MIS 3534 Fall 2015 – Strategic Management of Information Technology

Week 12 – IT-Driven Competitive Strategies

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Nov. 30th, 2014
What did you learn from Otis and Wyndham?

● What did you learn from Otis and Wyndham cases (with IT and Competitive Strategies)?

● Today’s topic is “IT-Driven Competitive Strategy.” How different do you think this topic is from Day 2 and 3 topic?

http://www.jobaps.com/SCCAT/sup/bulpreview.asp?R1=64&R2=47&R3=10
Today, we’ll discuss …

- We have discussed that competitive strategies affect how companies use IT.
- Today, we’ll discuss the other way around.
  - How IT affects competitive strategies.
  - How firms can leverage IT in formulating new strategies for disruptive innovation and sustainable competitive advantages.
Break Your Industry’s Bottlenecks - HBR

● How do the companies in the HBR article break bottlenecks in their industries?
  ▪ Bonobos Guideshops
  ▪ Redbox

● How do they use IT to eliminate bottlenecks?

http://www.modernfellows.com/bonobos-bethesda/
Industry Bottlenecks or “Choke Points”

- Prevalent market inefficiencies that structurally limit supplies or demands in an industry
- With limited supply, customers have to pay higher prices.
- With limited demand, firms cannot earn enough profits.

http://www.cascadeeducationalconsultants.com/blog.php?id=7822935245829712246
Amazon.com and Netflix (1/2)

- What bottleneck do Amazon.com and Netflix eliminate?
- How do they use IT to do so?
- How disruptive are they? Which industries were disrupted?

http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-irhome
http://mashable.com/2014/07/14/netflix-verizon-still-slow/
BestBuy, a.k.a Amazon Showroom

http://blog.mainstreethost.com/tis-the-season-businesses-seek-different-avenues-for-holidays/best-buy-showrooming#.UYwA17VWySo
AMAZON CHANGES BOOKONOMICS

Traditional publishers’ pitch: As guardians of the culture, our editors will tease beauty out of the most troubled manuscripts and build vast audiences.
Amazon Publishing’s pitch: That, plus way more money. —Danielle Kucera

Usual Way

Publisher, Retailer, Author
In the book business, the publishers usually get about half of the book’s retail price. The author (and the author’s agent) get about 20 percent

Agent gets 15%-20% of the author’s cut

Amazon Way

Amazon, Author
The company hasn’t divulged specifics, but according to an estimate by Forrester Research, Amazon Publishing pays authors 45 percent to 50 percent of the selling price

http://images.businessweek.com/cms/2012-01-25/feature_amazon05__02__popup.jpg
**Fifty Shades of Grey**

*Background*

The *Fifty Shades* trilogy was developed from a *Twilight* fan fiction originally titled *Master of the Universe* and published episodically on fan-fiction websites under the pen name "Snowqueen's Icedragon". The piece featured characters named after Stephenie Meyer's characters in *Twilight*, Edward Cullen and Bella Swan. After comments concerning the sexual nature of the material, James removed the story from the fan-fiction websites and published it on her own website, FiftyShades.com. Later she rewrote *Master of the...*
**BACK IN 2000, BLOCKBUSTER DECLINED SEVERAL OFFERS TO PURCHASE NETFLIX FOR A MERE $50 MILLION. IN 2010, BLOCKBUSTER DECLARED BANKRUPTCY.**

**NETFLIX VS. BLOCKBUSTER (2004-2010)**

- **Blockbuster Revenue**
- **Netflix Revenue**

$6 BILLION
$4 BILLION
$2 BILLION

$0

2004 2005 2006 2007 2008 2009 2010

$2.2 BILLION

$3.3 billion
in 2013

Netflix has more subscribers than Comcast.

Netflix had revenue of $2.16B in 2010 and $770M in Q2 of 2011.

Digital movie market share:
Netflix accounts for 61% of all digital movie watching in the US.

ANATOMY OF THE LONG TAIL

Online services carry far more inventory than traditional retailers. Rhapsody, for example, offers 19 times as many songs as Wal-Mart’s stock of 39,000 tunes. The appetite for Rhapsody’s more obscure tunes (charted below in yellow) makes up the so-called Long Tail. Meanwhile, even as consumers flock to mainstream books, music, and films (right), there is real demand for niche fare found only online.

THE NEW GROWTH MARKET:
OBSCURE PRODUCTS YOU CAN’T GET ANYWHERE BUT ONLINE

Sources: Erik Brynjolfsson and Jeffrey Hu, MIT, and Michael Smith, Carnegie Mellon; Barnes & Noble; Netflix; RealNetworks
Long Tail Economics

Revenues

Operating Costs in Offline Stores

Operating Costs in Online

# of products in online is virtually unlimited.

# of products in offline stores

# of Available Products
Amazon.com and Netflix (2/2)

- Both companies addressed bottlenecks in the traditional retail industries created by limitation in physical spaces.
- Disrupted the industries by making “long tails” possible.
- Eliminating choke points created by middlemen
  - Publishers (between authors and readers)
  - Cable operators (between content providers and viewers)

Betterment and Wealthfront (1/2)

Meet Your New Financial Adviser

http://time.com/money/page/robo-advisers/
Betterment and Wealthfront (2/2)

● In the traditional money-management industry, human investment managers are expensive.
  ▪ Customers have to invest a hefty sum (a high investment minimum), to pay hefty management fees (1% of assets every year), or both.

● The two companies eliminate bottlenecks that limit demands for investments.
  ▪ No investment minimum
  ▪ Management fees as low as 0.15%

● reached an untapped demand for investments from mostly young investors
Any Other Example? (1/2)

- How do FreshDirect, Uber, Airbnb, and Khan Academy disrupt the existing industries by addressing which *bottlenecks*?

http://abovethecrowd.com/2014/03/11/a-deeper-look-at-ubers-dynamic-pricing-model/
http://www.wehoville.com/2014/02/18/airbnb-peer-to-peer-businesses-weho/
http://trikeapps.com/projects/sharing-the-love/khan-academy/
Any Other Example? (2/2)

- FreshDirect, Uber, Airbnb, and Khan Academy address the following choke points or inefficiencies in the existing industries.
  - limited space at grocery stores and limited selection for customers
  - heavily regulated amount of taxicab fleets and pricing
  - untapped lodging spaces in urban downtowns
  - limited classroom space and one-size-fits-all education
- (Except FreshDirect) these companies are not using the most sophisticated technologies.
IT is a catalyst to new competitive strategies.

- IT is an enabler, a facilitator, and a catalyst in developing new competitive strategies.
- Smart use of technologies (not necessarily state-of-the-art ones) can produce a competitive strategy that shakes up the existing industries.
- That’s why CIO can stand for a chief innovation officer.
Next Week

● IT and Your Career

● will discuss how IT will affect your career for the rest of your life!

● will discuss how to survive in your career as an MIS major/minor

● Read IT Adventures Ch. 18 and write a brief of 200 words