California State University, Sacramento  
College of Business Administration

GM105: Strategic Management  
Spring 2011

Section 13 (Tue. 6-8:50pm) & Section 14 (Wed. 6-8:50pm)

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Required Course Materials:  
Course Packet: The assigned cases for this course are available from the University Book Store.

COURSE DESCRIPTION

This course is designed to introduce the concepts, tools, and first principles of strategy formulation and competitive analysis. It is concerned with managerial decisions and actions that materially affect the success and survival of business enterprises. The course focuses on the information, analyses, organizational processes, and skills and business judgment managers must use to craft strategies, position their businesses and assets, and define firm boundaries, so as to maximize long-term profits in the face of uncertainty and competition.

*Strategic Management* is an integrative and interdisciplinary course in two important respects. First, it assumes a broad view of the environment that includes buyers/consumers, suppliers, technology, economics, capital markets, competitors, government, and global forces. And it assumes that the external environment is dynamic and characterized by uncertain changes. Second, the course takes a general management perspective. It views the firm as a whole and examines how policies in each functional area can be integrated into an overall competitive strategy. In studying strategy, this course draws together and builds on all the ideas, concepts, and theories from your functional courses, such as Accounting, Economics, Finance, Marketing, Organizational Behavior, and Statistics. This course, however, is much more than a mere integration of the functional specialties within a firm. It has been designed to develop among participants the “general management point of view.” The best vantage point, in fact the only valid vantage point, for making decisions that affect long run business performance is the general manager's point of view. The key strategic business decisions we will analyze in this course include creating competitive advantages, choosing competitive strategies, adapting to changing opportunities, securing and defending sustainable market positions, and allocating critical resources over relatively long periods of time in pursuit of specific goals and objectives. Decisions such as these can only be made effectively by viewing a firm holistically and over the long term.

This course helps students develop skills for formulating strategy. The strategy process demands the mastery of a body of analytical tools and the ability to take an integrative point of view. You will develop these skills through:

- In-depth analysis of industries and competitors
- Prediction of competitive behavior
- Techniques for analyzing how firms can develop and sustain competitive advantages over time
EDUCATIONAL OBJECTIVES

**Theory and Concepts.** The central concept of this course is that of competitive strategy. Definitions abound, but they all share some sense of the allocation of critical resources over relatively long periods of time in pursuit of specific goals and objectives. Successful strategies exploit external conditions, entrepreneurial insights, and internal resources, seeking configurations of prices, preferences, technologies, and information that offer opportunities for sustainable competitive advantage. Strategy can be usefully thought of as the comprehensive alignment of an organization with its future environment.

Understanding the concept of competitive strategy formulation is a primary educational objective of this course. This will involve mastering an array of economic, strategic, and organizational concepts and theories, and acquiring an integrative general manager’s point of view. The course will cover theories for in-depth industry and competitor analysis, for anticipating and predicting future industry developments, and for examining the impact of change (in technologies, tastes, government regulations, global competition, and other important environmental forces) on competition and industry evolution.

While our primary focus will be on mastering strategy formulation at the business unit or competitive level, the course will also examine corporate and global strategy issues such as diversification, vertical integration, economies of scope across related businesses, the transfer of technology and core competencies, and international expansion and growth.

**Analytical Skills.** Theoretical concepts are a great aid to understanding, but by themselves they do not help resolve real business problems or challenges. Also needed are analytical skills and techniques that can be applied to the data to "fill in" the facts and premises assumed in the theories. A second educational objective is to further increase each student’s inventory of useful analytical skills and tools. Some of the tools are quantitative -- analyzing financial statements, computing comparative buyer costs, and calculating the effects of scale and learning on production costs, for example -- while others are more qualitative. Learning how to apply these techniques, and, more importantly, when to apply them is a key objective of the course.

In learning to size-up a business and its problems or opportunities, this course will allow you to gain experience in conducting "full blown" strategic analyses. That is, identifying firms’ strategies and testing them for consistency, recognizing potential entrepreneurial opportunities and strategic challenges/problems, selecting and establishing competitively protected market niches, identifying competitive advantages and shaping defenses to circumvent the advantages of rivals, formulating and implementing internally consistent business strategies, and designing efficient and effective organizations.

**Rhetorical Skills.** The best analysis in the world will have little effect if it cannot be communicated to others. Managers must be able to articulate their views coherently and persuasively, and they must be skilled at understanding and critiquing other points of view. Management is a "verbal sport;" perhaps 90% of a typical manager's day is consumed by oral communication. Time is often scarce. You must learn to make convincing arguments and to make them quickly, or the merits of their ideas are likely to become simply irrelevant. This skill takes practice, and we will place a great deal of emphasis on it in class.

**Wisdom.** A fourth goal of this course is to help you build up your set of useful "stories" and heuristics for your future managerial careers. In this course we are as much interested in developing an appreciation for the art of management as we are in understanding the science of management. Tools alone will not a strategist make. While the ability to master analytical models, frameworks, and tools is essential, ultimate success is more strongly predicated on prescient judgment, entrepreneurial insight, iconoclastic vision, and a willingness to forcefully act with conviction.
COURSE FORMAT AND THE CASE DISCUSSION METHOD

In order to achieve the objectives of the course, we will devote the majority of our class time to the analysis and discussion of selected management, competitive strategy, and business policy cases. Occasional lectures will be given to elaborate on key theoretical models and frameworks or to reinforce crucial concepts. These lectures, however, will be subordinate to the case analysis. Cases provide a natural "test-bed" for theory and provide vivid examples that help us remember concepts. While nothing can surpass first hand personal industry and managerial experience as a basis for analysis and decision-making, case analysis is an indispensable proxy for the kind of knowledge that can only be gained through years of experience and research. A mix of old and new business cases has been selected on a range of companies from a variety of industry settings. Each case is intended to teach us something specific, yet each can teach many things. We will not attempt to exhaust each case of all its learning experiences, but rather build up a "war chest" of analytical tools, skills and insights, progressively over all the selected cases.

Reasons for employing the case discussion method of instruction include:

- The case method allows you to develop skills at problem definition in addition to problem solving. Cases typically do not have an obvious set of tasks whose performance will lead to mastery. Rather, they force you to sift through a mass of information, some of it irrelevant or contradictory, in order to identify the important or strategic issues
- The case method gives you a chance to deal with ambiguity. Most cases do not have obvious "right" answers. Managers must be able to function in situations where the right answer is not known, without falling into the trap of assuming that any answer is as good as another. Some analyses and proposed strategies are clearly wrong and some are clearly better than others. Remember: "There are no right answers, but there are wrong answers."
- Case discussion techniques provide a chance to learn the meaning of analytical rigor in situations other than open-and-shut problems.

These rationales are offered because the case method is unfamiliar to most of you and frequently causes initial confusion. There will be many times when we, as your instructors, will not reveal our own opinions about a particular issue, and there will be many cases which will not end up neatly packaged with an "answer." You may discover that your preparation "misses" key points of a case, especially at first. This is a normal part of the learning experience.

While we will direct class discussions, the quality of your learning experience will be directly determined by: (1) your degree of preparation, active listening, and participation, and (2) your classmates' preparation, listening, and participation. Some will not agree with you, and you may be asked to defend your argument or change your mind. So long as criticism is directed at arguments and not at individuals, is relevant to the issues at hand and coherently argued, it is very much welcomed.

Case Preparation. Because this course relies heavily on case material, extensive preparation before class and participation in class are required to ensure the course's success. (1) Preparation for a case discussion should begin with a rapid reading of the assigned case and other materials. (2) Then, it is worthwhile to review the discussion questions provided for clues as to what issues require special attention. (3) The next step is normally to re-read the case carefully, taking notes that sort information, facts, and observations under a number of relevant headings. Try to formulate theories or hypotheses about what is going on as you read ("the company loses money on small orders"), modifying or rejecting them as new information surfaces ("Table 2 shows that shipping costs per unit are higher for small orders, but only for long-distance shipments"). Push yourself to reach definitive conclusions before you come to class. (4) you should perform quantitative analyses, "crunching" whatever numbers are available. It is also very important to provide quantitative support wherever possible, particularly when exploring various hypotheses as to the nature and importance of certain phenomena. (If the requisite data are not available in the case, a precise description of what data are missing often triggers ideas for making creative use of the information that is available.) It is usually worthwhile to identify trends in the firm or industry, preferably with a quantitative measurement. Some of these trends, often very important ones, will not be flagged in the text of the case. (5) Finally, preparation will include notes that can be used to guide your interventions in class discussions.
WARNING! There is a good chance that you will feel a bit confused or overwhelmed during the first module, or two, of the course. This is a byproduct of the peculiar structure of the strategy course that does not build up linearly by successively adding components of knowledge week by week. Rather, every case in a sense contains all the material in the entire course. Furthermore, the early theoretical concepts probably won't have much meaning for you until you've worked through a few cases. As a result, there is no logical way to start off except by immersion, i.e. throwing you in the deep end of the pool and letting you struggle to stay afloat. The good news is that the number of new ideas for you to learn drops off quickly after the first three modules and old ideas continue to be relevant. This way you will get multiple chances to master the basic concepts of the course. So remember: SOME CONFUSION IS NORMAL AT FIRST.

To have made it this far in the business program at Sacramento State, simply put, you must be good. You have tackled numerous challenges, demonstrated a high level of competence, and mastered many very difficult courses and business concepts. So as this course attempts to overwhelm you, don't ever forget that you are good! Keep in mind that this capstone course has been expressly designed to make you even better. It will constantly push you and "help" you discover areas of weakness in need of improvement. We will test you with fire, in a cost-free environment. For some, this course will be "finishing school," for others, unfortunately, it will be like "boot camp." This is the course that makes you wish you had never sold those old textbooks -- because we will be using all the "stuff" in them, again. Whether you have aspirations for top management positions or not, this course will make you better in your own chosen business specialty.

COURSE EVALUATION

Course grades will be determined by students’ relative performance on the following course components:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Course Contribution</td>
<td>20%</td>
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<tr>
<td>Group Project</td>
<td>26%</td>
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<tr>
<td>Group Case Presentation</td>
<td>10%</td>
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<tr>
<td>Individual Assignments (2 SA's and 1 QA)</td>
<td>18%</td>
</tr>
<tr>
<td>Exam</td>
<td>26%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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In order to successfully pass this course, a passing grade (> 50%) must be achieved in each individual course component. Plus and minus grades will be assigned to those immediately above or below grade cutoff points. The distribution of grades will closely follow the guidelines of the College of Business Administration.

Attendance Policy:

Class attendance is absolutely essential. All missed classes will be noted. Absences will reduce the student's participation grade. Students with excessive absences are at risk to fail the course. Only Official University engagements, such as scheduled debating events, sports events, are excepted. Job interviews, etc., are not excused. Lateness (and leaving class early), for whatever reason, will be noted as evidence of low course commitment and penalized.

Class Contribution/Participation:

Your overall commitment and attitude toward this course and your daily active verbal participation in case discussions will be closely monitored. In grading class participation, we will look at both the quantity and quality of your class contributions/interventions. Class participation is obviously a function of preparation, skills, attitude, and a willingness to actively commit yourself in front of your instructor and colleagues. A classroom is a cost-free environment for experimenting and learning to "play the game." Make use of it. Shyness is no excuse.

With regard to quality, the dimensions that we look for include:
Relevance -- does the comment bear on the subject at hand? Comments that do not link up with what the discussion is focusing on can actually detract from the learning experience.

Causal Linkage -- are the logical antecedents or consequences of a particular argument traced out? Comments that push the implications of a fact or idea as far as possible are generally superior.

Responsiveness -- does the comment react in an important way to what someone else has said?

Analysis -- is the reasoning employed consistent and logical?

Evidence -- have data from the case, from personal experience, from general knowledge been employed to support the assertions made?

Importance -- does the contribution further our understanding of the issues at hand? Is a connection made with other cases we have analyzed?

Clarity -- is the comment succinct and understandable? Does it stick to the subject or does it wander?

All students will be formally called on, at random, to take the lead in various aspects of class discussions. If the student called upon is not present, is late, or is not sufficiently prepared to make a substantial contribution to the class discussion, he/she will lose points for class contribution. If the student makes helpful comments, he/she will accumulate points for class contribution. Failure to be thoroughly prepared, on all occasions, will hurt your overall grade.

Each student will receive a score for participation at the end of each case discussion session.

No Credit -- Students who make no contributions will receive no credit.

A Little Credit -- The simple recitation of facts from the case will receive some credit toward the student’s class contribution score.

More Credit -- Comments that do more than simply recite case facts, however, will receive significantly greater credit towards a student’s class contribution score. For example, comments that provide synthesis or raise counterintuitive points, will add much more to a student’s class contribution score.

Comments that contain factual misstatements, demonstrate lack of adequate preparation, or are distracting because they come too late in the discussion, will be penalized. Attempts to dominate class discussion rarely result in consistent and significant contributions.

Group Project:

A major group project is required. The final report will contain a comprehensive analysis of a company that will be assigned during the semester. The case analysis should be comprehensive, and should include identification of all major problems and challenges, an analysis of potential options, and detailed recommendations. The paper should incorporate relevant theoretical concepts, frameworks and models from the course. More detailed guidelines will be given during the semester.

Group Case Presentation:

You will be required to participate in a brief case presentation to the class as part of a group. The presentation will be graded on a group basis. Each group must choose a case and present two types of information: important facts mentioned in the case and recent information collected from external sources regarding the focal firm and its competitors’ strategic positions (plus deal with any special issues as directed by the instructor). You will make your group case presentations before case discussions using an overhead projector or computer, and use your business communication skills to explain and defend your conclusions to the class. Presentations should take 10-15 minutes. Presentations must be made in groups of 4-5 members. You are advised to request a date for a presentation in advance and to talk with your instructor ahead of time about your presentation. Groups that do not volunteer for presentations will have them assigned to them. No write-up is required when a group case presentation is made; however, groups should provide their instructors with a copy of their presentation slides and a full list of all members of the presenting group prior to making your presentation.
**Short Assignments:**

You are required to complete two (2) short assignments [SA]. If you wish, you may submit two SAs in a section (see below for SA sections A and B) and only the best one will count towards your final grade. The short assignments are of different types. Some require the application of particular analytical tools or models to a case. Others require you to provide recommendations to the company featured in a particular case. SAs will typically consist of your key recommendations to the managers in a case, along with the supporting logic for those recommendations. They should be presented in memo format (bullet points are acceptable if the points are explained sufficiently). You should identify the strategic problems facing the managers, state your position as what the managers in the case should do, and support that position using strategic logic. You should not use precious space rehashing facts from the case. Instead, key facts should be used (sparingly) to help justify particular recommendations. That is, do not simply restate what the case writer has said in other words. Try to go beyond the facts provided by the case writer by doing some new analysis of the situation facing the managers. Then develop recommendations based on the analysis. Also, when making recommendations, do not dwell on things that the company is already doing. Instead focus on things it is not yet doing, but probably should, according to your analysis.

You must do at least one SA from each of the following groups:

<table>
<thead>
<tr>
<th>✔ Section A</th>
<th>✔ Section B</th>
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<tbody>
<tr>
<td>Apple Computer 2002</td>
<td>De Beers</td>
</tr>
<tr>
<td>Coke vs. Pepsi</td>
<td>Intel</td>
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<tr>
<td>Nintendo</td>
<td>Shanghai Volkswagen</td>
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**Quantitative Assignments:**

Of the Three (3) assignments you are required to turn in this semester, one (1) of them must be quantitative assignments [QA] listed in the course schedule below. Quantitative assignments usually involve numerical and/or graphical analysis of data from the cases we will discuss.

You must do one of the following three QAs:

| ✔ Wal*Mart | ✔ RTE Breakfast Cereal | ✔ Nucleon |

**Policies for SA and QA assignments:**

1. Late SA and QA assignments will not be accepted. No excuses, no exceptions.
2. SA assignments must be no longer than two double-spaced pages.
3. The written portion of QA assignments must be no longer than two double-spaced pages.
4. SA and QA assignments must be typed in 12-point font with one-inch margins around the page.

While I encourage you to work in groups discussing the cases and formulating answers to the questions, group discussion is not a substitute for understanding the case material, and the written responses must represent your own work. Due to time constraints I will only briefly evaluate each SA or QA (without written comments). You will know how good a job you’ve done on each assignment after the case is discussed. If after the case discussion you are still not clear about why you earned a certain grade on an assignment, I strongly encourage you to discuss with me after class.

**Exam:**

An exam in the form of multiple-choice questions or case analysis, or both, will be given. More details will be announced toward the end of the semester. The best way to prepare for the exam is to complete all assigned readings and fully prepare for and participate in every case study.
## GM105 SPRING 2011
SECTION 13 (TUE. 6PM) & SECTION 14 (WED. 6PM)
### COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Case/Topic</th>
<th>Course Deliverable</th>
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<tr>
<td>TUE/WED</td>
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<tr>
<td>1</td>
<td>25/26-Jan</td>
<td>Course Introduction &amp; Group Formation</td>
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<tr>
<td>2</td>
<td>1/2-Feb</td>
<td><em>Lecture I</em>: Thinking Strategically</td>
<td>H.I.H: 1</td>
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<td></td>
<td></td>
<td>Wal-Mart Stores, Inc.</td>
<td>QA</td>
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<td>3</td>
<td>8/9-Feb</td>
<td>Wal-Mart Stores, Inc. (Cont’d) <em>Lecture II</em>: External Environment, Demand, Industry Structure Analysis and the Search for Sustainable Competitive Positions</td>
<td>H.I.H: 2</td>
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<tr>
<td>4</td>
<td>15/16-Feb</td>
<td>Apple Computer 2002</td>
<td>SA</td>
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<tr>
<td>5</td>
<td>22/23-Feb</td>
<td>Coca Cola vs. Pepsi-Cola and the Soft Drink Industry</td>
<td>SA</td>
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<tr>
<td>6</td>
<td>1/2-Mar</td>
<td>Group Project Preparation</td>
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<td>8</td>
<td>15/16-Mar</td>
<td><em>Lecture IV</em>: Generic Business Strategies, Sources of Competitive Advantage, and Value Chain Analysis The Ready-to-Eat Breakfast Cereal Industry</td>
<td>H.I.H: 3 &amp; 4</td>
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<td>QA</td>
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<td>9</td>
<td>29/30-Mar</td>
<td>The Ready-to-Eat Breakfast Cereal Industry (continued) DeBeers Consolidated Mines, Ltd. (A)</td>
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<td>SA</td>
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<td>11</td>
<td>12/13-Apr</td>
<td>Nucleon, Inc.</td>
<td>QA</td>
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<tr>
<td>12</td>
<td>19/20-Apr</td>
<td>Shanghai Volkswagen: Facing a New Era <em>Lecture VI</em>: Strategy Implementation: Governance, Control and Organizational Design</td>
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<td>13</td>
<td>26/27-Apr</td>
<td>Exam</td>
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<td>14</td>
<td>3/4-May</td>
<td>Group Project Preparation</td>
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<td>15</td>
<td>10/11-May</td>
<td>Group Project Preparation</td>
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**H.I.H.** denotes the Hitt, Ireland and Hoskisson textbook, *Strategic Management*, 6th, 7th, 8th, or 9th ed.

**QA** denotes that a *Quantitative Assignment [QA]* may be submitted at the beginning of this class period.

**SA** denotes that a *Short Assignment [SA]* may be submitted at the beginning of this class period.
ASSIGNMENTS
AND
CASE DISCUSSION
OUTLINE
Case: WAL*MART STORES, INC.

Discussion Questions:

1. Identify Wal*Mart’s strategy, and explain how and why has it enabled Wal*Mart to be so successful in an aggressively rivalrous industry?

2. What, historically, has been Wal*Mart's key source of competitive advantage in discount retailing? How has Wal*Mart operated differently from its rivals?

3a. How do you explain Wal*Mart's extraordinary performance in discount retailing? Is a favorable industry structure the reason? What was Sam Walton’s profound insight that leads to Wal*Mart’s success? Can you break down Wal*Mart's competitive advantage in discount retailing? (Be specific)

3b. Using the information in the Tables and text of the case, quantitatively estimate the extent of Wal*Mart's competitive advantage in discount retailing. For example, estimate the differences between Wal*Mart and its competitors costs of advertising, logistics, shrinkage, COGS, etc. Estimate the magnitude of Wal*Mart’s cost advantages in terms of increased margin (operating profit) or lower operating costs and expenses. Be as specific as possible.

4. How sustainable is Wal*Mart's competitive advantage in discount retailing in 1986? Where is Wal*Mart's advantage most sustainable? What are the bases of sustainability? Why can't competitors match what Wal*Mart does?

5. What is the biggest threat to Wal*Mart's continued success? Are supercenters the answer to the threats identified? Will Wal*Mart be superseded by another retailing concept?

6. Draw a diagram that highlights all of Wal*Mart’s major activities. Link together any and all activities that support or complement other activities within Wal*Mart. If you do this in a comprehensive way you should be able to identify the nature and sources of Wal*Mart’s main competitive advantages, and appreciate how and why Wal*Mart is such a difficult competitor to compete with.

Quantitative Assignment [QA]

Provide an explanation for why, and by how much, Wal*Mart has been able to outperform its rivals. First, quantify Wal*Mart’s competitive advantages by computing the differences (or “variances”) between Wal*Mart’s operating performance (revenues and expenses) and that of its direct competitors. Exhibit 6 should be your starting point. Be sure to incorporate any additional information in the case to further breakdown costs of goods sold (inbound logistics, shrinkage, etc.) and operating expenses (advertising, information systems, etc.). You will need an explanation of why Wal*Mart’s cost of goods sold is higher than the industry average? Second, offer an explanation as to the sources of these differences. Pay particular attention to explaining why Wal*Mart’s rivals have not been able to imitate them, and hence negate their performance advantage.

A detailed/annotated spreadsheet and an attached executive brief should be sufficient as a write up. Aim for quality and brevity – not quantity.
Case: APPLE COMPUTER 2002

Discussion Questions:
1. Historically, what were Apple’s major competitive advantages?
2. Analyze the structure of the personal computer industry over the last 10 years. How have the dynamics of the PC industry changed?
3. Evaluate Apple’s strategies since 1990.
4. What should Steve Jobs do today?

Short Assignment[SA]
Evaluate Apple’s response to changes in the industry since 1990. Are they appropriate and sufficient to ensure Apple’s long-term success? Discuss both positive and negative aspects of the response. What are Apple’s competencies on which they can build a future competitive strategy? It is recommended that you answer the questions “What business are they in?” and “Who are their competitors?” when you outline your position.
**Cases:**

**Coca-Cola vs Pepsi-Cola and the Soft Drink Industry**

**Discussion Questions:**

1. Why has the soft drink industry been so profitable?

   - Why has the soft drink industry evolved with a franchise bottler system?
   - What is the underlying economic logic of bottling?
   - Why have concentrate producers nurtured and preserved the bottling system?
   - How does the bottling franchise system affect industry profit rates?
   - Why has being a concentrate producer been such a gold mine? Some call it a "license to steal"!
   - Why no significant entry of new producers?
   - What are the driving competitive economics of the Soft Drink industry?

2. What is happening in the soft drink industry? How do the major developments affect smaller competitors?

3. Evaluate the Philip Morris acquisition of Seven-Up.

   - Why was Seven-Up successful prior to its acquisition by Philip Morris?
   - Why did Philip Morris buy Seven-Up?
   - Why did the Seven-Up acquisition by Philip Morris not succeed?
   - What should Philip Morris do now?

**Short Assignment [SA]**

Prepare a detailed five competitive force (Porter Model) analysis of the Soft Drink industry. Be sure to separate the concentrate producers and the bottlers in your analysis. (Remember that the Bottlers are “buyers” from the Concentrate producer’s perspective; and the concentrate producers are “suppliers” from the bottler’s perspective. You should, at a minimum have two five force diagrams—one for the concentrate producers and the other for the bottlers.) Be sure to thoroughly identify and describe the major entry and mobility barriers in each part of the industry, what factors most influence the rivalry among concentrate producers and bottlers, how important substitutes are for each segment, and what protection the industry players have from major suppliers and buyers.
Case: POWER PLAY: NINTENDO IN 8-BIT VIDEO GAMES

Discussion Questions:
1. What steps did Nintendo take to make video games attractive to consumers?
2. What was the key difference between the Nintendo and Atari strategies?
3. What was Nintendo’s strategy toward its suppliers?
4. What was Nintendo’s strategy towards software producers?
5. What was Nintendo’s strategy towards direct competitors?

Short Assignment[SA]

Nintendo successfully recreated the home video game business following the Atari-era boom and bust. How did it do so? Use the five forces model and other appropriate theories to present your argument.
Case: THE READY-TO-EAT BREAKFAST CEREAL INDUSTRY IN 1994

Discussion Questions:

1. Why has the RTE cereal industry historically been such a profitable business? What are the barriers to entry in the RTE cereal industry?

2. What changes have led to the current industry “crisis”? What issues do the “Big Three” face in 1994?

3. Why have private labels been able to enter this industry successfully? How do the cost structures of private label and branded cereal manufacturers differ?

4. What does General Mills hope to accomplish with its April 1994 reduction of trade promotions and prices?

5. What should General Mills do? What should be done about escalating rivalry? What should be done about private label entry?

Quantitative Assignment (QA)

Compare and contrast the cost structures between the branded cereal manufacturers and the private label cereal makers. You can by using the cost structure information provided in Exhibit 2 and in the case text compare the industry value chains of both types of cereal makers. [Assume that marketing costs are zero or close to it for the private label cereal makers.] Pay special attention to determining how the industry value chains are different for each type of breakfast cereal manufacturer.

Explain how the private label cereal manufacturers have been able to lower their cost structure relative to the branded cereal manufacturers. Will the private label cereal makers be able to withstand a price war with the branded cereal manufacturers?

A well labeled comparative diagram comparing costs for each activity, plus value chains for each cereal type, and an executive brief should be a sufficient write-up.
Case:

DE BEERS CONSOLIDATED MINES, LTD.

Discussion Questions:

1. How did Cecil Rhodes originally acquire the mining claims for DeBeers Mining Co.? Did supplier power play a role in this process?

2. How has De Beers attempted to manage the supply of diamonds over time?

3. How has De Beers attempted to affect the demand for diamonds over time?

4. What is De Beers' pricing policy? Why does it follow this policy?

5. Does De Beers' CSO exercise bargaining power over buyers? If so, how?

6. Why did Harry Oppenheimer say that speculation is problematic for De Beers, even though it caused increases in diamond prices?

Short Assignment (SA)

What elements of the value chain would you recommend that De Beers continue to emphasize in its quest for monopoly profits? In which aspects of the diamond mining and distribution value chain do you believe that De Beers will face increasing competition? List each element of the value chain and evaluate the opportunities and difficulties of maintaining monopoly profits for each element. Conclude with your recommendation.
Case: INTEL CORPORATION: 1968-2003

Discussion Questions:

1. What was Intel’s strategy in DRAM’s? What accounts for Intel’s dramatic decline in market share in the DRAM market between 1974 and 1984? To what extent was Intel’s failure a result of its strategy?

2. What strategy did Intel use to gain a competitive advantage in microprocessors? What threats has Intel faced in sustaining its competitive advantage in microprocessors and what strategies has it used to deal with each? Why has Intel been able to sustain its advantage in microprocessors, but not in DRAM’s?

3. Assess the future prospects of Intel. What is the biggest threat it faces in the Internet era? Whom should it be most worried about? Put yourself in the position of Intel senior management and craft a strategy to deal with these threats.

Short Assignment [SA]:

What has been the logic underlying Intel’s product diversification strategy? What are the greatest threats to Intel’s competitive advantage that confront them today? For each threat you identify, discuss (1) why it is a threat, (2) the relationship to Intel (i.e., rival, supplier, etc.), and (3) what you recommend Intel to do to respond to each threat.
Case: NUCLEON, INC.

Discussion Questions:

1. What are your recommendations regarding the manufacturing of CRP-1 for Phase I and Phase II clinical trials? What are your recommendations regarding manufacturing for Phase III clinical trials and commercialization?

2. How would you justify your recommendations to would-be investors in the company?

3. What is your recommendation regarding Nucleon’s long-term manufacturing strategy? What should this company look like in 10 years (e.g., an R&D boutique, an R&D boutique with pilot scale manufacturing capabilities, or an integrated manufacturing enterprise)?

Quantitative Assignment [QA]

Determine the net present value of the following five options through the year 2009. (Use a discount rate of 30% and show what numbers you used and how you did the NPV calculation. DO NOT JUST WRITE DOWN FIVE NUMBERS!):

<table>
<thead>
<tr>
<th>Phase I/II Production</th>
<th>Phase III Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Nucleon</td>
<td>Nucleon</td>
</tr>
<tr>
<td>(b) Nucleon</td>
<td>Licensee</td>
</tr>
<tr>
<td>(c) Contractor</td>
<td>Nucleon</td>
</tr>
<tr>
<td>(d) Contractor</td>
<td>Licensee</td>
</tr>
<tr>
<td>(e) Licensee</td>
<td>Licensee</td>
</tr>
</tbody>
</table>

Compare options (a) through (e) using two criteria:

(1) Which option has the highest NPV?

(2) Identify what Nucleon’s competitive advantage(s) would be if it chooses each of the five options (for example, if Nucleon chooses Option (e) then manufacturing capabilities are unlikely to be part of Nucleon’s competitive advantage). Also comment on the ability of Nucleon to sustain the advantage implied with each of the five options.

Based on your analysis of NPV and competitive advantage, which option do you recommend? Your assignment should include a one-page spreadsheet showing the NPV calculations and a write-up.

NOTE:

1. There is an error in Exhibit 5 on page 15. In the sentence “After the year 2000, sales of CRP-1…”, 2000 should be changed to 2002.
2. Exhibit 6, which contains “Good Manufacturing Practices (GMPs)”, is missing from the case. However, this Exhibit does not contain any critical information for your understanding of the case.
Case:  

SHANGHAI VOLKSWAGEN: FACING A NEW ERA

Discussion Questions:  
1. What were the objectives of Volkswagen in setting up SVW in China?  
2. What were the objectives on the part of the Chinese to form this joint venture?  
3. Should China develop an auto industry?  
4. Why was SAIC interested in localizing all the components?  
5. Could SVW protect its profit margin once China joined WTO?

Short Assignment[SA]
Identify the objectives of Volkswagen and its Chinese partner in setting up SVW in China. Have both parties achieved their goals? Evaluate the future of SVW after China joined WTO.