

**FINA 7A37**

**Corporate Strategy—Equity Fund Management**

**C.T. Bauer College of Business**

**University of Houston**

**Fall 2023**

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**Office Hours: Thursday 4:30 pm-5:30 pm**

**(or by appointment)**

## I. Course Objective

This course focuses on the following precise question: How does the competitive environment of firms affect their ability to sustain *value-creation*; that is, earn superior economic returns or rents? This issue is fundamental for *stock valuation* since stock prices reflect discounted expected cash flows: superior stock performance must then depend on the firm's ability to sustain superior economic performance. While the focus of the course will be on non-financial firms, the fundamental analytic framework will also apply to financial firms.

The basic framework involves three key concepts: *competitive advantage*, *industry structure*, and *firm strategy*. A sustainable *competitive advantage* is necessary for a firm to earn long run abnormal/superior equity returns. To be of economic value, competitive advantage must be sustainable; i.e., not easily imitated or superseded by rivals or new entrants. Industry structure refers to those fundamental aspects of the firm's competitive environment that facilitate or constrain its ability to create a sustainable competitive advantage. Strategy is the firm's long-term pro-active policy that recognizes the industry structure and then develops sustainable competitive advantage through the firm's product positioning, cost efficiency, organizational structure and culture, and so forth.

## II. Course Materials

The course material will consist of (1) lecture notes and other reading material relating to the analytical frameworks used in the course and (2) case studies of "real-life" decision-making situations that invite students to bring together their knowledge and apply it to situations that challenge top-management. The case studies (and any Excel Spreadsheets) will be downloaded from Harvard Business School Publishing website with the link (use control + click or please copy on your browser):

<https://hbsp.harvard.edu/import/1105490>

The lecture notes will be posted on Canvas.

## III. Class Content and Attendance

Class time will be divided between lectures on the analytic material and discussion of cases that highlight the practical management issues raised by the theoretical frameworks. The cases are carefully chosen to do much more than simply illustrating the concepts covered in the lectures. The cases will

often point to ambiguities in the concepts or invite attention to subtle issues that do not usually come through in the lecture notes or the analytics discussion. The assignment of cases and the focus questions to help in the preparation or analysis of these cases are clearly spelt out in the syllabus below, and the case discussions are a very important part of the course. **Class attendance is very important and strongly encouraged. Ten percent of the grade is based on class participation (see the description of the class participation grade below). Please inform me ahead of time if you cannot make it to class. One unexcused class absence will automatically force the class participation grade to be a B, two unexcused absences will force the grade to be a C. (More than two unexcused class abstentions will result in a participation grade of F.)**

#### **IV. Reading Assignments**

Reading assignments are shown in the accompanying course outline. For each session, you should complete the reading assignment prior to the class. I will presume that a rigorous attempt has been made to answer the case assignment questions.

#### **V. Course Requirements**

Students will be required to present both written work and oral analysis of the cases. The written work will involve **three** case reports (to be submitted electronically). Two of these are group reports (preferably based on your CIF teams), and one is an individual report. The case report assignments and their due dates are clearly spelt out below. I also describe in detail the form and content for these reports, and the grading criteria.

Oral analysis will be presented in case discussions. I expect students to have read the cases and prepared the assignment questions prior to the class session. Inadequate preparation not only means losing grading points but also lowers the entire class standard.

#### **VI. Grading**

The grading weights of the course work are as under:

1. Case Report 1	30 percent	(Group)
2. Case Report 2	30 percent	(Individual)
3. Case Report 3	30 percent	(Group)
4. Class Participation	10 percent	(Individual)

Class participation reflects the standard of contribution to class discussions, especially in the cases. In terms of grading criteria for case discussions, I will look for whether the student (1) has thoroughly prepared the case, (2) is a good listener, i.e., can link his or her arguments to the comments of others, and (3) is willing to be “creative” in offering new ideas. For someone with perfect attendance record, the lowest participation grade shall be---in general---no lower than a B+.

### **Written Work Schedule**

#### **Due Date**

<b>Case 1</b>	<b>November 14 (6 p.m.)</b>
<b>Case 2</b>	<b>December 5 (6 p.m.)</b>
<b>Case 3</b>	<b>Dec. 12 (6 p.m.)</b>

### **Case Reports**

#### **Case Report #1**

**Due November 14 (6 p.m.)**

Select any two companies: one whose stock you would recommend to purchase and one whose stock you would currently pass on. **For each company:**

- Do a “five-force” type industry structure analysis;
- Precisely specify the company’s competitive advantage and the strategy the company has adopted to develop and sustain the advantage;
- Briefly summarize the principal competitive threats;
- Give an assessment of the strategy in place to deal with these threats. If a satisfactory strategy is not in place, in your opinion, articulate a strategy you would develop if you are the CEO of the company.

For *each company*, the executive summary should be a single paragraph of *no more than 250* words. The actual analysis should be no more than 8 double-spaced pages (4 pages maximum per firm). Please attempt to use only a minimal number of attachments.

## **Case Report #2**

**Due December 5 (6 p.m.)**

**The second report is based on the case:**

### **Whole Foods**

#### **Assignment**

The assignment is to value the Whole Foods' equity (or stock) as of May 2014, immediately following the new financial disclosures and management guidance. Specifically, you need to justify whether Whole Foods is a "buy," "hold" or "sell" at \$38.93?

Both qualitative and quantitative analysis is required for this report. The former will require a concisely stated analysis of:

- The core value-creation strategy of Whole Foods to date (May 2014).
- Identification of Whole Food's competitive advantage(s) and their sustainability in light of fast moving industry dynamics.

Answering these question will require addressing basic issues, such as: What is Whole Foods' industry? Who are its true competitors?

The quantitative analysis should use

- Financial ratios and multiples of comparable companies, based on Exhibits 4-6.
- DCF analysis based on the projections from 2014 to at least 2018 and preferably to 2023. You will need to make assumptions on the steady state (permanent) quantities (sales growth, EBITDA margins) etc. For the discount rate, use Market Risk Premium of 5%.

The grade will be based on:

- The quality of the competitive and strategic analysis.
- Care and thought exercised in the quantitative analysis to justify the "buy," "hold" or "sell" rating. This case provides a good opportunity to parse the reliability of past financial ratios in forecasting future cash flow performance. It also allows you to develop your forecasting skills and checking internal consistency. For example, if the forecast models the strategy of adding new stores of smaller size, then the revenues and PPE per store must decline.
- Overall persuasiveness of the analyst rating.

The paper should have an executive summary of no more than 250 words and should not exceed 8 pages in length double-spaced. You can give appendices of course, but please do so judiciously.

### **Case Report #3**

**Due December 12 (6 p.m.)**

**The third report is based on:**

**“Artificial Intelligence and Implications for Value-Creation”**

#### **Assignment**

There is a lot of buzz around fast improvements in AI. But the implications of advancing AI on value-creation potential is unclear. This is the type of situation often faced by money managers and equity analysts: Successful value creation performance in investments requires either going long early for new value generating innovations and/or business models, or shorting firms that may be riding the crest of over-valuations based on market momentum built around “buzz.”

The Sloan Management Review article by Agrawal et al. in the course packet gives an interesting and provocative framework for understanding the value-creation impact of AI. Meanwhile, the McCormick Case (also in the course packet) provides an actual case study of the effects of AI when major corporation attempts to deploy AI to improve its competitive advantage, in this case by improving new product development.

Your assignment is in two parts.

First, evaluate McCormick’s experience with AI thus far, especially with respect to enhancing competitive advantage or value-creation potential. In particular, you should address:

- What problems have arisen in the use of AI?
- How should McCormick get its product developers to begin to trust findings of AI?
- How should McCormick teach and train AI to become smarter?
- How should McCormick deal with the global-local dynamics internal to its organization in using AI to launch products?
- Is it likely that AI will make a substantial contribution to McCormick’s market position and competitive advantage in the medium to long run?

(Remember, improving competitive advantage implies there are barriers to imitation for McCormick’s competitors to also similarly deploy AI).

Second, evaluate the main arguments by Agrawal et al. in light of McCormick's experience. In particular, you should take a position on whether you believe that their main arguments on the value-creation effects of AI are largely correct based on McCormick's experience. If you disagree with their main thesis, succinctly indicate how you would evaluate the value-creation potential of AI.

The paper should have an executive summary not exceeding 250 words and the paper length should not exceed 8 double-spaced pages.

## **Detailed Syllabus**

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**Tuesday  
October 17**

**Setting Basic Themes**

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### **Reading Assignment**

1. Lecture Note on Value Creation
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**Tuesday  
October 24**

**Structural Industry Analysis: “Old” vs. “New”**

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### **Reading Assignment**

1. Lecture Note on Industry Analysis
  2. Lecture Note on Network Externalities
  3. Note on the Structural Analysis of Industries (HBS)
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**Tuesday  
October 31**

**Applications of Industry Analysis**

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### **Cases to Prepare**

**Pfizer and the Challenges of the Pharmaceutical Industry**

### **Questions to Prepare**

1. What were the boundaries on the pharmaceutical industry? How were market power and profitability distributed?
2. What overall trends can be observed about the industry?
3. How and why will industry profitability change?



4. How can companies like Pfizer respond these changes?
5. What are the sources of competitive advantage in the industry?

## **LinkedIn**

### **Questions to Prepare**

1. What are the key drivers (competitive advantages) of LinkedIn's high market valuation (as of July 7, 2011)? What are the main risks in implementing LinkedIn's strategy?
2. How do LinkedIn's financial statement relate to its pre-IPO performance?
3. What set of assumptions are needed to justify the \$9 billion valuation (July 7, 2011)? What according to you should be its intrinsic value? How did you arrive at the intrinsic value?
4. What other factors (e.g., low float, dual class of shares) need to be taken into account in assessing the upside of buying LinkedIn at its stock price on July 7?

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**Tuesday  
November 7**

### **Price Competition**

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### **Reading Assignment**

1. Lecture Note on Price Competition

### **Case to Prepare**

#### **Coke vs Pepsi**

### **Questions to Prepare**

1. Why, historically, has the soft-drinks industry been so profitable?
2. Compare the economics of the concentrate business to the bottling business. Why is the profitability so different?
3. How has the competition between Coke and Pepsi affected the industry's profits?
4. Can Coke and Pepsi maintain their profitability in the wake of flattening demand and the growing popularity of non-carbonated drinks?

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**Tuesday  
November 14  
Creating Competitive Advantage: I**

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**Reading Assignment**

1. Lecture Note on Creating Competitive Advantage
2. Lecture Note on Cost Advantage

**Case to Prepare**

**Matching Dell**

**Questions to Prepare**

1. How did the PC industry come to have such low average profitability?
2. What precisely have been the reasons for Dell's relatively superior performance?
3. How big was Dell's competitive advantage prior to competitors' attempt at imitation?
4. How big is it after recent (as of 1999) attempts for imitation?
5. Anticipating responses by its competitors, should Dell change its strategy?

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**Tuesday  
November 21  
Creating Competitive Advantage: II**

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**Reading Assignment**

1. Lecture Note on Product Differentiation and Platform Disruption

**Case to Prepare**

**Tesla in 2015**

### **Questions to Prepare**

1. Is Tesla a major competitor to established automobile brands?
  2. What roles do traditional automakers play in their industry? What choices did Musk make when he entered the established auto industry? What were the strengths and weaknesses of his approach?
  3. Are Husky's injection moldings worth the premium price? Can Tesla create a sustainable competitive advantage? What would be proprietary about Tesla's offerings?
  4. Will electric vehicles disrupt the traditional auto industry?
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**Tuesday  
November 28**

### **Strategy and Sustaining Competitive Advantage**

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#### **Reading Assignment**

1. Lecture Note on Strategy & Sustaining Competitive Advantage

#### **Case to Prepare**

#### **Video-Streaming Wars in 2019**

#### **Questions to Prepare**

1. Has Disney found the right formula to unseat Netflix as the leader in video streaming?
2. Should Netflix respond in some way to the threat from Disney and if so, how?
3. What drives success in video streaming services? Does Netflix have a sustainable competitive advantage?
4. How do you see the future of this space? Is there room in the market for multiple large streaming services? What will it take to win?

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**Tuesday**  
**December 5**

**Competitive Advantage with Platforms**

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1. Pipelines, Platforms, and the New Rules of Strategy (HBS)
2. Lecture Note on Sustainable Competitive Advantage: Platform Companies

**Case to Prepare**  
**Spotify**

1. Who are the major players in the music industry?
  2. How has the digital format changed the value chain in the industry? Who has the most power in the value chain of the music industry?
  3. Why did Spotify grow quickly? What is Spotify's competitive advantage?
  4. Will Spotify create value in the future?
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## Mental Health and Wellness Resources

The University of Houston has a number of resources to support students' mental health and overall wellness, including [CoogsCARE](#) and the [UH Go App](#). UH [Counseling and Psychological Services \(CAPS\)](#) offers 24/7 mental health support for all students, addressing various concerns like stress, college adjustment and sadness. CAPS provides individual and couples counseling, group therapy, workshops and connections to other support services on and off-campus. For assistance visit [uh.edu/caps](http://uh.edu/caps), call 713-743-5454, or visit a [Let's Talk](#) location in-person or virtually. [Let's Talk](#) are daily, informal confidential consultations with CAPS therapists where no appointment or paperwork is needed.

The [Student Health Center](#) offers a Psychiatry Clinic for enrolled UH students. Call 713-743-5149 during clinic hours, Monday through Friday 8 a.m. - 4:30 p.m. to schedule an appointment.

The [A.D. Bruce Religion Center](#) offers spiritual support and a variety of programs centered on well-being.

## **Need Support Now?**

**If you or someone you know is struggling or in crisis, help is available. Call CAPS crisis support 24/7 at 713-743-5454, or the National Suicide and Crisis Lifeline: call or text [988](tel:988), or chat [988lifeline.org](https://988lifeline.org).**

## Academic Honesty Policy

High ethical standards are critical to the integrity of any institution, and bear directly on the ultimate value of conferred degrees. All UH community members are expected to contribute to an atmosphere of the highest possible ethical standards. Maintaining such an atmosphere requires that any instances of academic dishonesty be recognized and addressed.

The [UH Academic Honesty Policy](#) is designed to handle those instances with fairness to all parties involved: the students, the instructors, and the University itself. All students and faculty of the University of Houston are responsible for being familiar with this policy.

## Title IX/Sexual Misconduct

Per the UHS Sexual Misconduct Policy, your instructor is a “responsible employee” for reporting purposes under Title IX regulations and state law and must report incidents of sexual misconduct (sexual harassment, non-consensual sexual contact, sexual assault, sexual exploitation, sexual intimidation, intimate partner violence, or stalking) about which they become aware to the Title IX office. Please know there are places on campus where you can make a report in confidence. You can find more information about resources on the Title IX website at <https://uh.edu/equal-opportunity/title-ix-sexual-misconduct/resources/>.

### Reasonable Academic Adjustments/Auxiliary Aids

The University of Houston is committed to providing an academic environment and educational programs that are accessible for its students. Any student with a disability who is experiencing barriers to learning, assessment or participation is encouraged to contact the Justin Dart, Jr. Student Accessibility Center (Dart Center) to learn more about academic accommodations and support that may be available to them. Students seeking academic accommodations will need to register with the Dart Center as soon as possible to ensure timely implementation of approved accommodations. Please contact the Dart Center by visiting the website: <https://uh.edu/accessibility/> calling (713) 743-5400, or emailing [jdcenter@Central.UH.EDU](mailto:jdcenter@Central.UH.EDU).

### Excused Absence Policy

Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston [Undergraduate Excused Absence Policy](#) and [Graduate Excused Absence Policy](#) for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to [military service](#), [religious holy days](#), [pregnancy and related conditions](#), and [disability](#).

### Recording of Class

Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please contact the [Justin Dart, Jr. Student Accessibility Center](#). If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor's recordings for their own studying and notetaking. Instructor's recordings are not authorized to be shared with anyone without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

### Resources for Online Learning

The University of Houston is committed to student success, and provides information to optimize the online learning experience through our [Power-On](#) website. Please visit this website for a comprehensive set of resources, tools, and tips including: obtaining access to the internet, AccessUH, Blackboard, and Canvas; using your smartphone as a webcam; and

downloading Microsoft Office 365 at no cost. For questions or assistance contact [UHOnline@uh.edu](mailto:UHOnline@uh.edu).

### UH Email

Please check and use your CougarNet email for communications related to this course. Faculty use the CougarNet email to respond to course-related inquiries such as grade queries or progress reports for reasons of FERPA. To access your CougarNet email, [login](#) to your Microsoft 365 account with your CougarNet credentials. Visit [University Information Technology \(UIT\)](#) for instructions on how to connect your CougarNet e-mail on a mobile device.

### Webcams

Access to a webcam is required for students participating remotely in this course. Webcams must be turned on (*state when webcams are required to be on and the academic basis for requiring them to be on*). (Example: *Webcams must be turned on during exams to ensure the academic integrity of exam administration.*)

### Security Escorts and Cougar Ride

UHPD continually works with the University community to make the campus a safe place to learn, work, and live. The security escort service is designed for the community members who have safety concerns and would like to have a Security Officer walk with them, for their safety, as they make their way across campus. Based on availability either a UHPD Security Officer or Police Officer will escort students, faculty, and staff to locations beginning and ending on campus. If you feel that you need a Security Officer to walk with you for your safety, please call [713-743-3333](tel:713-743-3333). Arrangements may be made for special needs.

Parking and Transportation Services also offers a late-night, on-demand shuttle service called “Cougar Ride” that provides rides to and from all on-campus shuttle stops, as well as the MD Anderson Library, Cougar Village/Moody Towers and the UH Technology Bridge. Rides can be requested through the UH Go app. Days and hours of operation can be found at <https://uh.edu/af-university-services/parking/cougar-ride/>.

### Syllabus Changes

Please note that the instructor may need to make modifications to the course syllabus. Notice of such changes will be announced as quickly as possible through (*specify how students will be notified of changes*).

### **Excused Absence Policy**

Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston [Undergraduate Excused Absence Policy](#) and [Graduate Excused Absence Policy](#) for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-



sponsored activity or athletic competition. Additional policies address absences related to [military service](#), [religious holy days](#), [pregnancy and related conditions](#), and [disability](#).

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### **Syllabus Changes**

Due to the changing nature of the COVID-19 pandemic, please note that the instructor may need to make modifications to the course syllabus and may do so at any time. Notice of such changes will be announced as quickly as possible through e-mail and Black Board.

### **Resources for Online Learning**

The University of Houston is committed to student success, and provides information to optimize the online learning experience through our [Power-On](#) website. Please visit this website for a comprehensive set of resources, tools, and tips including: obtaining access to the internet, AccessUH, and Blackboard; requesting a laptop through the Laptop Loaner Program; using your smartphone as a webcam; and downloading Microsoft Office 365 at no cost. For questions or assistance contact [UHOnline@uh.edu](mailto:UHOnline@uh.edu).

### **UH Email**

Email communications related to this course will be sent to your [Exchange email account](#) which each University of Houston student receives. The Exchange mail server can be accessed via Outlook, which provides a single location for organizing and managing day-to-day information, from email and calendars to contacts and task lists. Exchange email accounts can be accessed by logging into Office 365 with your CougarNet credentials or through Access UH. They can also be configured on [IOS](#) and [Android](#) mobile devices. Additional assistance can be found at the [Get Help](#) page.

### **Honor Code Statement**

Students may be asked to sign an honor code statement as part of their submission of any graded work including but not limited to projects, quizzes, and exams: *“I understand and agree to abide by the provisions in the [University of Houston Graduate Academic Honesty Policy](#). I understand that academic honesty is taken very seriously and, in the cases of violations, penalties may include suspension or expulsion from the University of Houston.”*

## Helpful Information

**COVID-19 Updates:** <https://uh.edu/covid-19/>

**Coogs Care:** <https://www.uh.edu/dsaes/coogscare/>

**Laptop Checkout Requests:** <https://www.uh.edu/infotech/about/planning/off-campus/index.php#do-you-need-a-laptop>

**Health FAQs:** <https://uh.edu/covid-19/faq/health-wellness-prevention-faqs/>

**Student Health Center:** <https://uh.edu/class/english/lcc/current-students/student-health-center/index.php>