

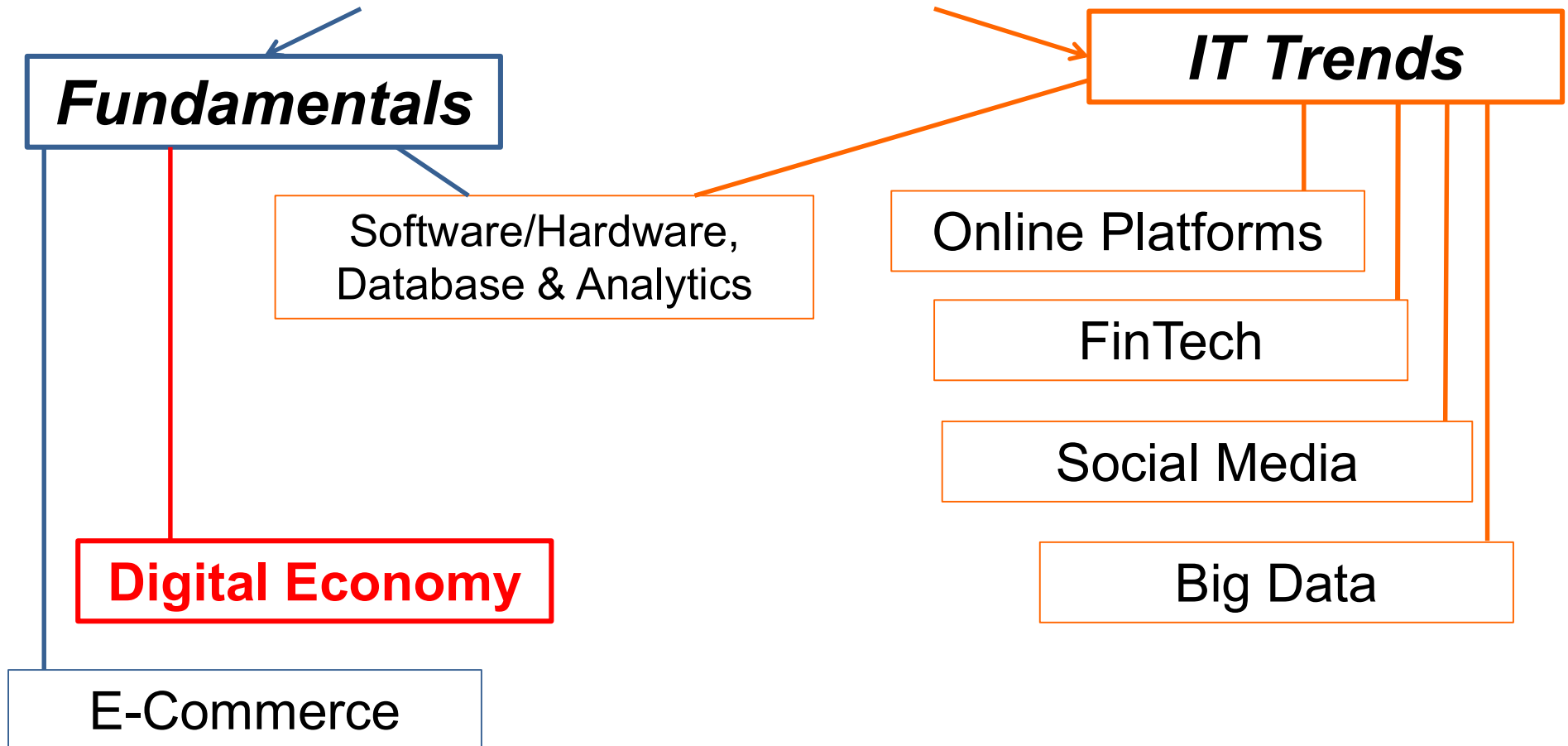
ISOM 2010: Digital Economy (2)

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Concept Map

Intro to Information Systems



Previous on Digital Economy (1)

Cost Structure of Information

- What's the “right” price of digital goods?
 - Set price where $MC = MR$?
 - How do we compete with “Free”?
 - Business Models for “Free” Digital Products

Consumption of Information

Two prominent features:

1. Experience good
2. Overload

Digital Economy

Last class: Fundamentals of IT

This class: IT and Business Strategy

Next class: Impacts of IT

Today

IT and...

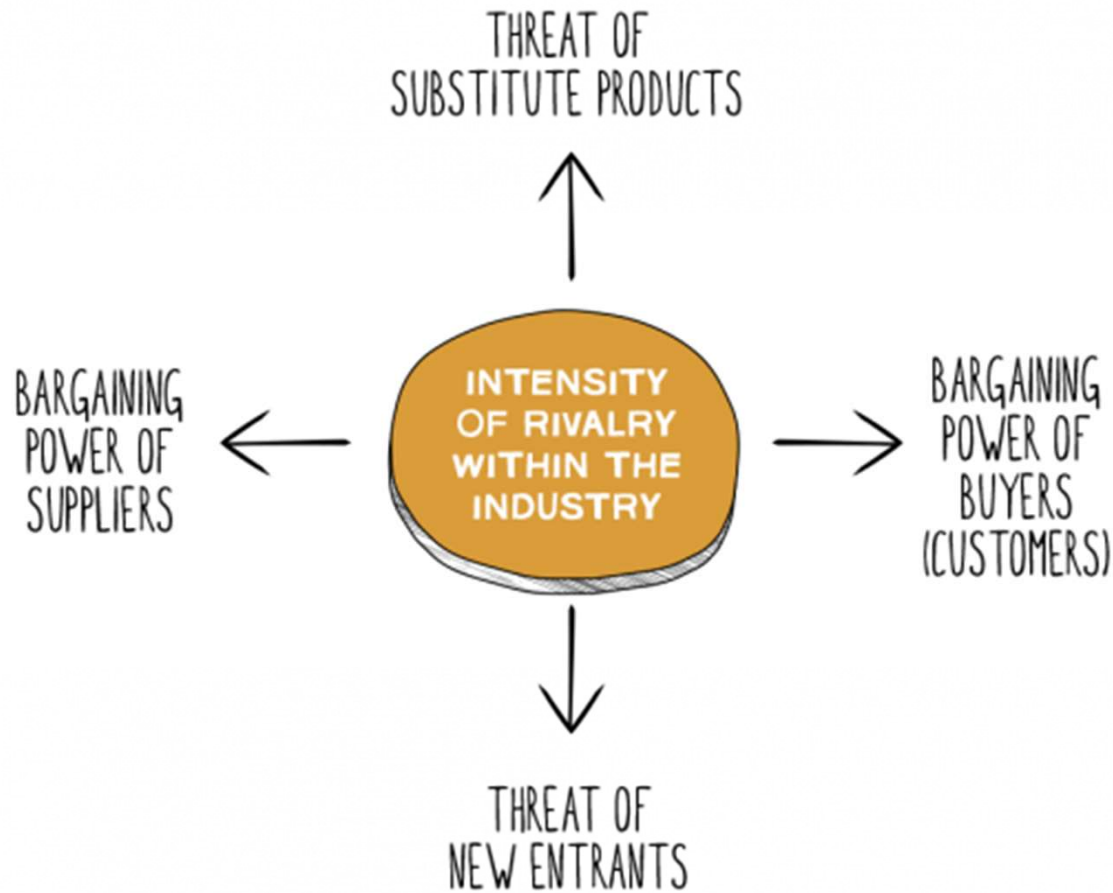
- Industry Impacts
- Strategic Positioning
- Operational Effectiveness

Digital Economy (2)

>> Impacts of IT on Industry

- Firms are not isolated
 - Part of a community/industry
 - What is the impact of a new IT on the industry?
 - Affect business performance
- Affect survival

PORTER'S FIVE FORCES MODEL



ESSENTIAL MARKETING MODELS [HTTP://BIT.LY/SMARTMODELS](http://bit.ly/smartmodels)

Porter's 5 Forces: New Entrants

- Threat of new entrants
 - **Brand:** Joe's Diner has trouble competing against McDonalds
 - **Regulation:** Laws, Intellectual Property, etc.
 - **Distribution Channels:** Control of your college bookstore provides an advantage against competitors
 - **Capital Intensity:** How much \$\$ will it take to start a new business?
 - **Switching Costs**
 - **Network Effects**

Fighting New Entrants: Barriers to Entry

- **Barriers to entry** make it difficult for other firms to enter an industry and compete
- When barriers to entry stop your competitors, then sustainable profits are more likely



**Cost of pro football team =
HUGE barrier to entry**

Fighting New Entrants: Switching Costs

- A cost that a consumer incurs when switching from one product to another is called a **switching cost**



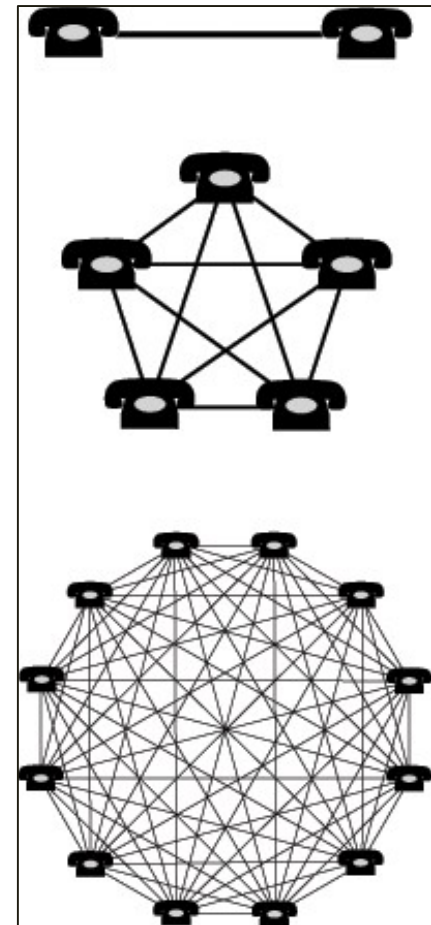
While Gmail is free to use and convenient, moving to another platform would require significant effort to import/export messages or lose this valuable e-mail history.

Fighting New Entrants: Switching Costs

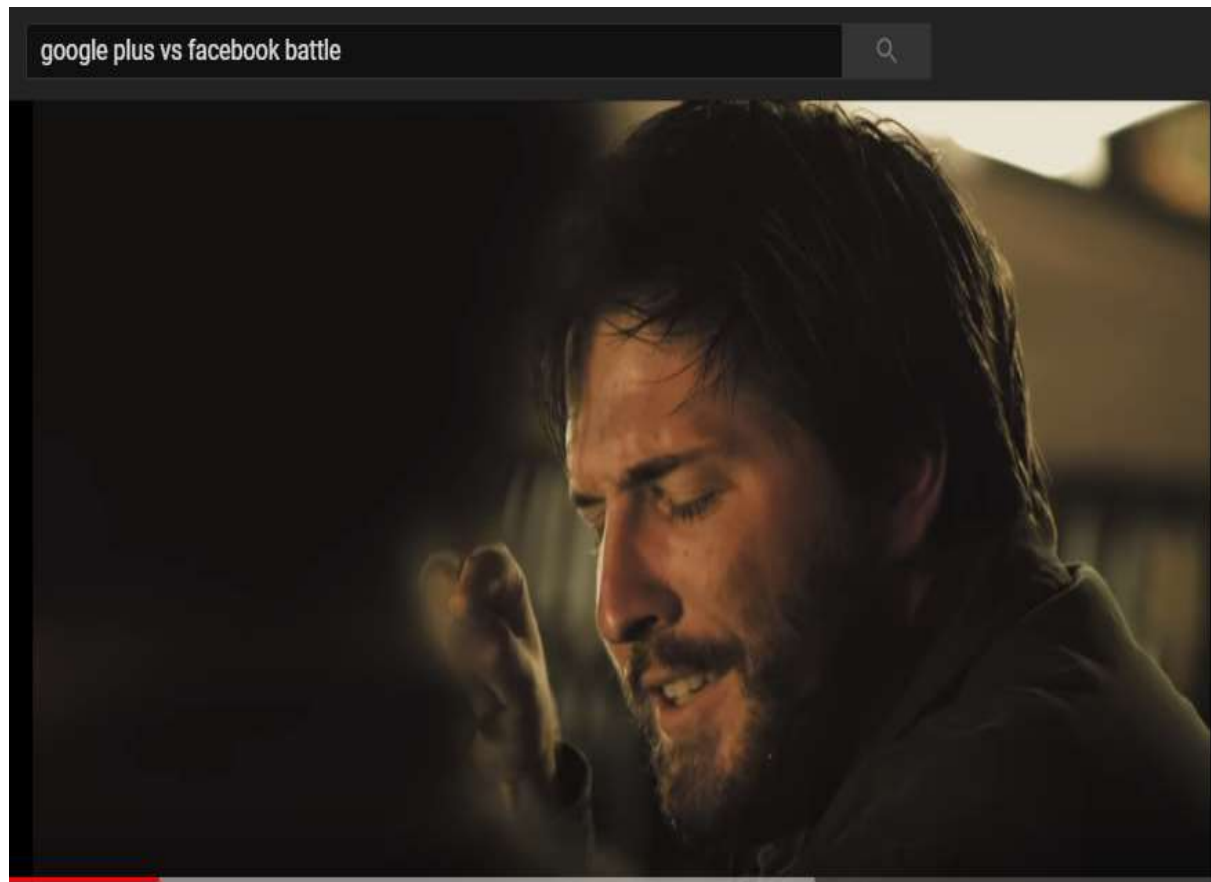
- **Network effects** exist if the value of a network increases with the number of users



Facebook would be of little value to you if your friends weren't part of it



Once Upon a Time....



- <https://www.youtube.com/watch?v=f9MtttXI2q8>

Google Plus's Failure: Network Effect

- [Google gives up on challenging Facebook with Google+ - CNBC.com](#)
- *“Though many people use Google as a search engine and for email, those relationships were simply not sufficient to persuade them to shift from Facebook to Google+.”*

Porter's 5 Forces: Substitutes

- Threat of substitutes products in other industries
 - *Switching costs*
 - *Price-performance trade-off of substitutes*
 - *Buyer inclination to switch*

Porter's 5 Forces: Buyer power

- Buyer power
 - *Price sensitivity*
 - *Product differentiation*
 - *Substitutes availability*
 - *Threat of backward integration*

Buyer power: *Threat of backward integration*

Dell goes networking, acquires Force10

Summary: *Dell said it will wrap Force10's networking gear into its data center portfolio, which features servers, storage and services.*

By [Larry Dignan](#) for [Between the Lines](#) | July 20, 2011 -- 04:53 GMT (12:53 SGT)

Dell said Wednesday that it will acquire Force10 Networks as it aims to move into networking.

Terms of the deal weren't disclosed. In a statement (<http://www.businesswire.com/news/home/20110720005376/en/Dell-Announces-Intent-Acquire-Datacenter-Networking-Leader>) , Dell said it will wrap Force10's networking gear into its data center portfolio, which features servers, storage and services.

Porter's 5 Forces: Supplier power

- Supplier power
 - *Impact of inputs on costs or differentiation*
 - *Switching costs of firms in industry*
 - *Threat of forward integration*

Porter's 5 Forces: Degree of rivalry

- Degree of rivalry
 - *Industry concentration*
 - *Value add*
 - *Brand identity*

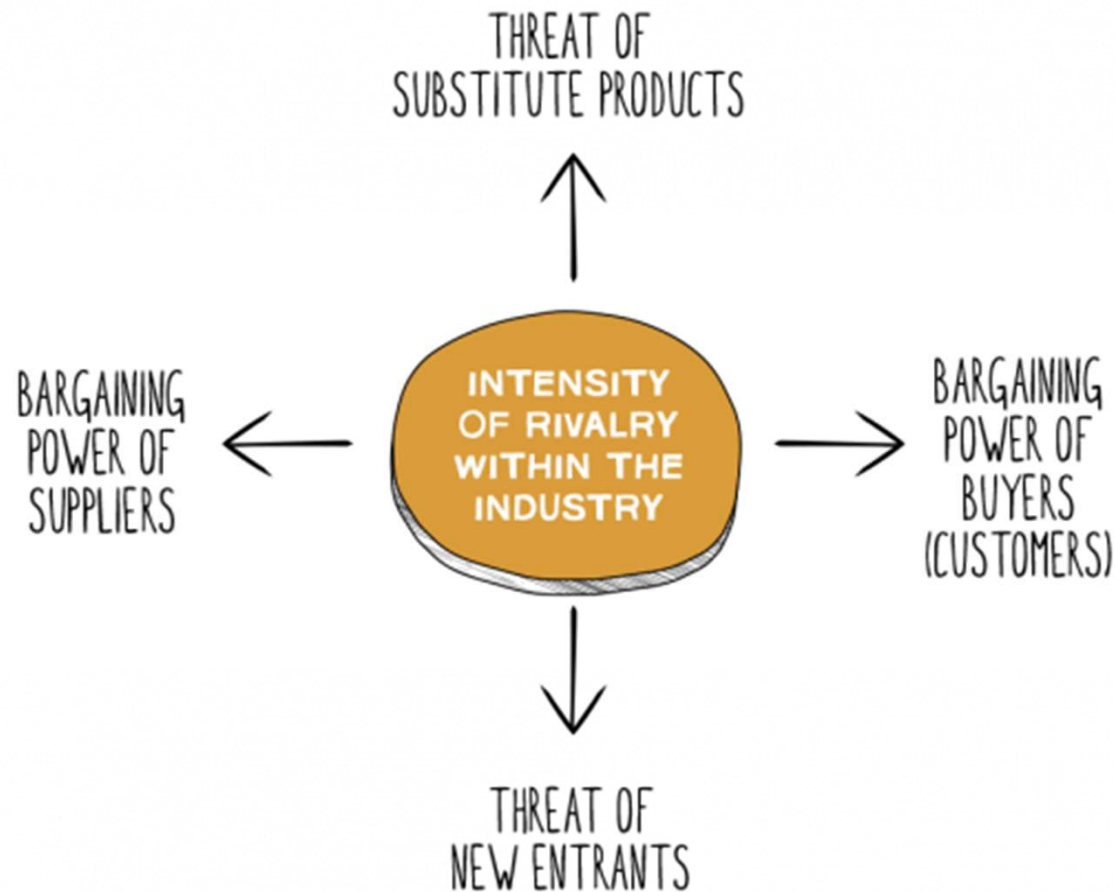
Examples of Porter's 5 Forces

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	Corner latte stand	Professional football team
Rivalry	Used car dealers	Internal Revenue Service

Impacts of IT in Industry

- Disruptive technologies:
 - Digital cameras and film camera
 - Digital music and CDs
 - Internet and Entertainment (music, movies)

PORTER'S FIVE FORCES MODEL



ESSENTIAL MARKETING MODELS [HTTP://BIT.LY/SMARTMODELS](http://bit.ly/smartmodels)

Hong Kong cabbies urge government to act as Uber, car-hailing apps 'drive down taxi business'

PUBLISHED : Tuesday, 07 July, 2015, 3:30pm
UPDATED : Wednesday, 08 July, 2015, 3:00am
News › Hong Kong › Economy › TRANSPORT

Lai Ying-kit yingkit.lai@scmp.com

Transport officials are under fire for failing to crack down on providers of unlicensed services

Taxi drivers and owners criticised transport authorities in the legislature yesterday for failing to curb the practice of private car drivers offering cheaper rides through car-hailing mobile apps.

The group of more than 30 industry representatives also crossed swords with the operator of one app, who in turn accused cabbies of being unable to meet the demands of passengers.

At the centre of

TECH . START-UPS . TAXI-HAILING APPS

More than 100 Hong Kong taxi drivers protest against Uber and other car-hailing apps

Zen Soo and Coco Feng

PUBLISHED : Monday, 06 July, 2015, 4:14pm
UPDATED : Tuesday, 07 July, 2015, 3:00pm



More than 100 drivers staged a protests against Uber and other car-hailing apps on Monday.

More than 100 taxis drove to the headquarters of the Hong Kong government in the city's Admiralty district on Monday morning to protest against car-hailing apps which they claim are costing them business.

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Porter's 5 Forces: New Entrants

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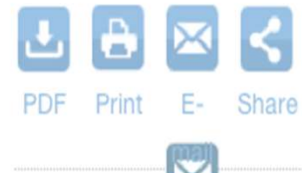
Report

Disruptive trends that will transform the auto industry

Technology-driven trends will revolutionize how industry players respond to changing consumer behavior, develop partnerships, and drive transformational change.

January 2016 | by Paul Gao, Hans-Werner Kaas, Detlev Mohr, and Dominik Wee

Today's economies are dramatically changing, triggered by development in emerging markets, the accelerated rise of new technologies, sustainability policies, and changing consumer preferences around ownership. Digitization, increasing automation, and new business models have revolutionized other industries, and automotive will be no exception. These forces are giving rise to four disruptive technology-driven trends in the automotive sector: diverse mobility, autonomous driving, electrification, and connectivity.



McKinsey Insights

Source:

http://www.mckinsey.com/insights/high_tech_telecoms_internet/Disruptive_trends_that_will_transform_the_auto_industry?cid=ot-her-eml-alt-mip-mck-oth-1601

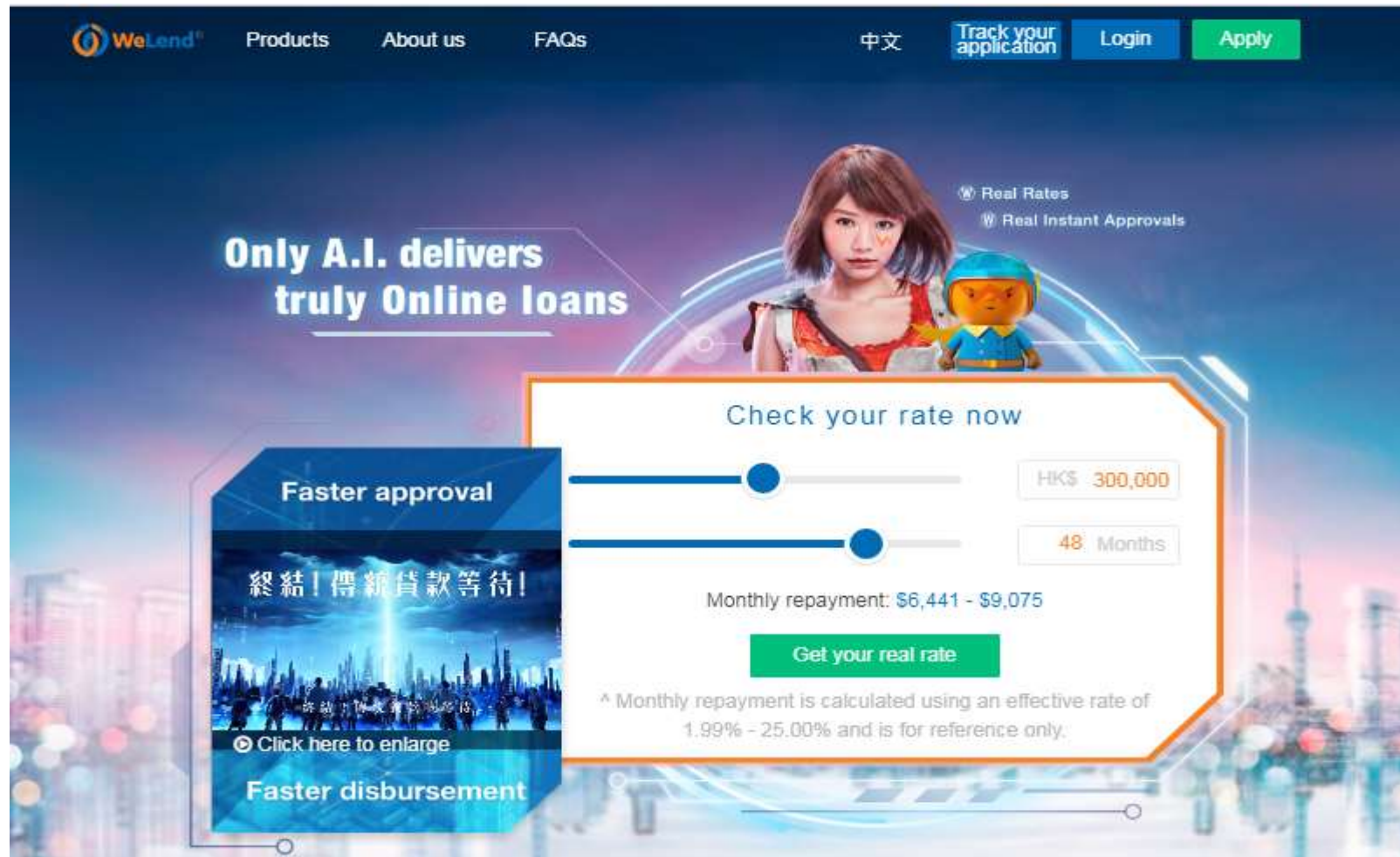


Discuss

How does the Internet affect consumer lending industry?

Hint: FinTech Companies are available in lending industry. For example, Hong Kong's leading online lending platform: WeLend.

Online Lending Platform



The image shows the WeLend online lending platform interface. The top navigation bar includes the WeLend logo, links for Products, About us, and FAQs, a language selector for 中文, and buttons for Track your application, Login, and Apply. The main banner features a woman and a small robot character, with the text "Only A.I. delivers truly Online loans". Below this, there are two main sections: "Faster approval" and "Faster disbursement". The "Faster approval" section includes the text "終結! 傳統貸款等待!" and a link to "Click here to enlarge". The "Faster disbursement" section includes the text "終結! 傳統貸款等待!". The "Check your rate now" section features a slider for the loan amount (HK\$ 300,000) and the term (48 Months), with a monthly repayment range of \$6,441 - \$9,075. A green button labeled "Get your real rate" is present. A disclaimer at the bottom states: "Monthly repayment is calculated using an effective rate of 1.99% - 25.00% and is for reference only."

Only A.I. delivers truly Online loans

Real Rates
Real Instant Approvals

Check your rate now

Faster approval

終結! 傳統貸款等待!

Click here to enlarge

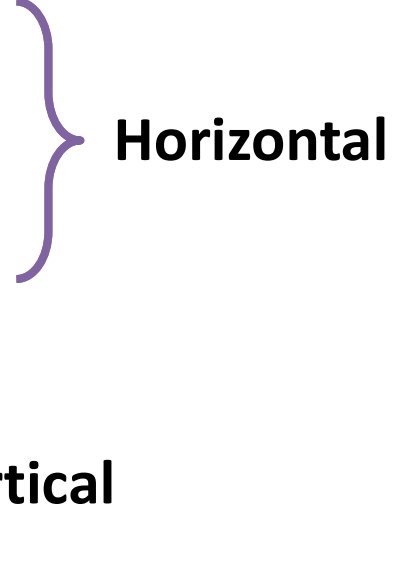
Faster disbursement

Monthly repayment: \$6,441 - \$9,075

Get your real rate

[^] Monthly repayment is calculated using an effective rate of 1.99% - 25.00% and is for reference only.

Recap of Porter's Five Forces

- Potential new entrants
 - Threat of substitute products or services
 - Rivalry among existing competitors
 - Power of suppliers
 - Power of buyers
- 
- The diagram uses purple curly braces to group the five forces. A large brace on the right side groups the first three forces (Potential new entrants, Threat of substitute products or services, and Rivalry among existing competitors) under the label 'Horizontal'. A second brace on the right side groups the last two forces (Power of suppliers and Power of buyers) under the label 'Vertical'.
- Horizontal
- Vertical

Resources

- BCG (2014) *“Asian Banks Must Rethink IT”*
(https://www.bcgperspectives.com/content/articles/information_technology_strategy_financial_institutions_asian_banks_rethink_it/)
- McKinsey (2016) “Disruptive trends that will transform the auto industry”
(http://www.mckinsey.com/insights/high_tech_telecoms_internet/Disruptive_trends_that_will_transform_the_auto_industry?cid=other-eml-alt-mip-mck-oth-1601)
- Porter’s Five Forces
 - <http://www.quickmba.com/strategy/porter.shtml>
 - http://www.mindtools.com/pages/article/newTMC_08.htm