UCLA Anderson School of Management

Management 215B

MARKET ENTRY STRATEGY

Syllabus version 3/28/19

Professor
Marvin Lieberman
Office: B415, Gold Hall
Tel: 310-206-7665
Email: marvin.lieberman@anderson.ucla.edu

Teaching Assistants
Tingyu Du
Email: tingyu.du.phd@anderson.ucla.edu
Pat Kirwan
Email: patrick.kirwan.2019@anderson.ucla.edu

Administrative Assistant
Dana Willis
Office: D513, Cornell Hall
Tel: 310-825-2509
Email: ladana.willis@anderson.ucla.edu

Class Sessions
Thursday, 4:10 to 7:00 pm
Room: C301

Professor Office Hours
Thursday, 2:45 – 3:45 pm (and by appointment)

INTRODUCTION

This course is designed to help you, as an entrepreneur or business manager, make better decisions relating to market entry. Market entry is the most common—and arguably the most important—type of strategic decision made in the business world. Entrepreneurs are by definition engaged in market entry. Established firms enter markets in various ways: when they develop new products or services, when they make acquisitions, when they move into new geographic regions, and when they integrate within the value chain. This course considers entry decisions by both entrepreneurial and established companies.

The course draws from the academic and practical business literature to address a wealth of questions relating to market entry, e.g.:

- Where do ideas about entry opportunities come from?
- As an entrepreneur or a manager of an established firm, how can you develop and nurture these ideas? What common biases, traps and pitfalls should be avoided?
- Does your company or startup have the capabilities needed to successfully enter? If not, can you develop these capabilities, and if so, how?
- Under what conditions is it beneficial to draw up a detailed plan for a new venture? When might such planning best be avoided?
- Market entry is fraught with uncertainty. How should you deal with this?
- In a new industry or market, when is it desirable to enter early (as opposed to waiting to learn from the mistakes of others)?
- How can you ensure that all elements of the "ecosystem" needed to support your venture are in place and adequately aligned?
- If you are an established firm with a choice of entry modes, should you enter through internal development, acquisition, joint venture, or strategic alliance?
- Once you have established a foothold, how fast should you grow your business?
- If you are fortunate to become a dominant player, what actions can you take to influence the evolution of the industry in your favor?
- By what strategies can a small entrant successfully attack a large incumbent? What tactics can incumbents use to defend against such attack?
- As the market evolves, how can successful firms avoid being blindsided by technological discontinuities and disruptive change? (Or, if you are a new entrant, how can you exploit these factors to overcome the advantages held by established firms?)

To address these questions, the class sessions will include case analyses, lectures, and outside speakers who will describe the challenges faced by entrepreneurial startups and by established firms that attempt to enter new markets. Active student involvement during the class sessions is an integral part of the course.

Although not a "tech" course, *per se*, this course has a strong technology component. The tools for assessing disruptive innovation and ecosystems focus explicitly on technological change, and all of the required case write-ups address adoption of new technologies.

The outside speakers are an important component of the course and are integrated with the class material. Speakers are scheduled as follows:

4/11 David Binetti* (Founder and CEO of multiple digital/online companies)
4/18 Susan Feldman* (Founder and CEO, One Kings Lane, In The Groove)
4/25 Phillip Leslie (Chief Digital Economist & Vice President, Amazon)
5/2 Adam Cooper (SVP of Marketing, The Wonderful Company)
5/9 Louise Wannier* (Co-founder, Gemstar; founder, MyShape, LouisJane)
5/16 T.K. Pillan* (Co-founder, Veggie Grill)
5/30 Austin Marshburn (VP of University Partnerships, Bird)

*Anderson Alumnus

COURSE ORGANIZATION

The course is organized into several overlapping modules. Classes will cover the following topics:

I. INTRODUCTION AND OVERVIEW

1. Basic Facts, Issues and Perspectives
2. Planned vs. Emergent Strategy
3. Startups vs. Entry by Established Companies
4. Where Do Entry Ideas Come From?
5. The Massive Uncertainties of Entry: How to Respond?
6. Value Propositions: Creating & Distributing Value

II. PERSPECTIVES ON ENTRY AND INDUSTRY EVOLUTION

7. Takeoff and Shakeout
8. Product Generations
9. Technological Discontinuities and Disruptions
10. Optimal Timing of Entry: First Mover Advantages and Disadvantages
11. Disruptive Technology: Opportunities and Threats
12. Dealing with Ecosystem Challenges
13. Rate of Growth: Get Big Fast or Slow?
14. Replication Strategies and Geographic Expansion
15. Real Options and the Value of Flexibility
16. Shaping the Competitive Environment
17. Attacking an Established Incumbent / Defending Against Attack

IV. ENTRY BY ESTABLISHED FIRMS

18. Entry into Related Businesses
19. Vertical Integration: Entry in the Value Chain
20. International Market Entry
21. Choice of Entry Mode: Internal Development /Acquisition /Alliance
22. Internal and External Venturing

The class meets on Thursdays from 4:10 to 7:00 pm. Class sessions are normally divided into two parts with a short break in between. Most sessions have an outside speaker in the first or second part of the class. To accommodate outside speakers, the sequence may be changed from the syllabus listing.

CASES AND READINGS

For most class sessions, you are assigned one or more readings and a case. Guidelines for case preparation are similar to those in Management 420 and your other case courses from the first year.

The cases and required readings are included in the course reader, which is available for purchase from Redshelf (https://ucla.redshelf.com/book/1112555). A set of optional readings, listed at the end of this syllabus, goes deeper into each topic area. My expectation is that you will read these articles if you have a strong interest in the topic (or perhaps, years after graduation, you seek guidance on a particular topic). Many of the optional readings can be accessed through web links incorporated in the electronic version of this syllabus.

The following book is required reading in the course:

> *The Wide Lens* by Ron Adner (Penguin, 2012, available in paperback for less than $20 on Amazon) provides frameworks and tools for analyzing elements of business ecosystems that can promote—or hinder—an entry strategy. The analysis is illustrated via a series of excellent case examples. In class we will discuss and contrast the Michelin (run-flat tires) and Pfizer (inhalable insulin) examples. In addition, we will talk about how to apply Adner's frameworks, and I will review many of the other examples in the book. I strongly encourage you to explore the set of analytical tools developed in the book.

ASSIGNMENTS AND GRADING

Your final grade in this course will be made up of the following components:

> 30% Class participation;
> 35% Case analyses (three brief memos of two pages each);
> 35% One-page memos and CCLE posting.

NOTE: There will be no final exam in this course.

Class Participation (30%)

The value of this class lies in learning to apply the course concepts to real world companies. Therefore, this course is largely case and speaker-based, and its success depends heavily on the quality of class discussion. To prepare for class, you must read the materials *and* think about the case preparation questions in advance. For sessions when we have a class speaker, your role is to come to class prepared to engage the speaker and ask questions. An important objective is to draw connections between the speakers' comments and related ideas introduced in the course.

In assigning grades to class discussion I will focus primarily on the *quality* of your comments and interaction with the class. (It takes some *quantity* of participation, however, for me to make that evaluation.) You are welcome to come to my office hours to discuss your class participation. (If you find class participation difficult, please come see me early in the quarter, as there are ways that I can make the process easier for you.)

Laptop computers are normally unnecessary during case discussion, and their use can distract from the main focus of the class. On occasion I will suggest that students open their laptops, but otherwise, if your laptop is open during case discussion, I will assume that you are not fully engaged in class. (I recognize that there are exceptions. Some students are active note takers; if you are in this category and wish to use your laptop in class, please tell me early in the quarter.) Similarly, I recognize that some students may want to use a computer or tablet to take notes on presentations by our guest speakers. You are welcome to do so. *Please note, however, that it is extremely rude to stare continuously into your laptop screen when a guest is speaking at the front of the room. I will assume that anyone doing so is not participating in the class.*

<u>Case Analyses</u> (35%)

There are three brief case analyses to be handed in. The first two, assigned in Weeks 4 and 5, focus on the Disposable Diaper Industry case. The third case analyses, on Nucor's potential entry into thin-slab casting, asks you to apply the concept of "real options" as a tool to deal with investment decisions in environments of high uncertainty.

The case analyses are short memos (text should not exceed two pages) with additional exhibits attached. These case write-ups are due by 10 AM on the day that the case is to be discussed. (This allows me to review your submission prior to class, in order to facilitate class discussion.)

At least one of these case write-ups must be done individually; the other two can be done with another student (i.e., in pairs).

<u>Web Discussion Board Posting</u> (5%)

In week 2, you are asked to write a post on the CCLE discussion board about a specific market entrant of your own choosing. The posting should be done on an individual basis.

<u>One-Page Memos (OPMs)</u> (30%)

During the quarter, you are required to submit five brief, one-page memos. The first of these memos, which is required, focuses on the Encyclopedia Britannica case assigned in Week 3. A listing of additional memos and their due dates will be provided on CCLE. In addition to the Britannica memo, you can choose any four among the many OPM memo options posted on CCLE.

These OPM memos should be uploaded to the appropriate drop box on the course website. Submissions should be made prior to the deadline indicated for each memo.

The memos will be graded as “check”, “check-plus” or “check-minus”. Roughly one-third of the memos submitted on each topic will receive “check-plus”. The OPM assignments do not have unique correct answers, and the grading is somewhat subjective. You are welcome to submit more than five of the OPMs; in computing final grades, I will use your highest five scores.

At least three of these OPMs must be done individually; the remainder can be done jointly with another student. You can work with the same student on multiple memos. However, you cannot work with the same partner on both the OPM memos and the case analyses.

List of Due Dates for Written Assignments
(All assignments due on CCLE by 10am on the specified date.)

DATE	CLASS#	ASSIGNMENT
4/4	1	None
4/11	2	Entry Example posting on CCLE
4/18	3	Encyclopedia Britannica case memo (OPM #1)
4/25	4	Diapers case I (spreadsheet model)
5/2	5	Diapers case II (entry analysis)
5/9	6	OPMs # 2, 3, 4, 5, 6, 7
5/16	7	OPM #8
5/23	8	Nucor case assignment
5/30	9	OPM #9
6/6	10	OPMs # 10, 11, 12

SCHEDULE OF CLASS SESSIONS

Class 1 (April 4). COURSE INTRODUCTION

This introductory class provides an overview of the course and considers two very different ways to develop strategy for a new business.

Read: "Porter or Mintzberg: Whose View of Strategy Is the Most Relevant Today?" Forbes, 3/28/2011.
"Mintzberg's Better Way to Do Corporate Strategy," Forbes, 6/21/2011.

Cases: HONDA (A) and (B) (HBS# 9-384-049 and 9-384-050)

Study Questions:

1. Compare and contrast the two descriptions of Honda Corporation's start up, early growth, and entry into the U.S. motorcycle market. How does each case explain Honda's success?
2. What concept of strategy is implied in each case?
3. How is organizational learning represented in these two cases? How is uncertainty represented?
4. What lessons do the cases offer for managers contemplating a market entry decision?
5. In your opinion, does the Honda B case illustrate good business strategy?

Note: It is important to read the two Honda cases prior to class. You will get very little out of this class session if you have not read the cases.

Class 2 (April 11). THE ENTRANT'S VALUE PROPOSITION

GUEST SPEAKER: David Binetti ('00)

In the first part of today's class, David Binetti (Anderson '00) will continue our class discussion on ways to address the challenges of uncertainty in a new business: learning, pivots and real options. David is a six-time entrepreneur, having served on the founding team of companies ranging from consumer (QFN, later Quicken.com), to industrial (Arch Rock, acquired by Cisco Systems), to government (USA.gov, USA Today's Site of the Year in 2000), to political (Votizen, acquired by Brigade Media) — with three stints as Founder and CEO.

To prepare for his talk, read the case on Votizen, founded by Binetti in 2009 (in the course reader), and the following article on ten types of "pivots":
Top 10 Ways Entrepreneurs Pivot a Lean Startup
https://www.forbes.com/sites/martinzwilling/2011/09/16/top-10-ways-entrepreneurs-pivot-a-lean-startup/#4ad38ea92d2b

In the second part of class, we will consider a stalled startup, “Performance Indicator,” whose founders have developed an innovation for the golf ball market. Our class discussion will link back to fundamental issues of value creation and capture taught in the core strategy course, Management 420.

Required Reading:

Gavetti and Rivkin, “How Strategists Really Think: Tapping the Power of Analogy,” HBR, April 2005, HBR OnPoint Enhanced Edition, #9661

Optional Reading:

D. Teece, “Business Models, Business Strategy and Innovation,” *Long Range Planning*, 43 (2010), pp. 172-194.

Case: PERFORMANCE INDICATOR (HBS# 9-702-480)

Study Questions:

1. Why has it been so difficult for Osinski and Winskowicz to get a golf ball manufacturer to sign a contract for their new technology?

2. How much do you think a potential customer (that is, a golf ball manufacturer such as Bridgestone or Acushnet) should be willing to pay for Performance Indicator’s technology?

3. More generally, what does the value chain look like in this industry? What is PI’s value proposition? How does Performance Indicator’s technology potentially affect value creation and value capture?

4. In light of your analysis, what should Osinski and Winskowicz do?

Finally, please submit the following prior to the start of class:

WRITTEN ASSIGNMENT (to be done individually): Post on the CCLE discussion forum a brief message with the following information on a market entrant (startup venture or new business within an established firm). You are welcome to focus on a company where you have work experience, or an entrant that is of particular interest to you. (Later in the course, we will discuss some of the posted examples in class.)

(1) Describe the business opportunity pursued by the entrant. Classify the opportunity into one (or more) of the following categories: an emerging new industry or market, a new niche within an existing market, a superior product within an existing market, a disruptive technology, a new geographic location.

(2) Describe the entrant’s strategy.

(3) Was/is the entrant successful? Why or why not?

(4) Why is this entrant of interest to you?

Class 3 (April 18). DISRUPTIVE INNOVATION.

Clayton Christensen's ideas on disruptive innovation have been highly influential. Please watch the two videos below, read the Encyclopedia Britannica case, and complete the written assignment.

Video: "Disruptive Innovation Explained"
https://www.youtube.com/watch?v=qDrMAzCHFUU

"Clayton M. Christensen on Disruptive Innovation"
https://www.youtube.com/watch?v=WxwR_TTuKdc

Case: THE CRISIS AT ENCYCLOPEDIA BRITANNICA (KEL 251)

Study Questions:

1. Does the entry of Microsoft's Encarta and the response by Britannica fit Christensen's model of disruptive innovation?
2. What, if anything, should the management of Encyclopedia Britannica have done differently? Was Britannica doomed by Encarta's entry?

WRITTEN ASSIGNMENT (One-Page Memo #1; due by 10am on April 18):
Was Encyclopedia Britannica doomed following Encarta's entry? More specifically, could CEO Joe Esposito have saved Britannica as a major stand-alone company, rather than selling to Jacob Safra? In a one-page memo, take a position and support your answer.

In the second part of class, we will put Christensen's ideas in context and begin to discuss common patterns of industry evolution that determine opportunities for market entry. To prepare, read the following article in the course reader:

> Agarwal, R. and B. L. Bayus, "The Market Evolution and Sales Takeoff of Product Innovations," *Management Science*, 48(8), August 2002, pp. 1024-1041.

GUEST SPEAKER: Susan Feldman (Founder/CEO, One Kings Lane, In The Groove)

Class 4 (April 25). ENTRY ECONOMICS

GUEST SPEAKER: Phillip Leslie (Chief Digital Economist & Vice President, Amazon)

Former Anderson professor Phil Leslie will tell us how Amazon assesses market entry decisions.

To prepare, watch the first 24 minutes of the interview at the video link below, in which Jeff Bezos talks about the evolution of Amazon. (The material in the later part of the interview is about Bezos' other companies, the Washington Post and Blue Origin.) What is your assessment of Amazon's approach to risk taking and entering new businesses? How did Amazon attain such a large first mover advantage in web services?

Video: Jeff Bezos interview on Charlie Rose https://charlierose.com/videos/29412

In the second part of class we will begin a two-day analysis of Michael Porter's Disposable Diaper case. Although decades old, the case still holds major lessons relating to market entry. We will discuss the case over two class sessions, with written assignments due prior to each session. Your assignment for today's class is to prepare a spreadsheet model of the economics of entry.

Case: THE DISPOSABLE DIAPER INDUSTRY IN 1974 (HBS# 9-380-175)

WRITTEN ASSIGNMENT (to be done individually or in pairs):

Assume that you have been hired as an outside consultant by the top management of J&J. They want you to do a quantitative analysis to assess the cost, profitability, and risk of their entry and growth to national brand status in the US disposable diaper market. While the exact economics of J&J's entry are uncertain, the company wants you to do your best to estimate J&J's costs and revenues over the next six years. Your first step is to build a spreadsheet model of the economics of J&J's entry.

Proceed as follows: Start with (1) the number of babies you expect to be born, then assume (2) a penetration rate for disposable diapers, giving (3) total market size (you may assume constant prices in real terms). Then assume (4) a reasonable market share for J&J, giving (5) a revenue forecast by year (e.g., through 1980). Then subtract out estimated variable costs and capital investment costs. (The latter is the difficult part - you need to think carefully about how J&J's costs would be similar to or different from those of P&G.)

Use your spreadsheet model to assess the profitability of entry. In two pages or less, answer the following questions: (a) Based on your analysis, when does cash flow become positive? (b) What is J&J's cumulative net investment in the business at this point? (c) How profitable does entry look overall? (d) How sensitive are your results to J&J's ultimate market share? What market share must J&J achieve to be profitable? (e) What happens if P&G cuts diaper prices? (f) In general, what do you see as the major risks facing J&J in entering this market? (g) Finally, based on your spreadsheet model, what is your overall conclusion for J&J management? What should J&J do?

Your submission should include a copy of your spreadsheet model (including a list of major assumptions), and answers to the questions above.

Class 5 (May 2). INDUSTRY DYNAMICS AND ENTRY BARRIERS

In this class we will talk about the need of an entrant to predict and potentially shape industry structure. We will also discuss first mover advantages, including the example of P&G as first mover in the disposable diaper market.

Required Reading:

> M. Lieberman, "First Mover Advantage" (in *Palgrave Encyclopedia of Strategic Management*, 4 pages, available on the course CCLE site).

Optional Reading:

> M. Lieberman and D. Montgomery, "First Mover Advantages," *Strategic Management Journal*, vol. 9, Summer 1988. (Available on the course CCLE site).

WRITTEN ASSIGNMENT (to be done individually or in pairs):

1. Sketch out a Porter Five-Forces analysis of the disposable diaper industry (as you envision it in 1980), and assess the likely strength of the forces. Which forces are easy to predict, and which is most uncertain? How does that affect industry "attractiveness"?

2. P&G is very well positioned at the time of the case and holds a strong cost advantage in this industry. Fill out the table provided, to give a breakdown of the sources of P&G's cost advantage. (You can think of P&G's cost advantage in terms of lower average cost per diaper sold.) Across the top of the table are four potential drivers of cost advantage: (1) economies of scale at the national level, (2) economies of scale at the regional or local level, (3) first mover advantages, and (4) shared costs, i.e., economies of scope between diapers and other products made and sold by P&G.

To fill out the table, make a list of underlying factors that feed some (or potentially all) of these four drivers of cost advantage. List these factors in the left-hand column. Two factors contributing to P&G's advantage have already been provided for you:

- P&G's high sales volume relative to competitors gives P&G a lower advertising cost per diaper due to scale economies at the national level (national TV and magazine advertising) and also at the local level (newspaper and local TV spot advertising). P&G also has an advantage as the industry's first-mover (consumers already know about Pampers, so competitors may need to advertise more than P&G to catch up). Moreover, P&G can strike more attractive deals with many advertisers because of its large line of consumer products (shared costs). Thus, advertising gives P&G a unit cost advantage (over most if not all competitors) via all four of the drivers at the top of the table.

- P&G has an advantage over competitors in product sampling because it was able to lock in the leading newborn sampling company (Gift Pax). Unlike

> advertising, which gives rise to economies of scale or scope, the mechanism operating for product sampling is mostly first mover advantage. (P&G was able to lock in a contract with the best sampling company.)

So, the table provided to you has two factors already filled in (advertising and product sampling). Your job is to add additional factors that contribute to P&G's cost advantage, and link them via the matrix to one or more of the four potential drivers. Once you have completed your list, choose three or four factors that you believe to be the most important. List these factors **in bold** in your table.

3. Fill out the additional table on firm survival and market share. How many firms do you expect to survive in the disposable diaper industry through 1980? Why? More specifically, which firms do you expect to survive, and what are their likely market shares? Explain briefly the logic of your forecast of market shares, and the main uncertainties you see.

4. Given your responses above, what should P&G do? What should be their overall strategy, and what major tactics should they pursue in this industry?

Your submitted analysis should include the two completed tables (a separate five-forces diagram is optional) and up to two pages of text addressing the questions above.

GUEST SPEAKER: Adam Cooper (VP of Marketing, The Wonderful Company)

Many articles can be found on the web focusing on the evolution of The Wonderful Company (previously called Roll Global) and its owner/founders, Lynda and Stewart Resnick. Does the company's collection of businesses make sense? Why or why not?

Class 6 (May 9). ECOSYSTEM CHALLENGES

Required Reading:

> Ron Adner, 2012, *The Wide Lens*. In class, we will focus on the Michelin and Pfizer cases described on pages 15-35 and 83-114. In addition, please look at the various ecosystem analysis tools described elsewhere in the book. (Depending on your interest, I suggest reading the entire book.) I will touch upon some of Adner's excellent examples in class.
>
> *The Wide Lens* is available for less than $20 on Amazon. (It is a bargain, particularly if you are interested in specific tools and frameworks you can use for planning market entries with high innovation content.) The book's introduction and the chapter on Michelin can be freely viewed on the web at the book's site:
>
> http://thewidelensbook.com/excerpt.html

Study Questions:

1. What similarities and differences do you see between the Michelin and Inhalable Insulin cases described in *The Wide Lens*? (Be prepared to discuss this in class.)

2. What does the ecosystem perspective add to what you learned in core strategy?

After discussing the Michelin and Inhalable Insulin cases described in *The Wide Lens*, we will consider the emerging ecosystem for autonomous vehicles, focusing on technologies that create bottlenecks to AV commercialization (what Adner calls "co-innovation risks"). AVs are likely to become a major mode of transport, but there is great uncertainty about when this will occur. How does the ecosystem for AVs differ from the established ecosystem for motor vehicles based on the internal combustion engine? In the AV ecosystem, what is likely to be the longest bottleneck to be resolved, delaying commercialization? (No case is assigned, but you are welcome to consult any information sources.)

GUEST SPEAKER: Louise Wannier (Co-founder, Gemstar; founder, Enfish, MyShape, LouisJane)

Louise Wannier pioneered a remarkable set of technology-based companies. The success or failure of these companies often hinged on her ability to solve (or not) ecosystem challenges. In class, she will contrast two of her companies – one highly successful, the other a failure.

Class 7 (May 16). REPLICATION STRATEGIES / OPTIMAL GROWTH

Required Readings:

T. Eisenmann, "A Note on Racing to Acquire Customers" HBS Note 9-803-103

G. Szulanski and S. Winter, "Getting it Right the Second Time," *Harvard Business Review*, January 2002, 62-69. (HBR Reprint R0201E)

Cases: HOWARD SCHULTZ AND STARBUCKS COFFEE COMPANY (HBS# 9-801-361)

KRISPY CREME: THE FRANCHISOR THAT WENT STALE (KEL454)

Study Questions:

1. What similarities and differences do you see between Starbucks and Krispy Creme?

2. Assess the pattern of Starbucks' growth described in the case. Did Starbucks develop a suitable template and grow at the right pace and in the best way in the U.S. and abroad? Did they make any mistakes? Be prepared to defend your answer in class.

3. Franchising is a type of replication strategy. What do you see as the pros and cons of franchising versus owner-operated expansion?

4. Evaluate Krispy Kreme's strategy. What are the root causes of their problems?

5. Can Krispy Kreme's problems be fixed?

GUEST SPEAKER: T.K. Pillan (Co-founder, Veggie Grill)

Our speaker will address issues of templates, replication and growth, central to our discussion of the Starbucks and Krispy Kreme cases. (If you have never visited a Veggie Grill, you may want to check out their location in the UCLA Ackerman Student Union.)

Class 8 (May 23). EXPLOITING UNCERTAINTY: REAL OPTIONS AND ENTRY

Read: Wikipedia article on Real Options Valuation

R. Ragozzino, J. Reuer and L. Trigeorgis, "Real Options in Strategy and Finance," *Academy of Management Perspectives*, November 2016. Read the introductory sections, pp. 428-432, and the section on Starbucks as a case example, pp. 436-437. The remainder of the article is optional.

"Valuing Strategic Opportunities" from Prof. Bruce Carlin's Mgmt. 408 course (optional reading, can be downloaded from the course CCLE site).

Case: NUCOR AT A CROSSROADS (HBS 9-793-039)

In preparing your analysis, focus on the material describing Nucor's potential entry into thin slab casting. You are welcome to ignore other aspects of the case. (Nucor operates in the context of the steel industry with a unique incentive system, which is the focus of much of the case. Please take Nucor's corporate capabilities into account but otherwise consider this as a generic entry decision laden with uncertainties and strategic tradeoffs.)

Study Questions:

1. What are Nucor's strategic options with respect to entry into compact strip production?

2. Is thin slab casting likely to afford Nucor a sustainable competitive advantage in flat rolled products?

3. How should Nucor think about the uncertainties surrounding thin slab casting?

4. What should Iverson do?

To help you in assessing Nucor's potential entry (forward integration) into compact strip production, the "Nucor Pro-Forma" spreadsheet (download file) gives an estimate of the cash flows for the proposed CSP plant through the year 2000, assuming that the plant is technically successful. Please use this as the starting point for your Nucor assignment.

WRITTEN ASSIGNMENT (to be done individually or in pairs. Your memo should be two pages, with additional exhibits attached. To prepare, it may be helpful to review your finance textbook on the topic of real options and/or the slides on "Valuing Strategic Opportunities" from Prof. Bruce Carlin's 408 course. Please answer the following questions:

1. Use the data in the pro forma spreadsheet to compute an NPV of entry by Nucor into compact strip production (CSP). Most of the work has already been done for you, but you need to think about what would constitute an appropriate "terminal value." Is entry into CSP justified today as a stand-alone project?

2. Does your NPV calculation incorporate the uncertainties surrounding this entry? If not, how should you incorporate uncertainty into a quantitative analysis of financial returns versus costs?

3. Does your NPV calculation capture the effects of competition? Do you see any potential first mover advantages of early entry by Nucor? How should competitive advantage be assessed in this situation?

4. What are the most important real options facing Nucor? Does Nucor have an option to defer this investment? How should Iverson think about the option to defer, versus potential first mover advantages? Are there viable options to abandon the project before the factory is built? (These were quite valuable in the example shown in class, but are they valuable here?) What about Nucor's options to expand/grow in CSP?

5. Based on your analysis, what should Nucor do?

Class 9 (May 30). MODES OF ENTRY AND OPTIMAL FIRM SCOPE

GUEST SPEAKER: Austin Marshburn (VP of University Partnerships, Bird)

Bird, based in Santa Monica, is a pioneer in the electric scooter industry. Our speaker will draw together many issues discussed earlier in the course. (Note that two OPMs on Bird and the electric scooter industry were previously assigned.)

In the second part of class we will consider key issues regarding entry by established firms: mode of entry, international entry, and optimal firm scope.

Required Readings:

B. Anand, "Strategies of Related Diversification." (HBS #9-705-481)

"Target Markets and Modes of Entry." (Chapter 5 of Fundamentals of *Global Strategy: A Business Model Approach*, by Cornelis De Kluyver.) This reading focuses on international market entry.

Case: Tesco PLC: Fresh & Easy in the United States
(Tesco lost more than $2 billion in its attempt to enter the LA regional market.)

Wikipedia entry on Fresh & Easy

"Tesco's US marketing scapegoat Tim Mason was actually needed to solve problems at home" (MoreAboutAdvertising.com, 12/7/12)

"Fresh & Easy begins closing down stores" (LA Times, 10/6/15)

"Tesco's Fresh & Easy lost its way" (YouTube Video, Published on Jan 4, 2013)

Study Question: Did Tesco choose the wrong mode of entry for Fresh & Easy?

Class 10 (June 6). WRAP-UP

Required Reading:

Garvin and Levesque, "Meeting the Challenge of Corporate Entrepreneurship," *Harvard Business Review* 2006.

Case: TESLA MOTORS: DISRUPTING THE AUTO INDUSTRY?

As part of its entry strategy, Tesla integrated backward into battery manufacturing and forward into company-owned retail stores. Were these sensible ways for Tesla to allocate its scarce capital?

What did you learn in this course? What was most surprising to you? Most interesting? Most important?

OPTIONAL READINGS

FACTS, ISSUES AND PERSPECTIVES ON MARKET ENTRY

Optional Readings:

Kim and Mauborgne, "Blue Ocean Strategy," HBR, October 2004.

Helfat C.E. & M.B. Lieberman, "The Birth of Capabilities: Market Entry and the Importance of Pre-History," *Industrial and Corporate Change, 11(4), August 2002.*

Biggadike, E. R., *Corporate Diversification : Entry, Strategy, and Performance*, Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1979.

Dunne, T., M. J. Roberts and L. Samuelson (1988). "Patterns of Firm Entry and Exit in U.S. Manufacturing Industries." *Rand Journal of Economics* 19(4): 495-515.

Geroski, P. A., "What do we know about entry?" *International Journal of Industrial Organization*, 13 (1995) 421-440.

Horn, J. T. Lovallo, D. P. Viguerie, S. P., "Beating the odds in market entry: How to avoid the cognitive biases that undermine market entry decisions," *McKinsey Quarterly*, 2005, Number 4, pp. 34-45.

Alvarez, S. A. and Barney, J. B. 2007. "Discovery and Creation: Alternative Theories of Entrepreneurial Action." *Strategic Entrepreneurship Journal* 1(1-2): 11-26.

Bhide, Amar, 2000, *The Origin and Evolution of New Business*, New York: Oxford University Press.

TECHNOLOGICAL DISRUPTION

Optional Readings:

Tushman, Michael and Charles O'Reilly, III. (1996) "Ambidextrous Organizations: Managing Evolutionary and Revolutionary Change," *California Management Review*, vol. 38, no. 4: 8-30

M.L. Tushman and P. Anderson, "Technological Discontinuities and Organizational Environments." *Administrative Science Quarterly*, 1986.

M.L. Tushman and P. Anderson, "Technological Discontinuities and Dominant Designs: A Cyclical Model of Technological Change." *Administrative Science Quarterly*, 1990.

WHY ENTREPRENEURS SHOULD BE BIASED (but not delusional)

Optional Readings:

Busenitz, L. W., & Barney, J. B. "Biases and Heuristics in Strategic Decision Making: Differences between Entrepreneurs and Managers in Large Organizations," *Journal of Business Venturing*, 12(1), 1997, pages 9-30.

Camerer, C. and D. Lovallo, "Overconfidence and Excess Entry: An Experimental Approach, *American Economic Review*, Vol. 89, No. 1 (Mar., 1999), pp. 306-318.

Lovallo, C. and D. Kahneman, "Delusions of Success," HBR, July 2003.

INDUSTRY DYNAMICS AND TECHNOLOGICAL CHANGE

Industry Takeoff and Growth

Optional Readings:

Agarwal, R. and B. L. Bayus, "The Market Evolution and Sales Takeoff of Product Innovations," *Management Science*, 48(8), August 2002, pp. 1024-1041.

Agarwal, R. "Evolutionary Trends of Industry Variables," *International Journal of Industrial Organization*, volume 16, 1998, pages 511-525.

Baum, J. A. C, and A. McGahan (eds) (2004) "Business Strategy over the Industry Life Cycle" *Advances in Strategic Management*, Vol 21: 107-132

Gort, M. and S. Klepper, "Time Paths in the Diffusion of Product Innovations**,"** Economic Journal, Vol. 92, No. 367 (Sep., 1982), pp. 630-653

Klepper, S. & Graddy, E. (1990). "The evolution of new industries and the determinants of market structure." *Rand Journal of Economics.*

First Mover Advantages and Disadvantages

Optional Readings:

M. Lieberman and D. Montgomery, "First-Mover Advantages." *Strategic Management Journal*, Vol. 9, Summer 1988.

M. Lieberman and D. Montgomery, "First-Mover (Dis)Advantages: Retrospective and Link with Resource-Based View," *Strategic Management Journal*, Vol. 19, No. 12, December 1998, pp. 1111-1125.

Agarwal, R. and M. Gort (2001). "First-Mover Advantage and the Speed of Competitive Entry, 1887–1986." *The Journal of Law & Economics* XLIV.

Boulding B. and M. Christen, "First Mover Disadvantage," HBR, Oct. 2001.

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Suarez and Lanzolla, "The Half-Truth of First-Mover Advantage," HBR, April 2005.

OPTIMAL SCOPE OF THE FIRM

Optional Readings:

F. Lafontaine and M. Slade, "Vertical Integration and Firm Boundaries," Journal of Economic Literature, Vol. 45, No. 3, September 2007.

Teece, Pisano, and Shuen, 1997, "Dynamic Capabilities and Strategic Management," *Strategic Management Journal*

Pil, F.K. and Holweg, M. 2006, "Evolving from Value Chain to Value Grid," *Sloan Management Review*, 47 (4): 72-79.

Robert J. Aiello and Michael D. Watkins, "The Fine Art of Friendly Acquisition," *Harvard Business Review*, 2000).

VENTURING WITHIN ESTABLISHED COMPANIES

Optional Readings:

Chesbrough, H.W.,"Making Sense of Corporate Venture Capital," HBR March 2002.

Moore, G. A., "Darwin and the Demon – Innovating Within Established Enterprises," HBR July-August 2004.

Chesbrough, H.W. and Teece, D.J.. "When is Virtual Virtuous?" *HBR,* 1996.