Module III: Strategic Interaction

SECTIONS B & C

RC STRATEGY

ASHISH NANDA

FALL 2025

Course Structure

Introduction
Industry attractiveness
Competitive advantage
Strategic interaction
Crafting strategy
Corporate strategy
Strategy across the S-curve
Conclusion

- Ryanair
- Fiber Optics
- Keroche

What Is Strategy?

Strategy is an **integrated set of choices**
that positions a firm **in its industry**
to create and capture superior value
over the long run

Internal consistency
Job 2: configure all of a firm's choices to attain an advantage within its environment

External consistency
Job 1: size up the external environment of a firm in its entirety

Dynamic Consistency
Job 3: sustain a firm's advantage over time in the face of competition

Strategic Interactions

- The effectiveness of a firm's strategy often depends on how it interacts with the strategies of other rivals

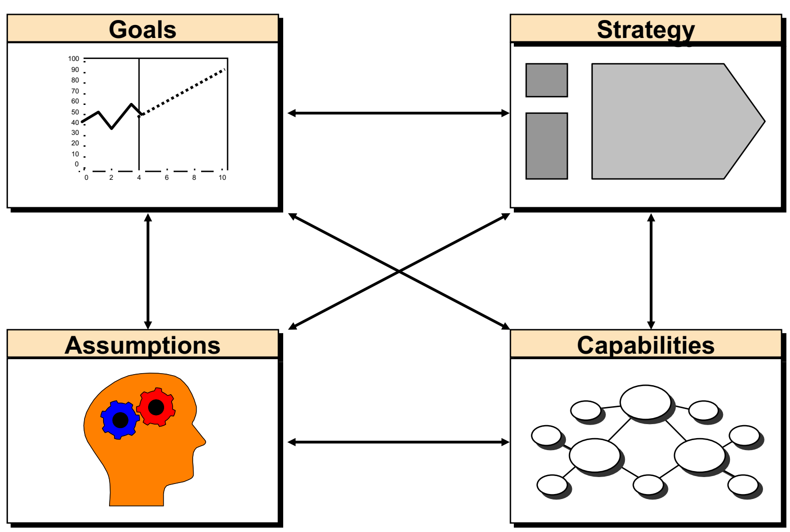
- Managing interactions with competitors is your responsibility as a strategist
  - Understand your competitor (Ryanair, Keroche)
  - Anticipate and influence competitors' moves (Ryanair v. Aer Lingus, Alcatel v. Corning in Fiber Optics, Keroche v. EABL)
  - Positioning: Fill white space, avoid head-to-head rivalry (Pepsi v. Coke, On v. Nike and Adidas, Ryanair v. Aer Lingus, Keroche v. EABL)
  - You can use signaling, but talk is cheap
    To be credible, strategic communication must be visible, clear (understandable), and irreversible (hard to back off from) (Corning's press release in Fiber Optics)

Strategic Interactions

- The logics of value creation and value capture among competitors are interconnected
  Interactions can be
  - Competitive (Fiber Optics, Keroche, Ryanair), where they undermine each other, or
  - Cooperative (Gen AI Foundational models & complementary apps; Coke & Pepsi), where they help each other

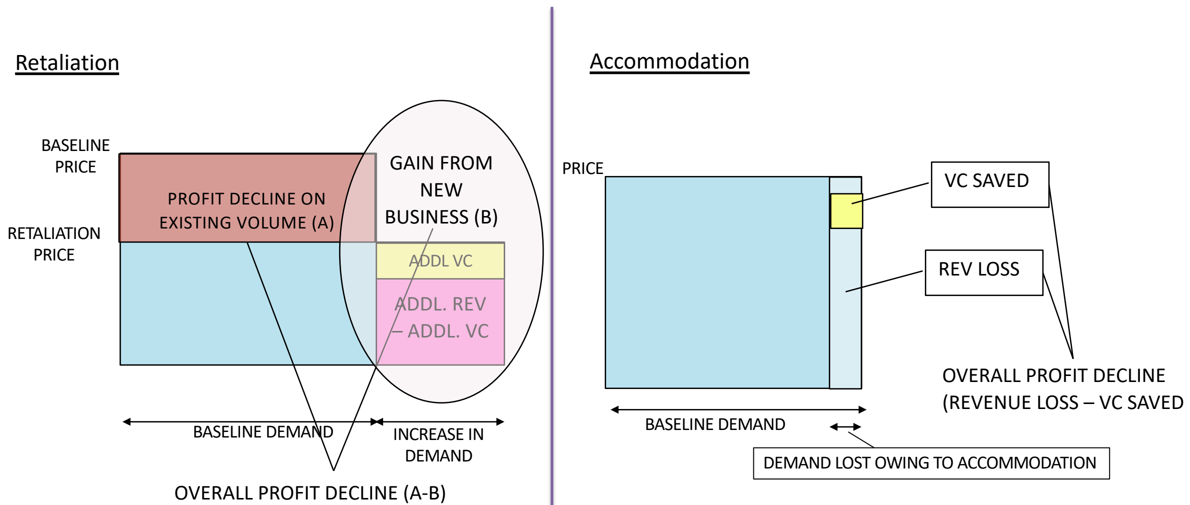
- Five approaches towards strategic interactions:
  - Strengthen your own competitiveness (Ryanair(C) no-frills model, EABL developing a low-cost beer *Senator*)
  - Weaken the other player's competitiveness (Aer Lingus retaliating against Ryanair (B); EABL lobbying for increased excise taxes on wines to weaken Keroche)
  - Move to a new space where there's less interaction (Keroche's entry into fortified wines for low-income Kenyans where EABL was not active; Pepsi going into supermarkets, 1950s and 1960s)
  - Manage interactions by selectively choosing which competitive weapons to use and *not* to use (Coke & Pepsi not competing on concentrate price)
  - Use the chosen competitive weapons carefully by considering how rivals may respond to your actions (capacity expansion decision by Alcatel and Corning in Fiber Optics)

Competitor Analysis



Source: M. Porter

Strategic Interaction: Economics of Retaliation



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Strategic Interaction: Accommodation vs. Retaliation

- Price-based retaliation is relatively attractive
  - When fixed cost is high and marginal cost is low
    The incumbent is willing to drop price very low to keep the marginal customers
  - When demand is elastic and the incumbent has excess capacity
    Small advantage in price can lead to significant increase in demand
  - When the entrant has is financially weak
    The goal of retaliation may be to impose such cost on the entrant that it is driven out
  - When the incumbent is “patient” (cares a lot about the future
    Their goal in retaliation may be to deter entry and earn higher profits in the future at the expense of short-term losses

- Accommodation is relatively attractive when:
  - The entrant is small and is expected to stay that way
  - The incumbent is large
  - Retaliation cannot be targeted, so an across-the-board price cut is necessary to keep customers
    Accommodation prevents ruining the whole market just to save a small segment

- Firms may have non-economic reasons (e.g., national pride, desire to punish the entrant) that can enter the calculus of retaliation vs. accommodation

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Strategic Interaction
Game Theory

- Game Theory: A systematic way to understand and influence competitive interactions
- Steps in Game Theory: *Define, Calibrate, Analyze, Change*

Define the game

- What is the key strategic issue?
- Who are the participants and what are their goals?
- What choices are available to the participants and in what order are they acting?
- What information do the participants possess?

Calibrate the game

- Calculate own payoffs
- Put yourself in shoes of other rivals to estimate their payoffs

Analyze the game

- Determine the likely outcome of the game
- Perform sensitivity analysis

Change the game

- Develop options to change the game in your favor

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Strategic Interaction: Game Theory

- Game theory does not offer us perfect foresight; however, it proves to be a valuable tool because:
  - The process of defining and calibrating prompts the decision-maker to explicitly address hidden assumptions regarding competitor goals and assumptions
  - It offers a structured method to test our hypotheses about competitors' likely actions
  - It often reveals strategic issues and alternatives that might not emerge through a less formal analytical method

- Competition plays out over time
  - Be at your sharpest at playing the competitive game; every game requires insight and effort
  - But beware of hubris; a completed game is usually followed by a new round of the game
  - And take heart if you finished behind; this round of the game may have ended, a new round has just begun

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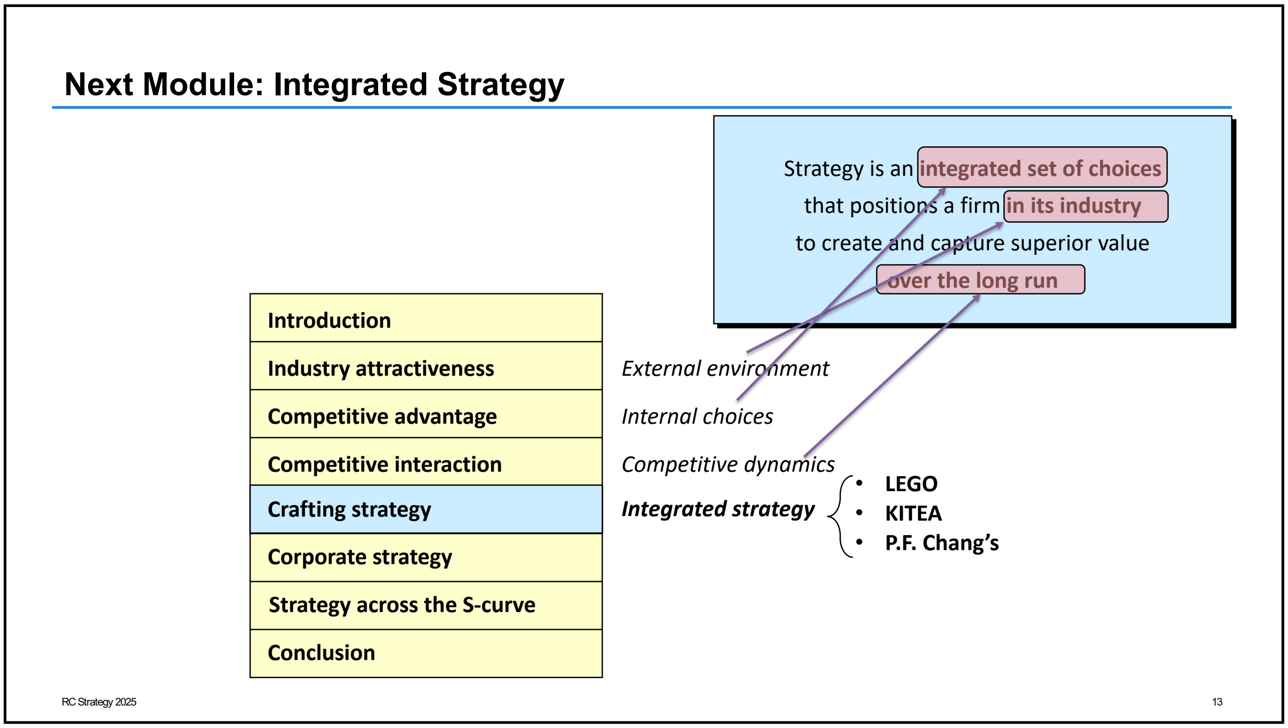
Strategic Interaction: Judo Strategy – Outflanking a Larger Incumbent

- Go to where the rival is not
  "Skate to where the puck will be"
- Create a dilemma by turning the incumbent's strength into a weakness
  Pick a product segment with unique needs and configure entirely to that
  Focus on differences that can't be straddled
- Play the psychology
  Do not provoke
- Examples: On, Pepsi (v. Coke), Ryanair, Keroche v. EABL

Strategic Interaction: Sumo Strategy – Leveraging Incumbency & Scale to Advantage

- Economies of scale
- Economies of scope
- Network effects
- Buyer/ Supplier switching costs
- Reputation
- Non-market strategic moves
- Examples: Corning or Alcatel in Fiber Optics; Pepsi & Coke distribution networks, advertising economies, and retailer shelf-space access; EABL's application of non-market strategy


Next Module: Integrated Strategy
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13