This course is designed to introduce the concepts, tools, and first principles of strategy formulation and competitive advantage. It focuses on the information, analyses, organizational processes, skills and business judgment that executives must use to craft strategies to maximize long-term profits in the face of uncertainty and competition.

This course is also designed to develop among participants the “general management perspective,” often also called the general manager's point of view. This view is critical because fundamental strategic business decisions can only be effectively made by viewing a firm holistically, and over the long term. These decisions typically include the determination of organizational purpose, the pursuit of specific opportunities, and the creation of competitive advantage, the allocation of critical resources, and the choice of competitive strategies.

This is an integrative course in two respects. First, it takes a broad view of the environment that includes the customers, technology, economics, capital markets, competitors, special interest groups, and government. Thus it draws together ideas from other functional/discipline-based courses. Second, the course takes the perspective of the firm as a whole and examines how policies in each functional area can be integrated into an overall company strategy. A major objective of this course is to present a body of analytical tools to aid strategic decision-making taking into account the various factors mentioned above.

This course covers competitive (or business) strategy. We will analyze strategy in a single industry, including industry and competitive analysis, competitive advantage, positioning and sustainability. We will continue with strategy in Spring semester in GSBA-580, when we will examine corporate and global strategy. Corporate strategy includes the decision of which industries to compete in both horizontally (diversification) and vertically (vertical integration). Global strategy deals with the additional issues that come into play when expanding outside your home market. Between this course and the global strategy component of the spring course, we will analyze all three different aspects of strategy—Competitive strategy, Corporate strategy, and Global strategy.
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.

Success, however, depends not only on the soundness of the strategy, but also on its effective implementation through appropriate organizational and administrative choices. In the end, unforeseen external factors may cause a well-conceived and executed strategy to fail, in spite of its initial wisdom—but a poor strategy badly executed increases the chances of failure. Opportunities to act strategically occur infrequently. If missed, or mismanaged, they can prove disastrous for any firm.

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. The course will also examine the economic underpinnings of competitive advantages, and the fundamental conditions that allow firms to conceive, develop, and sustain, advantageous strategic positions.

**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 question and validate 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 assess a business and its problems or opportunities, this course will allow you experience in conducting comprehensive 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.** Much of the knowledge that successful managers employ consist of "rules of thumb" about what issues are likely to be important in certain kinds of business situations. These rules of thumb, or heuristics, are often implicit in the thinking of people who have never bothered to articulate them explicitly. 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 may make you a good analyst; they will not make you a good strategist. While the ability to master analytical models, frameworks, and tools is essential, ultimate success is more strongly predicated on prescient judgment, entrepreneurial insight, vision, and a willingness to forcefully act with conviction.

**COURSE FORMAT**

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 aid memory of 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 kit of analytical tools, skills and insights, progressively over all the selected cases.

There are other reasons for employing the case discussion method of instruction. First, it 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 central or strategic issues. Second, 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 better than others. A popular phrase in case analysis classes is "Sometimes there are no right answers,"
but there are usually a lot of wrong answers." Case discussion techniques provide a chance to learn the meaning of analytical rigor in situations that are more ambiguous than black-and-white problems.

These rationales are discussed because the case method is unfamiliar to many of you and can cause some initial confusion. There will be many times when I, as your instructor, will not reveal my own opinions about a particular issue, and there will be cases that 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, intensive preparation before class and participation in class are required to ensure the course's success. Here is a suggested approach that has proven helpful: (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) Do perform quantitative analyses of the numbers 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 is 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 quantitative support. Some of these trends, often very important ones, will not be flagged in the text of the case. (5) Finally, your preparation will usually include notes that can be used to guide your interventions in class discussions.

You will probably want to, and are strongly encouraged to, form study groups that will meet regularly to share insights and ideas about the assigned cases. While this is, of course, voluntary, past experience has shown that it improves performance in the course.

There is a good chance that you will feel a bit confused or overwhelmed during the first few sessions 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 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.

**COURSE EVALUATION**

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

<table>
<thead>
<tr>
<th>Course Component</th>
<th>Option A</th>
<th>Option B</th>
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<tbody>
<tr>
<td>Course Participation</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Individual Case Analysis 1</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Group Project</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>40%</td>
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</tbody>
</table>

I will compute final course scores using both options A and B, and will then assign your grade based on the higher of the two options (e.g., if a student has a final course score of 80.5 using Option A and 81.5 using Option B, then I will use their Option B score of 81.5 when calculating final grades, while if another student has a score of 77.5 using Option A and 75 using Option B, then I will use their Option A score to calculate their final course grade).

Grading standards will conform to USC guidelines for required courses ([http://www.usc.edu/dept/ARR/grades/](http://www.usc.edu/dept/ARR/grades/)). This course carries a mean GPA of 3.3.

**COURSE PARTICIPATION**

Case courses work well, and are enjoyable effective learning experiences, if everyone is an active productive participant. Your overall class participation will be closely monitored. In grading in-class participation, I will look at both the *quantity* and *quality* of your class contributions/interventions. In-class participation is obviously a function of preparation, skills, attitude, and a willingness to actively commit yourself in front of me, and your colleagues. A classroom is a cost-free environment for experimenting and learning to "play the game." I encourage you to make use of it. I recognize that some students are far more comfortable than others with in-class participation. However, it is important you make an effort every class to contribute in some meaningful way. Please feel free to come and discuss with me ways to enhance your participation if you are struggling to get into the class discussion.

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 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?

It is expected that all students will make brief notes or outlines—identify critical problems, analyze relevant numbers, do the financials, generate alternative recommended courses of action, and generate ideas about how to implement them. You should rely on these notes when contributing to the class discussion.

Students will be called on, at random, to take the lead in various aspects of class discussions. Typically, we will ask one or more participants to start the class by answering specific questions such as “If you were the person in charge in this situation, what would you do?” The quality of the contributions made during these periods affect a student’s overall participation grade. Factual misstatements, comments that demonstrate a lack of adequate preparation, or comments that come late in a discussion that distract the class and indicate that the student has not been actively listening will be noted as “negative” course participation.

INDIVIDUAL CASE ANALYSIS

One individual case analysis has been assigned for this course and is due on Monday, August 19 at the beginning of class. More specific information will be provided in class and via Blackboard. The individual case analysis is limited to one typed page (1 inch margins and 12 pt font) and appropriately referenced exhibits depending on the specifics of the assignment (e.g., 5 force analyses, value chain analyses, financial analyses—what to attach depends on the nature of the assignment). The individual case analysis must be the result of entirely individual work. No collaboration of any form is permitted. Don’t use the internet or any other source to search for any additional resources to help with this project—just rely on the case and other class materials (i.e., the readings and your own class notes). Late papers will be penalized 10 percent for missing the deadline, and 10 percent per day late.

GROUP PROJECT

As a group project, you will prepare a complete strategic analysis of the current and future prospects for a company of your choice. The reports should contain a comprehensive industry
and market analysis, including a detailed analysis of relevant competitors, and conclude with strategic recommendations for top management. The selection of companies for strategic analysis is entirely up to each group; however, firms in industries that are in transition or firms that are undergoing major strategic changes are potentially more interesting. Group reports will be done in the form of consulting reports. Each report should consist of 20 to 30 fully annotated PowerPoint slides. Additionally detail will be given in class. **Group reports are due Monday, August 26, at 3 pm. Please deliver a hardcopy to the program office and email me a copy.** Late reports will be penalized 10 percent for missing the deadline, and 10 percent per day late.

**FINAL EXAMINATION**

A final exam is scheduled for this course. The closed book, closed-note final exam will consist of questions about the cases and concepts covered in the course and about a final case that you will be given before the final exam. The exam will include multiple choice questions, True/False/Explain questions and short essays. The final exam case will be distributed approximately a week prior to the exam date. **The case analysis must be completely individual. No collaboration of any form is permitted, nor is seeking out any additional analyses or materials.** You are, however, allowed to study in groups about the concepts, readings and cases we covered during class; you just can’t discuss the final exam case.

**TEXTS**

There is no required textbook for this course; the only required readings are the cases and readings in the course packet. I do urge you, however, to consider getting one of these optional texts—there is a lot of material to digest in 3 weeks and the texts represent different ways of explaining some of the core concepts. The Ghemawat text is a required very helpful but the writing style is quite dense. The Grant text is more comprehensive and features writing that is easier to follow. A final text I will mention is one by Jay Barney and Bill Hesterly, which is also very good. It is a relatively comprehensive text (like Grant) and is also relatively easy to read (at least as user friendly as Grant and much more so than Ghemawat).

**Optional Texts**


This is a good text on the concept of strategy, but as noted above it is quite dense. It provides definitions of certain key concepts, detailed descriptions of conceptual frameworks for thinking about how firms interact and compete, and very useful guidelines for undertaking various aspects of strategic analysis. Concepts are covered quickly and succinctly.


This is an excellent foundational text that covers many of the key concepts in strategy. This is a thorough and comprehensive strategy reference guide. While we will not
often refer directly to the text in class it provides definitions of key terms and concepts. This book covers more concepts than we will have time to get to in class. You should use this book to help you fill in gaps in your understanding, add to your strategic analysis tools and "box of tricks", and reinforce your skills. It is a good reference.

This is another excellent foundational text that covers many of the key concepts in strategy and also serves as a good reference tool.

COMMUNICATION: Blackboard

I will use Blackboard to send messages about assignments and handouts. Make sure that your email address is up to date in Blackboard.

STUDENTS WITH DISABILITIES

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in STU 301 and is open 8:30 a.m. - 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776.

ACADEMIC INTEGRITY

The following information on academic integrity, dishonesty, and the grading standard are placed here at the recommendation of the School of Business Administration Faculty and are taken from the Faculty Handbook.

"The University, as an instrument of learning, is predicated on the existence of an environment of integrity. As members of the academic community, faculty, students, and administrative officials share the responsibility for maintaining this environment. Faculty have the primary responsibility for establishing and maintaining an atmosphere and attitude of academic integrity such that the enterprise may flourish in an open and honest way. Students share this responsibility for maintaining standards of academic performance and classroom behavior conducive to the learning process. Administrative officials are responsible for the establishment and maintenance of procedures to support and enforce those academic standards. Thus, the entire University community bears the responsibility for maintaining an environment of integrity and for taking appropriate action to sanction individuals involved in any violation. When there is a clear indication that such individuals are unwilling or unable to support these standards, they should not be allowed to remain in the University." (Faculty Handbook, 1994: 20)

Academic dishonesty includes: (Faculty Handbook, 1994: 21-22)
1. Examination behavior - any use of external assistance during an examination shall be considered academically dishonest unless expressly permitted by the instructor.
2. Fabrication - any intentional falsification or invention of data or citation in an academic exercise will be considered a violation of academic integrity.
3. Plagiarism - the appropriation and subsequent passing off of another’s ideas or words as one’s own. If the words or ideas of another are used, acknowledgment of the original source must be made through recognized referencing practices.
4. Other Types of Academic Dishonesty - submitting a paper written by or obtained from another, using a paper or essay in more than one class without the teacher’s express permission, obtaining a copy of an examination in advance without the knowledge and consent of the teacher, changing academic records outside of normal procedures and/or petitions, using another person to complete homework assignments or take-home exams without the knowledge or consent of the teacher.

ABOUT YOUR PROFESSOR

Peer C. Fiss is the McAlister Associate Professor of Business Administration in the Management and Organization Department. He received his Ph.D. jointly from the Department of Management & Organization at the Kellogg School of Management and the Department of Sociology at Northwestern University. Dr. Fiss specializes in teaching courses in strategic management and corporate governance. His research interests include the configuration of organizational activities to achieve high performance and strategies for establishing business models in newly emerging industries such as online display advertising. He currently teaches courses at the MBA, executive level, and PhD level. Dr. Fiss consults Fortune 500 companies on their strategic planning process and serves on the board of directors of the USC Credit Union. He is the winner of the Department of Management and Organization’s 2012 Top Gun Award for excellence in research, teaching, and service.

COURSE SCHEDULE

Summer assignments: Read Michael Porter, What is Strategy (HBR 4134) & the GSBA540 Strategy Primer (also available online)

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Case / Topic</th>
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<tbody>
<tr>
<td>1</td>
<td>8/5</td>
<td><strong>The Concept of Strategy</strong></td>
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<td><em>Readings:</em> Hamel &amp; Prahalad, Strategic Intent (HBR 6557),</td>
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<tr>
<td>2</td>
<td>8/6</td>
<td><strong>Strategy: Concepts and Frameworks</strong></td>
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<td>No case. This will be an interactive lecture day.</td>
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<tr>
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<td><em>Readings:</em> Hambrick &amp; Fredrickson, Are You Sure You Have a Strategy?</td>
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3 8/7  **The Business Landscape and Industry Analysis**
   *Case:* Cola Wars: Coke and Pepsi in 2010 (9-711-462)
   *Reading:* Understanding Industry Structure (9-707-493)

4 8/14  Cola Wars (cont’d)

5 8/15  **Competitive Positioning**
   *Case:* Gucci Group N.V. (A) (HBS 9-701-037)
   *Readings:* Note on Competitive Positioning (9-794-108)

6 8/16  **Generic Strategies**
   *Case:* Airborne Express (A) (9-798-070)

7 8/19  **Competing in Dynamic Industries**

<table>
<thead>
<tr>
<th>Individual case assignment – typed, 1-page analysis + exhibit – due before start of class</th>
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<tbody>
<tr>
<td><em>Case:</em> Apple Inc., 2008 (9-708-480)</td>
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<tr>
<td><em>Reading:</em> Brandenburger and Nalebuff, <em>The Right Game: Use Game Theory to Shape Strategy</em> (95402); Porter and Rivkin, <em>Industry Transformation</em> (9-701-008)</td>
</tr>
</tbody>
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8 8/21  **Competitive Advantage**
   *Case:* Wal-Mart Stores in 2003 (9-704-430)

9 8/22  **Sources of Competitive Advantage**
   *Case:* eHarmony (9-709-424)
   *Readings:* Hamel & Prahalad, *Core Competence of the Corporation* (6528)

10 8/26  **Creating and Sustaining Advantage**
   *Case:* Netflix (9-607-138)

| Monday August 26 at 3 pm  |  Group Project Due |

11 8/27  **The Strategy Process: From Development to Advantage to Sustainability**
   *Case:* Ice-Fili (9-703-516)
   *Reading:* Gavetti & Rivkin, *How Strategists Really Think* (9661)

12 8/28  Course Review

| 8/30  |  **Strategy Final Exam, 8:00 a.m.** |