Announcements

- Read
  - Otis Case
    - Assignment about reading due Thursday.
  - Begin Laudon & Laudon Ch 8 (83-97 until end of section 2, can skip case on 93)

Database Tutorial Sessions

- Try to attend ONE of the following three sessions
  - (they will all cover the same stuff)

Oakes (RM 205)
- Monday, 1/19/15, 2:00-3:30pm
- Wednesday, 1/21/15 2:00-3:30pm
- Friday, 1/23/15 2:00-3:30pm

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
- 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:
    - New Dentists
    - School Graduates
    - Dentists moving in from other regions
  - Suppliers:
    - Staff
    - Hygienists
  - Intra-industry rivals:
    - SBUs: 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. 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.

What do Porter Models Have to do with IT?

Any ideas?
Information System Strategies for Dealing with Competitive Forces

- 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 to factories, allowing more lead time in producing goods.
  - **Amazon**: keeps track of user preferences for purchases, and recommends titles purchased by others.