

MIS 3534 Fall 2016 – Strategic Management of Information Technology

Week 11 – IT-Driven Competitive Strategies (I)

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What did you learn from Otis and Trinity?

- What did you learn from Otis and Trinity cases (with IT and Competitive Strategies)?
- Today's topic is "IT-Driven Competitive Strategy." How different do you think this topic is from Week 2-3 topics?

**Otis**

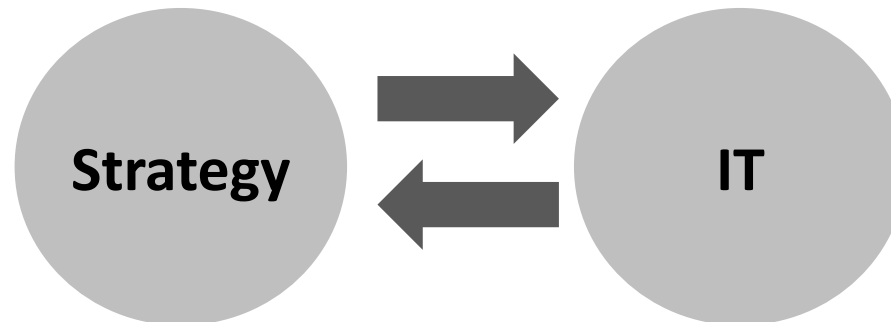
A United Technologies Company

**Trinity Health**

Livonia, MI

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.



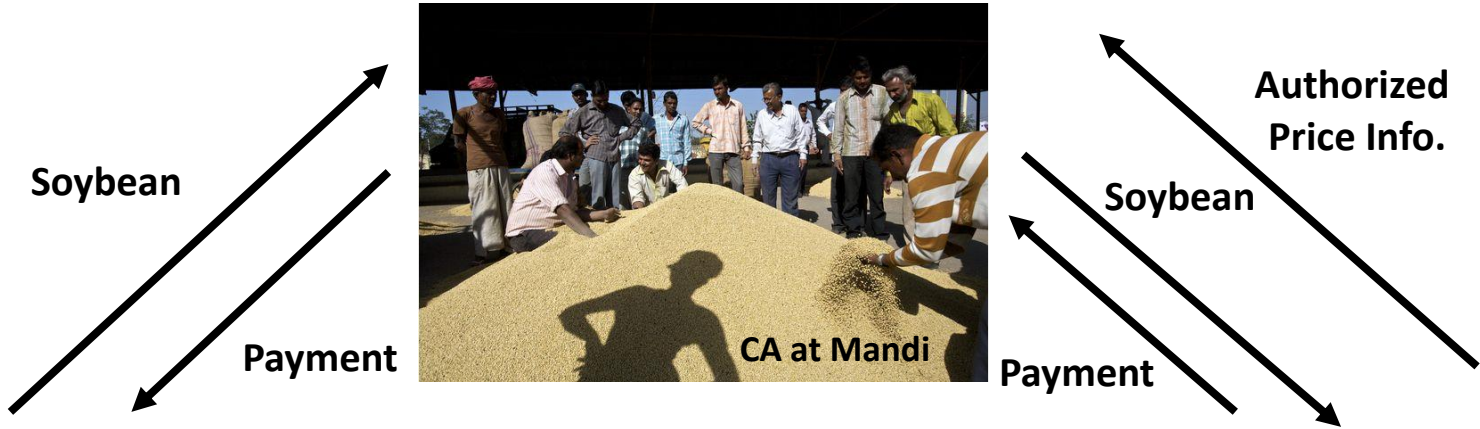
ITC eChoupal

- Describe eChoupal. What is this for?
- With eChoupal, what is ITC trying to accomplish?



http://www.indiantelevision.com/perspectives/y2k4/rural_itc.htm

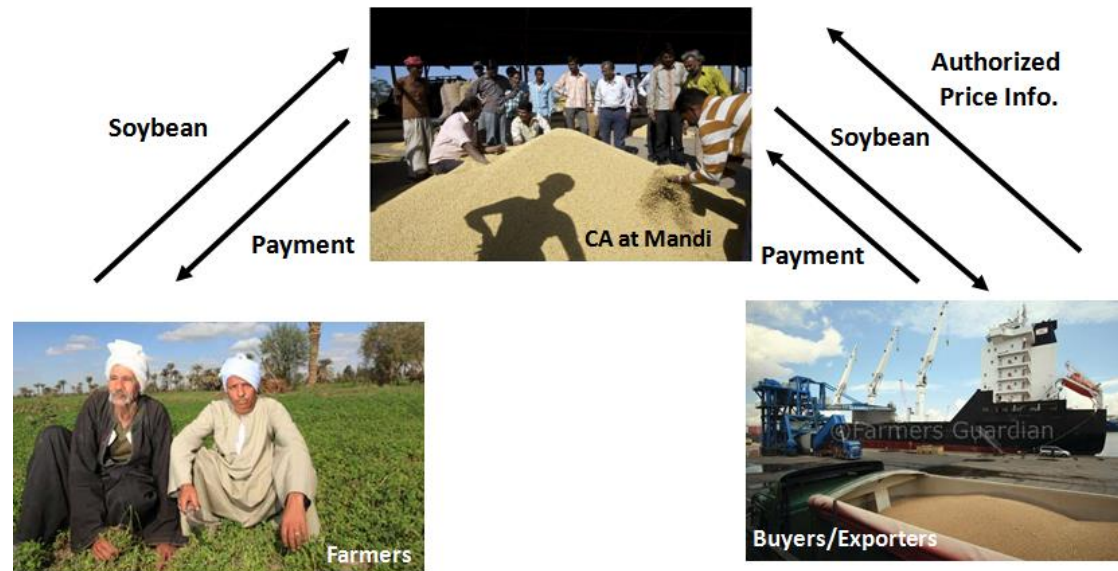
How did the old supply chain of soybean work?



<http://www.cargill.com/connections/soy-grows-in-egypt/index.jsp>
<http://www.bloomberg.com/news/2012-09-20/soybean-meal-exports-from-india-to-climb-on-record-crop.html>
<http://www.farmersguardian.com/store-and-drying-facility-saves-grain-exports-from-ruin/25037.article>

The Old Supply Chain of Soybean (1/2)

- What are the “*choke points*” in the old supply chain of soybean?



- Who are the *losers* and the *winners* in this relationship?
- What are *the other losses* to the farmers than lost revenues?

You've got an offer!

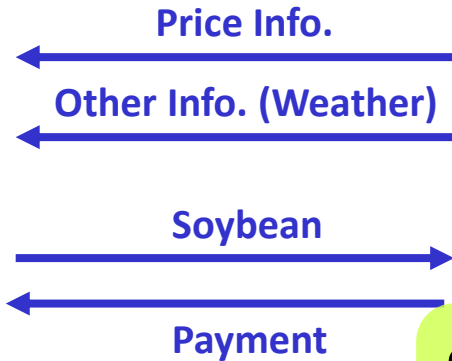
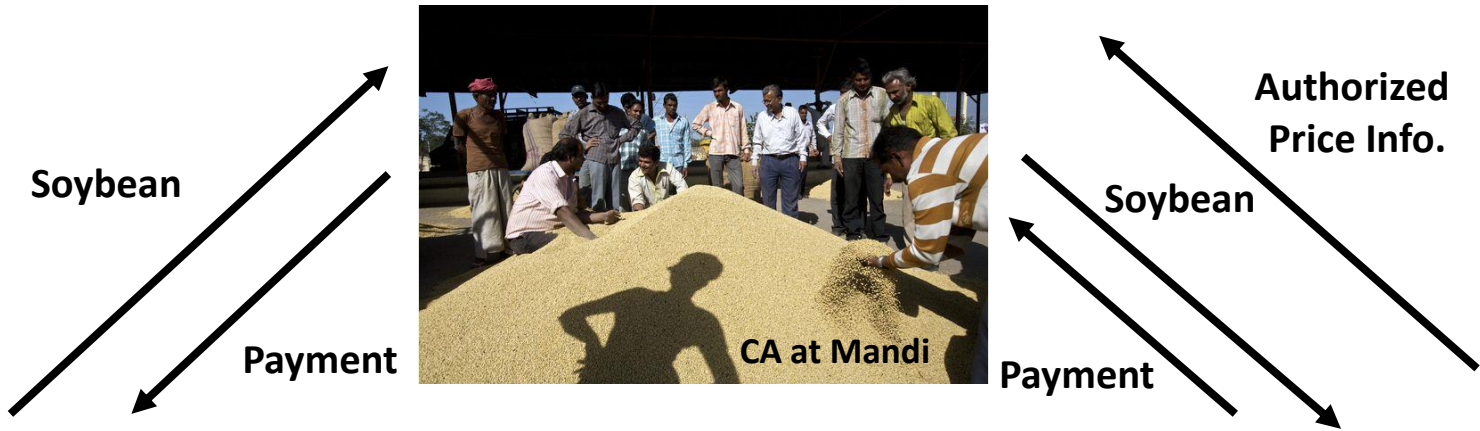
- Suppose you've got a job offer with \$50,000 salary, healthcare, and 401(k).
- Would you take the offer?
- Before you take or turn it down, what should you do?
- What should you do
 - if you have no way to do “research”?
 - if you don't have time to wait?



The Old Supply Chain of Soybean (2/2)

- The losers are farmers, and the winners are CAs (middlemen)
- The old supply chain has been plagued by inefficiencies such as
 - too much mark-ups to CAs who do few value-adding activities
 - insufficient compensation to farmers, which discourages quality improvement and better planning
 - loss of soybean during transactions at Mandis due to manual processes
 - loss of soybean due to inadequate warehouse facilities

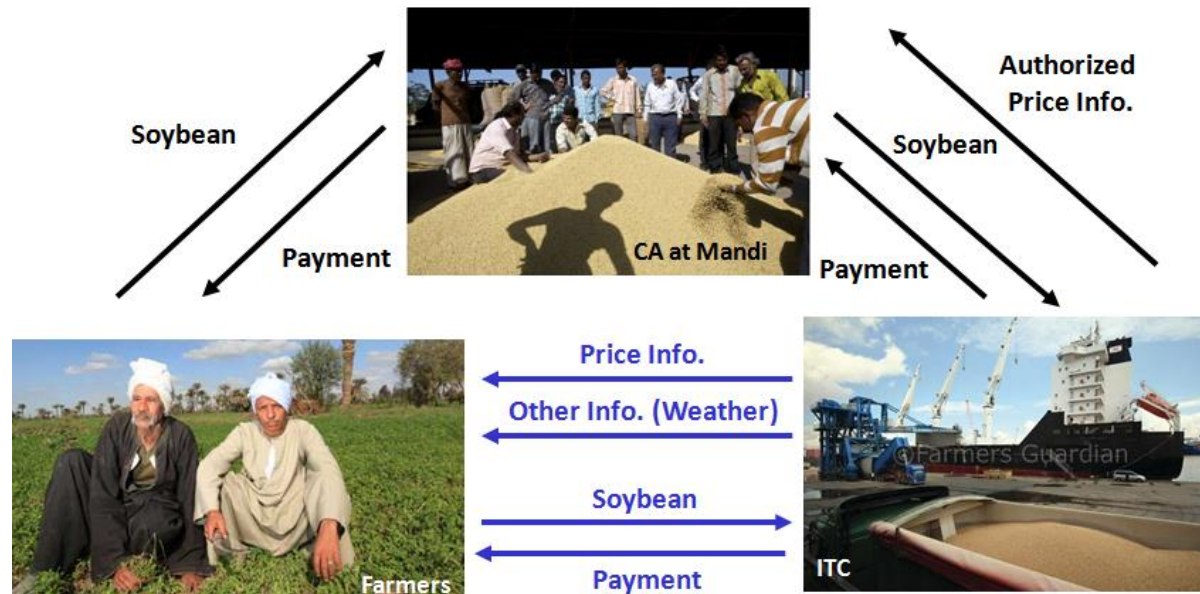
How does eChoupal work here?



eChoupal reduces information asymmetry between farmers and middlemen.

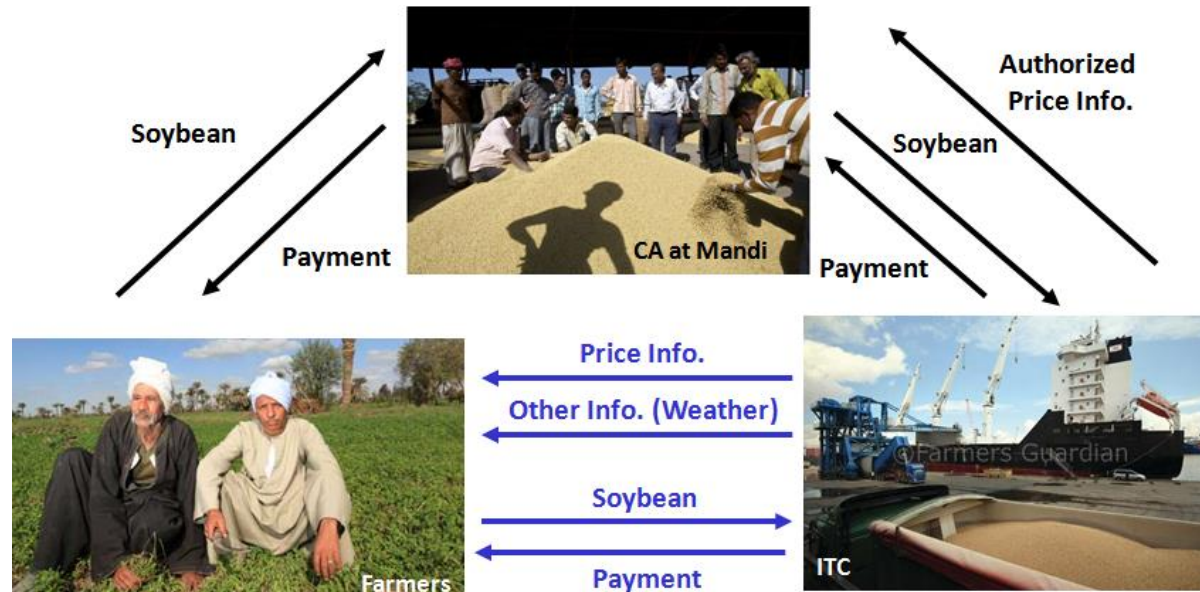
<http://www.bloomberg.com/news/2012-09-20/soybean-meal-export-from-india-to-climb-on-record-crop.html>
<http://www.farmersguardian.com/store-and-drying-facility-saves-grain-exports-from-ruin/25037.article>

Benefits of eChoupal to Farmers (1/2)



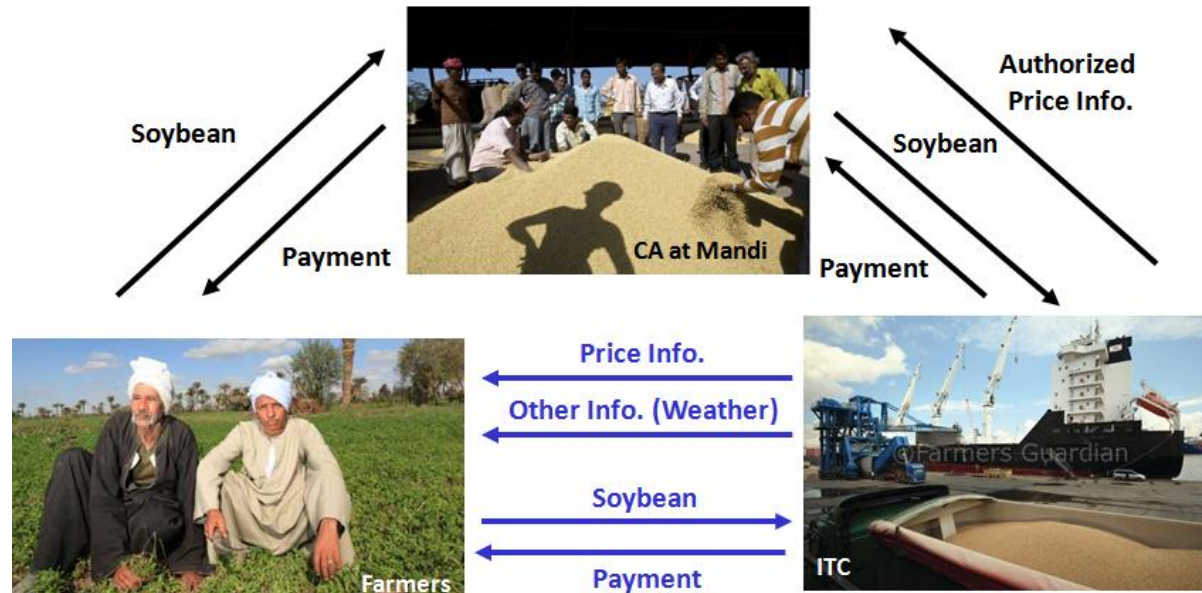
- What are the benefits of eChoupal to farmers?
 - What are the other benefits beyond increased revenues?
- What is the other information from eChoupal to farmers?
 - Why does ITC provide such information?

Benefits of eChoupal to Farmers (2/2)



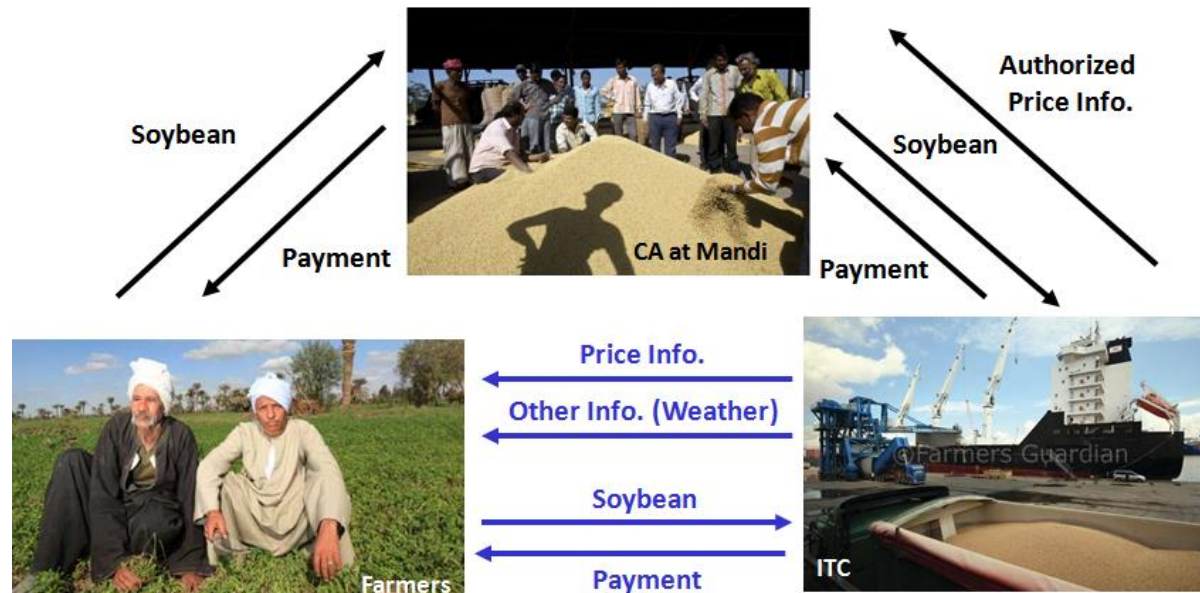
- With eChoupal, the farmers are receiving proper payments for their produces.
- With the proper payment and a variety of information and best practices, farmers are encouraged to improve the quality of their crops and do a better planning in their work.

Value of eChoupal to ITC (1/3)



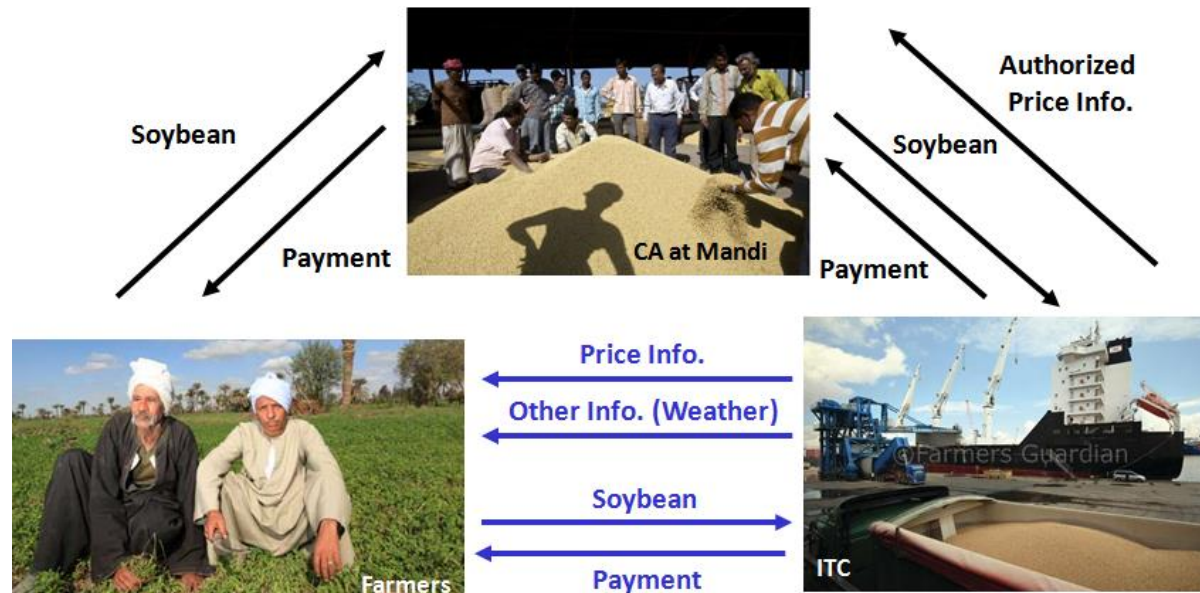
- Is ITC a charity? Why is it concerned about farmers' lives and well-being?
- What is the value of ITC to eChoupal?

Value of eChoupal to ITC (2/3)



- For example, before eChoupal, a CA pays farmers \$50 for a certain amount of crops and sells it to ITC for \$100.
- After eChoupal, ITC can pay the farmers \$70 for the same amount, benefiting both the farmers and ITC!

Value of eChoupal to ITC (3/3)



- ITC allowed farmers to continue to go to Mandis. But at the same time, it guaranteed a price level to farmers.
- Farmers will choose certainty over uncertainty from auctions at a Mandi. ITC may be able to lower its price to farmers slightly.

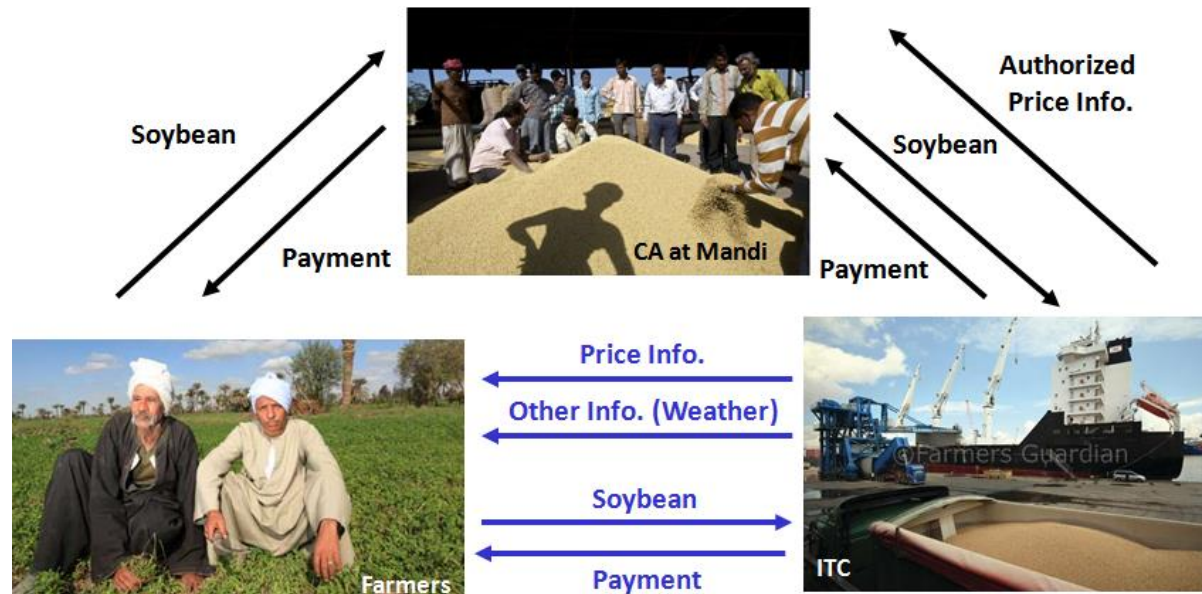
Value of eChoupal to ITC

- Improve efficiency in the whole supply chain
 - Reduced loss in the supply chain
- Greater profits to both farmers and ITC
- Improvement in produce quality from
 - reduced uncertainty for the farmers
 - spread of knowledge on farming techniques
- Improved *social values*
 - more visible market
 - fairness to farmers



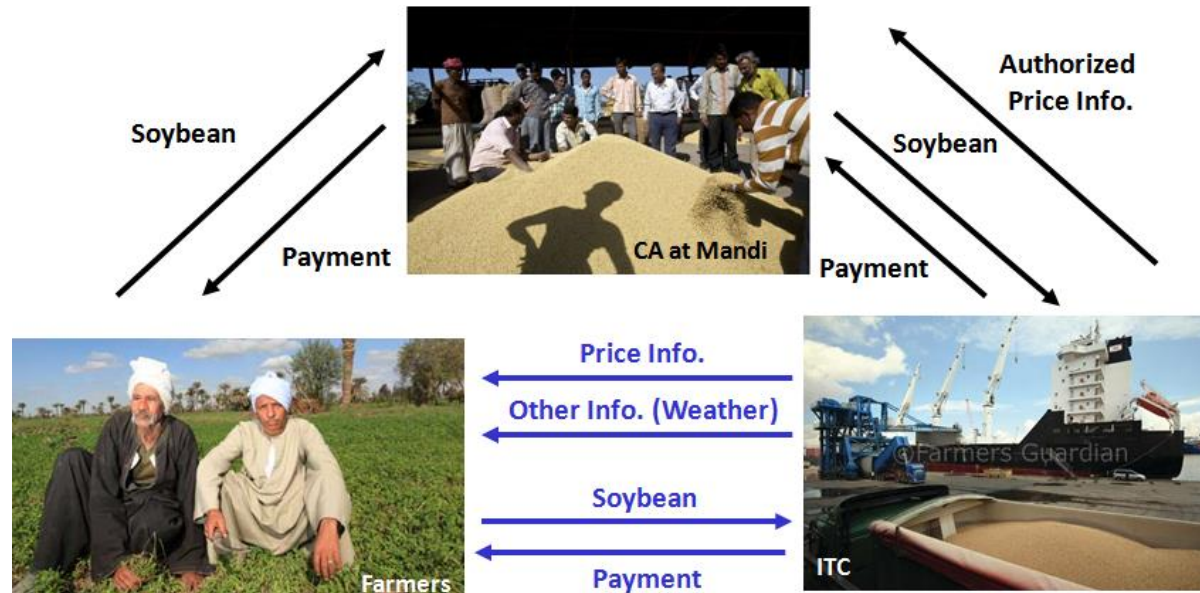
<http://zorkmode.deviantart.com/art/Almost-Everybody-Happy-172649549>

Who are *the losers* here? (1/2)



- Who would be unhappy with this change?
- How did ITC embrace them as part of the system?
- Do you think if the farmers initially liked this change?

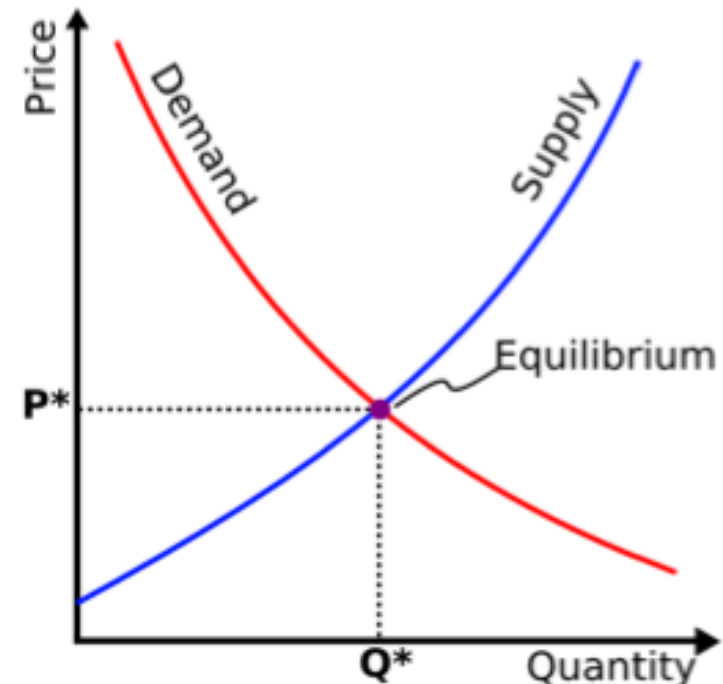
Who are *the losers* here? (2/2)



- ITC embraced the CAs with a new title and role of *Samyojak*. It provided sufficient incentive and revenue opportunities to them.
- Otherwise, CAs should have *sabotaged* the implementation of eChoupal.

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>

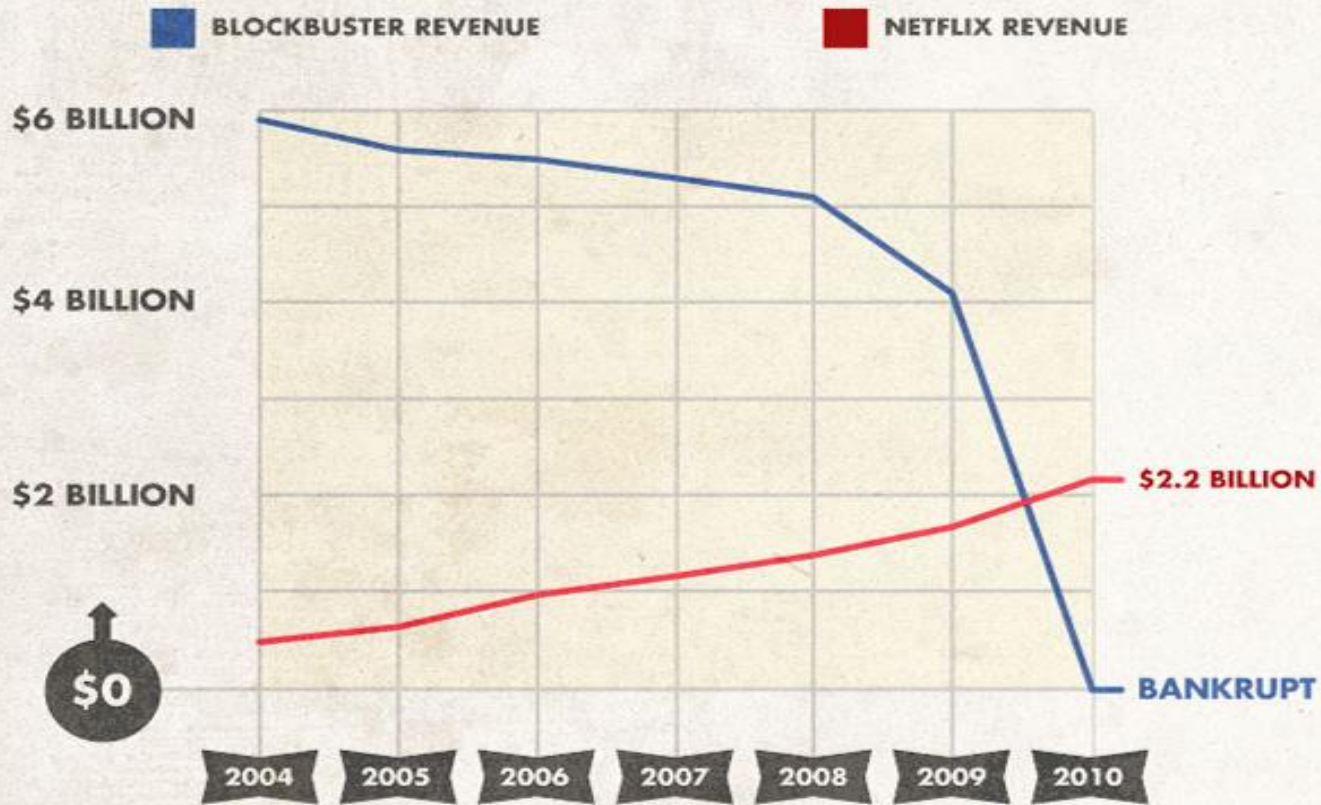
BestBuy, a.k.a Amazon Showroom



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

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)



<http://www.businessinsider.com/how-netflix-bankrupted-and-destroyed-blockbuster-infographic-2011-3>

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?

The Amazon logo, featuring the word "amazon" in a bold, black, lowercase sans-serif font. Below the text is a yellow curved arrow that starts under the letter 'a' and points towards the letter 'z'.

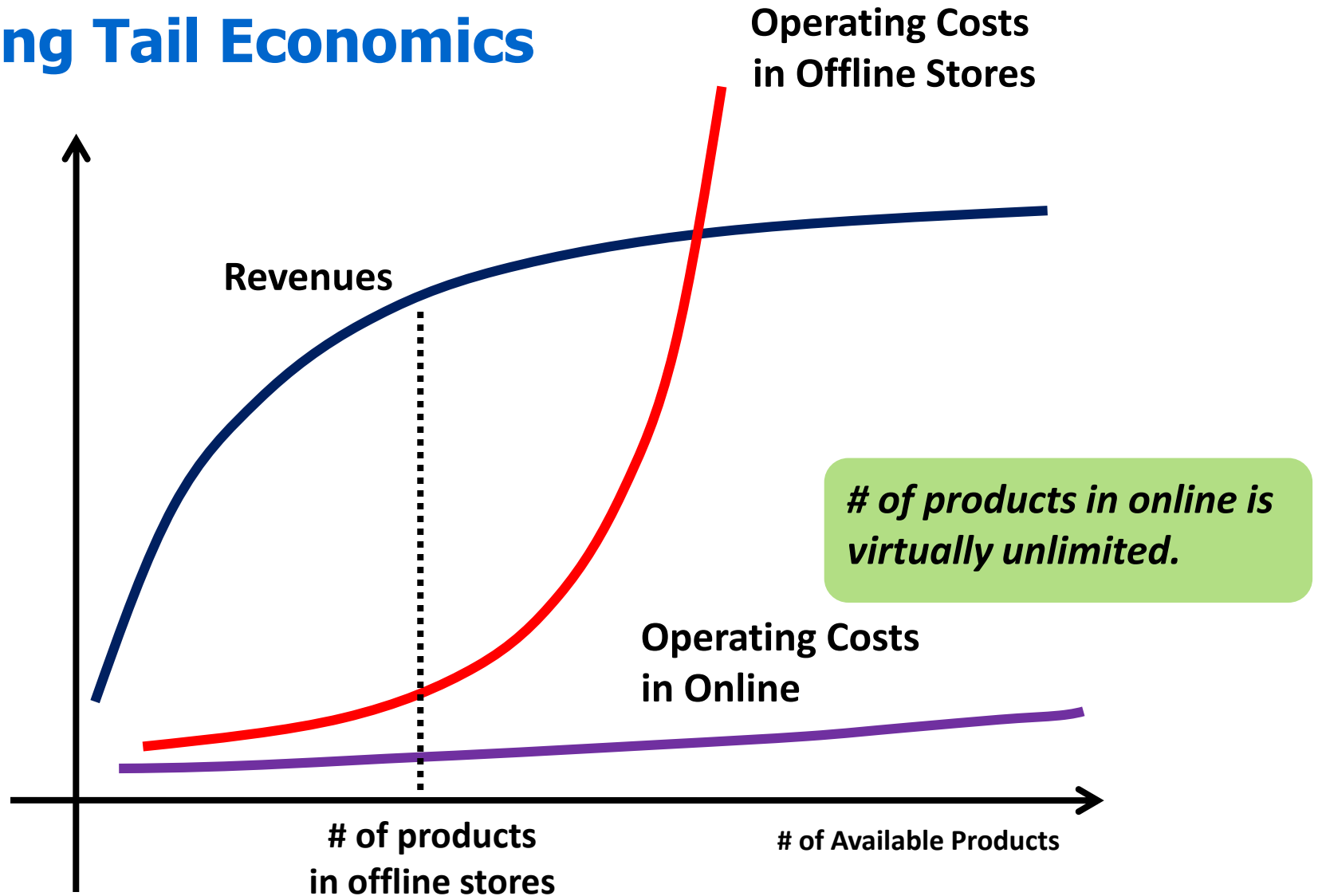
<http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-irhome>
<http://mashable.com/2014/07/14/netflix-verizon-still-slow/>

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.



Long Tail Economics



Bloomberg Businessweek®

AMAZON *CHANGES* BOOK ECONOMICS

Traditional publishers' pitch: As guardians of the culture, our editors will tease beauty out of the most troubled manuscripts and build vast audiences.

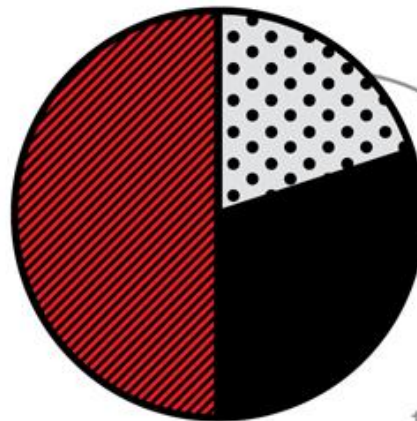
Amazon Publishing's pitch: That, plus way more money. —*Danielle Kucera*

Usual Way

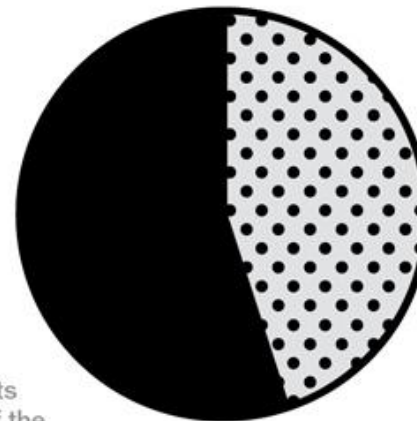
Amazon Way

**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, 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



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*



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Fifty Shades of Grey

From Wikipedia, the free encyclopedia

FIFTY SHADES OF GREY BECOMES THE BESTSELLING BOOK OF ALL TIME

Wednesday August 1, 2012

Charlotte Meredith for express.co.uk

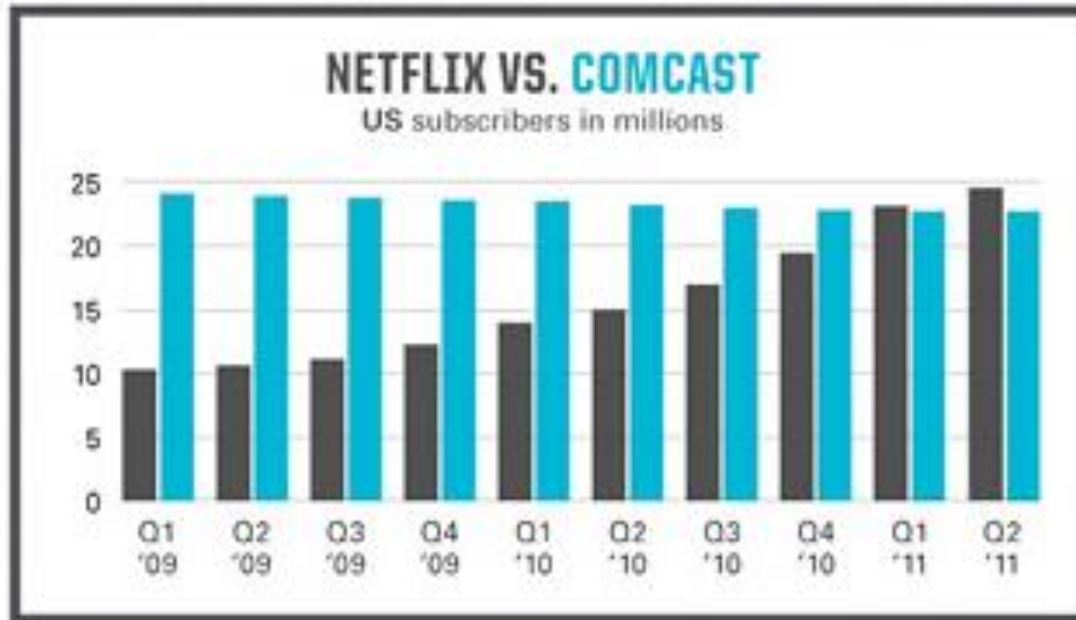
FIFTY Shades of Grey has knocked Harry Potter and the Deathly Hallows off the top spot, outselling it by more than two to one, to become the bestselling book of all time.

<http://www.npr.org/books/titles/148607252/fifty-shades-of-grey>

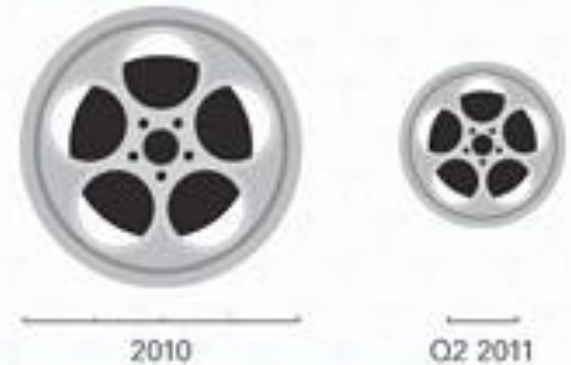
http://en.wikipedia.org/wiki/Fifty_Shades_of_Grey

<http://www.express.co.uk/printer/view/336759/>

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.



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)



<http://www.sweetprocess.com/tired-of-being-the-bottleneck-heres-how-to-determine-the-first-repetitive-task-that-needs-a-documented-procedure/>

Betterment and Wealthfront (1/2)



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 address which *bottlenecks*?



U B E R



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.

