TIM 50 - Business Information Systems
Lecture 4
Instructor: John Musacchio
April 10, 2014

- Announcements
  - Project team and company assignments to be posted soon
  - Project proposal due 4/24

- Reading
  - Finish Laudon and Laudon Ch 8 by Tuesday

Database Tutorials
- Watch videos on ecommons
- Attend 1 of 2 optional tutorial sessions
- Scheduled:
  
  JANUARY
  
  Sun  Mon  Tues  Wed  Thurs  Fri  Sat
  13   14   15  9:00-11  16   17   18  4-6pm  19

  Baskin 109

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. Defining the industry can cause major problems
2. Identify the specific market being evaluated
3. Your company is the “Strategic Business Unit”
4. Identify rivals by name for majors, by category for minor rivals

Porter Model Tips

5. Be sure to address the power implications of both customers and suppliers. Power gets them what?
6. Identify buyers and suppliers by categories and mention major ones by names.
7. Summarize your Porter Model analysis.

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

Information System Strategies for Dealing with Competitive Forces

- Low-cost leadership
  - Use information systems to achieve the lowest operational costs and the lowest prices.
- E.g. Wal-Mart
  - Inventory replenishment system sends orders to suppliers when purchase recorded at cash register.
  - Minimizes inventory at warehouses, operating costs.
  - Efficient customer response system.
Information System Strategies for Dealing with Competitive Forces

- **Product differentiation**
  - Use information systems to enable new products and services, or greatly change the customer convenience in using your existing products and services.
  - E.g., Google’s continuous innovations, Apple’s iPhone.
  - Use information systems to customize, personalize products to fit specifications of individual consumers.
    - E.g., Dell

- **Focus on market niche.**
  - Use information systems to enable specific market focus, and serve narrow target market better than competitors.
    - Analyzes customer buying habits, preferences
    - Advertising pitches to smaller and smaller target markets
    - E.g., Hilton Hotel’s OnQ System
    - Analyzes data collected on guests to determine preferences and guest’s profitability

- **Strengthen customer and supplier intimacy.**
  - Strong linkages to customers and suppliers increase switching costs and loyalty
  - **Toyota:** uses IS to facilitate direct access from suppliers to production schedules
    - Permits suppliers to decide how and when to ship suppliers to factories, allowing more lead time in producing goods.
  - **Amazon:** keeps track of user preferences for purchases, and recommends titles purchased by others

- **Some companies pursue several strategies at same time.**
  - Dell emphasizes low cost plus customization of products.
  - Successfully using IS to achieve competitive advantage requires precise coordination of technology, organizations, and people.

Porter’s Value Chain

- **The Competitive Model** deals with the environment within which a company competes
  - It starts with the original idea in research and tracks its progress all the way to the customers.

- **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.
The Business Value Chain Model

- Highlights activities in a business where
  - competitive strategies can best be applied
  - ISs are likely to have a strategic impact.
- Primary activities
- Support activities

Synergies, Core Competencies, and Network-Based Strategies

- Synergies:
  - When output of some units can be used as inputs to other units
  - When two firms can pool markets and expertise (e.g., recent bank mergers)
  - Lower costs and generate profits
  - Enabled by information systems that ties together disparate units so they act as whole

Synergies, Core Competencies, and Network-Based Strategies

- Core competency:
  - Activities for which firm is world-class leader.
    - E.g., world’s best miniature parts designer, best package delivery service.
  - Relies on knowledge that is gained over many years of experience as well as knowledge research.
  - Any information system that encourages the sharing of knowledge across business units enhances competency.
    - E.g., Procter & Gamble uses intranet to help people working on similar problems share ideas and expertise.

Disruptive Technologies: Riding the Wave

- Disruptive technologies:
  - Technologies with disruptive impact on industries and businesses, rendering existing products, services and business models obsolete:
    - Personal computers
    - World Wide Web
    - Internet music services
    - First movers versus fast followers
    - First movers of disruptive technologies may fail to see potential, allowing second movers to reap rewards (fast followers)
Prior to the Internet, competing globally was only an option for huge firms able to afford factories, warehouses, and distribution centers abroad. The Internet drastically reduces costs of operating globally. Globalization benefits:
- Scale economies and resource cost reduction
- Higher utilization rates, fixed capital costs, and lower cost per unit of production
- Speeding time to market

The large Xs show the dominant patterns, and the small Xs show the emerging patterns. For instance, domestic exporters rely predominantly on centralized systems, but there is continual pressure and some development of decentralized systems in local marketing regions.

Global System Configurations
- Centralized systems: All development and operation at domestic home base
- Duplicated systems: Development at home base but operations managed by autonomous units in foreign locations
- Decentralized systems: Each foreign unit designs own solutions and systems
- Networked systems: Development and operations occur in integrated and coordinated fashion across all units