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COMSTRAT
Competitive Strategy
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1. Introduction

Strategic Management involves the coordination and integration of the efforts within the different functional areas of an organization for dealing with an uncertain future. This comprises formulating a strategy for each individual business of the firm, formulating a corporate strategy and implementing these strategies. In this course, we will focus on the formulation of a competitive strategy for a business of a firm. Competitive Strategy formulation involves understanding the business you are in, determining how to position your strategic unit within this business environment, and developing the capabilities to compete in this environment. Therefore, Competitive Strategy at the same time coordinates and integrates the individual functional strategies such as manufacturing, marketing and sales, and finance. Several other topics related to Strategic Management will be discussed in the second year, including Corporate Strategy, Growth Strategy, and Alliance Management.

2. Objectives

Thinking strategically is a difficult skill to master. The objective of this course on Competitive Strategy is to push you to think strategically in different situations. The course introduces a coherent framework of Value Creation, Value Capture, and Sustainability and develops related concepts that are used to analyze the competitive environment of a firm and its internal strengths and weaknesses.

I expect you to be able to deal with the basic strategy concepts introduced. Nevertheless, they remain tools, aiding you in becoming better strategic thinkers. The ultimate objective is to formulate a strategy for a business that will shape the future environment of the firm and will aid the firm with its strategic decision-making in this future.

3. Learning outcomes

1. Know and distinguish the different stages of the process of strategy formulation
2. Evaluate the structural determinants of industry profitability and their dynamics
3. Perform a comparative economic analysis across different industries
4. Understand what competitive advantage is
5. Project how changes in the external environment might affect the profitability of a firm
6. Determine the optimal scope of a business
7. Analyze the drivers of value creation and value capture
8. Evaluate the sustainability of competitive advantage
9. Perform competitor analysis
10. Evaluate the external, internal and dynamic consistency of a firm's business strategy.

4. Competencies

Along this course, the following competencies are strengthened and acquired:

CB7 –Know how to apply the knowledge acquired and the problem-solving capacity in new and little-known settings within broader (or multidisciplinary) contexts related to the area of study.

CB8 –Be able to integrate knowledge and deal with the complexity of making judgements based on information that being incomplete or limited, includes considerations about social and ethical responsibilities linked to the application of the student's knowledge and judgements.

CB10 –Have the learning skills that enable to continue studying in a largely self-directed independent manner.

CG1 - Receive and transmit ideas effectively using the appropriate channel in the right moment and providing specific details to back up observations and conclusions (Communication)

CG4 - Promote an atmosphere of collaboration, communication and trust among the members of the team. (Team Management)

CG7 – Identify and effectively deal with information that is relevant for the job (Information Management)

CG9 – Recognize the threats and taking advantage of the opportunities that impact the competitiveness and the effectiveness of the business (Business Vision)

CG18 - Take appropriate decisions in the right manner and at the right time (Prudence)

CG21 - Be upright and behaving in an honorable fashion in any situation (Integrity)

CE01 - Apply a structured, sound process in the analysis of business situations and decision making that includes the following phases: diagnosis of the problem, criteria selection, and identification of alternatives, weighted analysis and selection of an alternative with the appropriate action plan.

CE30 - Mastering tools based on information and technologies (ICTs) applied to finance, accounting, operations, sales, and decision making in general.

CE31 - Strategically analyze the value chain and the keys to success of an industry or business. Having advanced knowledge of the different competitive possible strategies, as well as the competitive contexts where they can be applied. Understanding the business' sustainable competitive advantages.

CE32 - Perform in depth analysis of the determining factors and historical evolution of the globalization. Understanding and assessing the impact of this phenomenon on different industries and business.

5. Content

The course consists of the following parts:

I. Introduction

The purpose is to become familiar with a number of strategy concepts, such as competitive advantage, value creation, value capture, and the sustainability of competitive advantage.

II. Competitive strategy: The building blocks

We focus on how the industry and the environment affect the performance of an individual business. The industry will shape the environment, and it determines the initial conditions within which the business will compete. Understanding the pressures of industry characteristics on the income statement of the business is a first step in formulating a strategy that attempts to isolate the business from these pressures in the future.

We also take a closer look at the business itself. We define the competitive position of a firm, analyze its activities and capabilities and determine which combinations of positioning, activities, and capabilities result in a sustainable competitive advantage.

Finally, we turn our attention to the dynamic aspects of strategy formulation and specifically competitive interaction. Understanding your competitors' moves and reacting appropriately is important. However, making strategic decisions and anticipating competitors' reactions is crucial for the viability of your business.

III. Contemporary challenges in competitive strategy

We analyze to what extent competition in *new economy* markets may be different from competition in traditional markets. We explore concepts such as network effects and complementarities, discussing companies such as Spotify.

Change and uncertainty are always present when formulating a business strategy. In this module, we discuss how some current challenges such as creating new market spaces and issues of sustainable business affect competitive strategy formulation today. We show that the framework and tools provided throughout the course remain helpful for this task.

6. Methodology

The course presents the framework and concepts through the analysis of concrete business situations, practical exercises, and a simulation exercise. The concepts are integrated into our conceptual framework, extended in a lecture, and applied across different contexts.

7. Evaluation

Grading policy

- Participation: 25%
- Team report: 20%
- Business simulation: 25%
- Final in-class exam: 30%

Participation (25%)

Strategic thinking is best learned through practice and use of strategic concepts. The cases we will study are about specific business situations; they are an opportunity to both apply the concepts we discuss in class as well as further develop our ability to think about competitive strategy. Discussions are an important part of the course, which makes it imperative that everyone attempts to regularly contribute to case discussions. Preparation for each class should be thorough and consistent from class to class. This includes reviewing the assigned readings and cases and answering all the discussion questions for each case.

Because of the course emphasis on case analysis, the major and important part of your learning in this course will take place in the classroom. Participation grades are a function of your class contribution. Repeating comments that other students have already made or missing class will obviously not add to your participation grade. In class participation, I value quality above quantity. Comments should try to aim at helping us understand the issues at hand, while developing arguments in more depth.

Team report (20%)

During the course, each team will prepare a team report on a case you choose. This document contains additional information about this case report.

Case choice

Each team, please submit on Virtual Campus before session 2 indicating which case your team chooses (choose from: Walmart-Amazon, Ducati, Ryanair, Spotify I).

Content

More information about the team report will be provided during the course.

Business simulation (25%)

The class features a business simulation called Global Challenge. This simulation allows participants to understand and practice business strategy in a global and dynamic competitive environment. The game integrates a range of concepts from various management-related disciplines and will be a great setting to test your strategic thinking skills. Your team will manage a global mobile company in the current fast-paced and technologically uncertain environment. You will formulate and make strategic choices for your simulated company. Please, make sure that you read the case description and the decision-making guide. You should skip the Human Resource Section as it won't be part of the current simulation.

Your grade in the simulation will depend on the final result and a brief management report and presentation. Details of decisions' calendar, organization in groups, etc., will be provided in class during the course.

Final exam (30%)

There will be an in-class final examination. The exam will consist of a reading on a business situation and related questions to evaluate how you apply the developed framework and concepts.

Citations, Academic Integrity

In accordance with the School Policies, all content used from secondary sources (books, articles, the Internet, ...) should be cited clearly. Failure to comply with these rules amounts to dishonesty and is unfair to other students. It will therefore result in the opening of an academic evaluation process. The same holds for other forms breaches of academic integrity.

8. Outline

Session 1	Introduction: What is strategy? Value creation, value capture
	<ul style="list-style-type: none"> • Readings: <ul style="list-style-type: none"> ○ “Value Creation and Capture” (technical note) ○ “The Five Competitive Forces That Shape Strategy”, Michael Porter, 2008, Harvard Business Review • Case: “Tiffany & Co.”, Wall Street Journal, January 10, 2007
	<p>Preparation questions:</p> <ol style="list-style-type: none"> 1. Based on the Wall Street Journal article, what is Tiffany’s strategy? 2. What choices did Tiffany have to make? What are the arguments pro and con? 3. What do you think Tiffany should have done (in 2007)?
Session 2	Sustaining competitive advantage
	<ul style="list-style-type: none"> • Reading: “Sustaining Competitive Advantage” (technical note) • Case: “Walmart Inc. takes on Amazon.com”
	<p>Preparation questions:</p> <ol style="list-style-type: none"> 1. Who is currently in the stronger position within the retail space, Amazon or Walmart? Why? 2. Why did Walmart struggle in the online business for so long? 3. What should Walmart do going forward?
Session 3	Global Challenge Simulation: Introduction
	<ul style="list-style-type: none"> • Reading: “Global Challenge Decision-making Guide” • Case: “Mobilé Inc - Case Company Description”
Session 4	Building competitive advantage
	<ul style="list-style-type: none"> • Reading: “The Nature and Sources of Competitive Advantage”, chapter 4 in “Foundations of Strategy” (Grant and Jordan) • Case: “Ducati: In Pursuit of Magic (A)”
	<ul style="list-style-type: none"> • Preparation questions: <ol style="list-style-type: none"> 1. During Minoli’s tenure as CEO, how has Ducati created and captured value? 2. What problems is Minoli facing? 3. What are Ducati’s strategic options? What strategy would you recommend Ducati? <p>(Team assignment: next page)</p>

	<ul style="list-style-type: none"> • Team assignment (for all teams): Be ready to present your proposal for the strategic options for Ducati in class. Prepare 1-2 slides with your preferred option and the rationale (what should Ducati do and why?). Submit your PPT in Virtual Campus by 22.00 hr the day before the class. (Please include your team number in the file name, and on the slide.)
Session 5	Competitive dynamics
	<ul style="list-style-type: none"> • Reading: “Competitive Dynamics” (technical note) • Case: “Dogfight over Europe: Ryanair (A)”
	<p>Preparation questions:</p> <ol style="list-style-type: none"> 1. Can the Ryan brothers make money at I€ 98 fare they propose? <i>Individual assignment: Go to the online survey tool and answer the following question before 22:00 hr the day before the class. “What is your best estimate of Ryanair’s operating profit per passenger on the London-Dublin route, with the proposed fare of I€ 98?”</i> 2. How do you expect Aer Lingus and British Airways to respond? If there is a difference, who is more likely to accommodate, who is more likely to retaliate? Why? 3. Compare the financial implications of retaliation against Ryanair’s launch and accommodation of the launch for both Aer Lingus and British Airways. 4. What is your overall assessment of Ryanair’s launch strategy?
Session 6	Global Challenge Simulation: First official round
Session 7	Key success factors in strategy: Industry analysis
	<ul style="list-style-type: none"> • Case: Dell’s entry into printing
	<ul style="list-style-type: none"> • Preparation questions: <ol style="list-style-type: none"> 1. At the time of the case, should Dell enter the printer business? Why/ why not? 2. Recommend an entry strategy for Dell into the printing business (i.e., what products, what customers, what distribution strategy, what technology, etc). 3. How should HP respond to an entry move?
Session 8	Blue Ocean Strategy
	<ul style="list-style-type: none"> • Reading: “Blue Ocean Strategy: From Theory to Practice”, Chan Kim and Renée Mauborgne, 1999, California Management Review • Case: “Cirque du Soleil” (video case, no preparation)

Session 9	Competing with new game strategies (session I)
	<ul style="list-style-type: none"> • Reading: “Pipelines, Platforms, and the New Rules of Strategy”, Van Alstyn, Parker, and Choudary, 2016 • Case: Spotify: Facing the Music
	<p>Preparation questions:</p> <ol style="list-style-type: none"> 1. How did Spotify manage to grow so fast? 2. Does Spotify have a competitive advantage? 3. What do you think of Spotify’s freemium business model? 4. What should Spotify do to become profitable?
Session 10	Competing with new game strategies (session II)
	<ul style="list-style-type: none"> • Case: Spotify: Facing the Music • Assignment announced in previous session.
Session 11	Global Challenge Simulation: debrief
Session 12	Strategy and social responsibility
	<ul style="list-style-type: none"> • Reading: “The Social Responsibility of Business Is to Increase Its Profits”, Milton Friedman, 1970, The New York Times Magazine • Case: “Patagonia”
	<p>Preparation questions:</p> <ol style="list-style-type: none"> 1. Evaluate Patagonia’s strategy. 2. How would Patagonia’s strategy differ if the company were publicly held? What is the role of the founder, Mr. Chouinard, in determining the strategy? 3. What would you recommend Patagonia to do to achieve its mission?
Session 13	Closing session: Synthesis and discussion
	<ul style="list-style-type: none"> • Reading: “Luck Inc., The 7 Secrets of Really, Really Lucky Companies”, Drake Bennet, 2009, Boston Globe
Session 14	In-class final exam (2h45)

9. Books and articles on Strategy

For students who wish to expand their background in strategy or read in more depth about the concepts we discussed in class, I recommend the following books. The library and the bookshop have copies of these books, which offer a contemporary yet historically grounded perspective on the field of strategy with examples and insights drawn from consulting.

“Contemporary Strategy Analysis”, by Robert Grant, Blackwell Publishing, or the book “Foundations of Strategy”, by Robert Grant and Judith Jordan.

Other books for further reading:

- Barney, Jay: “Gaining and Sustaining Competitive Advantage”, 4th edition, Prentice Hall, 2010
- Besanko, David, David Dranove, Mark Shanley, and Scott Schaefer: “Economics of Strategy”, 5th edition, Wiley and Sons, 2009
- Ghemawat, Pankaj: “Strategy and the Business Landscape”, 3d Edition, Prentice Hall, 2009
- Hamel, Gary, and C.K. Prahalad: “Competing for the Future”, HBS Press, 1994
- Hax, Arnoldo and Nicolás Majluf: “Strategy Concept and Process: A Pragmatic Approach”, Prentice-Hall, New York, 1991
- Kim, Chan, and Renée Mauborgne: “Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant”, Harvard Business Press, 2005
- Porter, Michael: “Competitive Strategy”, The Free Press, 1980
- Porter, Michael: “Competitive Advantage”, The Free Press, 1985
- Rumelt, Richard: “Good Strategy – Bad Strategy”, Profile Books, 2011
- Saloner, Garth, Andrea Shepard, and Joel Podolny: “Strategic Management”, Wiley and Sons, 2001

Some other HBR articles of interest:

- Brandenburger, Adam, and Barry Nalebuff: “The Right Game: Use Game Theory to Shape Strategy”, *Harvard Business Review*, 1995
- Christensen, Clayton, Michael Raynor, and Matthew Verlinden: “Skate to Where the Money Will Be”, *Harvard Business Review*, 2001
- Prahalad, C.K., and Gary Hamel: “The Core Competence of the Corporation”, *Harvard Business Review*, 1990

10. Biography

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Biography

Govert Vroom is a professor in the Strategic Management department of IESE. Govert received his Ph.D. from INSEAD in 2005. His doctoral dissertation was awarded second place in the Organization Science dissertation proposal competition and received the Blackwell Outstanding Dissertation Award for the best doctoral dissertation in the Business Policy and Strategy division of the Academy of Management.

Govert's research interests include competitive strategy, corporate diversification, strategy in the networked economy, and entrepreneurship. In his research, he explores how firm characteristics, such as organizational design, ownership structure, and firm objectives, affect managerial decision making and interfirm rivalry. He is also working on how strategies are influenced by competition in network environments where critical mass, standards, and externalities play an important role. His work has been published in leading scholarly journals such as *Academy of Management Journal*, *Management Science*, *Strategic Management Journal*, *Organization Science*, and the *Journal of Sports Economics*. He was elected Chair of the Competitive Strategy interest group of the Strategic Management Society, a role he fulfilled in 2012. From 2015 to 2017, he was a member of the Executive Committee of the Business Policy and Strategy division of the Academy of Management and chair of its Teaching Committee.

Prior to his academic career, Govert worked in the Netherlands at KPN Telecom as a financial controller and cost management consultant. He teaches strategic management, competitive strategy, corporate strategy, and strategy in the networked economy in a wide variety of programs including the MBA, Executive MBA, Ph.D., and international executive education.

He enjoys outdoor activities with his wife and three children.