COMPETITIVE ADVANTAGE

competitive advantage: A significant and ideally long-term benefit to a company over its competition.

A **competitive advantage** is a significant and ideally long-term benefit to a company over its competition and can result in higher-quality products, better customer service, and lower costs. Many companies consider their IS staff a key competitive weapon against other companies in the marketplace, especially if they have employees with training in the development and use of mobile devices, Internet applications, social networks, and collaborative tools. Firms that gain a competitive advantage often emphasize the alignment of organizational goals and IS goals. In other words, these organizations make sure that their IS departments are totally supportive of the broader goals and strategies of the organization.

To help achieve a competitive advantage, Apple, Inc., requires that companies selling music, books, and other content on Apple's devices, such as iPhones and iPads, give Apple customers the best deals and prices offered. In other words, these companies cannot give customers using other devices better deals and prices than Apple customers can get. Some people, however, believe this policy might violate U.S. antitrust regulations.

In his book *Good to Great*, Jim Collins outlines how technology can be used to accelerate companies to greatness. Table 2.5 shows how a few companies accomplished this. Ultimately, it is not how much a company spends on information systems but how it makes and manages investments in technology. Companies can spend less and get more value.

TABLE 2.5 How some companies used technologies to move from good to great

Company	Business	Competitive Use of Information Systems
Gillette	Shaving products	Developed advanced computerized manufacturing systems to produce high-quality products at low cost
Walgreens	Drug and convenience stores	Developed satellite communication systems to link local stores to centralized computer systems
Wells Fargo	Financial services	Developed 24-hour banking, ATMs, investments, and increased customer service using information systems

Data from Jim Collins, *Good to Great*, New York: Harper Collins Books, 2001, p. 300.

Factors that Lead Firms to Seek Competitive Advantage

five-forces model: A widely accepted model that identifies five key factors that can lead to attainment of competitive advantage, including (1) the rivalry among existing competitors, (2) the threat of new entrants, (3) the threat of substitute products and services, (4) the bargaining power of buyers, and (5) the bargaining power of suppliers.

A number of factors can lead to attaining a competitive advantage. Michael Porter, a prominent management theorist, proposed a now widely accepted competitive forces model, also called the **five-forces model**. The five forces include (1) the rivalry among existing competitors, (2) the threat of new entrants, (3) the threat of substitute products and services, (4) the bargaining power of buyers, and (5) the bargaining power of suppliers. The more these forces combine in any instance, the more likely firms will seek competitive advantage and the more dramatic the results of such an advantage will be.

Rivalry among Existing Competitors

Typically, highly competitive industries are characterized by high fixed costs of entering or leaving the industry, low degrees of product differentiation, and many competitors. To gain an advantage over competitors, companies constantly analyze how competitors use their resources and assets. This resource-based view is an approach to acquiring and controlling assets or resources that can help the company achieve a competitive advantage. For example, a transportation company might decide to invest in radio-frequency technology to tag and trace products as they move from one location to another.

Threat of New Entrants

A threat appears when entry and exit costs to an industry are low and the technology needed to start and maintain a business is commonly available. For example, a small restaurant is threatened by new competitors. Owners of small restaurants do not require millions of dollars to start the business, food costs do not decline substantially for large volumes, and food processing and preparation equipment is easily available. See Figure 2.19. When the threat of new market entrants is high, the desire to seek and maintain competitive advantage to dissuade new entrants is also usually high.

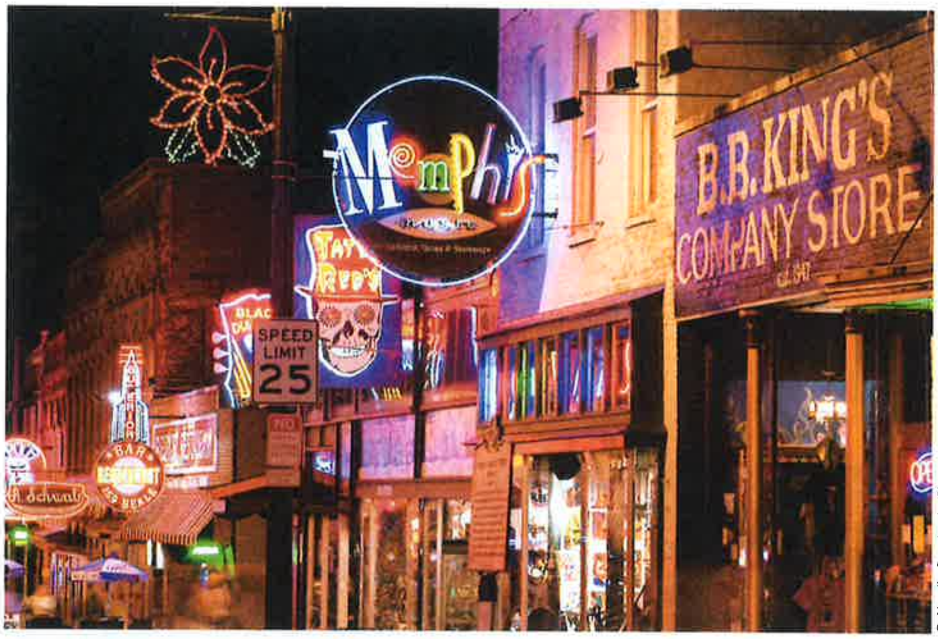

FIGURE **2.19**

Restaurant industry

In the restaurant industry, competition is fierce because entry costs are low. Therefore, a small restaurant that enters the market can be a threat to existing restaurants.

Threat of Substitute Products and Services

Companies that offer one type of goods or services are threatened by other companies that offer similar goods or services. The more consumers can obtain similar products and services that satisfy their needs, the more likely firms are to try to establish competitive advantage. For example, consider the photographic industry. When digital cameras became popular, traditional film companies had to respond to try to stay competitive and profitable.

Bargaining Power of Customers and Suppliers

Large customers tend to influence a firm, and this influence can increase significantly if the customers threaten to switch to rival companies. When customers have a lot of bargaining power, companies increase their competitive advantage to retain their customers. Similarly, when the bargaining power of suppliers is strong, companies need to improve their competitive advantage to maintain their bargaining position. Suppliers can also help an organization gain a competitive advantage. Some suppliers enter into strategic alliances with firms and eventually act as a part of the company.