

Lecture 3

COMPETING WITH INFORMATION TECHNOLOGY

LEARNING OBJECTIVES

1. Identify basic competitive strategies and discuss Porter's classic model of competition.
2. Discuss the value chain and strategic IS.

1. STRATEGIC IT

- ◎ Technology is no longer an afterthought in forming business strategy, but the actual cause and driver.
- ◎ IT can change the way businesses compete.
- ◎ Although competition can require significant resources, it is a **positive characteristic** in business that is natural and healthy.

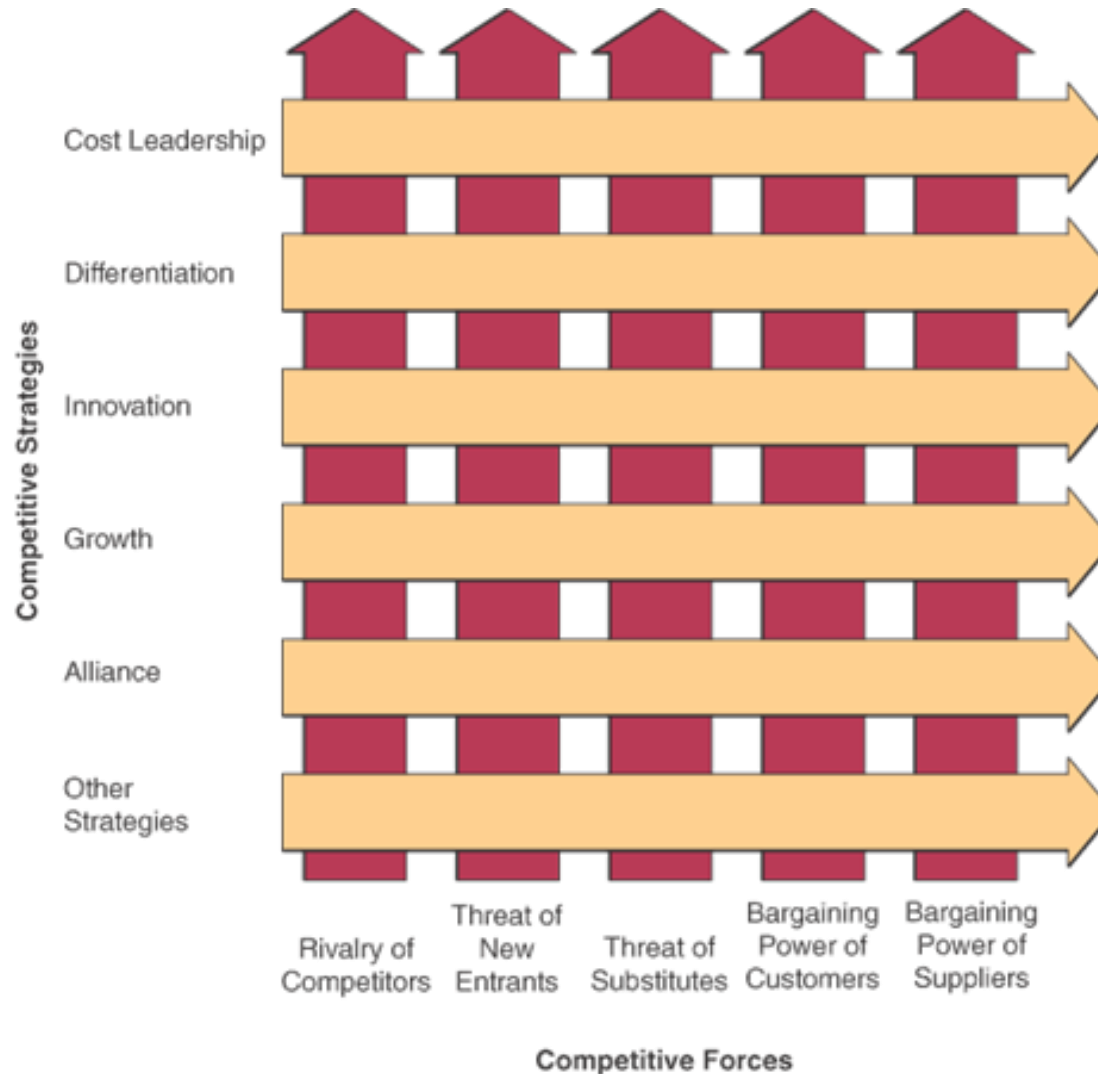
STRATEGIC IT

- ◎ The **strategic role of IS** means using IT to develop products, services and capabilities that give a company major advantages over the competitive forces it faces in the global marketplace.
- ◎ A **strategic information system** is
 - Any kind of information system
 - That uses IT to help an organization
 - Gain a competitive advantage
 - Reduce a competitive disadvantage
 - Or meet other strategic enterprise objectives

COMPETITIVE FORCES AND STRATEGIES

2

Chapter



COMPETITIVE FORCES

- ◎ If a business wants to succeed must develop strategies to counter these forces:
 1. Rivalry of competitors within its industry
 2. Threat of new entrants into an industry and its markets
 3. Threat posed by substitute products which might capture market share
 4. Bargaining power of customers
 5. Bargaining power of suppliers

PORTER'S FIVE FORCES MODEL

2

Force	Example of Strong Force	Example of Weak Force
Bargaining power of customers	Toyota's purchase of auto paint	Your power over the procedures and policies of your university
Threat of substitutions	Frequent-traveler's choice of auto rental	Patients using the only drug effective for their type of cancer
Bargaining power of suppliers	Students purchasing gasoline	Grain farmers in a surplus year
Threat of new entrants	"There's a hot new site."	Professional football team
Rivalry	Used car dealers	Internal Revenue Service

EXAMPLE: ANALYSIS OF FIVE FORCES AT GEARUP

Force	GearUp Example	Force Strength	GearUp's Response
Bargaining power of customers	"I won't buy unless it's cheap."		
Threat of substitutions	"I can buy it at a sporting goods shop."		
Bargaining power of suppliers	"You'll have to pay more."		
Threat of new entrants	"There's a hot new site."		
Rivalry	"I shop the Internet for the lowest price."		

EXAMPLE: ANALYSIS OF FIVE FORCES AT GEARUP

Force	GearUp Example	Force Strength	GearUp's Response
Bargaining power of customers	"I won't buy unless it's cheap."	Strong	Lowest possible prices
Threat of substitutions	"I can buy it at a sporting goods shop."	Weak	Web advertising
Bargaining power of suppliers	"You'll have to pay more."	Weak	Find other suppliers
Threat of new entrants	"There's a hot new site."	Medium	Lower prices, better products
Rivalry	"I shop the Internet for the lowest price."	Strong	Compelling emails to bring customers back, every day

FIVE COMPETITIVE STRATEGIES 2

◉ Cost Leadership

- Become low-cost producers
- Help suppliers or customers reduce costs
- Increase cost to competitors

◉ Differentiation Strategy

- Develop ways to differentiate a firm's products from its competitors
- Can focus on particular segment or niche of market

◉ Alliance Strategy

- Establish linkages and alliances with
 - Customers, suppliers, competitors, consultants and other companies (reduced inventory cost and increased sales)
- Online one-stop shopping with partners

COMPETITIVE STRATEGIES (CONT.)

◉ Innovation Strategy

- Find new ways of doing business
 - Unique products or services
 - Or unique markets
 - Radical changes to business processes to alter the fundamental structure of an industry
- Example, Amazon uses online full-service customer systems

◉ Growth Strategy

- Expand company's capacity to produce
- Expand into global markets
- Diversify into new products or services
- Example, Wal-Mart uses merchandise ordering by global satellite tracking

USING THESE STRATEGIES

- ◉ The strategies are not mutually exclusive
- ◉ Organizations use one, some or all

		Cost	Differentiation
Focus	Industry-wide	Lowest cost across the industry	Better product/service across the industry
	Focus	Lowest cost within an industry segment	Better product/service within an industry segment

Porter's Four Competitive Strategies

OTHER COMPETITIVE STRATEGIES

- ◎ Lock in customers and suppliers
 - And lock out competitors
 - Prevent them from switching to competitors
 - Build in switching costs
 - Make customers and suppliers dependent on the use of innovative IS
- ◎ Barriers to entry
 - Discourage or delay other companies from entering market
 - Increase the technology or investment needed to enter

OTHER COMPETITIVE STRATEGIES (CONT.)

- ◎ Include IT components in products
 - Makes substituting competing products more difficult
- ◎ Leverage investment in IT
 - Develop new products or services not possible without IT

2. VALUE CHAIN

- View the firm as a chain of basic activities that add value to its products and services
- Activities are either
 - **Primary processes** directly related to manufacturing or delivering products
 - **Support processes** help support the day-to-day running of the firm and indirectly contribute to products or services
- Use the value chain to highlight where competitive strategies can best be applied to add the most value

PRIMARY ACTIVITIES IN THE VALUE CHAIN 2

Primary Activity	Description
Inbound Logistics	Receiving, storing, and disseminating inputs to the products
Operations/Manufacturing	Transforming inputs into the final products
Outbound Logistics	Collecting, storing, and physically distributing the products to buyers
Sales and Marketing	Inducing buyers to purchase the products and providing a means for them to do so
Customer Service	Assisting customers' use of the products and thus maintaining and enhancing the products' value

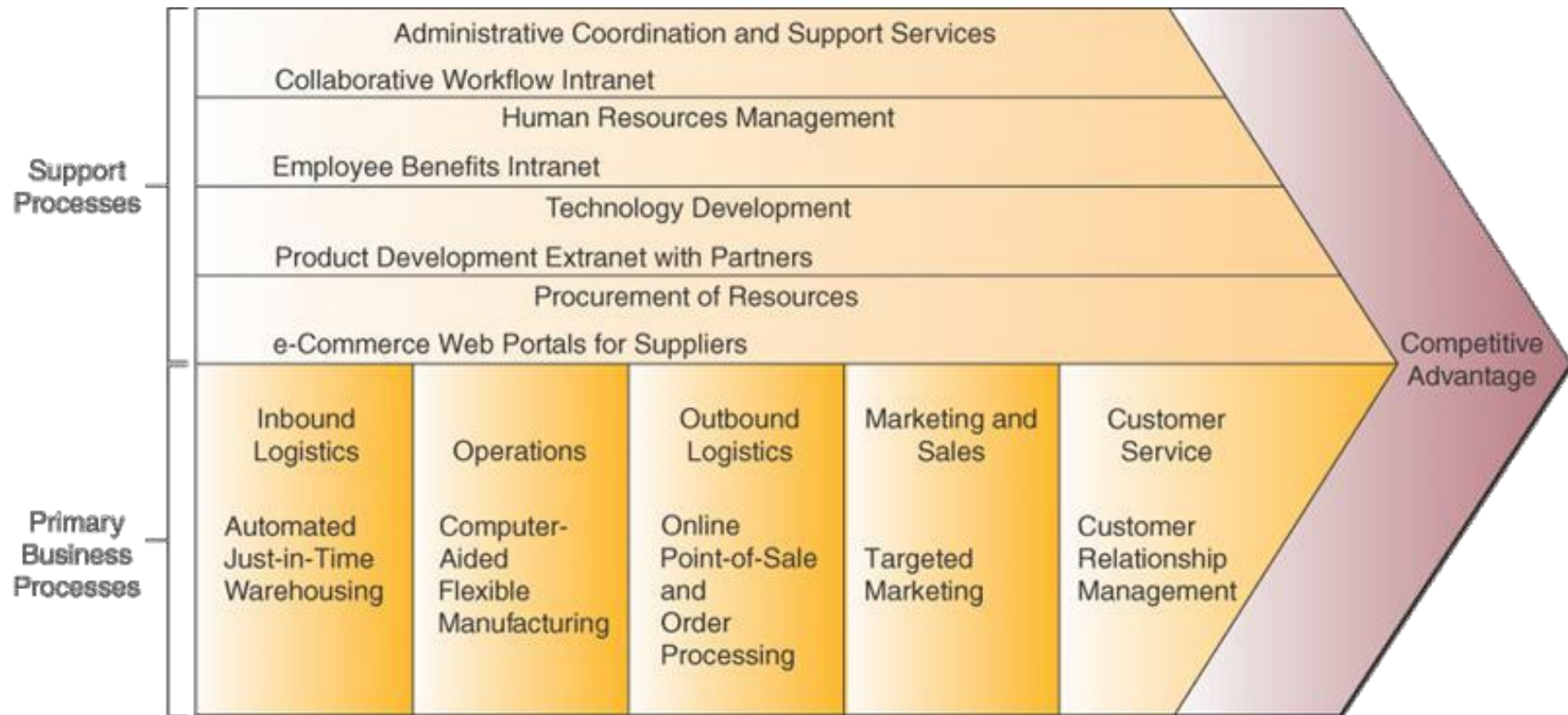
SUPPORT ACTIVITIES IN THE VALUE CHAIN 2

Support Activity	Description
Technology	R & D, New Techniques, Methods, Procedures
Procurement	Raw Materials
Human Resources	Training, Recruiting, Compensation
Firm Infrastructure	General Management, Finance, Accounting, Legal, Government Affairs

USING IS IN THE VALUE CHAIN

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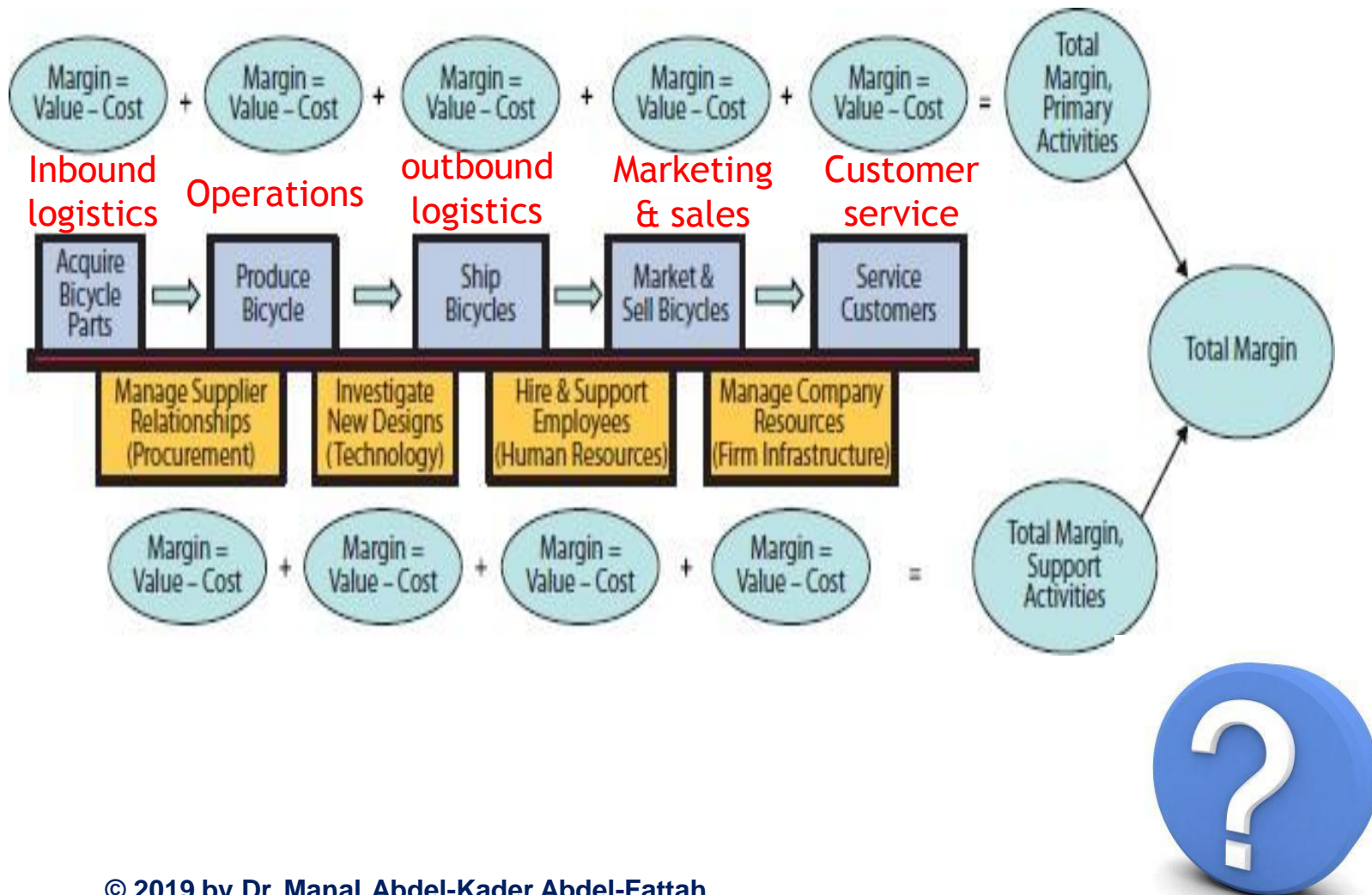
Chapter



PORTER'S VALUE CHAINS

- **Value chain** is created to achieve competitive advantage.
 - Consists of the primary and support activities that contribute to margin.
- **Supply chain** is the pathway that facilitates the flow of physical resources from suppliers to the firm and then to customers.
- **Supply chain management (SCM)** manages the resources through the supply chain to ensure timely and efficient flow.
- **Margin** is the value of the firm's products and services minus their costs.
 - Increased margin is the objective of the value chain.

VALUE CHAIN EXAMPLE



EXPANDING THE SCOPE OF THE VALUE CHAIN

- **Interorganizational system (IOS)** is the linking of the firm's value chain to those of other organizations.
- **Business partners** are the participating firms in the IOS.
- **Just-in-time (JIT)** agreement with a supplier helps to minimize storage costs of material.
- **Value system** is the linking of the firm's value chain with those of its distribution channel members (e.g. airline).

THANK YOU