

How to apply game theory to help drive better outcomes

Typically, marketing communications are targeted at prospective and current customers. Targeting prospective and current employees is also legitimate. But a marketing message targeted at competition? Why?

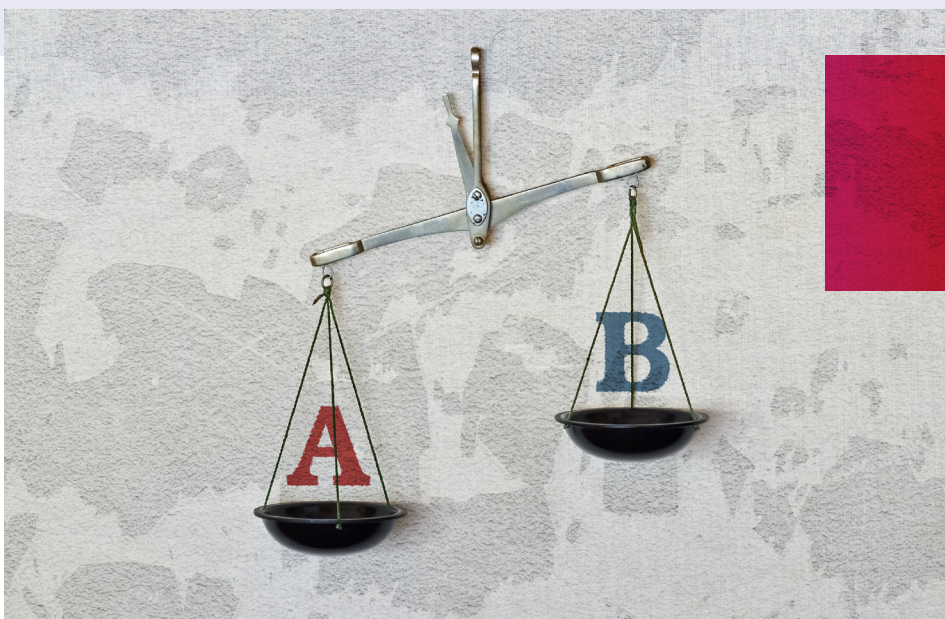
There actually could be a strategic reason to communicate messages aimed at your competitors, especially if only two or three of you dominate a given market.

Consider “The Prisoner’s Dilemma,” a popular example of Game Theory. Here’s a typical description of the setup:

	B stays silent	B betrays A
A stays silent	Both serve 1 month	B goes free, A serves 1 year
A betrays B	A goes free, B serves 1 year	Both serve 3 months

Two men are arrested, but the police do not have enough evidence for a conviction, so they offer both a similar deal: if one testifies against (betrays) his partner, and the other remains silent, the betrayer goes free and the other guy gets a year in jail. If both remain silent, both are sentenced to only one month in jail for a minor charge. If each ‘rats out’ the other, each receives a three-month sentence. Each prisoner must choose either to betray or remain silent. What should he do?

The best outcome for Prisoner A is if he rats out his partner and his partner stays silent, because then Prisoner A will go free. But that’s also the best choice for Prisoner B. So even though the best outcome for both of them is for both of them to keep quiet, they’ll end up ratting out each other. In business, this is basically what competitors do all the time.



How to apply game theory to help drive better outcomes

So, how can you control the outcome in this kind of scenario? One way is to communicate a clear and committed position. Take a look at this example from a UK game show. Here, they've set up a "prisoner's dilemma" of sorts as part of the game. One of the contestants sees how to ensure the best outcome. Watch how he commits to a decision that will ensure that they both don't end up with nothing.



So, is there anything you can strategically communicate to your competitors that will help ensure the best outcome?

For example, let's say you and a competitor are battling for market share. You can spend your marketing dollars on advertising to differentiate your brands, or you can discount costs. If you both discount, you'll simply lower your profits but may not increase sales. If you both spend on advertising, you may enter an unsustainable ad war. What's the best solution? For one company to discount, and the other to advertise. The discounted product will sell more, but make less per unit profit. The other company may sell less product but can sell it at a higher margin. But this only works if you and your competitor communicate your positions first.

PS. Please keep in mind that actual collusion is still illegal. Also, just to be sure we've covered all the disclaimers... "don't try this at home," "actual results may vary" and "professional driver on a closed course."