TIM158
Business Information Strategy

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To maintain consistency.
Lectures throughout TIM158 adapted or borrowed from Kevin Ross.
Additional material added as needed.
Lecture 2

- Recap of Lecture 1 - 10 minutes
- News presentation – 5+5 = 10 minutes
  - Names ...
- Pre Porter
- Michael Porter
- Disruption
- IBM Case
- IT Doesn’t Matter
- Final comments
Organization

Environment

Human resources

Capital, Infrastructure, ...

Strategy

Value $$$

Brand, Products
Analyzing Business Model Linkages

Can I create a “virtuous cycle” of innovation, productivity, and increasing returns?

- What drives revenue growth?
- What drives asset efficiency?
- What drives cost savings?

Capital Efficient
Profitable Growth (ROE)

What drives investor confidence?

Market Value

(c) Lynda Applegate 2009
Assessing the Impact of IT on Business Model Alignment

Can IT create a “virtuous cycle” of innovation, productivity, and increasing returns?

Can IT be used to drive revenue growth?

Can IT be used to drive asset efficiency?

Can IT be used to drive cost savings?

Capital Efficient Profitable Growth (ROE)

What role does IT play in driving investor confidence?

Market Value

(c) Lynda Applegate 2009
SWOT


Situation Analysis

**Internal origin** (attributes of the organization):
- **Helpful**
- **To achieving the objective**

**External origin** (attributes of the environment):
- **Helpful**
- **To achieving the objective**

**Strengths**

**Weaknesses**

**Opportunities**

**Threats**
Michael Porter took us beyond SWOT
Thank You Mike!!
Porters 5 Forces

The Five Forces That Shape Industry Competition

- Threat of New Entrants
- Rivalry Among Existing Competitors
- Threat of Substitute Products or Services
- Bargaining Power of Suppliers
- Bargaining Power of Buyers

Industrial
Key Ideas

• What is Competition
• Five Forces
• What is competitive advantage
• What is strategy
• The Fit (Amplifier)
• How to sustain leadership
Ideen disassembled

- Competition is not about being the best. It is about being unique.

- Five forces are not about winning sales. They are about winning the most profit. It is about selling the right product at the right price.
• Competitive advantage is not about what you think you are good at.
  – It is about the value you create,
  – how you create that value and
  – how you are different from your rivals.
Strategy

• Strategy is the antidote to competition!!
  – Test 1 - Core. A unique value proposition
  – Test 2 – Activities to create value different from rivals
  – Test 3 – Trade-offs. Being able to say NO to customers
  – Test 4 – Value chain aligned and force multiplying (amplifier)
  – Test 5 – Balance between innovation and execution. Don’t change too fast. Have continuity. That delivers leadership.
The equation (to remember)

Unit Profit Margin = Price - Cost
The Five Competitive Forces that Shape Strategy

- The five forces explains how an org faced with competition will deliver superior performance.

From Joan Magretta – Understanding Michael Porter
Barriers to entry:
- Economies of Scale
- Proprietary product differences
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Absolute cost advantages:
  - Proprietary learning curve
  - Access to necessary inputs
  - Proprietary low-cost product design
- Government policy
- Expected retaliation

Rivalry determinants:
- Industry growth
- Fixed (or storage) costs/value added
- Intermittent overcapacity
- Product differences
- Brand identity
- Switching costs
- Concentration and balance
- Informational complexity
- Diversity of competitors
- Corporate stakes
- Exit barriers

**Suppliers**

Determinants of supplier power:
- Differentiation of inputs
- Switching costs of suppliers and firms in the industry
- Presence of substitute inputs
- Supplier concentration
- Importance of volume to supplier
- Cost relative to total purchases in the industry
- Impact of inputs on cost or differentiation
- Threat of forward integration relative to threat of backward integration by firms in the industry

**Industry competitors**

Intensity of rivalry

**Substitutes**

Determinants of substitution threat:
- Relative price performance of substitutes
- Switching costs
- Buyer propensity to substitute

**New entrants**

Threat of new entrants

**Bargaining power of suppliers**

**Bargaining Power of buyers**

**Buyers**

Determinants of buyer power:

<table>
<thead>
<tr>
<th>Bargaining leverage:</th>
<th>Price sensitivity:</th>
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<tbody>
<tr>
<td>Buyer concentration versus firm concentration</td>
<td>Price/total purchases</td>
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<tr>
<td>Buyer volume</td>
<td>Product differences</td>
</tr>
<tr>
<td>Buyer switching costs relative to firm switching costs</td>
<td>Brand identity impact on quality/performance</td>
</tr>
<tr>
<td>Buyer information</td>
<td>Buyer profits</td>
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<tr>
<td>Ability to backward integrate</td>
<td>Decision makers' incentives</td>
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<td>Substitute products</td>
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<td>Pull-through</td>
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Source: Michael Porter, "Competitive Strategy", 1980
Case for Lecture 2

• IBM Evolution – Transformation and growth
IBM Turnaround

- What factors led to IBM success in 60’s and 70’s and problems in 80’s and 90’s?
- What did Gerstner do in 1993?
- Why do large companies like IBM find it difficult to build successful and sustainable new businesses?
- How should ‘IBM’s’ manage innovation process?
**Strategy**

- **Product:** S/360 is dominant in industry design
- **Market:** Large companies; Expand internationally
- **Channel:** Key account sales people sell to technical buyer; Competitors charge monopoly power

- **Product:** Expand to 5,000 hardware & 20,000 software products
- **Market:** Expand to consumer & SME; Change price from lease to sale
- **Channel:** Expand into VAR & retailer channels; Market erosion

- **Product:** Fix, close or sell; Expand into services
- **Market:** “Bear hug” key customers
- **Channel:** Executive account leaders; Partner with enterprise software; Outsource non-core
- **Goal:** Stabilize and build foundation for future

- **Product:** Solutions; Transformation
- **Market:** Everywhere, everyone
- **Channel:** Consultants sell to business buyer; Flexible financing & delivery; Extended enterprise
- **Goal:** Lead industry; Return to greatness

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**Organization**

- **1960s**
  - Thomas Watson Jr.: "IBM is predestined to expand until it surpasses our wildest dreams."
  - Functional organization within regions
  - Basic beliefs culture
  - Engineering workforce and technical sales

- **1980s**
  - John Akers: "There’s a pervasive attitude of don’t tamper with success."
  - Product and geography silos manage complexity
  - Deep hierarchy; Expanded corporate staff
  - Executives lose touch
  - Arrogant, complacent culture

- **1990s**
  - Lou Gerstner: "The last thing IBM needs right now is a vision."
  - “One IBM”
  - Downsize, delay
  - Crisis-driven culture
  - Rip out costs
  - Strengthen central controls
  - Executive accountability
  - Global reengineering

- **2000**
  - Sam Palmisano: "It’s a great time to be an innovator."
  - “Invention and Insight"  
  - Acquire PW Consulting
  - Emerging Business Organizations (EBOs)
  - Focus on collaborative innovation and ad hoc solution teams
  - Growth/Values-Driven culture
IBM’s Success/Failure

• Product positioning
  – Spent $5B to get into mainframes (1956)
• Market positioning
  – Engaged customers (AA, Sabre-62)
• Business network positioning
  – Proprietary (anti-trust)
• Capabilities
  – THINK to talk, talk
Gerstner

- Hired to sell IBM in pieces
- Brought York as CFO
- Bear Hug – customers
- Integration, eBusiness
- Fired 75,000 ...
- Reduced cost by $7Billion
- One IBM
- Pursued ‘next big thing’ – Internet/Java
- Returned to greatness
- Solutions company