Announcements

- Read
  - Chapter 3 (51-55)
  - Chapter 4 (56-62)
- Due Tuesday
  - Midterm Exams
  - Final Exam (Announced)
  - Assignment 2
  - 10/15
- Business plan proposal due

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.

Generic Value Chain

Value Chain Purpose

- A way of classifying a company’s activities and how they help deliver value to customers.

- 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,
- maximize value-adding activities
- minimize/eliminate things that do not add value to customer.
- Functional departments must be sure to emphasize the ultimate goal of value.

Simple Value Chain for Manufacturing Industry

Examples of IT Supporting Value Chain

Other terms in Chapter 2

- Explicit knowledge
  - That which can be written down
- Tacit Knowledge
  - That which is not 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

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?

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.
**Frito Lay Case**

**Frito Lay**

- **Market:**
  - Salty Snacks
- **Who owns Frito Lay**
  - PepsiCo
- **Competitors:**
  - P & G (Pringles)
  - Anheuser Busch (Eagle Snacks)
  - Borden (Wise Chips)
  - Small Regionals
- **Sales Force**
  - 10000 people
  - Drive around in trucks; sell and deliver snacks

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**Frito Lay**

- **Growth**
  - In the 70s, "double digit"
  - Mid 80s - slowed to single digit.
  - Foreign Expansion?
    - Not for Frito-Lay division, because PepsiCo has a separate international snacks div.
- **Good:**
  - Several top brands
- **Bad**
  - Monolithic national approach

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**Frito-Lay**

- **Segmentation**
  - Supermarkets
  - "up/down street"
- **Regionalized Micro-Marketing**
  - Targeted smaller brands to regional customers
- **Hand Held Computer**
  - Small computer for each salesperson to carry around
  - Log sale transaction data.

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**Frito Lay**

- **3 stated objectives**
  - Replace optical scanner system used now
  - IBM will stop supporting it soon
  - ½ hour per day per driver paper-work reduction
- **Marketing effectiveness**
  - Detailed sales data
    - will help make regional marketing decisions
  - Negotiate with stores for more shelf space

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**Frito-Lay**

- **Cost of Implementation:**
  - Data Center upgrade
    - $12 million
  - Machinery in Truck
    - 10000 X 3000 = $30 million
  - computers in distribution centers
    - 5-10 million?
  - 45 Systems Development Professionals
    - $70K x 45 = ~3 million
- **TOTAL:** 45-55 million
Frito Lay

* To have a 10% Rate of Return, what would the benefits per year have to be? (for simplicity assume these benefits are received every year forever)
  ~5 million

Break into discussion groups of 3 or 4

- What are the risks the project is facing?
- What is Frito Lay doing to mitigate these risks?
- Does your group think the potential benefits are worth the risks and costs? Why or why not?