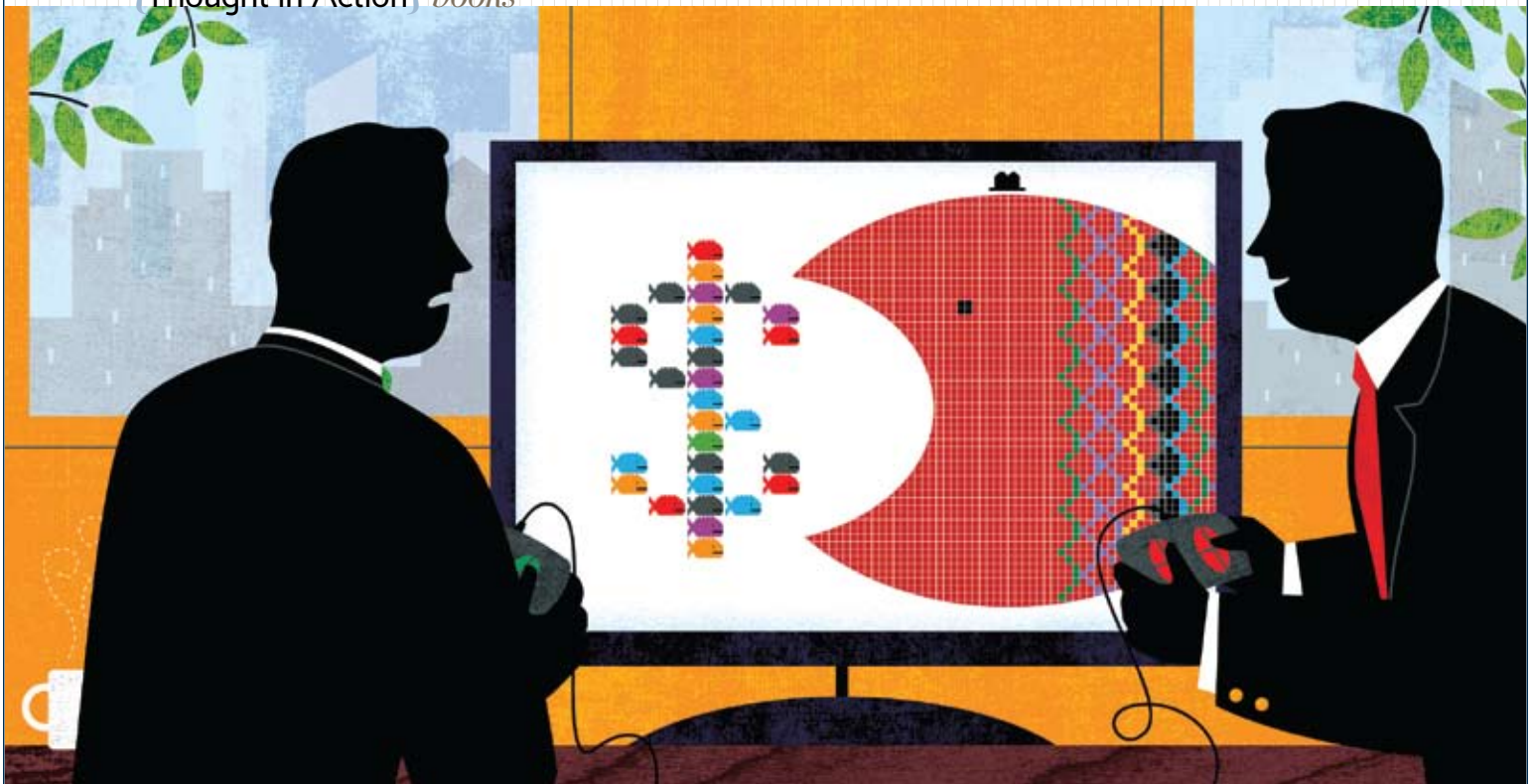


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New Game Strategies to Create and Capture Value

In his book *Strategic Innovation* (Routledge, 2009), strategy professor **Allan Afuah** demonstrates the value of new game strategies to gain competitive advantage in the face of rapid technological change and globalization. It's not enough to simply create value in new and different ways, he says. Nor is it sufficient to merely capture value. To compete and win, firms must do both.

In this new text designed for both managers and students of management, Afuah examines contemporary strategy from an innovation standpoint with several key advantages including a detailed, change-inclusive framework for assessing the profitability potential of a strategy or product.

DIVIDEND: Let's start by talking about strategic innovation in the most general sense.

AFUAH: By strategic innovation I mean a game-changing innovation, not only in products and services but also in business models, business processes, and the way you position yourself vis-a-vis co-opetitors. People tend to think about products and services when they talk about value creation, and that's fine. But we are finding a business model innovation may be more

profitable than a product or service innovation. Look at Google. It's a great company with great search engines and a great brand. But what made them profitable had a lot to do with paid listings. It's not just about coming out with new products or services but changing your framework for making money.

DIVIDEND: This summer Google announced it would launch an operating system for PCs, which appears to be a direct attack on Microsoft. What does this latest move reveal about the way Google is playing the competitive game?

AFUAH: Some would say Google is doing this to keep Microsoft occupied and worrying about operating systems so Microsoft won't be able to attack Google effectively in the search business, as it's trying to do with Bing. I believe Google is looking forward to what may be a disruptive technology. People are moving toward so-called cloud computing, where almost everything you need is going to reside in banks of servers somewhere instead of on the desktop. Even if you have a small netbook computer, you can access information in these banks of servers by way of the Internet. So by introducing this operating system Google is trying to get into that growing business. For now, Google's operating system is not something that will be

competing with Microsoft on the desktop. It will be competing on netbook computers connected to the Internet. These netbooks are gaining a lot of favor especially with younger people. If Microsoft does not react well, then Google's operating system may improve to a point where it can be used on desktops, posing problems for Microsoft's very profitable operating system business.

DIVIDEND: What do you think about the upcoming alliance between Microsoft and Yahoo?

AFUAH: The proposed alliance is a good start for both firms. Yahoo gets to cut some of its costs, and Microsoft gets extra revenues. However, to be a game changer against Google, both firms must do something compelling enough to attract and keep Google's customers or win a higher percentage of customers to Bing (over Google) than they presently do. From the details of the alliance released so far, there does not appear to be anything game-changing when it comes to competing and winning against Google.

DIVIDEND: You have a framework called the AVAC analysis that anyone can use to evaluate the potential of a new game strategy, no matter the scale.

AFUAH: AVAC stands for activities, value, appropriability, and change. The idea behind it is very simple: If strategy is about performance and competitive advantage, shouldn't there be some way to evaluate the profitability potential of your strategy? So if you define strategy as a set of activities a firm performs to create and capture value, then profit is what says you have a competitive advantage. When you think that way, the problem of assessing the profitability potential of a strategy becomes a lot simpler. And remember: If there's change or the potential for it, you want to know if the activities you are performing allow you to take advantage of that change. If not, someone else will.

DIVIDEND: Crowdsourcing is an issue you explore in the book. Let's talk about it in terms of new game strategy.

AFUAH: Crowdsourcing is a way firms use the public to seek solutions to issues, challenges, and problems. For example, a company in Alaska was researching ways to keep oil from freezing. After speaking to a number of specialists — and getting no results — they reached out to a company called InnoCentive, which facilitates crowdsourcing on behalf of companies. InnoCentive posted the problem online and invited the public to offer solutions. The oil company got a solution by way of the concrete business. By the old paradigm the firm would have spent millions hiring all kinds of consultants and experts to reach a result. The beauty is the solution may come from a resource you don't normally use or never thought about — and it costs a lot less.

DIVIDEND: Reverse positioning is another type of new game strategy. You cite the Nintendo Wii as one example where it worked really well.

AFUAH: When Microsoft and Sony introduced their own consoles and video games, they went after the latest technology and graphics to satisfy hardcore gamers. But that new technology cost a lot, and the firms had to recoup what they lost in consoles by way of game sales.

Then Nintendo came in and said: "Wait a minute. There may be people who don't want to spend that much time on a game or may be totally frightened by all these buttons. Suppose we go after old technology that nobody pays much attention to and doesn't cost too much?" Wii still meets the requirements of those who want to play but don't care about tantalizing graphics. And with each console Nintendo ships they already are making money.

I mentioned netbook computers earlier. They may not have as much memory, and they're not very sophisticated. But they can cost less than \$500 and do what many customers expect from PCs. Taking advantage of such white space is a good example of a new game strategy. You are doing things differently. You are entering a product space no one is in at the moment.



DIVIDEND: You mentioned the term co-opetitors earlier. When I read that in your book, I thought at first it was a typo. Can you elaborate on that term?

AFUAH: The whole idea behind co-opetition started about the time the Internet was really taking off and more people started to understand complementors — people who produce products that complement your product. Think of oil companies and car companies. If there's no gas, people won't buy cars.

Look at your suppliers, your customers, even your competitors. There will be times when you cooperate with them. And when you cooperate, keep in mind that you have to try to capture some value there. And when you compete, there are ways to cooperate and still come out ahead.

Imagine you are making a pie. You need a piece to bring home — and a bigger one than the other guy. But don't take all the pie or your competitor will starve to death and there will be no one to work with next time. At the same time if you simply celebrate about the pie you created, someone may take the whole pie when you're not paying attention. And you go hungry.

We still live in a world where some people think strategy is only about how much value you can capture. Others think it's not just about capture but how much value you can create. I'm saying it absolutely has to be about both. ✪ —Deborah Holdship

› In his new book, Allan Afuah shows ways firms can pursue new game strategies to create and capture value.