Co-opetition

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Business is War and Peace

Cooperation in creating value

Competition in dividing it up

Not cycles of War, Peace, War ...

Simultaneously War and Peace

“You have to compete and cooperate at the same time”

Ray Noorda, Novell

Co-opetition
Leadership secrets of

Attila the Hun?

St. Francis of Assisi?

How to

cooprate without being a saint

compete w/o killing the opposition

👉 Game Theory
Game Theory

- Game theory analyzes the interplay between competition and cooperation

- Founders: John von Neumann and Oskar Morgenstern (1944)

- The field has been gaining increasing attention
  - 1994 Nobel Prize
  - FCC spectrum auctions
  - Application by management consultants
Are we playing a game?

- Everything is a Game

- Citibank deciding whether to issue a credit card.
  Credit card scoring

- Engineer versus Manager

- Physics and Game Theory
  Newton’s Third Law
Business as a Game

Chess, poker, sports?

» Not win-lose

» No rule book

» People change the game

» Game is made up of 5 PARTS

» Archimedes lever

» Success comes from playing the right game
The Game of Business

- Who are the players?
  
  » Customers, Suppliers, Competitors

  Plus

- Providers of complementary products and services
  
  » Hardware and software
  » Cars and auto loans
  » VCRs and HBO
  » Intel and ProShare
The Value Net
Competitors & Complementors

A player is your complementor if customers value your product more when they have the other player’s product than when they have your product alone.

A player is your competitor if customers value your product less when they have the other player’s product than when they have your product alone.
Complementors & Competitors:
The Supply Side

A player is your **complementor** if it’s more attractive for a supplier to provide resources to you when it’s also supplying the other player than when it’s supplying you alone.

A player is your **competitor** if it’s less attractive for a supplier to provide resources to you when it’s also supplying the other player than when it’s supplying you alone.
The Supply Side:  
Examples

Compaq & Dell
- **compete** with each other for the latest Intel chip
- **complement** each other in defraying Intel’s R&D costs

American & Delta
- **compete** with each other for landing slots and gates
- **complement** each other in defraying Boeing’s R&D costs
University’s Net

CUSTOMERS
Students, Parents, Companies, Federal Government, State Government, Donors

COMPETITORS
Other colleges, Freelancing faculty, Private enterprise, Hospitals, Museums

THE UNIVERSITY

SUPPLIERS
Faculty, Staff, Administrators, Publishers (books, journals, online services), Donors

COMPLEMENTORS
Other colleges, K--12 education, Computers, Housing, Airlines, Hotels, Cultural activities, Kinkos, Local employers
Multiple Roles: Jekyll and Hyde

- Competitive threat or complementary opportunity?
  - Movie theaters & video rentals
  - Traditional & Internet booksellers (BookZone)
  - “paperless” office
  - ATM machines
Multiple Roles: Making Markets

Antique stores in Paris

Theater, music, & dance on and off Broadway

Toys R Us & McDonald’s & Discovery Zone?

Complementors in making the market

Competitors in dividing the market
Friend or Foe?

Friends
Customers, Suppliers, Complementors

Foes
Competitors

X
The Competitive Mindset

• The bias:
  » Customers and suppliers have to choose between opportunities with us and with others
  » We’re taught to think in terms of constraints, trade-offs, substitution

• To correct the bias:

Think complementor as well as competitor
Using Game Theory

- Founders:
  John von Neumann and Oskar Morgenstern (1944)

- Equations vs. Experience

- Power--yours and others--is determined by the structure of the game

- Added values, Rules, Perceptions, and Boundaries
The Card Game

- Adam has 26 red cards
- 26 people each have 1 black card
- A red card and a black card together are worth $100
- Who will get what?
Barry’s Version

- Barry tries the game back at Yale
- He loses 3 black cards
- Pie is smaller by $300
- Is everyone worse off?

Examples: NFL, Nintendo
The NFL Today

- St. Louis Cardinals --> Phoenix
- LA Rams --> St. Louis
- Baltimore Colts --> Indianapolis
- Cleveland Browns --> Baltimore
- Houston Oilers --> Nashville?
- Phoenix Cardinals --> ?
Multiple Choice

Which company has the largest stock market value?

A) Sony
B) Nissan
C) Nintendo
Multiple Choice

Which company has the largest stock market value?

A) Sony  2.2 trillion yen

B) Nissan  2.0 trillion yen

C) Nintendo  2.4 trillion yen

back in 1990--91
Added Value

What you get is based on your added value

Added value =

total value with you

minus

total value without you

It’s what you bring to others
AV Analysis

- Adam’s added value is $2,600
- Each person with a black card has added value of $100
  
  » Their total added value is $2,600
- The game is symmetric
AV Analysis cont.

- Barry’s added value is $2,300

- But, each black card has zero added value

- So, Barry does much better

  » Bigger piece of smaller pie
What’s Your Added Value?

- Egocentric vs. Allocentric
- Individual vs. Group
- *It’s a Wonderful Life*
- *Home Alone*
Perception Games

- Perceptions are part of the game

- Texas Shoot-Out
  - One side states price
  - Other side says buy or sell
  - Shooter or Shootee?

- Different valuations
Texas Shoot-Out

- If you know the other side’s value, go first

- If you are uncertain, better to go second
Boundaries of a Game

- One Big Game
- Chess
- Epson’s Entry in Laser Printers
Allocentrism

● Added value
  » Put yourself in the shoes of others to assess your added value

● Rules
  » Put yourself in the shoes of others to anticipate reactions to your actions

● Perceptions
  » Put yourself in the shoes of others to see how they see the game
Irrationality

- Profits are not the only objective
  Pride, jealousy, fairness matter

- Ignore this, you can both lose

- Even if you think others are misguided, don’t impose your rationality on them

Allocentrism
Change the Game

Getting the right mindset ... "Philosophers have only interpreted the world. The point, however, is to change it"
“Changing the rules” is only one of five levers.

The elements of a game:
- Players
- Added values
- Rules
- Tactics
- Scope

PARTS is a complete set of levers: exhaustive, not mutually exclusive.

Method to out-of-the-box thinking.
Players

Becoming a player changes the game

- The Heisenberg principle

* NutraSweet and HSC *

* Gainesville, Norfolk Southern and CSX *

* McCaw, Lin, and BellSouth *
Pay Me to Play

Competition is valuable:

Don't give it away,

Get paid to play
How to Get Paid

- Cash
- Contribution to upfront expenses
- Guaranteed sales contract
- Last-look
- Access to people
- Access to information
4 Hidden Costs of Bidding

- You’re unlikely to succeed--there are better uses of your time

- When you win the business, the price is so low you lose money

- The incumbent can retaliate--you end up trading high-margin for low-margin customers

- Win or lose, you establish a lower price--existing customers will want a better deal
4 More Hidden Costs of Bidding

- New customers will use the low price as a benchmark
- Rivals will use the low price you helped create as a benchmark
- It doesn't help to give your customers' competitors a better cost position
- Don't destroy a rival’s glass house
More Players

- Bringing in
  - Customers
  - *Harnischfeger*
  - Suppliers
  - *Amex and Merrill Lynch*
  - Complementors
  - *The 3DO Company*
  - Competitors
  - *Intel*
Added Value

- Dangers of undersupply
  - Hole in the market
  - Lost sale --> lost relationship
  - Ill will

- Raising your AV
  - TWA Comfort Class
  - Frequent-flyer programs
Healthy Imitation

“If everyone can do it, you can’t make money at it”

- Copying products vs. imitating strategy

- win-LOSE + LOSE-win
  → lose-lose

- win-win + win-win
  ← WIN-WIN
Loyalty

Create Loyalty By Rewarding It

--

Say thank you
Saying Thank You

- Say thank you in kind, not cash
  - frequent-flyer; insurance

- Save the best thank you for your best customers
  - cellular phones; teaser rates

- Say thank you in a way that builds your business
  - three-way calling; guest passes
More Thanks

- Say you’re going to say thanks
  » American Express

- Allow your competitors to have loyal customers, too

- Don’t forget to say thank you, even if you have a monopoly
  » cable television

- Say thanks to your suppliers, too
  » employee discounts, and more
Rules

“When the rules of the game prove unsuitable for victory, the gentlemen of England change the rules.”

• Rules structure negotiations between buyers and sellers

• Rules come from
  » custom
  » contractual arrangements
  » the government
Contract Rules

- In games with rules, you need to anticipate the reactions to your actions

- Games in business do have some rules
  - *Most-favored-customer clauses*
  - *Meet-the-competition clauses*

- How do MFCs change the game?
  - less incentive to negotiate
  - guaranteed cost parity
Contract Rules

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GM and Ford Cards

- To whom do you want to charge a high price? A low price?

- What’s in it for GM

- What’s in it for Household

- Changing dynamics between GM and Ford

- Comparison to freq.-flyer programs
Strategic Rules

● Mass-Market Rules
  » Chrysler and Guaranteed Rebate
  » Frequent-Flyer programs and the GM Card

● Changing the Rules
  » Not written in stone
  » Saatchi & Saatchi
Tactics

“Perception is Reality”

- Perceptions of the world, regardless of whether they are accurate, drive behavior

- Tactics are actions taken to shape other players’ perceptions
Games in a Fog

- Establishing your credibility
  - *The Peacock’s Tail*
  - *New York Post & Daily News*
  - *Royalties*
  - *The FedEx guarantee*
  - *Locating a toxic-waste plant*
  - *ET -- the wrong call*

- Preserving the fog
  - *The cat in the bag*
  - *disagreeing to agree*
Scope

● Is PART the whole?
  “No man is an Island”

● Recognize the links between games
  » Epson in laser printers

● Links through
  » Players
  » Added values (complements)
  » Rules (most-fav.-cust.)
  » Perceptions (threats, precedents)
Links between Games

● Added value links
  » “judo strategy”
  » Sega in 16-bit video games
  » Softsoap vs. Ivory

● Rules can link games
  » Long-term contracts
  » Package discounts

● Perceptions can link games
  » Corpus Christi and Beaumont
  » NutraSweet in Europe
Think Big

There is always a larger game
Changing the Game: Players Questions

- What is your Value Net?
- What are the opportunities for cooperation and competition?
- Would you like to change the cast? What new players would you like to bring into the game?
- Who stand to gain if you enter? Who stands to lose?
Changing the Game: 
Added Value Questions

- What is your added value?
- How can you increase your added value?
- Can you create loyal customers and suppliers?
- What are the added values of the other players?
- Is it in your interest to limit their added values?
Changing the Game: Rules Questions

- Which rules are helping you and which are hurting you?

- What rules would you like to have in contracts with your customers and suppliers?

- Do you have power to make rules? Does someone have the power to overturn them?
Changing the Game: Tactics Questions

- How do other players perceive the game?

- How do these perceptions affect the play?

- Which perceptions would you like to preserve?

- Which ones would you like to change?

- Do you want the game to be transparent or opaque?
Changing the Game: Scope Questions

- What is the current scope of the game?
- Do you want to change it?
- Do you want to link the current game to others?
- Do you want to delink the current game from other games?
Mental Traps

- Seeing only part of the game
- Failing to think methodically about changing the game
- Believing that success must come at others’ expense
- Accepting the game as it is