

## Chapter 2 Simulation—Instructor Guide

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### Overview

In this simulation, students explore the competitive forces that influence the strategy of a new company. They apply their knowledge of Porter's Five Forces in an interactive strategy development, and they advance into the exploration of business value-chains, especially when user-generated content plays a significant role in value creation.

"Prakash and Dana asked you to help them brainstorm the strategic direction for their new company, Leveling UP. Their idea is to create a smartphone application that will help high school students practice SAT questions, and master the techniques they need to do well on such high-stakes tests. They want to draw on the compelling features of games, though, with rewards, fast-paced action, competition, and special ringtones to indicate advancing levels of mastery, similar to what happens in some of the most popular action and role-playing games.

"Sounds like fun? It's a business, though, so you'll need to think about how a company with a novel idea like this can survive, surrounded by very powerful competitors that dominate the industry.

"They'll be contacting you with more information on your smartphone, so log in when you're ready..." (Wallace 59)

### Suggestions for Use

#### Solo Learning

- **TRADITIONAL:** All simulations may be assigned as homework for individual students. Scores would be recorded on their performance for evaluation and grades. Knowledge of the chapter content is required to successfully complete each simulation.
- **STUDY LABS:** The simulations may also be used as lab work at the start of class. In this case it is valuable to follow the activity with lectures, exercises, and/or discussion of the topics covered in the chapter.
- **FLIP-THE-CLASS:** In this learning approach, the students are required to study the text and recorded lecture with PowerPoint slides prior to the class session (conventionally done in class). At the start of class a short, timed quiz on the chapter is recommended to encourage prior study, to assess learning achieved, and to identify problem areas. The simulation is then completed during class, solo or group, and followed by a discussion and reinforcement of identified problem areas.
- **ONLINE:** The simulation is particularly useful in online or hybrid classes since it provides an interactive learning exercise without an instructor. However, in order for the instructor to

assess difficulties with the topic, it is suggested that the simulation be accompanied by a short quiz and/or online discussion topics. Discussion topics would be posted in a shared forum, and students would be required to post their responses as well as replies to other student comments. The simulation serves as the catalyst for the discussion, and the posted topics should have open solutions rather than right or wrong answers.

## Group Learning

- **TRADITIONAL:** Students are assigned to small groups of 3 to 5 and should complete the simulation in class together. It is recommended that instructors avoid using this approach outside class because students may not participate as well. During the simulation, students are asked to identify 3 to 5 key decisions based upon the simulation that companies must make in developing their competitive strategies. These decision points are submitted as a group upon completion of the activity.
- **WALK-THRU:** In this approach, the instructor presents the simulation to the class as a whole. As each decision point is reached in the simulation, the presentation is paused, and the instructor opens a discussion for the solution to the class. In order to maintain progress and engagement, points of difficulty, contention, or tangential ideas are noted on the blackboard for follow-up discussion.
- **PARSING-THE-LECTURE:** The simulation proceeds in segments divided by interactive participation. The instructor divides the lecture and PowerPoint slides into matching segments. Each micro-lecture or segment should be no longer than seven minutes (about 2 to 3 slides). The instructor introduces the topic and initiates the simulation. At each decision point, the instructor gives the micro-lecture on that subject, and the class then selects their preferred decision(s). It is important that the instructor not correct wrong solutions at this time but allows the simulation to continue and score. During the feedback section, the instructor clarifies any difficulties or errors and then closes the lecture.
- **ONLINE:** Each of these group learning approaches may be given in an online interactive session. The Traditional approach could also be assigned to groups off-line for submission.

## Student Applied Questions

### Questions

1. Examine each of the Five Forces at play in the Leveling UP market. Rate each one of the forces on its intensity—high or low. How would you recommend that Leveling UP respond to each of these forces based upon their rating? (Remember that ignoring a competitive force is a high risk strategy even if it is low.)
2. If we assign a star to each low intensity competitive force in a market or industry, then we can develop a star rating score for a business type. A one star industry would have

several high intensity forces at work and be very difficult, and a five star industry would be highly advantageous due to the lack of strong competitive forces.

- a. Identify an industry with only one or no stars.
  - b. Identify an industry with four or five stars.
  - c. As an employee of each of these industries, what are three risks or advantages that you would have?
3. Using our star rating system, how would you score your college or university? Are all universities the same? If so, why? If not, what distinguishes the types of universities that score differently? Is this also true globally?
4. Strategic enablers are tools that grow or transform the company. Technology support is a strategic enabler for Leveling UP. Identify three other businesses where technology support is also an important strategic enabler. Must a company be an online business in order for technology support to be a strategic enabler? Why? Why not?
5. Of the three market strategies, low cost leadership, product differentiation, and focused strategy, which one does your university use to attract new students and scholars? Is it the most effective market strategy in your opinion? Why or why not?

## **Solutions**

1. Four stars for Leveling UP. Only the threat of new entrants is high at this time. To understand how to respond to each force today, Leveling UP must look ahead and consider what their situation could be in one or two years. To deal with the threat of new entrants, they could develop customer loyalty programs and create barriers to entry such as their question bank volume and reputation. Rivalry might be addressed by continuously maintaining their technological edge—being the first to use online, smartphone apps for their service. Buyer power might be addressed by ensuring that they continue to grow and enlarge their customer base, adding new features and even expanding their service offerings to do this. Supplier power could be handled by keeping a large pool of resources to provide the test bank questions. Finally, substitutes might be handled by ensuring that they keep abreast of new technologies that could replace the smartphone and including those market changes in their offerings.
2. Star ratings:
  - a. The airline industry is one which is highly competitive from all forces, and its low profitability reflects that situation.
  - b. The soft drink industry has few competitive forces, and it is very successful financially.
  - c. As an employee in a one star industry you are more likely to be laid off, earn lower salaries and increases, and have less advantage yourself in finding a new job. In a

five star industry an employee could expect the complete opposite condition—longer tenure, higher compensation and benefits, and stronger competitive advantages in seeking new positions.

3. The answer depends on the type of institution and its standing nationally. Vocational and academic colleges are very different from one another. Low tiered universities are substantially different from upper echelon institutions. Private and state-supported institutions are different. Online universities have different strategies from tradition universities. The higher education market is segmented with differing institutions competing for different segments. Each segment has a slightly differing set of competitive forces at work.
4. Yahoo, Facebook, and Google are all highly dependent on technology support. However, the automotive and food industry, which are not online, are today increasingly dependent on technology in design, operations, sales, and service offerings.
5. The answer depends on the institution and its target market. Many vocational colleges are pursuing low-cost leadership. A growing number of new online universities are attempting the same strategy. Other institutions such as Harvard, Yale, and Stanford pursue a focused strategy—emphasizing academic excellence and career success. MIT, Purdue, and Georgia Tech pursue a product differentiation strategy where each addresses engineering specialties and research.

## Discussion Points

1. Suppose that at the end of two years, Leveling Up is a huge success and has a feature article on it in *Fortune* magazine. What would their five forces star rating be then? What has changed? How might Leveling UP prepare for that new situation today?
2. Is there another part of the value chain that is as important as technology support? What is it? Are any other value components strategic enablers? How do we assess the importance of each of the value components? Does that change over time? What creates those changes and how do we know about them before they happen?
3. Consider the three basic strategies—low cost leadership, focused, and product differentiation. Why do companies generally avoid pursuing dual strategies? Are there conflicts among these different approaches? What are they? How are costs affected by the different strategies? Where does each focus its expenditures?
4. What emerging technologies should Leveling UP consider using in the future? Smartphones are their critical platform today, but will that continue? How should Leveling UP plan their technology so that it is flexible enough to incorporate new advances tomorrow?
5. Imagine that you are a member of an investment group interested in businesses like Leveling UP. After studying them, you decide not to invest in them but in a new competitive company. As

a new entrant, how would you compete with Leveling UP? What would your five forces star rating look like? How would you gain an advantage over Leveling UP? What would be your market strategy?

6. How could Leveling UP reduce the risks of new entrants? What kinds of loyalty programs would you offer? How would you increase the switching costs for your customers? Could you create a network effect? How would you do this? Can you create barriers to entry for new competitors? What might they be?

## Answers for Simulation

Sample feedback for correct student choices during the simulation follows.

Please note that for some questions, more than one choice might be acceptable. In those cases, students might receive full or partial credit for answers other than those shown in the sample.

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### Works Cited

Wallace, Patricia. Information Systems in Organizations. Upper Saddle River: Pearson, 2013.

### 1. Competitive Forces Survey

Points: 5 out of 5

- ☒ Threat of new entrants
- ☐ Power of buyers
- ☐ Power of suppliers
- ☐ Threat of substitutes
- ☐ Rivalry among competitors

The threat of new entrants is most important in this industry because it is so easy to set up a website and offer practice prep questions. No investment in a physical plant or equipment is needed.

### 2. Competitive Forces Analysis

Points: 7 out of 7

1. Many organizations offer SAT test prep content for free. You said this made the market sound **less attractive**. I agree. If people can get this for free, then the market is less attractive.
2. Grade inflation in high school has made SAT scores more important in the admissions process. You said this made the market sound **more attractive**. I agree. If people need high SAT scores, then it's easier to sell them SAT test prep.
3. A growing number of schools no longer require candidates to submit standardized test scores. You said this made the market sound **less attractive**. I agree. If people don't need the SAT, then buyer power is higher and they may not need us.
4. The owners of the SAT do not license their questions so that test prep companies can use them. You said this made the market sound **less attractive**. I agree. If the only supplier of real questions won't cooperate, then that's a supplier power problem.
5. Kaplan and Princeton Review are very entrenched competitors. You said this made the market sound **less attractive**. I agree. Heavy competition makes this market sound worse.
6. Few competitors offer SAT test prep through interactive apps. You said this made the market sound **more attractive**. I agree. There may be a lot of competitors out there, but we may be able to offer them something different.
7. A wide variety of people can write SAT test prep content. You said this made the market sound **more attractive**. I agree. This could be a solution to our supplier problem.

### 3. Students as Suppliers Analysis

Points: 5 out of 5

1. Students will be just as good at writing SAT questions as they will be at writing questions for other standardized tests. You said this was **not an assumption**. I agree. This is about the SAT. Other tests don't matter right now.
2. Students will write an equal number of math, critical reading, and writing questions. You said this was **not an assumption**. I agree. The numbers don't have to be absolutely equal. We just need enough to meet our needs.
3. SAT students will be interested in writing questions. You said this was an **assumption**. I agree. If people don't need the SAT, then buyer power is higher and they may not need us.
4. Students will be able to tell the difference between questions written by students and official SAT questions. You said this was **not an assumption**. I agree. If the only supplier of real questions won't cooperate, then that's a supplier power problem.
5. A significant number of students have the skill required to write good questions. You said this was an **assumption**. I agree. If students are no good at writing questions then you'll have to write most of them.

### 4. Polls

Points: 9 out of 9

Question	Your Choices	Feedback	Points
People who have smartphones are more likely to spend money on test prep. What strategy does this support?	<input type="radio"/> Low cost leadership <input type="radio"/> Product differentiation <input checked="" type="radio"/> Focused strategy	The facts that the Professor brings up point to a focused strategy that targets a particular market niche, with a differentiated product.	3
There are lots of free test prep options out there. Given that, which strategy SHOULDN'T we pick?	<input checked="" type="radio"/> Low cost leadership <input type="radio"/> Product differentiation <input type="radio"/> Focused strategy	Low cost leadership would not be an appropriate strategy given so many free options available.	3
Which Strategy should we pick?	<input type="radio"/> Low cost leadership <input type="radio"/> Product differentiation <input checked="" type="radio"/> Focused strategy	Focused strategy is the best choice in which they will differentiate their product for a special market niche.	3

### ***Total Points for Scored Choices***

You received **26 out of 26 points**, or **100%**.

### ***Discussion Questions***

1. What are some strategies Leveling UP might use to deal with the threat of new entrants?

2. Why is the power of buyers relatively low in this situation?

3. Use a search engine to find smartphone apps and websites that help students study for the SAT. What kinds of competition will Leveling UP face now?

4. What ethical issues should be considered before engaging students under 18 in writing practice questions?