The Seven Deadly Sins
of Business War Games

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I've been involved in strategy decision-making for nearly 30 years, and in business war gaming and strategy simulation (its key enabling technology) for more than 16 years. My colleagues and I have implemented business war games for dozens of Fortune 500 companies around the world using our award-winning strategy simulator, ValueWar®. I've learned a lot about what to do, and what not to do, in developing and implementing business war games.[*] That's what this article is about.

Business war games work. In our experience at ACS, we have seen strategists rapidly uncover opportunities and threats that they otherwise would not have seen. They credit war games with boosting their bottom lines by tens and even hundreds of millions of dollars.

Why the games work

Strategists find that business war games[†] work for several reasons.

- **Surprise.** Getting one or more surprises about your business gives you proprietary insight that you can parlay into greatly improved performance.

- **Experimentation.** The safe, private, rigorous, and impartial environment of a good business war game lets you experiment with your strategy options before you have to commit real money.

- **Consensus.** The intense, shared experience, in which strategists see the same numbers and have ample opportunity to ask what-if questions, is effective at defusing conflict and building commitment.

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[*] See "Business War Games," SCIP.online, November 2002.

[†] Some managers dislike martial terms and prefer "virtual competition" or "strategy game." You can use any phrase.

- **Expertise.** A business war game doesn't only help strategists make decisions. It also helps them learn about rigorous analysis of their markets, customers, and competitors, and therefore about effective decision-making.

- **Decisions.** The bottom line is that a business war game helps you, directly or indirectly, make much better strategy decisions. If it doesn't, what's the point?

Although those benefits are available, they are not guaranteed. Here, then, are the seven sins of business war games that you should avoid as you select and deploy your own business war games.

1. Not having a clear objective

What do you want to accomplish with your business war game? A bonding experience for managers, a catalyst for a sales meeting, a stimulus to generate ideas or provoke thinking, a rehearsal of a specific strategy, a rigorous way to make a critical strategy decision?

You want theatricality and excitement for a business war game that kicks off a sales meeting. You need advanced analytic power for a business war game that tests a strategy or contrasts multiple scenarios. If you use heavyweight analysis at the sales meeting, the worst you'll do is put people into a bad mood. However, if you invest in theater when you're making strategy decisions, you can put people out of a good job. Great drama only looks like great thinking.

You can avoid this sin by making sure the business war game you pick fits your objective. Remember that there are many forms of business war games; shop around.

Objective	Typical example	Desired characteristics of business war game	Look for	Don't invest in
Raise excitement	Sales meeting	Theater, hoopla, fun, energy	Event planners and facilitators	Sophisticated analysis. The outcome is preordained: victory!
Raise consciousness	Internal management development courses	Knowledge and culture transfer	Solid, non-obvious analysis tailored to your business	Mind-numbing detail, which (incorrectly) says that precision wins

Objective	Typical example	Desired characteristics of business war game	Look for	Don't invest in
Raise questions	Scenario planning	Out-of-the-box thinking	Process to generate and summarize "wild" ideas	Industry analysis, which implicitly constrains thinking
Raise performance	Strategy decision-making	Much better strategy decisions	Realistic simulation, rapid what-if analysis	Do-it-yourself models, extrapolations of history

2. Gaming the game

Strategists in a business war game want to win, so they do their best to figure out the game itself. It's natural; it's part of being human.

I saw an extreme example of this behavior in business school, where a friend a year ahead of me convinced her team to slash expenses and raise the price of their product (which normally was a few dollars) to a million dollars. She gambled that the game software wouldn't let unit sales go down to zero, and she was right. As a result, her team had a million in sales, negligible expenses, and the highest profits. Clever and victorious; not very realistic.

A simple business war game (that is, one based on a simple computer model or one with familiar consultants or analysts serving as judges) makes it easy for participants to game the game. They know what the model or judges want to hear, and so that's what they say. Clever and victorious; not very realistic.

A more-subtle version of this sin occurs when participants know too much about the war-game parameters. For instance, if you know you'll be rated on profits and if you know that the game is about to end, you have an incentive to stop spending money and let your business coast for the last year or the last quarter. You inflate your profits, and the damage you do is invisible because it's beyond the game's horizon.

The cure is as obvious as it is challenging: pick a game that's hard to game. The way to find such a game is to talk to potential vendors about what drives their business war games. It's relatively easy to game a game that predicts results with human judges or with computer models

based on historical trends or financial analysis. It's much more difficult to predict which actions will work, and which won't, when using a highly realistic model based on competitive dynamics.

As I was writing the ValueWar strategy simulator, I remember the day when I could no longer predict what it would say. I realized it had become useful because it told me something I didn't already know.

Look for that experience when you select a business war game. You want something that makes sense, and yet you also want something that doesn't simply confirm your expectations. If it always does what you think, then it isn't helping you think.

3. Relying on conventional wisdom

No one consciously selects a business war game that favors conventional wisdom. After all, part of the allure of business war games is that they can help strategists break out of traditional ways of thinking. However, even though business war games don't intentionally favor conventional wisdom, some do so inadvertently and invisibly.

At ACS we ran a ValueWar war game for a company whose managers insisted they sold a commodity. If we had built their assumption into the war game — as an inexperienced model-builder or an industry specialist might do — we would have limited their market moves to changes in price. We retained ValueWar's market-differentiation factors and temporarily turned them off. It turned out that price moves would not produce positive profits, so we re-opened the topic of differentiation moves. Those moves proved successful. If we had built in conventional wisdom, our client would not have found a strategy that improved their bottom line by hundreds of millions of dollars.

Conventional wisdom can infect your business war game in two ways: how you generate strategy options and how the business war game determines winners and losers.

Ask the vendor how his or her war-game process generates strategies to test.

- If you can create free-form strategy options for your business and its competitors, that's good. It's especially good if the strategy-creation process encourages out-of-the-box alternatives, even those that neither you nor your competitors have ever implemented.

- If you must select options from a canned list of strategies (low-cost strategy, cut budgets 10%, etc.), that's not so good. Such a list implies conventional-wisdom constraints or limited analytic capabilities.

- If you select a strategy for your business and not for your competitors, that implies they will remain passive no matter what you do. Run screaming. Note, by the way, that a spreadsheet of your business alone implicitly assumes that your competitors will not respond to your moves.

Ask the vendor how his or her war game allocates market share among the businesses in the war game.

- If there's a causal model that directly links customer preferences and business moves to market-share results, that's good. Such a model mirrors customer thinking. Better is a model that uses data from the market to calibrate customer behavior. Best of all is a data-based model that supports what-if tests to see if future shifts in customer wants will change the strategy option that's best for you.

- If human judges or "umpires" decide among themselves which competitors get how much share, that's not so good. Human beings are not calculators; we don't do so well at balancing many quantitative factors. In addition, we humans tend to favor the familiar, including our interpretations of our experience, which means we impress our individual conventional wisdoms on our judgments.[‡]

- If their technology allows you to specify a strategy that includes the outcome — for instance, "our strategy is to gain seven points of market share" — run screaming.

- Subtle point for model mavens: if the market-share allocator assumes that shares stay stable unless something changes in the market, then the war game effectively protects the status

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[‡] One wag felt that he was so expert, he doesn't have "gut feeling," he has "gut fact."

quo. Such a model will tend to underestimate market volatility and the ability of new competitors to make inroads.

Forecasts, history, trends, experts, judgment, experience… in short, the more you hear those words as a vendor describes his or her business war game, the more you should look carefully for signs of conventional wisdom.

4. Thinking "a model is a model"

I know that many strategists don't want to learn about the model underlying their business war game — and all (yes, *all*) business war games are based on models, though they might be invisible — because they don't have time, or they aren't "numbers people" or "computer people," or they delegate the "technical" stuff to others. However, there's no escaping the fact that models differ dramatically, and the quality of your business war game depends hugely on the quality of its technology.

By "the quality of its technology" I don't mean whether the model is bug-free (assuming it's a computer-based model). I mean whether the model makes business sense. For instance, many businesses rely on accounting-based spreadsheets. Accounting logic works well for accounting problems; it doesn't work so well for strategy problems.

- **Accounting-based spreadsheets usually assume that sales will follow some growth rate based on history, a forecast, or a user's input.** Such an assumption precludes addressing one of the most important issues in a business war game: how fast will your sales actually grow? Put another way, assuming a growth rate for sales is equivalent to assuming that the future will look like the past or that your business's strategy will work. Either assumption defines away the heart of a business war game, and thereby leaves you vulnerable to very unpleasant surprises.

- **They effectively assume that non-accounting factors don't matter.** How do accounting rules capture customer loyalty, or improvements in customer perceptions of quality, or changes in distribution coverage? Accounting rules weren't designed to deal with those effects, and so accounting-based models don't. More broadly: accounting-based models do not understand the concept of "customer."

- **Accounting-based models also do not understand the concept of "competitor" (again, because accounting rules weren't designed to cover competitive-strategy issues).** How does a spreadsheet capture a competitor introducing a boffo new product, or getting acquired by an aggressive behemoth, or exiting the market? How do you build in competitive dynamics such as price wars, price umbrellas, quality wars, and loyalty-program wars? In other words, accounting-based models effectively assume that competitors' actions don't matter.

Those are just some of the potential flaws in accounting-based spreadsheets. Other kinds of war-game technology — forecasting models, gap analysis, trend analysis, "custom" models, and so on — have other kinds of traps for the unwary. Again, *every* business war game is based on a model. Even if you use human judges instead of a computer model, you are using models: their mental models, with numbers crunched inside their heads.

No one intends to create those problems. Nonetheless, the problems are there, and they are especially insidious because they are inherent in commonly accepted ways of thinking about business. If you select a business war game that contains those hard-to-see problems, then it will probably fail to produce the surprises and insights that you need.

To avoid this sin, you or a colleague must learn about models and ask plenty of questions. Or, hire an independent consultant, someone who is knowledgeable about strategy models and who has no vested interest in which business war game you select, and have him or her work with you to assess your war-game alternatives.

5. Avoiding what-if questions

You run a war game. You simulate a three- or five-year plan, quarter by quarter. You see the results. You feel elated or you feel deflated. End of game. Was it good for you?

No. Unless all you wanted was the thrill of battle without the glory of insight, you've been left hanging.

Without the ability to answer what-if questions, there's a lot you don't know. You might think that you war-gamed a great strategy because you like the results; however, without looking at alternatives you don't know if you backed a real winner or an also-ran. Conversely, you might be disappointed with the results of your chosen strategy even though it's possible that it was the best option under tough circumstances. If you don't have an opportunity to what-if your moves, you don't have a way to answer those questions.

In the business war games that my colleagues and I have implemented, we almost always find that the client's first choice of strategy is not the best (and when I say "not the best," I mean that it can be more than a hundred million dollars in profits worse than the best). In other words, the ability to answer what-if questions can easily be worth huge amounts of money. We see that happen over and over again.

Business war games that avoid what-if questions also have an unintentional and unconscious chilling effect on debate. When strategists get only one shot, they tend to work with familiar, comfortable strategy moves, rather than experiment with innovative or risky strategies.

If your objective (see sin 1) is to rehearse a strategy or to help other managers understand why you chose the strategy you chose, then it isn't critical for your business war game to answer what-if questions. However, if you want to learn about your business and to make much better strategy decisions, then it is simply essential that you be able to play what-if in your war game.

For instance, ACS worked on a project in which the key question was whether there was any strategy that would allow the client to reach a sales target. We worked with the strategy team and combined a business war game with an extensive series of what-if tests to answer their question. For the results (disguised for confidentiality, of course), please write to info@whatifyourstrategy.com for the Xenoplex case.

6. Not taking full advantage of the game

Implementing a business war game can be intense and exciting. Sometimes, amid the intensity and excitement, it's easy to overlook steps and not get the full benefit of the game.

For instance:

- **Ending the war game without discussing "so what."** The most-effective business war games reserve time at the end for participants to talk frankly about what they learned and what they're going to do differently.

- **Not talking about how to implement the chosen strategy.** One of the best business war games I've seen produced some to-the-point action steps that caused an important move within two weeks of the war game. The company found out later that their action successfully pre-empted a competitor's move — which they had predicted in the war game — that the competitor planned to make just a couple of weeks later.

- **Inviting too few or too many participants.** Too-small a group can limit the breadth of ideas that come out. Too-large a group can be unwieldy, especially when the schedule is tight. However, don't assume that there's an upper limit on the number of participants. Although most war games ACS has run involve ten to thirty participants, we've put together games that handled 120 (in one style) and 600 (in another style).

- **Maintaining corporate hierarchy.** Vigorous debate and out-of-the-box creativity are hallmarks of an effective business war game, and you can stifle both if the corporate hierarchy persists in the game. Let "permission to speak freely" be the orders of the day. Some companies even go so far as to invert the hierarchy during the war game: junior people get bottom-line responsibility for the strategy decisions for the competitors they role play, and they are assisted by the people who are normally their bosses.

- **Keeping the game to yourself.** Bringing in managers from other parts of the organization (other geographic areas, related business units, etc.) can add excitement, ideas, and cross-cultural perspective.

- **Thinking the game is over when everyone goes home.** There are other ways to benefit from your game. For instance, repeating parts of the game in a condensed format lets you introduce a broader group of managers to your thinking, which in turn builds their commitment to the chosen strategy. Another example is running what-if tests over the next few months as events unfold, competitors act, and your team generates new ideas. Such add-on

steps can be highly cost-effective because they leverage the investment already made in the war game.

Notice that I didn't include "thinking narrowly" in that list, even though one purpose of a business war game is to help strategists think broadly and creatively. Sometimes a game can be effective when it helps strategists see, in incontrovertible terms, that they need to challenge their assumptions about what they can and cannot do. In other words, the game proves they need to get out of their box.

7. Thinking the game is just a game

A business war game can be fun, and it's certainly a change from the daily routine. Strategists role-play competitors, they unleash their imaginations to develop new strategies, they revel when their business excels, they sulk when their business sinks. Some strategists even reinforce the not-business-as-usual atmosphere with touches such as having participants wear camouflage (which, it turns out, is not an effective disguise in a corporate setting).

Fun helps the strategists work well. However, it's a mistake to think that a business war game is a game. It is very serious business.

Selecting a competitive strategy is arguably the highest-leverage decision in a business unit. We certainly see that in our war games when bottom-line performance changes by enormous amounts of money…and when careers get a boost.

Business war games are the equivalent of research and development for strategy decisions. Running a business war game and not taking its results seriously is the equivalent of building and staffing a world-class laboratory and ignoring its inventions. You get excited about the *eureka!* emerging from your product lab; get as excited about the strategy breakthrough awaiting you in your business war game.

8. Bonus sin: not having a business war game

The deadliest sin of business war games is facing a tough situation, or wanting to create real change, and not exploring it in a business war game. By definition, those are the high-risk, high-impact, high-uncertainty times when insight is most valuable. So, why does it happen that strategists don't run war games? Here are the most-common reasons:

- They say, "we know our business." If that were true, why do upstart businesses ever overtake established and dominant competitors? Enough has been written about the costs of corporate hubris; we don't need to say more here.§

- They assume war games are costly or time-consuming. Some are, and some aren't; there are many kinds of business war games.

- They believe the right strategy is obvious: "it's Marketing 101." In my experience, though, virtually every business war game yields at least one major surprise that demonstrates that the "obvious" strategy will be ineffective (at best). I've seen managers with decades of experience switch to a radical (to them) new strategy after seeing the war-gamed consequences of the "obvious" strategy.

The bottom line

Business war games work. They let you do what you do best — generate strategy ideas, get into your competitors' heads, think about what customers want, anticipate events — and explore the implications and the opportunities in a safe, private, rigorous environment. You get to look at the future before you commit time and money today.

Properly used, business war games let you achieve competitive advantage where it really counts. And *when* it really counts.

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§ Except for this. Some business war game vendors, including ACS, do not build reputations on knowing (or claiming to know) your business better than you do. We don't. What we know is how to take what you know about your business and apply that knowledge in a new way, leading to surprising, yet believable, insights.

About the author

Mark Chussil is Founder and CEO of Advanced Competitive Strategies, Inc. (www.whatifyourstrategy.com), and lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of Fortune 500 companies around the world. He has published extensively and spoken at numerous conferences. Mark is also a Founder of Crisis Simulations International, LLC (www.crisissimulations.com). Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

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