The right game: use game theory to shape strategy

If business is a game, it’s not about winning or losing but about how you play the game. The book entitled Theory of Games and Economic Behavior has been heralded as one of the greatest scientific achievements of the century. In fact, the authors won the Nobel Prize for it. The book provided a systematic way to understand players with interdependent fortunes. The basic idea is that every action does not have an equal but opposite reaction when it comes to business, and that all moves need to be thought about well in advance before being executed. What will others do once you move? One needs to analyze the added value of every player including themselves.

Situations involving competition are often thought of in win-lose terms. But how can a company change their strategy from win-lose to win-win? Coopetition is a term created to describe looking for win-win as well as win-lose opportunities. Companies can get locked into a cycle of destructive competition, a process in which each company will lower their prices in order to undercut the other. This could result in a situation much like auto companies saw, such as customers coming to expect rebates.

There are ways around this however. For example, GM changed the game by offering a discount “ GM Card”. The card replaced previous incentives, and GM saved money in the long run. Other companies copied the idea and also made money without stealing customers from GM.

GM turned a losing situation for everyone into a winning situation for everyone without hurting anyone in the process. Win-Win moves have major advantages such as potential for finding new opportunities, less resistance from competitors, and turning imitation into a good thing. One way to start thinking in a coopetitive way is to take a look at the “ Value Net” for your company. Value Net is a mapping of the relationships between your suppliers, substitutors, complementors, and customers. Suppliers and customers are on a vertical axis, and represent the usually obvious transaction relationships.

Along the horizontal axis, interactions with substitutors (alternative companies) and complementors (Example: hardware and software) are represented. Part of the game involves thinking about these relationships in different ways. This is where the “ PARTS” come in. PARTS represents players, added value, rules, tactics, and scope. According to game theory, success involves changing one or more of these strategies to create a win-win or possibly even a win-lose situation. Changing the game involves thinking outside of the box.

Sometimes companies or “ players” are paid to enter the game, in order to have some beneficial effect to the paying corporation (weather they know it or not). Such was the case when Coke supported a smaller supplier only to sign with its existing supplier that slashed prices due to the new competition. Coke knew all along that it would stick with the major supplier, but added a player to the game in order to reap the benefits. Another tactic involves keeping your business small and capturing about ten percent of the market share.

If the company can hold that level, a bigger corporation may not bother to slash its prices as it still retains the majority of the market at the original price. This is another example of a win-win situation. Along with strategic thinking come a few potential traps to take note of. First, you should never think that you need to accept the game you find yourself in, or that changing the game needs to translate into hurting others. Another pitfall is thinking that you need to come up with an idea that could never be imitated.

If the idea could be replicated in a way that will benefit everyone, you will still come out ahead and be a first mover. Finally, you should never think that once you do change the game, that you will never have to do it again. There will never be an end to the game of changing the game.