by-one directly from the library using the “Course Reserves” section of the Canvas website.

The recommended but optional textbook is The Economics of Strategy by David Besanko, David Dranove, Mark Shanley and Scott Schaefer, Sixth Edition (BDSS on the reading list). I have also included the relevant page numbers for the Fifth Edition in parentheses. This book is particularly useful for individuals who have little background in economics or would like to refresh their knowledge in that area.

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

- **Course announcements**: I will use the Canvas site to post course-related announcements and reminders. As a result, you should check the site regularly. If there is something critical to which I need to draw your attention, I will also email you.

- **Assignments**: The website will contain the group case assignments, the individual case assignments, and the preparation questions 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. These will also be posted to the “Modules” section of Canvas.

• **Extras and Updates:** I will also post in the “Modules” section of the Canvas site items related to our class discussion. These items, labeled “EXTRA” or “UPDATE” are optional readings. 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

**Group Assignments (5%)**
You have been randomly assigned to a study group. Your assignment is available on the Canvas website. There are three group assignments for this course.

During the second week of the course, you will complete an added value negotiation exercise with your group members that has two components. Each member of the group has been assigned a role Firm A, B, or C. For groups with more than three people, two people have been assigned the same firm role and should coordinate during the exercise. All three components of the assignment (CF Industries, Added Value Group Case, Added Value Group Case Debriefing) will be due on Saturday, April 14 at 9am. The components of this exercise are worth 6 points together and will be grade on a credit/no-credit basis.

**Individual case assignments (15%)**
For the case readings in this course you are expected to turn in seven individual case assignments. Assignments will be posted on the Assignments tab of Canvas. You may discuss these assignments with members of your group, or with others in the course, but the final write up should be your own.
Exam 1 (25%) – Saturday, May 5th
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 class on Saturday, May 5th. More detailed information about the content and format of the exam will become available as its date approaches.

Exam 2 (35%)—Saturday, June 16th
The second exam will be during the Kellogg-specified exam period. The exam will have a similar format to Exam 1.

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

Class participation (20%)
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 class discussion does not collapse to a handful of students.

In order to assist in preparation for discussion, for each session I will post some preparation questions. These are posted to the “Assignments” section of the Canvas website. Some of these questions require online responses while others require you to carefully consider what you have read for class that day. **At a minimum, everyone in class should be prepared to answer all of the discussion questions handed out in advance.** The purpose of these questions is to prepare you for the material we will cover in class.

**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.” In addition, your participation in class is a key component of the learning for all students, and therefore missing class creates a negative externality. Similarly, entering the class late is disruptive and creates a negative externality for your classmates. As a result, you should make every effort not to miss or be late to your class section. **If you miss your class section or are late to your section more than twice, it will begin to lower your class participation grade.** 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 classmate 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. **You do not need to inform me that you will be missing class.**
Students sometimes request to attend another section of STRT 431 that I teach. While this is a good option because it will allow you to participate in learning, it does not replace your potential contributions to your section (which is a positive externality that we all value). Therefore, if there is space I will allow students to attend my other section but **this will not count towards attendance in your original section. Excessive absences will affect your final grade.**

### Exam and Graded Assignments Due Dates

<table>
<thead>
<tr>
<th>Assignment</th>
<th>Due Date and Time</th>
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<tbody>
<tr>
<td>CF Industries Assignment</td>
<td>Session 2: Saturday, April 14 at 9am</td>
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<tr>
<td>Added Value Group Case Assignment</td>
<td>Session 2: Saturday, April 14 at 9am</td>
</tr>
<tr>
<td>Added Value Group Case Debrief Assignment</td>
<td>Session 2: Saturday, April 14 at 9am</td>
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<tr>
<td>Intel Individual Assignment</td>
<td>Session 3: Saturday, April 21 at 9am</td>
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<tr>
<td>Global Aircraft Industry Individual Assignment</td>
<td>Session 4: Saturday, April 28 at 9am</td>
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<tr>
<td>EXAM #1</td>
<td><strong>Session 5: In class on Saturday, May 5 at 9am</strong></td>
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<tr>
<td>Enterprise Individual Assignment</td>
<td>Session 6: Saturday, May 12 at 9am</td>
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<tr>
<td>NUCOR OR IBM Individual Assignment</td>
<td>Week 7: Saturday, May 19 at 9am</td>
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<tr>
<td>Coke and Pepsi Individual Assignment</td>
<td>Week 8: Saturday, May 26 at 9am</td>
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<tr>
<td>Disney Individual Assignment</td>
<td>Week 9: Saturday, June 2 at 9am</td>
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<tr>
<td>Starbucks Individual Assignment</td>
<td>Week 10: Saturday, June 9 at 9am</td>
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<tr>
<td>EXAM #2</td>
<td><strong>Saturday, June 16</strong></td>
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<td><strong>Time and location will be announced once class has begun</strong></td>
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Page 6 of 15
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, 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, but 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, and evaluating 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-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. A particularly 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 protracted arguments. 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

You can reach me by email at amanda.starc@kellogg.northwestern.edu. I am also available in Evanston by appointment. If I cannot accommodate your requested time, I will propose a new one. Please email me with other questions. **By far, the most effective way to reach me is by email.**
Classroom Etiquette

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

- **No electronics** (except for assistive technologies with appropriate accommodation notification). All of the STRT 431 sections maintain a **strict no electronics policy. This includes tablets and laptops.** We came to this decision for a variety of reasons. Recent research has consistently shown that students retain less material when they take notes on a laptop. Some of this research has shown that this poor performance extends to students sitting near the electronic devices as these neighboring students are inevitably distracted by the electronics user’s “multi-tasking.” I’ve placed some articles summarizing this research along with the original research articles on the course Canvas website. Given the negative direct effects and externalities, the STRT 431 faculty have decided to ban all electronics. I will view any violation of this policy very seriously and it will meaningfully impact your class participation grade. Class PowerPoints will be posted on the course website prior to class and I will also have hard copies available in the classroom.

- **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 begin to reduce your class participation grade and excessive absences or lateness will affect your final grade.** This also applies to having to leave class early. In the interests of equity for those who are marked absent for arriving late, you also will be marked absent if you must leave class early. In order to minimize disruption, if you must leave early please take a seat near the back door of the classroom if possible.

- **Seating chart.** Your assigned seat for the semester will be the seat you choose for the second class session on Saturday, April 14th. I use assigned seats to help me keep track of class discussion, and also to have a place to direct prospective students to sit.

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

Additional guidance 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.

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1 Any student requesting accommodations related to a disability or other condition is required to register with AccessibleNU (847-467-5530) and provide professors with an accommodation notification from AccessibleNU, preferably within the first two weeks of class. All information will remain confidential.
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.

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 page of notes, not an electronic file.
Schedule of Course Readings

Value Creation and Capture

Session 1: April 7

- “Note on Benefits and Costs,” Kellogg Technical Note
- “Note on Market Equilibrium,” Kellogg Technical Note

What is Strategy? Trade-offs

What is Strategy? Context
- Video: Ashish Thakkar interview, CNN African Voices (Video available on Canvas)

Session 2: April 14

- CF INDUSTRIES (This will be available on Canvas)

Value Creation and Capture in the Digital Economy

Added Value and Irreplaceability


Added Value in the Cell Phone Industry

Added Value in the Cable Television and Online Streaming Industry

Optional: Besanko, Dranove, Shanley, and Schaefer, pp. 77-82, 264-266 (5th: 333-335).

Session 3: April 21
- INTEL CORP. (Kellogg) (will be posted on Canvas)

Industry Profitability


Industry Profitability: Rivalry

Industry Profitability: Entry

Industry Profitability: Substitutes

Session 4: April 28

Industry Profitability: Supplier Power

Industry Profitability: Buyer Power

The Economics of the E-Cigarette Industry
- THE GLOBAL AIRCRAFT MANUFACTURING INDUSTRY (Kellogg 5-312-505) (Study.net packet)

Exam 1 will be taken in class on Saturday, May 5th.
The exam will begin promptly at 9:00. 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

Session 5: May 5 (Cont’d)

Assets and Activities Create Advantage

Cost- and Benefit-Based Competitive Advantage

Differentiation
- The Miracle Apple: http://www.npr.org/sections/money/2015/05/27/410085320/episode-627-the-miracle-apple
• **Optional**: Besanko, Dranove, Shanley, and Schaefer, pp. 177-180, 302-327 (5th: 218-221, 373-397; 400-407).

Session 6: May 12

• **ENTERPRISE RENT-A-CAR** (Kellogg 5-311-508) ([Study.net packet](#))

**Competitive Advantage: Sustainability**

*Sustaining Competitive Advantage: Heterogeneity*

*Sustaining Competitive Advantage: Imitation*

*Sustaining Competitive Advantage: Appropriability*

*Sustaining Competitive Advantage: Foresight*


Session 7: May 19

**The Evolution of Amazon’s Competitive Advantage**

**Managing Change Within a Firm**
- 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.)

• **NUCOR AT A CROSSROADS** (HBS 9-793-039) ([Study.net packet](#))
Boundaries of the Firm

Session 8: May 26


Coordination and Synergies


The Costs of Coordination


Optional:
- THE WALT DISNEY CO.: THE ENTERTAINMENT KING (HBS 9-701-035) (Study.net packet)

Session 9: June 2

Transaction Costs: Incentives and Information


Transaction Costs: Opportunism


The Markup Fallacy


Optional:

The Carbonated Soft Drink Industry

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

**Strategy and Growth**

**Session 10: June 9**

*Wal-Mart*
• Video: Food Supply Chain in India (*Available on Canvas*)

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

**Wrap-up/Summary**

*Exam 2 will be taken on Saturday, June 16 at 8:30am*

*Room location for Exam 2 will be announced once the class has begun.*