
Business strategy**Shall we play a game?**

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Playing war games can give companies new perspectives on complex problems

WAR GAMES are commonly used by the military to evaluate strategies, explore scenarios and reveal unexpected weaknesses. American ships and aircraft have just begun two weeks of war games in the Gulf, prompting protests from Iran, and last week South Korea carried out an annual computerised war-game exercise.

Might war games deserve a greater role in business? Military analogies abound in the corporate world. Plenty of bosses look to Sun Tzu, an ancient Chinese general, for management tips. And in business, as in war, outcomes depend on what others do, as well as one's own actions. Yet many firms fail to think systematically about how rivals will react to their plans—and traditional planning does a poor job of taking competitors' responses into account, says John McDermott, head of strategy at Xerox, an office-equipment company. Corporate war games, which simulate the interactions of multiple actors in a market, provide a better way to do so.

Such games have two chief characteristics. First, players break into teams and take on the roles of fierce competitors (and sometimes other constituencies, such as customers). Second, the games involve several turns, allowing competitors not just to draw up their own strategies but to respond to the choices of others. Their popularity is rising. Booz Allen Hamilton (BAH), a consultancy, is running 100 war games a year, up from around 50 three years ago. Open Options, a Canadian strategy consultancy, has been going since 1996 and its revenue doubled last year.

Games can vary greatly in sophistication. Fuld & Company, a consultancy, recently ran a simple public game devoted to social-networking websites at the London Business School. Student teams took on the roles of YouTube, MySpace, Second Life and Facebook, and devised strategies that were judged by a panel of outside experts. Halfway through, organisers spiced things up with the announcement that Apple had entered the market with iTown, a fictitious online community for users of its iTunes music service. (If the game is an accurate guide to the future, MySpace is sitting pretty and Facebook is in trouble.)

BAH introduces a quantitative element into its games, calculating the effect of each team's strategy on their company's profits and stockmarket value at the end of each turn. Open Options takes the number-crunching further still. To help Xerox understand the market dynamics of the print and copy industry, it ran a one-day workshop in which teams from Xerox took the roles of the big companies in the market, itself included. Each team identified the things "their" company could do to change its strategy and drew up a list of its desired outcomes; these "preference trees" were shared with the other teams and fine-tuned. The results were then

pumped into Open Options' proprietary software tools, which played out interactions between the companies and produced a range of possible outcomes.

Mr McDermott says the game's predictive power was astonishing: one forecast, that a company would start to acquire a certain group of assets within the industry, came true within six months. By shedding light on areas where companies have different priorities, the concept of preference trees helps to highlight potential trade-offs, as well as competition. Open Options charges North American clients roughly \$100,000 for an engagement. "The bang for buck was outstanding," says Mr McDermott.

The secret of successful war-gaming does not simply lie in mathematics, however. Interaction, not algebra, is the best way to win support for a new strategy. Game-players must be senior for the same reason—although having the top boss on a team can stifle feedback. Strategies also have to capture competitors' hard-to-quantify corporate cultures: when designing a game, BAH seeks out employees at its clients who have actually worked at competitors for that reason. But perhaps war games' greatest value lies in the way they encourage managers to think differently about the consequences of their actions. "To know your enemy, you must become your enemy," as Sun Tzu would say.