

MHR423 UNDERGRADUATE SEMINAR IN STRATEGIC MANAGEMENT: FALL 2002

(class meets in 1220 Grainger, Tuesdays and Thursdays from 1:00 to 2:15)

- Required Readings:**
- (1) Reader from B-School Copy Center
 - (2) MikesBikes Software and case book from UW Bookstore
 - (3) Online registration of NetMike with www.smartsims.com

COURSE OVERVIEW

The field of strategic management explores how firms achieve competitive advantage in the context of single and multi-business firms. The single-business firm must deploy its distinctive strengths to exploit industry opportunities, while the multi-business firm must leverage its strengths across different products, businesses, and geographies. In order to add value, the multi-business firm must do much more than merely hold a diversified portfolio of business units – such ownership must increase the competitive position of each business unit. We will explore what managers do to create value in and across businesses, including alliances, acquisitions, and divestitures.

We will start our study of strategy at the business level and examine the challenges of managing a firm competing in a single industry. Specifically, Business Strategy answers the question “how do we compete?”, whereas Corporate Strategy answers the questions of “in what businesses and markets should we compete,” and “how do these choices make each business more competitive?” An integral part of this study will be an exploration of the resources and capabilities underlying strategy and how they may be leveraged among varying settings and situations. In most firms, corporate strategy is different from business strategy because of the multiplicity of businesses and markets (product or geographic) in which the firm is involved. We will explore the differences between corporate and business-level strategies and the requirements each places on managers at different levels in the firm.

To help you develop your strategic thinking skills, the course is organized around three themes: (1) the general manager as opportunistic entrepreneur, (2) identifying and leveraging business resources to create competitive advantage within and across industry segments, industries, and geographies, and (3) growing and managing the multi-business firm. With each case, we will also explore the various combinations of systems (information, control, reward, etc.), organization structures, and people necessary to execute a given strategy. You will test your ideas about the relationships between strategy and implementation elements as we proceed through the course.

General Flow of the Course

As noted above, we will focus on the strategic needs of single and multi-business, multi-market companies. We will use the cases to demonstrate the application of basic techniques of strategic analysis, and then expand and modify them to fit a range of situations. In this regard, your first objective is to develop a fundamental understanding of generic strategies (i.e., low-cost versus differentiation), Porter's "value chain," and "five-forces industry analysis". These Business Strategy tools be our starting point in Strategic Management. At the same time, I expect you to understand the implementation aspects of strategy – for this reason, our first case is one about implementation issues. As we proceed through the course, the classes and cases used in them will "build" on each other in such a way that the knowledge and skills gained in analyzing one session can be used in subsequent cases, and in your group and individual assignments.

Half-way through the semester we will shift gears (literally ;-)) and apply the strategy concepts in the context of a computer-based simulation called MikesBikes. You will first apply your understanding of strategy in SoloMike (Mikes Bikes Intro Solo), where you individually compete against a computer controlled opponent. This experience will also provide you with valuable knowledge of the Mike's Bikes simulation, which you will later apply when you compete against other teams in NetMike (MikesBikes Intro Net). Your team's performance in NetMike will account for 15% of your final grade.

MikesBikes Intro Solo is a single player stand-alone version of the simulation product. It is used as a tool to practice the simulation by competing against a single computer controlled opponent. Known as 'Steady Mike' this player operates by leaving decisions unchanged from one period to the next. With the additional option of being able to 'rollover' and 'rollback' decision periods this enables you to check the consequences of your decisions (and amend them where necessary) holding the activities of all other players constant i.e. ceteris paribus. This version highlights the role of key business decisions within and across the functional areas of marketing, operations management, product development and finance.

MikesBikes Intro Net is an interactive multiplayer version of the simulation product. In this instance you will be divided into teams and take on specific functional responsibilities (operations, marketing, finance, research and development). It is then up to each team to work together to maximize the performance of their respective firm. Building on the knowledge gained in the 'Solo' version, MikesBikes Intro-Net introduces you to a more competitive market environment in which the actions of rival firms must be taken into account. Hence this version emphasizes the role of strategy in business decisions whilst extending the cross-functional planning issues raised in 'Solo'.

Performance Measures and Feedback: My primary tools for assessing your performance are written assignments and your contribution to the class discussions. A cumulative 1000 points are allocated over a variety of projects scheduled in the semester. These are closely tied to the readings and the mini-lectures. *Students have found it exceedingly difficult to do well without doing the readings.* Your grade for the course will accordingly be based on the following:

Midterm Montague Bikes Case:	15% (Three-page report)
Sim quiz:	5% (Take home)
Sim Personal Write-up:	10% (Two, two-page reports plus sim print-outs)
Sim Team Write-up:	40% (Two page strategy statement – 10%, 20-25 page Board statement – 30%)
Sim Performance:	15% (Balanced scorecard of performance indicators)
Attendance & Contribution:	15%

Midterm Case (15%): This project accounts for up to 150 points. Your individual midterm case will be Montague Corp (A). In three pages, please summarize your analysis of the case (the primary strengths, weaknesses, opportunities, and threats facing the company) and present your recommendations for the future. There is no need to draw on any material beyond that presented in the case.

SoloMike

Simulation Quiz (5%): At the start of our simulation you will complete a take-home quiz on the running of the MikesBikes simulation (SoloMike and NetMike). This multiple-choice quiz will test your knowledge of mechanics essential to the operation of the simulation software. In the past, students who have performed poorly on the simulation have typically said that they wished they had read the instructions in advance – this quiz incentivizes you to do so and ensures that the simulation will serve the class well. The sim quiz is due at the start of our first SoloMike session and counts for up to 50 points.

Simulation Personal Write-up (10%): This two-part individual written exercise covers your work with the SoloMike simulation, and accounts for 100 points in the total accumulation. Over two sessions you will run SoloMike for a 10-year period (five years for each class). I will evaluate this two-part project as a package, not simply the independent scores on each part.

The first part requires that you draft a 5-year strategy statement for your company along with a print-out of the first five years of your operations. Follow the guidelines at the back of the MikesBikes Intro QuickStart Guide for the topics your report should cover. Unlike real life, you are welcome to “rollback” to prior years and revise the inputs to your decisions. Staple your strategy statement to a printout of the “Financial Results for All Firms” report found in the Finance section of MikesBikes. This report is due at the start of our first SoloMike session.

The second part of the project asks you to evaluate (1) your strategy, (2) performance, and (3) what you have learned about strategy and the simulation. Think about this project as a way to communicate how your experience with MikesBikes and strategy could benefit a prospective team in the NetMike portion of the course. This paper should be a two-page essay attached to a summary print-out of your firm’s status at the end of the 10-year period. This paper is due at the start of our second SoloMike session.

NetMike

NetMike cumulatively accounts for 55% of your final grade or 550 points. Additionally, I will award \$100 to each top scoring team in your respective world. While you are welcome to scope out talent beforehand, teams will form in our second SoloMike session. Team size (4 or 5) and number of worlds will depend on enrollment at that time; for the evaluation process we will need an even number of teams which will affect the average team size. Time will be set aside during the last half of the session for management team formation. You should come to this class with information that will allow you to “sell” yourself to prospective teammates. Official team formation will not occur prior to this date.

The simulation is dynamic and outcomes for each period depend upon decisions made by all the teams in your industry collectively. Each team should maintain a journal of deliberations and decisions including interpretations of industry dynamics, assumptions, strategic actions, the outcomes of those actions, and changes that may be necessary. The information that you compile during the simulation is to be used to create a report that convinces your Board of Directors (me and members of one of the other teams) to continue your employment as a management team for the firm. This entails convincing the board you have a handle on what has transpired (conspired) in the past, an understanding of where the industry is going in the future, and an effective strategy to deal with the future.

NetMike Written Projects (40%): There are two written components for the simulation. The first report contains your company name, mission statement, company goals, and a statement of the team’s intended business-level strategy. Follow the guidelines at the back of the NetMike QuickStart Guide for the topics your report should cover (these are the same topics covered in your individual strategy paper). The purpose for this document is guidance. If you articulate a mission, set goals and develop a plan (strategy) to achieve those goals, your yearly decisions should be consistent with the statements. This

does not mean you should blindly follow your original plan if it is not working as intended. However, should changes be necessary, the mission, goals and strategy may need adjustment. This two-page statement is due at the beginning of NetMike session 3 (after you have had two years of operating experience under your belts). Email me an electronic version as well which I will post to our class' MikesBikes web page – just as competitors can read each others' annual reports (and intended strategies), so can you.

The second written element is a report to your Board of directors (another team competing in another world) and Chairman of the Board (me). The team report is *not* an academic research paper. The report should be a persuasive "sales" document that factually convinces the Board that your team is capable of effective management of the company's assets into the future. It should be a formal document, typed double-space, 20-25 pages maximum, *not including* attachments and appendices. The report is the basis for your presentation to the Board during the last week of class. The journal of decisions that your team has made, the actions taken, adjustments to strategy, goals, etc. and how well you are meeting your scorecard all should be discussed in the report. An evaluation of your financial performance (past, present and future) is critical to this report. Regardless of when your team presents, the report is due in my box and to your board by 10 a.m. on Monday, December 9th. Your report is to be written to include financial performance through period 8 and with your intended actions and decisions for the future (periods 9 & 10). Each team will need to provide a copy of the report to each member of their Board and a copy to the Chairman of the Board. The Board's task is to evaluate the management team's performance over an 8-year period and the likelihood of successful management for additional periods of the simulation.

The Mission, Goals & Strategy document will be scored by me on a 100-point scale and worth 100 points in the accumulation. The written report to the board will be worth 200 points in the accumulation, and your oral presentation will be worth 100 points. Your Board's evaluation will account for half (50%) of each team's Mike's Bikes paper and presentation simulation scores (Separate criteria documents attached in appendix).

In addition, your team will earn up to 150 points based on its actual performance as follows:

- | | |
|------------------------------|-----|
| 1. Annual revenues (AR): | 15% |
| 2. Earnings Per Share (EPS): | 30% |
| 3. Shareholder Value (SHV) | 55% |

The highest performing team on each item will determine 100%, with other world participants ranked based on their comparison to the leader. For instance, if team A has \$1,000,000 in revenues and team B has \$800,000 in revenue then team A would earn full points for AR while team B would earn 80% of the full point total. I strongly urge you to also track your performance on other efficiency measures such as net profit margin, return on investment, market to book value of equity and total debt/equity as these are either directly or indirectly related to the core performance measures used for evaluation.

The total for the NetMike component of the simulation is 550 points (40% + 15% of your grade) as indicated in the syllabus. Significant "end gaming" will result in severe performance penalties – like those incurred by Enron and Worldcom top executives! ☺

Along with industry results published after each session there will be a Z-score bankruptcy assessment made of each company. This metric is provided in the appendix. If your company falls in the safe zone you are OK. If your company falls within the gray zone or below you will be required to submit a detailed (2-page written) 3yr strategic plan for your company's turnaround effort to the Chairman of the Board of directors (me) by the next decision period and also verbally discuss this with me. Failure to do so will result in more losses due to heavy fines. If your company actually falls into bankruptcy your company will be dissolved and your assets will be sold off to other companies. There will be no score given to the

team for the operational component of the simulation, it will in effect become a zero. Poor management is no excuse for poor performance.

Team peer evaluation: The team components of grading are determined by the quality of each component (i.e., presentation, management team report, and firm performance) and a peer evaluation from your fellow team members. The peer evaluation can affect the individual grade awarded for each component. **Peer scores may raise or lower an individual's score and grade!** "Free riders" hurt the overall team performance in the simulation. Hence, individual scores will be adjusted to reflect contribution. To complete assignments successfully will require contribution from all team members and not just one or two individuals. The composite results of the peer evaluation will be made available at the end of the semester. You must come to me to obtain this information.

I expect conflicts to arise. I also expect the team members to resolve those conflicts on their own. As in real organizations individuals may not perform satisfactorily or may not fit with the "culture" or values of the other team members. In such cases individuals may be fired from the team. This action is drastic but often necessary. I will, upon **written-petition of all other team members**, authorize teams to "fire" an individual from the team. Individuals that have been fired from a team will have the opportunity to solicit a new position from another team. It is however at the discretion of other teams whether they wish to hire a fired individual or not. No other team will be obligated to hire a fired individual. **If another team does not hire a fired individual (teams are under no obligation) the score for the simulation portion of the course grade will be zero!**

Class Participation (15%) Most general managers spend little time reading and even less time writing reports. The vast majority of their interactions with others are brief and verbal. For this reason, the development and deployment of verbal skills is given a high priority in this course. The classroom and project groups should be considered a laboratory in which you can test your ability to convince your peers of the correctness of your approach to complex problems, and of your ability to achieve the desired results through the use of that approach. Attendance is a baseline and perfect attendance, absent any contribution to discussions, earns you a C for class participation.

In a typical class session, one student or a project group will be *randomly* asked to start the class by answering a specific question (e.g., How does the assigned reading relate to the case?) or discussing a specific issue (e.g., Should Robin Hood disband his Merry Men?). Preparation of the case (including the assignment questions) and associated readings are sufficient to handle such a lead-off assignment. After a few minutes of initial analysis, we will open the discussion to the rest of the class. As a group, we will then try to complete the analysis of the situation and address the problems and issues presented in the case. We will also spend time talking about the implementation of those recommendations and some of the complexities of effecting change in strategic management situations. Some of the behaviors that affect class or group contribution are captured in the questions that follow:

1. Do your comments show evidence of preparation and analysis of the case?
2. Do your comments add to our understanding of the situation?
3. Do your comments clarify and highlight the important aspects of earlier comments and lead to a clearer statement of the concepts being covered?
4. Do you distinguish among different kinds of data (that is, facts vs. opinions or beliefs)?
5. Do you show a willingness to test new ideas, or are all comments "safe"?
6. Do you ask questions of other students and the instructor rather than limit participation to responding to the questions?

The questions above deal with both the *process* of class and group contribution and (of equal or greater concern) the *content* of what you say. Appendix 1 to this course description provides additional information on my views of the case method and why it is used so extensively in this class. **Because quality class contribution figures prominently in this course (15% of your grade), you may not rely on notes, handouts, or cases from students who have covered this material previously. Similarly, you should not use duplicated readings/cases/handouts since these are likely to be "marked up" or highlighted according to the judgments of others; a critical job of the strategist is to discriminate between meaningful data and "noise."**

Remember, class attendance is not a substitute for verbal contributions. It will similarly be difficult to do well on this dimension if you do not regularly attend the course (regardless of reason, you gain zero points for class contribution on days that you are absent). If you are regularly tardy to class, I reserve the right to lower your class contribution grade since late-comers interrupt the class. If you miss more than four sessions, I reserve the right to dock you a full letter grade (4 out of 15 leaves a big gap), on your total final grade. Finally, verbal reasoning is an essential component of strategic management, and students have found it difficult to earn greater than a B in MHR423 when they did not come prepared for class, or failed to make consistent and regular contributions to class discussions.

Other Administrative Details: Faculty members tend to have somewhat different expectations as to class behavior and course norms; I'd like to outline a few of mine:

1. This syllabus operates like a contract between us. It is specific because I want you to be clear about what the class will cover and my expectations of you. I will arrive on time for class, respond to emails within 24 hours, and rarely ask you to stay beyond the allotted class time.
2. Please address me as Professor Carpenter, Doctor Carpenter, Doctor C, ..., etc.
3. In many ways I am like your personal strategic management trainer and my objective is to spark your personal and professional growth. I will be happy to discuss the course, your progress, or any other issues of interest to you on an individual basis. Please see me in class or call or email to set up an appointment. If you need to reach me on weekends or before 9 at night, my home phone number is 831-8327 (email though is the surest route to finding me – mcarpenter@bus.wisc.edu).
4. I frequently call on individuals whose hands are not raised. You should let me know before the start of the class if some emergency has made it impossible for you to be prepared adequately for that class. This still affects your day's grade and learning (by limiting your ability to contribute), but prevents embarrassment for us both.
5. Timely attendance at every class is very important. Since I sometimes develop a class session around particular students' interests and experiences, in the event that you do have to miss a class during the semester, I would appreciate it if you would let me know in advance of that class. If you miss a class, it is always your responsibility to find out from your peers what materials were covered, and what other assignments were made.
6. Group work is strongly encouraged for purposes of case preparation for classroom discussion and the group projects. The individual written assignments are individual assignments; discussion with others is not permitted.
7. Our classroom is not a diner. Please be respectful of others if you eat in class.

Summary Calendar:

Week	Dates	Project
1	9/3 & 9/5	Intro
2	9/10 & 9/12	Strategy Implementation
3	9/17 & 19	Business Strategy – Calloway
4	9/24 & 26	Business Strategy – Cannondale
5	10/1 & 10/3	Business Strategy – China’s Beer Wars
6	10/8 & 10/10	Business Strategy – Creating New Markets & Puzzles, Montague
7	10/15 & 10/17	Corporate Strategy – Disney A & Disney B
8	10/22 & 10/24	Solo Mike
9	10/29 & 10/31	Pacific Cycles & Trek Speakers
10	11/5 & 11/7	Heartland Speaker & Net Mike
11	11/12 & 11/14	Net Mike & Athletics Speaker
12	11/19 & 11/21	Net Mike
13	11/26	Net Mike
14	12/3 & 12/5	Net Mike
15	12/10 & 12/12	Group Presentations
FINAL	12/20 @ 2:45	Location TBA

Note: While we generally do not meet as a class on the Net Mike days I may occasionally call a group meeting to discuss your progress, answer questions, etc. On November 14th you have a Net Mike decision due but we will also meet as a class for a guest speaker presentation.

Week	Dates	Project
1	9/3 & 9/5	Intro

1:1 Introduction + Alaska Mining Case

Case: Distributed in class
 Prereadings: Syllabus (online and distributed in class)

1:2 Strategy Basics + Builderific Case

Case: Distributed in class
 Prereadings: “Developing Business Strategy” (reader)
 “What is Strategy” (reader)

Week	Dates	Project
2	9/10 & 9/12	Strategy Implementation + Vision

2:1 Strategy Implementation + Robin Hood

Case: To be distributed in class
 Prereadings: “A Primer on Strategic Controls” (reader)
 “Horses for Courses” (reader)

2:2 Strategy Implementation + Charlotte Beers Case

Case: Charlotte Beers (casebook)
 Prereadings: “Building your company’s vision” (reader)
 “A guide to case analysis” (casebook)

Preparation Questions:

1. What is Beers trying to accomplish as CEO of Ogilvy and Mather Worldwide?
2. What is your assessment of the vision?
3. What is your assessment of the process Beers and her team went through to create the vision?
4. What are the key challenges facing Beers at the end of the case?

Week	Dates	Project
3	9/17 & 19	Business Strategy

3:1 Business Strategy – Rivalry and Competition

NOTE: This is a heavy readings week!

Prereadings: “Strategy Analysis” (reader)
 “Note on Structural Analysis of Industries” (reader)
 “The US Bicycle Industry in 1974” (reader)
 “Bicycle Industry Overview Interbike 1997” (reader)
 “U.S. Indirect PC Channel” (reader)

We will apply the Five Forces template (end of syllabus) to the US Bicycle Industry in 1974

3:2 Business Strategy – Callaway Case

Case: Callaway Golf Company (casebook)

This case describes competition in the golf equipment industry and Callaway Golf’s strategy in building and sustaining competitive advantage in the industry. We will use the case to better understand the strategic analysis tools discussed so far, as well as gain a better understanding of the fundamental questions answered by thorough case analysis. Come to class prepared to answer the following questions:

1. What are the defining business and economic characteristics of the golf equipment industry? What is this industry like?
2. What is competition like in the golf equipment industry? What competitive forces are strongest and have the greatest effect on industry attractiveness? What competitive forces are relatively weak? What are the competitive weapons that rivals are using to try to outmaneuver one another in the marketplace? Is the pace of rivalry quickening and becoming more intense?
3. How is the golf equipment industry changing? What are the underlying drivers of change?
4. What does a strategic group map of the industry look like? Who are Callaway’s closest rivals?
5. What key factors determine the success of companies competing in this industry?
6. What is Callaway’s strategy to compete in this industry? Does its strategy yield a sustainable advantage? Is this advantage manifest in superior financial performance?
7. What are the resource strengths and weaknesses of Callaway? What competencies and capabilities does it have that its chief rivals don’t have? What new market opportunities does Callaway have? What future threats does it face?
8. How does Callaway structure its value chain to better implement its competitive strategy? How does its value chain differ from its rivals’ value chains?
9. What is your assessment of Callaway’s competitive strengths versus those of Fortune Brands, Ping, TaylorMade, Adams Golf, or Orlimar Golf? How big or small is its advantage over these rivals? What is the source of this advantage?
10. Why did Callaway struggle under Donald Dye’s leadership? What changes did Ely Callaway make to get the company back on track?
11. Does Callaway’s entry into the golf ball market make good strategic sense? Is there a good fit between Callaway’s unique resource strengths and the key success factors of the golf ball segment? How important is the Rule 35 golf ball to Callaway’s long-term success?
12. What recommendations would you make to Chuck Yash as incoming CEO to improve the company’s competitive position in the industry and its financial and market performance?

Week	Dates	Project
4	9/24 & 26	Business Strategy

4:1 Business Strategy – Mergers, Acquisitions, and Alliances

NOTE: This is a heavy readings week!

Prereadings: “Acquisitions: Myths and Reality” (reader)
 “Assessing the Acquisition’s Attractiveness” (reader)
 “Managing International Alliances” (reader)
 “Is your strategic alliance really a sale?” (reader)

4:2 Business Strategy – Cannondale Case

Case: Cannondale corporation and the mountain bike industry (casebook)

This case provide you with further opportunity to drill your basic strategy analytical skills, while at the same time providing greater insights into the focal industry of our course. The Cannondale case contains ample information about the bicycle industry, competitive conditions, Cannondale’s rivals, Cannondale’s strategy, and the company’s operations. Read the case to answer the following questions, with the ultimate objective of making recommendations to Joe Montgomery that you believe will improve Cannondale’s strategy and prospects for success.

1. What are the dominant characteristics of the mountain bike industry?
2. What is competition like in this industry? Which of the five competitive forces are strongest?
3. What driving forces are acting to change the pattern of competition in the mountain bike industry? Are these driving forces acting to increase or decrease the long-term attractiveness of the mountain bike industry?
4. What does a strategic group map reveal about Cannondale’s market position and the position of its key rivals? Who are its closest rivals? Which companies are in the best position on the map?
5. What are the key factors for success in the mountain bike industry? What do companies have to do and achieve in order to be successful?
6. What are the key elements of Cannondale’s strategy for competing in its industry and how is the strategy working? How well does Cannondale’s strategy match the industry’s key success factors?
7. What does a SWOT analysis reveal about the attractiveness of Cannondale’s position in the mountain bike industry?
8. What do we learn about Cannondale’s financial performance from the data in case Exhibit 1?
9. What do you think about Cannondale’s new MX400 product? Does it make good strategic sense for Cannondale to enter the offroad motorcycle segment? Why or why not?

Week	Dates	Project
5	10/1 & 10/3	Business Strategy

5:1 Business Strategy – China’s Beer Wars Case (A)

China is extremely important in the world economy and is the second largest beer market in the world after North America. This case provides you an excellent opportunity to further develop your conceptual framework of industry analysis. It will help you to understand industry dynamics and the underlying competitive forces.

Case: China’s Beer Wars (A) (distributed in class)

Prereading: “Global beer: What’s on tap?” (reader)

Preparation Questions:

1. Why is the beer industry in China different (as compared to America and Europe)?
2. What is the nature of supply and demand and what affects supply and demand?
3. What distribution channels exist and how reliable are they?
4. How do firms compete?
5. Is there market segmentation and what is that segmentation?
6. Who is the brewer’s customer and how are they reached?
7. What regulations and controls exist and how are they applied?
8. To what extent is the industry changing and what are the forces driving these changes?
9. What are the three or four things that firms have to do to succeed in this market? Are they the same for foreign versus domestic firms?

5:2 Business Strategy – China’s Beer Wars Case (B1 – C I will distribute these at the end of 5:1)

At the start of class I will assign you to a team which will propose a strategy for one of the companies discussed in cases B1 through C. Come to class having analyzed the mini cases (they range in length from 2 to 4 pages), and sketched out a rough map of the industries strategic groups. The strategy developed by your team will need to address the following issues (you will develop these on a flip chart and I will collect a summary of them at the end of class):

Case: China’s Beer Wars (B1, B2, B3, B4, B5, B6, B7, B8, B9, B10, C)

Strategy development issues:

1. Ownership strategy – joint ventures with one or more Chinese companies or several companies?
2. Production strategy – build a new brewery or buy an existing one? What size? How to secure inputs (e.g., bottles)?
3. Branding strategy – go with Chinese brands, develop own Chinese brand, or go with your own brands? How to advertise or promote?
4. Distribution strategy – existing channels, own channels, or new channels? Sales force?
5. Distribution outlets – use hotels, restaurants, retail outlets, or combinations?
6. Location strategy – go national, regional, or local? Which cities or regions?
7. Business strategy – mergers, takeovers, acquisitions, new plants, size, production level?

Week	Dates	Project
6	10/8 & 10/10	Business Strategy

6:1 Business Strategy & Creating New Markets – Resource Puzzles Case

Case: Distributed in class
 Prereadings: “Strategy and the Internet” (reader)
 “Creating New Market Space” (reader)
 “Product Development” (reader)

6:2 Business Strategy & Creating New Markets – Montague Case (A)

Case: Montague Corp (A) (casebook)

Montague Corp is your mid-term case. Your objective is to analyze the case using the tools we have reviewed and develop a strategy and set of recommendations for an exceptional product—a bicycle that folds—with large markets both at home and abroad. Be careful to support your recommendations with the conclusions of your analysis—do not simply reiterate facts from the case or walk through your analyses (unlike a math class I do not want you to “show your work”!). Also be sure to anchor your recommendations in Montague’s specific resources, relative to the threats and opportunities you see in its potential markets.

Week	Dates	Project
7	10/15 & 10/17	Corporate Strategy – Disney A & Disney B

7:1 Corporate Strategy – Disney (A) NOTE: This is a heavy readings week!

This two-case series on Disney demonstrates the value, power, and challenges associated with corporate strategy. We will use the first Disney case to (a) identify the kinds of resources that support a successful corporate strategy, (b) understand what synergy involves and the core activities that drives other businesses, (c) analyze how to manage interrelationships within a corporation, (d) identify the tradeoffs involved in the implementation of a corporate strategy, and (e) examine the diversification decisions through time and the gradual redefinition of corporate strategy. We then use the first case as background for your thorough analysis of the second case (case B) for our next session.

Case: The Walt Disney Company (A) (reader)
 Prereadings: “To Diversify or Not to Diversify” (reader)
 “Creating Corporate Advantage” (reader)
 “Capturing Cross-Business Synergies” (reader)

Preparation Questions:

1. Why has Disney been so successful?
2. Why is the "what is strategy" article particularly relevant to Disney?
3. What does the Disney name contribute to each business?
4. How does Disney manage the relationships between its businesses?
5. What should Disney do next? What guidelines for action would Porter (article from session #2) suggest?

7:2 Corporate Strategy – Disney (B)

The second case illustrates Disney's struggle to sustain its historical greatness while achieving very aggressive performance targets. This case gives you the opportunity to (a) analyze the rationale for diversification in the three dimensions of the value chain, geography, and product, (b) examine the various tradeoffs involved in the implementation of a corporate strategy to leverage resources into new activities, (c) identify the limits to how far a particular resource can be leveraged, and (d) understand how a company develops a strategy to upgrade its resources.

Case: The Walt Disney Company (B) (reader)

Preparation Questions:

1. How has Disney been able to sustain five more years of performance?
2. Based on the overall and business segment figures reported in Exhibit 1 (p. 224), where has growth come from? How has each of the three segments -- theme parks, films, and consumer products -- performed (growth in revenues, operating income, and margins)? How has Disney achieved those growth rates?
3. Can Disney continue to sustain its growth?
4. What role should it play in multimedia?
5. Did Disney appear to follow Porter's advice (article from session #1)?
6. Try to plot Disney on the "Capturing Cross-Business Synergies" survey presented on page 85 of that article – how does Disney compare to Jupiter, Galaxy, and Taipan?

Week	Dates	Project
8	10/22 & 10/24	Solo Mike

8:1 Solo Mike Years 1-5

8:2 Solo Mike Years 6-10

Week	Dates	Project
9	10/29 & 10/31	Pacific Cycles & Trek

9:1 Pacific Cycles Executive Talk – Chris Hornung

9:2 Trek Executive Talk – Tonja Green

Week	Dates	Project
10	11/5 & 11/7	Heartland & Net Mike

10:1 Heartland Funds CEO Talk – Bill Nasgovitz

Week	Dates	Project
10	11/7	Net Mike
11	11/12 & 11/14	Net Mike
12	11/19 & 11/21	Net Mike
13	11/26	Net Mike
14	12/3 & 12/5	Net Mike
15	12/10 & 12/12	Group Presentations

- 10:2 Net Mike Year 1
- 11:1 Net Mike Year 2
- 11:2 Net Mike Year 3
- 12:1 Net Mike Year 4
- 12:2 Net Mike Year 5
- 13:1 Net Mike Year 6
- 13:2 THANKSGIVING
- 14:1 Net Mike Year 7
- 14:2 Net Mike Year 8
- 15:1 Net Mike Board Presentation
- 15:2 Net Mike Board Presentation

Appendix
TEAM PEER EVALUATION FORM

DO NOT place your name on this form. Please evaluate each group member in a fair and accurate manner. Your ratings will be kept *anonymous*. Summary scores (averages for each category) will be provided to individual students upon request. Honest evaluation is crucial to learning and improvement. Take your time and provide a useful and complete evaluation.

1. **Rank Order**--please rank-order each group member's participation (yours included) in the space provided below. 1 = highest rank (greatest contribution) and **NO TIES** please.

	Martha	Andrew	Sally
Rank			

2. **Point Allocation**--below, rate yourself and your team members using a zero to four point scale (4 = superior, 3 = adequate, 2 = average, 1 = poor, and 0 = no contribution).

	Martha	Andrew	Sally
Organizational Ability			
Cooperativeness			
Originality or Creativity of Ideas Contributed			
Functional Contribution--Analysis & Recommendations			
Dependability			
Quantity of Work Contributed			
Quality of Work Contributed			

3. **Perceptual Evaluation**--Use the following 1 to 5 scale to complete the table following.
- 1) Performance always far above and beyond that reasonably expected of a team member.
 - 2) Performance reasonably be expected of a team member and many times more.
 - 3) Performance reasonably expected of a team member.
 - 4) Performance average to below average to that expected from a team member.
 - 5) Performance consistently not meeting reasonable expectations of a team member.

	Martha	Andrew	Sally
Doing the work that was expected.			
Doing the work on time.			
Attending group meetings.			
Taking a leadership role in the group.			
Being part of the solution to problems rather than part of their creation.			
Staying in touch with other group members.			

4. **Overall Rating**--Use the following 1 to 5 scale to rate each person on your team.
- 1) I will do everything humanly possible to **never** work with this person again.
 - 2) I'd really **prefer not** to work with this person again.
 - 3) I could work with this person again.
 - 4) I would be happy to work with this person again.
 - 5) I will do everything humanly possible to work with this person again.

	Martha	Andrew	Sally
Rating			

COMMENTS: (use back for additional comments)

Simulation Management Team Presentation Evaluation Form

BOARD OF DIRECTORS evaluation for **XXXX Bike Co.**

Your Name: _____

Your evaluation (The Board of Directors) accounts for 50% of this team's score for the Mike's Bikes Simulation board presentation. Below are several questions associated with your perception of how well the management team was able to defend their position, explain issues, and answer questions (during the brief 15 minute meeting) arising from your evaluation of the management report.

Ratings:

<i>Not Acceptable 1</i>	<i>Poor 2</i>	<i>Below Average 3</i>	<i>Average 4</i>	<i>Good 5</i>	<i>Very Good 6</i>	<i>Superior 7</i>
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Management Team Oral Defense

1. Was the management team able to satisfactorily address Board concerns during the meeting?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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2. Did the management team sufficiently explain their responses to Board questions?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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3. As a result of the Q&A session, what is your perception of Management's ability to achieve their definition of success?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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4. What is your perception of Management's ability to effectively manage the firm into the future?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
----------	----------	----------	----------	----------	----------	----------

5. What is your perception of Management's articulation and understanding of their business-level strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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Simulation Management Team Report Evaluation Form

BOARD OF DIRECTORS evaluation for **XXXXXX Bicycle Co.**

Your Name: _____

Your evaluation (The Board of Directors) accounts for 50% of this team's score for the Mike's Bikes Simulation paper. Your task is to evaluate the overall performance of this team based on information they provide in their report. The first set of questions focuses on this team's performance during the eight-year period of the simulation and accounts for 60% of the Board component of the Mike's Bikes score. The second set of questions focuses on the firm's positioning for the future and will account for 40% of the Board component. Please complete the forms, add any comments, and return them to the instructor immediately following the Board Presentation.

Ratings:

<i>Not Acceptable 1</i>	<i>Poor 2</i>	<i>Below Average 3</i>	<i>Average 4</i>	<i>Good 5</i>	<i>Very Good 6</i>	<i>Superior 7</i>
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Eight Year Performance Summary

1. Was the market segment(s) in which the company operated consistent with its stated strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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2. Was the company's R&D and product positioning within market segments congruent with its strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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3. Was the company's financial strategy consistent with its overall strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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4. How successful does the company's promotion and sales force management appear to be?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
----------	----------	----------	----------	----------	----------	----------

5. How well were inventories and stock outs controlled?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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6. How effective was the team's use of capacity, manufacturing systems and plant scale management within the context of the company's overall strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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7. Was the company's management of human resources consistent with its strategy?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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8. If the company got into trouble, did it make reasonable decisions to overcome the problem?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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Positioning for the future

1. If the simulation were to continue for another five years, is this company in a good position to do well in the future?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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2. Has the management team struck a good balance between short- and long-term concerns?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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3. Have they been thorough and realistic in identifying potential future threats and opportunities?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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4. Have they made decisions that position the company to minimize the threats and maximize the opportunities?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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5. Have the members of this management team shown that they have the competencies required to manage this company successfully in the future?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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6. Have the members of this management team shown that they have learned to work together to utilize the talents of each member?

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
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Comments: (on back)

Appendix -- Z-Score Bankruptcy Index

The Z-Score is a measure of a company's health and utilizes several key ratios for its formulation. The model was developed in the late 1960's by Edward I. Altman, professor of finance at New York University School of Business. The model incorporates five weighted financial ratios into the calculations of the Z-Score. Prof. Altman has defined 5 variables that comprise the Z-score for public and private companies.

1. **X1 Component of Z-Score** is defined as ($X1 = \text{Working Capital} / \text{Total Assets}$). The ratio of Working Capital to Total Assets is the Z-Score component which is considered to be a reasonable predictor of deepening trouble for a company. A company which experiences repeated operating losses generally will suffer a reduction in working capital relative to its total assets.
2. The **X2 Component of Z-Score** is defined as ($X2 = \text{Retained Earnings} / \text{Total Assets}$). The ratio of Retained Earnings to Total Assets is a Z-Score component which provides information on the extent to which a company has been able to reinvest its earnings in itself. An older company will have had more time to accumulate earnings so this measurement tends to create a positive bias towards older companies.
3. **X3 Component of Z-Score** is defined as ($X3 = \text{Earnings Before Taxes} + \text{Interest} / \text{Total Assets}$). This ratio adjusts a company's earnings for varying income tax factors and makes adjustments for leveraging due to borrowings. These adjustments allow more effective measurements of the company's utilization of its assets.
4. The **X4 Component of Z-Score** is defined as ($X4 = \text{Market Value of Equity} / \text{Total Liabilities}$). This ratio gives an indication of how much a company's assets can decline in value before debts may exceed assets. Equity consists of the market value of all outstanding common and preferred stock. For a private company the book value of equity is used for this ratio. This depends on the assumption that a private company records its assets at market value.
5. The **X5 Component of Z-Score** is defined as ($X5 = \text{Net Sales} / \text{Total Assets}$). This ratio measures the ability of the company's assets to generate sales. This ratio is not included in the Z-Score of a private company.

The Z-Score model for Public industrial companies is: $Z = 1.2 X1 + 1.4 X2 + 3.3 X3 + 0.6 X4 + 1.0 X5$. A healthy public company has a $Z > 2.99$; it is in the grey zone if $1.81 < Z < 2.99$; it is unhealthy if it has a $Z < 1.81$

The Z-Score model for Private industrial companies is: $Z = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05 X4$. A healthy private company has a $Z > 2.60$; it is in the grey zone if $1.1 < Z < 2.59$; it is unhealthy if it has a $Z < 1.1$.

Online Z-Score calculator: <http://www.scotlandgroup.com/zscore.htm>

WORKSHEET ON INDUSTRY ATTRACTIVENESS (from the perspective of a large incumbent firm)

I. Barriers to Entry and/or Mobility

	Yes (+)		No (-)
Do large firms have a cost or performance advantage in your segment of the industry? Do costs decline significantly with volume? (called scale economies.)			
Are there any proprietary product differences in your industry? For example, are products protected by patents?			
Are there established brand identities in your industry?			
Do your customers incur any significant costs in switching suppliers? For example, to change suppliers do customers have to invest in learning new programs, or procedures (e.g., computer software)?			
Is a lot of capital needed to enter your industry? (A new semiconductor fabricating facility costs over 1 billion.)			
Is serviceable used equipment unavailable/expensive? For a counter example, there is a well developed market for used aircraft. Aircraft are widely available to airlines; although prices vary depending on demand.			
Does the newcomer to your industry face difficulty in accessing distribution channels? Traditionally in the pharmaceutical industry it has been difficult for small (generic) companies, because they lack a detail sales force, to get their products accepted by prescribing physicians.			
Does experience help you to continuously lower costs? Different than scale economies, experience effects are not directly related to volume. Experience effects mean incumbent firms have figured out how to do it better and cheaper; and it would be difficult for less experienced firm to gain this knowledge without going through the same process. (i.e., The experience advantage is path dependent.)			
Does a newcomer have any problems in obtaining the necessary skilled people, materials or suppliers? It is difficult to enter the mining industry unless you have access to a low cost mineral source.			
Is the industry growing slowly?			
There are no accepted product standards or specifications. There is no industry standard setting or certification body.			

I. Barriers to Entry and/or Mobility (cont.)

	Yes (+)		No (-)
Are there any licenses, insurance, or qualifications which are difficult to obtain?			
There is no obvious point of entry? Potentially viable strategies have either been attempted by, or are currently being executed by incumbent firm.			
Can the newcomer expect strong retaliation on entering the market? Have incumbent firms reacted strongly in the past? Do industry economics (high fixed, low variable cost) suggest that incumbents will react?			

II. Bargaining Power of Buyers:

(to what extent are your customers locked into you)

	Yes (+)		No (-)
Is there a large number of buyers/customers relative to the number of firms in the business? Do you have a large number of customers, each with relatively small purchases?			
Your product is a small part of the cost but critically affects the value of your customers end product. For example, beer cans are coated on the inside with a plastic-like film. The film cost very little but if it fails the taste of the beer is adversely affected.			
Does the customer face any significant costs in switching suppliers?			
Does the buyer need a lot of important (technical) information to inform their purchasing decision?			
Is the buyer aware of the need for additional information?			
Is there anything which prevents customers from taking your function in-house? For example, can manufacturers worry that their customers (the packers) will backward integrate into container manufacture.			
Customers are not highly sensitive to price?			
Products in this industry are unique, or there are accepted brands?			
My customers' businesses are profitable?			

III. Threat of substitutes:

(some other product or service which performs the same job as yours)

	Yes (+)		No (-)
Substitutes have performance limitations which do not completely offset their lower price, or their performance advantage is not justified by their higher price.			
My customer will incur costs or critical uncertainties in switching to a substitute.			
My customer has no real substitute. A counter example, high fructose corn syrup became a substitute for sugar in many industrial applications.			

IV. Bargaining power of suppliers:

	Yes (+)		No (-)
My inputs (materials, labour, supplies, services, etc) are commodities, rather than unique or differentiated.			
The quality of inputs is not critical to my finished product.			
I can switch between suppliers quickly and cheaply.			
My suppliers would find it difficult to enter my business, or would find it difficult to perform my function in-house.			
I can substitute inputs readily.			
I have many potential suppliers.			
My business is important to my suppliers.			
My cost of purchases does not have a significant influence on my overall costs.			

V. Determinants of rivalry among existing competitors

	Yes (+)		No (-)
My industry is growing rapidly.			
There are few incumbent competitors.			
My competitors are all of approximately the same size as me.			
The industry is not cyclical with intermittent over-capacity.			
The fixed costs of the business are a relatively low portion of total costs.			
There are significant product differences and brand identities between the competitors.			
My "manufacturing or distribution" process have unique or proprietary features which give me lower costs or a higher value product?			
My competitors are diversified rather than specialized.			
It would not be hard to get out of this business because there are no specialized skills and facilities or long term contract commitments, etc.			
My customers would incur significant costs in switching to a competitor. One factor that kept IBM dominant in the computer business for so long was the cost and uncertainty of switching to another supplier. "Nobody gets fired for buying IBM."			
My product is complex and non-standardized. It requires a detailed understanding on the part of my customer.			

Overall industry rating:

	Favourable (yes)	Moderate	Unfavourable (no)
Threat of new entrants.			
Bargaining power of buyers.			
Threat of substitutes.			
Bargaining power of suppliers.			
Intensity of rivalry among competitors.			