

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

