

# **Chapter 2: Information Systems and Strategy**

# Learning objectives

1. Five forces
2. Other factors
3. Value chain
4. Business strategy
5. Nonprofit/government strategy
6. Role of IS

# Baidu

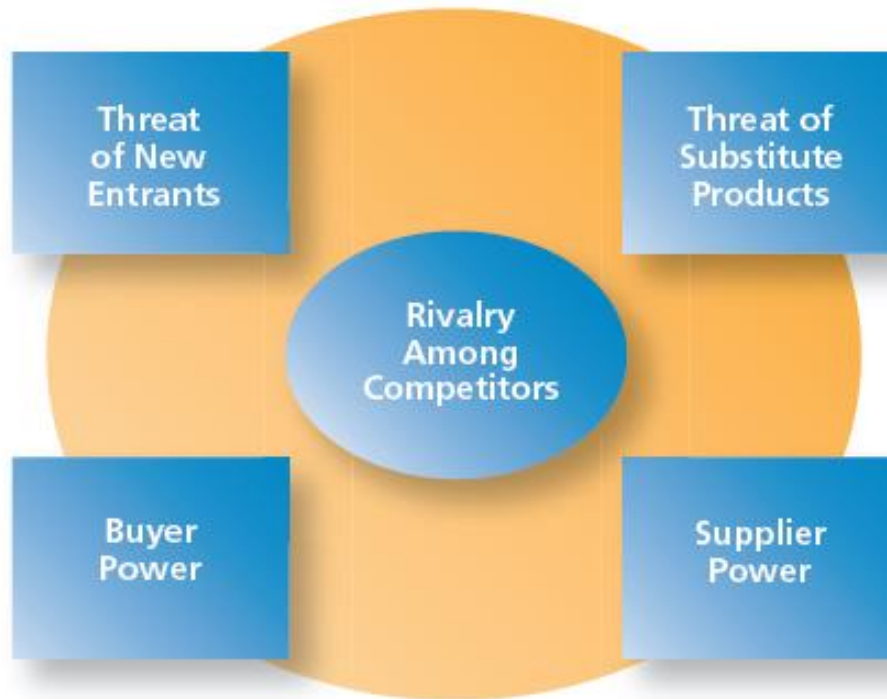


- Chinese visitors
- Chinese language
- Competition

# Introduction

- Strategies rely on IS
- IS transform industries
- Companies gain advantages with IS
- Nonprofits achieve missions with IS

# Five forces



1. New entrants
2. Buyers
3. Suppliers
4. Substitutes
5. Rivalry

**FIGURE 2-3**

The five forces that shape competition in industries.

# Threat of new entrants

- Incumbents and IS
- Network effects
- Switching costs

# Power of buyers

- Few buyers
- Similar products
- IS shift buyer power



Arbus Camera 590  
\$249.99, free shipping

Reviews

Ellington Electronics



Arbus Camera 590  
\$259.95 free shipping

Best-Deals-Now



Arbus Camera 590  
\$329.99, free shipping

Reddy Digital Store



**FIGURE 2-4**  
Price comparison website.

# Power of suppliers

- Only game in town
- IS impose switching costs



# Threat of substitutes

- Alternative products at attractive savings
- IS role in substitutions

**FIGURE 2-5**

Videoconferencing heightens the threat of substitutes to the business travel industry.



Source: Shutterstock.

# Rivalry among competitors

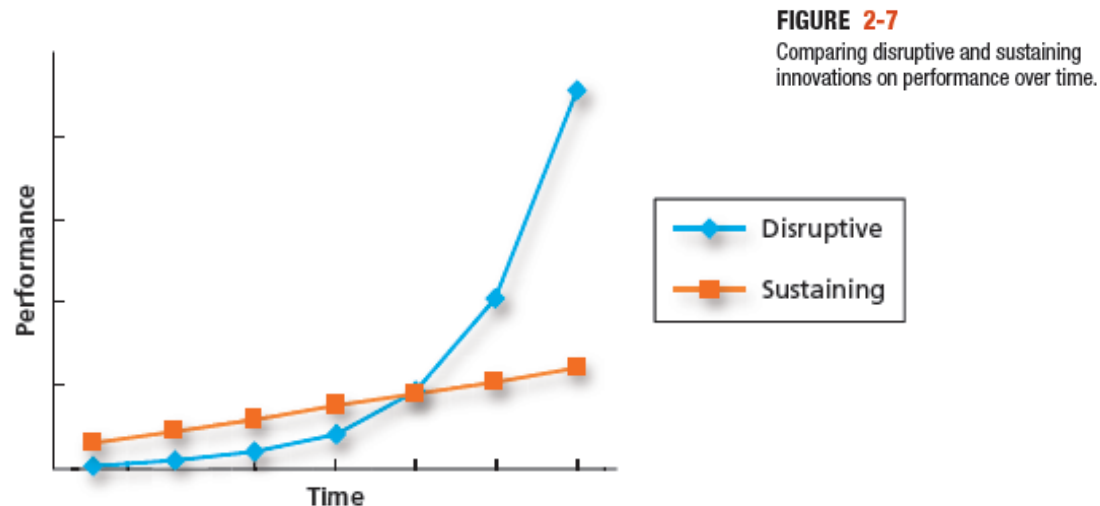
- Price cuts
- Slow growth

# External factors

1. Disruptive innovations
2. Government policies
3. Complementary services
4. Environmental events

# Disruptive innovations

- Radical and unexpected breakthroughs
- Transform industry and changes five forces
- Creative destruction



# Government policies

- Affect how industries operate and evolve
- Organizations lobby for government action
- Judges and courts affect industry structure

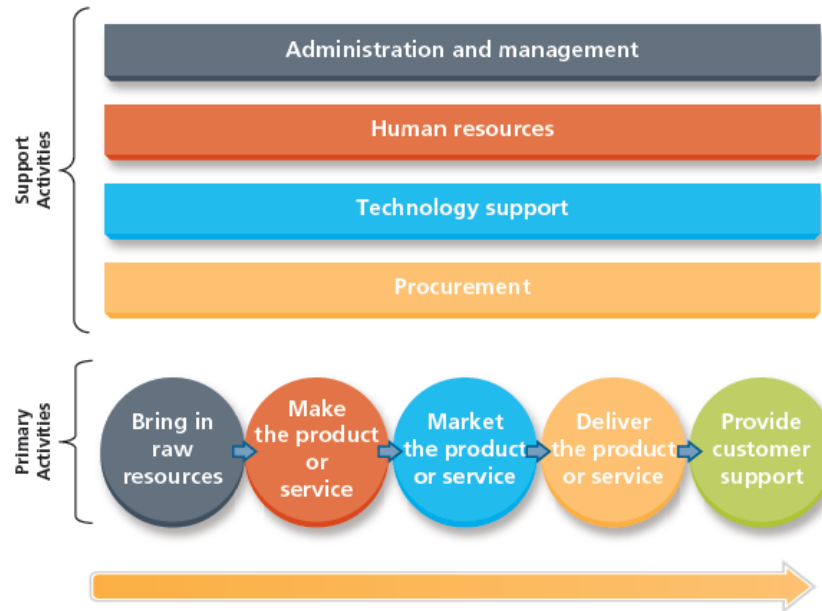
# Complementary services

- Industries are interrelated
- Companies embedded in ecosystem
- Visionaries lead to new beneficial directions

# Environmental events

- Major effects without warning
- Energy costs and emissions
- Leaders must consider industry and forces

# Value chain



**FIGURE 2-10**  
Components of the value chain.

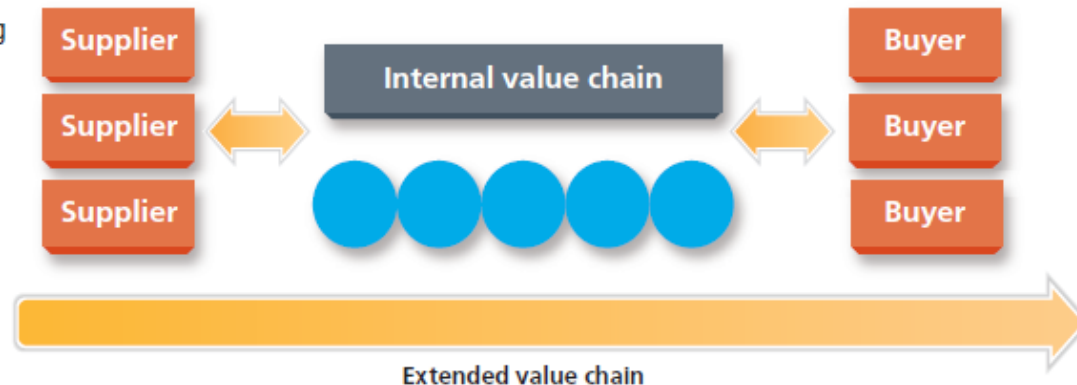
- Primary activities
- Support activities



# Extended value chain

**FIGURE 2-11**

The extended value chain involving suppliers, the company, and its customers.



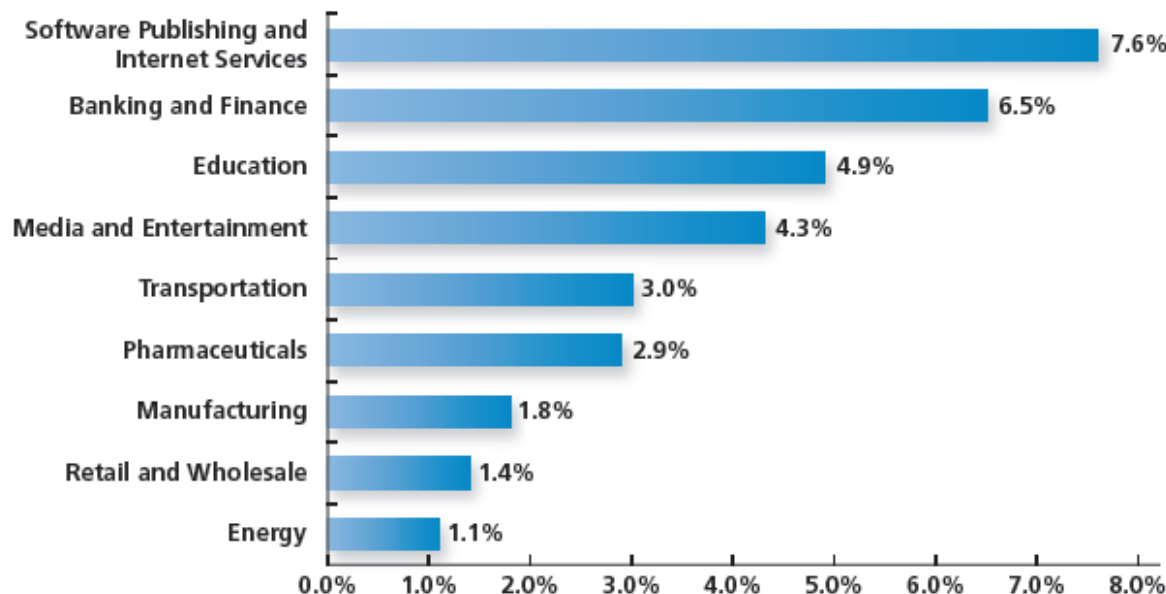
- Includes suppliers and customers
- Strategic opportunities for suppliers
- Strategic opportunities for customers

# Benchmarking

- Reference point used as baseline
- For value chain, percent of total budget
- Analysis identifies areas that need attention

# IT benchmarks

- IT spending varies by industry and by region
- Managers can use benchmarks to assess extended value chain



**FIGURE 2-13**  
Average IT spending by industry as a percentage of revenue.

# Competitive strategies

1. Low cost leadership
2. Product differentiation
3. Focused strategy

# Low cost leadership

- Similar product at lower price
- Automate and streamline processes
- Reduce operating expenses
- Achieve efficiencies

# Differentiation and focus

Product differentiation	Focused strategy
<ul style="list-style-type: none"><li>• Special features</li><li>• Customers willing to pay more</li><li>• Reduce substitutes and new entrants</li></ul>	<ul style="list-style-type: none"><li>• Differentiate for market niche</li></ul>

# IS in strategy

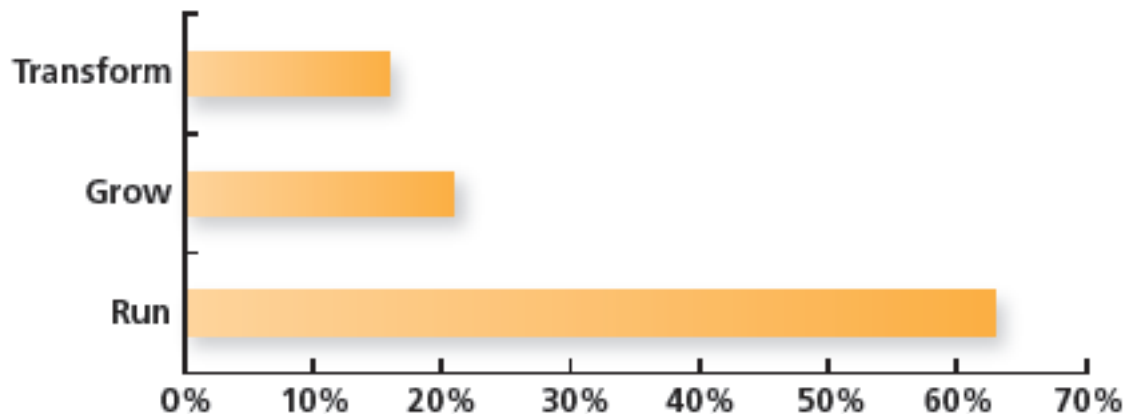
Low cost	Differentiation
<ul style="list-style-type: none"><li>• Automate</li><li>• Support back office</li><li>• Streamline</li></ul>	<ul style="list-style-type: none"><li>• Innovations</li></ul>

# Run, grow, and transform

- 66% of IT spending to run organization
- 19% to grow business
- 15% to transform business model

**FIGURE 2-17**

How do organizations spend their IT dollars?





# Nonprofit organizations

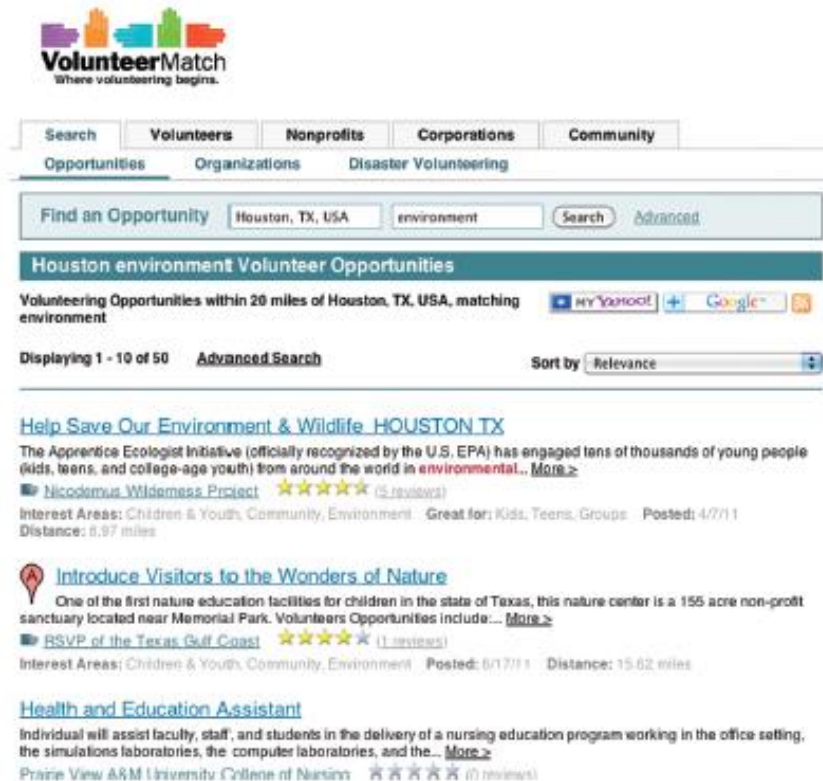
- Objectives that need strategic planning
- Operational requirements
- Benefit from IS

# Fund-raising

- IS help manage donations
- Reach worldwide audience
- Learn about preferences and motivations

# Volunteering

- Attract volunteers
- Help volunteers identify projects that need their skills



**FIGURE 2-19**

VolunteerMatch.org helps volunteers find opportunities in their areas.

Source: VolunteerMatch.org. Used with permission.

# Government (1:2)

- Needs IS to handle operational requirements
- Citizens expect cost effective services
- Mission also includes projects with long-term benefits

# Government (2:2)

## E-Government

- Unclassified info available to citizens via the Internet
- Interactive online services

## Research

- Private investors might avoid certain projects because of risk or distant payoff

# Does IT matter?

- Advantage depends on type of IS
- Funds to run business are commodity
- Funds to grow and transform are more closely tied to strategy and advantage
- Human element is critical for success

# Summary

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# GameStop case study

- GameStop business model
- Rivalry among competitors
- Barriers to entry
- Power of suppliers
- GameStop's response to threats



# Open Internet case study

- Net neutrality
- Position of content providers
- Position of telecom companies
- Proposal
- Criticism of proposal