Announcements

- Read Frito Lay case for Tuesday.

- Homework assignment 2 is posted on web

- posted on website:
  - Group/Company Assignments
  - Presentation/News Folio Assignments
Student Presentations
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
- Substitute Products and Services
- Bargaining Power of Buyers
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

Potential New Entrants
- Foreign Universities
- Shift in Strategy by Universities or Companies

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

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

Porter Competitive Model
Education Industry – Universities
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?

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

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

Suppliers
- Staff
- Hygienists

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
What do Porter Models Have to do with IT?

Any ideas?
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 companies activities and how they help deliver value to 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
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 Manufacturing
- Outbound Logistics
- Online Point-of-Sale and Order Processing
- Marketing and Sales
- Targeted Marketing
- Customer Service
- Customer Relationship Management

Competitive Advantage
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?
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.
Some Terminology from Messerschmitt
Definitions

- An application
  - a software program that provides direct and specific value to a user or organization

- A networked application
  - distributes programs across 2 or more computers which collaborate in realizing an application.
Definitions

- **Information Technology**
  - the suite of technologies that manage the storage, communication, and manipulation of information.

- **Infrastructure**
  - part of the information technology shared by many applications
    - Hardware - computers and the network
    - Software - operating system, middleware
Definitions

**Middleware**

software falling between the operating system and the application.
History of Computing

- **Centralized**
  - A few big mainframes to automate business functions such as payroll and accounting

- **Time-Shared**
  - Terminals added so many could access main frame

- **Decentralized**
  - PCs on every desk

- **Networked**
  - Applications could be geographically distributed
Definitions

**Legacy Applications**

- Applications implemented in the technology of yesterday.