New Patterns of Power and Profit: Teaching Information-Based Strategy to Millennial MBA Students

Eric K. Clemons
clemons@wharton.upenn.edu
Information Strategy & Economics
The Wharton School
7 June 2019
Context — The Challenge

- Information-based strategy is the most important thing to teach an MBA student.
- But it’s not what Wharton students want to learn.
- This may not be a problem everywhere.
- This may not be too difficult to teach where students have a high tolerance for ambiguity.
- At Wharton, students expect that everything has a single right answer, and they can find it by using the algorithm of the current week’s class.
- Ambiguity plays no role in their world view, and they have no tolerance for it in the curriculum.
Information-based strategy is the most important thing to teach an MBA student. I teach them what I think they need to know to function during digital transformation and digital disruption. But it’s not what Wharton students want to learn. I don’t teach them big data analytics. I don’t teach them how to exploit someone’s contact network for relationship marketing. I don’t teach them how to determine what text to use when creating a semi-dishonest product recommendation. I teach them how to think strategically.
Context — The Challenge

- How do I reach them?
- For many, I can’t
- I can’t even get them interested enough to drop the course before failing
- But for some, there are actions that help
- This is a work in progress
- Over the years, enrollments had dropped from 560 per year to 80; now stable at about 200
- Still trying to find the right way to reach a generation that thinks they fully understand tech strategy because they can use an iPhone
First, The Book

The first beach-read text on information-based strategy
First, The Book

The first beach-read text on information-based strategy

- If you have a PhD in econ you still won’t find much to complain about
- If you have a PhD in MIS from Wharton, or Rochester, or MIT, or NYU, you won’t find much to complain about
- But you don’t need advanced econ to read the book
- And it sounds like a conversation with my favorite students, or our favorite colleagues, over beer or coffee
Course Philosophy

Central Theme: *Non-algorithmic decision making* in the presence of *strategic ambiguity*

*Patterns*, and *Pattern Recognition*

Patterns as shorthand for understanding

*Reframe*, *Recognize*, and *Respond*

Don’t go over the Waterfall

Don’t sleep on the floor of the Airport

While relying on the new patterns for information-based strategy
Engagement

The *Carrot* and the *Carrot*

Class participation is 40% of the grade

They’re happy to talk … but …

I need the students to think before class, or class participation will be a waste of everyone’s time

I distribute specific questions before each class, so that they can provide their own examples of whatever phenomena we are going to discuss

I read the submissions before class, and prepare a list of students to *warm call* — we don’t explain and review *my* selected list of phenomena, we explain, review, discuss, accept or reject *their* examples
Engagement

The Carrot and the Carrot

The best answers get *immediate rewards*, usually a great beer, or for non-drinking students chocolate-covered salted pretzels.

The worst answers are taught to say “*I don’t know yet*” instead of “*I don’t know*”.

And when an “*I don’t know yet*” is converted into a beer-worthy response the class sometimes applauds.
Course Content

Information changes everything, and creates new patterns

To reframe, and to match new patterns in information-based strategy, the class needs to know those new patterns

The Three Value-Creating Patterns

Newly Vulnerable Markets, from Capital One to Uber

Newly Vulnerable Online Markets, from American Airlines to Merrill Lynch

And Newly Vulnerable Resonance Markets, from beer and ice cream to exercise programs
Aside — The Theory of Newly Vulnerable Markets

Newly Vulnerable Markets, from Capital One to Uber

*Newly easy to enter* — Capital One after securitization, Uber after smart phones

*Attractive to attack* — The strong customer profitability gradient among credit card customers and, initially, among taxi customers switching to Uber Black

And *difficult to defend* — banks couldn’t just fire their unprofitable customers, taxis were regulated, so neither could replicate the strategy of their attacker
Course Content

- Information changes everything, and creates new patterns
- And the Three *Value-Harvesting Patterns*
- Resource-based competitive advantage and *platform envelopment*
- Online Gateways
- And MP3PPs and reverse price wars
Information changes everything, and creates new patterns

I don’t moralize at them

I’ll let them assess if they believe a business model is morally repugnant, illegal, extremely profitable, or all three

Uber and Airbnb create significant externalities

Platform envelopment can harvest far more value than it creates

MP3PPs can also harvest far more value than they actually create
Investment Decisions and Valuation of Online Innovation
- Statistical decision theory and real options
- Monte Carlo Analysis
- Scenario Analysis for strategic ambiguity

The statistical science behind Fake News

Regulatory discontinuity
- For dealing with platform envelopment and MP3PPs in particular
- And for dealing with fake news
The Rest of the Content

- Regulatory discontinuity
- Again, I don’t moralize at them
  - I encourage them to assess each situation
  - Is it morally reprehensible? Illegal? Extremely profitable? Or all three?
What’s Missing?

*All* the advanced stuff

This is not a PhD level course, or a course in online marketing

This is not a course in big data analytics

This is not a course that pre-empts your discussion of your research agenda
Why Would You Use This Book?

For the same reason you would use Feynman’s *Character of Physical Law* or Landsburg’s *Armchair Economist*

As a fast introduction to what the class needs to know before you can get to the more advanced topics

Plus, my website makes it so easy for you

http://newpatternsofpower.com/

Syllabus, course notes, sample exam with answer key, even additional readings