

Roland Berger
Strategy Consultants

WARGAMING

A short introduction



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A. What is strategic Wargaming?



We apply strategic ("War") Gaming to deal with highly dynamic strategic situations

CONCEPT

Wargaming is a **dynamic simulation of real business situations** – providing information and experiences to shape strategic decisions

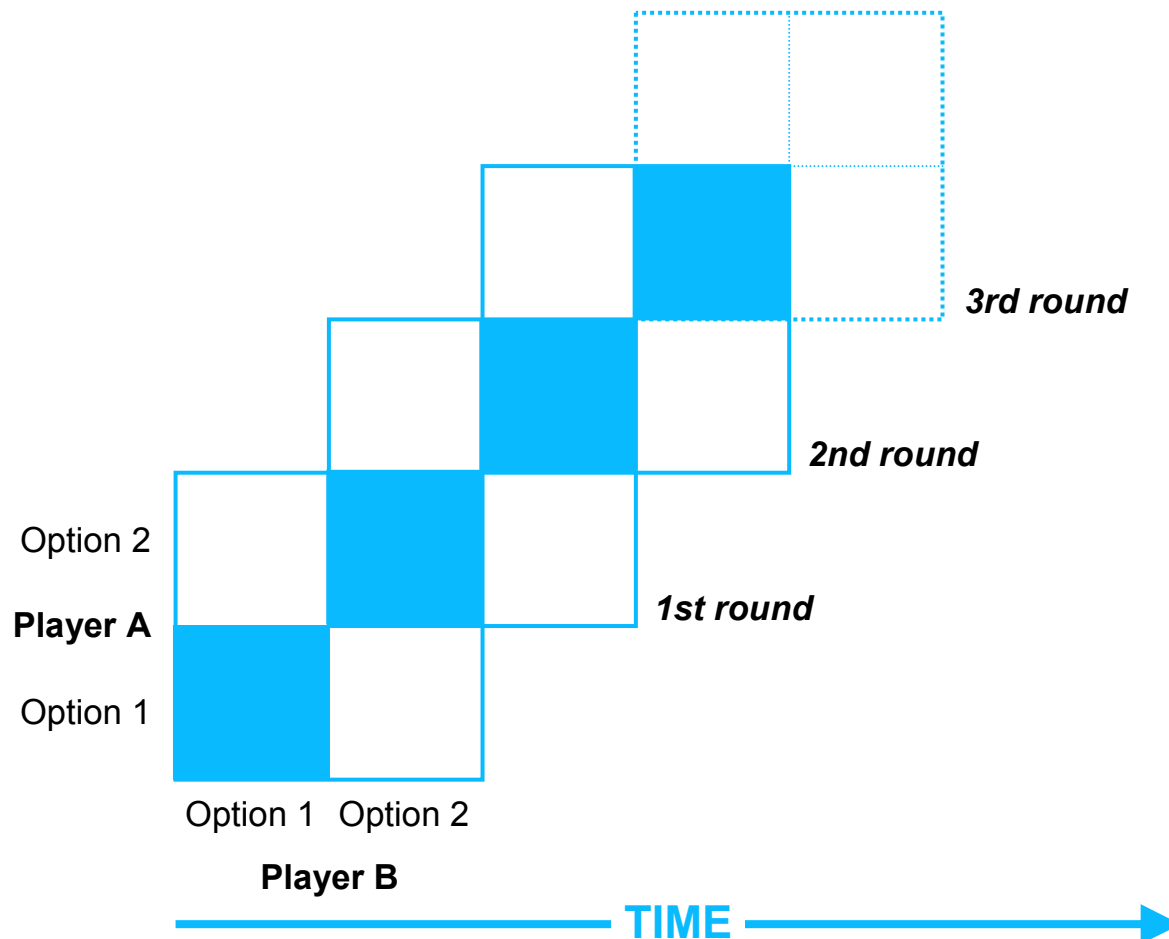
APPROACH

- The game consists of
- Testable **hypotheses** or issues to be resolved
 - Several **teams** that conduct **game moves** representing about 1-2 years of market development
 - **Analysis** and **evaluation** of major initiatives
 - **Feedback** on planned and/or not expected results
-

ADVANTAGES

- Wargaming allows
- to **test hypotheses and strategies at low cost**
 - to **analyze how** an industry may evolve
 - to **demonstrate how** "personalities" influence decision making
 - to **acquire an insight** into implementation issues

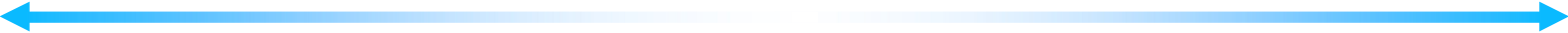
Wargaming allows to deal with interdependent strategic action and counteraction



- Risk of unforeseeable behavior exists in all **situations with two or more players**
- Strategic developments are influenced by interdependent **behavior of all players**
- Strategic goals can only be reached if all **players** and their **possible actions** are **analyzed systematically** in their timeframe

In a range of real business situations, linear strategy development has its limits...

	Strategic move testing	Analysis of the competitive landscape	Acquisition/consolidation	Bidding/competitive tendering
<i>Examples</i>	<ul style="list-style-type: none"> • Vertical integration (e.g. bancassurance) • Major reorganizations 	<ul style="list-style-type: none"> • Pricing changes • New product introduction 	<ul style="list-style-type: none"> • M&A • Hostile takeovers 	<ul style="list-style-type: none"> • Telecoms licence • Defence contracts
<i>Limits of linear strategy</i>	<ul style="list-style-type: none"> • No focus on interdependencies of competitors' moves • Too rigid to provide insight in highly intuitive moves 	<ul style="list-style-type: none"> • More reactive than proactive approach to competitors' strategies • Limited insight in 'how exactly' they think and act 	<ul style="list-style-type: none"> • Lack of detailed analysis of competitors' reactions and their impact/implications 	<ul style="list-style-type: none"> • May not reflect motives of other bidders • High probability of paying too little or too much



Broad Strategic Initiatives

Specific Tactical Maneuvers

...which is why companies can benefit from Wargaming

	Strategic move testing	Analysis of the competitive landscape	Acquisition/consolidation	Bidding/competitive tendering
<i>Specific Benefits from Strategic Gaming</i>	<ul style="list-style-type: none"> • Identification of value drivers • Assess risks and gains in a dynamic environment • Capture interaction with market and competitors 	<ul style="list-style-type: none"> • Understand barriers to entry • Gather competitive intelligence and validate competitors' strategies • Optimize operational parameters, i.e. timing, resource allocation 	<ul style="list-style-type: none"> • Gain "real" experience of acquisition process • Identify partner/target and define PMI & synergy prospects • Take into account "personalities" of other players 	<ul style="list-style-type: none"> • Rehearsal for actual bidding process • Ascertaining "true" cost of losing (and winning) • Understand the moves and negotiation tactics and better anticipate competitive reactions
<i>General Benefits from Strategic Gaming</i>	<p>Create acceptance for a strategy</p> <ul style="list-style-type: none"> • Involvement of both top-management and second-levels in the game • Strategy has been "lived" in the game • Participants are multipliers for the strategy 		<p>Allow a risk-free simulation</p> <ul style="list-style-type: none"> • Makes learning from mistakes easier • Reaction to different situations can be tested • Even radical moves possible – e.g. moves that challenge basic assumptions of an industry sector 	



WE
WILL USE
POTEMKIN
TO
IMPROVE!

STARTING
NOW,
WE WILL
PRACTICE AND
PERFECT OUR
TECHNIQUES!
THAT'S OUR
FIRST
PRIORITY!

**B. Wargaming in practice
– Roland Berger project examples**



Roland Berger has conducted eight strategic Wargames over the last three years

Recent strategic Wargames conducted by Roland Berger

2007	1	Insurance company
	2	Airline simulation
2006	3	Prime contractor
	4	Tier 1 supplier
	5	Airline
2005	6	Engineering company
	7	Aerospace equipment manufacturer
2004	8	Insurance company

RB Excellence

- Deep **understanding** of **how to use** Wargaming to achieve the best results, e.g.
 - Need to focus on one core issue (or a very limited number of issues)
 - Balance between sufficient complexity to be realistic, and too much detail
 - Requirement to define the boundaries of the War Game carefully
- Detailed **knowledge** of the **practicalities** of War Gaming, e.g.
 - Establishment of successful teams
 - Set-up of dedicated IT system

We have gained Wargaming experience with a variety of business situations and industries

CLIENT	A Insurance company	B Aerospace equipment manufacturer	C European airline
<i>Objective</i>	<ul style="list-style-type: none"> • Test robustness of chosen strategy against potential competitor responses 	<ul style="list-style-type: none"> • Rehearse bidding process for major long-term contract 	<ul style="list-style-type: none"> • Decide how best to capture value from other industry participants
<i>Outcome</i>	<ul style="list-style-type: none"> • Business improvement initiatives revealed • Strategic success dependent on competitor response • New strategy shown to be robust 	<ul style="list-style-type: none"> • Great stimulus to existing preparations • Client won the real competition 	<ul style="list-style-type: none"> • Refinement of plan of campaign for initiating change within distribution network • Alert to threat from specific competitor actions
	Long term competitive market dynamics	Large scale bidding competition	Value chain interaction
	Broad Strategic Initiatives		Specific Tactical Manoeuvres

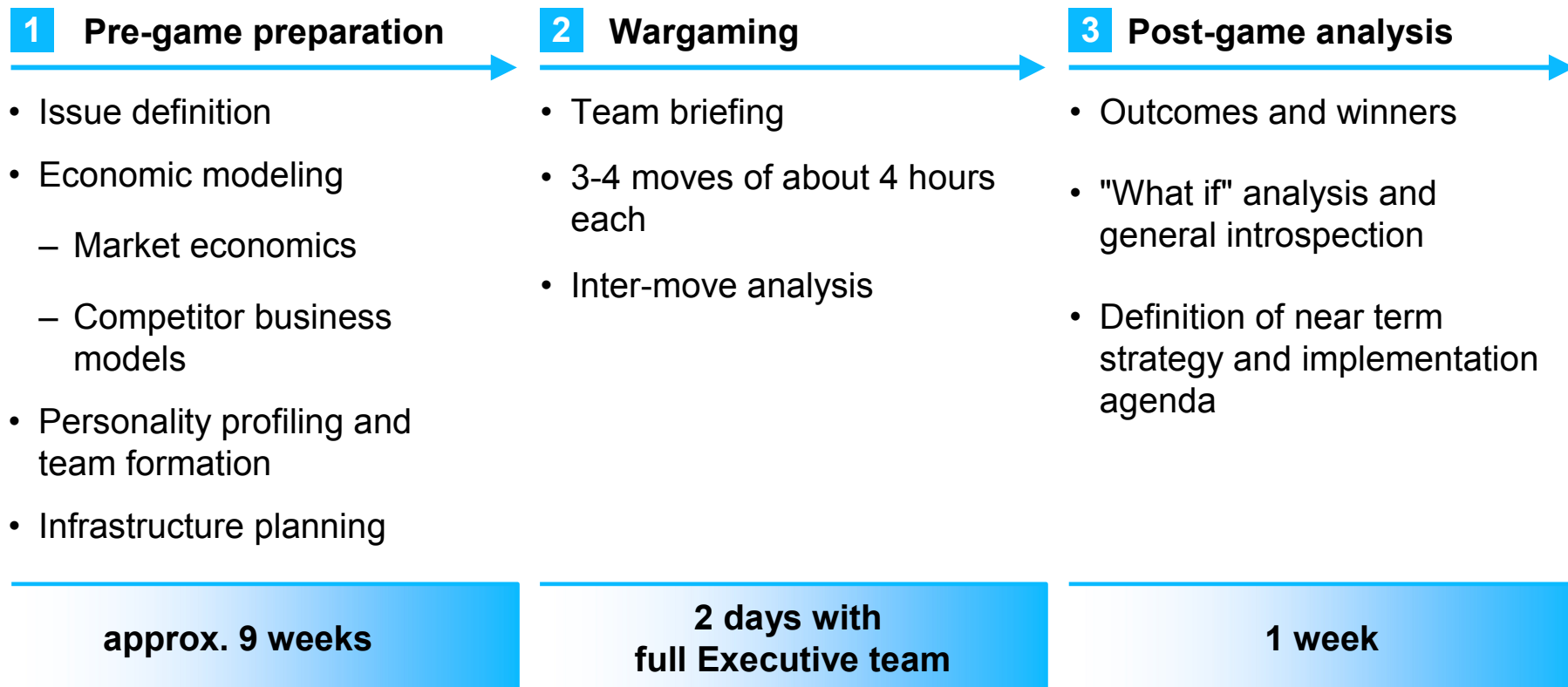


C. How to do it!



Intensive pre-game preparation and extensive post-game analysis is critical for successful Wargames

Strategic Wargaming is a three stage process



The emphasis of the pre-game process is on the development of a realistic market simulation

Issue definition

- Context – What is the core hypothesis? (e.g. price competition)
- Constraints – What products/markets should the game be restricted to?

Economic modeling

- Market economics, e.g.
 - Price elasticity of demand
 - Advertising effectiveness
 - Channel dynamics
- Competitor business models
 - Revenue and cost structures
 - Investment restraints
 - Shareholder value

Pre-game preparation

Infrastructure planning

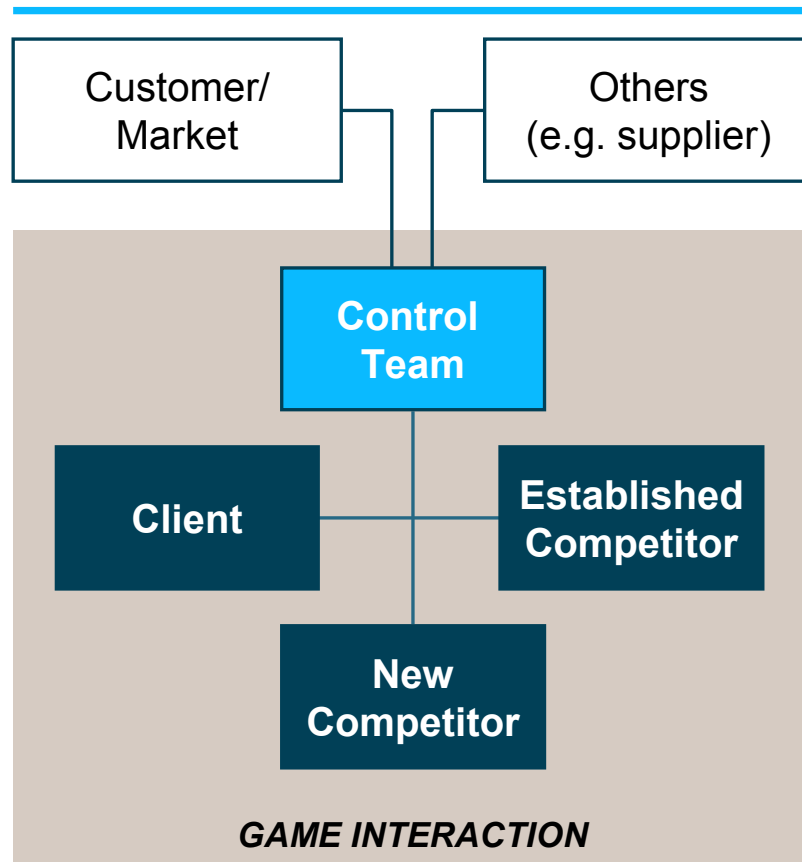
- Site selection (off-site)
- Technology support (intranet/ telephones)

Personality profiling and team formation

- Identification of major market participants requiring representation
- Character sketch of key personalities within identified teams
- Assigning executives to various teams to maximize learning

The Wargame itself consists of 3-4 moves where teams interact in the process of strategy execution

Game structure



Team

Roles & responsibilities

Control Team

- Total responsibility for running the Game, and deciding on what is (and is not) allowed within the Game
- Representing other market participants e.g. customers, suppliers etc...

The client

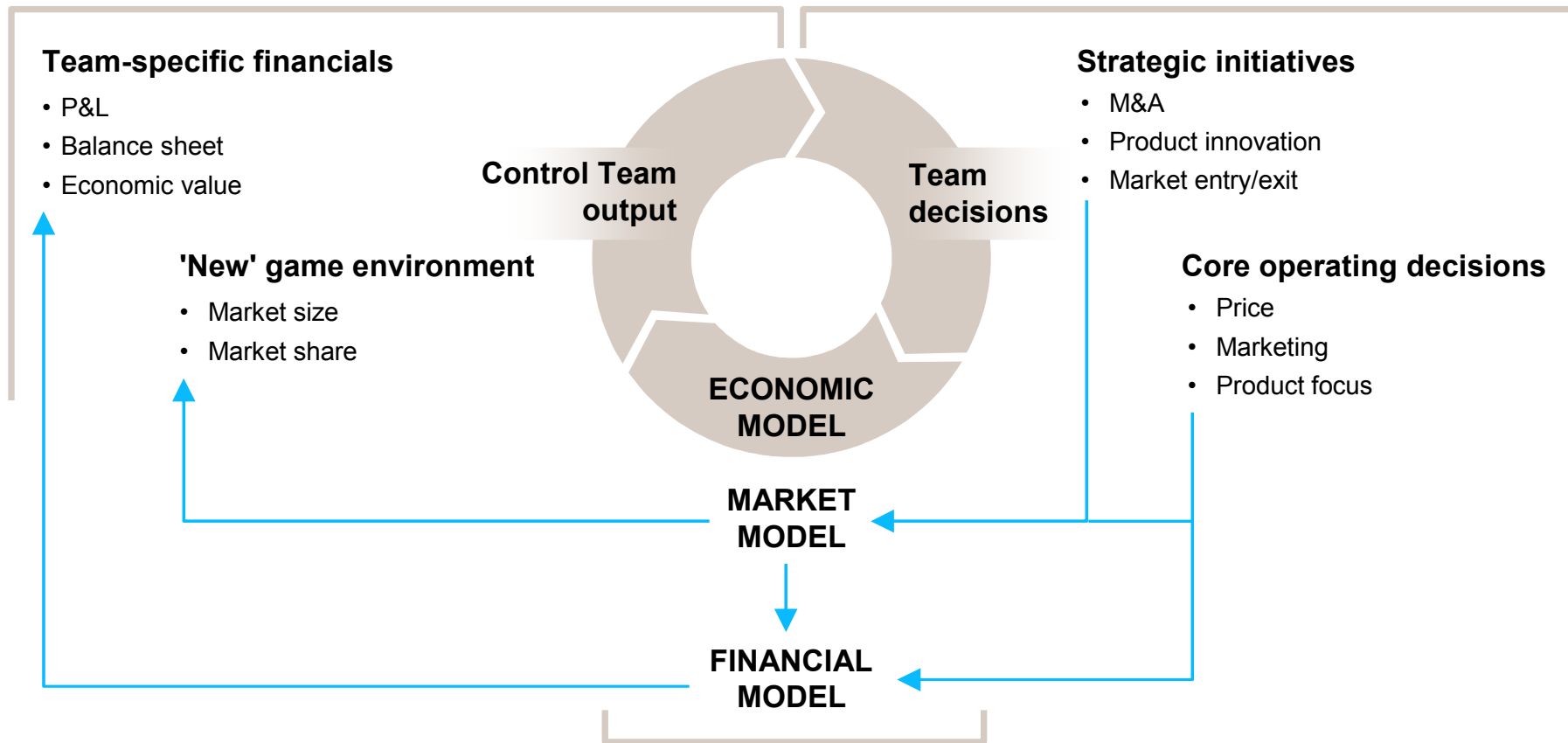
- Representing the behavior of the client during the Game

Client's competitor

- Likely response of the competitors
- Also played by Client employees

Between moves, a control team models the impact of team decisions and updates the game environment

Inter-move analysis and feedback



Understanding strategy drivers and the 'what if' analysis form the basis for strategy implementation

Identification of key success factors

Which strategy led to maximum:

- Shareholder value creation
- Change in market share
- Change in share of industry profit

**Discussion and
debate on lessons
learned, capability
and knowledge
gaps**

Detailed 'what if' analysis

Analysis of:

- Different move permutations and combinations
- Identification of little realistic outcomes
- Impact of high probability events

- Definition of near term strategy and implementation agenda
- Significant knowledge transfer to the client's strategy team



D. Why to co-operate with Roland Berger



Two key competences, which we have, are necessary to conduct Wargames successfully

- Strong modeling and industry skills to map value and cost drivers comprehensively
- Financial capabilities to build models that 'feel real' to experienced industry executives

ECONOMIC/FINANCIAL MODELLING

WARGAMING EXPERIENCE

- Real practice experience in running War Games to:
 - correctly identify issues and scope the "game"
 - profile the players
 - engage the clients' executives to play the relevant roles

For further questions – contact our teams in Germany or in London



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