

California State University, Sacramento  
College of Business Administration

**GM105: STRATEGIC MANAGEMENT**

2009

PROFESSOR HAN

**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 Will Wal\*Mart be superseded by another retailing concept?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 effect 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?
2. Why have private labels been able to enter this industry successfully? How do the cost structures of private label and branded cereal manufacturers differ?
3. What does General Mills hope to accomplish with its April 1994 reduction of trade promotions and prices?
4. What are the risks associated with these actions? How do you expect General Mills’ competitors to respond?
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!**):

|     | <u>Phase I/II Production</u> | <u>Phase III Production</u> |
|-----|------------------------------|-----------------------------|
| (a) | Nucleon                      | Nucleon                     |
| (b) | Nucleon                      | Licensee                    |
| (c) | Contractor                   | Nucleon                     |
| (d) | Contractor                   | Licensee                    |
| (e) | Licensee                     | Licensee                    |

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.