Book Summary: Co-Opetition

Co-opetition
Adam J. Brandenburger and Barry J. Nalebuff,
Doubleday, New York, 1997

'Co-opetition', a word coined by Ray Noorda (the founder of Novell), is defined by Brandenburger and Nalebuff on the cover of their book to be:

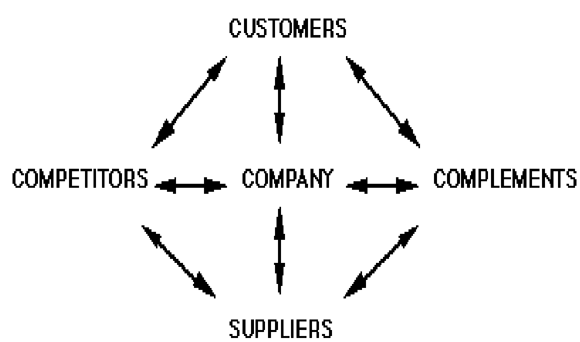
a revolutionary new mindset that combines cooperation and competition
the game theory strategy that's changing the game of business

Despite being not all that revolutionary and only loosely related to game theory, the book does offer some valuable insights.

The basic idea is that business is a game where you are sometimes competing and sometimes cooperating with other players in your industry. Cooperation generally leads to an expansion of the business pie and competition to a slicing up of the pie. Both cooperation and competition are necessary and desirable aspects of a business enterprise. An exclusive focus on competition (which is the predominant mindset of much that has been written about strategy in recent years) largely ignores the potential for changing the nature of business relationships, and thus the potential for expanding the market or creating new profitable forms of enterprise. A 'co-opetition' mindset actively looks for ways to change and expand the business, as well as newer and better ways to compete.

First of all, the authors introduce us to the concept of the 'Value Net'. This is a way of looking at a business situation that recognizes that the company (or industry) operates in an environment having four main groups that influence the course of any business. These four groups are: suppliers, customers, competitors and complements. The basic framework is illustrated in the diagram below:

THE VALUE NET
(Brandenburger and Nalebuff)



Suppliers and customers are clearly part of the production process. Competitors obviously influence the environment within which the company or organization does business. However, the oft-overlooked players in the game, according to Brandenburger and Nalebuff, are the 'complements' - other organizations with whom reciprocal and mutually advantageous relationships exist. Hardware and software manufacturers are a simple example: both depend upon each other (to the point where they couldn't exist separately: they are mutually dependent).

"Though the idea of complements may be most apparent in the context of hardware and software, the principle is universal. A complement to one product or service is any other product or service that makes the first one more attractive. Hot dogs and mustard, cars and auto loans, televisions and videocassette recorders, television shows and TV Guide, fax machines and phone lines, phone lines and wide area networking software, catalogs and overnight delivery services, red wine and dry cleaners, Siskel and Ebert. These are just some of the many, many examples of complementary products and services." (p. 12)

Central to the concept of complements is the notion of added value, which is essentially the incremental benefit that you (your company or organization) brings to the game (the industry or situation). They define added value as:

ADDED VALUE = the size of the pie when you are in the game, minus the size of the pie when you are out of the game.

With this framework in place, Brandenburger and Nalebuff then go on, in the second section of the book, to discuss the PARTS of business strategy. 'PARTS' is an acronym:

P stands for the players in the game (following the 'Value Map' approach outlined earlier);
A stands for the added value that a company can bring to any of the players;
R represents the rules of the game or business in which a company or organization is participating;
T represents tactics, which are essentially ways of influencing perceptions of how your organization fits into the game; and
S stands for the scope of the business, or the linkages between you and any of the other players in your Value Net (who in turn may be linked to other games, thus representing opportunities for you to expand or change your own operation).

The rest of the book shows how by changing any one of these dimensions, you can in turn change the game, potentially to your own advantage.

In their discussion of 'players', they make the point that, in most cases, when you want to enter a market, you have to 'pay to play'. Sometimes, if you are just being asked to submit a quote on a piece of work, the price to play can be fairly low. In other cases, for example if you have to build a new factory to compete, the price can be quite high. Another way to view market entry, though, is from a game theory perspective. Here the view is that your entry into the game may benefit somebody else - for example, you may be an alternative source of supply to a customer, or provide a complementary good or service. This added value (to whomever you are benefiting) that you bring to the game of business may be worth something. Recognizing this, you may be able to get the beneficiaries to 'pay you to play'. Brandenburger and Nalebuff provide several examples in the book where this has been the case. They also provide a full discussion of the pros and cons of changing the game of business by bringing in any one of the other players in the Value Net.

Turning next to 'added values', the authors debate the relative merits of a number of strategies for creating incremental value, including:

if you're a monopoly supplier, limit supply (which will naturally increase the value of your product or service)
if you're in a competitive environment, look for what they term 'trade-ons' (ways in which you can simultaneously cut costs yet increased perceived value)
also, if you're in a competitive environment, develop a relationship with the customer (for example, through affinity programs such as frequent flyer schemes which create added value to the customer at little cost to the company, while at the same time enhancing customer loyalty)

The next section of the book deals with 'rules'. Here the basic idea is, not surprisingly, that if you can alter the rules to the game, then you can change the game itself in your favour. The authors go on at some length here discussing 'most favored customer clauses' (MFCs) and 'meet the competition clauses' (MCCs), again from a game theory perspective.

MFCs give a purchaser the right to buy supplies at the lowest price offered to anybody else. The only problem with this arrangement is that once you offer a lower price to a customer, everyone else who has negotiated MFCs with you will automatically be entitled to that lower price too. Consider the case of giving a government customer (who will often be insistent on paying the lowest price possible) an MFC in order to secure their business. After this, whenever anyone else is negotiating a price with you, you'll have in the back of your mind that you will have to offer this new lower price to the government customer also. Consequently, you will try to keep the price higher than it otherwise might be, because you're in effect dealing with more than just the one customer - you're dealing with all customers who have MFCs. As a result, the price you negotiate will likely be higher than it would be otherwise for that one buyer alone. Consequently, MFCs can have the somewhat paradoxical effect of keeping higher prices across the board than would otherwise be the case (if there were no MFCs). Game theory at work!

The authors apply the same sort of reasoning in discussing the effects of MCCs (most often found in commodity markets where they are contractual arrangements giving an incumbent supplier the right to meet a competitor's lower bid).

The next element of the framework is 'tactics', which Brandenburger and Nalebuff define as "actions that players take to shape the perceptions of other players". (p.199) The game of business is played in an arena of uncertainty, where each of the players has an idea (perception) of the situation and strategies of the other players, but ultimately is uncertain about the reality of those players' situations and strategies. Thus there is a certain 'fog' in which the game of business is played. The authors discuss certain situations where it is advantageous to lift the fog with other players, other situations where it is best to preserve the fog, and finally, situations where it may be best to mix it up a bit. (They quote Harry Truman at the beginning of the section where they discuss the merits of creating fog: "If you can't convince 'em, confuse 'em.")

Finally, the authors discuss the 'scope' of the business game being played. 'Scope' is simply the links that exist between the game of business that you are currently playing, and other games being played by those in your Value Net. The underlying logic here is that other enterprises in your Value Net, in addition to being part of the game that you are in, are also parts of other games that you are not in, and that linking to them in various ways can expand your scope. If this can create a larger pie, in which you can have a significant added value, then your profitability is potentially enhanced.

At the end of the book is a useful checklist of questions that a business should ask itself, following the 'PARTS' framework outlined in Co-opetition:

Players Questions

Have you written out the Value Net for your organization, taking care to make the list of players as complete as possible?
What are the opportunities for cooperation and competition in your relationships with customers and suppliers, competitors and complementors?
Would you like to change the cast of players? In particular, what new players would you like to bring into the game?
Who stands to gain if you become a player in a game? Who stands to lose?

Added Values Questions

What is your added value?
How can you increase your added value? In particular, can you create loyal customers and suppliers?
What are the added values of the other players in the game?
Is it in your interest to limit their added values?

Rules Questions

Which rules are helping you? Which are hurting you?
What new rules would you like to have? In particular, what contracts do you want to write with your customers and suppliers?
Do you have the power to make these rules? Does someone else have the power to overturn them?

Tactics Questions

How do other players perceive the game? How do these perceptions affect the play of the game?
Which perceptions would you like to preserve? Which perceptions would you like to change?
Do you want the game to be transparent or opaque?

Scope Questions

What is the current scope of the game? Do you want to change it?
Do you want to link the game to other games?
Do you want to de-link the game from other games?" (p.262. 263)

This is a useful set of questions for any organization to ask itself, particularly if it is undergoing a strategic planning exercise.