IBM Global Services

Consultant points of view

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Strategic co-opetition: The value of relationships in the networked economy

The traditional concept of business as a “winner takes all” contest is giving way to a realization that in the networked economy, companies must both cooperate and compete. Termed “co-opetition,” this new perspective requires companies to create business strategies that capitalize on relationships in order to create maximum value in the marketplace.

“Co-opetition”-- a model in which a network of stakeholders cooperate and compete to create maximum value -- is one of the most important business perspectives of recent years. Internet and mobile technologies have made it even more necessary for companies to both cooperate and compete, by enabling relationships through information sharing as well as integrating and streamlining processes. In today's networked economy, co-opetition is a powerful means of identifying new market opportunities and developing business strategy.

Business is both competition and cooperation

In the past, people saw business as a “winner takes all” or “zero-sum” game. The networked economy moves away from these purely competitive plays to recognize cooperative relationships that leverage value created by those in the network. Competition -- the other aspect of co-opetition -- occurs after businesses have created value in the market and seek to allocate market share, price, cost and other finite benefits.

The concept of co-opetition was expanded upon by Adam Brandenburger and Barry Nalebuff, professors at the Harvard Business School and the Yale School of Management respectively. In their path-breaking book, titled *Co-opetition*, Brandenburger and Nalebuff assert that business is simultaneously both competition and cooperation.

There is a duality in all relationships with respect to win-win and win-lose interactions: The success of most businesses is dependent on the success of others, yet they must compete to capture value created in the market and protect their own interests.

Since the 1996 publication of *Co-opetition*, Internet and mobile technologies have transformed business dynamics. A new paradigm has evolved where information, connectivity and time define how business is conducted. Information is richer in quality and quantity, promoting collaboration among players. Connectivity, in particular via the Internet, has also lowered barriers to entry and bred hyper-competition on a global scale. Furthermore, time is increasingly a critical, and scarce, resource. As instant access to data reduces information asymmetries, there is the heightened need for businesses to be able to detect changes in the market and respond quickly to address them.

The end result: highly competitive environments where rivals can emerge overnight from unexpected places, such as traditionally non-competing industries. These changing business dynamics make the collaborative value inherent in co-opetition more necessary than ever.

An example of co-opetition in healthcare

The healthcare industry exemplifies co-opetition in action and illustrates how key players in the industry are coalescing to form strategic alliances. Increasing healthcare costs and continued pressure on managed care operating margins plague the industry. At the same time, the Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires health insurers and providers to adopt new standards for transmitting claims, ensuring the privacy and security of patient data. In November of last year, seven leading -- and competing -- U.S. healthcare insurers founded MedUnite. This new company's goal is to eliminate billions of dollars of annual healthcare costs by developing an efficient, value-added Internet-based connectivity system. The new system, which targets physicians and health plans, enables healthcare constituents to handle administrative transactions more effectively. On any given day, MedUnite's founding investors are both competing with each other and working cooperatively as allies to accomplish their shared goals.

Steps toward developing strategies

Leveraging co-opetition to develop business strategy requires a thorough assessment of a company's network of players: customers, suppliers and competitors, as well as “complementors.” Complementors -- a term coined by Brandenburger and Nalebuff -- are those companies that provide products and services that enhance the value of a firm's products or services. For example, software providers are complementors to hardware providers and vice versa.

The new economy mandates the shift from industrial age, “brick and mortar” strategic thinking to an emphasis on new alliances and a rethinking of traditional partnerships. Alliances and partnerships can be formed with customers, suppliers, competitors and complementors in ways that increase value for all players.

As companies in all industries develop strategies to leverage co-opetition in ways that are unique to their business environment, they will face similar questions:

- Who are the players in their network and how can they collaborate to maximize value?
- Which relationships are complementary in nature -- which companies can they work with that can add value to what they provide?
- Which players are competitors, and are there mutually beneficial ways to create value (e.g., MedUnite)?

- What should they do to leverage relationships with customers and suppliers?
- What can they do to sustain their competitive advantage over time?

The quick pace of technological change in the networked economy necessitates that strategies and relationships evolve over time, changing with the dynamic business environment. Companies should challenge themselves to look "outside of the box" to develop their business by initiating, leveraging and redefining relationships with other players to create and capture value.