Strategy: Poker Not Chess

Idea In Short

Treat strategy like poker, not chess. You operate with imperfect information, hidden cards and luck. Study the probabilities, read your opponents and know which hands to fold.

Teaching Strategy in a Complex World

Teaching strategy is a privilege. The classroom brings together thoughtful, ambitious people who apply classic frameworks to real-world problems. The curriculum covers willingness-to-pay, economies of scale, vertical integration, marginal revenue versus marginal cost, and segmentation, targeting and positioning (STP). Students connect these concepts to what they read in the Wall Street Journal and what they experience during recruiting interviews. The material bridges business school disciplines with liberal arts values: looking at facts, understanding biases and winning together.

An executive recently noted that strategic topics like competition, rivalry, differentiation, switching costs and barriers to entry become more useful as responsibilities grow. The bigger your burden, the more you need a rigorous, evidence-based plan, a thoughtful strategy on how to win and the leadership to hustle out solutions. Strategy is not theoretical. It is the operating manual for navigating complexity under pressure.

Why Strategy Is Difficult

Strategy is difficult for many reasons. It is long-term, and Berkshire Hathaway has outperformed the Standard and Poor's (S&P) 500 for over forty years through patient discipline. Competitors are always eager to eat your lunch. Customers change their preferences and are picky, not loyal and smart. The macro-environment shifts with tariffs, geopolitics, pandemics and interest rates. Executives change, bringing new chief executive officers, chief operating officers and chief technology officers. Companies grow and old fixed costs create barriers to exit. Complacency sets in, bloat accumulates and innovation stalls.

Every company and person has different resources, capabilities and talents. Organizations want different things, whether profit, social impact or quasi-governmental mandates. Luck matters, and staying lucky for thirty years is extraordinarily hard. These realities make strategy a discipline of judgment under uncertainty, not a formula to memorize. If strategy were formulaic, everyone would do it. If everyone did it, no one could beat the market.

The Chess Analogy and Its Limits

Chess offers a tempting analogy for strategy. Great chess players practice deliberately and improve over time. They quickly evaluate moves and think multiple steps ahead. They anticipate opponents' thinking and evaluate trade-offs like sacrificing a pawn for positional advantage. They recognize patterns from previous games, visualize the board spatially and remember enormous amounts of information. They manage their time and their emotions.

All these traits are admirable. Anyone who masters them will succeed in life. Yet the chess analogy breaks down because chess assumes perfect information and equal resources. Both players start with the same pieces, the same board and full visibility. Business rarely works this way. The chess metaphor captures the discipline of strategic thinking but misses the messiness of real competition. 1

Poker Captures the Messiness

Poker, specifically Texas Hold'em, better resembles business life and strategy. In chess, both players receive the same number of pieces with the same value. In poker, the two cards you hold vary enormously. Pocket aces crush a four-seven offsuit. In life, you must play the hand you were dealt. Amazon, Walmart and a startup do not start with the same cards when launching a global online retail store. The resources, brand equity and distribution networks differ wildly.

In chess, you play one game. In poker, you play dozens or hundreds of hands that might last two minutes each. This repetition makes relationships between players more insightful and political. In business-to-business (B2B) settings, you compete with the same rivals for the same customers repeatedly. The ongoing relationship shapes every decision. You learn their tendencies, their bluffing patterns and their risk appetite over many interactions.

Players Enter and Exit the Table

Chess pits you against a single opponent. Poker tables change constantly. You might start with six players and dwindle to two. The odds shift with every departure. In strategy, the competitive landscape evolves as smaller players get acquired or fail. New entrants appear suddenly. Amazon was not in grocery, then it purchased Whole Foods and became a dominant upscale grocer overnight. The electric vehicle market went from zero options to over fifty models in the United States and over fifty competing companies in China.

The rule is simple: large, profitable and growing markets attract new entrants. The table never stays fixed. Your strategy must account for opponents who arrive with different resources, different time horizons and different objectives. You cannot assume the competitive set you face today will resemble the one you face next year.

Imperfect Information and Luck

In chess, you can count your opponent's pieces and see their positions. In poker, you see only the backs of the two cards in your opponent's hand. Are they holding an ace and a king, or a pair of fours? Without x-ray vision, their cards stay hidden. This imperfect information mirrors business reality. Coca-Cola does not know what Pepsi has planned. Archer Daniels Midland cannot predict corn, soybean and hog prices in 2027. Massive uncertainty defines the operating environment.

Chess is algorithmic. A standard set of optimal decisions exists for each board position, which is why Deep Blue can beat the world's best human player with enough computing power. AlphaGo conquered the world's best Go player the same way. Machines excel when information is perfect and visible. Poker resists this approach because luck intervenes. A machine can beat humans at poker, but it takes tens of thousands of hands to overcome the variance. 2

Bluffing and Reading the Person

Humans outperform computers in shorter poker sessions partly because of bluffing. A player can act differently from the optimal, logical choice. The poker adage holds: you play against the person, not just the cards. A brash risk-taker who bluffs frequently reveals information through their behavior. A player with a tell, some subconscious habit that reliably signals their emotions, becomes exploitable. The game is humans versus humans.

In business, strategy and negotiations, the same principle applies. You must understand the competition, know what they want and make good decisions to fight, avoid, partner or delay. Reading the person matters as much as reading the numbers. Competitive intelligence, behavioral analysis and emotional awareness separate great strategists from competent ones.

Bankroll, Bet Size and Adaptability

In chess, both players bring the same resources. In poker, the size of your stack matters enormously. The stack leader can afford more risk because a single hand will not ruin them. A player with 120,000 dollars can bully opponents holding 50,000 and 10,000. In business, this translates to runway. How many months can you operate without revenue? What is your burn rate versus your cash pile? How many hands of poker can you withstand?

Bet size and frequency add further flexibility. In chess, you must move or lose. In poker, you choose which hands to play and how much to wager. The discipline is to raise when you hold an unfair advantage and fold when the odds are against you. Strategy demands the same judgment: double down on strengths and avoid fights you are likely to lose. Adaptability ties it all together. You can plan a perfect product launch and customers might still reject it. You can plan an acquisition and regulators might block it. Strategy requires reassessing options and making the best decision at the current moment, not the one you planned months ago. 3

- 1The Red Queen effect in competitive strategy
- 2AlphaGo and AI in perfect information games
- 3Annie Duke on poker and business decision making

Summary

Strategy is not a deterministic formula. It is a continuous game of probabilistic decisions under uncertainty. Study the odds, read the table, manage your bankroll and fold when the hand is weak.