

CS402: COMPETITIVE STRATEGY

COURSE OVERVIEW

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Note that there is an assignment for the first class. In addition, please read this document carefully. It contains important information about assignments and norms. We will not cover all of this material in class.

Course Perspective

This course teaches analysis of strategic decisions facing an organization. This is not a comprehensive course on game theory and strategy but rather a topics course on particular aspects of game theory as it relates to strategy. A central integrating idea is anticipating the response of other actors in the industry and recognizing that often an organization's profits depend on the actions of other players. These other players could be competitors, customers, suppliers, or complementors. Strategic moves sometimes involve competition and other times cooperation and we will discuss both. The main analytical tool will be modern game theory models of competition. Class sessions are primarily applications – cases and other examples. Our perspective is that of the general manager who has overall responsibility for the performance of the firm or of a business unit within the firm.

Course Requirements

Textbook:

There is no specific textbook for the course. I have assigned readings from various sources for each topic. If you wish to consult other sources on game theory or strategy I recommend the following:

- Besanko, D., et. al. (2006). *Economics of Strategy*, 4th edition.
Dixit, A. and B. J. Nalebuff (1991). *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life*.
Gibbons, R. (1992). *Game Theory for Applied Economists*.

Grading:

Class Participation:	40%
Written Assignments:	20%
Group Project:	40%

Detailed information on each of these requirements is provided after the course schedule.

Background:

The necessary background for the course was covered in the “Managerial Economics” (ME101) course in Module 1 and the “Strategic Management” (SM202) course in Module 2.

Course Schedule

Session 1: Commitment and Credibility (June 8)

Note: Assignment questions for this session are at the end of the syllabus.

Reading: Scott Morton, F., “Why Economics has Been Useful for Strategy,”
Mastering Strategy, pages 26 – 31.
“Game Theory and Business Strategy,” HBS Case 9-705-471.

Case: Wal-Mart Stores, Inc., HBS Case 9-794-024.

Session 2: Cooperation and Coordination (June 9)

Reading: Brandenburger and Nalebuff, “The Right Game: Use Game Theory to Shape Strategy,” *Harvard Business Review*, July-August 1995.

Case: Performance Indicator, HBS Case 9-702-480.

Session 3: Strategic Interaction Game (June 11)

Case: Shrimp Game (details will be distributed in class on June 9).

Session 4: Repeated Interaction (June 12)

Reading: Garicano, L. and R. Gertner, “The Dynamics of Price Competition,” *Mastering Strategy*, pages 39 – 46.

Case: Cola Wars Continue: Coke and Pepsi in 2006, HBS Case 9-706-447.
Cola Wars in China: The Future is Here, Ivey Case 9B03A006.

Session 5: Network Externalities (June 15)

Reading: Goolsbee, A., “Why the Network Effect is so Striking,” *Mastering Strategy*, pages 21 – 25.

Case: DVD War, HBS Case 9-706-504.
Articles on EVD discs and third-party payments systems (to be distributed).

Session 6: Asymmetric Information (June 18)

Reading: Mankiw, N. G., “Asymmetric Information,” *Principles of Economics*, pages 484 – 490.

Case: Baidu: Searching for Truth, CKGSB Case (to be distributed).

Session 7: Compatibility and Standards (June 19)

Reading: Shapiro, C. and H. R. Varian, “The Art of Standard Wars,” *California Management Review*, Winter 1999.

Case: The Long Battle for an Instant Messaging Standard, Stanford GSB Case SM-138.
The Instant Messaging Battle: New Enemies and Widening Conflict, CKGSB Case.

Session 8: Complementary Goods (June 22)

Reading: Yoffie, D. B. and M. Kwak, “With Friends Like These: The Art of Managing Complementors,” *Harvard Business Review*, September 2006 (to be distributed).

Case: Wintel (A): Cooperation or Conflict?, HBS Case 9-704-419.

Evaluation

Class Participation: (individual)

You are responsible for the material in each case. I will cold call students to discuss the case, but will also seek volunteers to speak in class. Quality of class participation is more important than quantity. Consider the following questions when assessing the quality of your participation:

1. Are the points relevant to the discussion? Are they linked to the comments of others and to the themes of the class? Do they significantly advance the discussion?
2. 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?
3. Do the comments add to our understanding of the situation? Are they incisive? Do they cut to the core of the problem? Avoid comments that simply repeat case facts.
4. Is there a willingness to challenge, in a constructive way, the ideas that are being expressed? Playing “devil’s advocate” often exposes new perspectives and provokes interesting debate. Such contributions are particularly valued.

Preparation for a case study involves more than just having read the case. You should be prepared to offer original and thoughtful analysis in which your claims are supported by evidence, logic, and possible calculations. Many students find it helpful – and I encourage you – to discuss the case with your classmates prior to the class. The most effective way to prepare for class is to try to answer the preparation questions for each class after you have read the case and the readings.

Because a case-oriented course relies on class participation for its success, attendance at every class is extremely important. Students who miss class will not receive class participation credit for that class. I do not allow or require “make-up” work for a missed class. If you must miss class, most handouts will be available at the class website.

Written Assignments: (groups)

There will be five short written assignments for the class. For sessions 2 and 4 through 7 I will hand out at the end of class an assignment question(s) applying the material from that session to a different setting than that discussed in class. The idea is to apply the concepts we learn in a different context. The write-up will be due at the beginning of the following class. For example, at the end of Session 1 I will hand out a question(s) dealing with commitment and credibility but applied to a context other than Wal-Mart. It would be due at the beginning of Session 2.

Group Project: (groups)

For the project, your group should select a firm that faces one or more issues that involve strategic interaction. You should choose a single organization for the object of your analysis so that you can develop specific recommendations from its standpoint. Since your project should focus on strategic interactions, I recommend choosing a firm in an industry with relatively few major competitors (five or fewer). If you have contacts at firm it is useful to engage them in your project, however this is not necessary. Your project can be based entirely on publicly available information.

The final output of the project is a written report due on July 6. Your report should clearly define the issue(s) facing the organization of interest, analyze the situation using the concepts and tools of the course, and develop a specific plan of action for the organization. Each team will present their proposed project to me during the week of June 15 so that I may provide suggestions for the project. I am also happy to meet before or after that time to help formulate your topic.

The main goal of the project is to make you think carefully about applying the strategic concepts that we cover in the course to an industry setting that interests you and where you have to decide for yourself what the important issues are and what the course of

action should be. Some research on the details is essential, but the key to a successful paper is to analyze, not just describe.

Remember that you should choose a topic related to ideas covered in the course. If you have any doubts about your topic, please talk to me. Do not choose a strategic issue that is featured in a case that has been used in a course at CKGSB. If you are thinking of presenting on a topic that is related to a project or paper for another course at CKGSB you must talk to me first.

Honor Code Issues

My goal is that each individual student gains valuable learning through this course. Since some of the assignments in this course are accomplished in groups, here is my policy on group work for my class:

1. I encourage you to discuss the cases in preparing for class with any student. However, I expect you to present in class case analyses that you personally participated in preparing.
2. For the written assignments and group project, it is important that you demonstrate how well you and your group members understand the course concepts. For this reason, do not consult with students outside of your group for these.

Assignment Questions for First Class

Wal-Mart Stores, Inc.

Please prepare the following questions for discussion in class:

1. How was Wal-Mart successful early on (roughly through the mid-1970s when it went public)? What is its competitive advantage at this time and how sustainable is it?
2. How has Wal-Mart's competitive advantage changed by the end of the case? Using the template posted on BB, quantify the sources of Wal-Mart's competitive advantage as of 1993.
3. What is the effect of Wal-Mart's use of "everyday-low-prices" (page 4 of the case) on competition? How should its competitors respond to this?
4. How transferable are Wal-Mart's competitive advantages as it moves into new international locations?