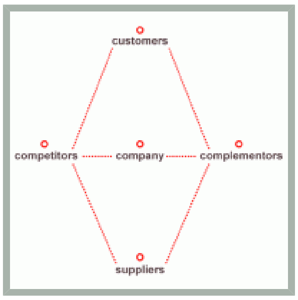
co-opetition



characteristics

author:	Brandenburger, Adam M. and Nalebuff, Barry J.
country:	United States
period:	1996
type:	model
role:	consultant and manager
activity:	analyse and design
topic:	strategic management and innovation & risk
abstr. level:	environment
perspective:	transformational
status:	for review
module:	innovation
comments:	1

related models

- business ecosystem
- cybernetics
- five forces
- open innovation

description:

Co-opetition describes a strategic framework that enables organisations to classify relevant actors in their industry and beyond. The model uses insights from game theory to understand and influence the behaviour of these players.

Adam Brandenburger and Barry Nalebuff, professors in economics at Harvard and Yale University and specialists in the field of game theory, developed their co-opetition model in the mid-1990's. Based on case studies across different industries, they argued that cooperation and competition are both necessary and desirable when doing business. Cooperation is required to increase benefits to all players (focus on market growth), and competition is needed to divide the existing benefits among these players (focus on market share). Game theory provided the economic foundation to determine circumstances when cooperation is the preferential strategy. Their research added to previous industry analysis literature such as Porter's five forces, which focused almost exclusively on competition.

Game theory studies how interactions between players and the choices each player makes lead to different outcomes or end states of the game. The objective to develop advantageous strategies provides insights for strategic management. The theory, developed in 1944 by Von Neumann and Morgenstern, has found application in other fields such as politics, economics, ethics and the military.

Brandenburg and Nalebuff use "Value Net" as their core concept. They identified four types of players that every company faces:

1. CUSTOMERS

Parties to which the company directs its products and services. In return, money goes from the customers to the company.

2. SUPPLIERS

Parties who flow resources to the company. In return, money goes from the company to the suppliers.

3. COMPETITORS

The definition depends on perspective:

- *Customer perspective* : "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 by itself." Your product behaves as a substitute for a competitor's product – your increase in market share will directly decrease your competitor's share. Substitutes can be both direct, e.g. two bakeries competing as well as indirect, e.g. bread versus rice.
- *Supplier perspective* : "A player is your competitor if it is less attractive for a supplier to provide resources to you when it is also supplying the other player than when it is supplying you alone." Any firm competes for resources in quantity, quality and price with other organisations.

4. COMPLEMENTORS

The definition also depends on perspective.

- *Customer perspective* : "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 by itself." Complementors are the inverse of a competitor because more demand for their products will lead to more demand for your product.
- *Supplier perspective* : "A player is your complementor if it is more attractive for a supplier to provide resources to you when it is also supplying the other player than when it is supplying you alone." When a market is small, it is difficult to get resources delivered exactly on spec. When the market increases, suppliers begin to tailor their offering and make the purchasing efforts easier on all acquiring firms.

Importantly, a single player can have more than one role simultaneously. A player can even be both competitor and complementor at the same time. Competitors Sony and Philips acted as complementors in the joint development of a standard for the Compact Disc.

Brandenburger and Nalebuff continued by describing the PARTS of a business strategy -- five dimensions a company can use to identify strategies that change the game, the companies business, to its own advantage.

***P**layers*

The Value Net can be used to identify and categorize the current players in the game. Bringing more players (customers, suppliers, complementors and competitors) into the game can have positive effects on a company - eg: increasing suppliers can decrease costs; extra complementors give more value to a company's product; and a competitor can be brought in to give customers the feeling that they have choice.

***A**dded value*

At this point, a company can identify its added value from the other players' point of view and take action to increase this added value in order to increase profitability - eg: a monopolist company can limit supply; in a competitive market, a company can introduce affinity programs to create loyal customers or suppliers.

***R**ules*

In every business, many written and unwritten rules apply. Although many rules cannot be changed due to governmental enforcement, contracts provide opportunities to change the rules on a smaller scale. Brandenburger and Nalebuff elaborate on “most favored customer clauses” (MFCs) and “meet the competition clauses” (MCCs) as ways to change the game. As a purchaser, an MFC gives the right to buy supplies against the lowest price offered to anyone else and as a supplier, an MCC gives the right to meet a competitor’s lowest bid.

***T**actics*

Tactics are defined as: “actions that players take to shape the perceptions of other players”. Brandenburger and Nalebuff argue that actions of a player are always rational in light of that player’s perception of reality. A company can influence other players’ perceptions and actions by deliberately sending out certain signals. It is necessary, however, to be aware of these perceptions in order to be able to influence them.

***S**cope*

Often, a game is not isolated, but linked to other games via its players. A firm can extend its business to other games when it adds value to the other game and increases its profitability. On the other hand, a firm can deliberately keep two games separate when linking the games would cannibalize its traditional business. Linking and de-linking games can occur by recognizing complementary markets, by special clauses in contracts or by influencing the perception of other players.

The co-opetition model provides a framework to identify and explain the underlying mechanisms in a firm’s environment and how these mechanisms can be changed to the firm’s advantage. Its main academic contribution is the identification and justification of the role that complementors play. Business is more than competing for market share in the current market.

assets:

co-opetition defined
ProvenModels • editor PM • version 0.1 • 45 KB

co-opetition PARTS checklist
ProvenModels • editor PM • version 0.1 • 44 KB

pros:

- The framework is based on the well established foundations of game theory.
- The co-opetition model provides a framework to organise available information on a company□s market and to discover gaps. It is, therefore, a valuable framework to use in strategic planning exercises.
- The model builds on the mindset that cooperation is as important in business as competition, and that a company can simultaneously have a competitive and a cooperative relationship with another player.
- The PARTS of business strategy show that an organization can influence the market on dimensions other than price and quality.
- In contrast to Porter, Brandenburg and Nalebuff departed from the concept of industry, because this concept limits available opportunities. The most interesting business opportunities arise from intersections between traditional industries.

cons:

- The model is highly abstract. The definition of competitors, complementors and co-opetition is broad. Although the model can stimulate creative thinking, it does not provide clear-cut answers to everyday problems. For example, the model does not provide practical propositions on how to create successful co-opetitive relations with other organisations. Bengtsson and Kock (2000) have tried to fill this gap.
- Cooperation among competitors often occurs when an industry standard needs to be set, -- a process that Brandenburger and Barry Nalebuff did not discuss. Hax (2001) built on the Value Net framework by describing how the □standard□ or platform owner could best behave. Hax further broke down the concept of complementors.
- The model is based on the principles of game theory and has inevitably inherited some of its limitations; i.e. the application of the theory becomes exponentially more complex as more players or options are added.
- The term □Tactics□ in the PARTS acronym might be misleading because this element only focuses on influencing perceptions. The other components can also be regarded as tactics.

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