Announcements

- Read
  - Otis & Southwest Case
    - Assignment about reading due 1/26 Tues. (On ecommons)
  - Readings: Laudon & Laudon Ch 3 (41-69, can skip cases on 53 and 67)
If you qualify for classroom accommodations because of a disability,

- Contact DRC at 831-459-2089 or by email at drc@ucsc.edu.
  - Get “accommodation authorization”
- Submit your Accommodation Authorization to me
  - office hours or after class
  - preferably within the first two weeks of the quarter
Database Tutorial Sessions

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

Merrill Room 103

- Thursday, 1/21/16, 11:30-1:00pm
- Friday, 1/22/16, 5:00-6:30pm
- Monday, 1/25/16, 5:00-6:30pm
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
Strategic Business Unit

Bargaining Power of Buyers

Substitute Products and Services

M. E. Porter (1979) The Five Competitive Forces That Shape Strategy, HBR.
Porter Competitive Model
(Identify the Industry and the Specific Market Being Evaluated)

- Threat of New Entry
  - Time and cost of entry
  - Specialist knowledge
  - Economies of scale
  - Cost advantages
  - Technology protection
  - Barriers to entry

- Competitive Rivalry
  - Number of competitors
  - Quality differences
  - Other differences
  - Switching costs
  - Customer loyalty

- Supplier Power
  - Number of suppliers
  - Size of suppliers
  - Uniqueness of service
  - Your ability to substitute
  - Cost of changing

- Threat of Substitution
  - Substitute performance
  - Cost of change

- Buyer Power
  - Number of customers
  - Size of each order
  - Differences between competitors
  - Price sensitivity
  - Ability to substitute
  - Cost of changing

Source: www.mindtools.com/pages/article/newTMC_08.htm
Porter Competitive Model
US Mobile Telephony Industry

Potential New Entrants
- Foreign Telcos
- Change of strategy from player in another industry

Intra-Industry Rivalry
SBU: AT&T
Rivals: Verizon, Sprint-Nextel, T-Mobile

Bargaining Power of Suppliers
- Handset makers
- Equipment Manufacturers
- Employees

Substitute Products and Services
- VoIP services; VoIP over wifi
- Messaging, social-networks over wifi

Bargaining Power of Buyers
- Retail Customers
- Corporate Customers

SBU: strategic business unit
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?

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Bob’s Dentist Office</th>
<th>Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dentist (Alice)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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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

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Intra-industry rivals</th>
<th>Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Staff</td>
<td>SBU: Alice’s Dentist Office</td>
<td>• Public in general</td>
</tr>
<tr>
<td>• Hygienists</td>
<td>Other local dentist offices</td>
<td>• Insurance companies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dental School Graduates</td>
</tr>
<tr>
<td>• Dentists moving in from other regions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Substitutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alternative Medicine?</td>
</tr>
</tbody>
</table>
“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**
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?
Porter Model and Information Systems:

1. Build entry **barriers** to prevent a company from **entering** an industry

2. Build in costs (switch 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
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 Southwest Airline and Wal-Mart Stores.
Case Study: Southwest Case

Follow the Porter’s “competitive” model:

1. Understand “market landscape” using the 5 forces:
   a. Competitive rivalry
   b. Threat of new entry
   c. Buy power
   d. Supplier power
   e. Threat of substitutions

2. Discuss what the Southwest did leads to its success? (Please be specific on how its action impact each of the 5 forces.)
Southwest Airline Strategies

Primary Strategy:
  Differentiation
  Least Cost

Supporting Strategies:
  Innovation
  Growth
  Alliances
Case Study: Wal-Mart Case

Follow the Porter’s “competitive” model:

1. Understand “market landscape” using the 5 forces:
   a. Competitive rivalry
   b. Threat of new entry
   c. Buy power
   d. Supplier power
   e. Threat of substitutions

2. Discuss what the Wal-mart did leads to its success? (Please be specific on how its action impact each of the 5 forces.)
Wal-Mart Strategies

Primary Strategy:
Least Cost
Differentiation

Supporting Strategies:
Innovation
Growth
Alliances