



Book Business War Games

How Large, Small, and New Companies Can Vastly Improve Their Strategies and Outmaneuver the Competition

Benjamin Gilad
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Recommendation

This short manual provides an action-oriented introduction to the art of the war game. Benjamin Gilad presents interesting anecdotes and examples from ancient and contemporary military and economic history. He offers a general description of the war-game process, the circumstances under which this role-playing exercise is appropriate, and tips on what to do and not do. He also supplies a detailed by-the-clock description of an exemplary war game. *BooksInShort* finds that his book will help any manager who is considering using war gaming and is wondering how to start.

Take-Aways

- War games are role-playing exercises.
- Computerized game-theory programs cannot capture human and organizational responses. That requires personal interaction.
- Governments have used war games to plan actual military exercises.
- Companies have used them to enact and assess product launches, acquisitions and other “strategic junctures.”
- Play a war game only when its outcome can change or affect a decision.
- Each team should include people who know the competition, the industry and the regulatory environment.
- Participants should take on a character, much as an actor immerses in a role.
- War games need simplicity, realism and transparency.
- Those who are thin-skinned, politically correct, shy or unwilling to face unpleasant facts should not participate in war games.
- Players must be free to voice their ideas, even if they seem oppositional, risky or countercultural.

Summary

What Is War Gaming?

War gaming is a business technique that uses in-depth role-playing. However, few managers outside of the top ranks have ever participated in a war game. Most corporations invest in computer power, consultants and the other impedimenta of war games, and then restrict attendance to senior executives. Yet, war games do not require such elaborate, expensive outfitting. Straightforward war games can help any manager make better competitive decisions. War games are useful to prepare for market shifts, experiment with strategies, manage new initiatives, create support for a business case, diagnose its deficiencies, and attack – or defend against – your competitors. War games can break through conventional wisdom, reveal crucial data gaps, create support for a campaign and improve awareness of your firm’s

position.

“War games in business are hot.”

War games involve acting out various roles. Preparation includes researching your competitors and other parties whose decisions may change your field of play. Computers are not necessary and may even be a disadvantage. Simulations based on computer programs and game theory turn out to be unrealistic, because no mathematical formula can predict or program human and institutional responses to changing circumstances. Live role-playing works best. If you want to hold a war game, your firm’s situation should meet five prerequisites – three formal and two informal. The formal prerequisites are:

1. A decision or a plan is at stake.
2. Third parties can determine its success or failure, but you don’t know their intentions.
3. The wrong decision will be costly.

“If nothing more, a war game is a great catalyst to push managers to actually research their competitors, rather than rely on their anecdotal, personal experience with them.”

The informal – but no less important – prerequisites are:

1. Management is willing to adjust its strategy and plans if the game reveals weaknesses.
2. Management permits information to flow freely during the exercise.

Famous Games

War games date almost to the dawn of civilization. Sumerian generals sketched battlefield simulations. Frederick the Great carried a war game kit. In the 1800s, Otto von Bismarck studied probable political responses to his plans, and devised strategies that united Germany. In 1976, Israeli forces used a thorough, detailed war game to plan the rescue of hostages held in Entebbe, Uganda. They role-played the hijackers, who had taken over an Air France flight between Tel Aviv and Paris, and the Ugandan sentries, officers, radar operators and other potential participants on the ground, including erratic Ugandan leader, Idi Amin. Israel’s successful rescue mission took about 90 minutes, thanks to thorough, realistic war game preparation.

“Based on my experience with both human and computer-based games, role-playing games bring far superior results, because predicting human and organizational behavior is far beyond current mathematical models.”

In the 2002 Millennium Challenge, a \$250-million, war game exercise, some 13,500 participants enacted a hypothetical U.S. military campaign “against an unnamed Middle East opponent.” The Blue Team represented the U.S. at a time when Secretary of Defense Donald Rumsfeld wanted to reshape its military into a “technological powerhouse.” Paul Van Riper, retired head of the Marines’ Combat Development Council, led the hypothetical Middle Eastern Red Team. Red humiliated Blue with unconventional tactics, rendering Blue’s high-tech military power all but impotent. For instance, Red sank Blue’s navy with suicide attacks. This was so unexpected and unwelcome that the game’s organizers vetoed it. They resurrected Blue’s navy and told Van Riper to disable Red’s air defenses so Blue could attack successfully. Rumsfeld’s team declared victory, having followed a “script,” but not having played a genuine war game. They took the U.S. to war in Iraq using tactics they believed should, in all rightness, have won both the Challenge and the actual war. Van Riper soon quit.

Predicting the Competition

War gaming can help improve your chances of predicting what your competitors will do. Your forecasts won’t be infallible, but they will be realistic. Preparing involves analyzing market circumstances and trends. Michael Porter, author of *Competitive Strategies*, provides a useful theoretical framework for this analysis. He identifies five forces – industry rivalry, “threatened lower cost substitutes,” new market entrants, suppliers and end-users – whose interactions shape your business. Shifts in these realms create new threats and opportunities. Your competitors’ responses to such shifts come from their managerial thinking and assumptions as expressed in their strategy and capabilities. Recent work in cognition and neuroscience, however, suggests that rationalization often replaces reason, so managers act out of habit, bias and other irrational factors. To make your game more predictive, use these questions that focus on relevant issues:

- **“Is the competitor satisfied with its present position in the market?”** – Managers who are complacent with the status quo will not undertake a dramatic change.
- **“What are the competitor’s hot buttons?”** – Some companies have certain issues that drive them to almost instinctive, reflexive action. Know your flash points so you can avoid (or, if need be, provoke) a strong response.
- **“What are the competitor’s blind spots?”** – IBM failed to counter Dell’s direct sales model because its leaders did not believe customers had enough sophistication to buy computers without guidance from a sales rep. Ticketmaster’s managers were blind to the emergence of a secondary market, so StubHub exploited resale tickets. [*can cut*]

Role-playing the Competition

War gaming involves acting. Participants become different characters and must put themselves into their roles wholeheartedly, as if they were on stage. For instance, the gamers representing your competition should begin by understanding your rival’s primary objective, so they know what moves to make in the game. They should ask themselves how they would act under certain circumstances to achieve their primary competitive goal. Their actions should make sense in the context of that goal and the competitor’s character. Game theory provides a very rational, mathematical approach to analyzing competitive situations. Yet, it has severe limitations – most significantly, the fact that people are not ruthlessly rational.

“The only limitation on simple, low-cost, transparent war games is that they should be focused on one industry or one set of players at a time.”

“Hindsight Games” are hypothetical, *ex post facto* war games that assess what your firm might have done better at a “strategic juncture,” if it had been given the

information it has now. When Fox Sports challenged ESPN's cable sports monopoly, a hindsight game could have helped ESPN identify the ways it could have countered Fox, instead of losing viewers and market share. Such games also can provide insight into acquisitions, like Quaker's disastrous purchase of Snapple. In fact, acquisitions are so momentous that it is staggering to imagine any firm entering one without first war gaming it – yet most transactions proceed without preliminary games.

“Executives (and their communication departments) may have a strong need to rationalize their decisions, but that does not mean that they acted out of rational consideration.”

Using war games before you act in some significant way makes sense, particularly when you need to know with some confidence what your competitors' probable responses will be. War games allow you to prepare adequately. They are useful analytical tools when you must develop a tactical or strategic plan, when your competition's reaction will help determine whether your plan succeeds or fails, when your unfounded assumptions are likely to be unreliable, and when the stakes are high and failure is unacceptable. War games must be simple, realistic and transparent. The three most common reasons that war games fail are:

1. **The timing is wrong** – If the decision is already in place and the result of the war game cannot change it, the game has no point. Very probably, the war game will expose the decision's defects and vulnerabilities, resulting in ill feelings. If it is too late to abandon or reverse a poor decision or plan, don't bother to game.
2. **Management resistance** – Some managers are so sensitive to criticism they should not participate in a war game. It's best not to invite them. If they insist on playing, put them on a competitor's team where they have to attack their own firm's vulnerabilities. Some managers are too neurotic or domineering to play well. The neurotic may find a war game difficult to tolerate because it deviates from his or her preconceived notions of how the game should evolve. The domineering manager may stifle other participants.
3. **Unhealthy culture** – A culture that resists anything “not invented here,” suppresses confrontation, fosters “blind spots,” blocks discussion of important issues or is so cynical that it can't take anything seriously, is likely to doom a game to failure.

Who's on the Team?

Be careful and selective about the size and composition of your war game teams. Depending on the type of game you have, include at least nine participants, but no more than four dozen. Smaller “family only” games are more intimate, but a larger game generates more political support. Each team needs at least three players, but a maximum of eight, and the game should have no more than half a dozen teams. If your firm has more than six squads, consolidate some of them as one team. The game's participants should include insiders who know your competitors; people whose support may be valuable in implementing the game's plan or decision; former employees of your competitor, if possible; representatives of internal functions that matter in executing the plan; and players who understand key third parties, like “customers, distributors and regulators.”

“Encourage participants, especially those on the host team, to be honest and to identify the ‘elephants in the room.’”

The people on your teams need to be courageous, because part of their job is to identify your firm's vulnerabilities, blind spots and deficiencies. This can be hazardous to their careers. Be careful about senior managers; sometimes it works to place a senior executive on a team that represents your competition to ensure that your rival is well-played. People who are easily insulted, politically correct, shy or unable to face up to issues should not participate.

Choosing Roles and Gathering Data

When a company has only one competitor to worry about, it can play the game to get a handle on that entity's probable actions. However, a company in highly contested markets with no single, dominant competitor – or in markets where new threats may be emerging – must broaden the game's focus. Porter suggests bunching or “clustering” firms with similar strategies, assets and goals – like your most direct competitors – that may respond similarly to change. However, not all industries form clusters. Some industries have already converged on a single operating model – for example, the oil industry. In this case, plan to role-play those competitors who threaten you most directly.

“The whole value of a war game is that you don't have direct intelligence about [your] competitors' plans, and yet you want to make the most realistic assessment of their future moves so you can prepare for them.”

Intelligence is invaluable. While you do not need secret information from your competition, you are trying to get a handle on its character. Therefore, your intelligence should include its:

- **“History”** – Know how your competitor began and changed over time.
- **“Culture”** – Understand its values and sacred cows.
- **“Position”** – Study its current state, market share, distribution (or channel) relationships, sales force, marketing, production, R&D, finances, management profile and the like.
- **“Stated goals”** – Know its publicly posted objectives and its tacit expectations.
- **“Thinking”** – Find out what consulting firms your competitor uses, the background of its executives and the focus of its political relationships.
- **“Performance”** – Have up-to-date data on its performance against its objectives.

“Summing up a game in a productive way is crucial.”

Give all the participants in your war game a focused briefing packet with the above information plus relevant industry news, analyst reports, trade magazine articles and such. A few years of annual reports can help, not for what the competitor said, but for changes in its tone and documentation of its actions. Look closely at quotes from senior executives that appear in the press. These are often mere spin, of course, but sometimes they point at very serious concerns – so serious that they need to be spun.

Using the Results

After your war game, aggregate the analyses (make sure that you do not leave sensitive information in a hotel room), summarize them and distribute the summaries to participants. Share the findings and decisions as widely as possible or necessary within your firm. War games often provide valuable data and intelligence for shaping later follow-up. If the game illuminates your competitor’s probable future actions, record those predictions. Keep track of the competitor’s real actions and decisions, and update its profile. Notify senior managers and other relevant units in your company that you have useful data about its competitors.

About the Author

Benjamin Gilad, Ph.D., ran war games for 25 years on behalf of *Fortune* 500 clients in various industries. He is a former associate professor of strategy at Rutgers University’s School of Management, and the founder and president of The Academy of Competitive Intelligence.
