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

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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

Context — The Challenge

- 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
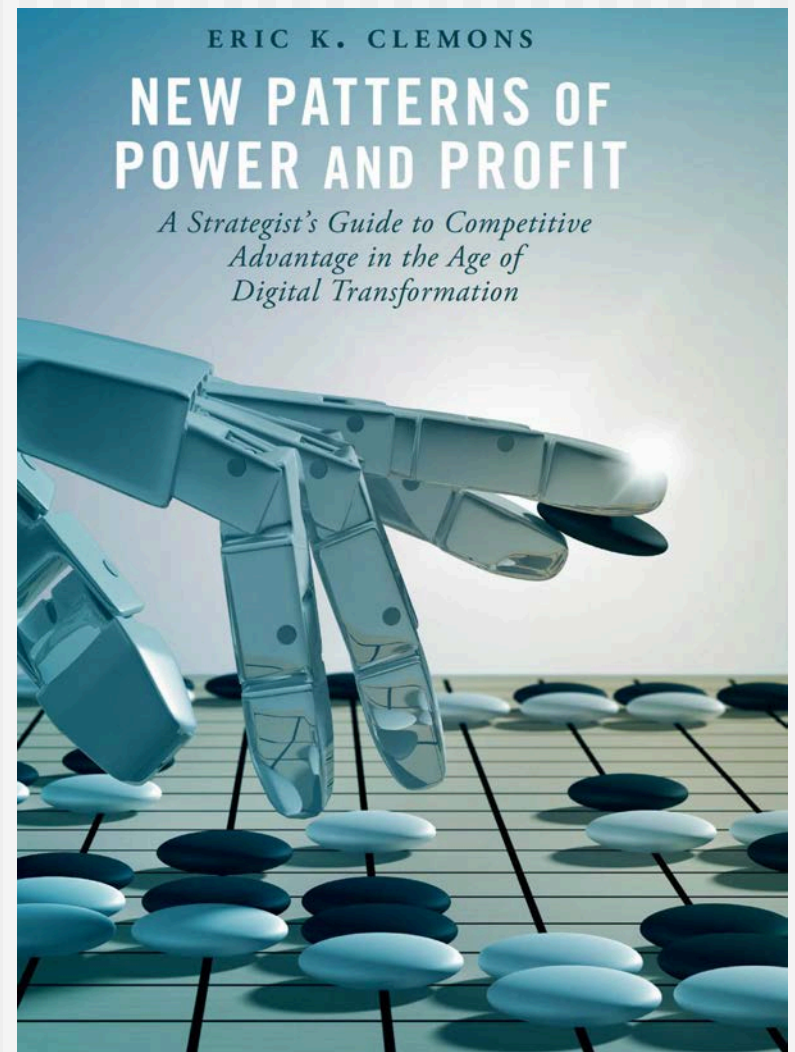- Still trying to find the right way to reach a generation that thinks they fully understand tech strategy because they can use an iPhone

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

Course Content

- 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

The Rest of the Content

- 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