Unit 3: Competing with Information Technology LH 7

- Fundamentals of Strategic Advantage
- Strategic IT
- Competitive Forces and strategies
- Strategic Uses of Information Technology
- Building a customer-focused business
- The value chain and strategic IS
- Value chain examples

Learning Objective

1. Identify several basic competitive strategies and explain how they can use information technologies to confront the competitive forces faced by a business.

2. Identify several strategic uses of Internet technologies and give examples of how they give competitive advantages to a business.

3. Give examples of how business process reengineering frequently involves the strategic use of Internet technologies.

4. Identify the business value of using Internet technologies to become an agile competitor or to form a virtual company.

5. Explain how knowledge management systems can help a business gain strategic advantages.

Strategic IT

- Strategic IT Information systems must be viewed as **more than a set of technologies** that support efficient business operations, workgroup and enterprise collaboration, or effective business decision making.

- Information technology can change the way businesses compete. For this reason, you should view information systems strategically - that is,
  - as vital competitive networks.
  - as a means of organizational renewal, and
  - as a necessary investment in technologies.

- Which help a company adopt strategies and business processes that enable it to reengineer or reinvent itself in order to survive and succeed in today’s dynamic business environment.

- Analyzing GE, Dell, Intel, and Others We can learn a lot about the strategic business uses of information technologies for competitive advantage from this case.

Competitive strategies

- The strategic role of information systems involves using information technology to develop products, services, and capabilities that give a company major advantages over the competitive forces it faces in the global marketplace.

- This creates strategic information systems, information systems that support or shape the competitive position and strategies of a business enterprise.

- So a strategic information system can be any kind of information system (TPS, MIS, DSS, etc.) that helps an organization:
  - Gain a competitive advantage
  - Reduce a competitive disadvantage
  - Meet other strategic enterprise objectives

Competitive Forces and strategies

- According to Michael Porter, any business that wants to survive and succeed must develop strategies to confront five competitive forces that shape the structure of competition in its industry.

Competitive Rivalry:

- What is important here is the number and capability of your competitors. If you have many competitors, and they offer equally attractive products and services, then you'll most likely have little power in the situation, because suppliers and buyers will go elsewhere if they don't get a good deal from you. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.

- **For example competition between Khalti and esewa**

Solution:

- By building a sustainable differentiation
- By building scale so that it can compete better
- Collaborating with competitors to increase the market size rather than just competing for small market.

A threat of New Entry:

- Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

- **For example Grocery Shop in Nepal**

- **Solution:**
  By innovating new products and services. New products not only brings new customers to the fold but also give old customer a reason to buy .

- By building economies of scale so that it can lower the fixed cost per unit.

- Building capacities and spending money on research and development. New entrants are less likely to enter a dynamic industry where the established players keep defining the standards regularly. It significantly reduces the window of extraordinary profits for the new firms thus discourage new players in the industry.

Supplier Power:

- Here you assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, the uniqueness of their product or service, their strength and control over you, the cost of switching from one to another, and so on. The fewer the supplier choices you have, and the more you need suppliers' help, the more powerful your suppliers are.

- **For example Oil Selling Company.**

Solution

- By building efficient supply chain with multiple suppliers.
- By experimenting with product designs using different materials so that if the prices go up of one raw material then company can shift to another.
- Developing dedicated suppliers whose business depends upon the firm. For example Wal-Mart and Nike is how these companies developed third party manufacturers whose business solely depends on them thus creating a scenario where these third party manufacturers have significantly less bargaining power compare to Wal-Mart and Nike.

Buyer Power:

- Here you ask yourself how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the importance of each individual buyer to your business, the cost to them of switching from your products and services to those of someone else, and so on. If you deal with few, powerful buyers, then they are often able to dictate terms to you.

- **For example Mobile User**

Solution

- By building a large base of customers. This will be helpful in two ways. It will reduce the bargaining power of the buyers plus it will provide an opportunity to the firm to streamline its sales and production process.
- By rapidly innovating new products. Customers often seek discounts and offerings on established products. keep on coming up with new products then it can limit the bargaining power of buyers.
- Develop ecosystem of product

A threat of Substitution:

- This is affected by the ability of your customers to find a different way of doing what you do. If substitution is easy and substitution is viable, then this weakens your power.

- **For example services like Dropbox and Google Drive are substitute to storage hardware drives.**

Solution

- By being service oriented rather than just product oriented.
- By understanding the core need of the customer rather than what the customer is buying.
- By increasing the switching cost for the customers.

Strategic Uses of Information Technology

- A **variety of competitive strategies** can be developed to help a firm confront these competitive forces. These include
  - Low Cost Leadership Strategy
  - Differentiation Strategy
  - Innovation Strategy
  - Growth Strategies
  - Alliance Strategies

Information technology can be used to implement a variety of competitive strategies.

Other Competitive Strategies

Several key strategies that are also implemented with information technology include:

Locking in Customers or suppliers

- Building valuable new relationships with them. This can discourage both customers and suppliers from abandoning a firm for its competitors or difficult for them to switch over to a competitor.

- **How to lock**
- Make sure you keep them happy.
- Make sure they receive priority....
- The CRM interface should be integrated.
- Be relevant to the topic....
- They tend to lose their good judgment.
- Take the time to get to know you...
- Make sure customers are informed.

Building switching costs –

- Switching costs are the expenses that a consumer encounters when buying products or services from a new company. If a business has high switching costs , it may be able to optimize its customer retention rates. Learning how to identify switching costs may lower the chance of custom

Here are some common switching costs that consumers experience:

- **Monetary cost:** This is the most common type of cost, and it refers to the cost difference that occurs when switching brands. For example, if a consumer saves $50 dollars when they switch cell phone providers, that's a high monetary switching cost.

- **Time costs:** Whether a significant amount of time must be used to switch phone plans (i.e., driving to the store or waiting for an available store representative)

- **Psychological costs**: Whether the new phone plan would be better than the existing phone plan (i.e., whether the new phone plan offers better city-wide signal coverage)

- **Effort-based costs**: Whether the individual must exert significant effort to switch phone plans (i.e., whether a lot of paperwork must be completed)

Raising barriers to entry

- Increasing the amount of investment or the complexity of the technology required to compete in an industry or a market segment can discourage or delay other companies from entering a market.

Leveraging investment in information technology

- By investing in advanced computer-based information systems to improve their own efficiency, firms are able to developing new products and services that would not be possible without a strong IT capability. - Corporate Intranets and extranets enable firms to leverage their previous investments in Internet browsers, PCs, servers, and client/server networks.

- Amazon technology has also leveraged their ability to execute highly targeted customer engagement strategies that significantly increase their customer retention and repeat business

Building a Customer-Focused Business:

For many companies, the chief business value of becoming a customer-focused business lies in its ability to help them:

–Keep customers loyal

–Anticipate customers future needs

–Respond to customer concerns

–Provide top quality customer service

The concept of customer-focused e-business focuses on customer value. This strategy recognizes that quality, rather than price, has become the primary determinant in a customer's perception of value. From a customer's point of view, companies that consistently offer the best value are able to:

– Keep track of their customers' individual preferences
– Keep up with market trends
– Supply products, services and information anytime and anywhere
– Provide customer services tailored to individual needs.

- Increasingly, businesses are serving many of their customers and prospective customers via the Internet. This large and fast-growing group of customers wants and expects companies to communicate with them and service their needs at e-commerce websites. The Internet has become a strategic opportunity for companies large and small to offer fast, responsive, high-quality products and services tailored to individual customer preferences.

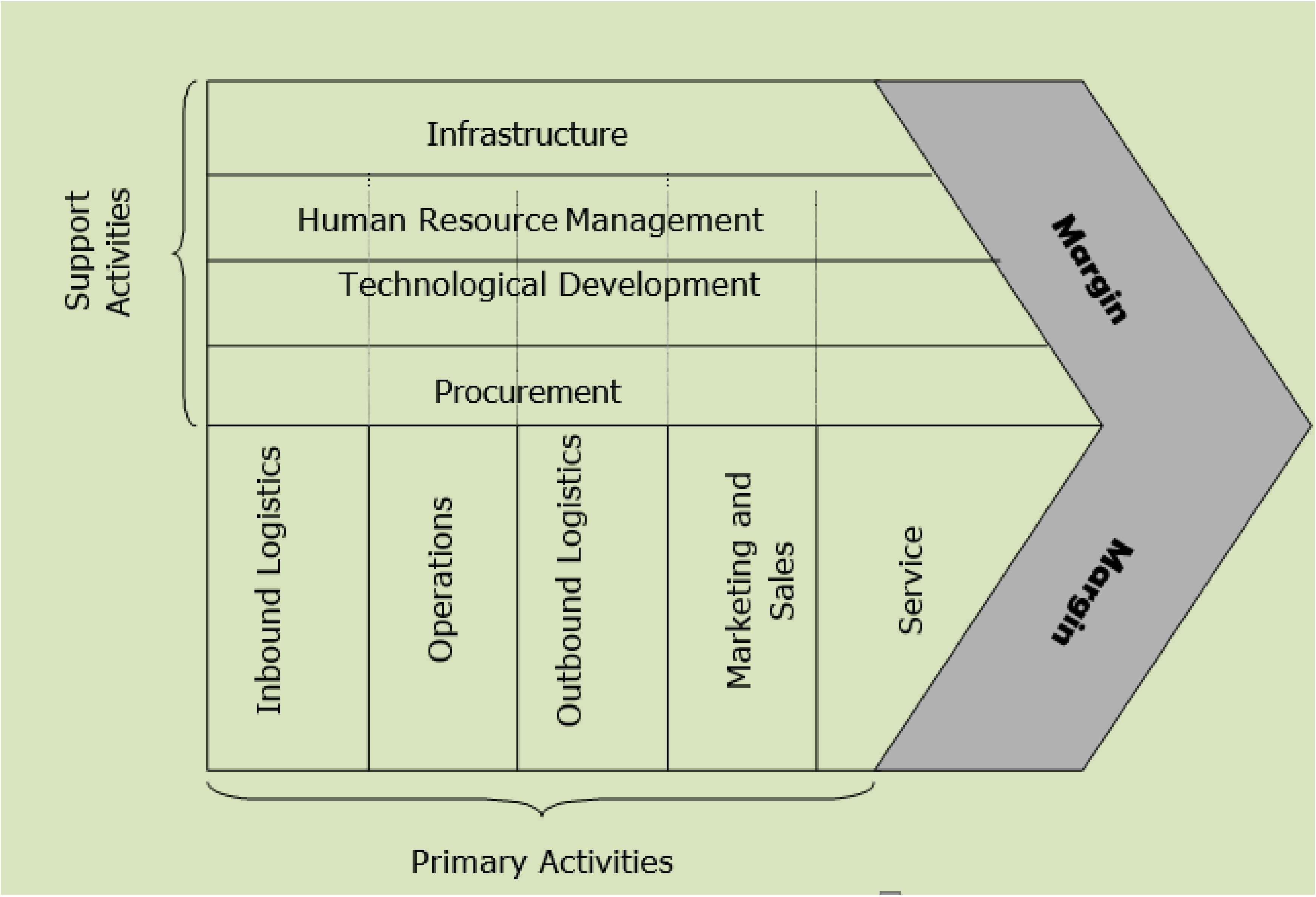
The value chain and strategic IS

- An important concept that can help a manager **identify opportunities for strategic information systems is the value chain** concept as developed by Michael Porter.

- This concept: Views a **firm as a series or "chain"** of basic activities that add value to its products and services and thus, add a margin of value to the firm.

- Some business activities are viewed as primary activities, and others are support activities. **This framework can highlight where competitive strategies can best be applied in a business**.

- Managers and business professionals should try to develop a variety of **strategic uses of Internet and other technologies** for those activities that add the most value to a company's product or service, and thus to the overall business value of the company


Support Activities
Infrastructure
Human Resource Management
Technological Development
Procurement
Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Service
Margin
Margin
Primary Activities

Value Chain Examples:

- **Collaborative workflow** internet-based systems can increase the communications and collaboration needed to dramatically improve administrative co-ordination and support services. Examples of support processes:

- **Career development** intranet can help the human resources management function provide employees with professional development training programs.

- Computer-aided engineering and design extranets enable a company and its business partners to jointly design products and processes.

- **Extranets can dramatically** improve procurement of resources by providing an online e-commerce website for a firm’s suppliers. Examples of primary processes:

Examples of primary processes:

- Automated just-in-time warehousing systems to support inbound logistic processes involving storage of inventory, computer-aided flexible manufacturing (CAM) systems for manufacturing operations, and online point-of-sale and order processing systems to improve outbound logistics processes that process customer orders.

- Support of marketing and sales processes by developing an interactive target marketing capability on the Internet and its World Wide Web.

- Customer service can be dramatically improved by a co-ordinated and integrated customer relationship management system.

- Extra content for boost up, Exluded from Syllabus but Important for exam.