

# New Patterns of Power and Profit: A Strategist's Guide to Competitive Advantage in the Age of Digital Transformation

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## Table of Contents

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### Prolog

#### Introduction

*This is about how you can understand the new rules of the information age*

The Role of Experience and Simplifying Experience into Patterns.

*It's easier to understand something if you've already seen it before!*

My First Rule — Learn to See the Patterns.

*Seeing clearly enables recognition and response*

Using an Information-Based Pattern to Solve a Problem in Information-Based Strategy

*From "What's in Your Wallet" to "Who's in Your Taxi"*

My Second Rule: Once You have a Pattern, Use It!

*Understanding Capital One, and using that to understand Uber*

History is the Source of Our Patterns.

*We use history as a source of competitive advantage*

My Third Rule: Learn the Entire Set of New Patterns

*We need to master more than one pattern — but not too many!*

These Patterns Have Been Proven Over Time, in Many Industries.

*Trust me — But verify!*

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## **Part I — Patterns for Efficiency, Value Creation, and Competitive Advantage**

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### Chapter 1 — Introduction

*You get control when you recognize the patterns*

Introduction to Chapter 1

Section 1.1 — The Structure of This Book

Section 1.2 — Patterns, Pattern Recognition, and Thinking Strategically About  
Thinking Strategically

*The best way to learn from experience is to learn the new patterns and  
learn how to recognize which ones fit*

Section 1.3 — Developing The Theory of Newly Vulnerable Markets  
*How I developed my first pattern for thinking about information-based strategy*

Section 1.4 — The Complete Theory of Newly Vulnerable Markets  
*One theory, so many companies!*

Summary of Chapter 1

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## Chapter 2 — Information Changes Everything: It's Not What You Know, It's What You Know Before Everyone Else!

Introduction to Chapter 2

Section 2.1 — Information Asymmetry and Market Collapse  
*You don't want to be the last one in the game to know what the game is!*

Section 2.2 — Dealing with Information Asymmetry Through Signaling  
*If you've got it, flaunt it!*

Section 2.3 — Dealing with Information Asymmetry Through Screening: The Theory, and an Explanation for Capital One's Success  
*If you don't already know, find a way to get them to tell you!*

Section 2.4 — Dealing with Information Asymmetry Through Data Mining  
*If they won't tell you, maybe you figure it out going through their trash?*

Section 2.5 — Versioning as a Form of Screening  
*If you don't know what they're willing to pay, you can still get them to tell you!*

Section 2.6 — Working with Signaling, Screening, and Data Mining: Specific Examples Where We Need to Address Information Asymmetry  
*There are so many ways to use this! How many will you adopt for your own life?*

Summary of Chapter 2

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## Chapter 3 — The Power of Framing: If You Can't Answer the Question, Turn it into a Question You Can Answer

Introduction to Chapter 3

Section 3.1 — Introduction to Reframing for Easier Solution:  
*Change the question! Asking the right question can, quite literally, save your life!*

Section 3.2 — Learn the Useful Forms of Reframing  
*Working with a fixed set of transformations makes reframing a whole lot easier!*

- Section 3.3 — Transforming a Problem for an Easy Solution:  
*Change the boundary conditions to solve a problem that initially appears much too difficult!*
- Section 3.4 — Transforming a Problem for Easy Solution:  
*Change the boundary conditions to simplify Merrill Lynch's Analysis of Bloomberg*
- Section 3.5 — Reframing the Problem so it Looks Like Something You Have Already Analyzed  
*If you've already solved an identical problem, your work is done!*
- Section 3.6 — Pushing the Problem to its Limits:  
*Push your analysis to the limit to develop the Theory of Newly Vulnerable eMarkets*
- Section 3.7 — Using a New Sequence of Questions:  
*Address a complex question you can't answer by looking at two simpler questions you can answer!*

#### Summary of Chapter 3

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## Chapter 4 — Resonance Marketing in the Age of the Truly Informed Consumer: Creating Profits through Differentiation and Delight

### Introduction to Chapter 4

- Section 4.1 — Resonance Marketing: The Changing Marketplace for Craft Beer  
*Who says academic research has to be dull? Who says it has to be dry?*
- Section 4.2 — Resonance Marketing: Information Changes Consumer Behavior and Corporate Strategy  
*If you know exactly what it is, why would you buy it unless you wanted it?*
- Section 4.3 — Hyperdifferentiation: With Modern Technology Firms Can Make Anything  
*Of course, they can make anything. They can make it whether you want it or not!*
- Section 4.4 — Hyperdifferentiation Plus Information Yields Retailer Profits and Customer Delight  
*When they make what you want, and when you can actually find it, everyone wins!*
- Section 4.5 — Characteristics of a Successful Reviewing Site  
*Not all reviewing sites are created equally. They have to be informative. And they have to be monitored to keep them honest.*
- Section 4.6 — Hyperdifferentiation Plus Information Guides Manufacturers to Resonance Marketing and Customer Delight

*Of course, to make what you want, they have to know what you want! To buy it, you need to know that they made it.*

- Section 4.7 — Unrewarded Excellence and the Need to be Better than Good Enough  
*When everyone knows how to make something good enough, it's necessary to be better than merely good enough!*
- Section 4.8 — Not Just Better Enough to be Liked, But Also Different Enough to be Loved!  
*It doesn't matter how many guys like you, all that matters is how many guys love you. Or, "Oh, great! They're spitting it into the sink!"*
- Section 4.9 — Information Changes Everything For Producers and Retailers  
*Information changes everything. Sellers want to be better than everyone else for at least some of their customers. Sellers need to be better than everyone else for at least some of their customers. And they have to learn how.*
- Section 4.10 — This is Global. Resonance Marketing is Everywhere.  
*Information Changes Everything for producers and retailers outside the US as well.*
- Section 4.11 — The Rise of Astroturfing and the Threat of Fake Grass-Roots Support  
*It's not easy to fake resonance marketing, but it's cheaper to pretend to be good than to really be good.*

Summary of Chapter 4

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## Chapter 5 — Online Brand Ambassadors and Online Brand Assassins: Master The New Role of the Chief Perception Officer

Introduction to Chapter 5

- Section 5.1 — Tactical Implications for Companies: The New Role of the Chief Perception Officer  
*The Chief Perception Officer never sleeps!*
- Section 5.2 — The First Role of the CPO  
*"Eliminate the Negative" and Eliminate Brand Assassins*
- Section 5.3 — Tactical Implications for Companies  
*"Accentuate the Positive" and Encourage Brand Ambassadors!*

Summary of Chapter 5

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## Part II — Patterns for Power, Control, and Harvesting of Profits

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## Chapter 6 — Resources, Platforms, and Sustainable Competitive Advantage: How to Win and Keep on Winning

### Introduction to Chapter 6

- Section 6.1 — Introduction to Sustainable Competitive Advantage  
*First get ahead, then stay ahead!*
- Section 6.2 — Sustainable Competitive Advantage Based on Acquiring a Unique Set of Resources  
*One way to stay ahead is to acquire and learn to use resources that no one else can get!*
- Section 6.3 — Introduction to Platforms and Platform Envelopment  
*Another way to stay ahead is to spin a web of software applications that competitors can't match and customers won't ever abandon!*
- Section 6.4 — An Early Example of Platform Envelopment at Rosenbluth Travel  
*Platform envelopment is not new, and smart software companies have been using it for decades*
- Section 6.5 — Platform Envelopment Strategies in Two-Sided Markets  
*Platform envelopment is now an important pattern in information-based strategy, with its own structures and its own winners and losers*

### Summary of Chapter 6

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## Chapter 7 — Understanding The Power of Third Party Payer Businesses and Online Gateways

### Introduction to Chapter 7

- Section 7.1 — Introduction to Third Party Payer Systems  
*It does look free, doesn't it!*
- Section 7.2 — Mandatory Participation Third Party Payer Systems: Third Party Payer Systems in the Absence of Competition  
*You can feel the power!*
- Section 7.3 — Learning the Lessons of Power  
*When firms have that much power they always figure out how to use it!*
- Section 7.4 — When Mandatory Participation Third Party Payer Systems Combine with Online Gateway Systems  
*This combination provides unlimited power!*
- Section 7.5 — Power is not Unlimited  
*It's not easy to escape the grip of the MP3PP but it may be possible!*
- Section 7.6 — The Origins of the Credit Card Industry, Before it Became an MP3PP  
*Remember, the game starts off safe. It always does!*

Section 7.7 — And now ... Coming soon to a Search Engine near You ...  
Platform Envelopment and Vertical Integration  
*The game starts off safe. It always does!*

Summary of Chapter 7

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## Chapter 8 — The Continuing Power of Third Party Payer Businesses

Introduction to Chapter 8

Section 8.1 — MP3PP Systems in the Internet Age: How Can They Still  
be Dangerous?  
*We all understand our choices, and everything is just  
a click away, right?*

Section 8.2 — The Recurring Pattern in Third Party Payer Models:  
When the System Really Start to Use Its Power  
*They never start off abusive! How do they become so expensive  
and why is Party-3 always so surprised?*

Section 8.3 — And now ... Coming soon to a Search Engine near You ... Platform  
Envelopment and Vertical Integration  
*Why charge just for access? Why not take the customers, serve  
them yourself, and keep all the profits?*

Summary of Chapter 8

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## Chapter 9 — Power and the Potential for the Abuse of Power in Online Gateway Systems: An Analysis of Google

*Regulation may be essential to curb current power and to limit future harm*

Introduction to Chapter 9

Section 9.1 — Quality Scores and the Power to Make and Defend Arbitrary Decisions  
*“Don’t blame me. My quality score algorithm made me do it!”*

Section 9.2 — Vickrey Auctions, Pseudo-Vickrey Auctions, and the Power to Charge  
Whatever You Want  
*“Don’t blame me. That’s what the seat cost. Sorry you went down with  
the Titanic.”*

Section 9.3 — The Illusion of Choice  
*“No one is forced to use our Search Engine. Choice is just a click  
away!”*

Section 9.4 — Can We Show that Monopoly Power Has Been Abused in Search and  
Extended Beyond Search? Is There Evidence?  
*There are numerous complaints, and several admissions of  
responsibility. At least you might want some forms of protection.*

- Section 9.5 — Should You Care About Reverse Price Wars? Do Higher Prices Charged to Sellers Really Affect Consumers? Some of the Money Goes to You, Right?  
*Bread and Circuses, YouTube and Gmail — I've got Android, who could ask anything more?*
- Section 9.6 — Why Should Anyone Do Anything About Monopoly Power in Search? Won't Technological Progress Fix any Problems Better and Faster than Regulation?  
*Fixing a hole where the rain gets in ...*
- Section 9.7 — Is it Fair to Complain? After All Google has Done for Us?  
*That's not the right question! Ask if this the best way for us to run the internet!*
- Section 9.8 — But What Should Regulation Look Like?  
*What form of regulation Do We Need?*
- Section 9.9 — A Final Cautionary Note on Regulation  
*First, "Do No Harm!" Only then can you start to solve the problems!*
- Summary of Chapter 9
- Appendix 9.A. — Showing that there is Monopoly Power in Search — How Would You Know?  
*There are standard measures of monopoly power. And it surely looks like monopoly power by those measures!*

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## Part III — I got it! Learning to work with these Patterns

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### Chapter 10 — Scenario Analysis and Managing Strategic Ambiguity: How to Remember Future Events, before They Actually Occur!

#### Introduction to Chapter 10

- Section 10.1— Remembering The Future and Using Scenarios for Rapid Recognition and Rapid Response  
*Remembering the future can save your life! We use scenarios take the surprise out of surprise and the danger out of danger!*
- Section 10.2 — Learn to Ask the Right Questions, Even If You Can't Answer Them  
*It takes courage to ask the right questions publicly, especially if you know you can't answer them!*
- Section 10.3. — When "Good Data Goes Bad", or What to do When "Convincing Data Actually Lies to Us!"  
*Sometimes we have to ignore our data. The data may still be an accurate record of what happened, but they provide no information on what will happen next!*

- Section 10.4. — Learn to Ask the Right Questions, Even If You Can't Answer Them: Lessons from The Future of Chinese Consumer Behavior  
*Ask the right questions. Sometimes the most important questions are the ones you can't answer!*
- Section 10.5 — Working with Questions if All You Have is Questions: Remember What They Say About Making Lemonade if Life Gives You Nothing But Lemons  
*If life gives you lemons, make lemonade! If life gives you questions, guess the answers and work from there!*
- Section 10.6 — The Future of Consumer Behavior in China  
*Isn't this exciting! With question-driven planning you can look like an expert, even in a country where you don't yet know anything yet!*
- Section 10.7 — Working with the Scenarios for the Future of Consumer Behavior in China  
*With question-driven planning and information-based patterns you really can be an expert, even in a country where you didn't think you knew anything!*
- Section 10.8 — What's So Special about Four Scenarios?  
*Why do we keep seeing exactly four scenarios? Is that important? Is that necessary? Or is that an accident?*

## Summary of Chapter 10

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## Chapter 11 — Examining the Wide Range of Business Models Currently in Use in Online Businesses: How to Understand A New Business Using Existing Frameworks

### Introduction to Chapter 11

- Section 11.1 — Fully Digital Business Models and Partly Digital Business Models  
*When is an online business a fully digital business and when is it a digital version of a physical business?*
- Section 11.2 — The Full Range of Online Business Models  
*Learn the eleven basic models for online businesses.*
- Section 11.3 — Selling Real Stuff  
*Selling stuff is one of the oldest business models, online and off.*
- Section 11.4 — Using Ads to Sell Real Stuff  
*Using ads to sell stuff may be the oldest online business model. But we probably will continue to devalue ads.*
- Section 11.5 — Selling Content Online  
*Selling online content works very well. We can provide any content to anyone who wants it. The trick has been getting anyone to pay for it!*



- Section 11.6 — The Digital Transformation of Higher Education  
*Do we really need four-year colleges? Is that the most effective way to train future generations?*
- Section 11.7 — Selling Online Services  
*Selling online services is a business model that is rapidly growing. It's still a challenge to get consumers to pay for some services, at least in the US.*
- Section 11.8 — Creating Exchanges for Business-to-Consumer and Direct Consumer-to-Consumer Interactions  
*The service economy is one of the most dramatic forms of online businesses.*
- Section 11.9. — If the Sharing Economy is Transformational, Maybe We Should Say a Bit More about Building Sharing Economy Websites  
*Form follows function, and structure follows strategy!*
- Section 11.10 — Control of Search and Charging for Customer Access  
*Online gateways, especially the MP3PP versions, are among the most successful and among the most powerful businesses in the world today. Can you create an MP3PP business?*
- Section 11.11 — Selling Virtual Experiences and Virtual Stuff  
*Who needs drugs? If you don't like your real life, make up a new one online.*
- Section 11.12 — Harnessing Social Networks the Right Way  
*I'll have what my friend just ordered, online, all day, around the world.*
- Section 11.13 — Selling Referrals Based on Snooping or Context  
*Homeland security needs a warrant. The Department of Justice needs a warrant. Why can so many companies do whatever they want with your data, whenever they want, millions of times a day, without a warrant?*
- Section 11.14 — Using Contextual Referrals to Direct Ads to Mobile Users  
*Trying to sell to us, no matter where we are and no matter what we are doing. Trying to get us to buy something, right now!*
- Summary of Chapter 11
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## Chapter 12 — Information Changes Everything: Implications for Society

### Introduction to Chapter 12

- Section 12.1 — Let's Just Do the Right Thing  
*Let's just do what's fair! How hard could that be?*

Section 12.2 — Fake News: Is this really a big deal? Isn't this just bigger, faster, more personal, and efficient?

*Yeah. Let's talk about how big, fast, personal, and efficient fake news can be! Let's talk about why it's different from fake news in the past.*

Section 12.3 — How Price Discrimination Affects Fairness for All of Us

*Sometimes it's hard to know what fairness is!*

Section 12.4 — How Much Should We Value Efficiency? How Much Should We Value Fairness?

*Fairness usually isn't free. How much fairness do we want? Who pays for it? And how do we balance fairness against efficiency?*

Section 12.5 — Why is Fairness a Social Policy Issue?

*If fairness isn't free, who decides how much fairness is enough? If fairness isn't free, who decides how the costs are divided? If fairness reduces efficiency, is seeking too much fairness possibly even unfair as well?*

Section 12.6 — Fairness Considerations in Platforms and the Sharing Economy

*There are so many ways to trade off efficiency and fairness!*

Section 12.7 — Why is it So Hard to Agree on Fairness?

*If we can't even agree on what's fair in competition between businesses, how can we hope to agree on what's fair to us? Fairness to us is much more personal!*

Section 12.8 — So Where Should We Draw the Line?

*If there are so many ways to trade off efficiency and fairness, how should regulators attempt to balance them?*

Section 12.9 — So Where Should We Draw the Line?

*It's a complicated world out there, and it's getting more complicated. It's always been dangerous, but it's getting more dangerous. How do we protect ourselves and our kids?*

Summary of Chapter 12

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## Chapter 13 — Epilog:

What could go really, really, wrong?

Introduction to Chapter 13

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