

Chapter 6

Alignment Business Strategy with IT Strategy

The big players

These men are all
billionaires. Here's how
tech got them there...



Dr. Ir. Yeffry Handoko Putra, M.T

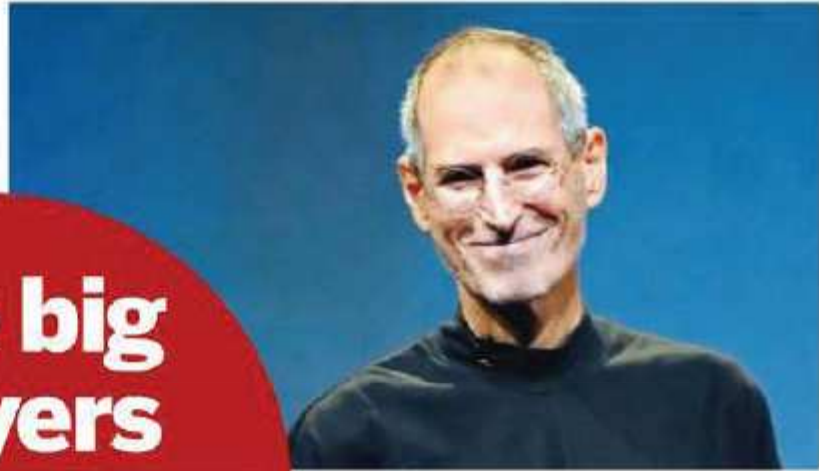
BILL GATES RETIRED

ESTIMATED PERSONAL WORTH: \$53 BILLION



STEVE JOBS APPLE

ESTIMATED PERSONAL WORTH: \$5.5 BILLION



**The big
players**

These men are all
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MARK ZUCKERBERG FACEBOOK

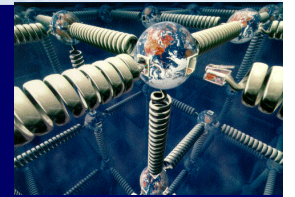
ESTIMATED PERSONAL WORTH: \$4 BILLION



LARRY PAGE & SERGEY BRIN GOOGLE

ESTIMATED PERSONAL WORTH: \$17.5 BILLION EACH

Research Question



- ❖ how can the practice of information strategy in an organization be analyzed
- ❖ how does information strategy relate to business strategy?



INFORMATION STRATEGY IMPACT MATRIX



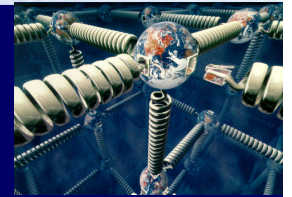
INFORMATION STRATEGY'S IMPACT UPON:

Product Strategy
Production Strategy
Marketing Strategy
Competitive Strategy
Organization Strategy
Finance Strategy
Innovation Strategy
Diversification Strategy

IMPACTS

Changes in Product Design Processes
Changes in Production Processes
Changes in Marketing Processes
Changes in Value-Added Processes
Changes in Business Processes
Changes in Financial Processes
Changes in Knowledge Processes
Changes in Planning Processes

Alignment of Information Strategy and business Strategy



information systems strategy (ISS)



information systems strategic planning (ISSP)



strategic information systems planning (SISP)

the process of deciding the objectives for organizational computing and identifying potential computer applications which the organization should implement



- ❖ However, Galliers (1991) views information strategy as only a part of SISP, together with information technology (IT) strategy, information management (IM) strategy, management of change strategy, and human resources strategy.
- ❖ Earl (1989) sees SISP as a combination of information systems strategy (aligning IS with business goals, and exploiting IT for competitive advantage), IM strategy and IT strategy.

Strategic Alignment Model Venkatraman (1993)

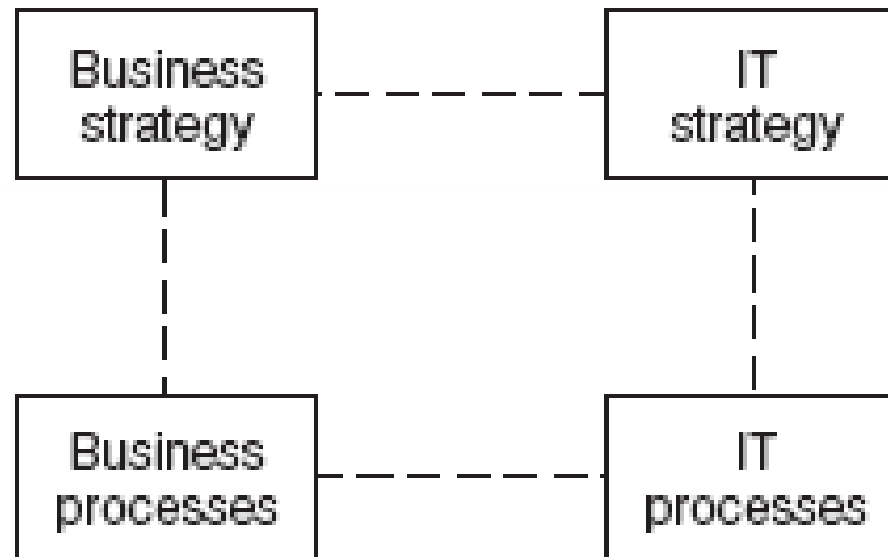
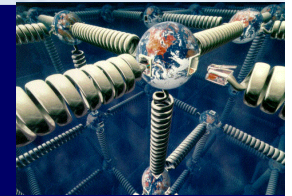


Figure 3.1 *Strategic alignment model (Parker et al., 1989; Henderson and Venkatraman, 1993)*

Strategic Alignment Model Venkatraman (1993)

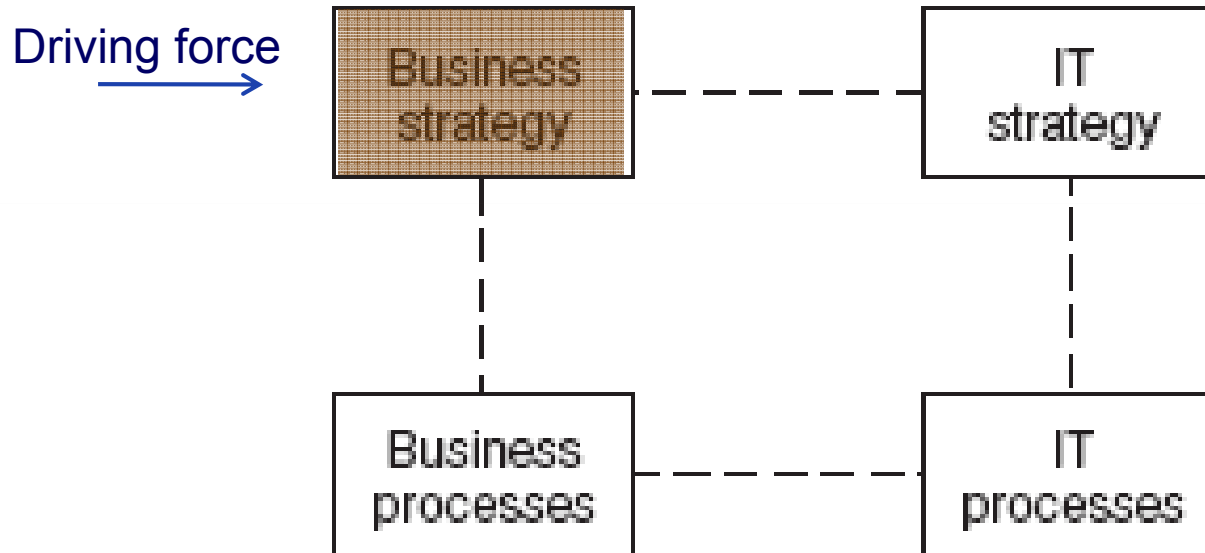


Figure 3.1 *Strategic alignment model (Parker et al., 1989; Henderson and Venkatraman, 1993)*

Strategic Alignment Model Venkatraman (1993)

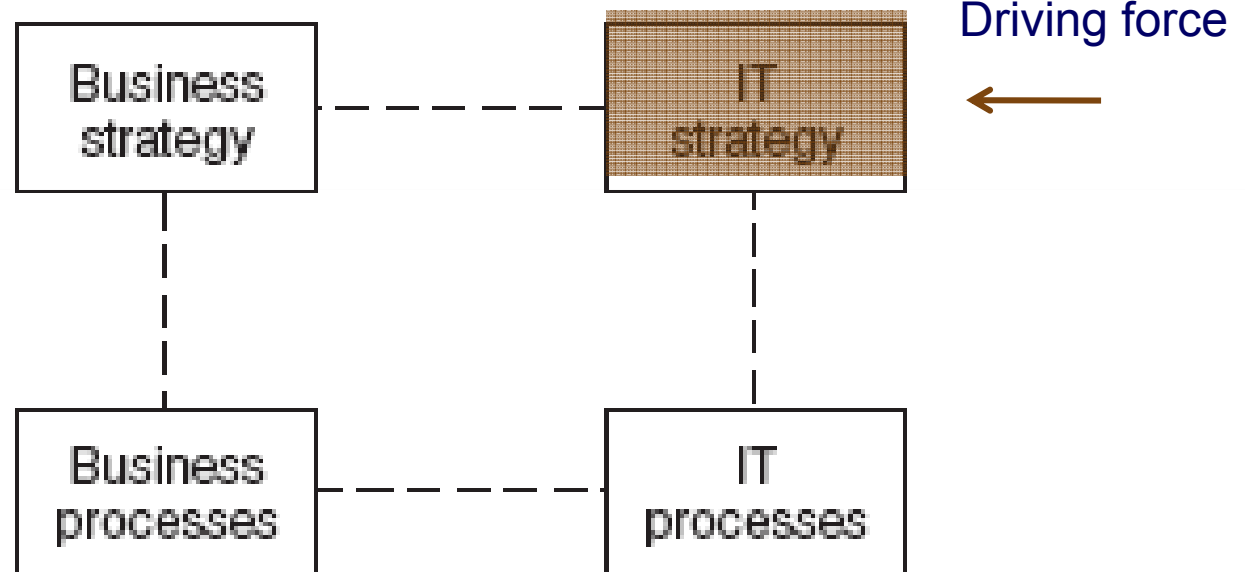


Figure 3.1 *Strategic alignment model (Parker et al., 1989; Henderson and Venkatraman, 1993)*

Example Business Strategy as Driving Force: E-commerce



1. Internet
• Internet portal services (e.g., AOL)
• Communication services (e.g., AT&T)

2. Retail
• Consumer products (e.g., Amazon, CDnow),

3. Markets
• Commercial supply businesses (i.e., B2B),
• Auctions (e.g., eBay),
• Materials trading markets (i.e., commodity products)

4. Finance
• Financial trading markets (e.g., stocks and bonds)
• Financial services (e.g., banking, credit, mortgages)

5. Information
• Reservations (e.g., travel, hotels)
• Query and search (e.g., Ask Jeeves)

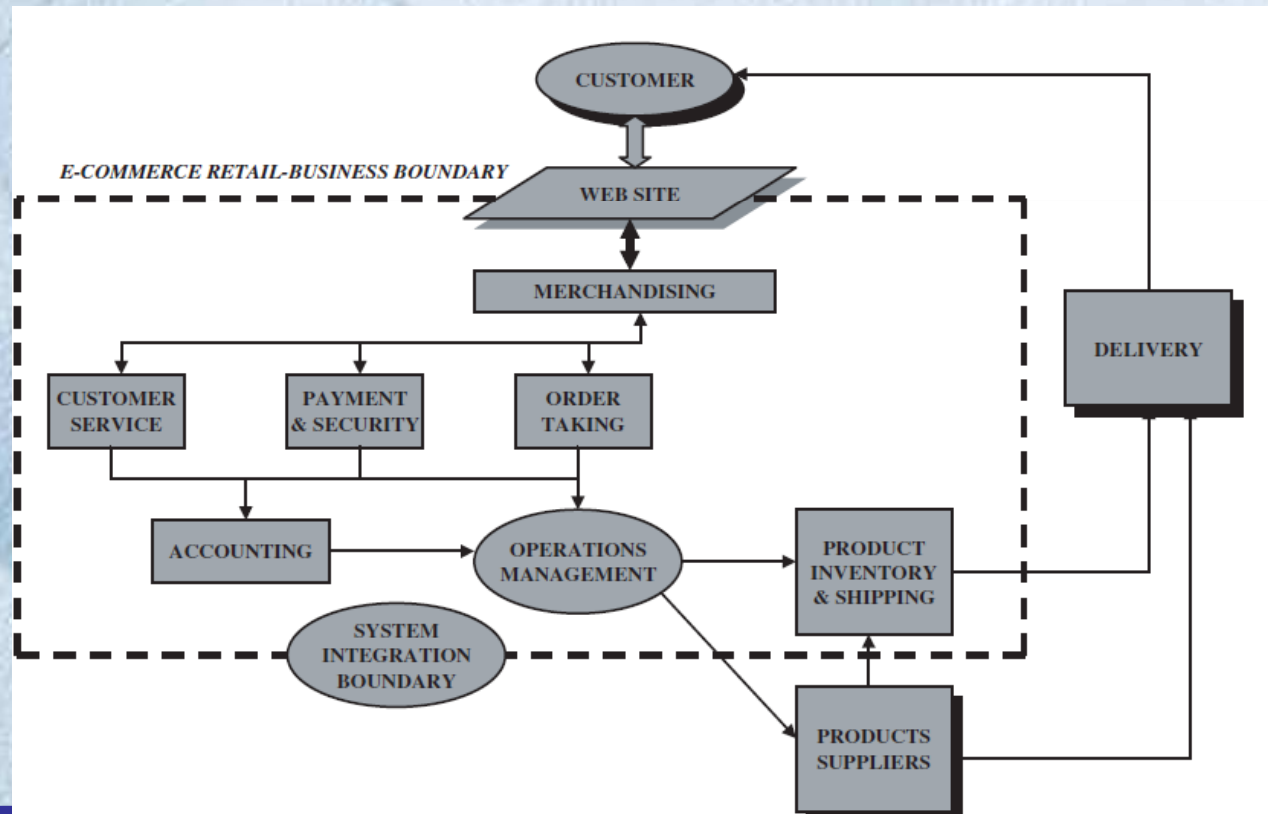
6. Entertainment
• News, music, TV, etc.

7. Educational
• Higher education (e.g., UMUC)
• Industrial training

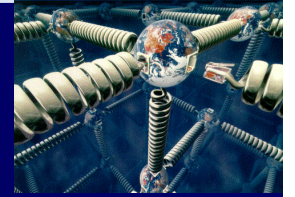
INFORMATION SYSTEM ARCHITECTURE OF A RETAIL E-COMMERCE BUSINESS (Amazon.com)



Case Study : Business Strategy for E-Commerce



Important Note



- ❖ in the business operations architecture is that the boundary of the business is not defined by a physical space but by a virtual space—the software system integration function.
- ❖ the space in which to interact with the customer is missing
- ❖ not only how one operates in a traditional business—but even how one “architects” the whole business
- ❖ Strategic change in operations requires change in procedures and in the architecture of procedures (the set of policies that structure the business activities)

IS Strategy as Driving Force : Dell Sells on the Internet (Michael Dell)



- ❖ This case examines how one of the pioneers in the sales of personal computers used the Internet to reinvent its business—Dell computers
- ❖ Condition: Computer has standardized by IBM
- ❖ Microsoft in OS. Intel in CPU Chips and Dell in Computer
- ❖ Business Strategy: (Goal: Price Competitive)
 - Continue direct sales from telephone to internet
 - Cost Control Production:
Dell not invested in Production, instead using Outsourcing from Japan
 - Minimizing product inventory by just in time assembly
 - Shipping by Federal Express , UPS
 - Provide Information to customer and other business which bought Dell's Product

Strategic business challenges of information systems for e-commerce: (Dell)



1. *Attracting*

- customers
- needs
- desires
- finding site

3. *Adding value*

- inspecting
- price
- convenience
- transacting

2. *Informing*

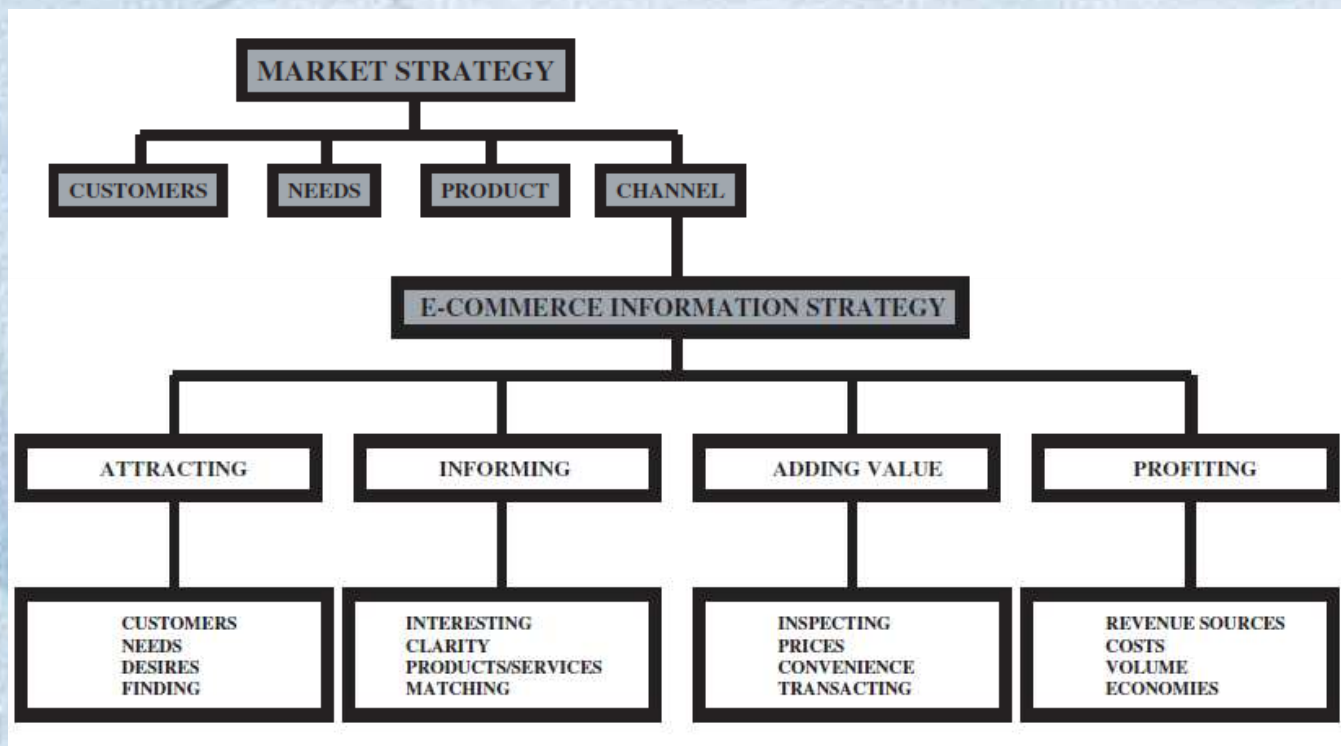
- interesting
- clarity
- products
- matching

4. *Profiting*

- revenue
- costs
- volume
- economies

CASE STUDY

BUSINESS PART OF INFORMATION STRATEGY FOR E-COMMERCE



The Internet is a medium of communication and a channel of marketing

STRATEGIC E-PARTNERS ALLIANCE MATRIX



<u>STRATEGIC PARTNERS</u>	<u>STRATEGIC E-COMMERCE FUNCTIONS</u>			
	ATTRACTING	INFORMING	ADDING VALUE	PROFITING
CDnow (example)			CDnow's Record Sales Web site	Gross Margins
GEFFEN RECORDS (example)	Geffen's Recording Artists Website			Sales Commissions

Four Component of Information Strategy

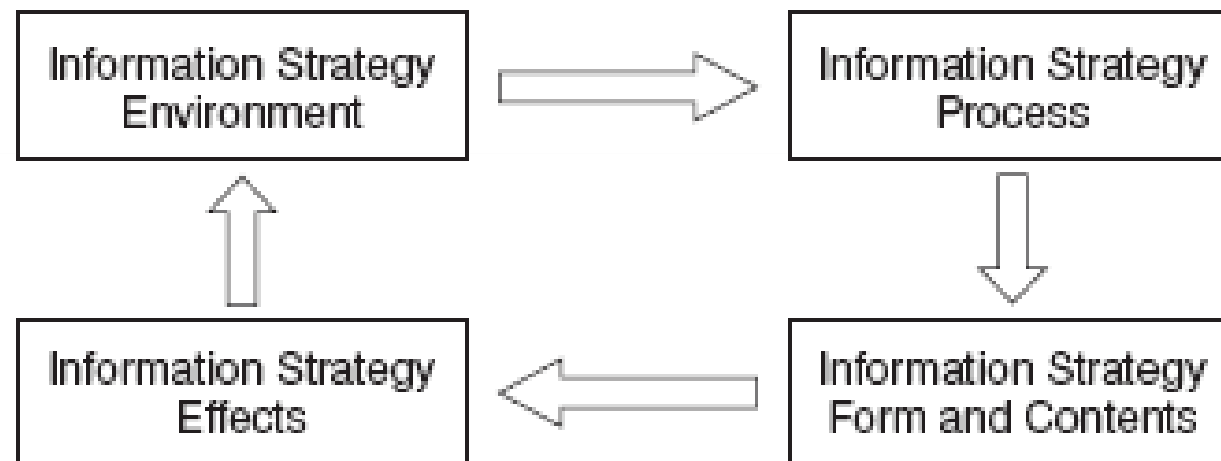


Figure 3.2 *Research model describing four components of information strategy*

The IS strategy environment



all those facts and conditions which are not part of the information strategy itself, nor of the information strategy process, but that can or should influence either of those

Table 3.2 *Four aspects of the environment of information strategy*

	<i>Technological environment</i>	<i>Organizational environment</i>
External environment	IT opportunities	Position in industry
Internal environment	IT resources	Nature of the organization

The IS strategy process



- ❖ The information strategy process describes the way in which the information strategy is created or changed
 - ❖ the importance of the linkage between corporate strategy and information strategy, in the form of 'impact' and 'alignment'
1. Process Type:
 - Mechanical
 - problem-oriented
 - political
 2. Methodologies and tools : SWOT analysis
 3. how and to what extent *organizational learning*

The IS form and content



- ❖ **Strategy Form** defines some formal characteristics: formality, regularity of the documentation, the number of documents and pages used for expressing and communicating the strategy, and the time horizon (Mintzberg, 1991).
- ❖ **Content Strategy** describes the subject areas or 'issues' for which the strategy is meant to provide solutions or directions
- ❖ The main aspects of the content of the information strategy are scope, objectives, architectures, rules and plans (Earl, 1989).

The IS strategy effects



- ❖ the (narrow) scope of one systems development project as result of the information strategy
- ❖ the (narrow) scope of changes in the business strategy as results of the information strategy
- ❖ the (intermediate) scope of the performance (quality) of the systems development function
- ❖ the (intermediate) scope of the performance (quality) of a specific information system, and
- ❖ the (broad) scope of (all) information services in the organization (Laudon and Laudon, 1996).

Table 3.1 *Summary of the information strategies in three insurance companies*

		<i>Information strategy</i>		
<i>Components/aspects</i>		<i>In company A</i>	<i>In company B</i>	<i>In company C</i>
Environment	Position in the industry	Second tier	Dominant/ niche	Top
	Main distribution channel	Bank	Direct writer	Intermediaries
	Special factor	Recently merged	About to merge	Partner in ADN
	Company revenue	\$2000M	\$2000M	\$3000M
	Employees	2000	2000	4000
	Business strategy	Explicit, known	Explicit, known	Explicit, known
	Internal organization	Product oriented	Market oriented	Product oriented
	Management attitude to IT	Positive	Very positive	Very positive
	IT expenditures/revenue	<2%	>2%	<2%
	Existing architecture	Central/ decentral	Two tiered	Centralized
Process	Process type	Mech/problem	Political/mech	Mech/political
	Overall methodology	No	No	No
	IT scanning	Yes	Informal	Informal
	SWOT	Informal	Occasionally	Informal
	CSF	No	Occasionally	No
	Role top management	Dominant	Active	Active
	Line management	Active	Active	Present
	IT management	Active	Dominant	Dominant
	Planning specialist	One	—	—
	External consultant	—	—	—
	Alignment	Yes	Yes	Yes
	Impact	Not clear	Yes	Yes
	Organizational learning	No	Some	Some

Table 3.1 *Continued*

		<i>Information strategy</i>		
<i>Components/aspects</i>		<i>In company A</i>	<i>In company B</i>	<i>In company C</i>
Form and content	Time horizon	Five years	Three years	Three years
	Scope	IS/IT	IS/IT/telecom	IS/IT
	Objectives	Very specific	Explicit	Implicit
	Systems architecture	Evolving	Extensive, clear	Implicit
	Technical architecture	Evolving	Clear	Clear
	Organizational architecture	Clear	Clear	Clear
	Rules, alliances	Implicit, few	Implicit, few	Implicit, strict
	Plans	Projects	Projects, budgets	Projects, budgets
Effects	User satisfaction	Not measured	Not measured	Not measured
	Project results	Evaluated	Evaluated	Evaluated
	Bottom line results	Not measured	Tentative	Not measured

IS Strategy in Organization (not normative Model)

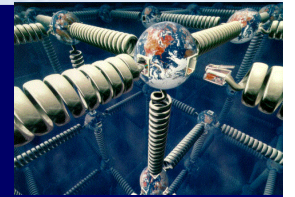


1. Questionnaire about 4 IS Component with Manager: yes or no question
2. Questionnaire about Decision to top executive
 - the key (IS related) decisions taken in the previous years (reasons, effects)
 - the information strategy process and the roles of different parties in the organization, and
 - the value of the information strategy activities.



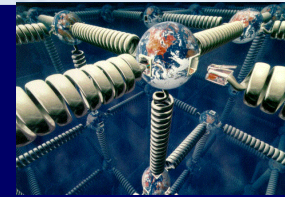
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CASE STUDY: Beauty Goods in Cyberspace (Read Betz Chap 11)



Last week's [January 17, 2000] purchase of Beauty.com by Drugstore.com for \$42 million in stock marked the first of what could be a rash of consolidations among online retail categories cluttered with well-financed—but poorly patronized—

Web stores.
—(Tedeschi, 2000, p C1)



But these purveyors of glamour have concerns more pressing than the sheer number of competitors. Analysts say that any online retailer hoping to make a dent in the estimated \$15 billion beauty market cannot hope to succeed without the cooperation of the Big Three of the beauty industry—Lancome, Estee Lauder, and Clinique.

—(Tedeschi, 2000, p. C1)

“Companies like Estee Lauder see their brands as the crown jewels,” said Lisa

Allen, an analyst with Forrester Research. “They pay close attention to things like how and where they’re displayed, who they’re next to.”

—(Tedeschi, 2000, p. C1)