

Strategy: Value Through Implementation of Business Processes

STRATEGY =
CREATING VALUE
AND
BUILDING COMPETITIVE ADVANTAGE

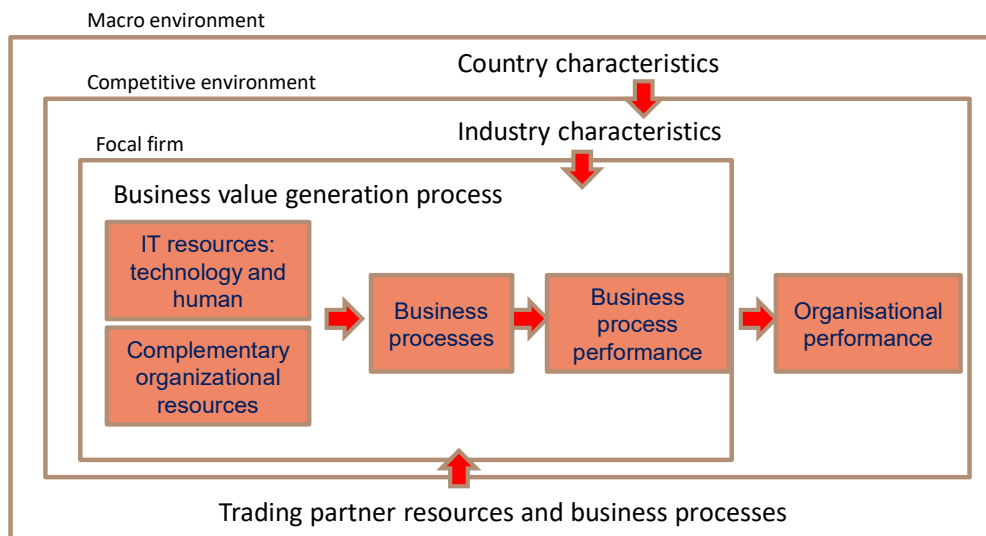
Key Topics in this chapter

- Different perspectives on strategy.
- A framework for IT strategy.
- Tools to help develop the strategy.
- Approaching the strategy as a project.

Foundations for approach to strategy

- Benefits: principles and tools
 - focus on benefits for stakeholders
 - benefits as a result of people doing things differently
- Stakeholder engagement and management
 - engagement in developing and delivering the strategy
- Programmes and projects to deliver change
 - alignment between strategy and projects
 - agile approach: flexibility through phased, incremental delivery
- Project portfolio perspective
 - setting priority for particular investment
- Driver analysis
 - "Where might we invest in change in order to deliver benefits for stakeholders in line with the vision of the organization?"

Linking IT to Organisational Performance



Melville et al, 2004

Linking IT to Organisational Performance

Competitive advantage is obtained by :

- Good relationship with customers & suppliers → Network of organisations & individuals
- Adaptable business processes
- Ability of the employees to continuously create new, hard to duplicate products and services.

What is Strategy?

... an integrated set of actions to provide
benefits over the long term to enterprise
stakeholders

Therefore strategy is about 3 questions....

1. Who are our stakeholders?
2. What benefits do we wish to provide?
3. How are we going to deliver them?

Ward and Peppard, 2002

What is strategy?

Strategy = making choices that include:

- Selection of business goals
- Products and services to offer
- Design and configuration of policies → to determine position in the market.
- Appropriate level of scope and diversity → specialization
- Design of organizational structure and policies to coordinate work.
- Apply resources for max impact against competitors.

Views on business strategy

3 Strategies for Competitive Advantage (Michael Porter) :

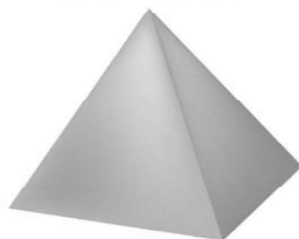
- Cost leadership → Competing with lower costs
- Product differentiation → Competing with value (“the best products”)
- Product focus → Competing by restricting one’s market (“specialization”)

Views on business strategy: Delta Model

Figure 2.9 The Delta Model.

Competition based on system economics: complementor lock-in, competitor lock-out, proprietary standard

System lock-in



Customer solutions
Competition based on customer economics: reducing customer costs or increasing profits

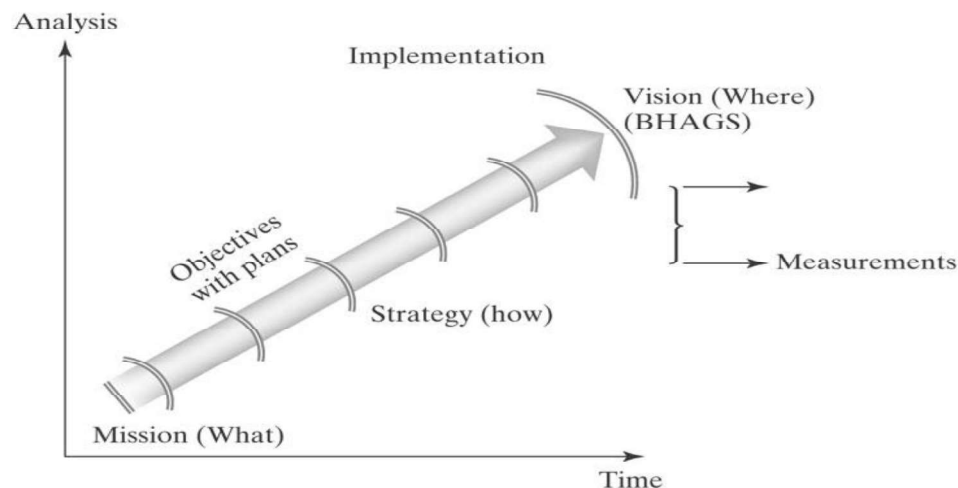
Best products
Competition based on product economics: low cost or differentiated position

Source: Wilde and Hax, Sloan Management Review, Winter 1999.

3 Business Strategy Elements

Mission → Strategy → Vision

Figure 2.1 Vision, Mission, and Strategy.



3 Business Strategy Elements: VISION

BHAGS = Big Hairy Audacious Goals → to challenge people to achieve something they may have initially thought impossible.

- e.g. Pres. John F. Kennedy public statement in 1961 : “we should commit ourselves the goal before this decade is out of getting a man on the moon and returning him safely to earth” was at that moment an impossible mission. Yet this BHAG stimulated collective energies of people involved in what became the Apollo program.
- e.g. GE → become no.1 or no.2 in every market and revolutionize GE to get the agility and speed of a small enterprise.

VISION → Where do we want to go ?

- Where the company wants to go
- What do we want TO-BE
- Vision should be clear and exciting to everyone in the company.
- Be careful with Big Hairy Audacious Goals (BHAGS)

Visionary companies have substantially outperformed their peers : Wal-Mart, Amazon, GE, DELL, Cisco, Microsoft

Example: Microsoft +/- 1980:

“a computer on every desk and in every home”.

How important is the VISION(*)

Although the concept of creating a corporate vision may sound too academic it has proven itself in time.

When AT&T had to close down one of his facilities its CEO said : “AT&T doesn’t have a clear vision that is able to be executed for a long haul. AT&T may have a clear vision at times, but this was always short term and we had no faith in the future direction of that facility.

What is an effective Vision ?

- Imaginable : conveys a **realistic** picture of what the future will look like.
- Desirable : appeal to **long-term interests** of employees, customers and stockholders who have stake in the company
- Feasible : **realistic** and attainable goals \leftrightarrow BHAGS.
- Focused : **clear** enough to provide guidance in decision making.
- Flexible : enough to allow individual initiative and alternative possibilities in perspective of **changing conditions**.
- Communicable : easy to communicate and **easily explained** within 5 minutes.
- Measurable : stakeholders will see clearly when they attained the goal.

Communicate your vision!



Mission : What are we ?

- Both business and IT have a mission:
 - Bus.: concise statement of what business the organization (group) is in
 - IT: reason why IT function exists (mission of IT dept)
- Review regularly to identify themes and ideas for IT mission
- IT strategies that are inconsistent with mission or core values → risk of failure

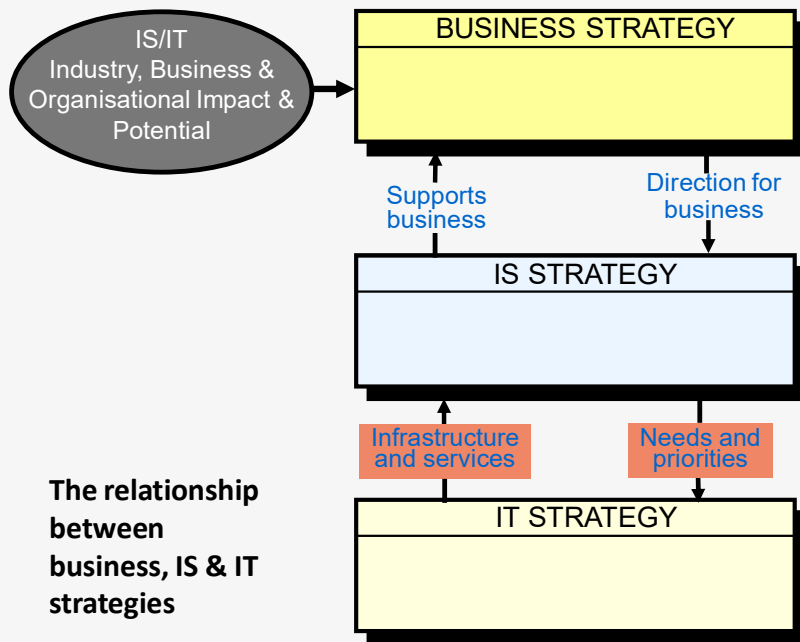
Missie Materialise (Leuven, 3D printing)

"Our mission is to innovate product development that results in a better and healthier world, through our software and hardware infrastructure, and an in-depth knowledge of Additive Manufacturing."

Fried Vancraen, CEO of Materialise

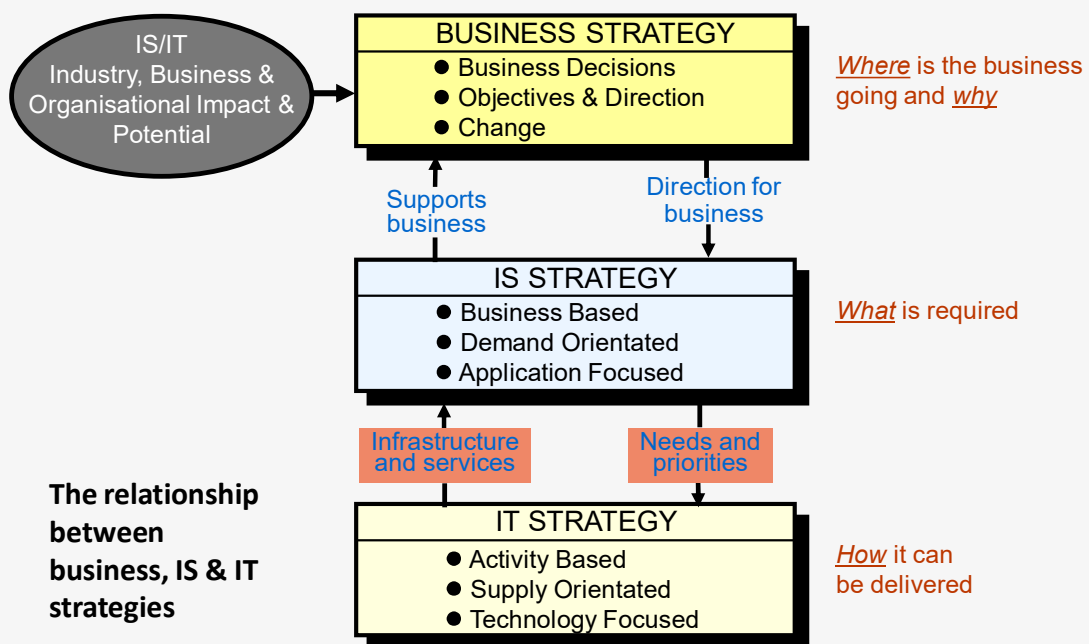


A Framework for IT Strategy



Source: Strategic Planning for Information Systems (2002) Ward and Peppard

A Framework for IT Strategy



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IT Strategy

- technology: hardware, software, networks
- (out)sourcing
- operations & maintenance
- IT people
- key considerations, e.g.
 - cloud based applications
 - data center virtualisation
 - local vs. organisation wide applications
 - PC renewal
 - mobile security & support

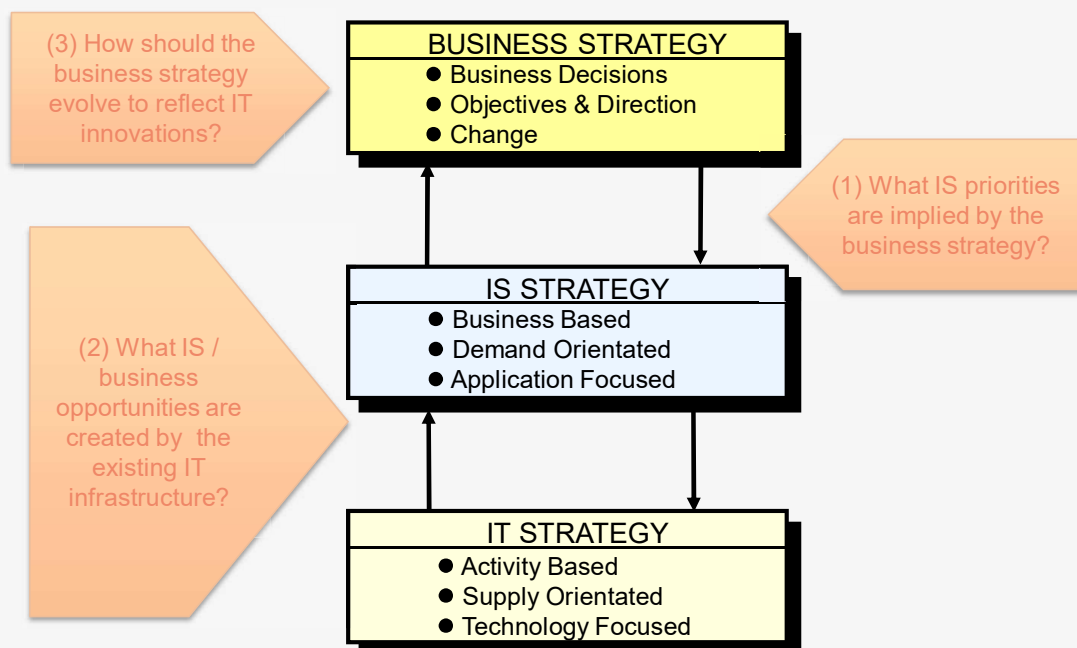
IS Strategy

- written in business language
- focus on what is required to meet stakeholder needs
- service, processes, information
- functional (rather than technical) view of systems and applications

IT vs. IS Strategy

- in practice distinction often not clear
- ownership of IS strategy often problematic
- sometimes IT will take ownership perhaps because of perceived lack of interest from business executives
- figure above is basis for common language

Developing the IT Strategy



Driver analysis

- Drivers:
 - = views held by senior management as to what is important to the business
 - Can be internal or external
 - Are specific to the context in which the organisation operates
- Investment objectives
 - Targets for achievement agreed for the investment in relation to the drivers
- Business benefits
 - Advantage on behalf of a particular stakeholder or group of stakeholders

Driver Analysis Techniques

Framework for developing IT/IS strategy:

- ✓ Stakeholders & expectations / benefits
- ✓ Competitive competences
- ✓ SWOT analysis
- ✓ Porter's 5 Forces
- ✓ Value chain
- ✓ PEST: political, economic, social, technological
- ✓ Cultural web (company and industry culture)
- ✓ Balanced Scorecard
- ✓ Strategy mapping
- ✓ Business process design
- ✓ Blue Ocean – value innovation
- ✓ etc.

Choose the tools that enable (business) people to get involved.

SWOT Analysis

- Strengths
- Weaknesses
- Opportunities
- Threats
- Recommend strategies that ensure best alignment between external and internal environments

Strengths

- Distinctive Competencies
 - Critical success factors
 - Core competencies
 - Brand, research, manufacturing, product development, cost and pricing structure, sales and distribution channels
- Systemic Competencies
 - Technological capabilities

Weaknesses

- Observation of existing business and IT problems
- Weaknesses will emerge from observation
- Effect on firm's strategic positioning

Weaknesses: beware for “Elephant in the room”



Weaknesses: beware for “Elephant in the room”

A metaphorical idiom in English for an important or enormous topic, problem, or risk that is obvious or that everyone knows about but no one mentions or wants to discuss because it makes at least some of them uncomfortable or is personally, socially, or politically embarrassing, controversial, inflammatory, or dangerous.

Wikipedia

Opportunities – Ansoff Matrix

Figure 2.8 The Ansoff Product/Market Matrix.

	Present product	New product
Present market	Market penetration 1.	Product development 2.
New market	Market development 3.	Diversification 4.

Ansoff, I., *Strategies for Diversification*, Harvard Business Review, September-October 1957, pp. 113–124.

Ansoff Matrix Positioning Strategies

Table 2.3 Ansoff Matrix Positioning Strategies²¹

<i>Market Positioning Strategy</i>	<i>Strategy Objectives/Implications</i>
Market Penetration (current products, current markets)	<ul style="list-style-type: none"> • Use where there is still potential for an existing product/service in the current marketplace • Deepen and broaden relationships with existing customers to sell more of what the organization currently sells to them
Market Development (current products, new markets)	<ul style="list-style-type: none"> • Taking existing products/services into a new geographical or market sector • Developing understanding of where existing products or services may meet the needs of new customers
Product Development (new products, current markets)	<ul style="list-style-type: none"> • Useful for selling new products/services to a strong existing customer base • Anticipating the needs of the existing customer base by building greater customer intimacy
Diversification (new products, new markets)	<ul style="list-style-type: none"> • High risk, 'new business' approach where the organization does not have the strength of a known customer base or track record in the new product/service • Defining new markets or market niches with innovative new products

Threats



- Rivalry Between Existing Firms
- Risk of New Entrants
- Power of Buyers
- Power of Suppliers
- Threat of Substitutes

[PORTER5CompetForces Youtube.MP4](#)

Risk of new entrants

Vervolg artikel Geert Noels

De digitalisering van de banken is een eerste grote uitdaging. De banken zitten, met 15 jaar vertraging, in het spoor van de kranten: parallel met het oude kanaal (kantoren en veel personeel) investeren in een nieuw digitale interface met hun klanten. Die enorme investeringen zullen wegen op de rendabiliteit, en zullen gevolgen hebben voor het personeelbestand. Dat proces begint nu te versnellen.

Die acceleratie heeft veel te maken met disruptieve innovatie: nieuwe spelers, door de incrowd ook wel 'FinTech' genoemd, kunnen met innovatieve oplossingen het cliënteel van de banken goedkoop en efficiënt benaderen. Dat fenomeen speelt voorlopig vooral in niches zoals crowdfunding, of in betaalsystemen zoals PayPal of de vele beruchte bitcointoepassingen. De hele blockchain-technologie heeft het potentieel om beurzen en betalingssystemen drastisch te veranderen.

De échte disruptie zal momentum krijgen als de grote technologiespelers zoals Google, Amazon en Apple zich op de financiële sector werpen. De techreuzen hebben alle middelen en kennis om klanten een betere en goedkopere dienstverlening te bieden.

Hun intrede in de banksector zal zijn zoals GoogleMaps voor de Michelinkaarten: op een ochtend word je wakker en is het er. Google heeft bijvoorbeeld al een banklicentie en Facebook een e-money-vergunning, en dat is nog maar het begin.

Knuffelen

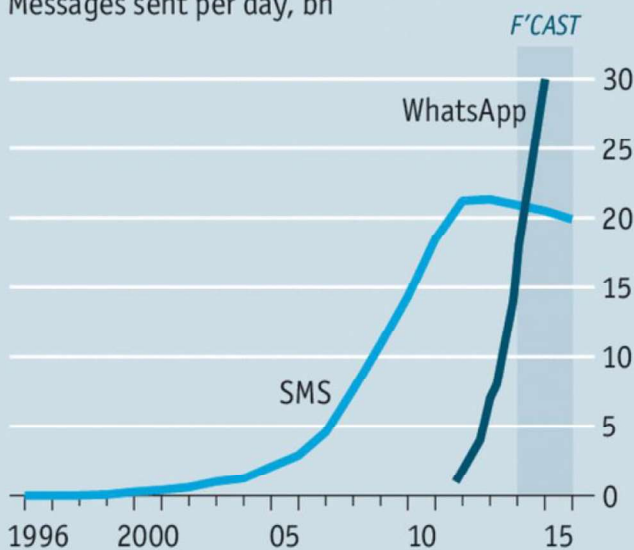
Het is de strategie van de techreuzen geweest om voorlopig buiten deze sterk gereguleerde sector mét een sterke lobby te blijven, en eerst het laaghangende fruit te plukken. Maar ze hebben hun teen al in het financiële water gedipt met betaalsystemen en e-commerce.

Banken willen zich wapenen door hun eigen 'big data'-capaciteiten te exploiteren. Dat zal nodig zijn, maar de FinTechs die hen daarbij helpen, kunnen op termijn hun grootste concurrenten worden. Daarom zie je ook initiatieven van financiële instellingen om FinTech-bedrijven te knuffelen in incubators of door er participaties in te nemen. Die trend zal alleen maar toenemen, naarmate de innovatieve disruptie hen letterlijk in elkaars armen drijft.

Risk of new entrants

OMG, RIP txt

Messages sent per day, bn



Sources: Portio Research; a16z

Economist.com

In 2007 Brian Acton and Jan Koum left Yahoo and took a sabbatical. They traveled through South America. After their return they applied for a job with Facebook but were refused. They started WhatsApp. 4 years later (in 2014) Marc Zuckerberg paid 19 billion dollar for WhatsApp, a company with 52 employees and zero income, even without a business model.

Blue Ocean Strategy

- As opposed to “red oceans” (blood of sharks) where competition is high
- Identify “blue oceans” = create new market by creating value for customers in a different way
- Examples:
 - Create very simple and easy-to-use mobile phone
 - Very clearly and simply labelled range of wine
- Creative tool: “a day in the life of”: write about future in present tense as if it has already arrived.

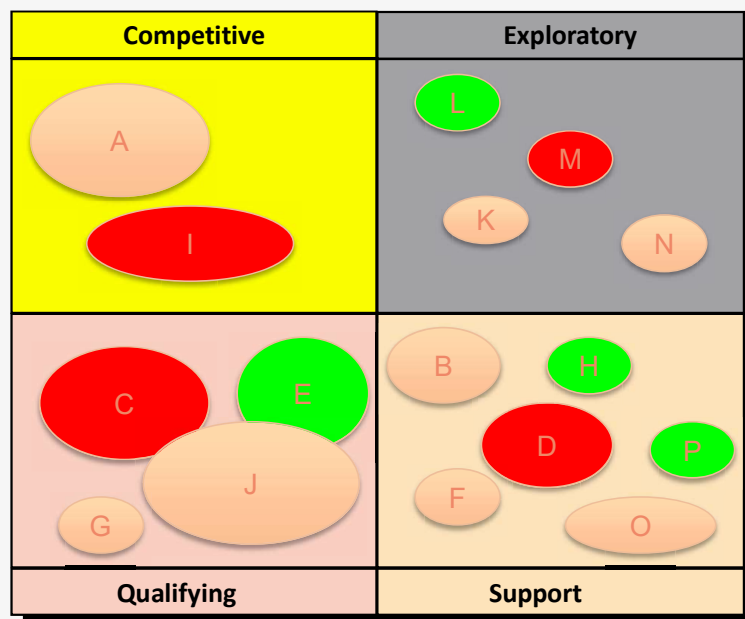
Strategy as a Project

- Team
- Phased delivery
- Stakeholder engagement
- Focus on benefits & impact
- Generating and screening opportunities
- Building momentum for delivery

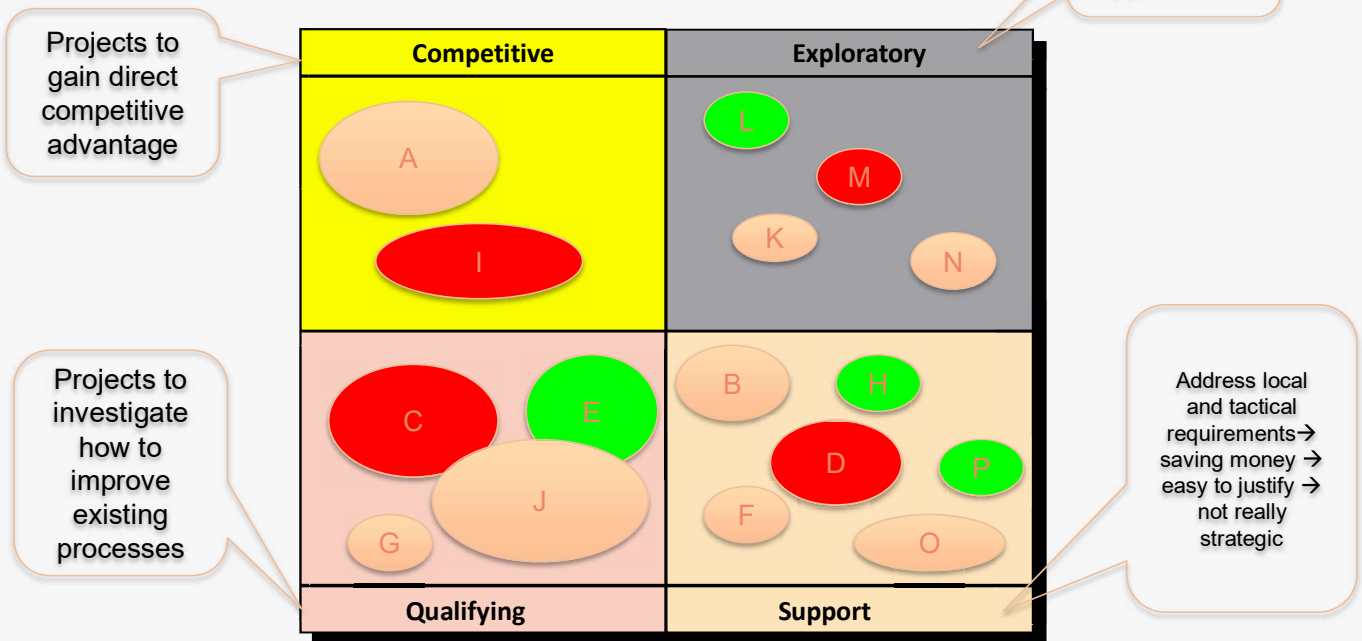
Screening Opportunities: Factors to Consider

- Portfolio category (see next slides)
- Business process and departments effected
- Number of potential users
- Degree/type of business change (see further)
- Costs
- Benefits – types/magnitude
- Alignment and contribution to strategic goals
- Resources required to deliver and existing capability
- Business risk (e.g., uncertainty of market)
- Technical risk
- Degree of sponsorship
- Confidence in understanding of customer value and market opportunity.

Using the Portfolio: Overview of Key Systems (an example of portfolio categories)



Using the Portfolio: Overview of Key Systems (an example of portfolio categories)



Challenge: find a good balance between all categories

Degrees of Change

- Stop something – remove a problem;
- Business as usual – sustain performance;
- Incremental change – targeted improvement;
- Innovation – radical change.

Ward and Daniel (2006)

Oefening

- Denk aan een organisatie die je (liefst van binnenuit) kent.
 - Heeft deze organisatie een duidelijke, geactualiseerde business-strategie?
 - Is deze business-strategie voldoende bekend bij de werknemers?
 - Is de IT/IS-strategie afgestemd op de business-strategie?
 - In welke mate zijn nieuwe digitale opportuniteiten opgenomen in de business-strategie?
 - Welke IT/IS-projecten zouden strategisch kunnen zijn voor dit bedrijf?
 - Doe een beperkte SWOT-analyse.
 - Welke business processen zouden op basis hiervan het eerst in aanmerking komen om aan te pakken en zo de performantie van de organisatie te verhogen? Leg uit waarom.