Leaning Objectives

1. Understand competitive strategy concepts
2. Understand Porter’s value chain
3. Understand Porter’s competitive model
4. Understand strategic roles IS can play
5. Understand national advantage
6. Understand customer focus
7. Understand total quality management
8. Understand a virtual corporation

Competitive Strategy

Gain Advantage

Reduce Disadvantage

Three Domains of IS in Driving

Support Strategic Objectives

Competitive Advantage

Three Domains of IS in Driving

Business Application Categories include:
- Operations Support Systems
- Management Support Systems
- Executive Information Systems

But
- Business applications are cross functional
- Impact several of these categories

Competitive Strategy

Strategy:
- Cost
- Differentiate
- Innovate
- Growth
- Alliance

Forces:
- Bargaining power of Customers
- Bargaining power of Suppliers
- Rivalry
- New Threats
- Substitutes

Two Key Elements
Competitive Strategy (continued)

How IS can contribute?

1. Volumes
2. Timing (time windows)
3. Complexity

IS is an enabling force!

Porter’s Value Chain

4. Time is dimension of the entire value chain
   ✓ Therefore, time is a MAJOR COMPETITIVE FACTOR – TIME TO MARKET
   ✓ Reduce time to market
   ✓ 50% is a good rule of thumb today
   ✓ Concurrent activities vs. Traditional Sequence
     • Development
     • Manufacturing
     • Sales and Marketing

Porter’s Value Chain (continued)

A Key Executives View:

Vital competitive networks:
From streamlining production to customizing marketing

“this becomes the business.”
Jack Welch
former CEO of GE

Porter’s Value Chain (continued)

1. Focuses on value to customer
2. Products and services pass through multiple functions within and enterprise
   ✓ Maximize the value adding activities
   ✓ Minimize or eliminate non value adding activities
   ✓ Validate that increasing value with a system function results in value to the customer
3. IS objectives must be consistent with the objectives of the entire enterprise – value to customer
Porter’s Value Chain (continued)

Primary Activity

Operations:
Transforming the inputs into a product or service
Automated flow, computer aided manufacturing

Outbound Logistics:
Collects, stores, and distributes products to customers
Tie customers order to manufacturing process and shipments, i.e. Dell

Marketing and Sales:
Identifies markets and how customers buy the company’s products and services.

Service:
Customer support and repair services

Common Support Services

Procurement:
Procure the inputs used in the firm’s value chain

Technology Development:
Providing for every aspect of an enterprise. Including, but not limited to information technology
Common Support Services

**Human Resource Mgmt.:**
Recruiting, hiring, training, development, and compensation of employees

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**Firm Infrastructure:**
Planning, accounting, finance, legal, community affairs, government relations, and quality management

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**Porter Competitive Model**

Awareness of competitive forces can help a company take out a position in its industry that is less vulnerable to attack.

*Michael E. Porter
*Competitive Strategy*

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**Porter’s Competitive Model**

- Provides understanding of the structure of an industry’s business environment and of competitive threats within and from other industries.
- The model breaks an industry into logical parts, analyzes them and puts them back together. (just like an engineer would do)
- Avoids viewing the industry too narrowly.
Porter Competitive Model (continued)

Competitive Strategy
- What is driving competition in my current or future industry?
- What are my current or future competitors likely to do and how will we respond?
- How can we best posture ourselves to achieve and sustain a competitive advantage?

Porter Competitive Model (continued)

A Buyer Has Power If:
- It has large, concentrated buying power that enables it to gain volume discounts and/or special terms or services.
- What it is buying is standard or undifferentiated and there are multiple alternative sources.
- It earns low profit margins so it has great incentive to lower its purchasing costs.
- It has a strong potential to backward integrate.
- The product is unimportant to the quality of the buyers’ products or services.

Porter Competitive Model (continued)

A Supplier Has Power If:
- There is domination of supply by a few companies
- Its product is unique or at least differentiated.
- It has built up switching costs
- It provides benefits through geographic proximity to its customers.
- It poses a definite threat to forward integrate into its customers’ business.
- A long time working relationship provides unique capabilities.

Porter Competitive Model (continued)

Strategy Options
- **Primary Strategies**
  1. Differentiation
  2. Least Cost
- **Supporting Strategies**
  1. Innovation
  2. Growth
  3. Alliance

Porter Competitive Model (continued)

Can 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 in the relationship that a company has with customers or suppliers?
5. Provide the basis for new products and services, new markets or other new business opportunities?
Porter Competitive Model (continued)

Motor Cycles Industry

Bargaining Power of Suppliers
- Parts Manufacturers
- Electronic Components
- Specialty Metal Suppliers
- Machine Tool Vendors
- Labor Unions
- IT Vendors

Potential New Entrant

Intra-Industry Rivalry
SBU: Harley-Davidson
Rivals: Honda, BMW, Suzuki, Yamaha

Bargaining Power of Buyers
- Military Use
- Law Enforcement
- Recreational Cyclist
- Racers
- Young Adults

Strategic Roles (continued)

“Everything we’ve learned from the Internet says it plays to our strengths. It’s transforming everything we do and its just the beginning.”

Jeff Emmelt
GE CEO

Strategic Roles (continued)

While the rest of the world seemed content with GE’s progress, CEO Jack Welch pushed for higher revenues and profits through a new way of running the business.

GE needed to revamp their business strategies to adapt to the changing business environment and Welch concluded that internet-based processes needed to become the business standard.

Strategic Roles (continued)

IT has become a strategic necessity.
Believe it, act on it, or become a footnote in history.

James Champy

At least do an objective assessment of the potential of IT both as a company resource and the likelihood of it being used against you by a competitor.

Jack Callon

Strategic Roles (continued)

A boundary-less corporation!

Jack Welch described his goal of making GE into a company without bureaucracy, where people are curious, open, cooperative and always breaking down barriers.

“It’s how open you are about information, how open you are to ideas from other companies.”

Strategic Roles (continued)

Welch’s Creative Destruction:
Eliminated 81 unprofitable businesses.
Targeted $10 billion in sales and reduction of overhead costs with a more integrated information system but at the expense of laying off a number of employees.
Strategic Roles (continued)

1. You must pick one of the two primary strategies.
2. You can pick any combination of supporting strategies.

Strategic Roles (continued)

Specific Examples:
- Lower Costs
- Differentiate
- Innovate
- Promote Growth
- Develop Alliances
- Improve Quality and Efficiency
- Build an IT Platform
- Other Strategies

Strategic Roles (continued)

Federal Express Strategies
Primary Strategy: Differentiation
Least Cost
Supporting Strategies: Innovation, Growth, Alliances

Strategic Roles (continued)

Wal-Mart Strategies
Primary Strategy: Least Cost Differentiation
Supporting Strategies: Innovation, Growth, Alliances

Strategic Roles (continued)

Strategic Roles (continued)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>IT Role</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving 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>
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</table>
**Strategic Roles (continued)**

<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>Create New 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>

**Manufacturing Strategy**

- Vertically Integrated
- Vendor/Sub-contractor Emphasis
- Outsource

**Sales/Distribution Strategy**

- Field Sales Force
- Distributors
- Retail Stores
- Internet E-Commerce

**Company Structure Strategy**

- Independent
- Alliances
- Joint Ventures and/or Subsidiaries

**Information Systems Strategy**

- Self Develop
- Self Sufficient
- Application Package
- Self Sufficient
- Consultants & Systems Integrators
- Outsource
- Engineering
- Manufacturing
- Sales/Distribution
- Other Business Systems

**Diamond of National Advantage (continued)**

- Chance
- Factor Conditions
- Demand Conditions
- Firm Strategy, Structure and Rivalry
- Related and Supporting Industries
- Government

**Strategic Roles (continued)**

<table>
<thead>
<tr>
<th>Office Equipment Industry</th>
<th>Product/Service Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies</td>
<td>Printers</td>
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<tr>
<td>Printers</td>
<td>Scanners</td>
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<tr>
<td>Scanners</td>
<td>Fax Machines</td>
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<tr>
<td>Fax Machines</td>
<td>Publishing Systems</td>
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<tr>
<td>Publishing Systems</td>
<td>Document Management System</td>
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<tr>
<td>Document Management System</td>
<td>Multifunction Machines</td>
</tr>
</tbody>
</table>

**Product Price/Performance Strategy**

- High Volume
- Medium Volume
- Low Volume

**Customer Strategy**

- Corporations
- SOHO
- Public Institutions
- Home Market

**Market Strategy**

- North America
- Europe
- Asia Pacific
- Latin America

**Diamond of National Advantage**

The playing field each nation establishes and operates plays a significant role for its home-based companies to become a dominant competitor on a global basis.

**Diamond of National Advantage (continued)**

**Factor Conditions**

The nation’s position in factors of production necessary to compete in a given industry

**Demand Conditions**

The sophistication of home-market demand for the industries that are internationally competitive

**Related and Supporting Industries**

The presence or absence in the nation of supplier industries and other related industries that are internationally competitive

**Firm Strategy, Structure and Rivalry**

The conditions in the nation governing how companies are created, organized and managed, as well as the nature of domestic rivalry.
Total Quality Management

Focuses on:
- Continuous improvement
- Supplier managements
- Customer management
- Process management

Virtual Corporation

Six Characteristics of Virtual Companies

Borderless Technology
Excellence
Trust-Based
Adaptability
Opportunism

Firm Environment Performance

- Size
- Geographical scope
- Product scope
- Organization structure
- Technological resources
- Knowledge resources
- Creating switching costs
- Exploiting knowledge
- Developing response strategies
- Managing risks

Summary – Key Terms

1. Competitive advantage
2. Reengineering business processes
3. Integrated information systems
4. Porter Competitive Model
5. Barrier to entry
6. Switching costs (according to Porter)
7. Strategic information systems
8. Virtual company
9. Substitute products or services (according to Porter)
10. Total Quality Management (TQM)
Summary - Possible Exam Questions

1. What is the objective in using the Porter Value Chain Model?
2. What is the objective in using the Porter Competitive Model?
3. Why do some people conclude that the Porter Competitive Model is no longer a valid tool?
4. Why is there an advantage to include a business strategy model in your business analysis paper?
5. What roles can IS play in achieving competitive advantage?
6. What are competitive strategies?
7. What are competitive forces?
8. What is total quality management?
9. What is a virtual corporation?
10. What are the potential negative results of a virtual corporation?