Organization Management Journal

Volume 11 | Issue 1 Article 7

2-1-2014

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Organization Management Journal, 11: 40–46, 2014

ISSN: 1541-6518 online
DOI: 10.1080/15416518.2014.897928

Pizza, Pizza, Pizza: A Competitive Strategy Exercise

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While business students are typically comfortable identifying and extrapolating trends uncovered during competitive analyses, they often fail to take the Red Queen Effect into account when formulating new competitive strategies. This competitive strategy exercise employs Kim and Mauborgne's (2005) strategy canvas to help students to anticipate rivals' potential reactions and then develop new competitive strategies for firms competing in highly competitive markets. The exercise concludes with key takeaways as to how students may best develop and evaluate new competitive strategies. Student feedback indicates that students found the exercise useful, as 97% of students (*n* = 69) recommended that instructors at other universities adopt the exercise. *Organization Management Journal*, 11: 40–46, 2014. doi: 10.1080/15416518.2014.897928

Keywords competitive strategy; generic competitive strategies; strategy canvas; judo strategy; Red Queen Effect; experiential exercise

INTRODUCTION

Like many strategy instructors, I teach with cases in my classes due to the many pedagogical benefits that accrue from having students analyze the issues in strategy cases and then formulate recommendations to address them (cf. Barnes, Christensen, & Hansen, 1994; David, 2003; Jennings, 2002; Mitchell, 2004). When solving strategy cases, I find that students can competently apply traditional analytical tools to identify external environmental trends, such as changes in customer preferences, technology, demographics, and regulations, and then extrapolate these to make recommendations to improve the firm's performance. And while students are also competent in analyzing the current competitive position of the firm's rivals and incorporating this information into their recommendations, they often struggle to anticipate how rival firms' strategies may change in response to revisions in the focal firm's strategy.

Despite my encouraging and even exhorting students to anticipate competitors' reactions to their recommended strategies, all too often students assume rivals will not respond to changes in the focal firm's competitive strategy. In essence, students fail to account for the Red Queen Effect. The Red Queen Effect, named after the Red Queen's futile race in *Through the Looking Glass*, is found in industries where firms jostle for position by regularly improving their competitive strategies (Barnett & Hansen, 1996; Derfus, Maggitti, Grimm, & Smith, 2008). The implication of the Red Queen Effect for firms in these industries is twofold: (a) Firms need to improve their competitive strategies as often as their rivals to keep pace, and (b) every competitive move a firm makes will likely invite an equal or greater response from rivals also trying to keep pace.

Traditional strategy cases promulgate this issue, as students seldom have the opportunity to observe changes in rival firms' strategies after the focal firm has implemented their recommended strategy. Online strategy simulations, such as MarkStrat or StratSim, partially overcome this weakness as they provide direct feedback regarding the quality of students' decisions (Mitchell, 2004). However, given that strategy simulations also include other variables that impact firm performance, such as changes in consumer preferences, new regulations, exchange rates, or technologies, students may not be able to disentangle the bottom line impact of these changes from changes in their rivals' strategies. In response to this pedagogical issue, I developed an interactive competitive strategy exercise that asks students to describe the current competitive environment and then encourages them to formulate competitive strategies that not only best their rivals' current strategies but also anticipate their rivals' future competitive strategies.

The competitive strategy exercise focuses on formulating strategies for firms in highly competitive environments. The experiential exercise asks students to describe a pizza delivery firm's current competitive strategy and the current competitive strategies of its closest rivals using Kim and Mauborgne's (2005) strategy canvas. Students are then directed to formulate a competitive strategy and tactics that will allow the focal firm to significantly increase its profitability in this competitive market space. Aside from actively engaging students in an experiential learning activity, the main benefits of the exercise are that it reviews a number of key concepts in strategy formulation, including generic competitive strategies, VRINE, and judo

The author thanks Robert E. White for his comments and encouragement.

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strategy, and asks students to apply strategy canvases to help formulate new competitive strategies, as well as requiring students to critically evaluate the quality of these.

LEARNING OBJECTIVES AND IMPLEMENTATION GUIDANCE

The exercise is targeted at undergraduate students and MBA students who have little or no previous experience formulating competitive strategies. It is best introduced by instructors in the early part of a strategic management course, preferably after they have reviewed how to use strategy tools to analyze the firm's internal environment using VRINE framework[1] and the external environment using PESTE[2] and Five Forces,[3] and then formulate strategies using Porter's generic competitive strategies: low cost, differentiation and focus. Instead of telling students to anticipate rivals' reactions to their proposed competitive strategies when preparing their strategy case assignments, instructors can run the exercise and let students view examples of the Red Queen Effect. The exercise can be completed in 70–80 minutes if instructors have previously covered Kim and Mauborgne's (2005) strategy canvas, Yoffie and Cusumano's (1999) judo strategy, and D'Aveni's (1994) hypercompetition in class. If instructors want to review these as part of the simulation, then the exercise will take 20–25 minutes longer.

The exercise has three learning objectives. After completing the competitive strategy exercise, students should be able to:

1. Understand the role of Porter's generic competitive strategies, VRINE resources, Judo Strategy, Hypercompetition, and the Red Queen Effect when formulating competitive strategies.
2. Apply Kim and Mauborgne's strategy canvas to depict how firms compete within competitive market space.
3. Formulate and evaluate the quality of firms' competitive strategies.

Prior to the class where the exercise is run, instructors should assign students a chapter from a strategy textbook on how to formulate competitive strategies, such as Chapter 6, "Crafting Strategies for Dynamic Contexts," from Carpenter and Sanders (2012); Chapter 6, "Strengthening a Company's Competitive Position: Strategic Moves, Timing, and Scope of Operations," from Thompson, Peteraf, Gamble, and Strickland (2012); or Chapter 6, "Strategy Formulation: Situation Analysis and Business Strategy," from Wheelen and Hunger (2012). Instructors may also want to assign Porter's (1996) "What Is Strategy" and Yoffie and Cusumano's (1999) "Judo Strategy" articles as recommended readings.

Prior to the class when the simulation will be used, instructors should collect pizza delivery menus from five of the best known pizza delivery firms in their university's area and copy these for students to view in class. In order reduce the time students need to understand and analyze each pizza delivery firm's competitive strategy, it is recommended to choose pizza delivery firms that students are intimately familiar with. A good starting point for most American instructors is to use Domino's, Papa John's, Pizza Hut, and Little Caesars, which together account for more than $12 billion of the $30+ billion pizza delivery market in the United States, plus the leading local independent pizza delivery firm. In order to provide students with information regarding each pizza delivery firm's offerings and competitive strategies, copy and hand out a copy of each firm's current delivery menu to each student. Alternatively, if the majority of students have access to a PC during class time, then instruct students to view each pizza delivery firm's online menus instead of collecting, copying, and handing out hard copies of the menus to students, which saves time and paper.

STEPS IN THE COMPETITIVE STRATEGY EXERCISE

Step 1: Introduce the exercise and assign pizza delivery firms to groups (5 minutes).

Inform students that they will analyze and then propose competitive strategies for one of these five pizza delivery firms: the four national pizza delivery firms (e.g., Domino's, Papa John's, Pizza Hut, and Little Caesars) and one popular local pizza delivery firm. Introduce the exercise by reviewing the learning objectives (given earlier in this article). Randomly place students in five groups (works best with class sizes less than 40; if the class has more than 40 students, then the instructor may want to add more pizza delivery firms and have more student groups). Assign one pizza delivery firm to each group by asking for volunteers. Typically, students will favor one of the pizza firms and will ask to work with that firm, which increases their motivation to see their favorite pizza delivery firm triumph in Step 5 of the exercise.

Step 2: Students draw a strategy canvas and value curves for their pizza delivery firm and its two closest rivals (15 minutes if no review of the strategy canvas, judo strategy and hypercompetition, 35–40 minutes if instructors need to review these concepts).

If the instructor has previously reviewed Kim and Mauborgne's (2005) strategy canvas, Yoffie and Cusumano's (1999) judo strategy, and D'Aveni's (1994) hypercompetition, then they can inform students that they have 15 minutes to draw a strategy canvas and value curves for their pizza firm and its two closest rivals. If at least one student in each group has a laptop, then ask students to prepare the strategy canvas and value curves using Excel's graph function and then save the file on a USB stick, or send the file containing their strategy canvas to the instructor's e-mail account when done. If some student groups lack access to a laptop, then instructors should bring transparencies and felt markers for those students to use when drawing their strategy canvases.

If instructors have not previously reviewed Kim and Mauborgne's (2005) strategy canvas, Yoffie and Cusumano's (1999) judo strategy, and D'Aveni's (1994) hypercompetition, they can review these concepts with the class now. Kim and Mauborgne (2005) developed a tool to visually map a firm's competitive market space using a strategy canvas. Following in Lancaster's (1966) footsteps, Kim and Mauborgne (2005) argue that consumers make purchase decisions based on the offerings' attributes, such as their quality, availability, and price. A strategy canvas depicts the key attributes that consumers use to make their purchase decisions on the horizontal axis (e.g., price, location, quality, speed of service), while on the vertical axis, managers typically use consumer data and their judgment to rank each of their organization's offerings' key attributes against those of their closest rivals.[4]

In order to demonstrate to students a strategy canvas and value curves, share the following example of Build-A-Bear Workshop. When Build-A-Bear Workshop entered the plush toy market in 1997, it had two main competitors (see Figure 1): At the low end of the market, lower quality plush animals were sold by a number of no-name manufacturers (labeled "Budget Teddy bear" in Figure 1), while the top end of the plush animal market was dominated by Gund (labeled "Gund Teddy bear" in Figure 1). Gund and the Budget Bear producers competed on price (where Gund is displayed as having lower value to consumers due to its higher price), quality and plushness, availability, and animal cuteness. Build-A-Bear successfully entered the market by offering consumers a compelling value proposition. While it offered comparable plushness and animal cuteness to the plush animals sold by Gund, Build-A-Bear created new value for its customers by allowing them to customize their own bear, which led to many parents spending $30 or more for a bear that their child had created. Offering a unique value proposition, which lets children build their own bears, allowed the retail chain to grow very quickly—Build-A-Bear sold more than 50 million bears in its first 10 years.

Judo strategy, popularized by Yoffie and Cusumano (1999), describes tactics that smaller competitors may employ to defend and even defeat larger rivals. Judo strategy involves turning a competitor's strength into a weakness, avoiding head-to-head contact with superior rivals by giving way, and moving rapidly to uncontested ground (Yoffie & Cusumano, 1999). For example, in the 1970s Pepsi marketers determined that consumers would buy more soda beverages if the bottles, then made only of glass, were lighter and easier to bring home (Magretta, 2002). Pepsi's move to plastic bottles in the 1970s was a two-pronged attack on Coca-Cola. The first prong was that plastic bottles undermined Coca-Cola's ability to use its iconic bottle shape to sell Coke, as it was not technically possible to manufacture plastic bottles with the familiar Coke bottle shape. Second, Pepsi raised value for cola buyers, as lighter bottles were viewed by some consumers as more convenient than Coke's glass bottles. Pepsi employed a judo strategy by selling Pepsi in large plastic bottles, as it removed one of Coke's key strengths from its marketing mix: its iconic bottle shape. Coca-Cola had no choice but to follow Pepsi and offer Coke in plastic bottles with the same generic shape as Pepsi's plastic bottles.

Hypercompetition (D'Aveni, 1994) posits that the bases for competitive advantage are fleeting due to rapid changes in the environment. Under conditions of hypercompetition the only sustainable advantage is the firm's ability to continually identify profitable market niches and then move quickly to exploit these. Inditex's fashion retailer, Zara, is an example of a firm that thrives in a hypercompetitive industry. Zara's founder, Amancio Ortega Gaona, realized as a teenager working in a clothing shop in his hometown in Spain that it was very difficult to succeed as a clothing retailer if you order the clothes you think the customer will buy months in advance and then stock these clothes in the hope you are right. Rather, it is better to produce the clothes after you know what customers prefer and then have these clothes delivered to stores extremely rapidly. Zara refined the fast-fashion business model by refreshing each store's stock twice a week and delivering all orders to stores within a maximum of 48 hours.

Step 3: Students present their strategy canvases (10 minures: 2 minutes per group $\times$ 5 groups).

In order to present a picture of the current competitive market space for the pizza delivery firms in the students' local area, invite representatives from each of the five groups to present their groups' strategy canvases and value curves to the class (see Figure 2 for an example of a student group's strategy canvas for Domino's, Pizza Hut, and a leading local pizza delivery firm, Panago). Students typically present strategy canvases that reveal that pizza delivery firms compete on the following attributes: price, delivery speed, variety of pizzas, and quality. While students usually argue that the offerings from each pizza delivery firm are similar, most student groups will indicate that Little Caesars dominates its rivals on price, Domino's on delivery speed, Pizza Hut on the variety of pizzas, and Papa John's on quality. After all the student groups have presented, ask students to characterize the state of the local pizza delivery market.

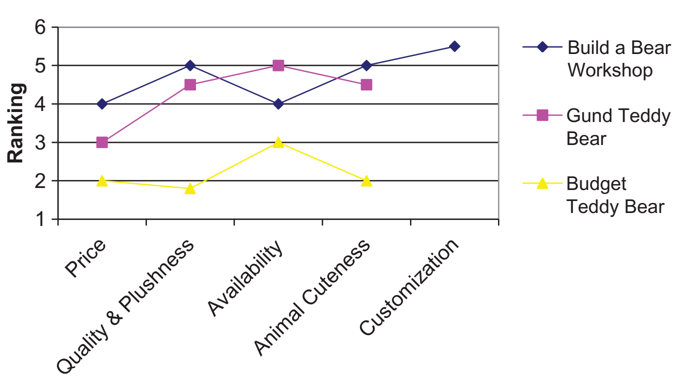

FIG. 1. The strategy canvas for the plush toy market.

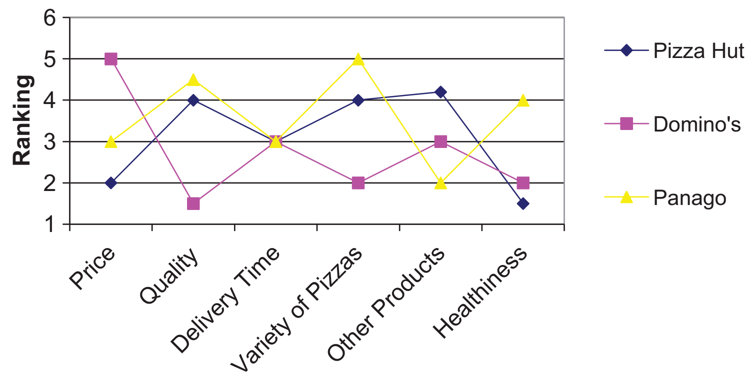

FIG. 2. Strategy canvas for Pizza Hut, Domino's, and Panago.

Students should agree that the local pizza delivery market is mature and highly competitive.

Step 4: Have students formulate a new competitive strategy for your pizza firm that will significantly improve its market share and profitability (20–25 minutes).

Provide the students with the following scenario:

> Your pizza delivery firm's corporate office recognizes the local market is very competitive and has granted each local branch of the pizza firm a special budget of $50,000 to develop a new competitive strategy that will enable it to significantly increase its market share and profitability in your local market (in the case of the local pizza delivery firm, instructors can note that its owner has set aside funds in order to stave off increased competition from the big four national pizza delivery firms). Your group will have 15 minutes to come up with a new competitive strategy for your pizza delivery firm.[5] Once completed, your group will be asked to make a two-minute presentation that clearly outlines your firm's new competitive strategy using value curves for your firm and its two closest competitors. You know your rivals will also be trying to steal market share, so take this into consideration when formulating a new competitive strategy for your pizza delivery firm.

To help students develop new competitive strategies, instructors may want to quickly review Kim and Mauborgne's (2005) Eliminate, Reduce, Raise, Create grid. One method to enable firms to better compete in the market is to alter its customer value proposition by: Cut costs by eliminating attributes that buyers no longer value (e.g., as more customers complete their banking online, banks are closing physical branches), or by reducing one or more attributes that were overdesigned for a subset of consumers (e.g., computer tablets appeal to those who just want to access the Internet while on the go). Explain to students that eliminating or reducing the firm's investment in one or more buyer attributes allows the firm to reduce its prices in the shorter (by using coupons or placing the offering on sale) or longer term, which allows the firm to increase market share, providing its rivals do not also match its price reductions. Other tactics to enhance the customer value proposition are to raise consumers' willingness to buy by increasing the value in one or more of the current buyer attributes (e.g., increase the speed of delivery), or to create new sources of buyer value (e.g., offer pizzas in unique shapes or with special toppings).

Before sending away students to complete Step 4, which asks them to develop a new competitive strategy for their firm, briefly review the Red Queen Effect. In industries, such as the pizza delivery business, where the majority of firms are continually monitoring their competitors and improving their business models in an effort to remain competitive, firms have to revise their strategies as fast as their rivals just to maintain their current competitive position. Consequently, the only way for pizza delivery firms to steal market share from rivals is to run even more quickly than their rivals.

Step 5: Students present their proposed competitive strategies and tactics for their pizza delivery firms (10 minutes: 5 groups $\times$ 2 minutes).

Have representatives from each student group present the proposed competitive strategies and corresponding value curves for their pizza delivery firm to the class, but ask students to hold any comments and questions for the debrief and discussion period that follows. The majority of strategies presented by students in Step 5 attempt to improve their pizza delivery firm's market share by increasing one or more attributes of their firm's current customer value proposition, such as improving delivery speed or adding more exotic pizza varieties and toppings. Other groups will attempt to differentiate their pizza delivery firm's offerings by adding complementary items to their delivery menu, such as bread sticks, chicken wings, pasta, or even alcohol (e.g., you can order a pepperoni pizza and a case of beer). Occasionally, a group will come up with a novel recommendation. For example, one student group's competitive strategy for Pizza Hut was to leverage the brand's equity by launching Pizza Hut into the frozen pizza market and making it widely available in supermarkets (see Figure 3). The students reasoned that Pizza Hut should use its brand name to sell the frozen Pizza Hut pizzas at a premium price relative to other frozen pizzas. Pizza Hut frozen pizzas, however, would be sold at lower prices than home delivery pizzas, giving Pizza Hut an

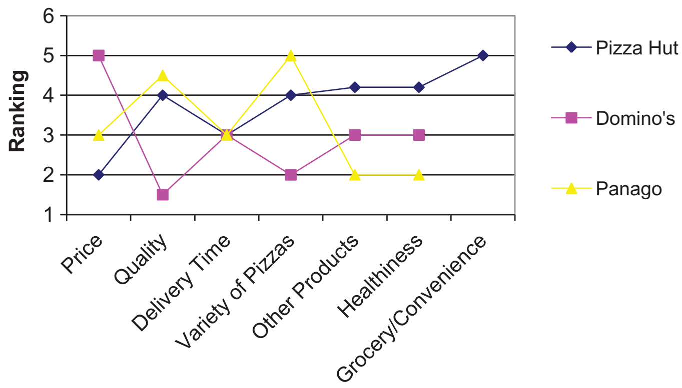

FIG. 3. Revised strategy canvas for Pizza Hut, Domino's, and Panago.

advantage over other fresh pizza delivery firms. In addition, the group argued that adding a frozen line of pizzas would create a new source of buyer value as frozen Pizza Hut pizzas increased customers' convenience, as customers could enjoy a frozen Pizza Hut pizza anytime or anywhere.

2. Debrief and discussion (20–25 minutes).

Begin the debrief by asking which of the five pizza delivery firms will be most successful in raising its market share and profitability after each of the pizza delivery firms implements the competitive strategies presented by each of the groups. Students may struggle to justify their opinions of which strategy is best, often reverting to promoting the competitive strategies that they just presented for their firms. In order to counter this tendency, provide students with Hambrick and Fredrikson's (2005, p. 61) six evaluation criteria to help them critically evaluate which group presented the best competitive strategy for their pizza delivery firm:

1. Does the firm have the financial resources, managerial competence and time to successfully execute the new competitive strategy? Inform students that the exercise leveled the playing field by allocating each of the pizza delivery firms the same amount of funds.
2. Is the new competitive strategy implementable? Will key stakeholders, including the firm's senior managers, support the strategy as presented? While this is not likely an issue for the small local pizza firm as it is typically owner-managed, the national pizza delivery firms may consider some areas as off limits, such as selling alcohol along with pizzas.
3. Are the elements in the proposed competitive strategy internally consistent? Do they fit together and mutually reinforce each other? For example, one student group argued that Domino's should move upscale and establish a high-end pizza chain using the same name and premises as the current Domino's pizza chain. This proposed competitive strategy is not internally consistent, as it does not fit with Domino's current branding and market position.
4. Does the competitive strategy fit with what's going on in the environment? For example, does the competitive strategy acknowledge society's desire for healthier eating alternatives? If students propose offering super fatty pizza crusts or toppings, the strategy may not pass this criterion. Following a similar logic, if any of the student groups propose entering a new market or offering a new product, then they need to convincingly argue that the proposed market has the potential to be profitable and the new product can be produced efficiently.
5. Does the new competitive strategy exploit the pizza delivery firm's key resources? Following the core competency argument made by Hamel and Pralahad (1990), students' strategies should build on what the firm does well. For example, one could argue that a proposal that has Papa John's selling upmarket pizzas with unique toppings at a higher price would leverage Papa John's strengths.
6. Will competitors have difficulty copying your new competitive strategy? Are any of the proposed strategies based on leveraging the pizza delivery firm's VRINE resources and capabilities (Barney, 1991), such as its location, brand image, or strong customer relationships? Explain that competitive strategies that leverage the companies VRINE resources are preferred, as rivals will not be able to imitate these competitive strategies in the shorter run. However, remind students that empirical findings reviewed by D'Aveni, Battista Dagnino, and Smith (2010) noted that competitive advantages gained by exploiting VRINE resources are less frequent and less durable due to changes in technology, demographics, regulations, and globalization of competition.

If the focal firm has no VRINE resources that it can exploit, has it employed tactics to improve its competitive position? Or has the firm employed strategies that discourage its rivals from copying its new strategy?

- Have any of the proposed strategies employed judo strategy by turning one of the competitor's strengths into a weakness, avoiding head-to-head contact with superior rivals by giving way, or moving rapidly to uncontested ground (Yoffie & Cusumano, 1999)? An example of a judo strategy would be a firm promoting its pizzas as slow food that are worth waiting for, thus countering Domino's delivery speed advantage.
- Are any of proposed competitive strategies ones that its rivals do not want to copy due to trade-offs (i.e., a pizza delivery firm offering high-quality ingredients and a diverse menu of premium pizzas will not imitate a low-cost pizza delivery firm's competitive strategies) (Porter, 1996)? Firms can emphasize what is different between themselves and their rivals in other strategic groups by reinforcing these trade-offs through advertising. In this way, competition is between members of the same competitive group (e.g., Domino's and Little

Caesars compete head-to-head), rather than exposing the firm to competition across strategic groups.

- Do any of the proposed competitive strategies concede the market is hypercompetitive, meaning that the pizza delivery firm constantly needs to make small improvements to its offerings, such as offering chicken wings, deserts, or breadsticks, in order to stay competitive (D'Aveni, 1994)? If yes, the pizza delivery firm's profitability will depend on its ability to consistently create new buyer value or raise the value in one or more its current attributes. The sustainability of a pizza delivery firm's new value proposition will depend on how successful its rivals are in imitating these improvements (Barney, 1991).

Briefly review each pizza delivery firm's proposed strategy by having the student groups self-critique their strategies using Hambrick and Fredrikson's (2005) six criteria as a basis. After the groups are finished self-critiquing their strategies, take the opportunity to illustrate the Red Queen Effect by having students recall which groups had similar strategies. Reinforce that due to the Red Queen Effect any short-term advantages that are easily imitated already have been, or will soon be, copied by rivals, who will also be introducing new competitive strategies. Remind students at this time that their strategy case recommendations must take their rivals' potential reactions to their recommended strategies into account when proposing new strategies for their firms. Finish the review of the student groups' strategies by reinforcing that if the competitive strategies are to be successful then they must meet each of Hambrick and Fredrikson's six criteria. If they do not, they will not be successful. Conclude the exercise by sharing this quote from Sun Tzu's (1999, p. 12) *The Art of War* on a slide:

> If you know neither yourself, nor your enemy, you will always endanger yourself
>
> If you only know yourself, but not your opponent, you may win or lose
>
> If you know your enemies and know yourself, you can win a hundred battles

CLASSROOM EXPERIENCE

Systematic feedback was collected from two section of graduate students ($n = 84$) over a 2-year period using a detailed feedback questionnaire administered at the end of the class where the exercise was used. The average age of the master's-degree students was 23.4 years, with 4.6 years of university, and they expected a final grade of 81%. The students' evaluation of whether the exercise met its third learning objectives was positive:

- How much did the Pizza, Pizza, Pizza exercise help you to formulate winning strategies for firms which face strong rivals? The average was 7.62 ($n = 80$), where 1 = *unhelpful* and 10 = *helpful*.
- How much did the Pizza, Pizza, Pizza exercise help to evaluate the quality of a firm's competitive strategy? The average was 7.89 ($n = 80$), where 1 = *unhelpful* and 10 = *helpful*.
- How interesting was the Pizza, Pizza, Pizza exercise? The average was 8.32 ($n = 80$), where 1 = *boring* and 10 = *interesting.*

Students rated the exercise as highly effective, with 97% ($n = 69$) of the students recommending that instructors at other universities adopt the Pizza, Pizza, Pizza competitive strategy exercise. When asked why they would recommend the exercise to other instructors, 27 students wrote that they recommended the exercise because it helped them learn the topic and understand how to apply the concepts, 25 students echoed that they would recommend it because they found it engaging, interesting, or fun, and 10 students recommended it because they liked that they were familiar with the pizza delivery industry and the firms competing in their area.

CONCLUSION

This simple, straightforward exercise leverages the students' in-depth knowledge of the pizza delivery industry to introduce them to a number of key strategic concepts, including generic strategies, strategy canvases, and VRINE resources, in the context of formulating and evaluating competitive strategies.

NOTES

1. Barney's (1991) VRINE framework asks strategists to identify whether the firm has any resources that meet of the following criteria: Valuable—the resource helps the firm to increase its revenues or reduce cost; Rare—the resource is only accessible to a few in the industry; Inimitable—the resource cannot be copied; Non-substitutable—the resource cannot be substituted for another; and Exploitable—the firm has the systems and processes in place to take advantage of the resource. Resources that meet the VRINE criteria should form the basis of the firm's competitive strategy, as they will lead to profitable strategies that are not easily copied by others (Barney, 1991).
2. The PESTE framework helps strategists analyze the firm's macro environment. Strategists look for political, economic, sociodemographic, technological, and environmental factors that may help or hinder the firm.
3. Porter's (2008) Five Forces framework helps strategists analyze the profit potential of an industry. Strategists examine the industry's rivalry, substitutes, power of suppliers and buyers, and threat of new entrants.
4. Contrary to Kim and Mauborgne (2005), I ask students to rank offerings with higher prices as offering lower value to consumers. In this way, the strategy canvas is more intuitive as higher rankings on any attribute always dominate the lower rankings. For example, given that Build-A-Bear charges the most for its bears, the price value offered to the customer is rated as the lowest.
5. Fifteen minutes may seem short, but I find that giving the student groups only 15 minutes forces them to focus on the task at hand.

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