Announcements

- Read Messerschmitt Ch2.3 for Thursday.
- Read Frito Lay case for Thursday.

- Homework assignment 2 will be posted to web tonight!!! (due in 1 week)
Student Presentations
Review from last class

What is a business process?

- A designed succession of actions to the accomplish of some result in a business.

What is a business function?

- A category of activity in a business that requires people with a particular specialization.
  - IT function, marketing function, sales function, etc.
Porter Competitive Model?

- What is it?
  - A model to help understand the competitive environment in which a company operates.

- What are the “5 forces”?
  - Intra-Industry Competition
  - Bargaining power of Suppliers
  - Bargaining power of Customers
  - Substitutes
  - Threat of New Entrants.
Porter Competitive Model
(Identify the Industry and the Specific Market Being Evaluated)

- Potential New Entrants
- Intra-Industry Rivalry
  - Strategic Business Unit
  - Bargaining Power of Suppliers
  - Bargaining Power of Buyers
- Substitute Products and Services
Porter Competitive Model
Education Industry – Universities

Potential New Entrants

Intra-Industry Rivalry
SBU: UCSC
Rivals: UC campuses, CSU, Private universities, Community Colleges

Bargaining Power of Suppliers
- Faculty
- Staff
- Equipment and Service Suppliers
- Alumni
- Foundations
- Governments
- IT Vendors

Substitute Products and Services
- Internet Distance Learning
- Books and Videotapes
- Computer-Based Training
- Company Education Programs

Bargaining Power of Buyers
- Students
- Parents
- Businesses
- Employers
- Legislators

- Foreign Universities
- Shift in Strategy by Universities or Companies
Porter Model in Business Paper

- You must include a Porter Model in your Business Paper
  - Figure
    - Make it look nice!
  - Narrative analysis of the five forces
    - Identify the industry.
    - Identify the major buyers, suppliers, potential new entrants, substitutes, and inta-industry rivals.
    - Discuss if and why these players put strong or weak competitive pressures on your business.
Example: Usefulness of Porter Model

- Bob wants to start a dentist office
  - However, bob did not go to dental school
  - Bob will hire the dentist and other staff
  - Is this a good model?

<table>
<thead>
<tr>
<th>New Entrants</th>
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<tbody>
<tr>
<td>Suppliers</td>
</tr>
<tr>
<td>Dentist (Alice)</td>
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No! Dentist has too much bargaining power, she could always go into business for herself.
Example: Usefulness of Porter Model

Suppose Alice, who is a dentist, opens an office

- **Suppliers**
  - Staff
  - Hygienists

- **New Entrants**
  - Dental School Graduates
  - Dentists moving in from other regions

- **Intra-industry rivals**
  - SBU: Alice’s Dentist Office
  - Other local dentist offices

- **Substitutes**
  - Alternative Medicine?

- **Buyers**
  - Public in general
  - Insurance companies
  - Those wanting cosmetic dentistry
“Primary” Porter Strategies

- In economics you will learn a market where:
  - Product is a commodity
  - Firms all have the same production costs
  - New firms can enter market at no cost (“free entry”)

profits are driven to zero.

- Consequently Firms need to
  - Differentiate and/or
  - Achieve Cost leadership
"Primary" Porter Strategies

**Differentiation**—customer values the differences that you provide in products, services or capabilities.

**Cost**—become the lowest cost provider. If this is the only primary strategy in the industry, over time there will only one ultimate winner.
Porter Supporting Strategies

- **Innovation**
  - Can reduce costs and or **differentiate**

- **Growth**
  - Help offset fixed **costs**
  - Establish reputable brand (differentiate)

- **Alliances**
  - Achieve more complete solution (differentiate)
  - Integration of each others technology may reduce **costs**
**Rules Regarding Strategies**

- Must pick *at least* one of the two primary strategies.

- Can pick any combination of supporting strategies.

Let’s test the logic of this using Dell and Wal-Mart Stores.
Dell, Inc. Strategies

Primary Strategy:
- Differentiation
- Least Cost

Supporting Strategies:
- Innovation
- Growth
- Alliances
Wal-Mart Strategies

Primary Strategy:
- Least Cost
- Differentiation

Supporting Strategies:
- Innovation
- Growth
- Alliances
Porter Model Tips

1. To incorrectly define the industry can cause major problems in doing Section I of the business analysis paper.

2. You must identify the specific market being evaluated.

3. Your analysis company is the “Strategic Business Unit.”

4. Identify rivals by name for majors, by category for minor rivals if needed to present the best possible profile of rivals.
Porter Model Tips

5. Be sure to address the power implications of both customers and suppliers. Power buys them what?

6. Identify buyers and suppliers by categories versus companies.

7. Summarize your Porter Model analysis.
What do Porter Models Have to do with IT?

Any ideas?
Strategic Application
Evolution

Progression of Information Technology within an enterprise.
Level 1: Strategic
Level 2: Offensive
Level 3: Defensive
Level 4: Cost-Justified
Level 5: Controlled

The progression is from bottom to top.
Strategic Uses of Information Technology

Strategy

- Improving Business Processes
- Promote Business Innovation
- Locking in Customers and Suppliers

IT Role

- Use IT to reduce costs of doing business
- Use IT to create new products or services
- Use IT to improve quality, Use IT to link business to customers and suppliers

Outcome

- Enhance Efficiency
- Create New Business Opportunities
- Maintain Valuable Customers and Relationships
Strategic Uses of Information Technology

Strategy
- Raise Barriers to Entry
- Build a Strategic IT Platform
- Build a Strategic Information Base

IT Role
- Increase amount of investment or complexity of IT needed to compete
- Leverage investment in IS resources from operational uses to strategic uses
- Use IT to provide information to support firm’s competitive strategy

Outcome
- Increase Market Share
- Create New Business Opportunities
- Enhance Organizational Collaboration
Porter Model and Information Systems:

1. Build **barriers** to prevent a company from **entering** an industry?

2. Build in costs that would make it difficult for a customer to **switch** to another supplier?

3. Change the basis for competition within the industry?

4. Change the balance of power between a company and its customers or suppliers?

5. Provide the basis for new products and services?
Porter's Value Chain

- The Competitive Model deals with the environment within which a company competes.

- The Value Chain addresses the flow of a product through the organization.
  - It starts with the original idea in research and tracks its progress all the way to the customers.
Value Chain Purpose

- A way of classifying a company's activities and how they help deliver value to the customer.

- A framework for evaluating decisions like outsourcing, or deployment of IT.
Things to Remember Regarding the Value Chain

- The ultimate objective is value to customer.

- As a new product and/or services moves through the value chain, it is important to maximize value-add activities and minimize things that do not add value to customer.

- Functional departments must be sure to emphasize the ultimate goal of value to customer and not do things that seem to make them look good but contradicts the ultimate objective.
Simple Value Chain for Manufacturing Industry

Research and Development → Engineering → Production and Manufacturing → Marketing → Sales and Distribution → Service
Simple Value Chain for Retail Industry

- Partnering with Vendor
- Buying
- Managing Inventory
- Distributing Inventory
- Operating Stores
- Marketing and Selling
Examples of IT Supporting Value Chain

Support Processes

- Administrative Coordination and Support Services
- Collaborative Workflow Intranet
- Human Resources Management
- Employee Benefits Intranet
- Technology Development
- Product Development Extranet with Partners
- Procurement of Resources
- e-Commerce Web Portals for Suppliers

Primary Business Processes

- Inbound Logistics: Automated Just-in-Time Warehousing
- Operations: Computer-Aided Flexible Manufacturing
- Outbound Logistics: Online Point-of-Sale and Order Processing
- Marketing and Sales: Targeted Marketing
- Customer Service: Customer Relationship Management

Competitive Advantage