

Bus 260a
Competition and Strategy

Course Content and Organization

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Brandeis University
International Business School

8 CHAPTER 1 • INTRODUCTION

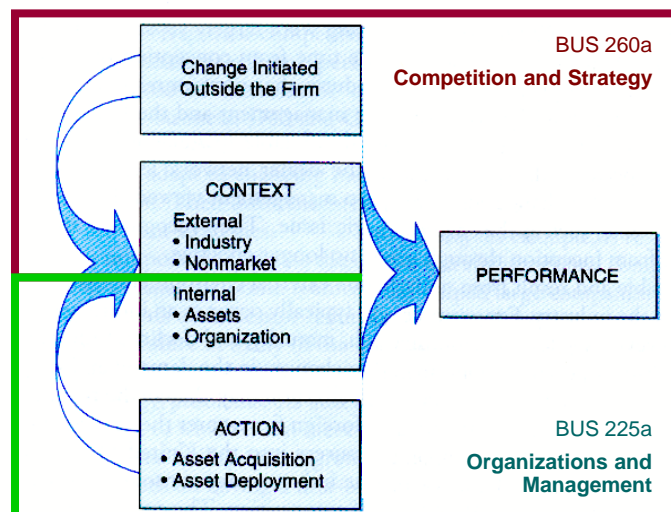


FIGURE 1-2 Dynamics of Business Strategy

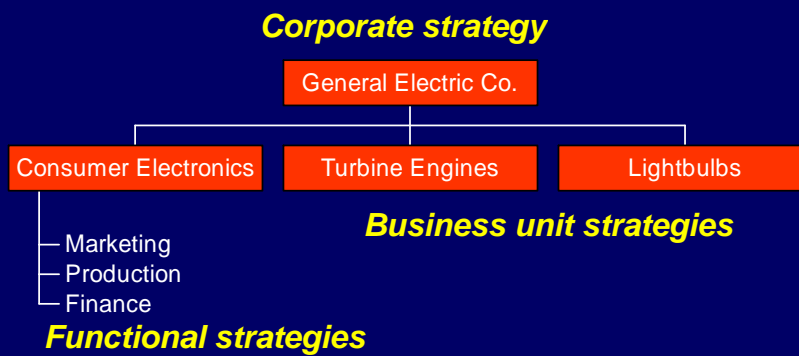
Source: Saloner, Shepard, and Podolny, *Strategic Management* (New York: John Wiley, 2001).

Functional areas of business

- Control
 - Marketing
 - Production
 - Finance
 - Strategy
 - Organization
- General Management
- 

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Levels of strategy in organizations



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A definition of business strategy

The set of **goals** and **functional policies** that collectively define the way **a business** uses **internal and external resources** and **positions** itself in its **environment** to achieve and **sustain** superior **performance**.

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Pre-history of strategy: 1950s

Strengths

Distinctive competence

Internal to the firm

Weaknesses

Compared to rivals

Opportunities

Industry structure

External to the firm

Threats

Compete with rivals

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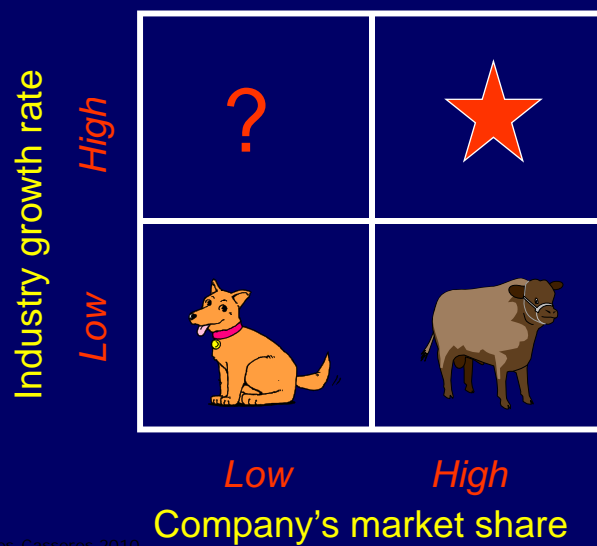
History of strategic thinking

- *Industrial Organization* 1970s
 - Structure, conduct, performance
 - Barriers to entry
- *Game Theory* 1980s
 - Competitive reaction
 - First-mover advantages
- *Theory of the Firm* 1990s
 - Capabilities and resources
 - Boundaries of the firm
- *Organizational Economics* 2000s
 - Information and incentives
 - Coordination and control

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The BCG Matrix

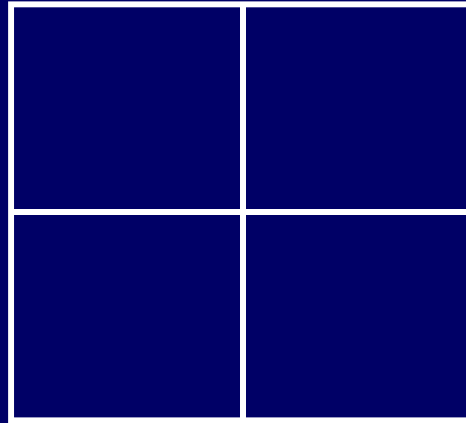
Boston Consulting Group



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Industry and position

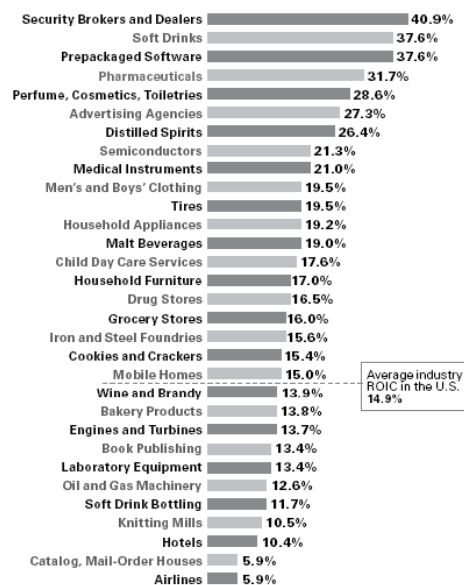
Industry attractiveness
High
Low



Poor Good
Competitive position

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Profitability of Selected U.S. Industries Average ROIC, 1992–2006



1. Average industry profitability
2. Variance of profitability within each industry
3. Profitability of your business
4. Profitability of your company

Bus 260a: Learning Goals

- Understand the role of strategy in business
- Develop an approach to diagnosing strategic issues
- Learn frameworks and concepts that are useful in strategic thinking
- Apply strategic thinking in range of industry and company contexts
- Identify salient strategy issues from messy, real-world data
- Exchange ideas in debates with your peers

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Bus 260a: Requirements

- Frameworks (text book and HBR articles)
- Case studies (HBS packet)
- Preparation, presence, participation
- Midterm (written case analysis)
- Final (paper)
- Presentations

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Bus 260a: Grading

	Parts I and II	Parts III, IV, V
Class contribution *	20%	20%
Midterm exam	25%	
Final paper **		35%

* Effective contribution = Cumulative quality of class contributions =
= f (Preparation, Presence, Participation)

** Paper = analysis of strategic issue; groups (2-3) OK.

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Fundamentals of Strategy

Ben Gomes-Casseres

Notes on lectures given throughout the course

Brandeis University
International Business School

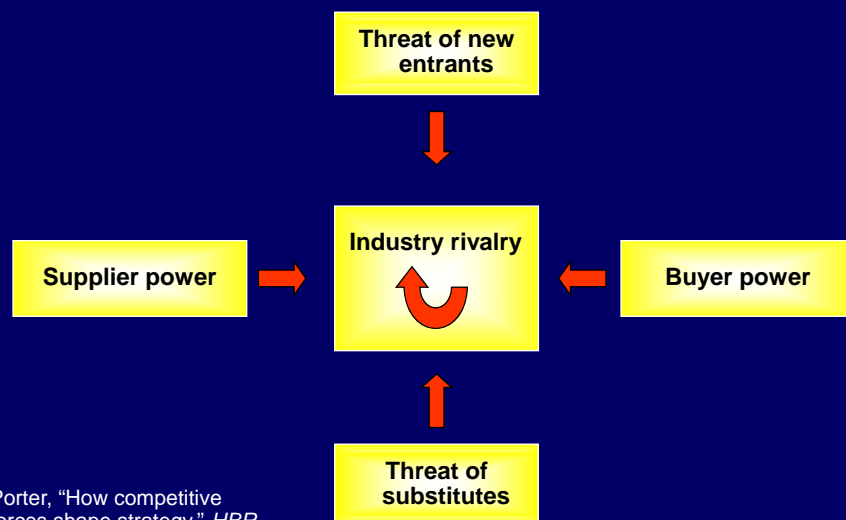
Ten sets of concepts in strategic thinking

1. BCG matrix – updated
2. Porter's Five Forces
3. Generic strategies
4. Sources of competitive advantage
5. Capabilities, positions, and activities
6. International and global strategy
7. Porter's Country Diamond
8. Multi-business (corporate) strategy
9. Organizational strategy
10. Value-chain competition

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Analyzing the competitive environment

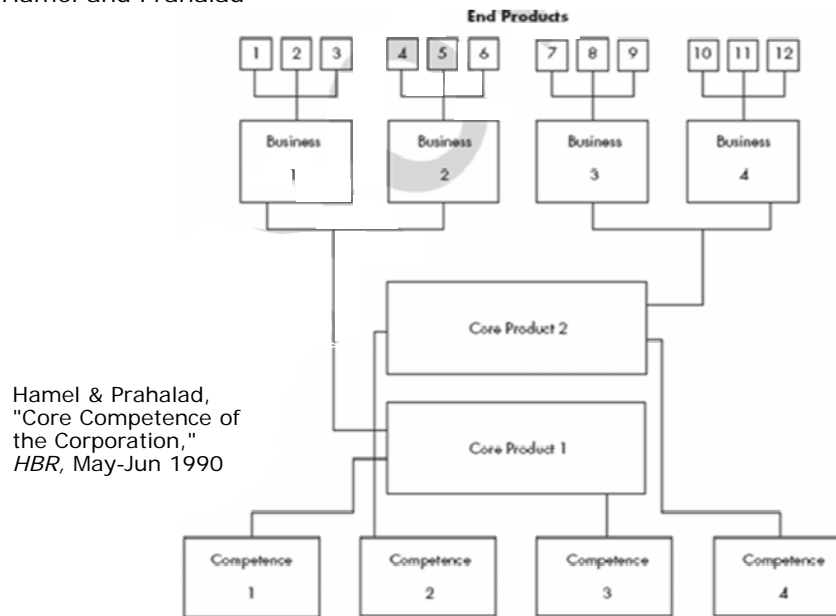
Porter's Five Forces



Porter, "How competitive forces shape strategy," *HBR* Mar-Apr 1979.

The idea of core competence

Hamel and Prahalad

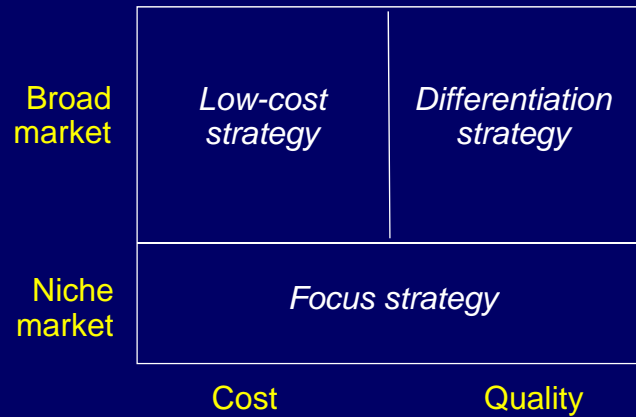


Core competence may yield profits if . . .

- Valuable to buyers, who will pay for it
- Unique, or at least a scarce capability
- Hard to imitate or substitute
- Slow in becoming obsolete or eroding
- You are able to appropriate the value

Collis & Montgomery, "Competing on Resources," *HBR*, Jul-Aug 1995.

Porter's "generic strategies"



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Sources of competitive advantage

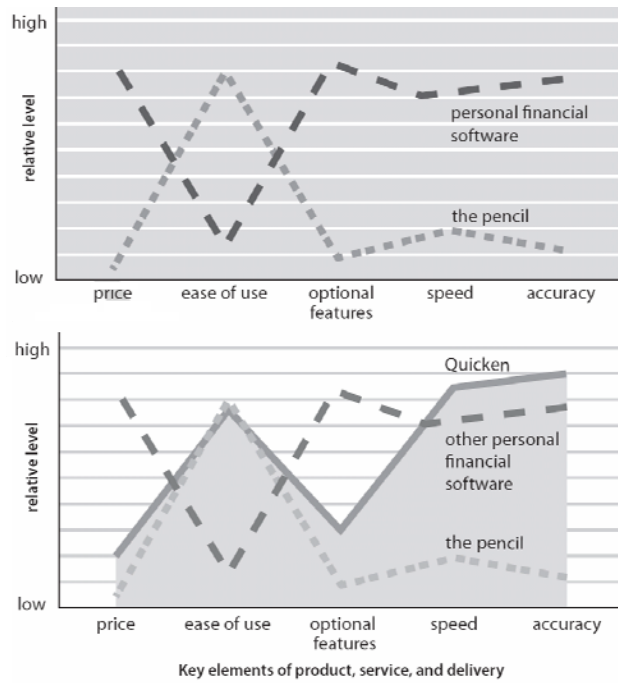


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Value curves

Chan and Mauborgne

Chan and Mauborgne,
"Creating new market space,"
HBR Jan-Feb 1999

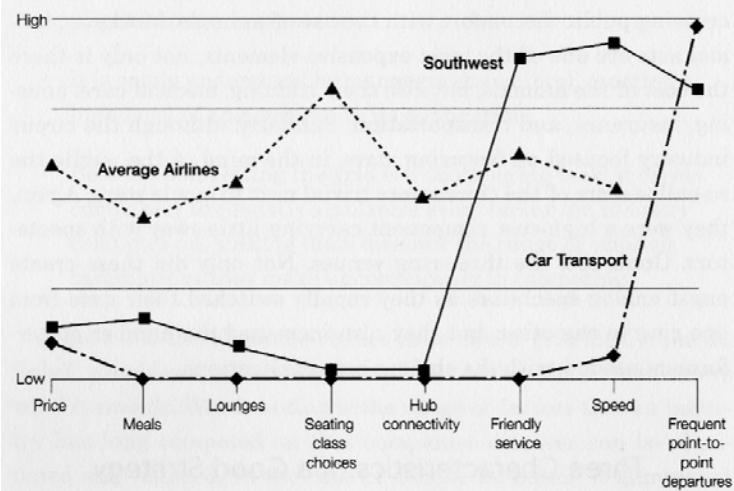


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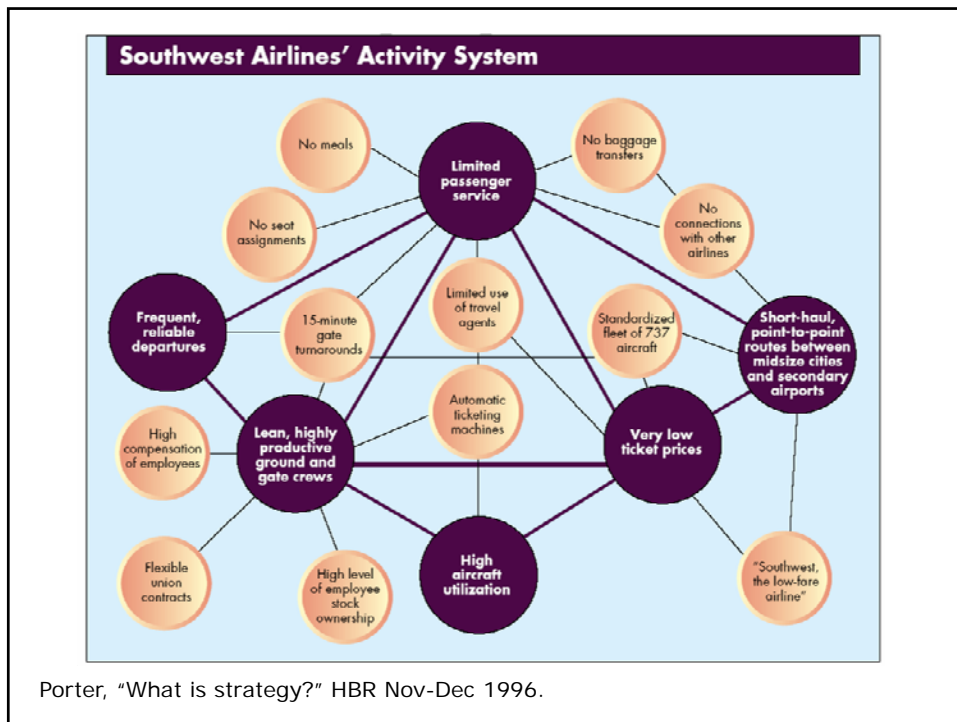
BLUE OCEAN STRATEGY

FIGURE 2-6

The Strategy Canvas of Southwest Airlines



Chan and Mauborgne,
Blue Ocean Strategy, HBS
2006.



Competitor analysis

- Compare activities, cost, prices
- Compare motivations, behavior
- Forecast their moves and reactions to yours
- Influence competitor behavior
- Fight, accommodate, ally

Game theory rule:

"Think ahead and reason backward"

Three international strategies

- **Multi-domestic**
 - Replicate the business in different locations
 - Advantages developed in one (home?) country
- **Global**
 - Integrate globally
 - Single brand and globally-scaled production
 - Advantages derive from scale, diversity, flexibility
- **Arbitrage**
 - Trade and transfer products and services
 - Advantages arise from combining locations

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Sources of international advantage

Firm-based

- Technology and brands
- Capabilities and experience
- Scale and scope
- Strategy and structure

Country-based

- Factors of production
- Structure of industry
- Patterns of demand
- Industry clusters

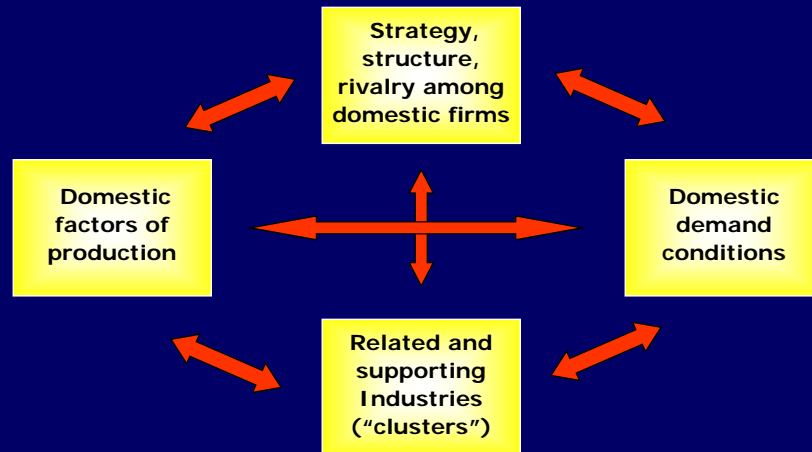
Government-based

- Trade protection
- Subsidies, preferences
- Investment regulation
- Bargaining power

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Analyzing country competitiveness

Porter's Country Diamond



Source: Michael Porter, *Competitive Advantage of Nations*, 1990.

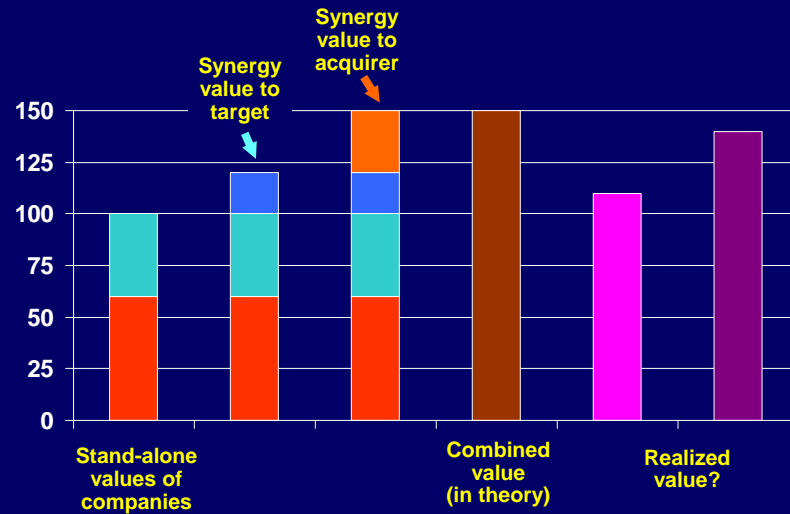
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The logic of corporate strategy

- **Strategic spillovers**
 - Positive or negative
 - Shared resources, capabilities, information
 - Bargaining power with buyers and suppliers
 - Customized inputs/outputs in vertical chain
 - Diversification? Cost of capital?
- **Managing strategic spillovers**
 - Organizational architecture
 - Flow of information
 - Allocation of resources
 - Processes and culture

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Economic logic of an acquisition



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Corporate strategy: Add value to stand-alone

+

Acquisition strategy: Add more value than you pay

Corporate strategy: Add value to stand-alone

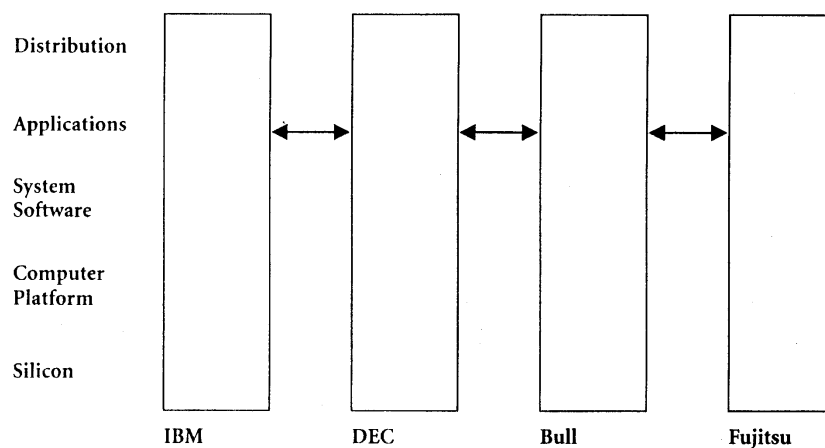
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Acquisition strategy: Add more value than you pay

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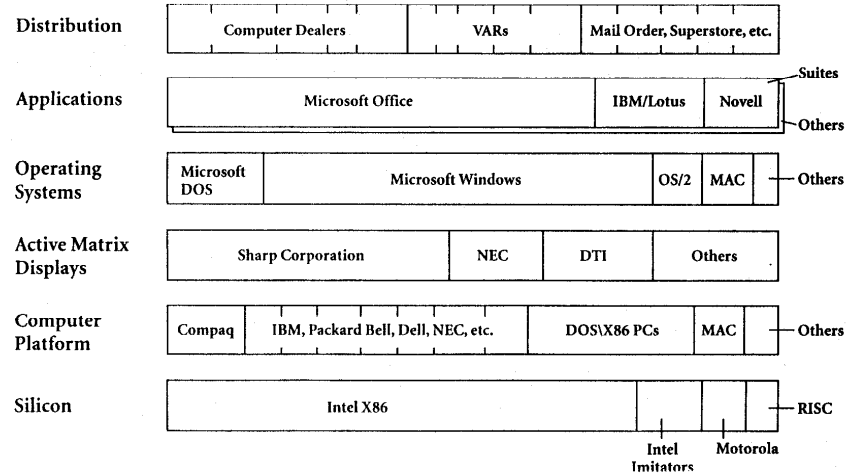
**"Parenting advantage":
Add more value than alternative owner**

THE "OLD" COMPUTER INDUSTRY
Vertically Integrated Firms Competing Across All Segments



Source: Yoffie, *Competing in the Age of Digital Convergence* (HBS Press, 1997).

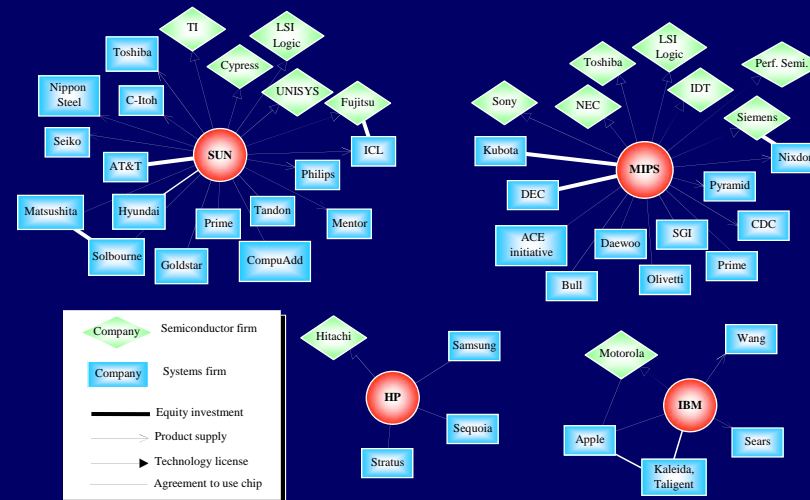
THE 1995 COMPUTER INDUSTRY Fragmented, Horizontal Competition



Source: Yoffie, *Competing in the Age of Digital Convergence* (HBS Press, 1997).

Competing in Constellations

Mips vs Sun vs IBM vs HP constellations, ca. 1992



Source: Benjamin Gomes-Casseres, *The Alliance Revolution* (Harvard University Press, 1996).
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