

13. The Right Game and “Co-opetition”

See Brandenburger and Nalebuff in the Package,
and

<http://mayet.som.yale.edu/coopetition/index2.html>

13.1 “It’s a Game, Jim, but Not as We Know Them”

Business is a game, but different from structured board games or arcade games or computer games:

- it is not win-lose (not zero-sum): possible for all players to win
- apart from the law, there is no rule book
- others will change the game to their advantage
- success comes from playing the right game

So game theory provides a framework for an ever-rapidly changing world.

This lecture: beyond the more micro issues → wider issues:

Which game should your firm/organisation be in?

It’s no good sticking to your knitting if there’s no demand for jumpers.

13.1.1 Your Added Value

Two sorts of interactions:

- structured:
“Look forward and reason back”
- unstructured (free-form) such as business:
“You can’t take away more than you add.”

Your *added value*: what difference does your participation make? Your added value, which disappears when you do.

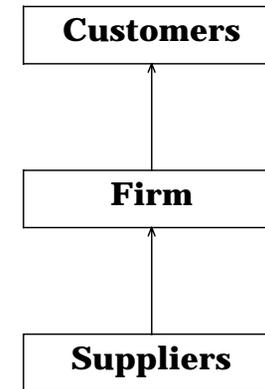
Exercise: The card game.

Put yourself in the others’ shoes in order to design a game that is right for you.

Your strategy: actively shape the game you play, not just playing the game you find.

13.1.2 The Value Chain

The business buys from its suppliers and sells to its customers.



Companies compete to dominate one or more stages of the chain.

13.1.3 Complementors

Every business has

- customers
- suppliers
- competitors
- and ?

Consider Intel and Microsoft.

Brandenburger and Nalebuff suggest a new term — **complementor** — for those who provide complements.

Customers, suppliers, and complementors can all be partners with the business.

A firm is your **complementor** if customers value your product *more* when they have the other firm's product than when they have your product alone.

A firm is your **competitor** if customers value your product *less* when they have the other firm's product than when they have your product alone.

Customers' Complementors

Technical definition:

Two businesses A and B are **complementors** with respect to a customer if willingness to pay (Wtp) for both of their products together is greater than Wtp for A 's product alone plus Wtp for B 's product alone:

$$Wtp(A \& B) > Wtp(A) + Wtp(B)$$

Examples of customer's complements:

- Pentium II and Windows NT
- Cars and roads; Cars and car loans
- Sweets & masks and Hallowe'en
- Red wine and Dry cleaners
- ISDN phone lines and videophones

Suppliers' Complementors

Technical definition:

Two businesses *A* and *B* are **complementors** with respect to a supplier if the opportunity cost (*OC*) for supplying both of their products together is less than the *OC* of supplying *A*'s product alone plus the *OC* for supplying *B*'s product alone:

$$OC(A \& B) < OC(A) + OC(B)$$

Create a market by cooperating with competitors to develop *Common Complements*:

- In the U.S. in 1913, General Motors, Hudson, Packard, and others formed the Lincoln Highway Association to build "seedling miles".
- IBM, Compaq, Sun, Netscape, Oracle, and others have created a \$100 m Java Fund.

By offering *Proprietary Complements*, a firm gains a competitive edge.

Help customers to get existing complements at the right time and at a good price:

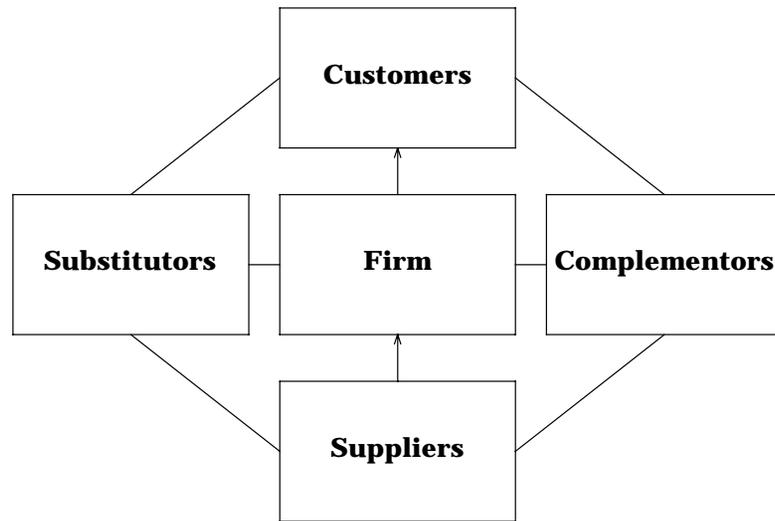
- Ikea and kids' play areas
- bookshops and coffee bars
- Holden's and GMAC credit
- Bundles and suites of software

But: the flip side of complements: your product makes someone else's much more valuable:

- railways and land,
- IBM and Microsoft

13.1.4 The Value Net

Brandenburger and Nalebuff extend the Value chain to include the firm's complementors and competitors:



The Value Net is:

- a complete map of a firm's relationships
- a counter to limited thinking (e.g. "outsmart the competition")
- a prompt to understand a firm "outside-in"
- a shared template for discussions of strategy.

13.1.5 From Lose-Lose to Win-Win

Business has elements of competition and cooperation:

- cooperation to generate the pie
- competition over dividing the pie.

e.g. Intel's strategy on the Value Net:

Only the paranoid survive — Andy Grove, CEO

- Competitor strategy:
continuous innovation.
- Customer strategy:
Intel Inside campaign.
- Complementor strategy:
partnership with MCI, H-P, etc.; internal development of the PCI bus, ProShare, ...

Co-opetition: looking not just for win–lose (zero-sum) opportunities, but also for win–win (positive-sum) opportunities.

Win–lose opportunities often backfire:

e.g. lowering price to gain market share
 ∴ temporary benefit,
 but gains evaporate if others match
 → new status quo at lower prices (lose–lose)

Competitive threat
 or
 Complementary opportunity?

- Cinemas & video rentals
- Computers & paper

13.2 The Game of Business

The stakes are too high to be left to chance.

The Value Net: a map representing all players in the game and their interdependencies.

Interaction in two dimensions:

Vertical: the firm's customers and suppliers

Resources: suppliers → company

Products and services: firm → customers

Money: customers → firm → suppliers

Horizontal: other players, but no transactions;
 the firm's *substitutors* and *complementors*.

Substitutors: alternative players:

- from whom customers may purchase products
- to whom suppliers may sell their resources
 e.g. Coke and Pepsi: rival sellers

Complementors: players:

- from whom customers buy complementary products
- to whom suppliers sell complementary resources
 e.g. hardware & software

Many interdependencies.

The Value Net: various roles of players possible (Qantas & SAL) to be in more than one role.

Two fundamental symmetries:

1. between customers and suppliers, and
2. between substitutors and complementors

Intuitively, only vertical dimension a mix of cooperation (getting together) and competition (dividing the pie).

Along the horizontal dimension?

- substitutors seen as enemies
- complementors seen (if at all) only as friends

But there can be:

cooperative element to interactions with substitutors, as in the GM case, and *competitive* elements with complementors

13.3 Changing the Game

Value Net prompts for all dependencies.

1. Drawing the Value Net is the first step towards changing the game
2. Identifying all elements of the game: *players, added values, rules, tactics, and scope* (P.A.R.T.S.)
PARTS will describe all the interactions.
To change the game, you must first change one or more of these elements.

Players: customers, suppliers, substitutors, complementors;
change any, including yourself.

Added Values: what each player adds to the game (taking the player out would subtract their added value).
Ways to raise yours, or lower theirs.

Rules: give structure to the game; in business — no universal set of rules
from law custom, practicality, or contracts
can revise exiting rules, or devise new ones

Tactics: moves to shape the way:
— players perceive the game, and hence
— how they play
Tactics to reduce misperception, or to create or maintain misperception.

Scope: the bounds of the game: expand or shrink.
PARTS does more than give a framework, it also provides tools.

13.4 Changing the Players

e.g. NutraSweet case: Coke, Pepsi, Monsanto, HSC.

Sometimes the most valuable service:
to create competition
so don't do it for free

Get paid to play — takeover business.

e.g. McCaw & BellSouth & Lin B.C.

Even if you can't make money in the game the old-fashioned way, you can get paid to change it.

Need not be in cash — guaranteed sales contract
 R&D contributions
 bid preparation expenses
 last-look provision

e.g. Lin paid to bring in an extra player (*customer*).

e.g. Coke & Pepsi would have paid HSC to become a second *supplier*.

e.g. McCaw paid to take out a rival bidder (*substitutor*).

e.g. 3DO Video Games — Panasonic, Gold Star, Sanyo, Toshiba — cheap complements to 3DO software

Paying people to compete in the complements market.

Complementors not only friends, also rivals.

Legitimate win-lose opportunities with complementors.

13.5 Changing Added Values

Raise yours. (TWA)

Lower theirs. (Adam)

e.g. TWA — business class

e.g. Adam's card game.

e.g. Nintendo trumped every player in its Value Net.

e.g. Power Beer v. XXXX in Brisbane

Protecting your added value.

In freewheeling interactions (business):

no player can take any more than that player adds to the game,

but:

1. no guarantee that any player will get all of its added value
2. even if you have no added value, that doesn't stop you from making money — others might be willing to pay you to enter or exit the game
3. rules constrain interactions among players — in games with rules, some players may be able to capture more than their added value.

13.6 Changing the Rules

Rules: limit the possible reaction to any move

To analyse the effect of a rule:

Look forward and reason back.

Simplest rule: *one price for all.*

new player — enters a market

new player — limited capacity (clear, credible)

incumbent — match price or lose share

judo economics: keep small as entrant

e.g. Kiwi airlines

Contract-based rules:

most-favoured-nation (customer)

take-or-pay agreements

meet-the-competition (MTC) clauses (last bid)

— give structure to the negotiations

e.g. carbon dioxide with MTC

→ produce can capture more than added value

∴ gain for incumbent

& gain for challenger: prices higher

MTC: cooptation

& customers may gain with long-term relationship

MTC enhanced by imitation:

the more the merrier (higher price)

Rules can be changed, but beware:

It's the added value → power to write rules.

A Smith & Wesson beats a straight flush.

13.7 Tactics: Changed Perceptions

Changed players, added values, rules.

Now, perceptions: uncertainty pervasive → behaviour.

e.g. Murdoch at the *New York Post* lifting the fog about the cost to both papers of a price war.

e.g. client's optimism (\$500m), bank's pessimism (\$250m)

fee: from 1% → 0.625% plus guaranteed minimum of \$2.5m

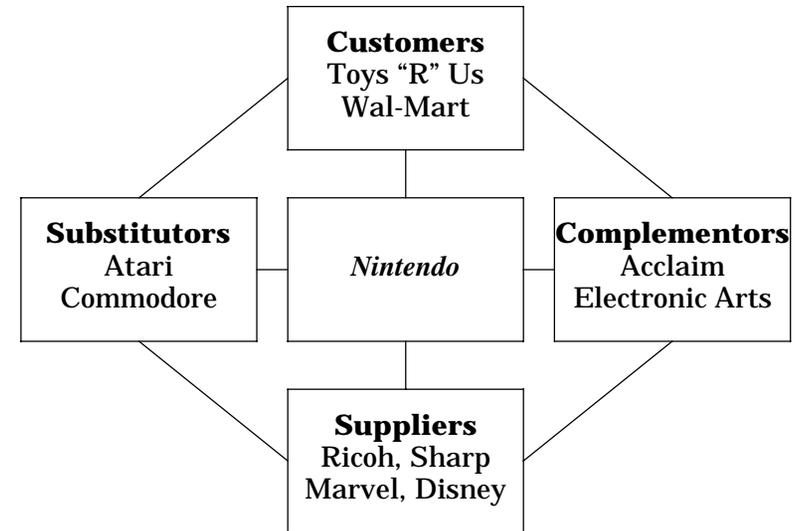
13.8 Changing the Scope

e.g. Nintendo's 8-bit Mario v. Sega's 16-bit Sonic

13.9 The Traps, or Mistakes

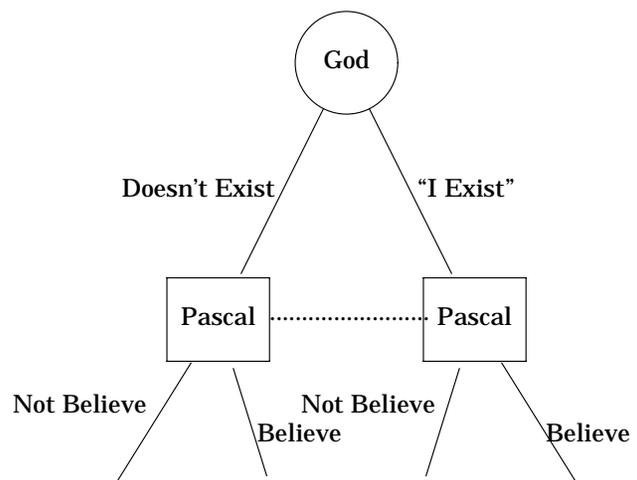
1. believing that you must accept the game you find yourself in.
2. believing that changing the game must come at the expense of others;
coopetition: look for win-win and win-lose
3. believing that you mustn't be imitated — uniqueness is not necessary for success.
4. failing to see the whole game, complementors especially — see the Value Net.
5. failing to think methodically — use PARTS, and put yourself in the others' shoes.

And, there's no end to the game of changing the game.



Customers	under-supply → destroy their added value
Complementors	internal development → lower their added value
Suppliers	old chips → commodities new characters – Mario – lower the added value of Disney, Marvel, etc.
Substitutors	positive feedback loop
Nintendo:	¥ 2,400,000,000,000
Sony:	¥ 2,200,000,000,000
Nissan:	¥ 2,000,000,000,000

Pascal's Dilemma



Pascal's Dilemma: To Believe or Not