15.834 MARKETING STRATEGY: ANALYSING INNOVATIVE BUSINESS MODELS AND BUILDING COMPETITIVE ADVANTAGES

Overview

This course should not be confused with 15.810, Marketing Management. Some of our electives are close to 810, but Marketing Strategy is a VERY different course.

Students in 834 learn economic tools, based on cooperative and non-cooperative game theory, enabling them to tackle two classes of problems:

1. **Evaluating new ventures based on innovative business formats.** We focus on the time at which the new format is launched and learn how to evaluate its appeal to customers and predict the response of incumbents. Examples include Amazon vs. Barnes and Noble, Airbnb vs. hotels, Facebook vs. Google, IKEA vs. regular furniture stores, and E-Trade vs. Schwab vs. Merrill Lynch.

2. **Building competitive advantages.** While the literature is full of advice about “how to build sustainable competitive advantage”, most of these recommendations are not logically consistent. Students in the course will learn how to think, in a rigorous way, about which types of advantages a specific firm should pursue and when a young firm should shift emphasis from investing in, to monetizing of, its advantages. Examples include Gucci, Costco, Real Madrid, Starbucks, International Management Group, and Lady Gaga.

The material will be helpful to students pursuing careers in which they look at the firm as a whole. Examples include entrepreneurs, consultants, investment analysts, product managers, and CEOs.
The first module of the course, *Business Formats and Resource Development*, introduces the two main topics and sets the agenda.

In the second module, *Designing the Most Efficient Business Format*, we learn how to design business formats and anticipate competitive response. By “maximizing the size of the pie” a firm can make everybody in its vertical chain (its suppliers, the firm itself, and its customers) better off. We apply these tools to several start-ups competing with new business formats.

The third module, *Identifying and Leveraging Customer-based Resources*, is very brief. We introduce the concept of resources and learn how to measure and identify these assets. While some students may know most of this material from other classes, it is reviewed here in order to set us up for the fourth module.

The fourth module, *Creating Competitive Advantage*, is focused on ways in which the firm can grow its portfolio of resources over time. By building on the resource perspective introduced in module three, we learn how to identify those resources that a specific firm profitably could invest in at different points in time. The module is divided into two parts; one about established firms and one about young firms.

The fifth module, *Application*, is intended to give students a chance to apply the material to propose, evaluate, and fine tune new ventures.

**Pedagogical Structure**

The course will consist of case discussions with interspersed mini-lectures, followed by summary lectures in each class. The course grade will be determined by class participation, the midterm exam (4/16), and the project. Each component of the grade will carry equal weight.

Students may (and should) do the project in groups with up to four members. The project consists of two parts, each of which should be four pages or less, for a total of eight pages
or less.

In the first part of the project, which is due at class time 5/2, students are asked to (a) propose a new business format in an existing industry and (b) identify a group of customers to whom it will appeal. We have set aside two class periods in which these ideas will be presented and discussed.

For purposes of the second part of the project, which is due at class time 5/14, students should think of their idea as being implemented by a new entrepreneurial company. They are to (c) discuss how current industry participants will react to the new business and (d) present a plan for how a defensible position can be built.

**Student Support Services**
If you are dealing with a personal or medical issue that is impacting your ability to attend class, complete work, or take an exam, please discuss this with Student Support Services (S3). The deans in S3 will verify your situation, and then discuss with you how to address the missed work. Students will not be excused from coursework without verification from Student Support Services. You may consult with Student Support Services in 5-104 or at 617-253-4861. Also, S3 has walk-in hours Monday-Friday 9:00-10:00am.

**Student Disability Services**
MIT is committed to the principle of equal access. Students who need disability accommodations are encouraged to speak with Kathleen Monagle, Associate Dean, prior to or early in the semester so that accommodation requests can be evaluated and addressed in a timely fashion. Even if you are not planning to use accommodations, it is recommended that you meet with SDS staff to familiarize yourself with the services and resources of the office. You may also consult with Student Disability Services in 5-104 or at 617-253-1674. If you have already been approved for accommodations, please contact me early in the semester so that we can work together to get your accommodation logistics in place.
Syllabus

I. Business Formats and Resource Development

1. M 3/31 IKEA Invades America 9-504-094
   (1) Compare IKEA to a traditional furniture store
   (2) Why has IKEA been successful?

   (1) How have Wal-Mart’s sources of competitive advantage changed over time?
   (2) What are Wal-Mart’s advantages at the time of the case (2003)?
   (3) How sustainable are those?

II. Designing the most Efficient Business Format
   (Background reading: An Efficiency Criterion for Marketing Design)

3. F 4/4 Barnes and Noble vs. Amazon.com N9-798-063
   (1) Compare the long-run cost position of a successful online bookseller to Barnes and Noble’s traditional business model (use Exhibits 4 and 7 as benchmarks, and assume that the numbers reflect average discounts of 25% off list prices for the online bookseller and 10% off list for Barnes and Noble’s traditional bookstores).
   (2) Compare willingness to pay for the two business models.
   (3) Will anyone make money in this business?
   (4) Should Barnes and Noble have done anything differently?

4. M 4/7 E-trade, Stanford M-286
   (1) What did discount brokers such a Schwab bring to the brokerage business?
   (2) What do electronic discount brokers such as E-trade bring?
   (3) How does this compare with what Amazon brings to book retailing?

5. W 4/9 Marketing James Patterson 9-505-029
   (1) Why are bestsellers gaining market share?
   (2) What are some different ways of selling books and the advantages of each?
   (3) How can Patterson grow his business?

   (1) Why are traditional newspapers losing customers?
   (2) Where is Metro doing well and why?
   (3) How sustainable is Metro’s position?

7. M 4/14 Facebook Platform 9-808-128
   (1) What is Google’s comparative advantage in selling ads?
(2) What is Facebook’s comparative advantage in selling ads?
(3) What else could they sell?

8. W 4/16 Mid-term Exam

III. Identifying and Leveraging Customer-based Resources
(Background reading: A Resource-based View of the Firm)

   (1) Given the data in the case, should you invest the 40 Million?
   (2) Assuming that customer satisfaction is down, why would that be?
   (3) Do you have any other recommendations?

    (1) Why are Black and Decker doing poorly in the tradesman segment?
    (2) What do the tradesmen want?
    (3) Do Black and Decker have a resource that could help them?

11. F 4/25 Costco Companies 9-599-041
    (1) Why do people shop at Costco?
    (2) How does Costco make money?
    (3) How wide can their product line be?

IV. Creating Competitive Advantage A: Established Firms
(Background reading: The Use of Resources in Resource Acquisition)

12. M 4/28 Gucci Group N. V. (A) 9-701-037
    (1) How has Gucci’s positioning changed?
    (2) What are the synergies in this industry?
    (3) How will the industry look in 30 years?
    (4) Evaluate the YSL acquisition

    (1) What are IMG’s resources?
    (2) IMG has gone into several new lines of business, evaluate these.
    (3) As a potential competitor to IMG, what would you do?

14. F 5/2 First part of project due at class time.
    Real Madrid Club de Futbol 9-504-063
    (1) What are Real Madrid’s resources and when did they get each?
    (2) Who are the potential customers and which resources attract them?
    (3) Given a big investment, could another club replicate Real’s success?
IV. Creating Competitive Advantage B: Young Firms

15. M 5/5 Airbnb (A) 9-912-019
   (1) Why is it hard to get this type of business off the ground?
   (2) What does it take to achieve a sustainable position?
   (3) How should they respond to the EJ story?

16. W 5/7 Ben and Jerry’s 9-796-109
   (1) What was Ben and Jerry’s strategy historically?
   (2) Why has its performance changed?
   (3) What should they have done differently?
   (4) What would you recommend?

V. Application

17. F 5/9 Project Presentations

18. M 5/12 Project Presentations

19. W 5/14 Second part of project due at class time
   Lady Gaga (A) 9-512-016
   (1) What are her resources in the fall of 2009?
   (2) What resources does she want to develop?
   (3) Which touring option do you recommend?

3. Order of Readings in Course Packet

   IKEA Invades America 9-504-094
   Wal-Mart Stores in 2003 9-704-430
   Barnes and Noble vs. Amazon.com N9-798-063
   E-trade, Stanford M-286
   Marketing James Patterson 9-505-029
   Metro International S.A. 9-708-429
   Facebook Platform 9-808-128
   Starbucks: Delivering Customer Service 9-504-016
Black and Decker 9-595-057
Costco Companies 9-599-041
Gucci Group N. V. (A) 9-701-037
International Management Group 9-702-409
Real Madrid Club de Futbol 9-504-063
Airbnb (A) 9-912-019
Ben and Jerry’s 9-796-109
Lady Gaga (A) 9-512-016

The Use of Resources in Resource Acquisition, *J. Management*, 2011