Announcements

- Read Frito Lay case for Tuesday.
- Homework assignment 2 is posted on web (due on October 12th)
- Group assignments posted on website
- Presentation Assignments on website

Announcements

Next Week's 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

Bargaining Power of Suppliers

Intra-Industry Rivalry

Strategic Business Unit

Bargaining Power of Buyers

Substitute Products and Services

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 intra-industry rivals
  - Discuss if and why these players put strong or weak competitive pressures on your business.

Example: Usefulness of Porter Model

Suppose Alice, who is a dentist, opens an office

- New Entrants
  - DSM IV School Graduates
  - Dentists moving in from other regions
- Suppliers
  - Staff
  - Hygienists
- Intra-Industry rivalry
  - SBU: Alice’s Dentist Office
  - Other local dentist offices
- Buyers
  - Public in general
  - Insurance companies
  - Those wanting cosmetic dentistry
- Substitutes
  - Alternative Medicine?

"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

<table>
<thead>
<tr>
<th>Strategy</th>
<th>IT Role</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve Business Processes</td>
<td>Use IT to reduce costs of doing business</td>
<td>Enhance Efficiency</td>
</tr>
<tr>
<td>Promote Business Innovation</td>
<td>Use IT to create new products or services</td>
<td>Create New Business Opportunities</td>
</tr>
<tr>
<td>Locking in Customers and Suppliers</td>
<td>Use IT to improve quality</td>
<td>Maintain Valuable Customers and Relationships</td>
</tr>
</tbody>
</table>

Strategic Uses of Information Technology

<table>
<thead>
<tr>
<th>Strategy</th>
<th>IT Role</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise Barriers to Entry</td>
<td>Increase amount of investment or complexity of IT needed to compete</td>
<td>Increase Market Share</td>
</tr>
<tr>
<td>Build a Strategic IT Platform</td>
<td>Leverage investment in IS resources from operational uses to strategic uses</td>
<td>Increase Business Opportunities</td>
</tr>
<tr>
<td>Build a Strategic Information Base</td>
<td>Use IT to provide information to support firm's competitive strategy</td>
<td>Enhance Organizational Collaboration</td>
</tr>
</tbody>
</table>

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 service moves through the value chain, it is important to maximize value-add activities and minimize things that do not add value to the 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 contradict 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

Other terms in Chapter 2
- Agile Company
  - Ability to prosper in rapidly changing environment
  - Some good examples in O'Brien ch2

A Virtual Company

A form of organization that uses telecommunications networks and other IT to link the people, assets and ideas of a variety of business partners, no matter where they may be located, in order to exploit a business opportunity.

Virtual Company Positives
- Share infrastructure and risk.
- Link complementary core competencies.
- Reduce concept-to-cash time through sharing.
- Increase facilities.
- Expand market coverage.
- Migrate from selling products to selling solutions.
- Migrate from selling boxes to selling systems.

Possible Negative Factors
- Will the vendor be able to perform the service at a cost sufficiently low enough and still gain a profit?
- Will the people laid off take with them essential skills and insights that the company needs?
- Will the vendor be able to respond to the organization's new needs for capabilities and flexibility?

Other terms in Chapter 2
- Explicit knowledge
  - That which can be written down
- Tacit Knowledge
  - That which is can not be written down
  - Example: How to Ride a bicycle.
- Much of a company's value is in its knowledge
  - Patents, documents
  - Tacit knowledge in employee's heads
Other terms in Chapter 2

- Knowledge-Creating Company
  - Create new business knowledge
  - Disseminate knowledge throughout company
- Knowledge Management Systems
  - Facilitate this dissemination
  - Often, like a search engine on a company intranet.
- Aside: might a knowledge management system affect the negotiating power of employees?

Total Quality Management

How do you say to a long time, loyal, hard working employee that quality isn’t good enough?

Total Quality Management

1. We are good, but we must continue to improve.

2. Individually and/or departmentally we may be very good but we must be as good in the total efforts of the entire organization.

What You’d Get From 99.9% Suppliers

- At Least 20,000 Wrong Drug Prescriptions Each Year.
- More than 15,000 Newborn Babies Dropped by Doctors or Nurses Each Year.
- Unsafe Drinking Water at Least One Hour Each Month.
- No Telephone Service or Television Transmission for Nearly Ten Minutes Each Week.
- Two Short or Long Landings at O’Hare Airport Each Day.
- Nearly 500 Incorrect Surgical Procedures Each Week.
- 2,000 Lost Articles of Mail Per Hour.

What You’d Get From Six Sigma Suppliers

- One Wrong Prescription in 25 Years.
- Three Newborn Babies Dropped by Doctors or Nurses in 100 Years.
- Unsafe Drinking Water One Second Every Sixteen Years.
- No Telephone Service or Television Transmission for Nearly Six Seconds in 100 Years.
- One Short or Long Landing in Ten Years in all the Airports in the U.S.
- One Incorrect Surgical Procedure in Twenty Years.
- Thirty-five Lost Articles of Mail Per Year.

Chapter 2 Summary

- Porter models are important as a way to evaluate competitive environment and/or internal processes.
- Use Porter strategy terminology in discussing how an industry and companies in the industry compete.