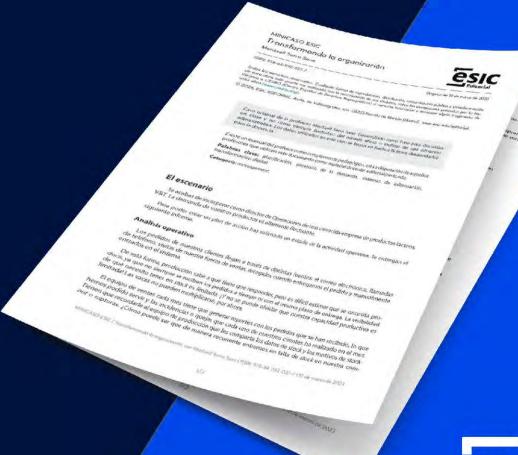
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The cable TV providers' dilemma

Luis F. Toro Dupouy



ISBN: 978-84-1192-126-8 Original November 11, 2024

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Original case by Professor **Luis F. Toro Dupouy**. Students can gain insights into strategic interactions and decision-making in competitive markets by applying game theory concepts such as Nash Equilibrium, dominant strategies, and cooperative vs. competitive decision-making. The data used in this case is based on fictitious facts created for teaching purposes.

A teacher's manual is available as a pedagogical supplement for teachers who use this document as teaching material: editorial@esic.edu

Key words: Game Theory; Dominant Strategy; Nash Equilibrium; Pareto Efficiency; Payoff Matrix; Pricing Strategy.

Category: Decision-Making; Economics; Business Strategy; Marketing.

Introduction

In a city with two cable TV providers, StreamLink Networks (Company A) and WaveLine Cable (Company B), both are faced with a strategic decision regarding pricing and customer acquisition. The city is divided into two neighborhoods: Eastside and Westside. Each company has the option to set its monthly subscription fee independently. However, the success of their strategy depends not only on the pricing decision but also on the rival's choice.

Here are the key parameters:

1. Subscription Fee Options:

- Company A and Company B can independently choose a low or high monthly subscription fee.
- Low Fee: Attract more customers but earn less revenue per customer.
- High Fee: Attract fewer customers but earn more revenue per customer.

2. Payoff Matrix (in millions):

	Company B Low Fee	Company B High Fee
Company A Low Fee	€10,€10	€20, €5
Company A High Fee	€5, €20	€15, €15

The first value in each cell represents the profit (in millions) for Company A, and the second value represents the profit for Company B.