

# Game Theory Approach

- The success a product enjoys is dependent on competitive decisions, both proactive and reactive
- Game theory models the alternatives available to the company and its competitors in the same model
  - ▶ Can be used to predict competitive actions in relation to price
- The best pricing decision is the one that gives the best results considering the pricing situation of the competitors
  - ▶ Can be used to avoid price spirals

# Game Theory – Coke and Pepsi

## Coke and Pepsi

Coke's Action	Pepsi's Action	Coke's Outcome (\$M)	Pepsi's Outcome (\$M)	Total \$M
Hold Price	Hold Price	\$100	\$100	\$200
Hold Price	Drop Price	\$60	\$112	\$172
Drop Price	Hold Price	\$112	\$60	\$172
Drop Price	Drop Price	\$80	\$80	\$160

*Hold Price is better than Drop Price*

If Pepsi Holds Price	Coke's Outcome (\$M)
Hold Price	\$100
Drop Price	\$112

*Drop Price is better than Hold Price*

If Pepsi Drops Price	Coke's Outcome (\$M)
Hold Price	\$60
Drop Price	\$80

*Drop Price is better than Hold Price*

# Sample Game Theory Results

- Results of the analysis indicate the company is best served by maintaining a higher price

