ECON 7950: Competitive Strategy

Terry College of Business

University of Georgia
What is in the News?

Summer 2015

- The aftermath of the failure of the Comcast-TWC merger.
- Net neutrality.
- The Apple-Samsung patent wars.
Goal of the Course

- To give you the tools to think through current events of this nature, for when you are a key player in such an event.
- Comcast and Time Warner attempted to merge, under the argument that their cable broadband markets did not overlap. The DOJ and FTC found significant anticompetitive concerns, based upon non-traditional views of the markets in which they operate.
  - Now, Time Warner is trying to merge with Charter. What do we expect to happen?
Goal of the Course: Continued

- In agreeing to the AT&T-DirecTV merger, the FCC is forcing the combined entity to “refrain from imposing discriminatory usage-based allowances or other discriminatory retail terms and conditions on its broadband internet service.” How will net neutrality affect other businesses?

- Samsung has been ordered to pay Apple all of its profit on devices infringing Apple’s design patent covering app icons on smartphones. If I am a strategist for a manufacturer of IT equipment, how might this affect my company?
The Course

- Study (mostly) of behavior in situations characterized by strategic interdependence.
- Game theory “from the standpoint of the player” (i.e. how to use it to optimize performance).
- A bit about capturing market power, pricing and bundling (which are more decisions than game playing).
- Case-study driven.
The Course (continued)

- Introductory section on game theory fundamentals (about 1/6 of class).
- Application of fundamentals to IO models of monopoly and rivalry, plus industry analysis and competitive advantage (about 1/3 of class).
- Applications to business environments with a small number of players (about 1/2 of class).
<table>
<thead>
<tr>
<th>Non-business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Projects</td>
<td>Repeat Interaction, Free-riding</td>
</tr>
<tr>
<td>Mean Professors</td>
<td>Commitment</td>
</tr>
<tr>
<td>Poker</td>
<td>Credibility</td>
</tr>
<tr>
<td>Soccer Penalty Kicks</td>
<td>Mixed Strategies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Wars / Tacit Coordination</td>
<td>Repeat Interaction</td>
</tr>
<tr>
<td>Entry</td>
<td>Commitment</td>
</tr>
<tr>
<td>War of Attrition</td>
<td>Credibility, Mixed Strategies</td>
</tr>
<tr>
<td>Mergers</td>
<td>Changing the Game</td>
</tr>
</tbody>
</table>
Grading

- Class Participation (20%)
- Group Case Writeups (30%)
- New Case (20%)
- Final Exam (30%)
Class Participation

- Bring a name tent.
- Bring topics of the day to discuss as class begins.
- Be prepared to be cold-called.
Group Case Writeups

- Groups should include 4-5 people.
- Groups need to form in the next 2 weeks.
- Write memos no longer than 2 single-spaced pages (excluding figures and calculations).
New Case

- Write a new mini-case based on a current business situation.
- Make it concise but dense with substance. Keep under 1,000 words (excluding figures and calculations).
- An example: a detailed writeup of the value added by ShopStyle, or of the dynamic competition between Omni and Bödyplex.
- Examples of past mini-cases: www.strategytoday.blogspot.com (a class blog for a strategy course at Chicago Booth in 2005).
Final Exam

- Cumulative.
- In class.
- May include a case to prepare.
In 2011, Comcast acquired a 51% stake in NBC Universal (NBCU) from General Electric (GE).

The merger review by the Federal Communications Commission (FCC) and the Department of Justice (DOJ) was completed in January 2011.

The merger was very controversial.

In the Spring 2011 version of ECON 7950, we “created” a case out of this event and executed it during the Antitrust section of material.

Let’s revisit some of the issues.
NBCU-Comcast Merger: Applying the Course

- This was a partially horizontal and partially vertical merger.
- At the time, Comcast owned 9 regional sports networks and many national cable networks (e.g. E! Entertainment, TV One, Versus) and was also the largest cable operator in the US, serving 23.8 million customers in 39 states (TV, broadband internet).
- **Horizontal**: NBCU also owned television networks (e.g. NBC, USA, Bravo) that were substitutable to some degree with Comcast’s networks.
- **Vertical**: Networks are “upstream” from multichannel video programming distributors (MVPDs) such as Comcast (and Charter, Adelphia, Cox, Time Warner, etc.). These MVPDs pay NBCU for the right to broadcast its networks to their cable customers.
FCC and DOJ review (completed January 2011)

- Comcast must provide more space on its cable systems for independently-owned channels.
- Comcast must guarantee the independence of NBC news operations.
- Comcast must offer standalone internet service for $49.95 a month for three years.
- Comcast must provide its programming to any online competitor that has reached a similar deal for content with one of NBC’s competitors (e.g. Walt Disney’s ABC or News Corp.’s Fox).
- Many provisions endure for 7 years, longer than the 3-5 years the FCC typically requires.
A Market for Video Programming

NBC Universal

Comcast (C)
Value = V

Rival MVPD (R)
Value = V

C (1/2)  R (1/2)

Subscribers
Horizontal Concerns

- Suppose a given consumer gets $20 per month worth of value from either of two networks N1 and N2.
- Suppose a given consumer gets $30 per month worth of value from having both N1 and N2.
- We say they are (partly) substitutable because having one diminishes the marginal value of the other (from $20 to $10).
- If they are separately owned, an MVPD will only be willing to pay the marginal value of $10 for each network (absent collusion).
- If they are jointly owned, an MVPD will be willing to pay the total value of $30 for the bundle.
- Upstream consolidation could result in greater upstream bargaining power and higher prices.
Foreclosure: A Vertical Concern

NBC Universal

Comcast (C) Value = V

Rival MVPD (R) Value = V’ < V

C (2/3) R (1/3)

Subscribers
Consolidation continues—Comcast tried to merge with Time Warner, but failed.

AT&T succeeded in merging with DirecTV.

We will do a full case study analysis of NBC-Comcast and Comcast-TWC.