

Management Information Systems

Lecture 4: Business Strategy

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MAIN POINTS

Explaining *why competitive advantages are temporary*

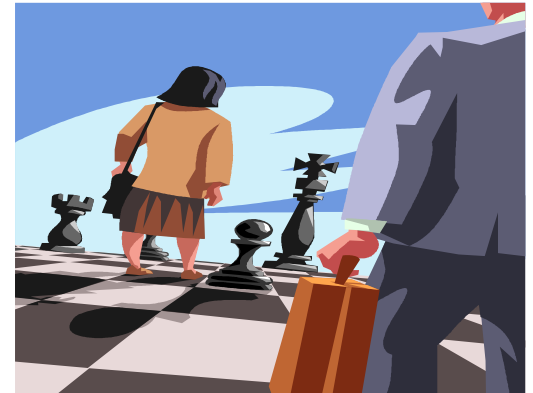
Identifying the four key areas of a SWOT analysis

Describing *Porter's Five Forces Model* and explain each of the five forces

Comparing *Porter's three generic strategies*

Demonstrating how a company can add value by using *Porter's value chain analysis*

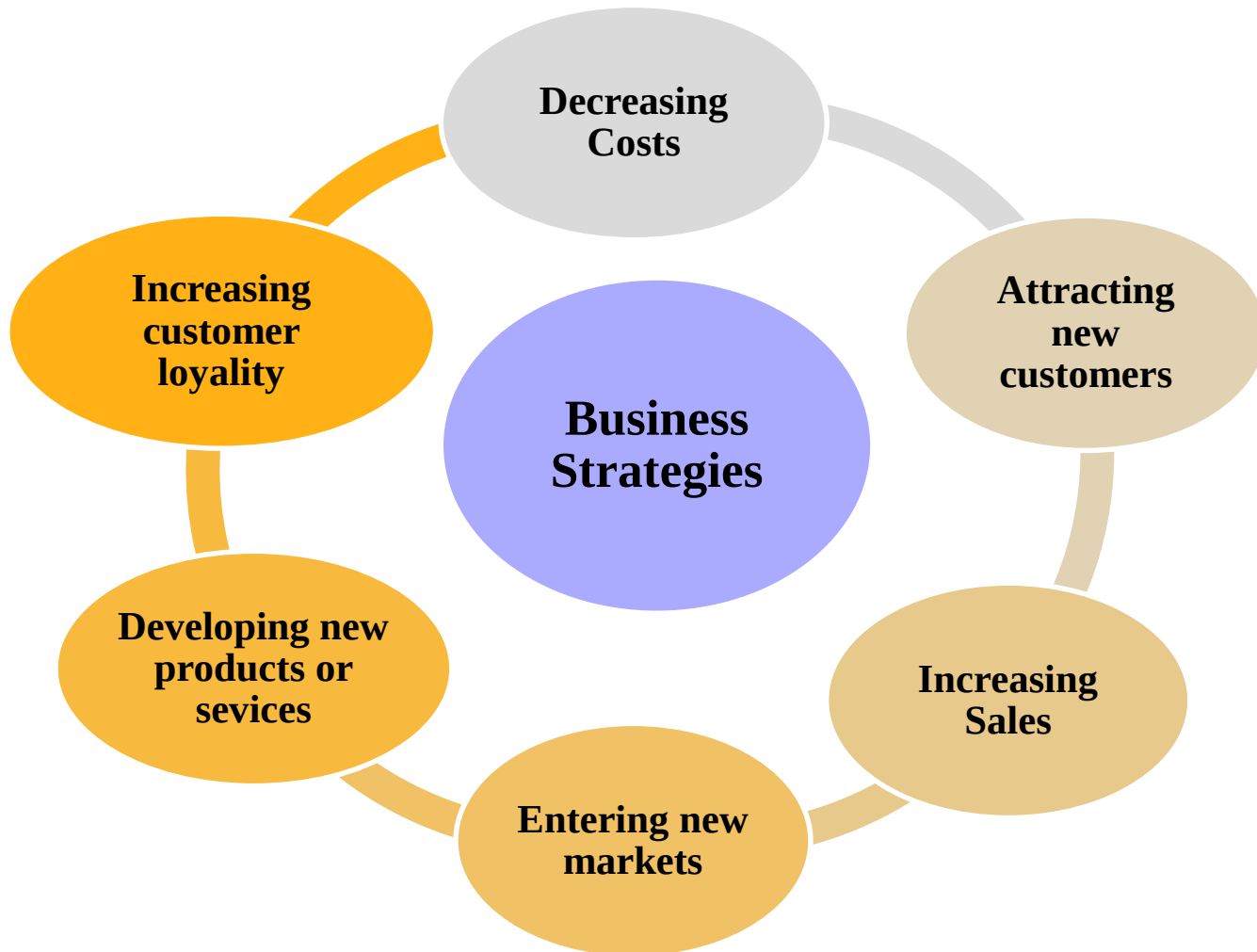
- **A Business strategy** – *A leadership plan to achieve a specific set of **goals or objectives***



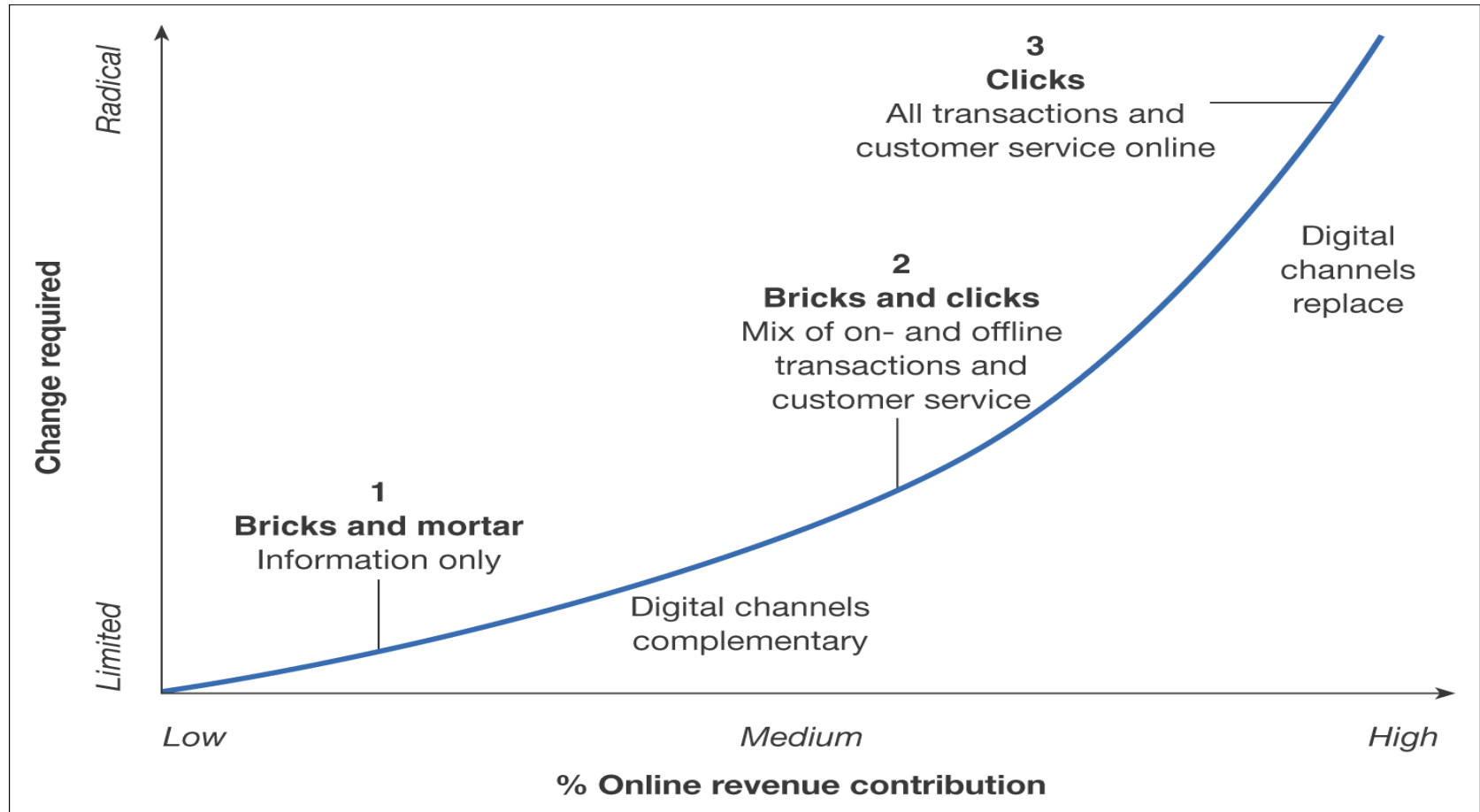
A Business Strategy

- ‘Defines *how* we will *meet our objectives*’
- ‘Sets *allocation of resources* to meet goals’
- ‘Selects *preferred strategic option* to **compete** within a market’
- ‘Provides a *long-term plan* for the *development* of the organization’ and *achieving the objectives*.

Business Strategies- Examples



Business Strategies- Examples...



Strategic options for a company in relation to the importance of the Internet as a channel

Source: Chaffey (2011)

Competitive Advantages

Competitive Advantages

Competitive Advantages are Attributed to a variety of Factors Including:

- Cost Structure,
- Branding,
- The Quality of Product,
- The Distribution Network,
- Intellectual Property and
- Customer Service.

Source: https://www.investopedia.com/terms/c/competitive_advantage.asp

Competitive Advantages..

Amazon is an example. The e-commerce platform has a level of scale and efficiency that *is difficult for retail competitors to replicate*, allowing it to rise to prominence largely through price competition.

Apple is famous for creating *innovative products*, such as the **iPhone**, and supporting their market leadership with savvy marketing campaigns to build **an elite brand**.

Source: https://www.investopedia.com/terms/c/competitive_advantage.asp

Methods for Identifying Competitive Advantages

SWOT ANALYSIS
Evaluates Project
Position

THE FIVE FORCES MODEL
Evaluates Industry
Attractiveness

**THE THREE GENERIC
STRATEGIES**
Chooses Business
Focus

VALUE CHAIN ANALYSIS
Executes Business
Strategy

Methods for Identifying Competitive Advantages

1. **SWOT analysis:** to *evaluate a project position*, **can we do it?**
2. **The five forces model:** to *evaluate the attractiveness of an industry*, **shall we do it?**
3. **The three generic strategies:** to *choose a business focus* – (example Wal-Mart uses a low-cost strategy), **what strategy should we adopt?**
4. **Value chain analysis:** to *execute business strategies*, **how should we implement it?**

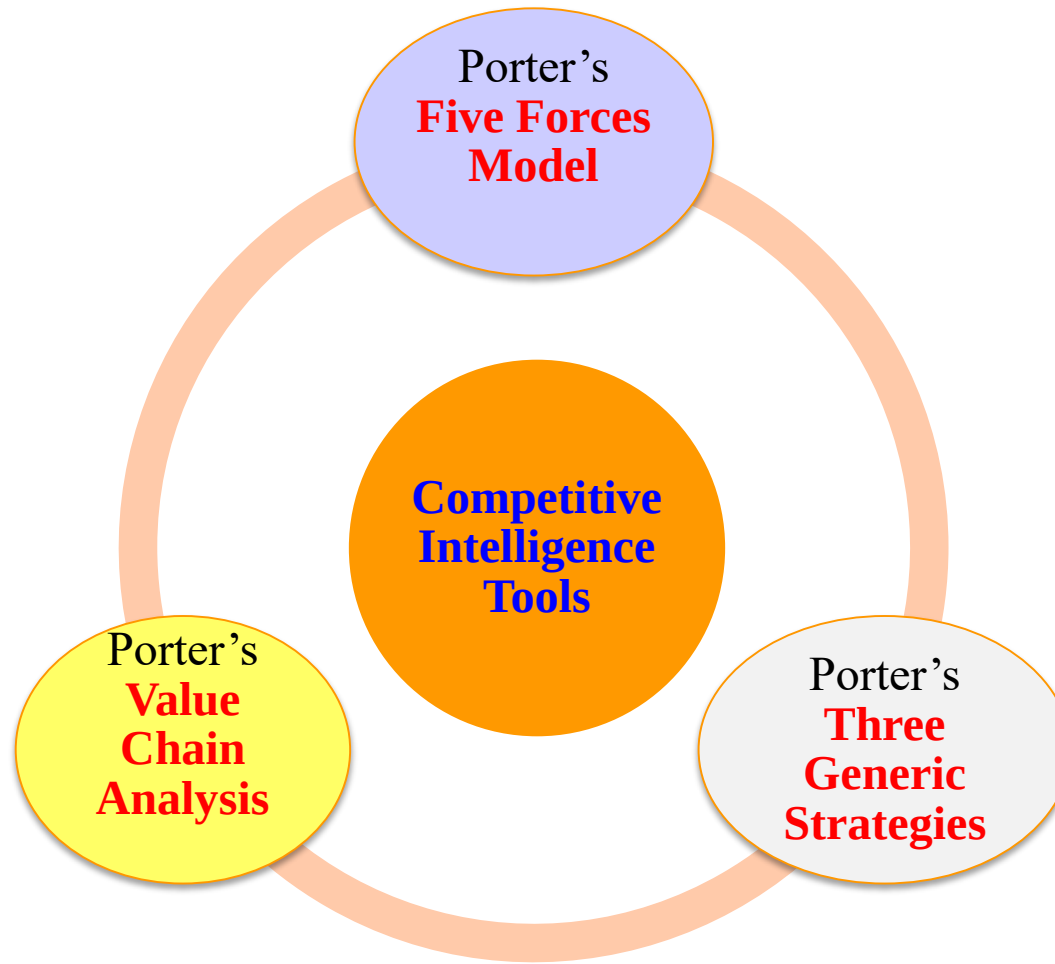
A **SWOT analysis** evaluates an organization's strengths, weaknesses, opportunities, and threats *to identify significant influences that work for or against business strategies*



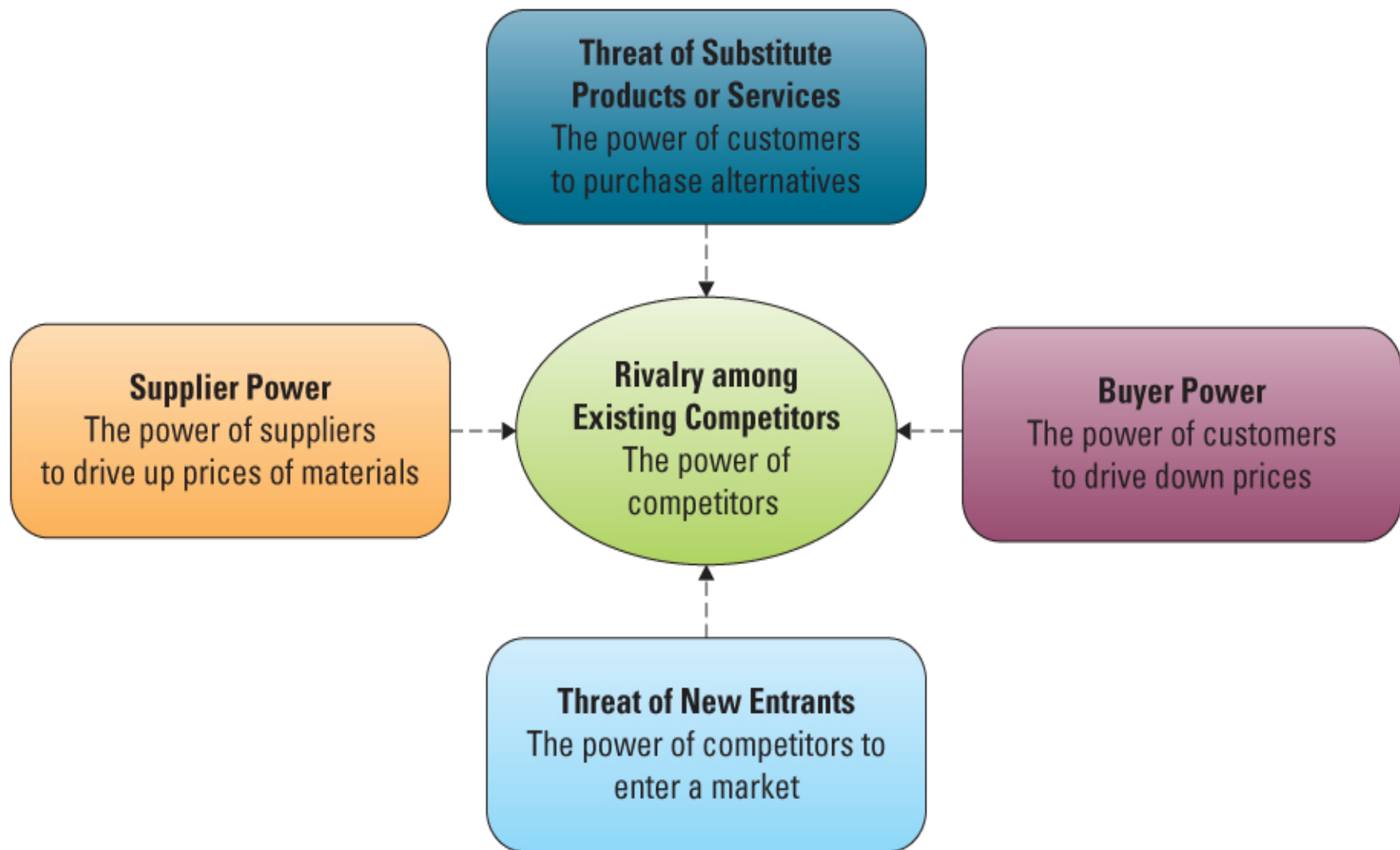
- **Competitive intelligence** – The process of *gathering information about the competitive environment* to improve the company's ability to succeed



Competitive intelligence **tools**



Porter's Five Forces Model – Evaluating Industry Attractiveness



- **Buyer power/ Customer power** – The ability of buyers *to affect the price of an item*
 - How can a company **reduce buyer power** from *easily switch to competitor's* (to create a competitive advantage)?



The reduction of **buyers/ customers power**

Retaining the company's market share / creating a competitive advantage:

- **Loyalty program** – Rewards customers based on the amount of business they do with a particular organization (eg. Frequent flyer miles, grocery store discount card, etc.)

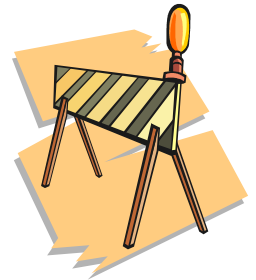
- **Supplier power** – The suppliers' ability to *influence the prices* they charge for supplies



Supplier power ...

- If supplier power is **high**, the supplier *can influence* the industry by:
 - *Charging higher prices*
 - *Limiting quality or services*
 - *Shifting costs to industry participants*

- **Threat of new entrants** – *High* when it is easy for new competitors *to enter a market* and *low* when there are *significant entry barriers*



Examples of barriers to entry

- *Economies of Scale*
- *Product Differentiation*
- *Capital Requirements*
- *Customer Switching Costs*
- *Access to Distribution Channels*
- *Government Policy*

Source: http://www.slideshare.net/amitanshu/porters-5-force-model?next_slideshow=1

Economies of scale...

- i.e. *the greater the quantity of a good produced, the lower the per-unit fixed cost* because these costs are spread out over a larger number of goods

Source: <http://www.investopedia.com/terms/e/economiesofscale.asp>

Rivalry among existing competitors:

- *High* when *competition is fierce* in a market and
- *Low* when *competitors are more complacent*



Threat of substitute products or services –

- **High** when there are **many alternatives** to a product or service and
- **Low** when there are **few alternatives**
- **For example, iTunes substitutes for CDs**



The Internet's impact on competitive advantage

- **Transformation or threat** to some industries
 - **Examples:** *travel agency*
- **Rivalry** more intense
- **New opportunities** for building brands and loyal customer bases
- **Universal standards** allow new rivals, entrants to market

Source: Laudon and Laudon (2016)

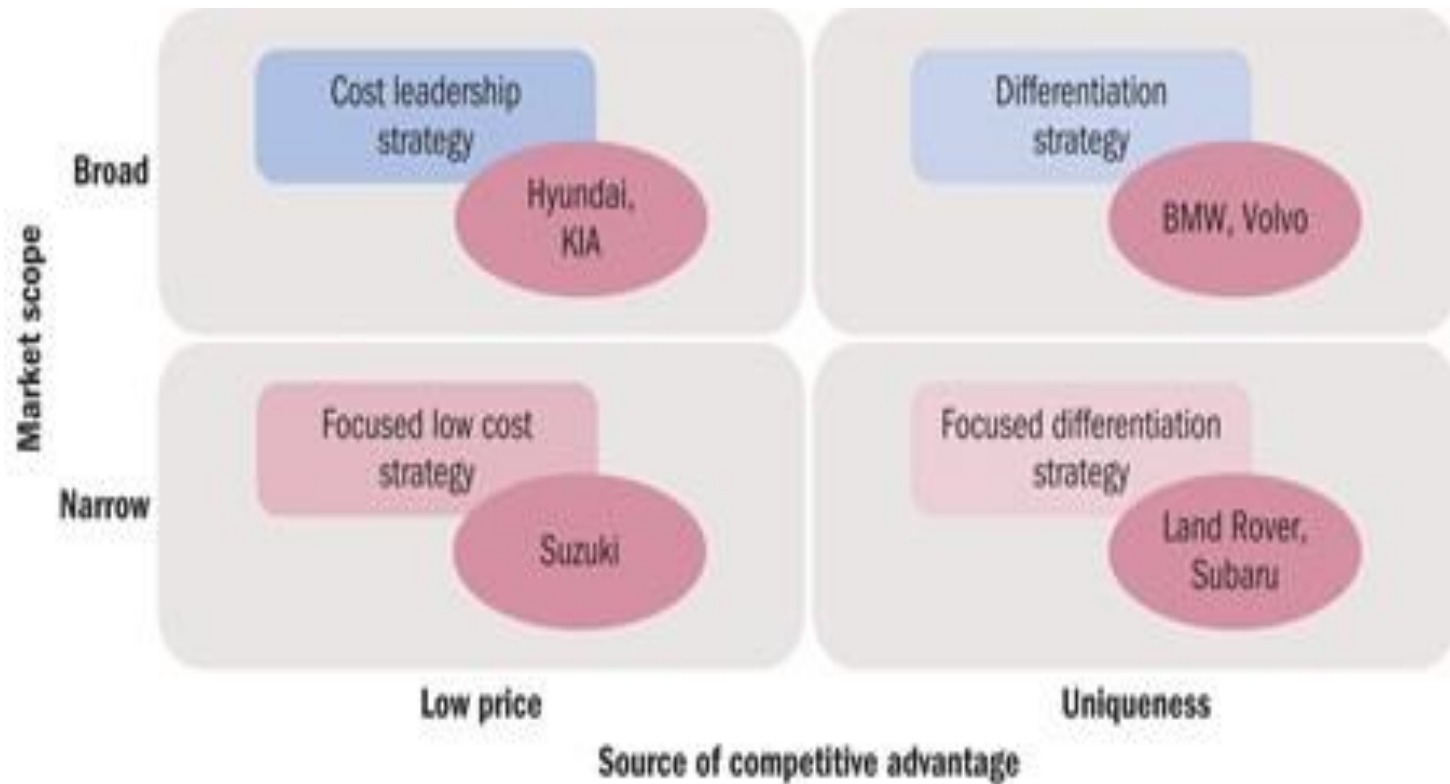
Competitive intelligence tools:

Generic Strategies

Formulating a Strategy

- Organizations must formulate a strategy for entering new markets. An organization can follow Porter's three generic strategies when entering a new market: (1) broad cost leadership, (2) broad differentiation, or (3) a focused strategy.
- **Broad strategies** reach a large market segment, while focused strategies target a niche market. **A focused strategy** concentrates on either cost leadership or differentiation.
- *Trying to be all things to all people*, however, can be a *recipe for disaster*, since it is difficult to project a consistent image to the entire marketplace. Porter suggests that an organization is wise to adopt only one of the three generic strategies.

Generic Strategies –Examples....



**Porter's generic strategies framework:
motor vehicle industry example**

Generic Strategies –Examples....

	Low Cost	Differentiation
Broad Market	Cost Leadership Lowest cost across industry Eg. Walmart, Tesco, Premier Inn, Acer	Differentiation Better product/service across industry Eg. Emirates, Apple, UPS, Audi
Narrow Market	Focus (Cost) Lowest cost within an industry segment Eg. Saga UK (over 50s)	Focus (Differentiation) Better product/ service within an industry segment Eg Ferrari, Rolls-Royce, Rolex

Generic Strategies

- **Low-cost leadership**
 - Produce products and services at a lower price than competitors
 - Example: **Walmart's** efficient customer response system
- **Product differentiation**
 - Enable new products or services, greatly change customer convenience and experience
 - Example: **Apple**

Generic Strategies...

- **Focus on market niche**

- enable a focused strategy on a single market niche; specialize

- Example: **Tiffany & CO.**



- **Strengthen customer and supplier intimacy**

- develop strong ties and loyalty with customers and suppliers

- Increase *switching costs*

- Example: **Netflix, Amazon**



Competitive intelligence tools: Porter's Value Chain Analysis

- It views a firm as a *series of business processes** that each *add value* to the product or service
- *A **business process** – is a standardized *set of activities* that accomplish a *specific task*, such as a specific process

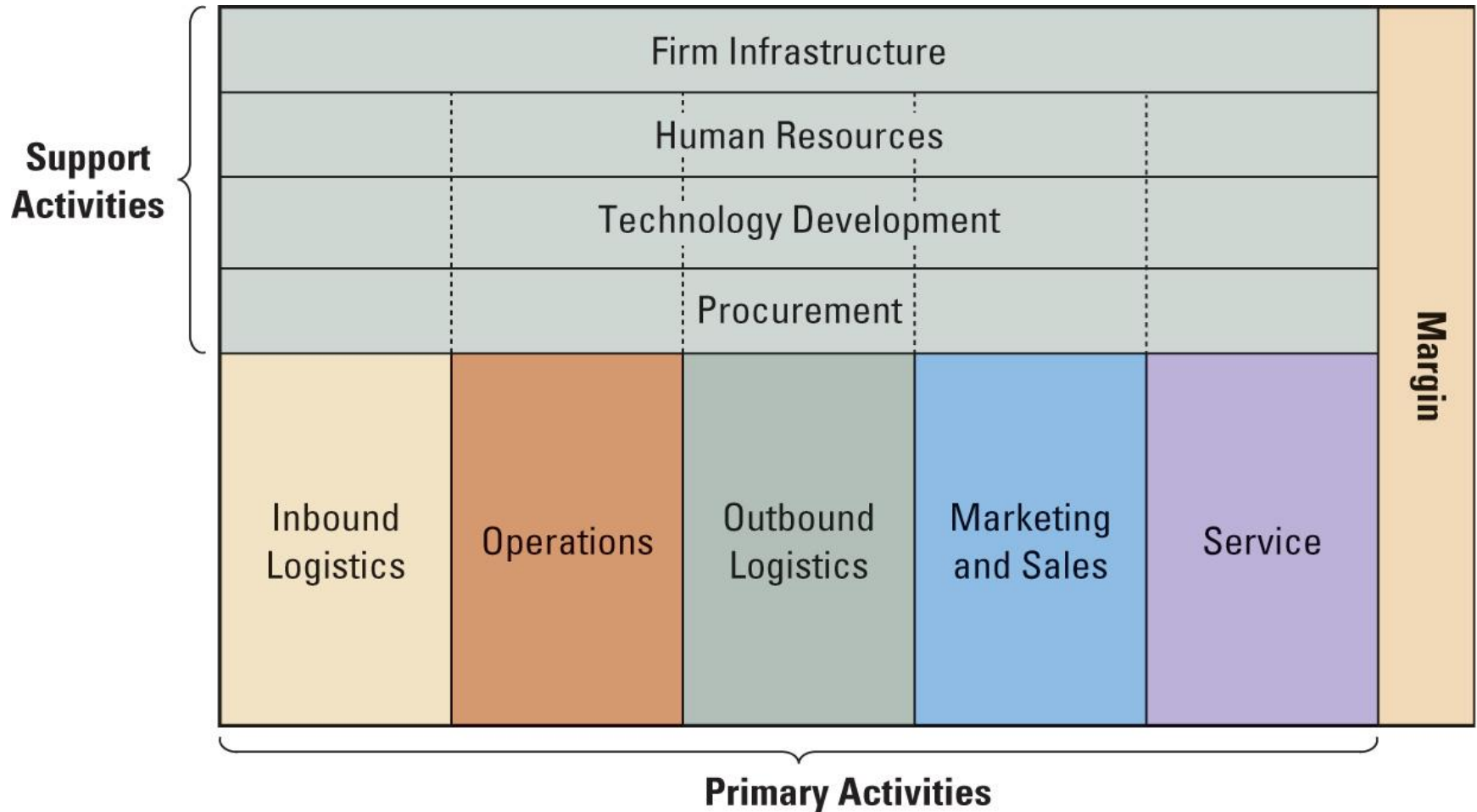


Value Chain Analysis

The value chain can be divided into two categories:

- 1) primary value activities &
- 2) support value activities

Porter's Value Chain Model



Source: Reprinted with the permission of The Free Press, a Division of Simon & Shuster Adult Publishing Group, from *Competitive Advantage: Creating and Sustaining Superior Performance*, Copyright © 1985, 1998 by Michael E. Porter. All rights reserved.

Value Chain Analysis – Executing Business Strategies

- **Primary value activities**

- **Inbound logistics** - Acquires raw materials and resources, and distributes
- **Operations** - Transforms raw materials or inputs into goods and services
- **Outbound logistics** - Distributes goods and services to customers
- **Marketing and sales** - Promotes, prices, and sells products to customers
- **Service** - Provides customer support

Value Chain Analysis – Executing Business Strategies

- If an organization wants to *decrease its buyer's or customer's power*, it can construct its value chain activity of “service after the sale” by *offering high levels of quality customer service*
- This will *increase the switching costs* for its customers, thereby *decreasing their power* (buyer power)

Value chain analysis—executing business strategies

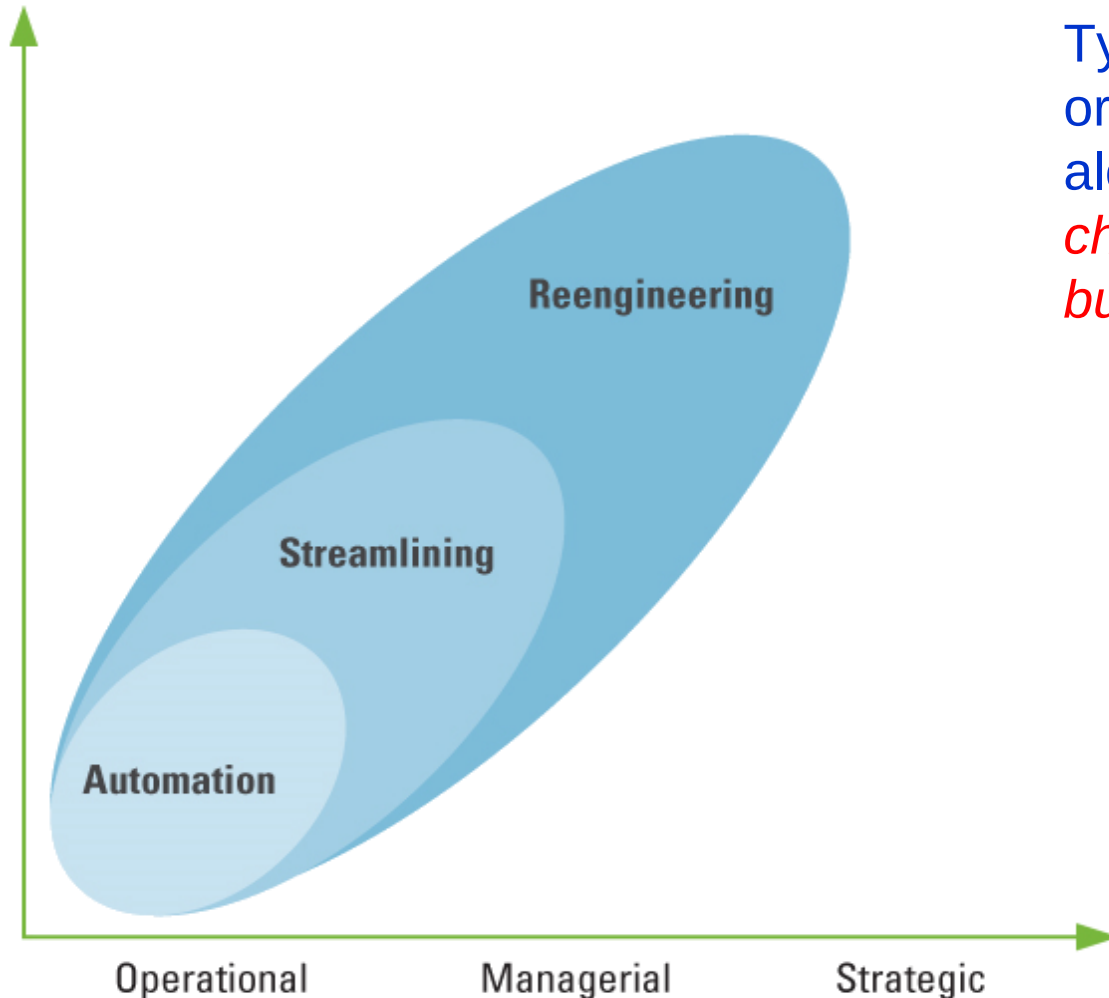
It is essential to determine ways that *IS* can *improve the efficiency* of operations, customer and supplier intimacy taking into account the industry's *best practices* and *benchmarking*

Source: Laudon and Laudon (2016)

*The idea of the value chain as a network of value-creating activities became the foundation of a movement called business process design, or sometimes **business process redesign**. The central idea is that organizations should create new, more efficient, business processes that integrate the activities of all departments involved in a value chain.*

Source: Barker J (2007) ITE 406 IG3 The Processes and Technology

USING MIS TO IMPROVE BUSINESS PROCESSES



Types of change an organization can achieve, along with the *magnitudes of change and the potential business benefit*

Basic Process Analysis (Determining Requirements)

- Depending on **amount of change**
 - **BPA** (*Business Process Automation*) – small change : eg. answering phones with computers, auto grading an essay or Excel project
 - **BPI** (*Business Process Improvement/Streamlining*) – moderate change: eg. remove duplicate jobs in the process, use a different tool to perform the same task
 - **BPR** (*Business Process Reengineering*) – significant change : taking an airplane instead of a bike, horse, or car,
A true BPR effort does more for a company than simply improve it by performing a process better, faster, and cheaper-
redefine an entire industry – such as Progressive Insurance

Tasks

Read chapter 3 of the text book.

Watch these videos then answer the following questions (hints provided):

- Michael Porter – The Five Forces that Shape Strategy (10 Mins) http://www.youtube.com/watch?v=mYF2_FBCvXw
- Michael Porter - Global Competitiveness Report 2007 (15 Mins) <http://www.youtube.com/watch?v=kzn9-M2umFQ>

Activities

- Based on our previous discussion, what do you think UPS's business strategy was?
- Perform a Porter's Five Forces analysis for a company entering the commercial airline industry. *It is important to always include in your answer your justification for your choice/argument.*

UPS Activity- Hint

- UPS's strategy is to ***provide the best service with relatively inexpensive service*** that can help customers ship packages practically anywhere. One of the most visible aspects of IS is the customers ability to ***track his/her package via UPSs Web site***. However, technology also enables data to ***seamlessly flow throughout UPS*** and helps streamline the workflow at UPS. Thus, the technology enables UPS to be ***more competitive, efficient, and profitable***. The technologies are seen as ***helping the customers' complete their tasks more efficiently***, which in turn is seen as value-added services as opposed to increasing the cost of sending packages.

Airline Activity-Hint

Potential Answers Include:

- Buyer Power – **high**, many airlines to choose from
- Supplier Power – **high**, limited manufacturers, unions
- Threat of Substitute products/services – **high**, many alternate transportation choices
- Threat of new Entrants – **high***, new airlines enter market continuously
- Rivalry among competitors – **high**, online sales

* Others might disagree and consider it '**Low**' *depending on size of operations, Aircrafts used, country ... eg. due to hard entry regulations by governing authorities, insurance requirements, and large capital investment)*

Main References

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- Chaffey, D. (2011) *E-Business and E-Commerce Management: Strategy, Implementation and Practice*, 5/E. Financial Times.
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