MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Syllabus
15.900: Strategic Management, Section C
Spring 2010

Instructor
Christopher Wheat

I. INTRODUCTION

To be effective, business leaders must understand the factors responsible for their firm’s past performance and be able to identify those changes (inside or outside the firm) that are most likely to help or hurt future performance. In this course, we introduce a wide variety of modern strategy frameworks and methodologies in order to help you develop the skills needed to be a successful manager with responsibility for the performance of a firm or business unit within a firm. We use cases and readings to explore a wide range of strategic problems, focusing particularly on the sources of competitive advantage and the interaction between industry structure and organizational capabilities.

This course is distinctive in emphasizing the perspective of the general manager in ensuring the firm’s success. The general manager’s role is unique in that he or she must be attuned to both the external (market) and internal (organizational) forces that shape firm performance. For this reason, general managers must have a deep understanding not only of economic processes outside the firm but also of managerial processes inside the firm. Even the best business plan is ‘no better than the PowerPoint Slides it is presented on’ unless it is married with appropriate organizational strategies that allow the firm to execute on that plan. With this in mind, this course builds upon and integrates material from core course in Economics (15.010) and Organizational Processes (15.311). The course is also the foundation (and a formal pre/co-requisite) for such advanced courses as Technology Strategy (15.912).

II. COURSE OBJECTIVES

The objectives for the course are as follows:

• Developing and reinforcing a general management perspective

• Understanding the fundamental concepts in strategic management: industry analysis, strategy identification and evaluation, the relationship of strategy and organization, competitor analysis, firm and industry evolution, strategic and organizational responses to external changes, corporate strategy (diversification strategy and managing the multi-business enterprise), and international strategy.

• Integrating knowledge gained in previous and concurrent core and “semi-core” courses with a focus on understanding what part of that knowledge is most useful to general managers.
• Developing an awareness of the dynamic impact of strategic actions by the firm and its rivals on business and corporate strategy and the industry.

• Developing habits of orderly, analytical thinking and skill in reporting conclusions effectively and persuasively in written and oral form.

III. REQUIRED READINGS AND HOW TO OBTAIN THEM

The readings that are required for each class are given in section VIII of this document. The main reading will typically be a business case. The study questions to be used for preparing the case are given in section IX. These cases are typically accompanied by a selection from another reading. The course packet, which is available from Graphic Arts, includes all the accompanying readings.

IV. GRADING AND REQUIREMENTS

The class will be graded as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class participation</td>
<td>35%</td>
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<td>Case Memos</td>
<td>15%</td>
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<td>Midterm</td>
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<td>Final exam</td>
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a. Class Participation

The goal of class discussion is to arrive at a collective analysis of the issues presented by the day’s materials. Strategic analysis is not accomplished through the routine application of formulas, but rather through reasoned analysis under conditions of limited information and uncertainty. One of the primary goals of this course is to help you develop the ability both to clarify your own position on a strategic question and to be able to articulate and defend it clearly.

You should be prepared for every class. If for some reason you are not prepared, please let your instructor or TA know before the start of class. This saves us both the embarrassment of our calling on you. We may open the class by asking someone to summarize the readings or cases briefly, or answer a short question. With a reading, you should be able to outline the problem that the article addresses, describe the core points of the reading, and, most importantly, offer your analysis of the strengths and weaknesses of the reading’s central argument. With a case, you should be able to identify the key issues, problems, and opportunities facing the central protagonists, to articulate and evaluate alternative approaches to the problems, and to describe the course of action that you recommend and the reasons for your recommendations.

If you happen to have information from outside the case materials, please do not introduce it in the discussion without prior discussion with the instructor. The point of the case discussion is to adopt the perspective of the decision makers at the time of the case, and adding extra information shifts the discussion away from the issues we need to emphasize in the case. On the other hand, if you are particularly knowledgeable about a case, a firm or an industry we discuss, please let the instructor know so that your insights can be eventually brought to bear in the discussion.

Since every student is a co-producer of the class discussion, it is important that every class member listens carefully to one another and attempts to build on or constructively critique prior comments.
Try to resist the temptation to jump to topics that are not specifically open for discussion. Some of the specific things that have an impact on effective class participation and on which you will be graded include:

- Is the participant a good listener?
- Are the points made relevant to the discussion? Are they linked to the comments of others and to the themes that the class is exploring together?
- Does the speaker sustain a line of argument or point of view through a significant part of the class session, or is it an isolated comment?
- Do the comments/questions add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem?
- Is there a willingness to challenge the ideas that are being expressed?
- Is there a willingness to test new ideas, or are the comments “safe” (such as repetition of case facts without analysis or conclusions, or of a comment already made by someone)
- Does the participant integrate material from past classes or the readings where appropriate? Do the comments reflect cumulative learning over the course, or does the participant merely consider each case in isolation?

b. Case memos

The study questions in section IX should guide preparation for each class. Every other session, groups of students must submit a two-page memorandum of analysis and recommendations. This memorandum should focus on the study question that appears in bold for that session. The groups should have 3-4 members and the work should reflect the thinking of everyone on the team (hint: everyone should be prepared to defend his or her answer in class). Each memorandum should be typed and double-spaced, 12 point font with one-inch margins. The two-page limit is for text only. You may attach as many numerical calculations or diagrams as you wish.

Memoranda should be uploaded to the homework folder for your class by 5:00 PM of the calendar day that immediately precedes the class session.

A memorandum will be given full credit if it is handed in on time and no credit if it is not. Initially, therefore, we will not grade them. However, we will use the memoranda to determine final grades for those students who are on the border between grades (i.e. between A and B etc). No memos will be due during the first and final week of class.

c. Mid-Term

The mid-term is scheduled for Tuesday, April 6. It will cover the material learned up to this point. It will be an in-class closed-book exam consisting of short answer and medium length case-like questions. Further details on the format of the mid-term will be made as the exam approaches.

d. Final Exam

A few days in advance of the final exam date, you will be given a case to take home and read, but you will not receive any questions. You can write individually all over the case itself your notes with tables, calculations, etc. No group collaboration or use of outside information is allowed in
preparing for the exam. You will receive the case questions at the beginning of the exam. You will be able to use your marked copy of the case to answer the questions.

The MIT registrar assigns the course its final exam date and rooms. Details on the scheduling and content of the final exam will be available after spring break. Do not make travel plans before you know the exam schedule; do not leave town before the exam.

V. PROFESSIONAL CONDUCT

As a member of the MIT Sloan academic community, the highest standards of academic behavior are expected of you. It is your responsibility to make yourself aware of the standards and adhere to them. These standards are discussed below, specifically regarding plagiarism, individual work, and team work.

This discussion of academic honesty is not exhaustive, and there may be areas that remain unclear to you. If you are unsure whether some particular course of action is proper, it is your responsibility to consult with your professor and/or teaching assistant for clarification.

When students are found to have violated academic standards, disciplinary action will result. Possible consequences include grade reduction, an F grade, a transcript notation, delay of graduation, or expulsion from MIT Sloan.

Plagiarism

Plagiarism occurs when you use another's intellectual property (words or ideas) and do not acknowledge that you have done so. Plagiarism is a very serious offense. If it is found that you have plagiarized -- deliberately or inadvertently -- you will face serious consequences, as indicated above.

The best way to avoid plagiarism is to cite your sources - both within the body of your assignment and in a bibliography of sources you used at the end of your document.

Internet Research

Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material. Lack of such citation constitutes plagiarism.

These definitions were drawn from the MIT Libraries website. For more information please visit: http://libraries.mit.edu/tutorials/general/plagiarism.html

Individual Assignments

When you are asked to do individual work, you are expected to adhere to the following standards:

- Do not copy all or part of another student’s work (with or without “permission”).
- Do not allow another student to copy your work.
- Do not ask another person to write all or part of an assignment for you.
- Do not work together with another student in order to answer a question, or solve a problem, or write a computer program jointly.
• Do not consult or submit work (in whole or in part) that has been completed by other students in this or previous years for the same or substantially the same assignment.
• Do not use print or internet materials directly related to a case/problem set unless explicitly authorized by the instructor.
• Do not use print or internet materials without explicit quotation and/or citation.
• Do not submit the same, or similar, piece of work for two or more subjects without the explicit approval of the two or more instructors involved.

Please note that many classes will require a combination of team work and individual work. Be sure that you follow all the guidelines for individual work when a faculty member identifies an assignment as an individual one.

Team Assignments

In this course, the primary form of teamwork is in the form of the weekly case memos (see below). When you are asked to work in teams, there is a broad spectrum of faculty expectations, as laid out in the Sloan document on Academic Standards. The team assignments in 15.900 fall under the heading of “Type 3 collaboration” as outlined in that document: collaboration is expected and each team member must contribute substantially to the deliverable.

• Each team member must make a substantial contribution to the assignment. It is not, for example, acceptable to divide the assignments amongst the team members (e.g., one person does one case and another does the next), though the team may divide the work of any one assignment to complete it as they deem appropriate.
• The team may not collaborate with other students outside of the team.

If there is any question about the rules for a particular assignment the student should check with the instructor.

Sloan Professional Standards

MIT Sloan’s Professional Standards provide a guideline for professional behavior by students, and faculty inside the classroom. The MIT Sloan School is committed to creating an environment in which every individual can work and study in a culture of mutual respect. When making individual decisions we must keep in mind the interests of the many other stakeholders.

Consistent with the general goal of mutual respect, faculty, students, and staff are reminded to demonstrate:

Attending the class. Each class benefits from the attendance and participation of all students. Your grade for participation will be affected by absences. You should sit in the assigned seat, if relevant, and display a legible name card at all times.

Arriving on time. Late arrivals are disruptive to both lectures and class discussion, and show disrespect to those who are on time. Class starts 5 minutes after the hour or half-hour.
Minimizing disruptions. All cell phones and pagers should be turned off during class. You should not leave and re-enter the class. You should avoid engaging in side conversations after class has begun.

Focusing on the class. Laptops and other electronic devices should be turned off during class.

Being prepared for class. You should be ready to discuss any assigned readings and to answer any assigned questions for each day's class, including being ready to open a case assigned for that day.

Respect. You should act respectfully toward all class participants.

Prepare using only class materials. Before a case is analyzed in class, you should neither read an analysis of the cases nor discuss it with students who have previously discussed it in class (either in a previous year or in a different course or section). Similarly, you should not share the notes handed in class with another student who may take the course at some later time. If you are in violation of this policy, or know of someone who is, please discuss it with the professor.

These points offer specific illustrative examples to encourage broader reflection of each individual’s impact on the MIT Sloan community. For more guidance on these standards, please contact the MBA Student Affairs Office in E52-101 (253-5049), or the MIT Sloan Professional Standards Committee.

Upholding these expectations and the standards upon which they are based is a shared right and responsibility for all faculty, students and staff at the MIT Sloan School. As a learning and professional community, we seek and deserve no less.

VI. STUDY GROUPS

We strongly encourage you to meet regularly in a study group to discuss each case before class meets, even when you are not writing a case memo. Working in groups will give you a chance to learn from your colleagues. It also provides an opportunity to discuss your ideas in a setting approximating the management teams typically charged with these tasks.

VII. TEACHING ASSISTANCE AND HELP SESSIONS

The teaching assistant is available to conduct individual or group “help” sessions on an occasional basis for any students who might find them useful. You should also feel free either to approach the teaching assistant or to make an appointment to see your professor if you have any questions regarding the course or the material.
VIII. SCHEDULE OF SESSIONS AND READINGS

Section I. Introduction

Class 1:
Tuesday, February 2
Introduction: Setting the Stage
Case: Big Cellphone Makers Shifting to Android System, New York Times, October 2009

Section II. Industry Structure and the Environment

Class 2:
Thursday, February 4
Industry Analysis Basics I: The Five Forces/PIE Analysis
Case: Rockwell International (A) (HBS 9-383-019)

Class 3:
Tuesday, February 9
Industry Analysis Basics II: Value Chain
Case: Cola Wars Continue: Coke and Pepsi in the Twenty-First Century (HBS 9-702-442)

Class 4:
Thursday, February 11
Transition: From Industry Analysis to…
Case: Matching Dell (9-799-158)
Readings:
Economic Perspectives on PIE & 4 Slices Memo (to be distributed in class)

Section III. Firm-Level Strategy

Class 5:
Thursday, February 18
The Strategy of the Firm
Case: Matching Dell (9-799-158)
Reading:

Class 6:
Tuesday, February 23
Types of Competitive Advantage, I: Low-Cost
Case: Airborne Express (A) (HBS 9-798-070)
Class 7: Thursday, February 25  
**Types of Competitive Advantage, II: Vertical Differentiation**  
Case: Husky Injection Molding Systems (HBS 9-799-157)  

Class 8: Tuesday, March 2  
**Sources of Competitive Advantage: Positional Advantage**  
Case: Mark Twain Bancshares, Inc. (HBS 9-385-178)  

Section IV. Strategic Dynamics

Class 9: Thursday, March 4  
**Competitive Dynamics I: Price Competition**  
Case: Ventures in Salt: Compass Minerals International  
Readings: Garicano, Luis and Robert Gertner, “The Dynamics of Price Competition”

Class 10: Tuesday, March 9  
**Competitive Dynamics II: Price Competition and Volatility**  
Case: Samsung Electronics' Semiconductor Division (A) (HBS IB24A)  

Class 11: Thursday, March 11  
**Entry Dynamics, I: Judo Strategy**  
Case: Ryan Air (A)  
In-class case: Ryan Air (B)  
In-class case: Ryan Air (C)  

March 15-26  
**No Class (Sloan Innovation Period/Spring Break)**
Class 12:  
**Market Dynamics and Wars of Attrition**  
Tuesday, March 30  
Case: British Satellite Broadcasting vs. Sky Television (HBS 9-794-031)  
Assignment: Spreadsheet Exercise  
Readings:  
Chevalier, Judy: “When it Can be Good to Burn your Boat”

Class 13:  
**Midterm Review**  
Thursday, April 1

Class 14:  
**Midterm**  
Tuesday, April 6

**Section V. Technology Strategy/Industry Evolution**

Class 15:  
**Capturing Value from Innovation**  
Thursday, April 8  
Cases: EMI and the CT Scanner (A) (HBS 9-383-194)  
EMI and the CT Scanner (B) (HBS 9-383-195)  

Class 16:  
**Competing Down the Learning Curve**  
Tuesday, April 13  
Case: Sunpower : Focused on the Future of Solar Power  
Reading:  

Class 17:  
**Setting a (Profitable) Standard, I**  
Thursday, April 15  
Case: Sony’s Battle for Video Game Supremacy  
Assignment: Simulation Exercise  
Reading:  

April 19-20  
**No Class (Patriot’s Day/Student Holiday)**

Class 18:  
**Setting a (Profitable) Standard, II**  
Thursday, April 22  
Case: Sony’s Battle for Video Game Supremacy
Section VI. Corporate Strategy

Class 19: Synergies
Tuesday, April 27
Case: The Walt Disney Co.: The Entertainment King (HBS 9-701-035)

Reading:

Class 20: Organization Design, I: Coordination
Thursday, April 29
Case: Johnson & Johnson: Hospital Services

Reading:

Class 21: Organization Design, II: Control
Tuesday, May 4
Case: Random House
Reading:

Class 22: Entering International Markets
Thursday, May 6
Case: Novo Industri 5-794-123

Reading:

Class 23: Strategy Process
Tuesday, May 11
Case: Honda (A) (HBS 9-384-049)
In-class case: Honda (B) (9-384-050)

Class 24: Wrap-Up
Thursday, May 13
IX. STUDY QUESTIONS

Note: Questions in **bold** should be answered for the case memos.

Class 1
(Android):
Tuesday,
February 2
1. What do you think of Google's strategy in the battle to dominate the smartphone industry?
2. Imagine you were to meet Google CEO Eric Schmidt. What three questions would you ask him to evaluate Google's Android strategy?

Class 2
(Rockwell):
Thursday,
February 4
1. Using SS&P Chapter 6, perform an industry analysis of the U.S. water meter industry in the period immediately prior to the time of the case (1982). Be prepared to discuss buyer and supplier power, competition and barriers to entry and the value chain in which the industry participates. Is this an industry in which the average water meter company can expect to earn an attractive return over the long run?
2. What is minimum efficient scale (MES) in the water meter industry (recall the definition of MES from Economics and from this session’s reading)? How does it affect the attractiveness of the industry?
3. What are the major changes in the industry at the time of the case? Which, if any, of these changes is likely to affect Rockwell’s profitability? What should it do about it?

Class 3
(Cola Wars):
Tuesday,
February 9
1. What aspects of industry structure make the concentrate producers so profitable?
2. Compare the economics of the concentrate business to the bottling business. What is the profitability so different?
3. How do Coke and Pepsi manage the value chain?
4. **How has competition between Coke and Pepsi affected industry profits in each part of the value chain?**
5. In the wake of flattening demand and the growth of non-carbonated drinks, how can Coke and Pepsi maintain their profitability?

Class 4
(Dell I):
Thursday,
February 11
1. Using SS&P Chapter 6, perform an industry analysis of the U.S. personal computer industry. How and why has the PC industry come to have such low average profitability? In performing this analysis, please put Dell to the side and focus on the industry from the perspective of the typical incumbent. Be prepared to discuss buyer and supplier power, competition and barriers to entry and the value chain in which the industry participates.

Class 5
(Dell II):
Thursday,
February 18
1. What has been Dell’s strategy? How does its strategy respond to (fail to respond to) the challenges and opportunities in its external environment?
2. **Prior to the competitors’ efforts to match Dell described in the case, how big was Dell’s competitive advantage?** Specifically, calculate Dell’s advantage over the team of Compaq and a reseller in serving a corporate customer.
3. What kinds of strategies had Dell's competitors followed by the time of the case? Why? Have they been successful?
Class 6
(Airborne):
Tuesday, February 23
1. How and why has the express mail industry structure evolved in recent years?
2. How have the changes affected small competitors?
3. **How has Airborne survived, and recently prospered in its industry?**
   **What are the sources of Airborne’s competitive advantage?** [Note: Use the data in exhibit 3 of the case and in the text to argue your position on the basis of a comparison between the cost of shipping an overnight letter on Airborne and FedEx. Specifically, using the information given and your understanding of what influences each cost item, estimate each item that affects the cost for Airborne and compare it to the FedEx cost.]
4. Is Airborne’s position sustainable? What must Robert Brazier, Airborne’s President and COO, do in order to strengthen the company’s position?

Class 7
(Husky):
Thursday, February 25
1. What is Husky’s strategy? Why has the company been so successful in the period prior to its recent problems?
2. **Are the Husky injection molding systems worth the premium price the company charges?**
3. What has caused Husky’s recent difficulties? How should Schad and the company respond?

Class 8
(Mark Twain):
Tuesday, March 2
2. **Would you describe MTB as primarily having a capability or position based competitive advantage?** What key business practices support this competitive advantage and how?
3. How sustainable is MTB’s competitive advantage? In particular, how easily could a rival—either someone else that wishes to mimic MTB’s strategy or a large, money-center bank such as Citibank—steal away MTB’s customers?

Class 9
(Compass Minerals)
Thursday, March 4
1. **Use the PIE+4 Slices framework to identify the main factors affecting the attractiveness of the U.S. salt industry.** Please review the history of the industry in conducting your analysis.
2. Do some segments of the industry look more attractive than others? Why?
3. Describe and evaluate Compass Minerals' strategy for competing in the U.S. salt industry. What is your evaluation of the entry strategy in the light of your answer to question 2?

Class 10
(Samsung):
Tuesday, March 9
1. Assess the Potential Industry Earnings (PIE) for the DRAM industry.
2. **Have DRAM incumbents been able to capture the value they create?** What factors have affected the extent of value captured over the industry’s history?
3. Describe and evaluate Samsung’s strategy in the DRAM industry.
4. Should Samsung adopt the Rambus architecture? How should Samsung’s strategy be changed in light of this issue?
Class 11
(Ryan Air):
Thursday,
March 11
1. Can Ryan Air make money at the launch fare price of 98?
2. How would you expect Ryan Air’s rivals to respond? Why?
3. What is your evaluation of the entry strategy in the light of your answer to question 2?

Class 12
(BSB v. Sky):
Tuesday,
March 30
1. Evaluate the structure of this industry in terms of its attractiveness to incumbents.
2. How do you expect competition to look in this industry in the long-run? Can the two rivals survive in this industry? Why?
3. Choose one of the companies and analyze its actions, considering the way it tries to affect what its rival will do.

Assignment: Spreadsheet Exercise

Class 15
(EMI):
Thursday,
April 8
1. Case A: Should EMI license its invention? What are the pros and cons of such a decision? What do you think of the argument that EMI made that it would be a bad idea to license to X-ray firms, because the X-ray firms would be reluctant to cannibalize their own business?
2. Case B: What is EMI's competitive position in 1976?

Class 16
(Sunpower):
Tuesday,
April 13
TBA

Class 17
(Sony I):
Thursday,
April 15
TBA

Class 18
(Sony II):
Thursday,
April 22
TBA

Class 19
(Disney):
Tuesday,
April 27
1. What do you think were the key success factors for Disney during the Walt Disney years?
2. Evaluate Disney's corporate strategy during the Walt Disney era. What role did Disney’s array of businesses play in its success? Which divisions provided greater “synergy” than others? Why?
3. Assess Disney's corporate strategy under Eisner. How has the underlying logic changed since the days of Walt Disney? Do you think Disney's corporate strategy has become more or less compelling?
Class 20
(J&J):
Thursday,
April 29
1. What is J&J’s culture? What is its strategy? What is its structure? What are the pros and cons of the credo, during the period of the case and afterwards?
2. What obstacles does Pete Ventrella face as president of the new Hospital Services Company? How should he resolve these problems? How does J&J’s culture affect its strategic options?

Class 21
(Random House):
Tuesday,
May 4
1. How is value distributed among the various players in the publishing value chain?
2. What are the merits to consolidation in book publishing? How large or small are these benefits?
3. The case describes the ongoing debate about the impact of consolidation on “quality literature.” In your view, are there reasons to believe that consolidation has a deleterious impact on the quality or variety of books being offered? Is the impact of consolidation on product variety any different here than in other industries?

Class 22
(Novo Industri):
Thursday,
May 6
1. Perform an industry analysis on the global insulin industry prior to the introduction of human insulin.
   a. Was this an attractive industry for incumbents?
   b. Do some regional markets seem more attractive than others? Why?
2. Describe and evaluate Novo’s strategy in the insulin industry prior to the introduction of human insulin. After doing so, briefly compare the following firms to Novo, focusing on the key ways in which their strategies differ from Novo’s, and why their strategies have or have not been successful:
   a) Nordisk;
   b) Lilly; and
   c) Squibb.
3. How do the recent changes in insulin technology affect the different parts of the value chain? Pick any two of the four firms discussed above and discuss how these changes affect the viability of their strategies.
4. Consider Novo’s strategy going forward, after the invention of human insulin. Answer the following:
   a) Should Novo increase its presence in the U.S. market? Why or why not?
   b) Assume that Novo decides to increase its presence in the U.S. market. How should it do so?

Class 23
(Honda):
Tuesday,
May 11
1. What is the strategy that has allowed Honda to enter and dominate the U.S. market?
2. How did Honda come to have this strategy? Identify the elements of strategic planning that went into making this strategy.
3. Why did British motorcycle manufacturers not use or quickly emulate the Honda strategy?