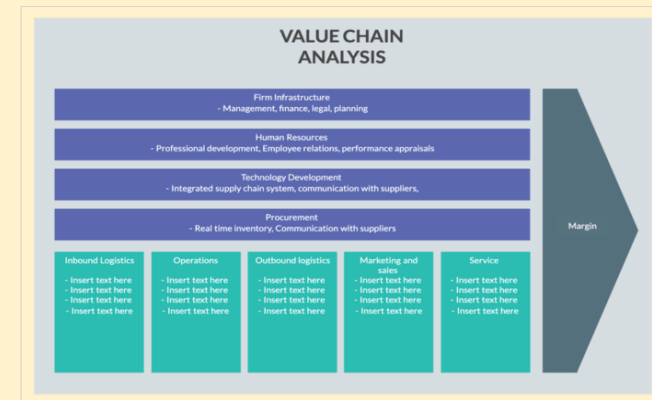
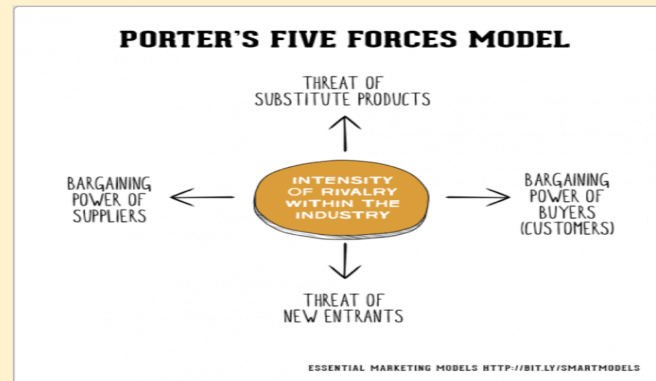


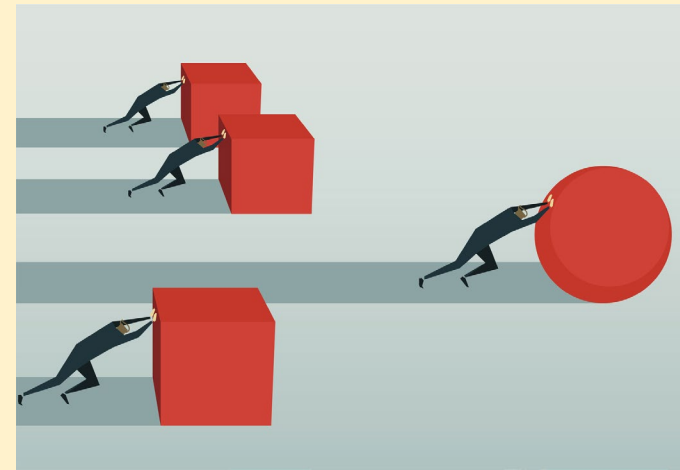
Lecture 3- Competitive Forces and Value Chain Analysis



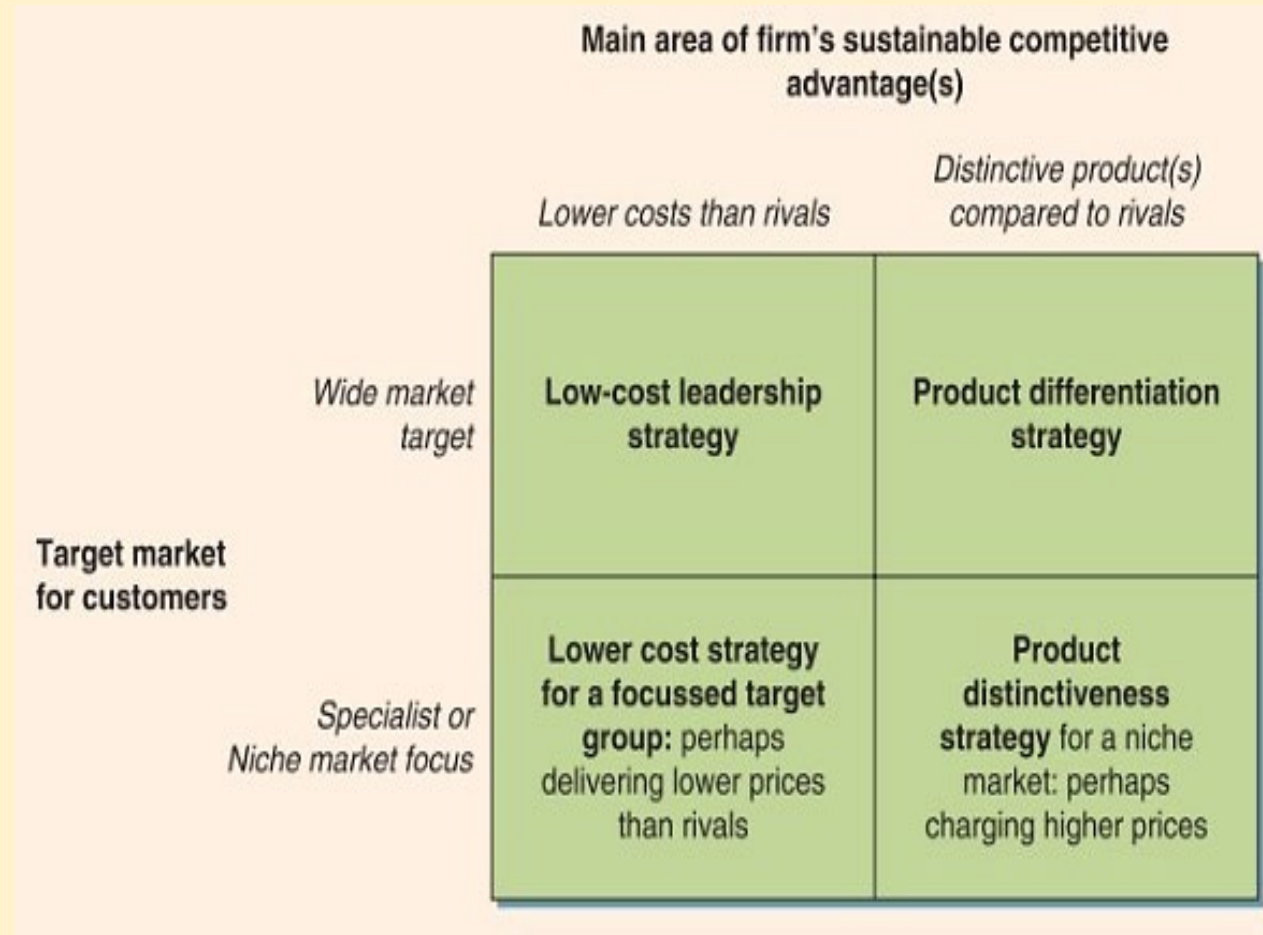
Recap- Strategic Role of IS

Role of IS to achieve competitive advantage

- Lynch (2005) asserts that strategy involves developing competitive advantage over time
- So HOW can IS assist?
- Let's first look at the concept of **Competitive Advantage**



Porter's Generic Strategies for Competitive Advantage



Source: Lynch (2018)

Summary of the role IS play for each Competitive Strategy

Strategy	Description	Example
Low-cost leadership	Use information systems to produce products and services at a lower price than competitors while enhancing quality and level of service	Walmart
Product differentiation	Use information systems to differentiate products, and enable new services and products	Google, eBay, Apple, Starbucks
Focus on market niche	Use information systems to enable a focused strategy on a single market niche; specialize	Hilton Hotels, Harrah's

Laudon and Laudon (2013)

How Hotels are using Technology for Competitive Advantage

- Hotels using Technology for Competitive Advantage.pdf
- Available at:< <https://www.fingent.com/blog/how-hotels-are-using-technology-for-competitive-advantage/> >

How Amazon Delivers Packages So Fast



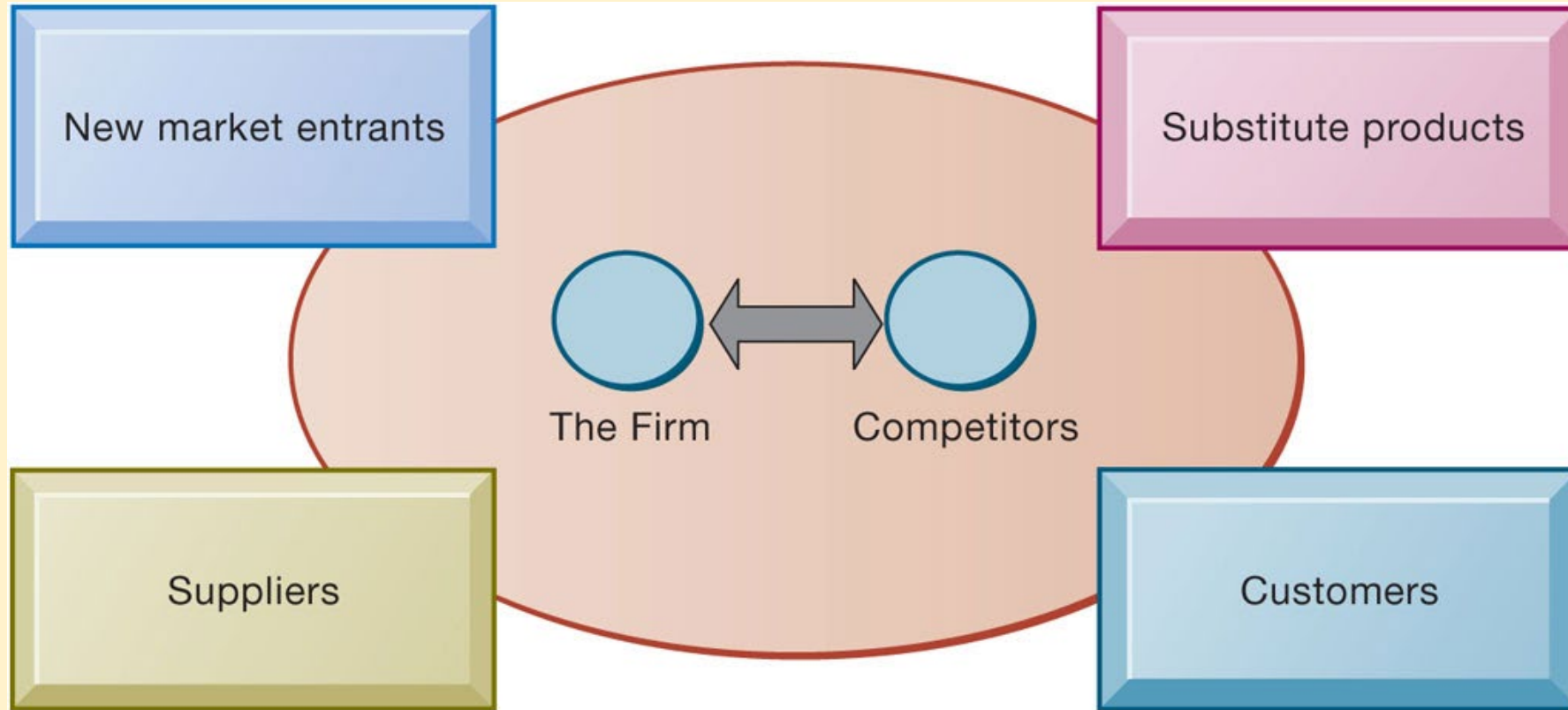
<https://www.youtube.com/watch?v=91jKeKuUaDM>

Porter's Competitive Forces Model

Competitive Forces Model Basics

- The model provides a general view of:
 - the firm,
 - its competitors
 - the firm's environment.
- Five competitive forces that shape the fate of firm:
 - Traditional competitors
 - New market entrants
 - Substitute products and services
 - Customers
 - Suppliers

Porter's Five Competitive Forces Model



Laudon and Laudon (2013)

Competitors

- All firms share market space with other competitors
- Competitors are continuously:
 - devising new, more efficient ways to operate
 - introducing new products and services
 - attempting to attract customers by developing their brands and imposing switching costs
- **The greater the number of competitors in the market, the more rivalry exists in the industry**



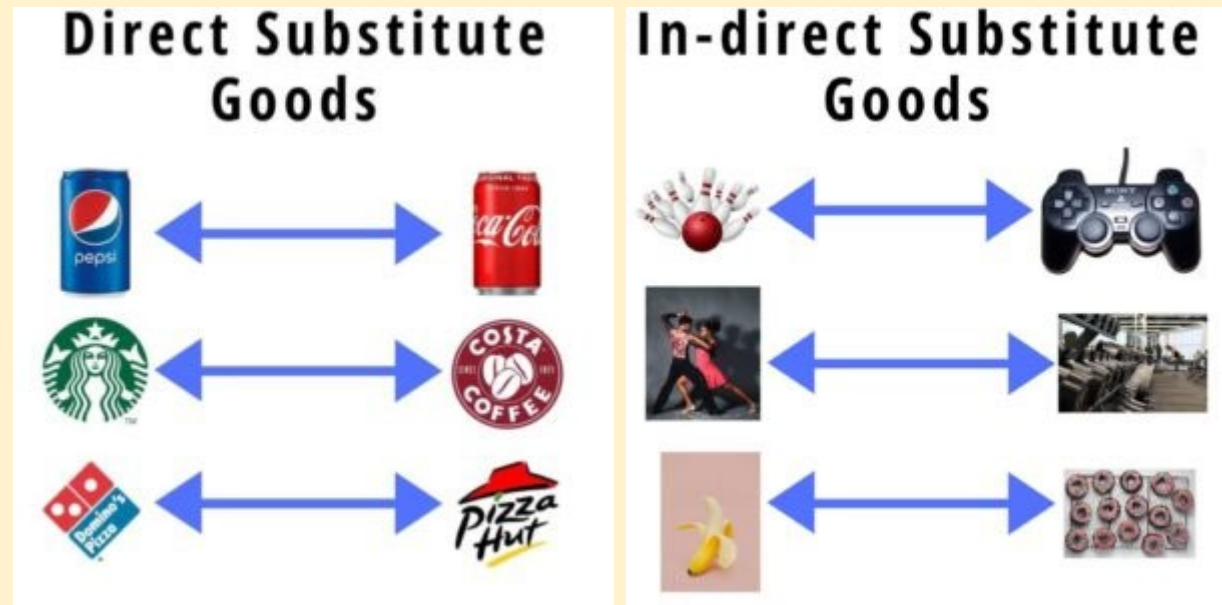
New Market Entrants

- In a free economy new companies are always entering the marketplace
- In some industries, there are;
 1. **Very low barriers to entry:** pizza business or just about any small retail business
 - OR**
 2. **Entry is very difficult:** computer chip business, soft drinks, Pharmaceutical drugs etc. because:
 - has very high capital costs and
 - requires significant expertise and knowledge that is hard to obtain
- **The higher the threat of new entrants to the market, the more rivalry exists in the industry**

Substitute Products and Services

- There are substitutes that your customers might use
- Because your prices become too high or your product is not available, accessible and so on
- New technologies create new substitutes all the time
- **The greater the number of substitute products in the market, the more rivalry exists in the industry**

- Examples:



Customers

- Firms depends on its ability to attract and retain customers
- The power of customers grows if:
 - they can easily switch to a competitor's products and services,
 - if they can force a businesses to compete on price alone
 - the marketplace is transparent i.e. all prices are known
 - little product differentiation
- **The higher the power of buyers the more competitive the industry becomes**

Suppliers

- The market power of suppliers can have a significant impact on firm profits
- The more suppliers a firm has, the greater control it can exercise over those suppliers in terms of:
 - price, quality, and delivery schedules.
- **The higher the power of suppliers the more competitive the industry becomes**

Information Systems strategies for dealing with the Competitive Forces

- What is a firm to do when faced with all these competitive forces?
- And how can the firm use information systems to counteract some of these forces?
- How do you prevent substitutes and inhibit new market entrants?

Answer: Use IS to gain a competitive advantage

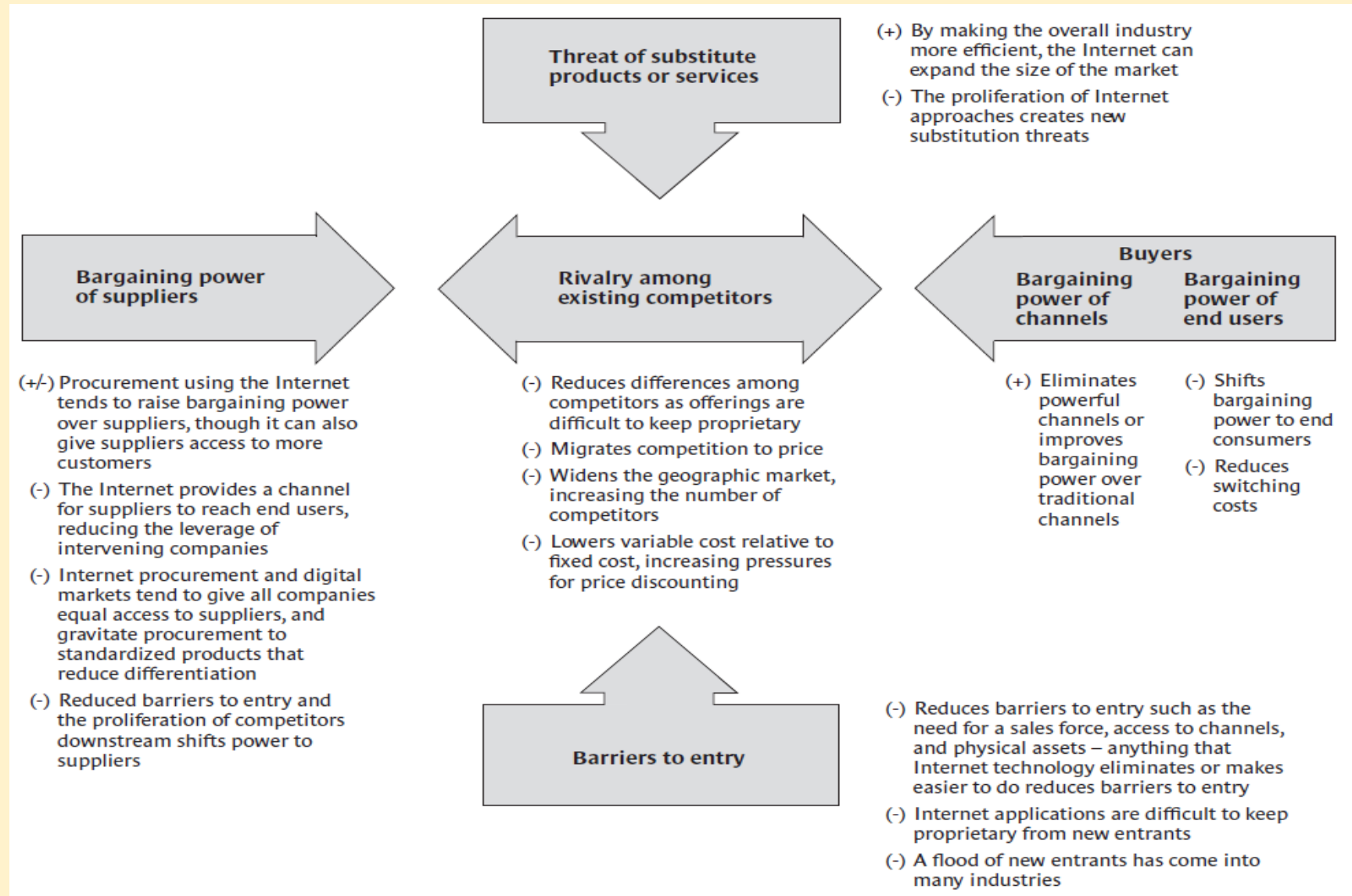
Competitive Strategy:

- Low cost Leadership
- Differentiation
- Focus/Niche

By Deploying:

- Supply Chain Management (SCM) systems
- Customer Relationship Management (CRM) systems
- Enterprise Systems
- Disruptive technologies

How the Internet Influence Porter's Five Forces



Summary- The Internet's Impact on Competitive Advantage

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	Shifts bargaining power to customers due to the availability of global price and product information
Suppliers' bargaining power	Tends to raise bargaining power over suppliers in procuring products and services; however, suppliers can 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	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 reducing differences among competitors; makes it more difficult to sustain operational advantages; puts pressure to compete on price

Porter's Value Chain Analysis

Value Chain Model Basics

- It highlights specific activities in the business where competitive strategies can best be applied
- Therefore, it can be used to identify where information systems are most likely to have a strategic impact.
- The value chain model views the firm as a series or chain of basic activities that:
 - **add a margin of value to a firm's products or services for its customers**

So What is Value?

- Today's customers demand:
 - High quality products
 - Quick response times
 - Excellent service
 - Low prices
- Combined – these result in VALUE being created

Value Defined

- **Value is a perception by customers** – for a good, service or combination of both (customer benefit package) in relation to what buyers are willing to pay for them
- Customers make decisions to buy based on perceived benefit against price
- **Customer Value = perceived benefit / price**

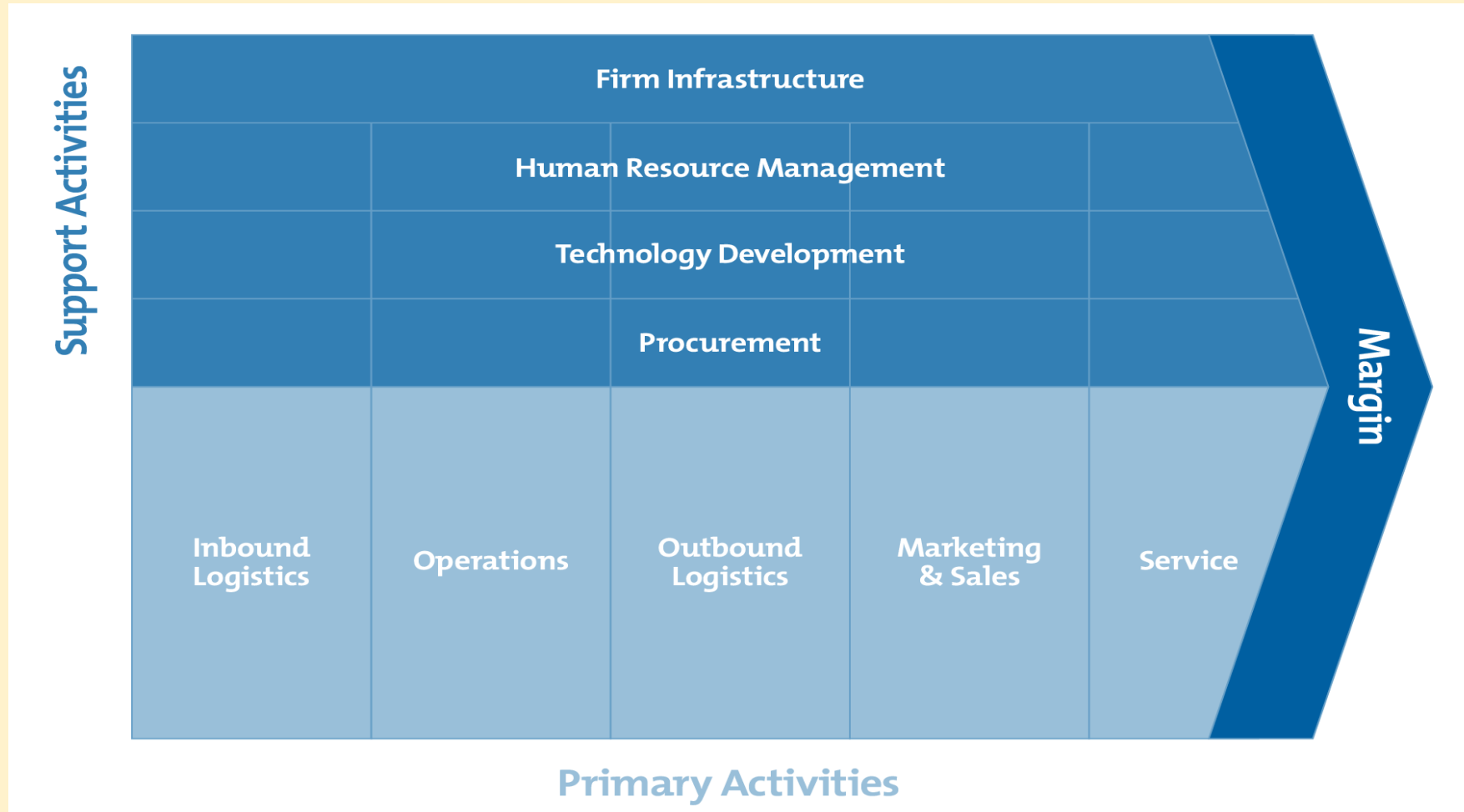
How to add a margin of Value?

- To increase value, an organisation must do one or more of the following:
 - Increase benefits without increasing price
 - Increase perceived benefits whilst reducing price
 - Decrease price without decreasing perceived benefits
- **Margin= Value Created– Cost of Creating that Value**

Implication of IS

- For each element in the value chain it may be possible to use IS to increase the efficiency of resource usage in that area.
- In addition, IS may be used between value chain activities to increase organizational efficiency.

Value Chain Model



Primary Activities

- **Inbound logistics**

- Receiving raw materials and/or partly finished goods; storing them; and transferring them to the manufacturing section

- **Operations**

- Producing finished goods from raw materials and/or partly finished goods

- **Outbound logistics**

- Storing finished goods and then distributing them to customers

- **Marketing and sales**

- Promoting the firm's products; soliciting orders from prospective customers

- **After-sales service**

- Maintaining the value of the product to the customer after it has been delivered

Support Activities

- **Firm infrastructure**

- General management; accounting and finance; legal department; health and safety; etc.

- **Human Resource Management**

- Recruiting; training and developing; appraising; career planning; etc.

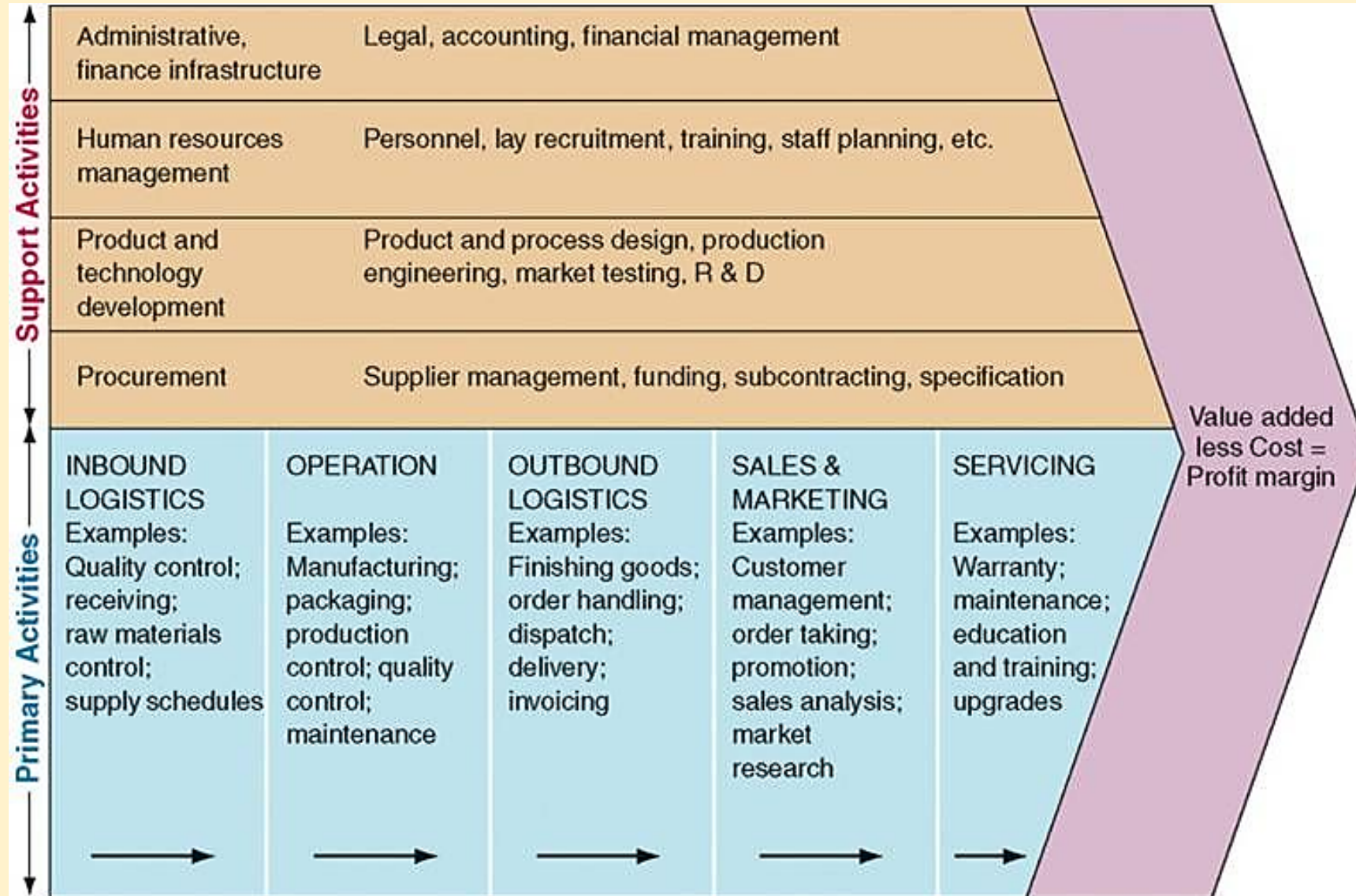
- **Technology development**

- Research and development, relating to both products and processes

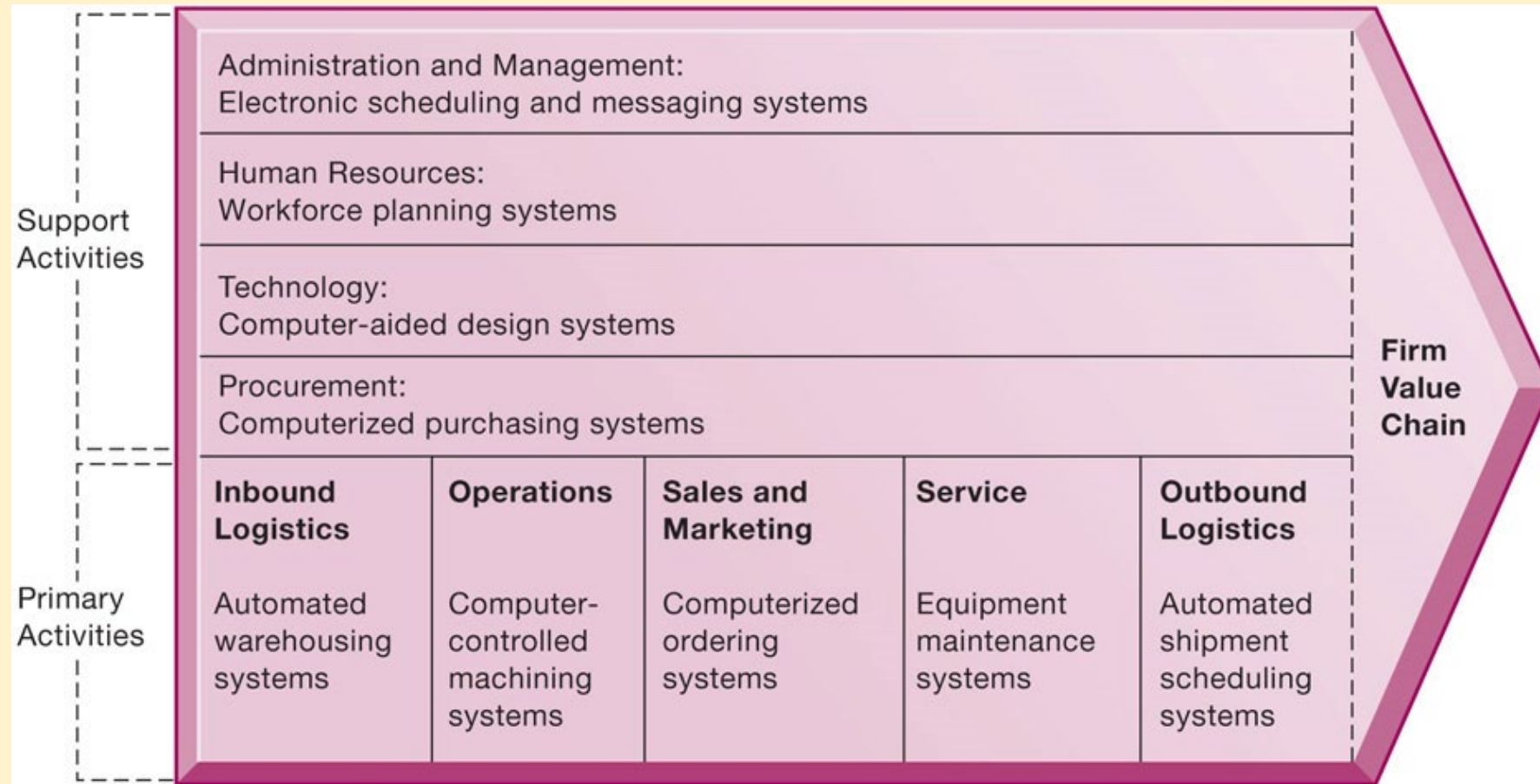
- **Procurement**

- Acquiring the goods and services that the firm needs in order to operate effectively; applicable to both primary and support activities

Value Chain Model



Example-Information Systems in Value Chain Activities



Laudon and Laudon (2013)

Steps to Value Chain Analysis for a Firm

- Step 1 – Identify sub-activities for each primary activity
- Step 2 – Identify sub-activities for each support activity
- Step 3 – Identify links between all value activities identified
- Step 4 – Look for problems to resolve and opportunities to increase value
- Step 5 – Identify Information Systems that can be used to increase value

Student Activity For Next Week- Hotel Plaza Nouveau

- **TASK 1 – Identify Hotel Plaza Nouveau’s competitive advantage**
- **How does Plaza Nouveau compete?**
 - Cost; Differentiation or Niche?
 - What does the market require?
 - Low price? High quality? Fast delivery? Reliable delivery? Innovative products and services? Wide range of products? The ability to change the timing or quantity of products and services?

- Task 2- Apply the Value Chain to Hotel Plaza Nouveau
 - Analyze Hotel Plaza Nouveau using the value chain, show any problems and how they can improve processes and use of information systems
 - Download the Value Chain Template and identify:
 - What processes take place at Plaza Nouveau?
 - Indicate any problems/issues within their value chain
 - Indicate how they might improve their value chain?
 - Consider processes and information systems
 - You need to consider the different parts of the Hotel – reception; restaurant; etc.
 - It is best to start with the primary activities first
 - Follow the steps to Value Chain Analysis

Next Session

Next Topic: Value Chain Analysis Case Study and
Kickstart Assignment

Self Managed Learning

- Read:
 - Chapter 3- Essentials of Information Systems
 - Complete Hotel Plaza Nouveau Case Study

References

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- Chaffey, D. 2009. E-business and e-commerce management strategy, implementation and practice . 4th ed. Harlow: Financial Times Prentice Hall.
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- Laudon, K. C. & Laudon, J. P. 2014. Management information systems managing the digital firm. 13th ed. Boston: Pearson.
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