

Leadership Moment

*The most
difficult work of
leadership
involves
learning to
experience
distress without
numbing
yourself*

-ron heifetz



Objectives & Reminders

Objectives for today

1. *Industry Analysis: Introduce Porter 5 forces*
2. *Introduce strategic planning*
3. *Identify the cross section competitive strategies to the competitive forces*
4. *What is strategic alignment*
5. *Strategic Grid (?)*

Reminders:

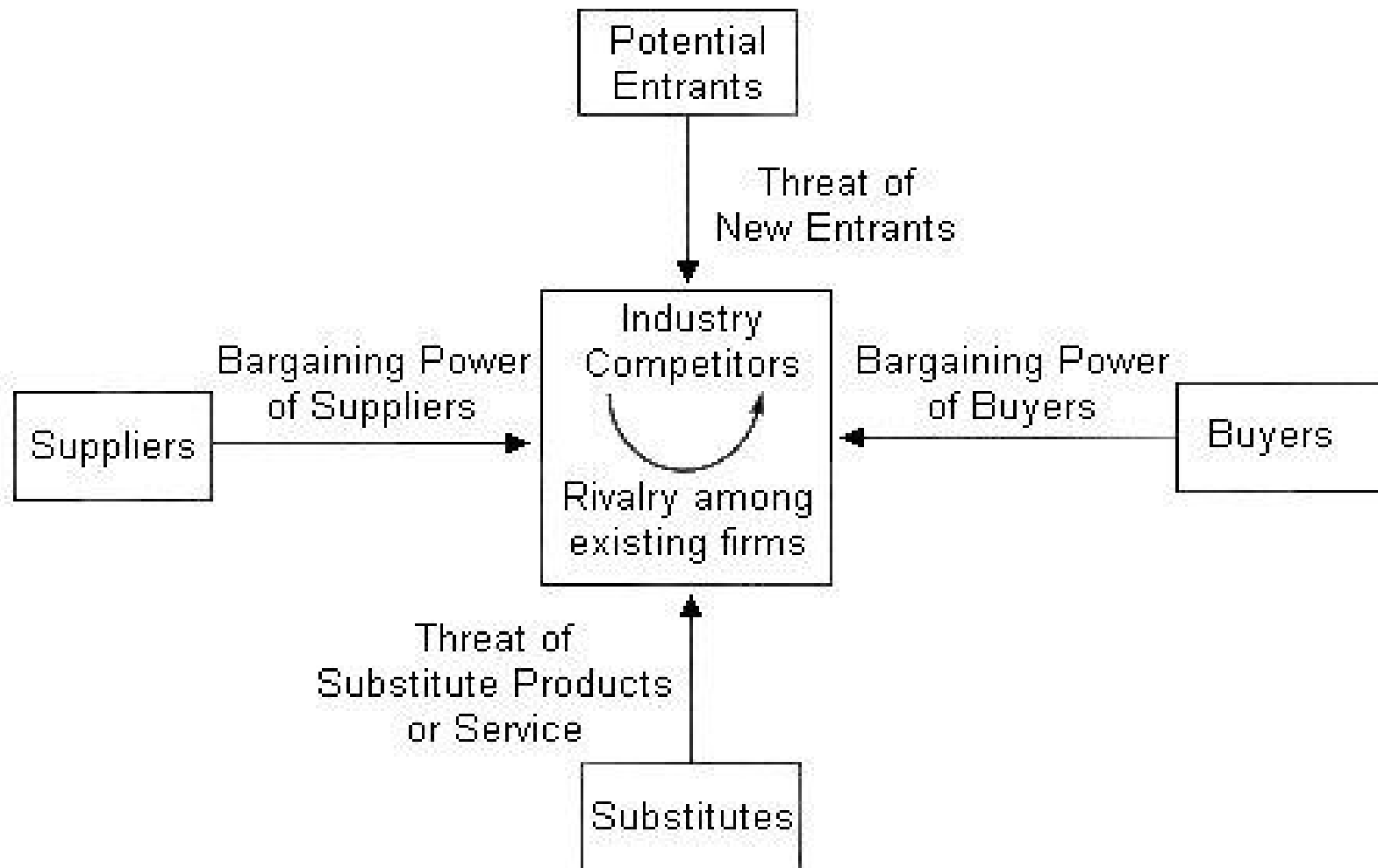
- Form groups –
 - SCRATCH (3) – group submission
 - Market basket – individual submission
 - Kickstarter (5) – group submission
- Lab Jan 16
- Lab Jan 23
- SCRATCH due by Jan 23 @ 23:55
- Lab Feb 6
- Lab Feb 13
- Market Basket due by Feb 14th @ 23:55
- Midterm – Feb 27th @ 6:30
- Lab Mar 6
- Lab Mar 13
- Quiz Mar 31
- FINAL project Update due by Mar 6th @ 23:55
- FINAL Project due by Apr 7 @ 23:55
- Final Presentations Apr 7 & 9
- FINAL exam - TBD

Industry Analysis

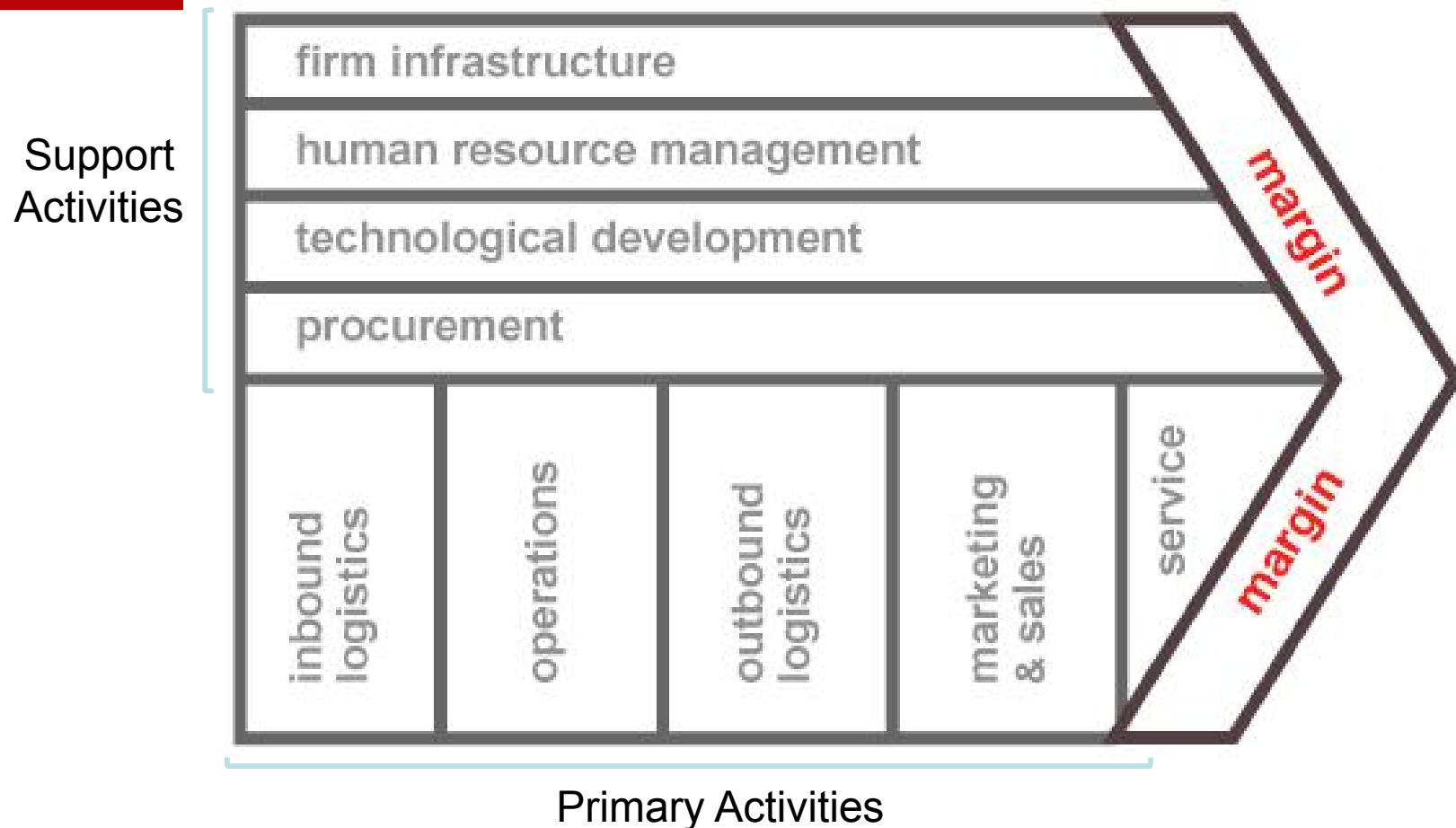


- **Underlying premise: different industries offer different profit potential**
- Differences measured using **Porter's 5 Forces** framework

Porter's 5 Forces Framework*



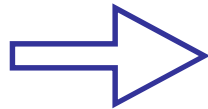
Porter's Value Chain



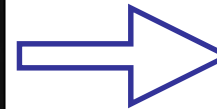
An Example: A Simplified Value Chain ⁶



Customer places
order



Product is
manufactured

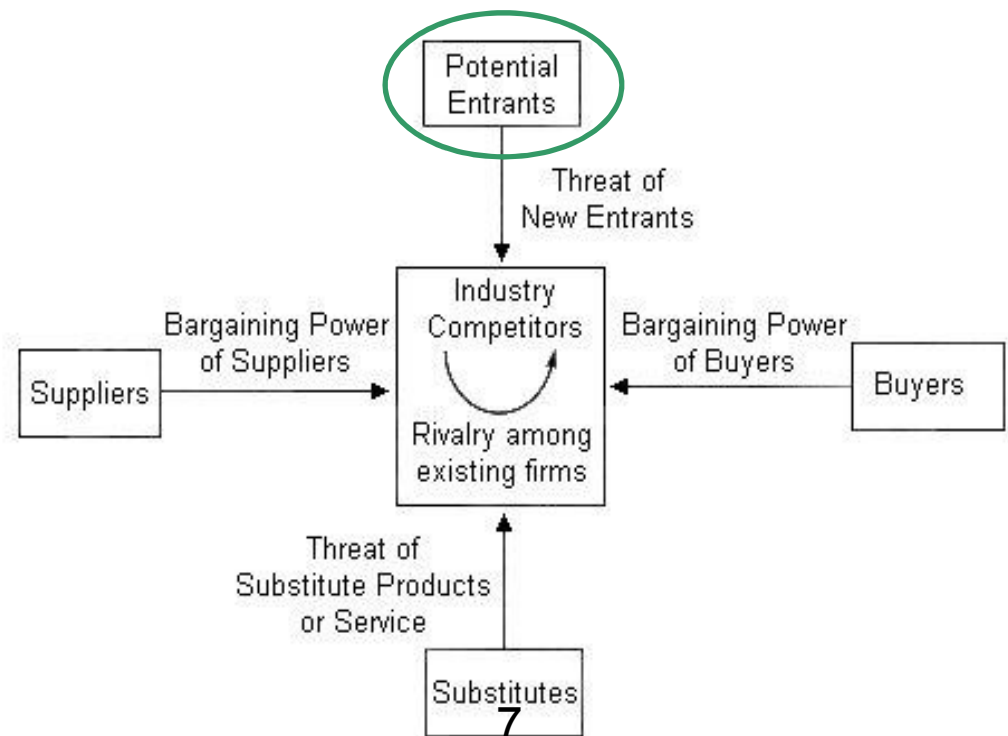


Product is delivered
to customer

Threat of New Entrants

- How easily can competitors **enter** the market?
- Are the barriers significant enough?

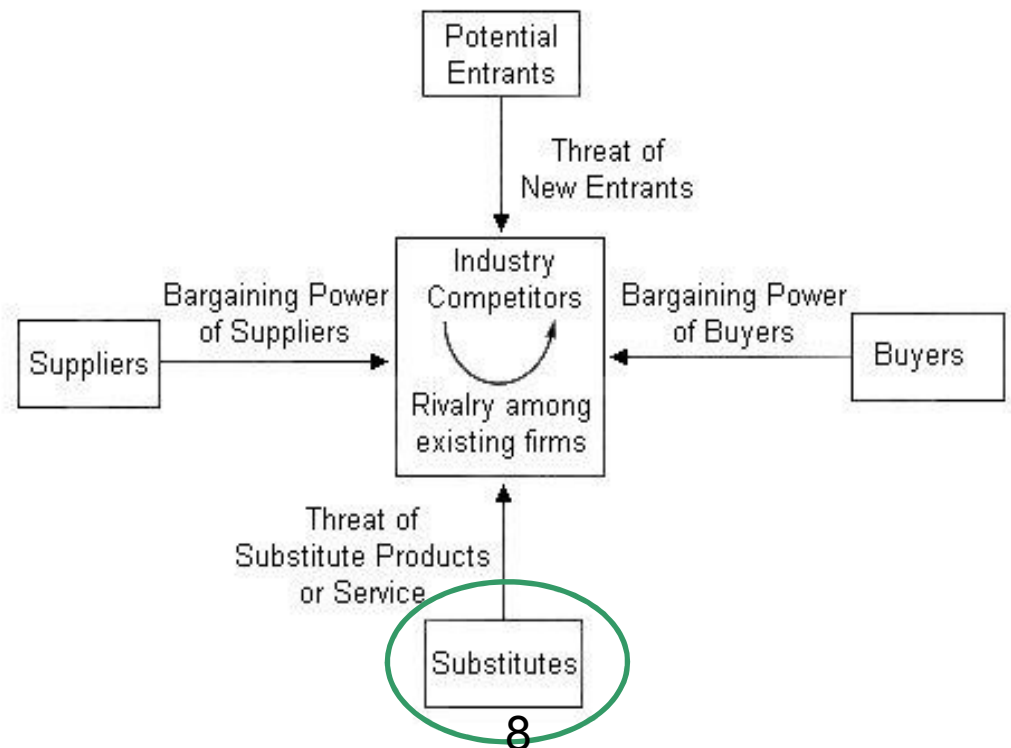
- Example:
Car Manufacturing



Threat of Substitutes

- How easily can the product or service be **replicated** in a way that meets the same customer needs?

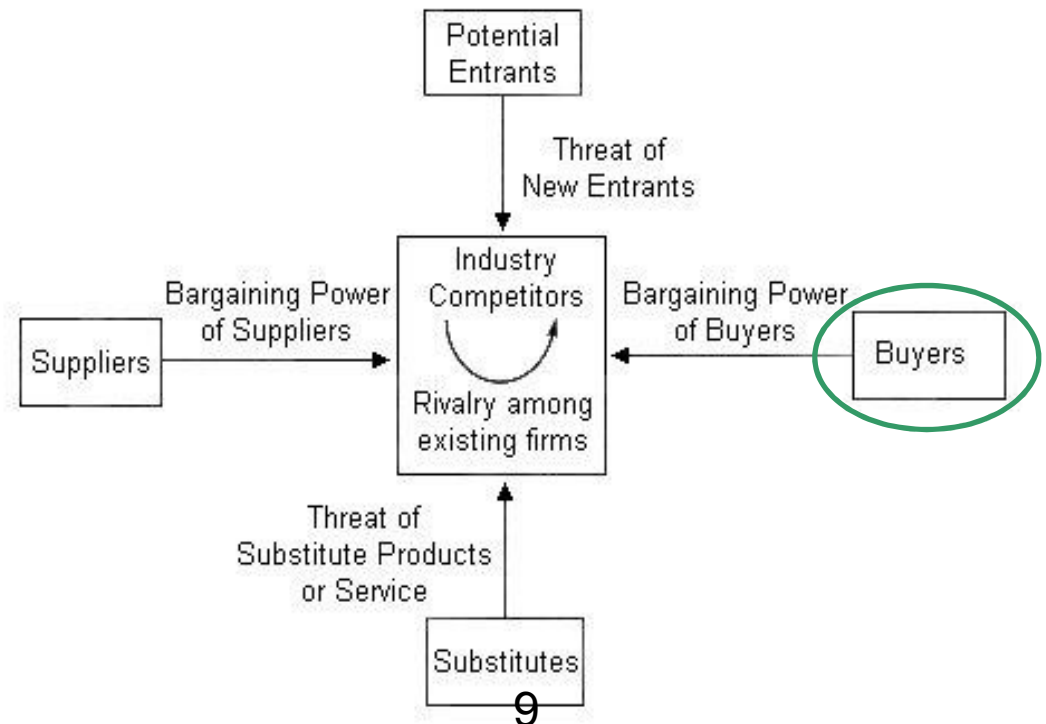
- Example:
Travel agencies
vs. Travelocity,
Expedia, Orbitz



Bargaining Power of Buyers

- How easily can **customers** influence the **price** of the product or service?

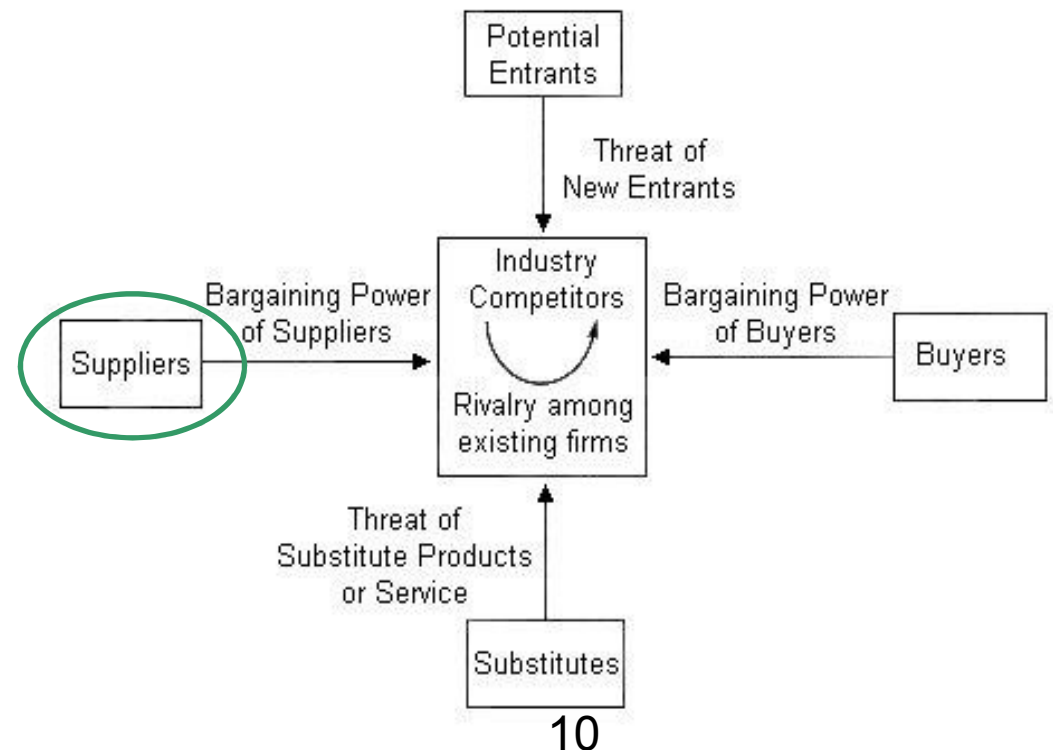
- Example:



Bargaining Power of Suppliers

- How easily can **suppliers** **sell** their products and services **at high prices**?

- Example:
Microsoft's
relationship
to PC
manufacturers



Rivalry Among Existing Competitors

- How fierce is the battle for position and how aggressive is competition in the industry?
- Examples:
 - Cartels** – allocation of market shares, centralized price setting: **OPEC**
 - **Hyper competition** – *fierce rivalry among existing firms and a very rapid rate of innovation leading to fast obsolescence of any competitive advantage: **Flash Drives***

IS Creates Value by **Changing*** the 5 Forces

- *Increase barriers to entry in the industry*

Examples: Amazon, Netflix, Banking, Hotels

- *Decrease suppliers' bargaining power*

Example: use on-line exchanges to reduce cost of buying
– electronic procurement

- *Decrease buyers' bargaining power*

Examples: eBay – personalize services and buying experiences and reduce buyers bargaining power

IS Creates Value by **Changing** the 5 Forces

- *Change the basis of industry competition (rivalry)*

Examples: Amazon – online retailing, Dell – direct channel
-differentiate the buying experience

- *Decrease the availability of substitutes*

Examples:

- (a) Increase differentiation: Apple – iTunes (app store), Amazon – recommendation system, product reviews, Netflix – recommendation system, Hotels – CRM (loyalty)
- (b) Strongly enforce patent rights (intellectual¹³ property)

Q & A

How easily can the product or service be replicated in a way that meets the same customer needs is called?

Threat of Substitutes



Strategic Information Systems Planning

*What do managers need to know about the strategic
Information Systems planning process*

How is Business Strategy Developed?

By Asking Strategic Questions

- Deep Insight
- Creativity

Why is MIS Involved?

- Provide accurate transactions
- Provide fast communications (machine to machine, human to human) and transactions
- Support decision making
- Enable competitive strategy

What are the Key Elements?

- Efficiency - “Doing things right”
 - Processes can be accomplished either more quickly or with fewer resources
- Effectiveness - “Doing the right things”
 - Offering new or improved goods or services that the customer values

Business Strategy?*

- A set of activities and decisions firms make that determine:
 - Products and services the firm produces
 - Industries in which the firm competes
 - Competitors, suppliers, and customers of the firm
 - Long term goals of the firm
 - Resource: [Video](#) (1:47)

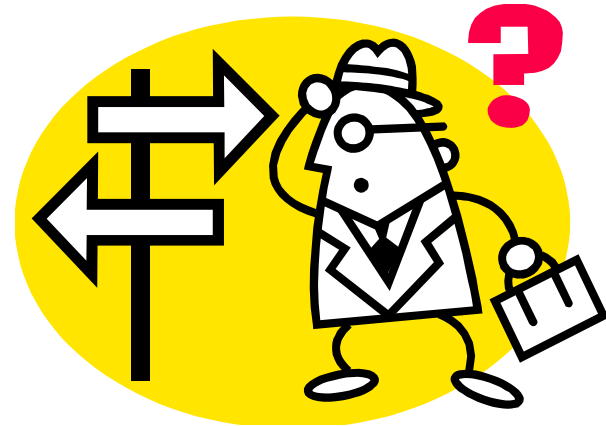
Strategic IS Planning

- A partnership between
 - Those with technical skills
 - The information systems group
 - General and functional managers
- Objective:
 - Define how the firm plans to use and manage IS resources to fulfill its strategic objectives



Strategic IS Planning Process

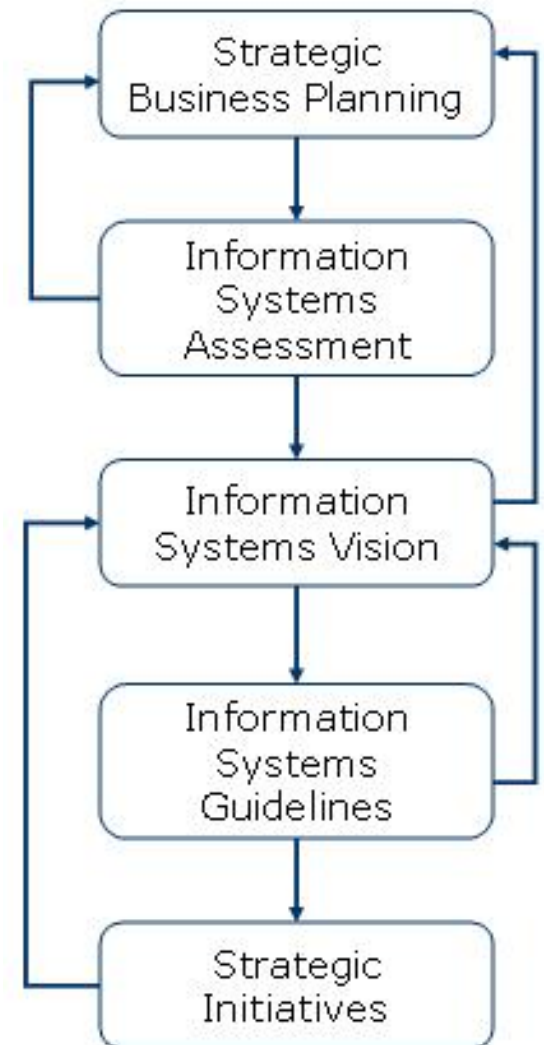
- Gathering information about the current availability and performance of IS resources
- Providing a roadmap for decision-making about information systems



Strategic IS Planning Process

- Strategic business planning
- IS assessment
- IS vision
- IS Guidelines
- Strategic Initiatives

An Iterative Process



Information Systems Vision*

The Information Systems Vision



aligned and reflect

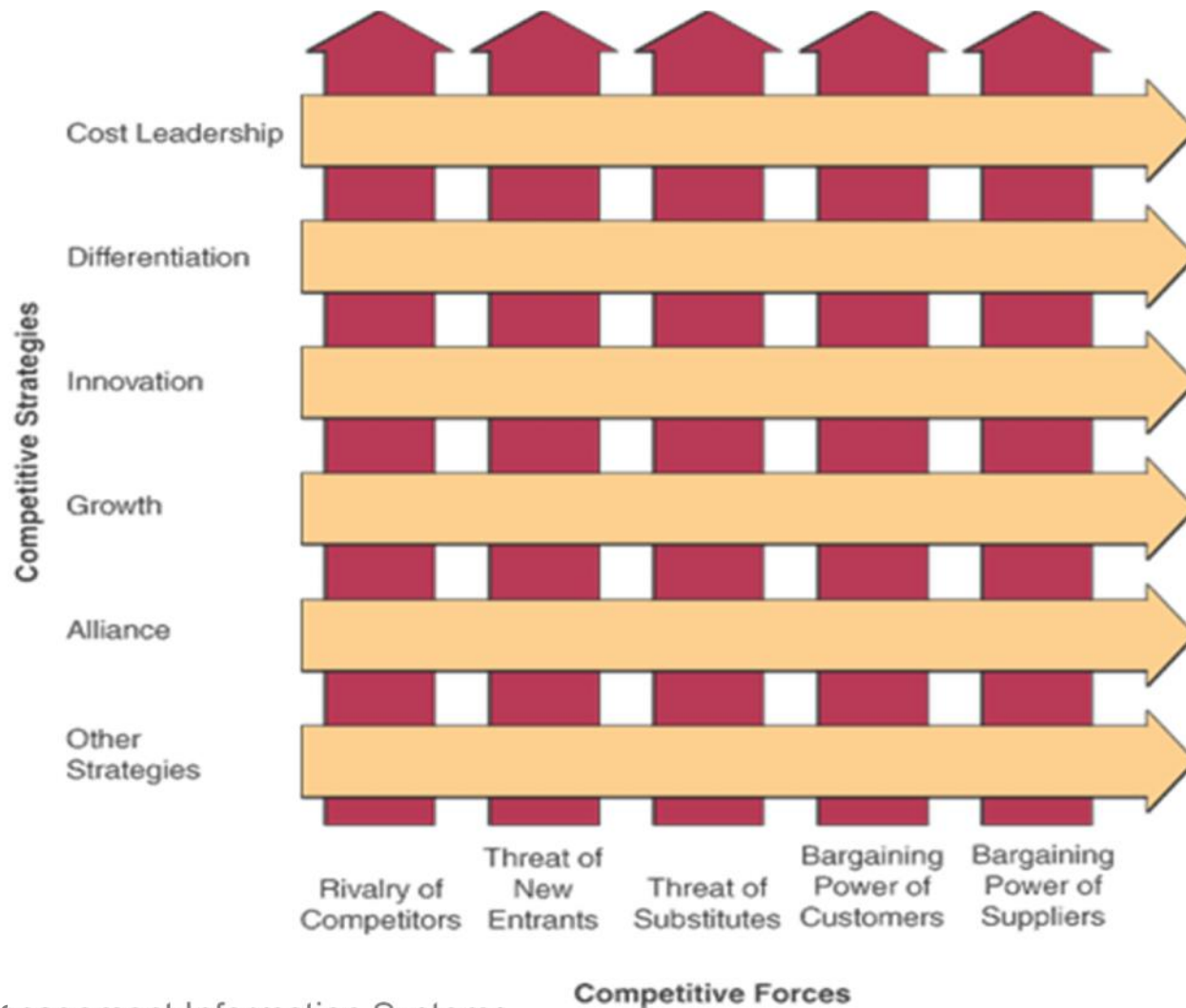
The Firm's Business Strategy

- The IS vision is unique and highly specific to a given firm.
- Two common analytical tools (to identify vision/strategy) :
 - Critical Success Factors (CSF) methodology
 - Strategic impact grid

Competitive Strategies



Competitive Forces & Strategies*



How competitive strategies and forces interact

Example: Marketing's interpretation of Porter and intersection to the 4p's

	Product	Price	Promotion	Place
Threat of new entrants				
Rivalry among existing firms				
Threat of substitute products/services				
Bargaining power of suppliers				
Bargaining power of buyers				

Cost Leadership*

Become low-cost producers
Help suppliers or customers reduce costs
Increase cost to competitors



Competitive
Scope

Cost Strategy		
	Low Cost	High Cost
Broad Market	Wal-Mart	Neiman Marcus
Narrow Market	Payless Shoes	Tiffany & Co.

priceline.com®

Differentiation*

Develop ways to differentiate a firm's products from its competitors
Can focus on particular segment or niche of market

Procter and Gamble and Nike

P&G

- concentrate on relationship mgmt
- 360 innovation/efficient MIS
- creating a niche for some products
 - vapor rub for kids, vicks for blocked nose, body ache
 - night tablets for sound sleep

Nike

- distinctive marketing
 - allows customers to design their own shoe from predefined designs, innovation
- Of automatic self-lacing sneakers, children's clothing, Bauer Nike...
- risk of failure reduces due to differentiation



Innovation

Find new ways of doing business

Unique products or services or markets

Radical changes to business processes to alter the fundamental structure of an industry



“Whether you are taking money
Out of the ATM or buying an
Airline ticket or doing a stock
Trade, we are in the background
Doing all that stuff to make that
Happen”

Growth

Expand company's capacity to produce
Expand into global markets
Diversify into new products or services

The Walmart logo, featuring the word "WAL" in blue, a blue five-pointed star, and the word "MART" in blue, all in a bold, sans-serif font.

Wal-Mart uses merchandise ordering by global

Alliances

Establish linkages and alliances with
Customers, suppliers, competitors, consultants and other companies
Includes mergers, acquisitions, joint ventures, virtual companies



Enabling Strategy with IT*

Basic Strategies in the Business Use of Information Technology
Lower Costs <ul style="list-style-type: none">• Use IT to substantially reduce the cost of business processes.• Use IT to lower the costs of customers or suppliers.
Differentiate <ul style="list-style-type: none">• Develop new IT features to differentiate products and services.• Use IT features to reduce the differentiation advantages of competitors.• Use IT features to focus products and services at selected market niches.
Innovate <ul style="list-style-type: none">• Create new products and services that include IT components.• Develop unique new markets or market niches with the help of IT.• Make radical changes to business processes with IT that dramatically cut costs, improve quality, efficiency, or customer service, or shorten time to market.
Promote Growth <ul style="list-style-type: none">• Use IT to manage regional and global business expansion.• Use IT to diversify and integrate into other products and services.
Develop Alliances <ul style="list-style-type: none">• Use IT to create virtual organizations of business partners.• Develop interenterprise information systems linked by the Internet and extranets that support strategic business relationships with customers, suppliers, subcontractors, and others.

Q & A

T or ☐ F - A competitive force, differentiation, provides the greatest bargaining power for buyers.

☐ T or F – cost leadership strategy is one way the organization can reduce the bargaining power for suppliers

Resources

- <http://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/>



STRATEGIC ALIGNMENT

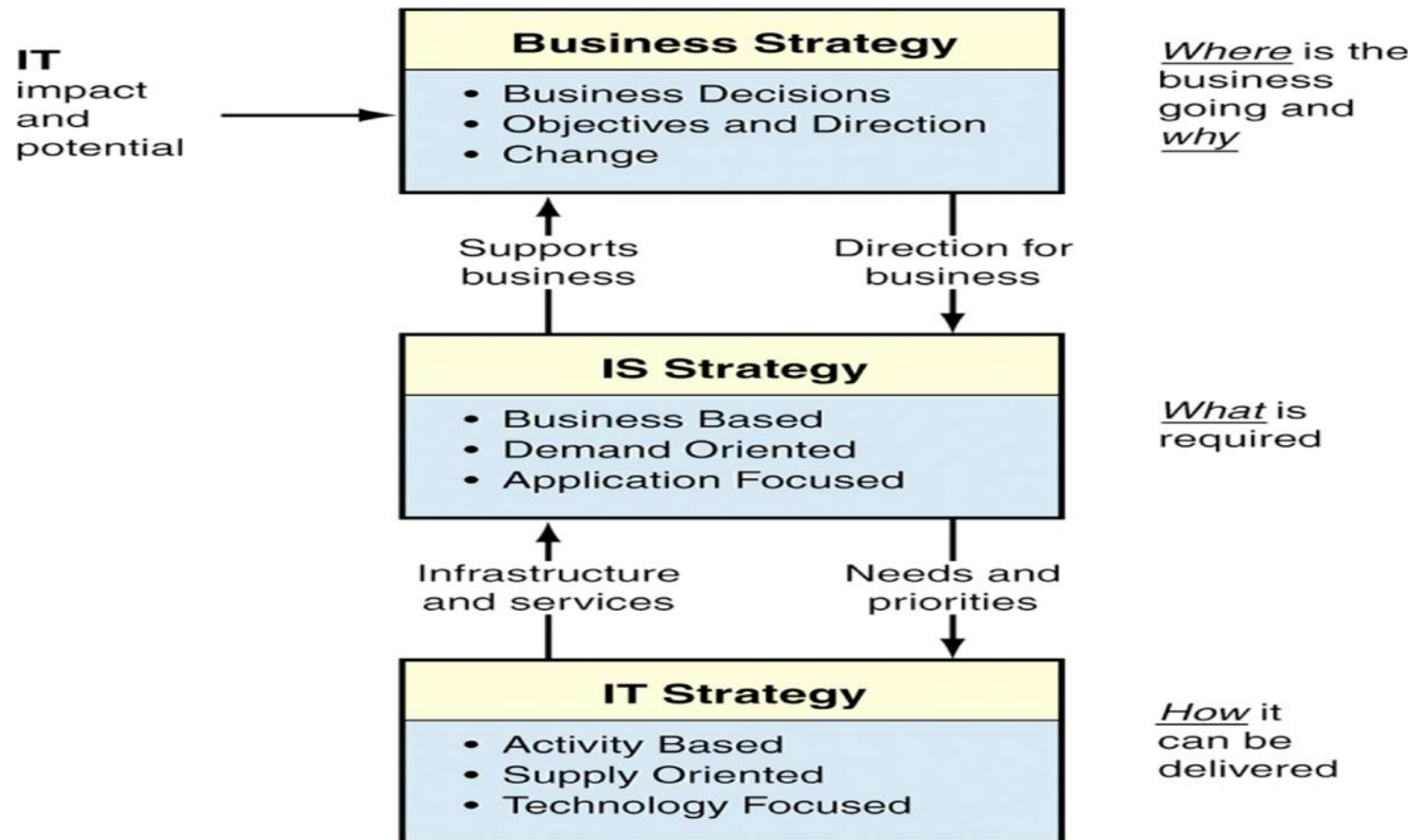
Strategic Alignment

- A high degree of fit and consonance between the priorities and activities of the IS function and the strategic direction of the firm
- Careful planning is critical for strategic alignments, especially for firms in highly competitive environments

Fact

- 65% of organizations have an agreed-upon strategy
- 14% of employees understand the organization strategy
- Less than 10% of all organizations successfully execute the strategy
- -reason: Lack of alignment

business, IS, & IT-strategies*



IT & Business Alignment

- IT must align strategy with organizational strategy
- IT must align function's strategy, structure, technology & processes with those of the business units toward common goals
- IT strategic alignment goal to ensure that IT priorities, decisions & projects are consistent with overall business needs
- Shared ownership & shared governance structure that crosses organizational silos & makes executives responsible for success of key IT initiatives

Alignment Activities

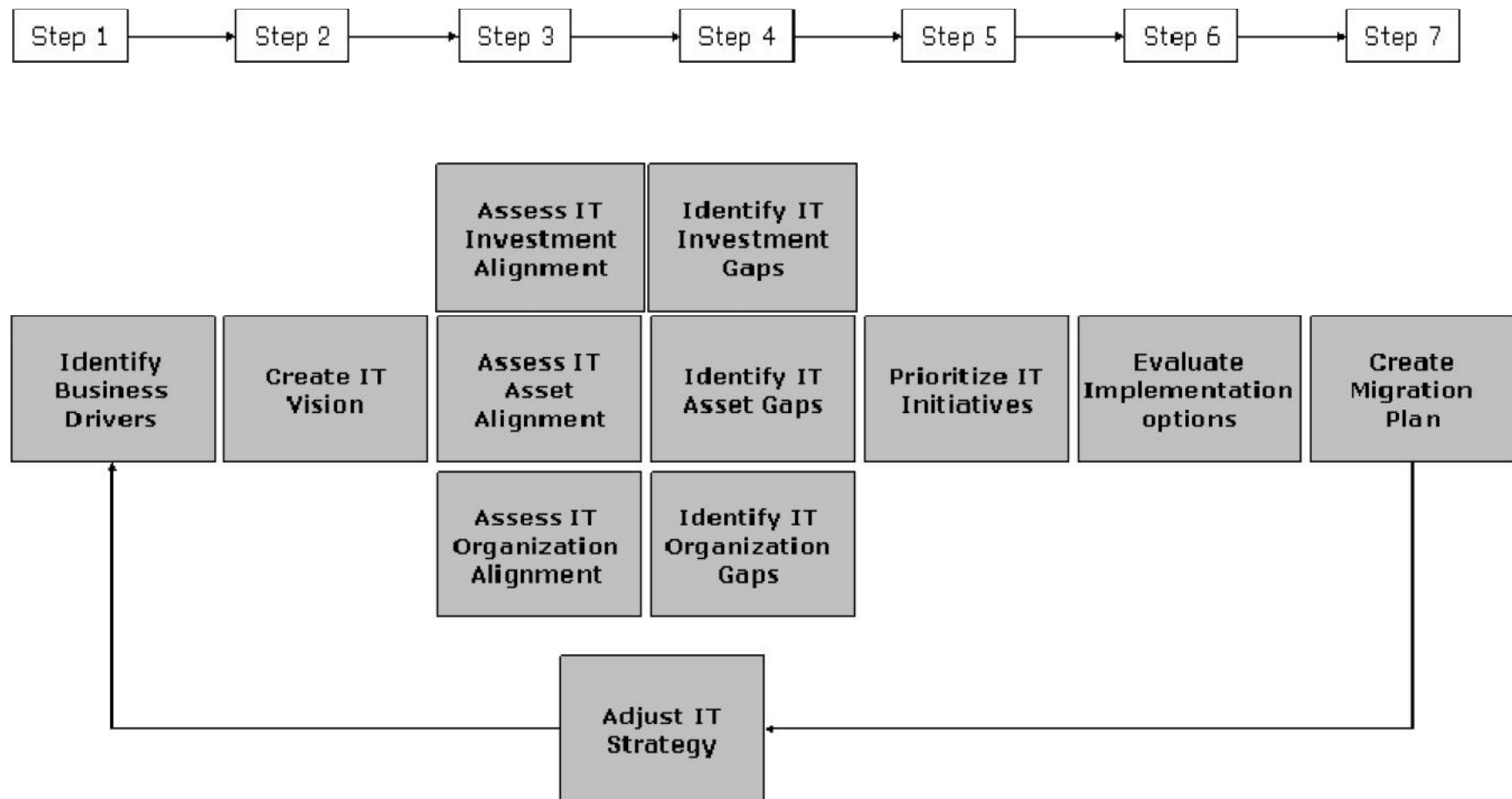
- Understanding IT & corporate planning
- CIO is member of senior management
- Shared culture & good communication
- Deep commitment to IT planning by senior management
- Shared plan goals
- Deep end-user involvement
- Joint architecture/portfolio selection
- Identity of plan factors

Challenges in Achieving IT-Business Alignment

- Promoting collaboration between IT & organizational business units
- Persuading senior management about importance of IT to business
- Contributing to strategic planning & business growth initiatives
- Identifying opportunities for business process automation & improvement
- Improving internal & external user experience & satisfaction

Example of alignment across activities/processes

IT Strategy Process



Resource for Strategic Alignment

- [Video](#)

Q & A

T or F:

Careful planning is optional for strategic alignments, especially for firms in highly competitive environments

RECAP

- 1. Industry Analysis – 5 Forces*
- 2. Identify the cross section competitive strategies to the competitive forces*
- 3. Introduce strategic planning*
- 4. Alignment*

THANK YOU





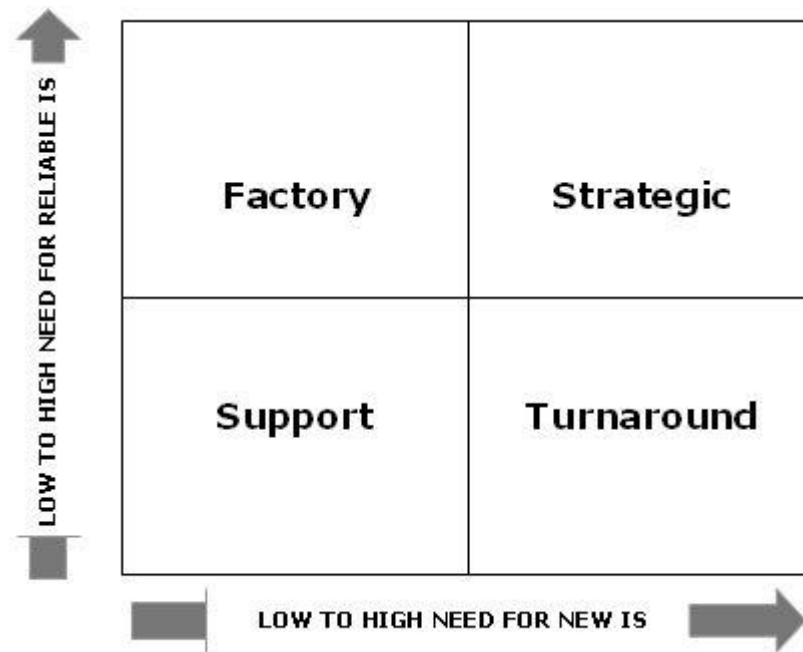
OPTION



STRATEGIC GRID

The Strategic Impact Grid*

- It enables simultaneous evaluation of the firm's current and future information systems needs



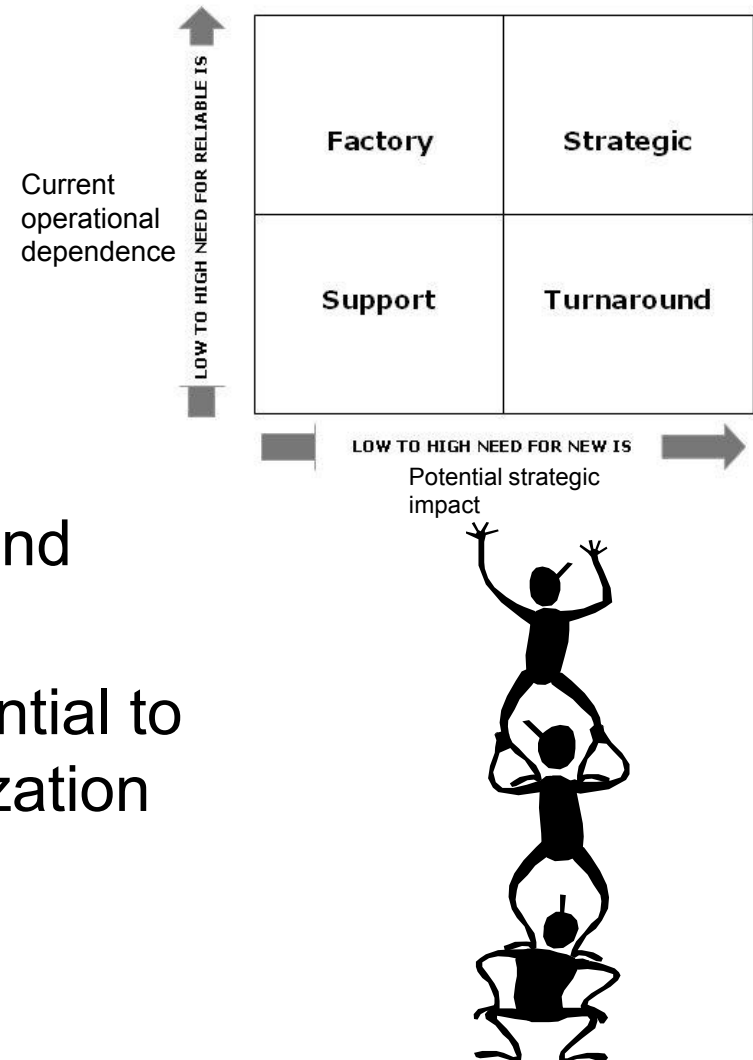
The Strategic Impact Grid

- Current need for reliable information systems
 - Focuses on current day-to-day operations and the functionalities of the existing systems
- Future needs for new information system functionalities
 - Focuses on the strategic role that new IT capabilities play for the organization
- The strategic impact grid defines what the use of information systems resources should be going forward



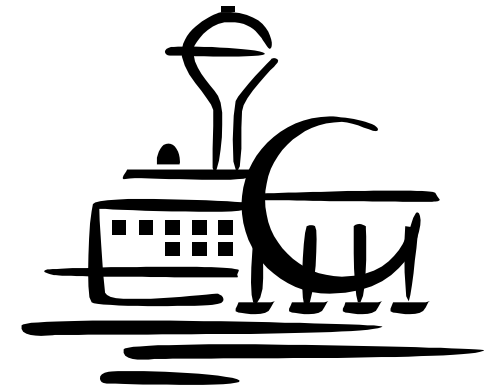
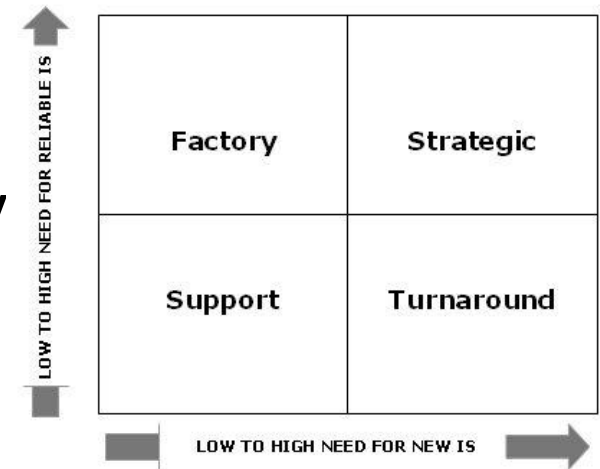
Support Quadrant

- IS are not mission critical for current operations
- New systems promise little strategic differentiation
- The firm:
 - Views IS as a tool to support and enable operations
 - Considers IS to offer little potential to significantly benefit the organization
 - Is generally conservative in IS investments



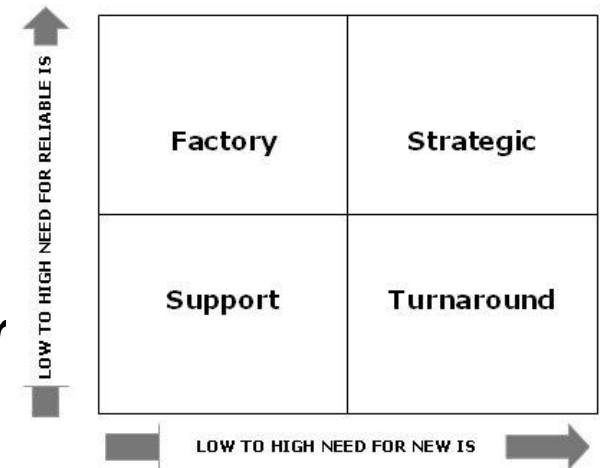
Factory Quadrant

- Even a small disruptions to IS infrastructure can endanger the firm's well-being and future viability
- A limited potential for new systems and functionalities to make a substantial contribution
- The firm:
 - Closely monitors its current systems
 - Needs to be willing to fund their maintenance and upgrade.
 - But takes a conservative stance toward future investments.



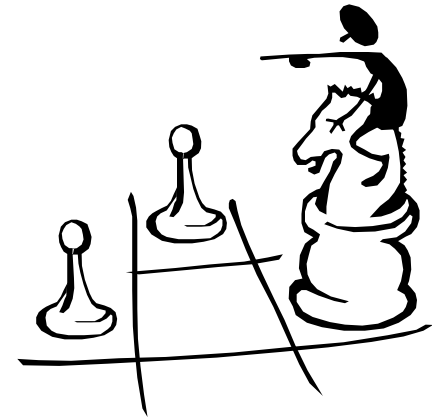
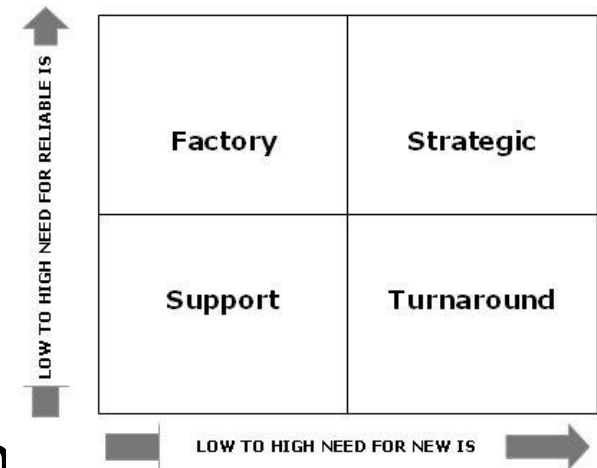
Turnaround Quadrant

- IS are not mission critical for current operations
- New IS or new functionalities of existing systems will be critical for the business' future viability and success
- The firm:
 - Is readying to change its information systems posture
 - Needs to engage in some reorganization



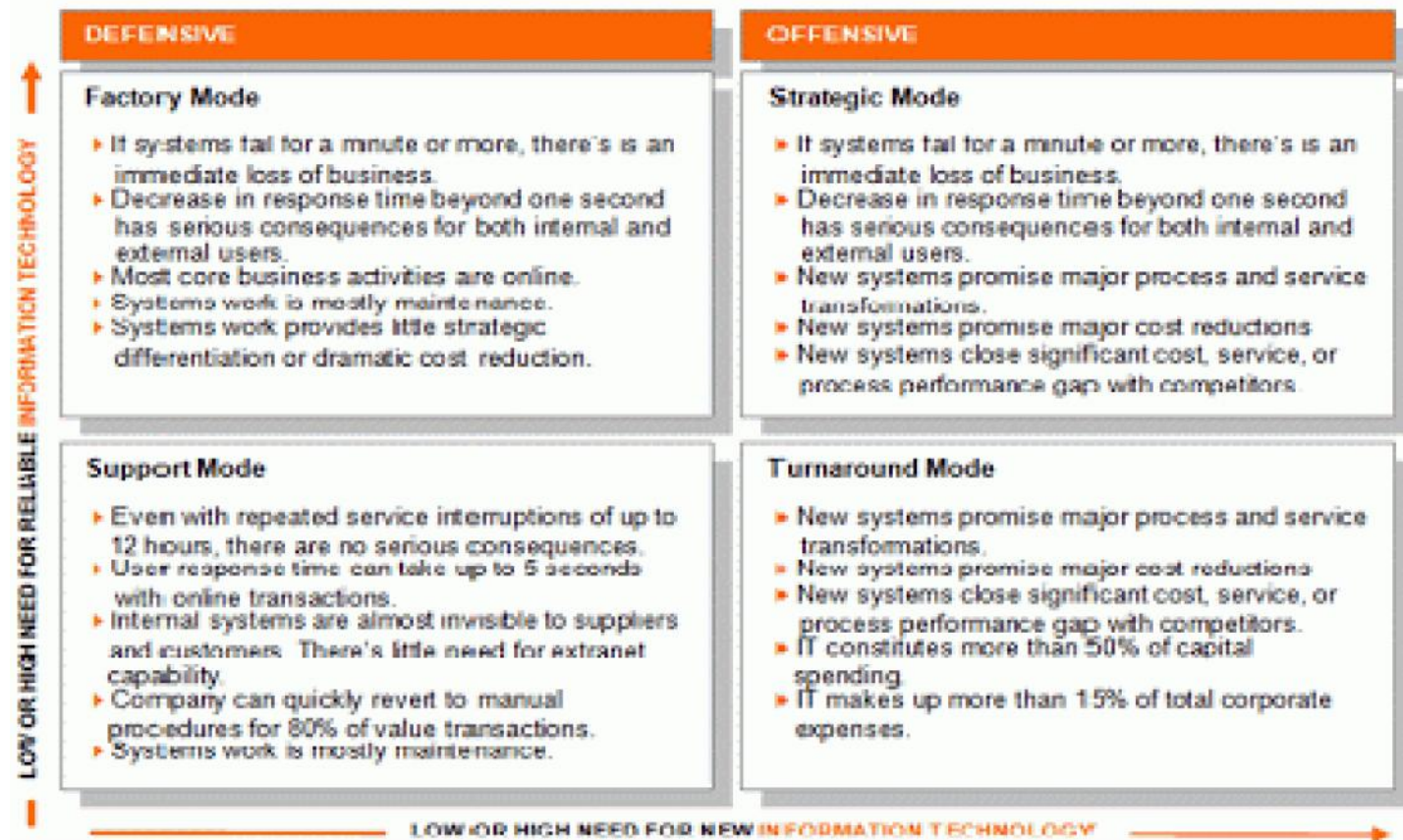
Strategic Quadrant*

- IS are critical to the firm's current operations
- New IS or new functionalities of existing systems is critical for the future viability and prosperity of the business
- The firm:
 - should be extremely proactive with respect to information systems and IT investments



Resource

- Video



Q & A

The _____ enables simultaneous evaluation of the firm's _____ and _____ information systems needs