Chap 5: INFORMATION SYSTEM AND BUSINESS STRATEGY

[LAUDON] chap 3

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Business strategy is a set of activities and decisions firms make that determine the following:

- 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

Strategy usually takes place at three different levels

- **Business.** A single firm producing a set of related products and services
- **Firm**. A collection of businesses that make up a single, multidivisional firm
- **Industry**. A collection of firms that make up an industrial environment or ecosystem

Strategy and IS

Industry Structure
(5 Competing Forces)

Competitive Strategy

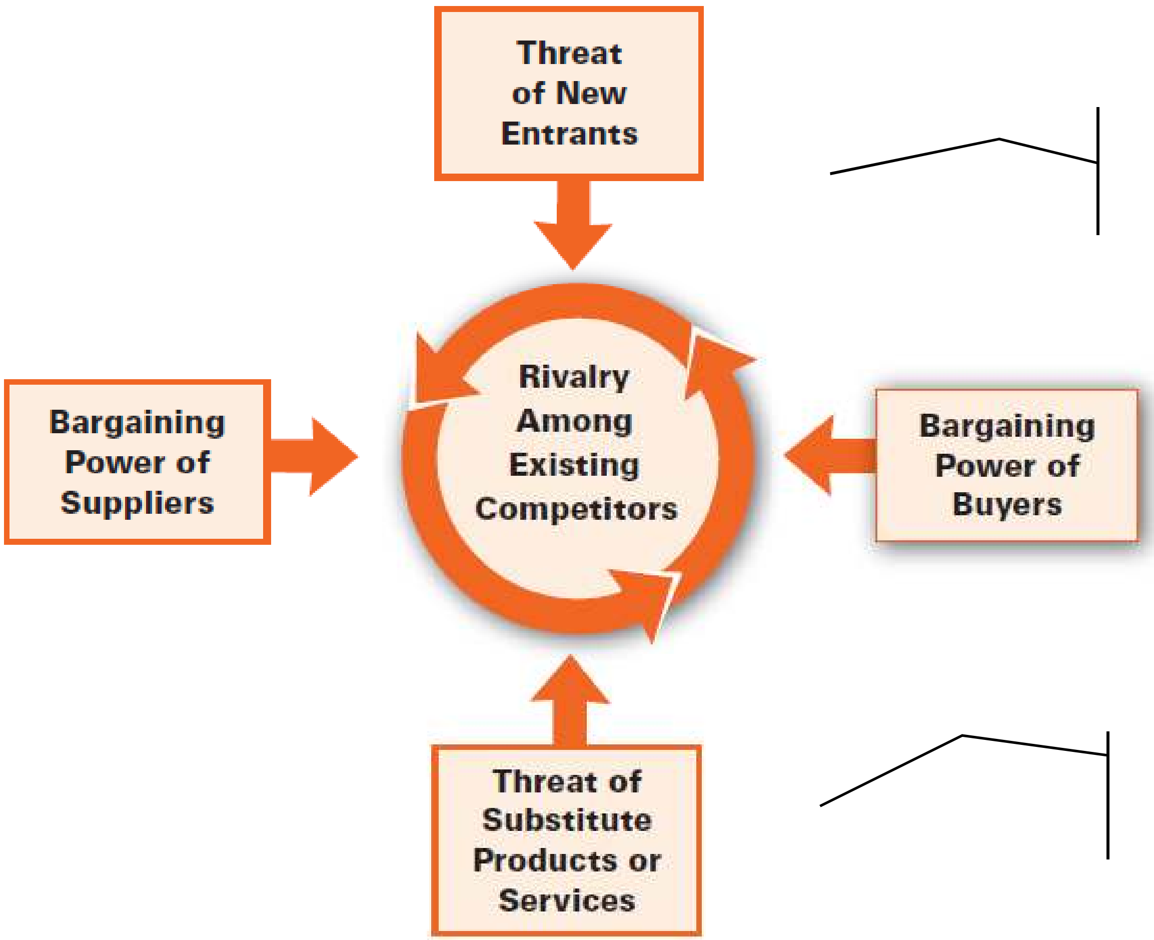
Value Chain Analysis

Business Process Design / Reengineering

Information Systems

Michael Porter Strategic Theorema

The Five Forces That Shape Industry Competition



Entry threat/
Entry barriers

Emerging technologies

http://www.youtube.com/watch?v=mYF2_FBCvXw

Porter Generic Strategies

- Cost Leadership: High volume and low profit margin
- Differentiation strategy: High margin/price, low volume
- Focus

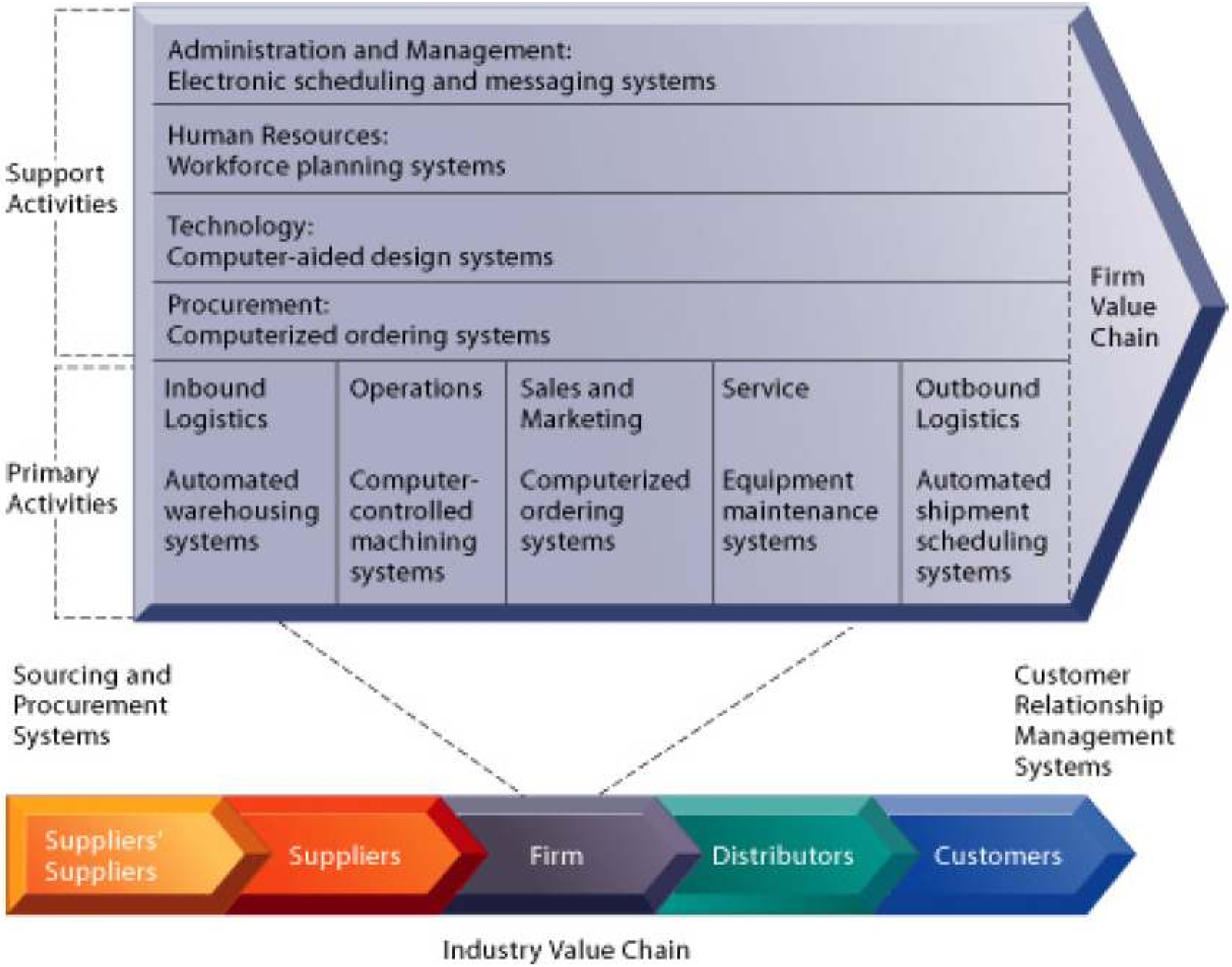
Target Scope	*Advantage*	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**
Narrow (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

Source: http://blogs.hbr.org/cs/2011/08/why_hps_departure_from_the_pc.html
read the comments

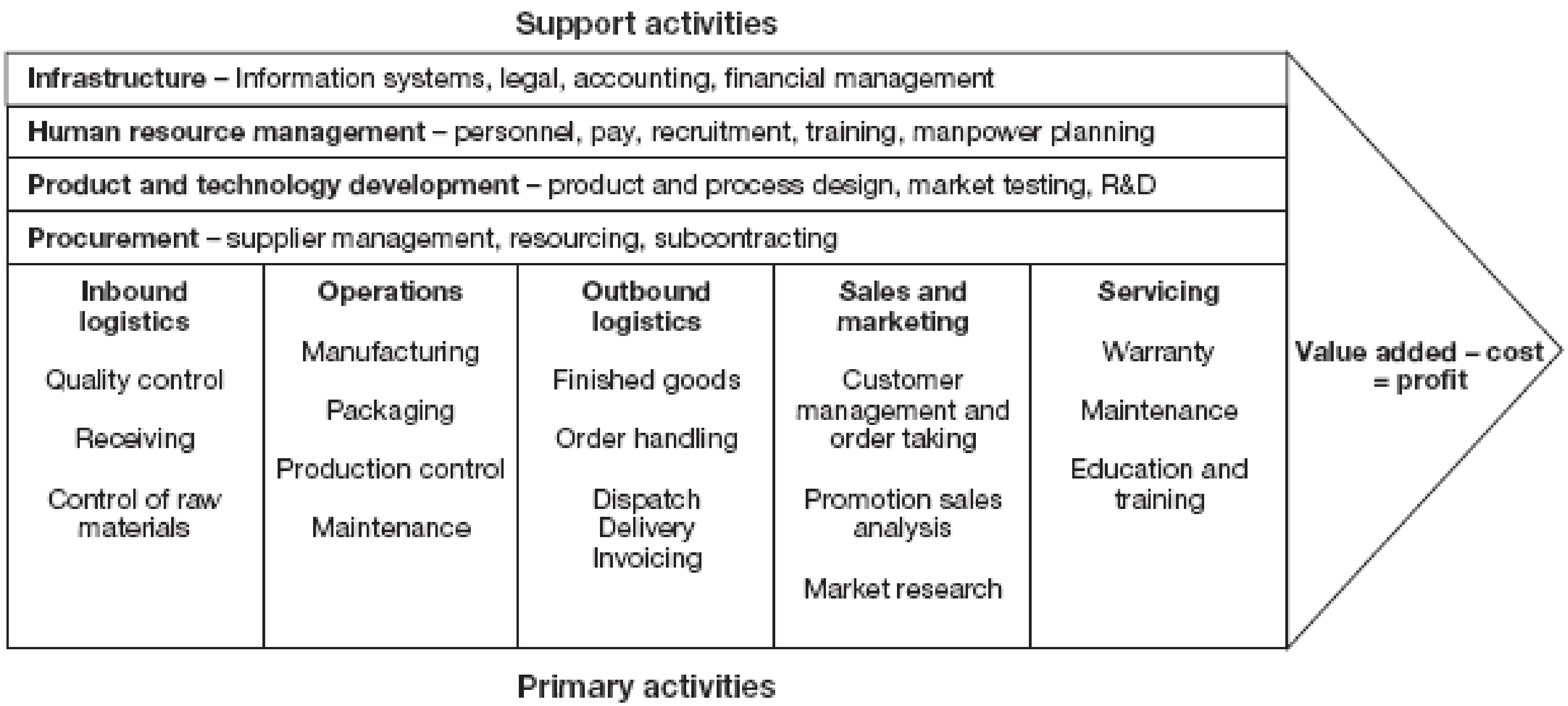
Generic Strategies and Industry Forces

Industry Force	*Generic Strategies*		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

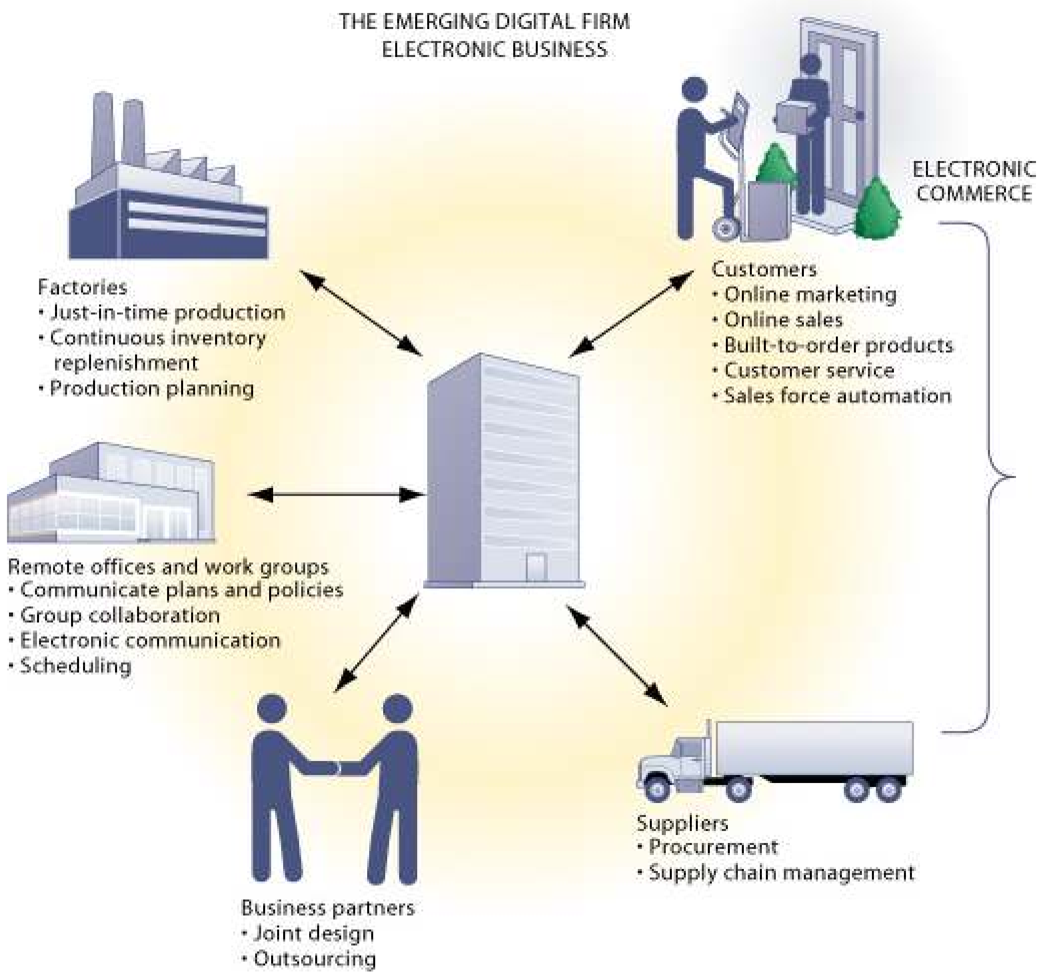
Business-Level Strategy: The Value Chain Model



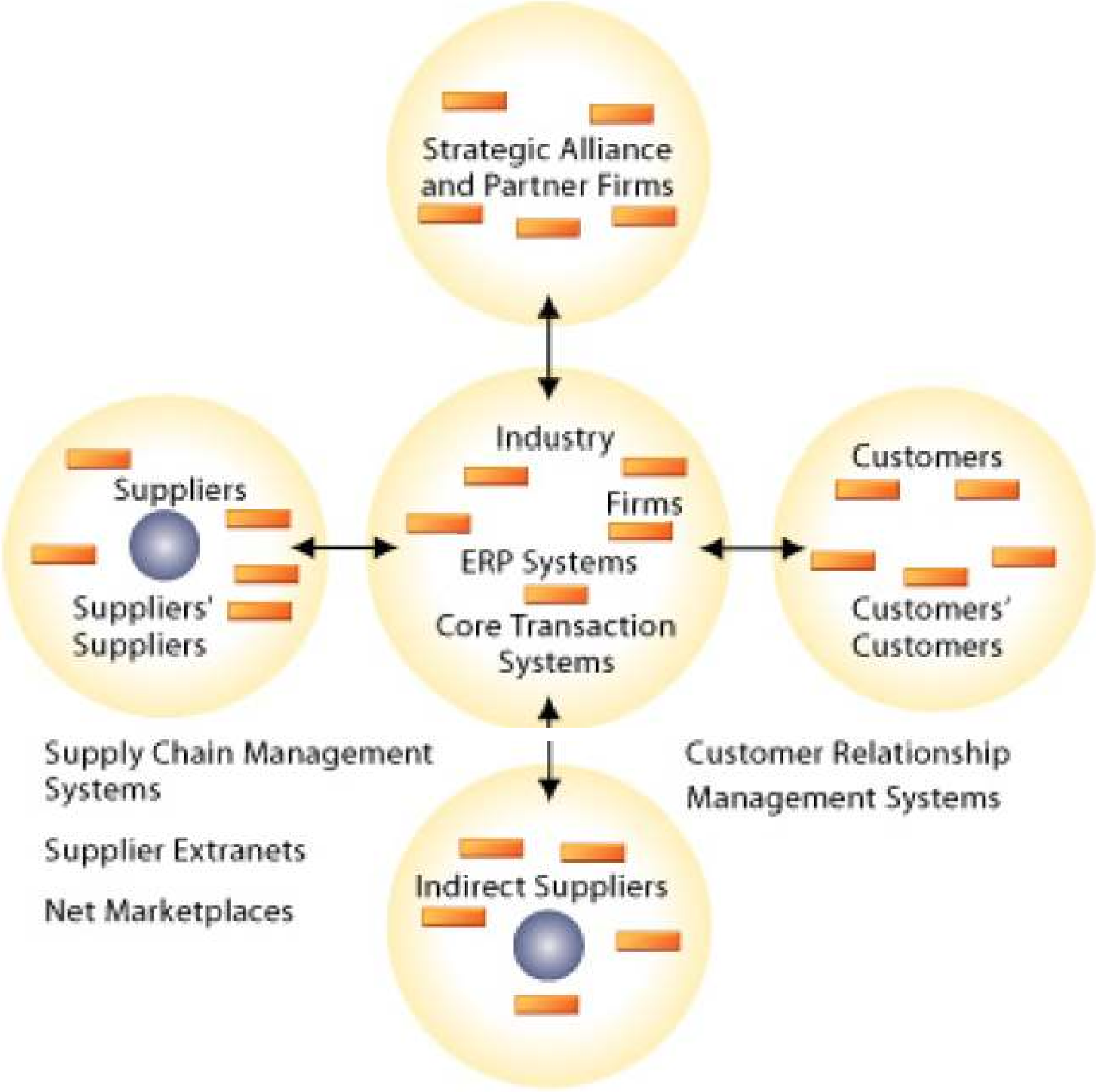
organisational value chain



Electronic business and electronic commerce in the emerging digital firm



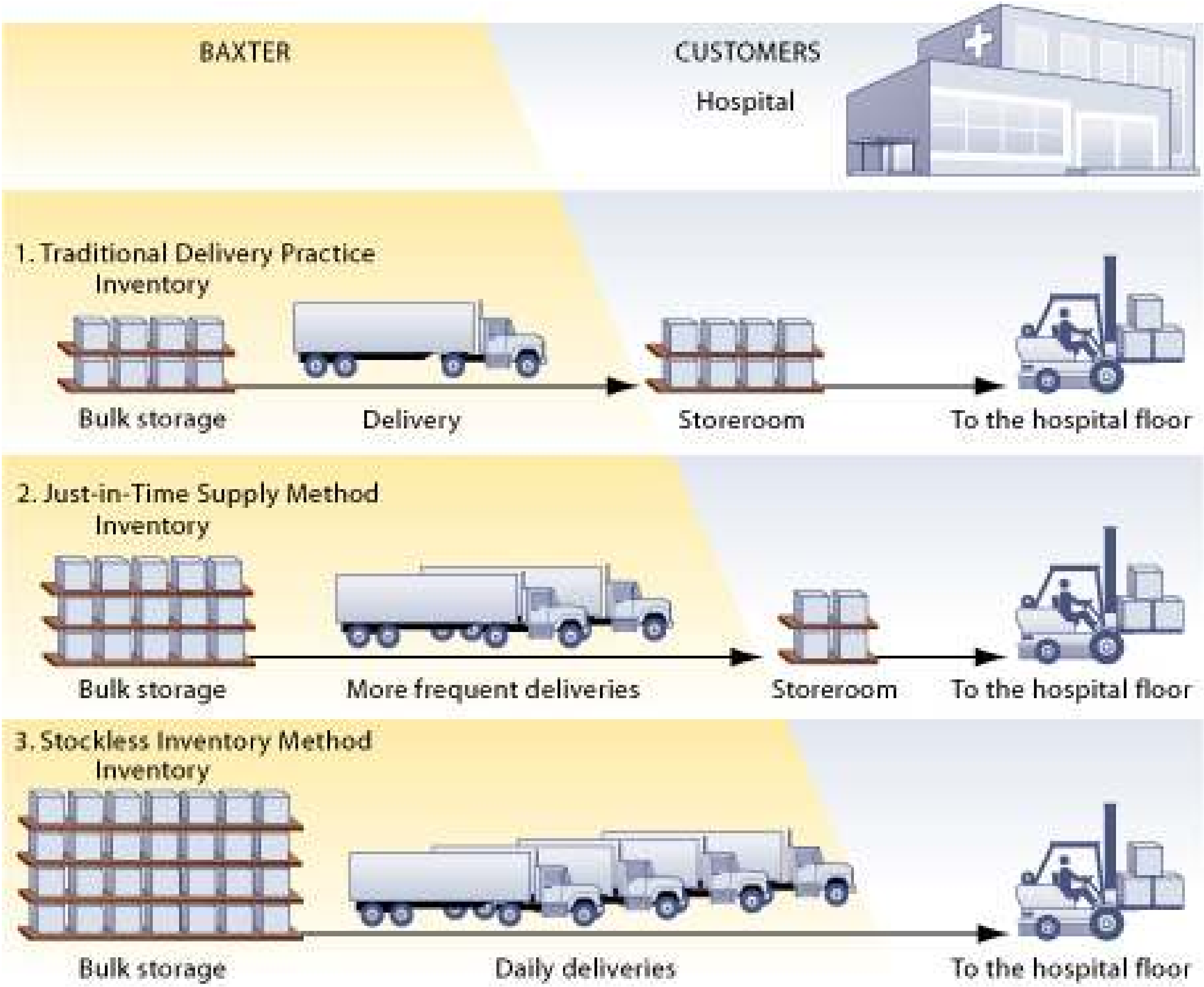
The value web



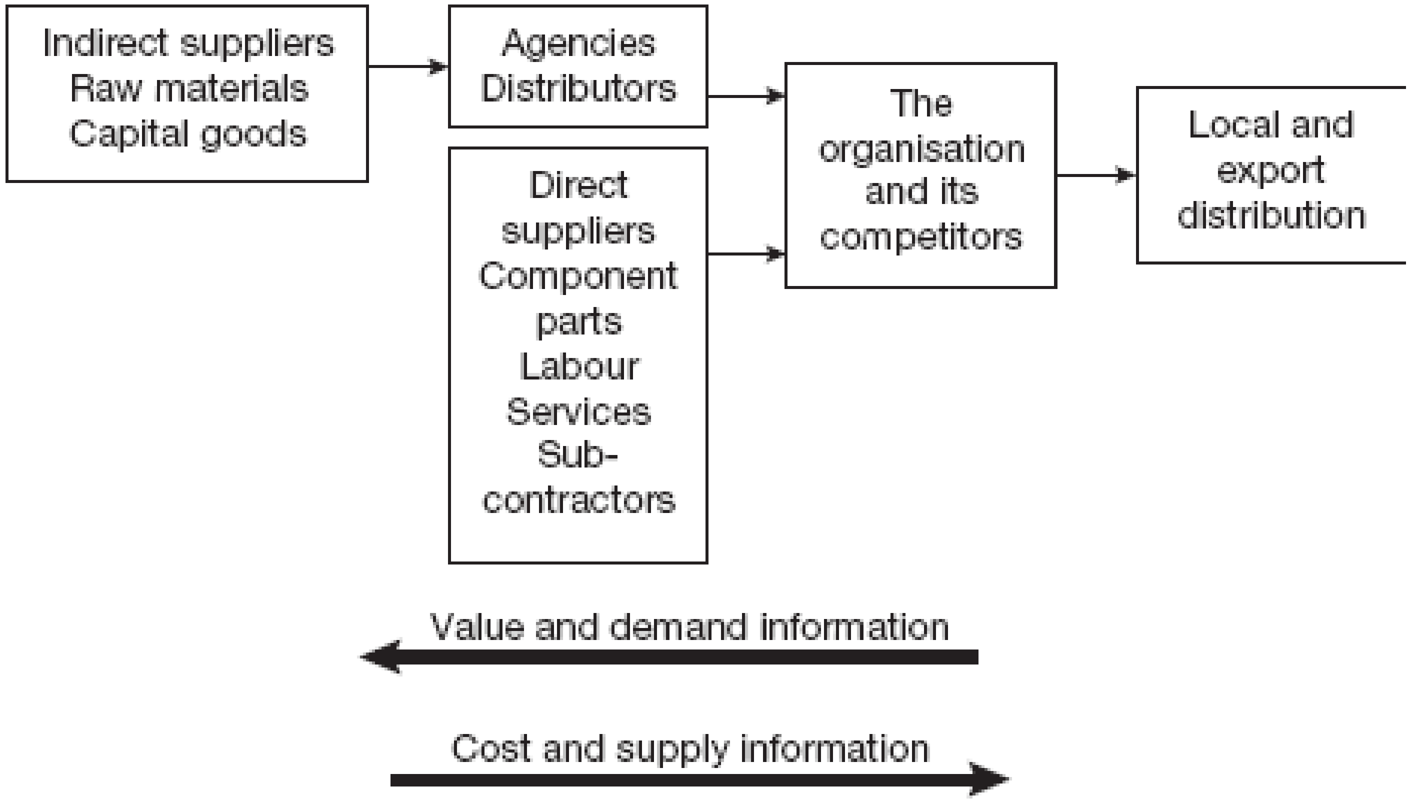
BUSINESS STRATEGY

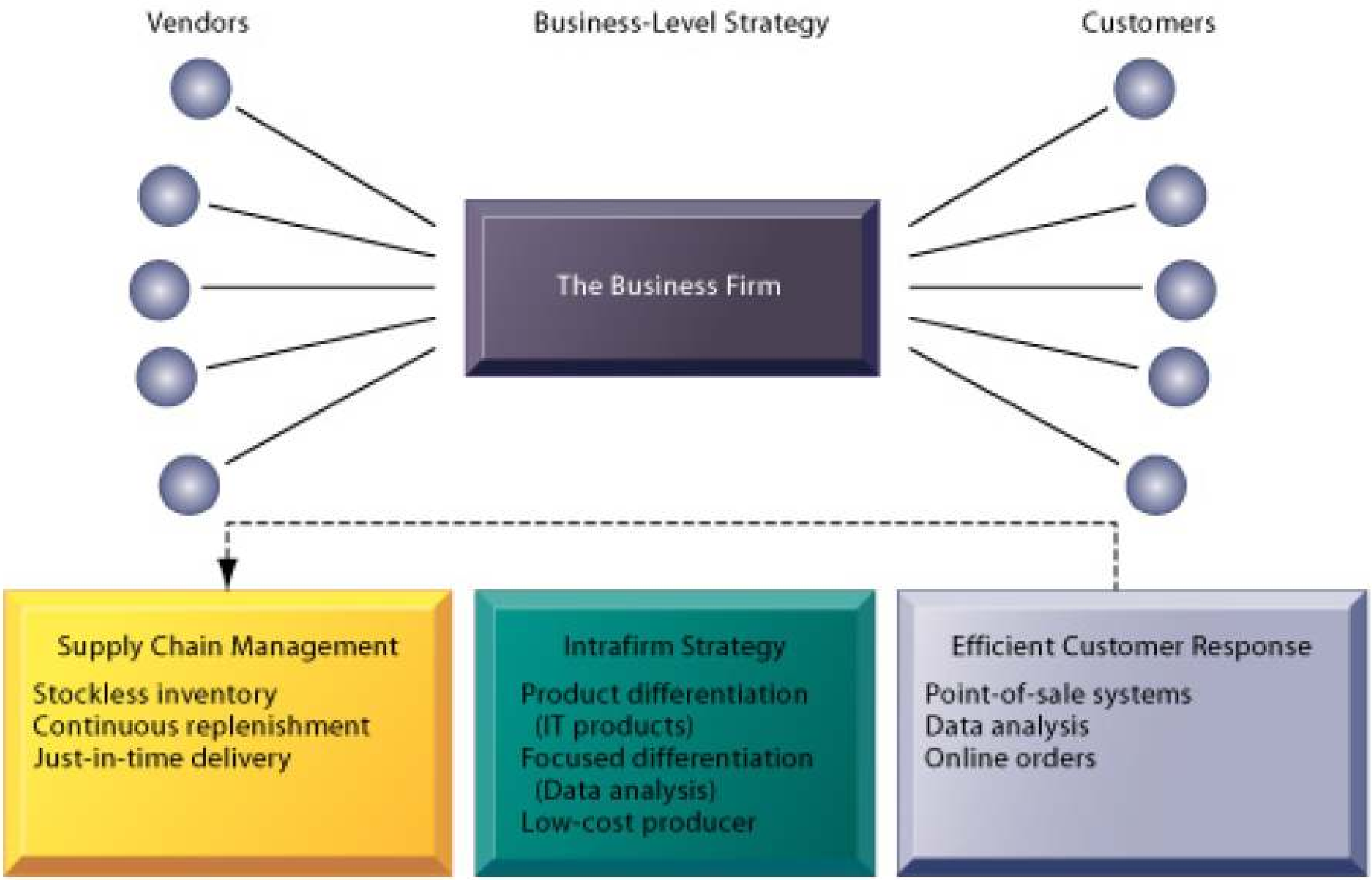
- LEVERAGING TECHNOLOGY IN THE VALUE CHAIN
- INFORMATION SYSTEMS PRODUCTS AND SERVICES SYSTEMS TO FOCUS ON MARKET NICHE
- SUPPLY CHAIN MANAGEMENT AND EFFICIENT CUSTOMER RESPONSE SYSTEMS

Stockless inventory compared to traditional and just-in-time supply methods



The industry value chain

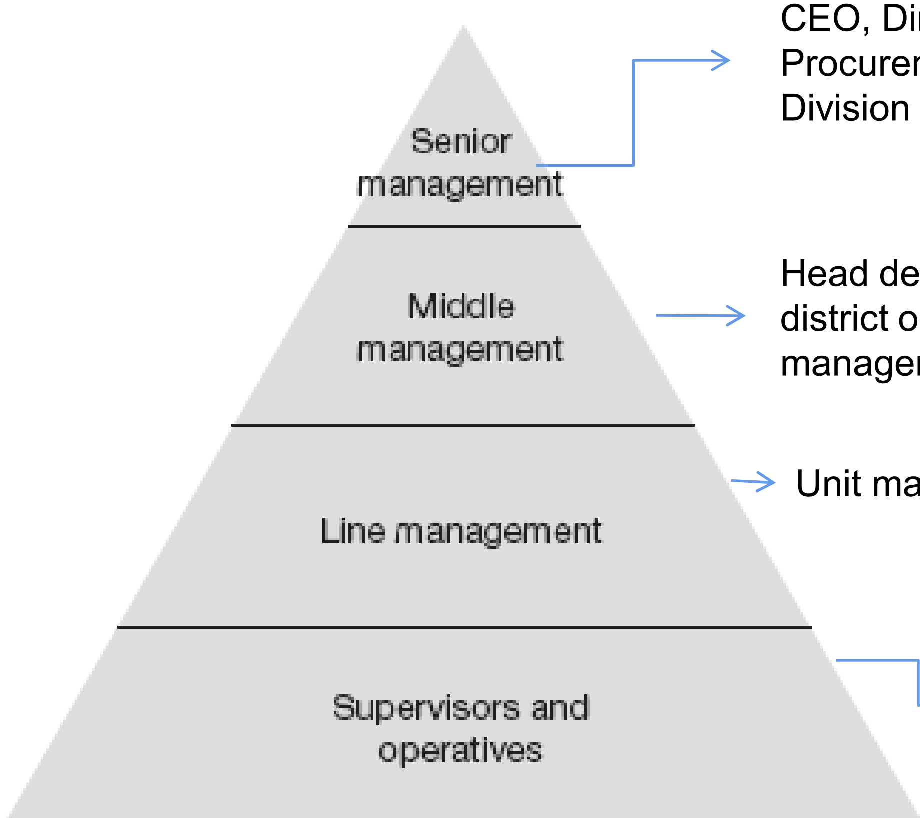



Vendors
Business-Level Strategy
Customers
The Business Firm
Supply Chain Management
Stockless inventory
Continuous replenishment
Just-in-time delivery
Intrafirm Strategy
Product differentiation
(IT products)
Focused differentiation
(Data analysis)
Low-cost producer
Efficient Customer Response
Point-of-sale systems
Data analysis
Online orders

Organization Principle

- One plan is better than no plan at all
- If no goal, business only waste time or waste resources
- Plan, do, check and act (PDCA) cycle

Level of Organisation



CEO, Director R&D, Procurement Division Manager → Establish Objectives, policies and strategies

Head department, district or division manager → Translate Objectives into specific objective, preparing report and meeting

Unit manager → Responsible on specific objectives

Not manager

Who are managers?

- Manager set and monitor organisational objectives by allocating human and material resources and directing operations.
- They bring together the individuals in an organisation with its goals and needs, establishing individual and collective responsibilities to achieve what is necessary for the business
- Managers have a variety of organisational roles and perform a number of functions, but essentially they are all decision makers.

What do managers do

- Planning → Strategic, tactical, operational
- Control→ Centralized/delegation, formalisation/informalisation, degree of personal supervision
- Check
- Act and Evaluation→ Decision making

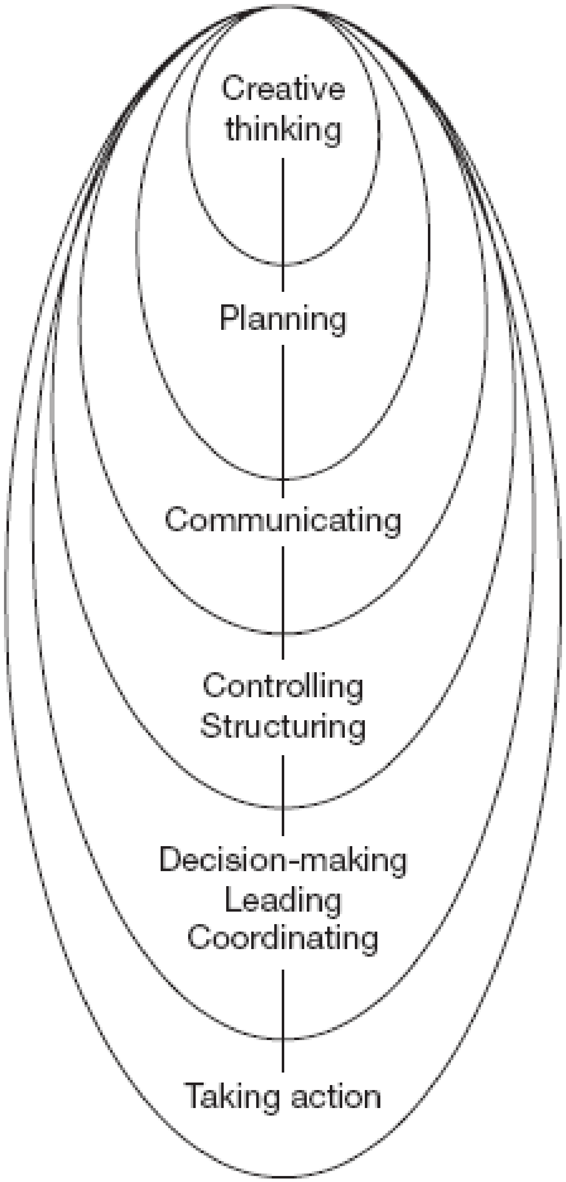
Management Role

- Interpersonal role
  - **Figurehead roles**
  - **Leadership roles: hiring, promoting, training, motivating, diciplining staff**
  - **Liaison roles**
- Informational role: monitor, disseminator, spokes person
- Decisional role
  - **Entrepreneurial manager**
  - **Disturbance handler**
  - **Resouce-allocator**
  - **Negotiator**

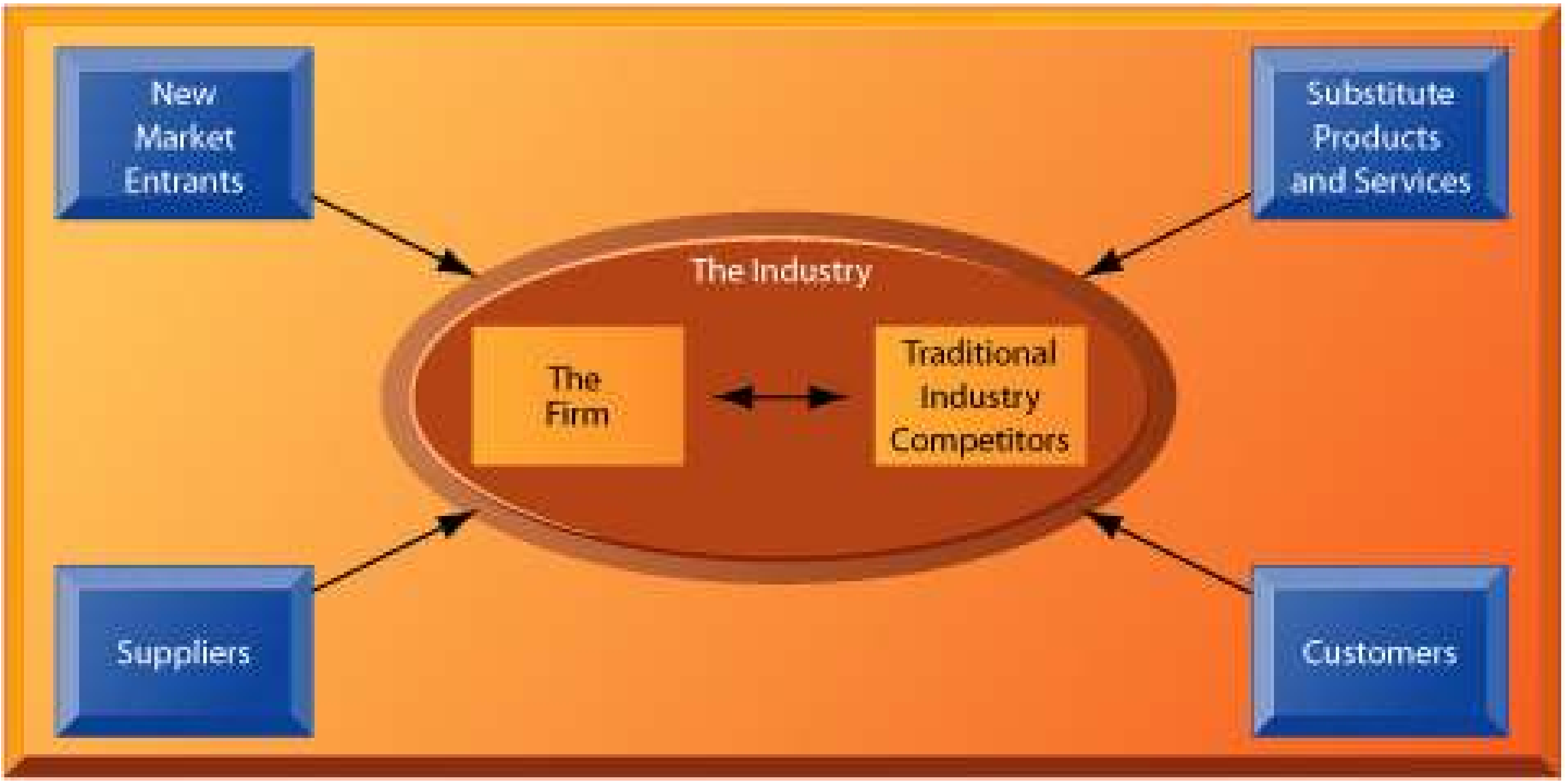
Table 3.2 Management roles and information needs

Management roles	*Information needs*
Interpersonal: figurehead leader liaison	Personal and organisational communication (email, conferencing, presentation charts and graphs).
Informational: monitor disseminator spokesperson	Information access, clarity, availability, analysis, such as spreadsheets, models, charts. Communication of organisational aims and objectives.
Decisional: entrepreneur disturbance handler resource allocator negotiator	Information for decision making and to explain decisions, exception and regular reports, investment appraisal and resource availability.

Managerial function and IS roles (Mintzberg, 1994)



THE COMPETITIVE FORCES MODEL



Impact of the Internet on Competitive Forces and Industry Structure

Competitive Force	Impact of the Internet
Substitute products or services	Enables new substitutes to emerge with new approaches to meeting needs and performing functions.
Customers' bargaining power	Availability of global price and product information shifts bargaining power to customers.
Suppliers' bargaining power	Procurement over the Internet tends to raise bargaining power over suppliers. Suppliers can also benefit from reduced barriers to entry and from the elimination of distributors and other intermediaries standing between them and their users.
Threat of new entrants	The Internet reduces barriers to entry, such as the need for a sales force, access to channels, and physical assets. It provides a technology for driving business processes that makes other things easier to do.
Positioning and rivalry among existing competitors	Widens the geographic market, increasing the number of competitors, and reduces differences among competitors. Makes it more difficult to sustain operational advantages. Puts pressure to compete on price.

BUSINESS ECOSYSTEMS: KEYSTONE AND NICHE FIRMS

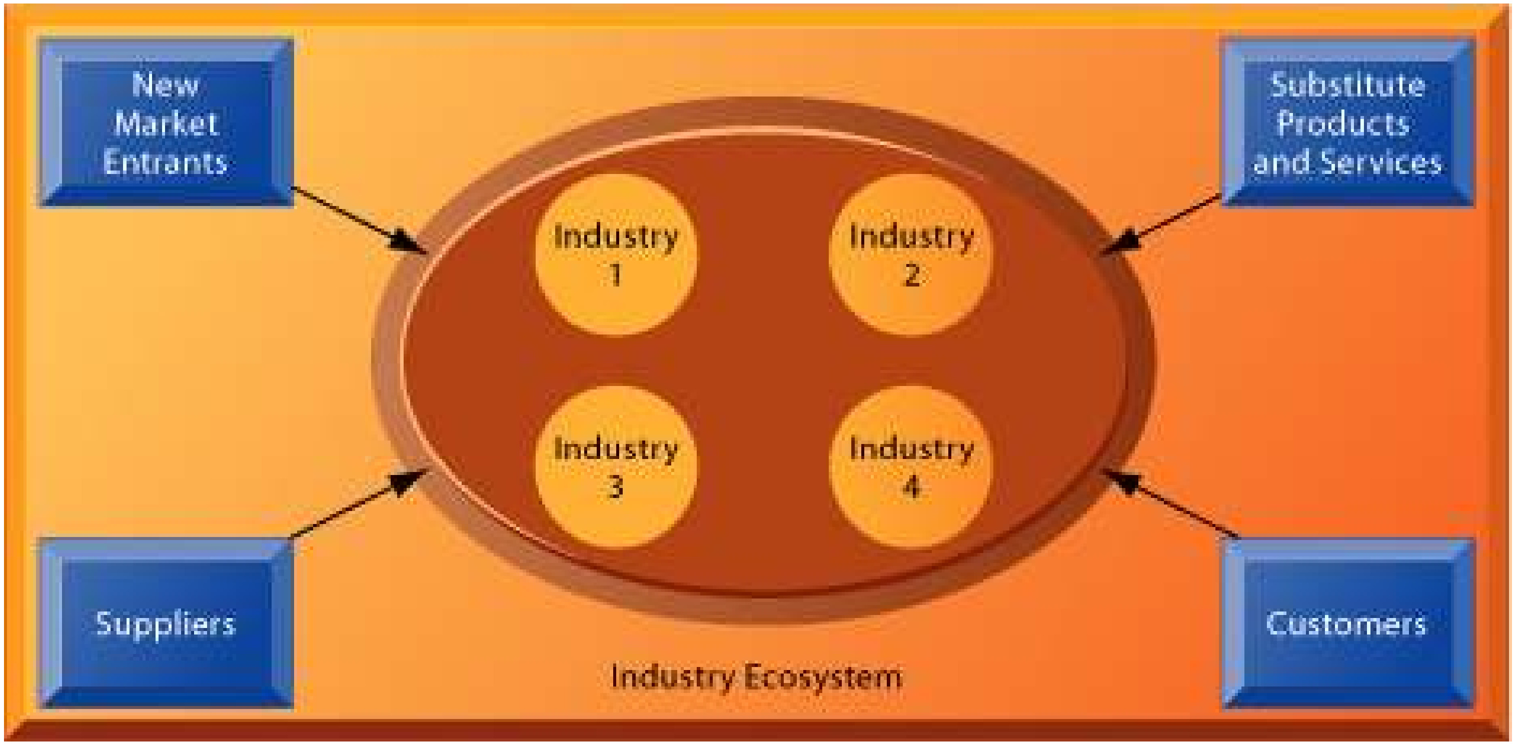


FIGURE 3-16 An ecosystem strategic model
The digital firm era requires a more dynamic view of the boundaries among industries, firms, customers, and suppliers, with competition occurring among industry sets in a business ecosystem. In the ecosystem model, multiple industries work together to deliver value to the customer. IT plays an important role in enabling a dense network of interactions among the participating firms.

NETWORK ECONOMICS