

Ignite Innovation and Solve Problems

Webinar with Barry Nalebuff
March 28, 2007

strategy+business

GAME THEORY

High or Low?

Guess right get

\$100 on first try

\$80 on second try

\$60 on third try

\$40 on fourth try

\$20 on fifth try

\$0 thereafter

My Prediction

You guessed

50

25

37

43

48

**Understand the
game from the
other person's
perspective**

Business as a Game?

Chess

Poker

Football?

Business as a Game

Chess, poker, sports?

- » Not win-lose
- » (Not win-win either)

BUSINESS IS WAR



"It's not enough that we succeed. Cats must also fail."

High or Low?

Profits

	Low	High
You	\$40 m	\$80 m
Rival	\$20 m	\$160 m

A) Price Low

B) Price High

Beat the Competition?

“Do well for self”

» DuPont, GE, Union Carbide, Alcoa

“Beat the competition”

» Goodyear, Gulf, American Can, Swift, Great Atlantic & Pacific, National Steel

Difference in ROI (after tax)

1938--46	1947--55	1956--64	1965--73	1974--82
8.9%	10.9%	9.6%	6.5%	6.7%
5.6%	7.8%	6.2%	5.0%	2.3%

BUSINESS IS PEACE?

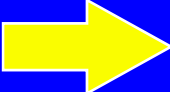
WAR
&
PEACE

War and Peace

Cooperation in creating value

Competition in dividing it up

Simultaneously War and Peace

New mindset  Co-opetition

**How can we
compete better?**

**How can we
cooperate better?**

Cooperation

≠

Collusion

**Cooperate to
create pie**

**Compete to
divide it up**

Multiple Roles

- ⊙ *USA Today* and *Chicago Tribune*
- ⊙ The Met, Museum of Nat. History, Guggenheim
- ⊙ Ford and GM
- ⊙ Mastercard and Visa
- ⊙ NAB and Westpac
- ⊙ Antique stores in Brussels
- ⊙ Electronics stores in Akihabara
- ⊙ Lincoln highway, java fund

Merck (Fosomax)

&

Eli Lilly (Evista)

Competition

- ⊙ Which drug is more effective
- ⊙ Which drug has fewer side effects
- ⊙ Which drug is cheaper

Cooperation

- ⊙ How many people are undiagnosed
- ⊙ Bring cost of BMD test from \$200 to \$20
 - » Change medical recommendation
- ⊙ Increases compliance

Business as a Game

Chess, poker, sports?

- » Not win-lose
- » No rule book
- » People change the game
- » Success comes from playing the right game

*“Philosophers have only interpreted
the world. The point, however,
is to change it.”*

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--Karl Marx

**CHANGE
THE
GAME**

Why? Not

*Discovering
Simple Methods
of Everyday
Ingenuity*



BARRY J. NALEBUFF & IAN AYRES

HARVARD BUSINESS SCHOOL PRESS

Getting Incentives Right

All you can eat restaurants

All you can drive gasoline deals

Auto Insurance?

Solution

Pay-per-mile auto insurance

Who has an incentive to fix it?

Capital One

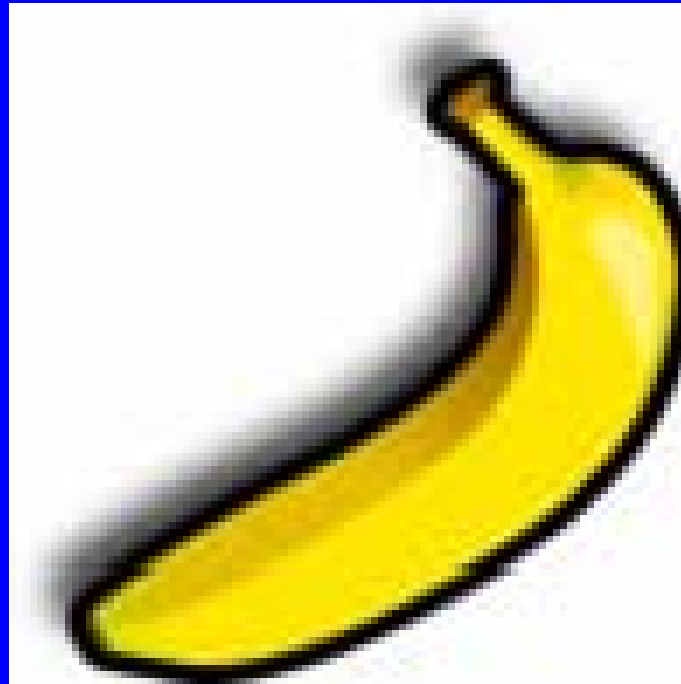
Symmetry

COMPETITIVE STRATEGY

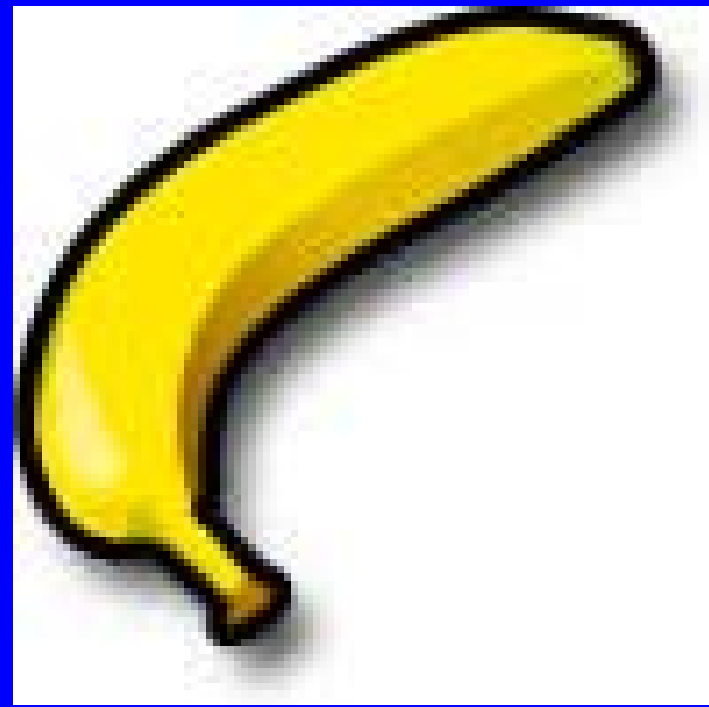
COOPERATIVE STRATEGY



How Do You Peel A Banana?



How Do You Peel A Banana?



How Do You Peel A Banana?



Lays'

Bet you can't eat just one

Lays'

Bet you can't eat just one

Bet you can

Helping with portion control. Individually wrapped chips.
German chocolate box. Bank vault on timer.

Opt-in

Opt-in

Opt-out

401k plans

Organ donation

Turning the Players Around

Customer

Customer

Supplier

Competitor

Hint:

MICROSOFT

INTEL

Partner?

Competitor

Complementor

New Language

- ◎ Business strategy frameworks often overlook the role of complements
- ◎ No existing word to describe providers of complements
- ◎ A new term: **complementor**
 - » customers, suppliers, and complementors can all be partners

Competitor vs. Complementor

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.

Examples of Complements

Pentium IV and Windows XP

DSL and Hardware/Software

Desktop printers and Digital Cameras (HP/Polaroid)

Cars and Roads; Cars and Car loans

Golf courses (ski mountains) and real estate

Carnival cruise and Carnival air

Gap and Casual Friday

Hallmark/Mazaroff and Valentines Day

Red wine and Dry Cleaners

Pricing Complements

$$Q = A - (P1 + P2)$$

**You have a strategy for
competitors**

**What is your strategy for
complementors?**

Competitive advantage through complements

WAL*MART

TOYS R US

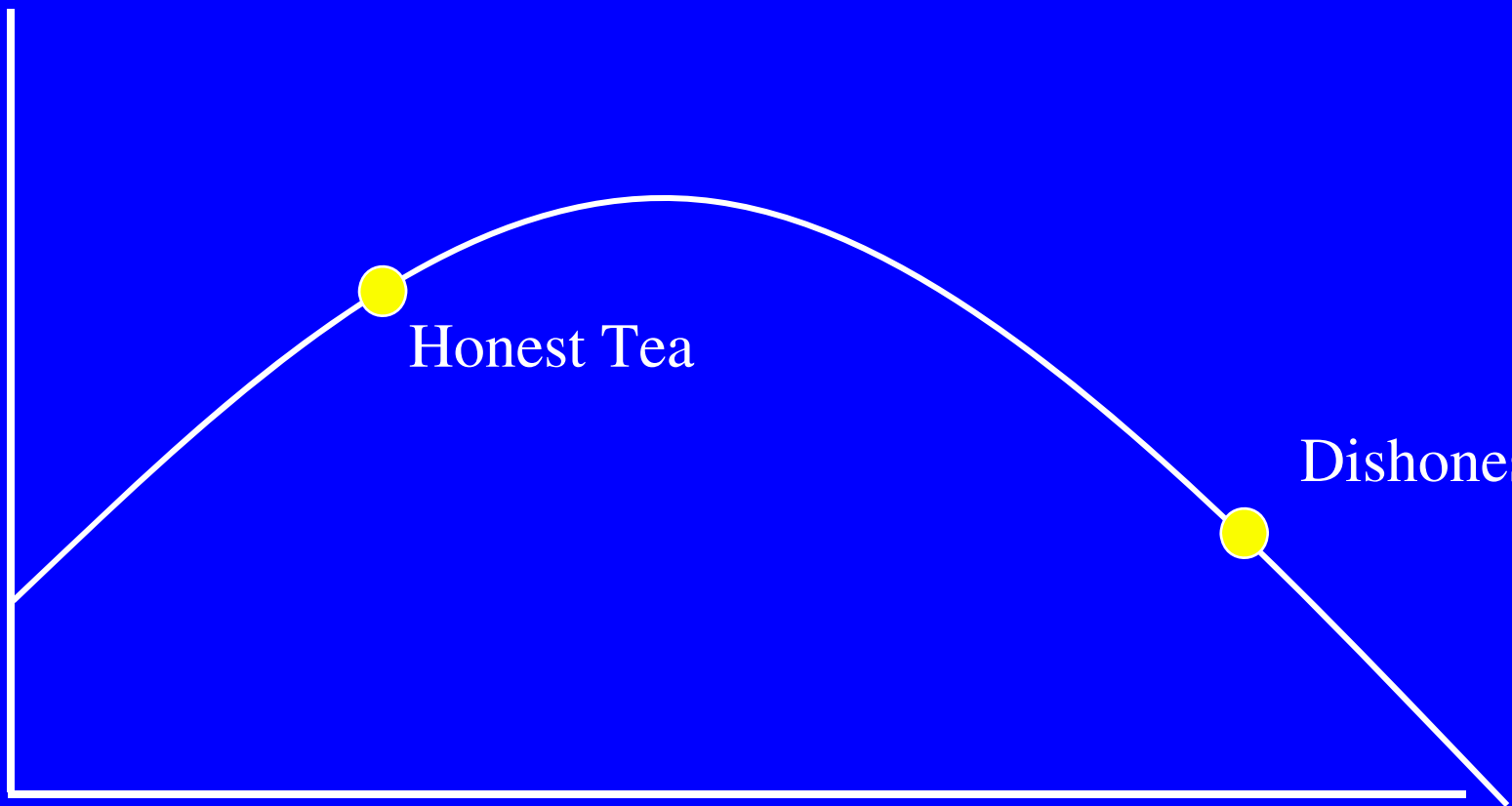
Gas Station

C-Store

Honest Tea

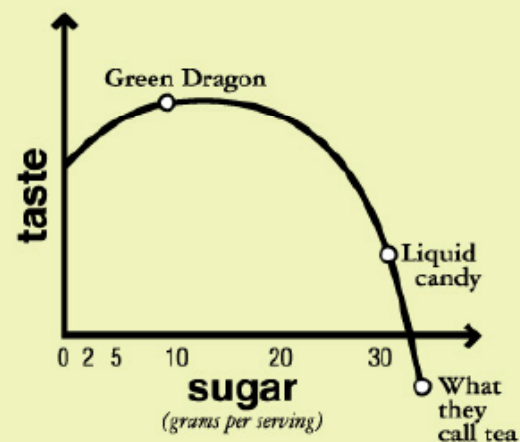
Tea that tastes like tea

Utilitea



Sugar

It doesn't take an econ Ph.D. to brew tea—but Barry has one and sometimes it actually helps. Here's how. Sugar, like most goods, has a declining marginal utility. One teaspoon takes away tea's bitterness. Another adds a nice sweetness. That's where we stop. More sugar adds calories but not much more taste. By the time you've got six teaspoons per serving, it's liquid candy. Green Dragon Tea is organic and just a tad sweet.



Honestly Yours, *Sean + Barry*

Nutritional Facts:	
Serving size: 8 fl oz. (236 ml)	
Servings per container: 2	
Amount per serving:	
Calories: 30	
	%Daily Value*
Total Fat 0g	0%
Sodium 5mg	0%
Total Carbohydrate 9g	3%
Sugars 9g	
Protein 0g	0%
Iron	0%
*Percent Daily Values are based on a 2000 calorie diet	

P.S. The antioxidants in Green Dragon Tea can play an important role in a healthy diet. To find out more, visit the American Institute for Cancer Research at www.aicr.org/greentea.

GREEN DRAGON TEA

Ingredients: Spring water, organic cane sugar, organic green tea, organic lemon juice, natural flavor, citric acid.



approximately 1/4 the caffeine of coffee



ME 5¢ deposit refrigerate after opening



Certified Organic by Pennsylvania Certified Organic



CA CASH REFUND

Honest Tea Inc. 5019 Wilson Lane, Bethesda, Maryland 20814 www.honesttea.com 800-865-4736

Why Not, Indeed

Additional Resources

To read the article, “The Game Maven of New Haven,” visit:

<http://www.strategy-business.com/press/article/07108?pg=0>

To obtain copies of the books, *Co-opetition: A Revolutionary Mind-set That Combines Competition and Cooperation*. *The Game Theory Strategy That’s Changing the Game of Business*, visit:

<http://www.amazon.com/Co-Opetition-Revolution-Combines-Competition-Cooperation/dp/0385479506>

Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life, visit:

<http://www.amazon.com/Thinking-Strategically-Competitive-Business-Politics/dp/0393310353>

Why Not? How to Use Everyday Ingenuity to Solve Problems Big and Small, visit:

<http://www.amazon.com/Everyday-Ingenuity-Solve-Problems-Small/dp/1591391539>

A podcast of Barry Nalebuff speaking on *Why Not?*

http://www.yale.edu/opa/podcast/pod_som.html

Slides and recording: A recording of the event will be posted at:

<http://www.strategy-business.com/webinars/archive>

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