

The Wharton School
UNIVERSITY OF PENNSYLVANIA
Department of Operations and Information Management

Syllabus for OPIM 666¹

**Information:
Strategy and Economics**

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JMHH 572 // Ext. 8-7747

Spring 2009 — Quarter 1
Class Sessions: M, W 12:00-1:30
Office Hours: M and W 2:00 - 4:00

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This course starts from three assumptions:

- Strategic business problems often do not come nicely delineated, as problems in multi-echelon inventory management, or in pricing of a portfolio of product or service offerings to multiple market segments, or indeed clearly labeled and algorithmic problems in any single discipline
- The skills needed to recognize business problems can be developed, based on a changing set of frequently occurring patterns
- The set of relevant patterns has been changed by recent developments in the application of information and communications technologies, and by recent software strategies such as those followed by Capital One Bank, Facebook and MySpace, Google, and a range of companies that most of us have never followed

We therefore focus on problem identification and on the development of a sound strategic response; more precisely, we focus on problems caused by rapidly changing conditions in the competitive environment, most frequently caused by changes in information technologies, and on the development of dynamic competitive strategies to respond to those changes.

This is not a tools and techniques course or a formula-driven or computational course. Likewise, it is not a course on information technology or computation or software development. Rather, it can be seen as a course in strategic analysis and strategic consulting, with a focus on changes, threats, and opportunities resulting from changes in information availability. It draws on the professor's professional experience in diverse settings, ranging from securities trading to consumer packaged goods retailing, and from his advising clients ranging from start-ups to senior officers at the Pentagon. It integrates that experience and the experience of guest speakers with relevant theory to develop an approach to information-based strategies generally, including resurgent corporate interest in strategies for eCommerce and online social networks. It provides a focused and modern complement to strategic planning.

The course addresses topics of strategic importance as they arise; business process

¹ Some class dates may need to be changed to accommodate schedules of guest speakers.

outsourcing was added in 1991, as was electronic securities markets. The failure of online grocery shopping was added in 1997, along with frameworks for assessing the likelihood of success or failure of online ventures. Topics are constantly added to help students assess emerging business opportunities, either in their firms or as consultants. More important than specific topics is the identification of patterns that frequently emerge and the drivers behind those patterns:

- The increase in *consumer informedness* is changing consumer behavior in a wide range of situations. Customers find the least expensive alternative in categories of little importance to them, while finding the perfect match with their wants and needs, cravings and longings, in categories they find important to them. This is less about trading up and the pursuit of luxury than it is about trading out and the pursuit of perfect fit.
- *Online trust* is a strong determinant of shopping behavior and will continue to be. Fear of fraud or of misrepresentation remains the greatest limitation to further growth of online distribution, and online auctions are the greatest single source of consumer complaints.
- The ability to target profitable market segments and to identify individual customers is reducing the value of scale-based operations and the strategic advantage of large firms with existing market share. Many markets are *newly vulnerable* to attack by new entrants.
- The increase in information available to firms is changing the strategies pursued, from design to production and distribution. Issues range from *dynamic repricing* to *online distribution*, from labor productivity enhancements to *labor arbitrage and outsourcing* and have profoundly altered each of the Four Ps.
- Outsourcing is increasing, not because the world has recently become flat, or because Indian labor has suddenly become less expensive or more talented. The rapid growth in *off-shoring and outsourcing* is a direct, predictable, and predicted outcome of the changing risk profile associated with this form of work transfer. Understanding this risk profile, and the remaining aspects of risk, are both essential to the proper design of outsourcing contracts and to safe and successful management of vendor relations.

All aspects of the firm — production, service, sales, marketing, and strategy — will be affected. Clearly, some firms will win and others will lose; nearly all will have to change. And yet, fundamental laws of economics have not been repealed. This course uses economic theory and previous experience with rapid technological change, to provide insights for the development of strategy in an increasingly digital age.

Course Objectives

Students completing the course will have a sound theoretic framework for pursuing further studies in the area of information-based strategies, including eCommerce. They will understand how information technology affects the basic strategic options available, and will understand how firms and industries are likely to be affected. They will understand the often poorly structured process of evaluating potential systems innovations. They will be able to participate in strategic planning and systems planning because they will understand the relationships among them. The course is particularly recommended for students in strategic management and marketing, and for those interested in careers in consulting or on Wall Street. No background in technology or in technology management is required. Students completing this course will have

mastered a basic understanding of the competitive implications of information technology and the fundamentals of the use of information in business.

Required Text

There will be a bulk pack of readings available from Wharton Reprographics; many of the newest papers will be available in electronic form on the website but will not be included in the bulk pack in order to reduce costs. Most of the materials are written by the professor for the course; because of the material covered and especially because of the need for timeliness there is no textbook for this course.

Assignments and Grading

There will be several in-class case discussions in the course. Please note that all written assignments are shown in **RED** in the electronic version of the course syllabus. Full assignments are indicated with a **RED FULL** and mini-case small assignments are indicated with a **RED Mini**. Dates when there are written assignments of any kind due are noted in **RED**, both in the session-by-session course outline and at the top of each day's page in the syllabus. Written assignments can all be done either *individually* or in *groups of two* students. Written assignments should be submitted in hard copy form at the start of the class sessions in which they are due. Please note that students will only have to submit **THREE** of the five full assignments and will have to submit only **TWO** of the three Mini assignments. *If students do submit more than the required minimum number of assignments, only the **highest** assignments will be counted towards their grades; thus the later assignments can be considered make-up assignments for assignments missed for any reason or for assignments where students felt they did poorly.*

There will be an in-class final exam during the last session of the course. Students will be evaluated on the basis of case performance and on their final examinations.

The written assignments will determine 40% of your final grade, as will the final examination; the remaining 20% will be determined by class participation.

Student Bios

Please send a word file containing a short biographical sketch, not a full resume, via email, to **clemons@wharton.upenn.edu**. Please title your attached file **666S08_I_NAME.doc**, where **I** is your first initial, and **NAME** is your last name. Please provide the following information:

- your undergraduate field of study and your undergraduate university
- your expected major at Wharton
- your experiences relevant to the topics of this course
- your reasons for taking this course and what you hope to get out of it

Instructor Blogs

Occasional blog postings of issues that I consider timely and interesting can be found at my website:

<http://opim.wharton.upenn.edu/~clemons/blog.html>

Course Outline and Readings

Unit 1 — Agility in the Face of Discontinuous Change

- Session 1 W 14-Jan Introduction and Course Overview
Introduction to the changing role of information in business. Changing information endowment changes everything, from human behavior to corporate strategy.
- Read: Cohen and Gooch, **Catastrophic Failure**, Chapter 1
Read: Shapiro and Varian, **Information Rules**, Chapter 1
Read: Anderson, **The Long Tail**, Chapters 1, 2, 4 (Chapter 4 Optional)
- Session 2 M 19-Jan No Class — Martin Luther King Day
- Session 3 W 21-Jan **Learning from the Experience of Others — The Power of Pattern Recognition in the Presence of Discontinuous Change**
Review of the science of business and the science of strategy formulation in the presence of discontinuous change, based on patterns observed over the past twenty years.
- Read: Clemons, **Financial Times**, Strategic Uncertainty
Read: Clemons, Another Point of View: A Twenty Year Study
Orient: Diagnostic Questions on the Intent of this Course

Unit 2 — How Old is Old?

- Session 4 M 26-Jan **Dealing with Information Asymmetry — Screening Mechanisms in Newly Vulnerable Markets**
Gaining competitive advantage through systems for market micro-segmentation and differential pricing; attempting to sustain advantage
- Read: Clemons and Thatcher, Capital One Case
Full: Capital One Case Discussion and Written Analysis
- Session 5 W 28-Jan **Something Old and Something New: Platform Envelopment and Resource-Based Sustainable Competitive Advantage**
Was the Success of Rosenbluth International a fluke? What do we know about platform extensions and resource-based competitive advantage? What does this tell us about Microsoft? What does this tell us about Google?
- Read: Teece, Profiting from Technological Innovation
Read: Clemons and Row, Rosenbluth Travel Case
Full: Rosenbluth Travel Case Discussion and Written Analysis
- Session 6 M 2-Feb **Knowing What Cannot be Known — Scenarios and The Power of Anticipation (1)**
Planning under uncertainty and the use of scenario analysis; discarding your old mental models in preparation for developing a new world view.
- Read: Clemons, Information Technology Investments: Dealing Effectively with Strategic Uncertainty Through Scenario Analysis
Read: Schoemaker, Scenario Planning: A Tool for Strategic Thinking
Mini: Quantitative Mini-Assignment on Signaling and Screening

Unit 3 — How New is New?

- Session 7 W 4-Feb **The Power of Uncertainty — buySAFE**
Information asymmetry, lemons, and market collapse; restoring consumer confidence and restoring the viability of the market. Limitations of eBay's rating systems and the role of certification and bonding. Discussion and guest speaker.
Read: Akerlof, "The Market for Lemons"
Read: Dellarocas, Sound of Silence (Optional, pp.1-8, 27-29)
Read: buySAFE Case
- Session 8 M 9-Feb Knowing what cannot be known — Scenarios and The Power of Anticipation (2)
Actually conducting a scenario workshop.
- Session 9 W 11-Feb **The Power of Certainty — Resonance Marketing**
The role of increased information in the changing balance between cost-based strategies and value-based strategies, the changing advantage of incumbents, and the changing nature of competition.
Read: Clemons and Spitler, The New Language of Consumer Behavior
Read: Clemons, Resonance Marketing in the Age of the Truly Informed Consumer
Read: Clemons and Gao, Consumer Informedness and Diverse Consumer Purchasing Behaviors (Optional)
Visit: http://www.forbes.com/opinions/2007/12/11/consumer-internet-buying-oped-cx_ekc_1212webbuying.html
Full Written Analysis — Introduction to Hyperdifferentiation

Unit 4 — Understanding Emerging Trends

- Session 10 M 16-Feb **The Why of Outsourcing — Understanding the Changing Risk Profile of Outsourcing**
Information Systems and the structure of manufacturing operations — the changing balance between internal production and outside procurement
Read: Clemons, IT and the Changing Boundary of the Firm
Read: Clemons, Reddi, and Row, Move to the Middle (optional)
Read: Bakos and Brynjolfsson, Number of Suppliers (optional)
Mini: Quantitative Mini-Assignment on Uncertainty Reduction and Resonance Marketing
- Session 11 W 18-Feb **The How Not of Outsourcing — Stasis Bank**
Understanding, designing, and managing the risk profile associated with outsourcing information systems.
Read: Clemons, Balancing Risks and Rewards of Information Services Outsourcing
Read: Clemons, Stasis Bank Case
Full Written Analysis — Stasis Bank Case

Session 12 M 23-Feb **Information Goods as a Strategy — Monetizing the Net beyond Advertising**

Current acquisitions of social network websites and user content websites have generated considerable interest and huge bids from media companies. Is this the big play in the next round of internet-based companies or simply the next round of dotcom silliness? How can the net be used to generate revenues and profits? Surely there must be something other than advertising!

Read: Clemons: Monetizing the Internet: Surely There Must be Something other than Advertising

Visit: http://www.forbes.com/home/opinions/2007/08/22/social-nets-marketing-oped-cx_ekc_0823social.html

Visit: http://www.forbes.com/2007/12/11/consumer-internet-buying-oped-cx_ekc_1212webbuying_slide_2.html?thisspeed=15000

Mini: Quantitative Mini-Assignment on Paid Search

Session 13 W 25-Feb **Knowing What Cannot be Known — Scenarios and The Power of Anticipation (3)**

Gaining competitive advantage through systems for market micro-segmentation and differential pricing; attempting to sustain advantage

Full: Results of the Scenario Workshop of 4 February

Session 14 M 2-Mar And now for something transformational — Anticipation, Adaptation, Valuation and the First Wives World Experience
Guest speakers from First Wives World.

Read: Reading on this rapidly changing social network business will be provided closer to the time of the class.

Visit: <http://www.firstwivesworld.com/>

Session 15 W 4-Mar **In Class Final Examination**

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Suggestions for Preparing Written Case Analyses

The following simple guidelines will help you in your written case assignments for this course:

- You are, of course, not only permitted but **encouraged to meet to discuss your case assignments** before class, but all written exercises must be done individually.
- The most important thing to remember about the exercises is that it is necessary for you to **answer the assigned questions**. In this course we are not asking you to perform a general competitive analysis, tell a captivating story, summarize the case reading, or describe the company. We are asking you to perform specific analyses, based on specific principles from economics and competitive strategy. Please be certain that your answers are responsive to the assigned questions. Likewise, please separate and number your answers to ensure that you answer each part of each question, and to help your graders when reviewing your work. If what you are writing does not respond directly to a specific question, it probably does not need to be written, however extra credit can be earned for especially insightful and especially terse answers.
- Next, it is critical to understand that the graders are not looking for specific key words, but they are looking for **careful strategic analyses and for specific supporting details**. On many questions, it is possible to reach dramatically different but equally valid conclusions about the case, depending on the assumptions you make or the data you use. Please be specific about your assumptions and your supporting data and clear about your analyses.
- **There is no maximum length acceptable and no minimum length required. Most cases will be three or four pages, double-spaced.** However, longer answers are not generally better or more complete. It is preferable to have a well articulated response that presents a single well considered viewpoint, well defended by specific examples; this is preferable to a lengthy unstructured summary of various points, no matter how interesting each point may be separately. Longer papers frequently mean that you have not yet decided upon your answers and have instead “written around the question” and provided multiple and contradictory responses rather than articulating a single argument.

Your answers to written case assignments will constitute just under one half of your grade for this course, and the final exam relies heavily on the form of analysis stressed in the cases; for these reasons written exercises should be done carefully. Please turn cases in at the start of the class in which they are due. Since cases will be discussed in class, written assignments done after class would enjoy a considerable advantage over those done before class discussion. Consequently, written analyses cannot be accepted late unless prior arrangements have been made.

**OPIM 666 — Information:
Strategy and Economics**
Course Introduction and Orientation

Session 1 — 14 January 2009

Questions for Class Discussion
Not for Written Analysis

1. Please submit a short bio in Word to **clemons@wharton.upenn.edu**. Please describe your undergraduate background (school and major) your principal industry experience (industry, firm, position, and responsibilities), your background in strategy, marketing, or information systems, and your principal interest in this course. The specific questions to answer are shown on page 2 of this syllabus.
2. Why does strategy have a special place among the skill sets of senior executives? Indeed, does it still have a special place among the skills of senior executives? Does it have a special place among Wharton students' interests and priorities?
3. Why does this course focus on patterns, diagnostics, and general approaches to strategy, rather than checklists, algorithms, or detailed computational techniques?
4. Why is there an MBA level course on information and information technology? Other technologies are taught in the engineering school. Are there ways in which managerial responsibility for information technology and innovation in I.T. differ from managerial responsibility for other highly risky technology ventures? Why does this course not actually address computers, database management, or other aspects of technology?
5. What are the principal impacts of information technology on business? Can the accumulation of efficiency improvements and other operational impacts lead to fundamental strategic change? Do other impacts of information technology and information access lead to effects separate from efficiency enhancements? Can these be more important than improvements in the efficiency of the firm's operations? Can they lead to fundamental strategic change?
6. How can information technology affect the strategies available to a firm? How can it affect the balance of power among buyers and suppliers, or among manufacturers and consumers? How can this lead to fundamental change in the structure of entire industries?
7. Clearly, information technology has spawned digital businesses, such as software vendors for PCs; portals, net browsers and search engines; and the like. Has information technology fundamentally altered the basis of competition in more traditional industries, providing more traditional goods and services?
8. Why do we believe that information technology has created a discontinuous change in the competitive environment, requiring new mental models and a new emphasis on executive leadership and mental agility?

**OPIM 666 — Information:
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No Class — Martin Luther King's Birthday
Session 2 — 19 January 2009

**OPIM 666 — Information:
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Discontinuous Change, Ambiguity, and Strategic Uncertainty

Session 3 — 21 January 2009

**Questions for Class Discussion
Not for Written Analysis**

1. What are the principal differences between strategic uncertainty or ambiguity and strategic risk? Why are the mechanisms for managing risk better understood than the mechanisms for managing uncertainty and ambiguity?
2. Do you believe that standard paradigms like conservation of energy in physical systems or finite element analysis in structural engineering have counterparts in management?
3. What is the theory of *newly vulnerable markets* and how is it used as the basis of designing an entry strategy for attackers in mature industries?

Question for Written Analysis

4. Please provide written answers to the first four questions on page 8.

**OPIM 666 — Information:
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**Dealing with Information Asymmetry:
Screening Mechanisms in Newly Vulnerable Markets —
Capital One Financial²**

Session 4 — 26 January 2009

**Questions for Case Discussion
Not for Written Analysis**

1. What is the *customer profitability gradient* and why is it so important to modern profitability-based strategies?
2. What defensive measures were available to established banks so that they could have responded to Capital One's opportunistic pickoff based on the CPG? [What could they have done at the time of the attack to stop Capital One?]
3. [Screening mechanisms are features of contract design that allow a company to distinguish among different types of customers and to attract only those customers that the company wants. Capital One wanted the *type* of customer who paid finance charges.] What was the screening mechanism employed by Capital One to attract profitable customers?

**Questions for Case Discussion
And Written Analysis**

- (5 pts) 4. [It seems pretty clear that the defender should **always** enjoy an **information advantage**, relative to a competitor attempting to capture its most profitable customers. That is, the attacker is making **educated guesses** about who might be profitable and who might not be; the defender it would appear always has more **accurate information** on who has been profitable and who has not been.] (i) Why do some attackers encounter situations where defenders appear unable to duplicate the attackers' strategies and thus unable to defend themselves effectively? (ii) What specific factors prevented other banks from countering Capital One's attack?
- (5 pts) 5. [Consider Capital One (actually, at the time, Signet Bank) and its initial attack on AT&T Universal, CitiBank, and Chase. Capital One clearly had higher operating expenses than the large, scale-intensive issuers it was attacking and Capital One clearly was charging lower prices, with lower APRs and sometimes lower annual fees. How could it also have become the most profitable issuer, following a low price high cost strategy?

Questions continued on next page!

² There are no class notes in the bulk pack or webcafé for case discussion sessions.

- (6 pts) 6. *[If all you needed was frameworks everything would be a success.]* [With great enthusiasm the expert management team at Capital One applied information-based-strategy and test and learn techniques to both the cell phone and the dial-around (10-10) long distance markets. They announced “a cell phone is just a credit card with an antenna.” Likewise, you could argue that long distance is just a cell phone without an antenna.] How did these ventures work out for the Company? Why?
- (6 pts) 7. *[If all you needed was frameworks everything would be a success.]* [And with comparable enthusiasm the expert team concluded that information-based strategy and test and learn would allow them to dominate in online gift retailing and in travel. After all who, better than a credit card company, could predict what you or someone like you would want to buy?] How successful has Capital One been as an online merchants? Why?
- (8 pts) 8. With Joseph Stiglitz’s winning a Nobel Prize in economics, we now know that Capital One’s strategy was based on *screening mechanisms*, which involve the design of a contract or set of contracts that induces the customers you want to select the contract you want. Just as Capital One designed a product that attracted only customers who pay finance charges, Stiglitz suggested that if insurance companies charged high enough deductibles for some insurance products, high risk customers and low risk customers would select different products. More precisely, if an insurance company offers two products, one with a high deductible for lung cancer and cardiovascular treatment and the other without, smokers would all choose the smokers’ product (to avoid the high deductible) and non-smokers would choose the other (to avoid the high premiums charged for full coverage). Can you think of two other industries where (i) a high customer profitability exists and (ii) a screening mechanism would enable you to separate out customers based on their profitability? [While answering your question you can ignore the fact that some screening mechanisms, like the one proposed by Stiglitz, may be illegal in health insurance or other markets in the United States.]

**OPIM 666 — Information:
Strategy and Economics**

**Something Old and Something New: Platform Envelopment and
Resource-Based Sustainable Competitive Advantage —
Rosenbluth Travel Case Discussion³**

Session 5 — 28 January 2009

**Questions for Case Discussion
And Written Analysis**

- (8 pts) 1. Was the travel distribution industry attractive for Rosenbluth to attack? Was there some change that made it easier or more attractive for travel agencies to serve corporate travel clients?
- (4 pts) 2. Once Rosenbluth had entered the corporate travel industry it entrenched itself, adding more services, and increasing its market share. It was so confident of its advantage that it actually starting selling software services to its smaller competitors. What enabled Rosenbluth to sustain and build upon its earlier competitive advantage?
- (4 pts) 3. [What Rosenbluth did is now often called a *platform envelopment strategy*, building upon initial systems and initial competitive advantage to develop new systems and new sources of competitive advantage.] How has Microsoft built upon its early success with Windows to create and extend its platform advantage?
- (6 pts) 4. [*If all you needed was frameworks everything would be a success.*] [Clearly Google presently dominates the search marketplace, much as Microsoft dominates the operating system, the browser, and the word processing markets.] What has Google tried to extend the power of its search platform? Why has nothing yet worked as effectively as the various platform extensions that Microsoft has completed? Thinking ahead, how might Google's phone fit into a future envelopment strategy?
- (8 pts) 5. [*If all you needed was frameworks even your professors would be rich.*] [And yet today the leisure travel industry, which had long been the basis for the agency business, is now disintermediated, largely served by the airlines' own websites or by the consortium they created, Orbitz.] What made the leisure travel sales and ticketing industry in the 1990s newly easy for the airlines to enter, allowing them to reclaim this business and take it away from the agencies? What made it attractive for the airlines to attack? What retail business did they leave for the agencies? What made it difficult for the agency business to defend itself when attacked?

³ There are no class notes in the bulk pack or webcafé for case discussion sessions.

**OPIM 666 — Information:
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**Knowing What Cannot Be Known — Scenarios and The Power of
Anticipation (1)**

Session 6 — 2 February 2009

**Questions for Class Discussion
Not for Written Analysis**

1. The vast majority of recent Wharton MBA graduates have gone into finance or consulting, because of their intrinsically superior analytical skills and their intrinsically superior risk management abilities. How many of them were caught flat-footed by the current market downturn? Why?
2. Often, when I confront MBA students with mistakes made by senior executives, even CEOs or Flag Rank military officers, students are remarkably forgiving, saying things like “*that could not have been foreseen.*” When I show that some analysts did indeed foresee the events, the response then becomes “*that could not have been foreseen from any convincing credible data.*” Comment.
3. Scenario planning is not based on working with the data that you have. It is based on working with the data *that you wish you had*, whether or not you actually have it. (i) Why is this not morally bankrupt, like relying on Tarot Card Readers? (ii) How can any analyses be performed on data that you do not yet have?
4. How can working with data that you do not have produce any benefits, by improving planning, by improving investments, or by accelerating responses to future events?
5. How can you characterize the times when it is appropriate to use scenario analysis, and question-driven planning methods in place of more traditional data-driven planning?
6. Why are subjective planning methods like scenario analysis not more widely used in American business? Why are they not more widely taught in American business schools?

Questions for Written Analysis

Questions for the quantitative mini-assignment on signaling and screening will be provided later.

**OPIM 666 — Information:
Strategy and Economics
The Power of Uncertainty:
buySAFE Case Discussion⁴**

Session 7 — 4 February 2009

**Questions for Case Discussion
Not for Written Analysis**

1. There is considerable data as well as theory to support the ideas that consumers are uncomfortable with online purchases from unknown counterparties, and that this lack of comfort reduces customers willingness to bid or willingness to pay for items on auction sites. How does the securities trading industry address counterparty risk in its trading mechanisms?
2. What are the strengths of eBay's reputational rating systems? What are the limitations of this system? How important is the idea of "sound of silence" and the possible implications of a purchaser failing to review or of posting a "false positive" review after an unsatisfactory shopping experience?
3. What are the limitations of buySAFE's alternative to online consumer-generated reputational rating systems?
4. What changes would you make to buySAFE's pricing strategy for their services?
5. What additional services would you suggest that buySAFE add?
6. How do you feel about buySAFE's introduction of non-bonded certification? Will it strengthen the firm or weaken it?
7. There is now some sense of hostility from eBay rather than initial interest, followed by a later lack of enthusiasm. Why might eBay not welcome buySAFE as a partner that strengthens eBay's own offerings?

⁴ There are no class notes in the bulk pack or webcafé for case discussion sessions.

**OPIM 666 — Information:
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**Knowing What Cannot Be Known — Scenarios and The Power of
Anticipation (2)**

Session 8 — 9 February 2009

**Questions for Class Discussion
Not for Written Analysis**

1. If you were contemplating investments in Eastern Europe, what would you want to know about the future of Russia's relationships with NATA and the EU? What else would you want to know about the global economy before investing? What else would you want to know about the region.
2. If you were planning to start your full time post-Wharton career, what would you want to know about the future of your employer's industry and of the American economy more broadly?

**OPIM 666 — Information:
Strategy and Economics**

The Power of Certainty — Resonance Marketing

Session 9 —11 February 2009

**Questions for Class Discussion
And for Written Analysis**

- (6 pts) 1. [Resonance marketing is dependent on an increase in consumers' information endowment.] (i) Why does a reduction in the consumer's uncertainty increase the customer's willingness to pay for new products that are most suitable for him or her? (ii) Why does reduction in uncertainty have little or no effect on consumers' willingness to pay for products that do not represent a perfect fit with their preferences? [Note: this does *not* mean that consumers will not buy them, merely that their willingness to pay is not altered.] (iii) Why do we say that for resonance marketing it does not matter how many customers like you or how many hate you, but merely how many customers love you?
- (2 pts) 2. Why is resonance marketing different from *trading up* and *pursuit of luxury*?
- (6 pts) 3. [Some customers are high valuation, or high **V**, meaning that they place a higher valuation on goods that they truly want than some other buyers, and that they will pay more to get exactly what they want. High **V** customers are also usually high **T** customers, meaning that they are more significantly affected by compromise. That is, a customer with high **T** will greatly lower his or her willingness to pay for a product that represents a compromise. In brief, a high **V** high **T** customer will be willing to pay more for perfection, but will reduce willingness to pay more as well for products that deviate from his or her ideal choice. (i) Why does the uncertainty effect have greater impact on willingness to for high **V** high **T** customers than for low **V** low **T** customers for any specific product? (ii) Why is this extremely significant to a business considering the launch of new and more expensive products?
- (3 pts) 4. [It used to be argued that Capital One's strategy *could not* succeed because it could not scaled up for a full size credit card issuer, or that it *should not* succeed because it was exploitive to charge the poor lower interest rates. It is now sometimes argued that hyperdifferentiation strategies *cannot* work for large-scale operations, or that they are elitist since only the rich will benefit from obtaining what they truly want.] What, if anything, do these statements have in common?
- (4 pts) 5. MBAs frequently claim that only new entrants are affected by resonance marketing, or that only products with small sales are affected, and that resonance marketing does not affect them.] Comment on the importance of resonance marketing to *real* companies, using your own experience grocery shopping in America.
- (5 pts) 6. Explore the website for The Beer Yard, starting with new arrivals (14 days), at URL <http://beeryard.com/beer/default.cfm?sort=NA%7CD&filter=NA%7C14>. Make sure to click on links for specific beer ratings at <http://ratebeer.com>. (i) How will these links affect customers at The Beer Yard? (ii) How do they affect sales at The Beer Yard?
- (4 pts) 7. Suggest two categories of product or service for which resonance is *not* likely to be significant and explain your choices.

**OPIM 666 — Information:
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**The *Why* of Outsourcing —
Understanding the Changing Risk Profile**

Session 10 — 16 February 2009

**Questions for Class Discussion
Not for Written Analysis**

1. The principal risks associated with inter-firm cooperation, and with investments in inter-firm coordination, have been *shirking*, *poaching*, and *opportunistic renegotiation*. How might information technology reduce the possibility for shirking? How might use of I.T. in place of other investments in inter-firm coordination reduce the risk of opportunistic renegotiation? What are the implications for the firm's decision to produce internally or procure outside the boundary of the firm? That is, how might the *amount* of outsourcing be altered?
2. We have claimed that IT for monitoring and coordination has increased the amount of outsourcing. What effects might the increased use of IT in managing outsourcing relationships have on the duration of contracts and the number of competing suppliers used? That is, how might the *nature* of outsourcing be altered?
3. What are the implications of increased outsourcing for *productivity*?
4. What are the stresses that this might induce in existing corporations? What problems might organizations have in achieving the new optimal balance between production and procurement?
5. What are the implications of these shifts — in the balance between spot market purchases and inter-firm coordination, and in the balance between internal production and external procurement — for business school curriculum design?
6. How has the move to eCommerce, intellectual assets, and cooperation for rapid market entry altered the role of poaching? Why do we consider poaching such a significant risk in eCommerce?

Questions for Written Analysis

Questions for the quantitative mini-assignment on resonance marketing will be provided later.

**OPIM 666 — Information:
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**The How *Not* of Outsourcing:
Stasis Bank Case⁵**

Session 11 —18 February 2009

**Questions for Case Discussion
And for Written Analysis**

- (4 pts) 1. [The vendor knew that this is a large software development project.] What are the principal forms of **development** risk that the **vendor** will encounter during the completion of a project as large and complex as the platform product it promised Stasis?
- (4 pts) 2. What are the largest elements of the **outsourcing** risk profile that **Stasis** encountered with **this** outsourcing contract?
- (10 pts) 3. [The environment of financial services firms in which STASIS operated changed even more rapidly than its software vendor anticipated, with new entrant banks providing superior services and targeting them at the Bank's most attractive accounts, and regulators rewriting the rules for all competitors.] (i) What risk or risks would rapid change normally create in a large development effort? (ii) Why did Stasis officers feel protected, even though they knew that their environment would rapidly change after signing the contract with Leeson? (iii) What are the risks for a legitimate software developer with a fixed price contract during a period of rapid change? (iv) What were the risks for Leeson, under the contract as originally written? (v) Why wasn't Leeson worried about destroying its existing reputation as a software vendor in STASIS's market?
- (4 pts) 4. [Moreover, the vendor continued to provide incomplete systems, late, and at high cost. Much of the necessary functionality was being developed for the Bank rather than simply being customized and installed, imposing great delay and much higher prices as the project unfolded.] Why was the Bank unwilling or unable to terminate its contract for so long and find another software vendor, despite schedule slippage and high costs?
- (4 pts) 5. [Ultimately, Bank officers discovered that their software vendor had misrepresented both the state of its systems (unfinished), and its banking expertise (rudimentary) but by then the officers had few options.] What could the Bank have done to protect itself during the contracting process, by changing the selection process or the terms of the contract?
- (4 pts) 6. [At present there is enough work for all outsourcing vendors in India, which reduces the incentives for successful vendors to misbehave and risk their reputations.] What problems might you foresee for clients if there is a downturn in the Indian outsourcing market?

⁵ There are no class notes in the bulk pack or webcafé for case discussion sessions. Please note that it will be virtually impossible to write up this case without having first read the material on balancing the risks and rewards of outsourcing!

**OPIM 666 — Information:
Strategy and Economics**
**Information Goods as a Strategy —
Monetizing the Internet Beyond Advertising**

Session 12 — 23 February 2009

Questions for Case Discussion
Not for Written Analysis

1. Is the problem with advertising in traditional mass media the fact that no one watches television or reads magazines? That is, is the problem caused by no one viewing the *media*, or by no one viewing the *ads*?
2. If the problem really is with the message, what happens when you try to advertise on the internet? Will the commercial messages have more success?
3. What is the future of advertising and the undisguised use of commercial messages in social networks? When did "*popping the question*" come to mean offering to sell your beloved a new cell phone or other electronic device?
4. What alternative mechanisms are available for monetizing the internet and operating internet businesses? Is the future of everything really advertising?
5. How does advertising create brand awareness and a perception of quality? Is Google's array of paid search mechanisms a form of advertising, no different from charging a premium price for billboard in a prime high traffic location? Or might paid search be seen as something somehow different from advertising?
6. What is the future of online social networks? Are they a form of interpersonal communication? A form of entertainment? A form of boredom relief, like CB-radios, which were obliterated by better in-car entertainment systems or a fundamental change in human interaction, like the telephone?

Questions for Written Analysis

Questions for the quantitative mini-assignment on paid search will be provided later.

**OPIM 666 — Information:
Strategy and Economics**
And Now for Something Transformation

Session 13 — 25 February 2009

Questions for Class Discussion
Not for Written Analysis

Questions for this rapidly changing social networking business and rapidly changing website will be provided closer to the time of the actual class.

**OPIM 666 — Information:
Strategy and Economics**

**Knowing What Cannot Be Known — Scenarios and The Power of
Anticipation (3)**

Session 14 — 2 March 2009

Questions for Written Analysis

Questions will be provided after the second scenario workshop on 9 February.

**OPIM 666 — Information:
Strategy and Economics**

In-Class Final Exam

Session 15 — 4 March 2009