INVESTING IN THE I.T. THAT MAKES A COMPETITIVE DIFFERENCE

BACKGROUND

- Since the mid-1990s, a new competitive dynamic has emerged—greater gaps between the leaders and laggards in an industry, more concentrated and winner-take-all markets, and more churn among rivals in a sector.
- Markets for digitized products like computer software and music have long been dominated by both a winner-take-all dynamic and high turbulence,
- Most other industries have historically been fairly immune from this kind of winner-take-all competition
- Internet and enterprise IT are now accelerating competition within traditional industries in the broader U.S. economy.
- Why? Not because more products are becoming digital but because more processes are

WHAT HAS BEEN LOOKED AT IN PAST:

Much attention has been paid to the connection between productivity growth and the increase in IT investment.

WHAT THIS STUDY LOOKS AT:

How does IT spending affect the nature of competition and the relative performance of companies within an industry?

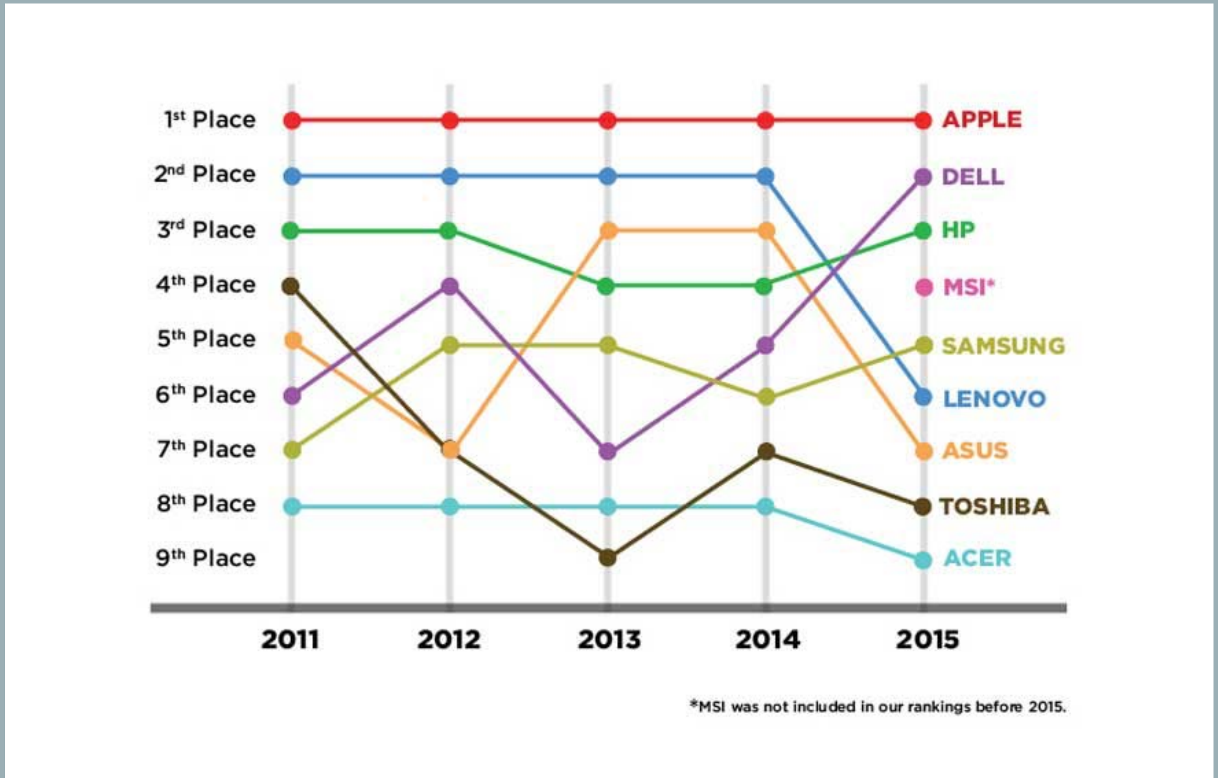
Study compares the increase in IT spending with various measures of competition, focusing on 3 quantifiable indicators

CONCENTRATION

- A few companies account for bulk of market share (Winner-take-all industries)
- They focused on the degree to which each industry became more or less concentrated over time

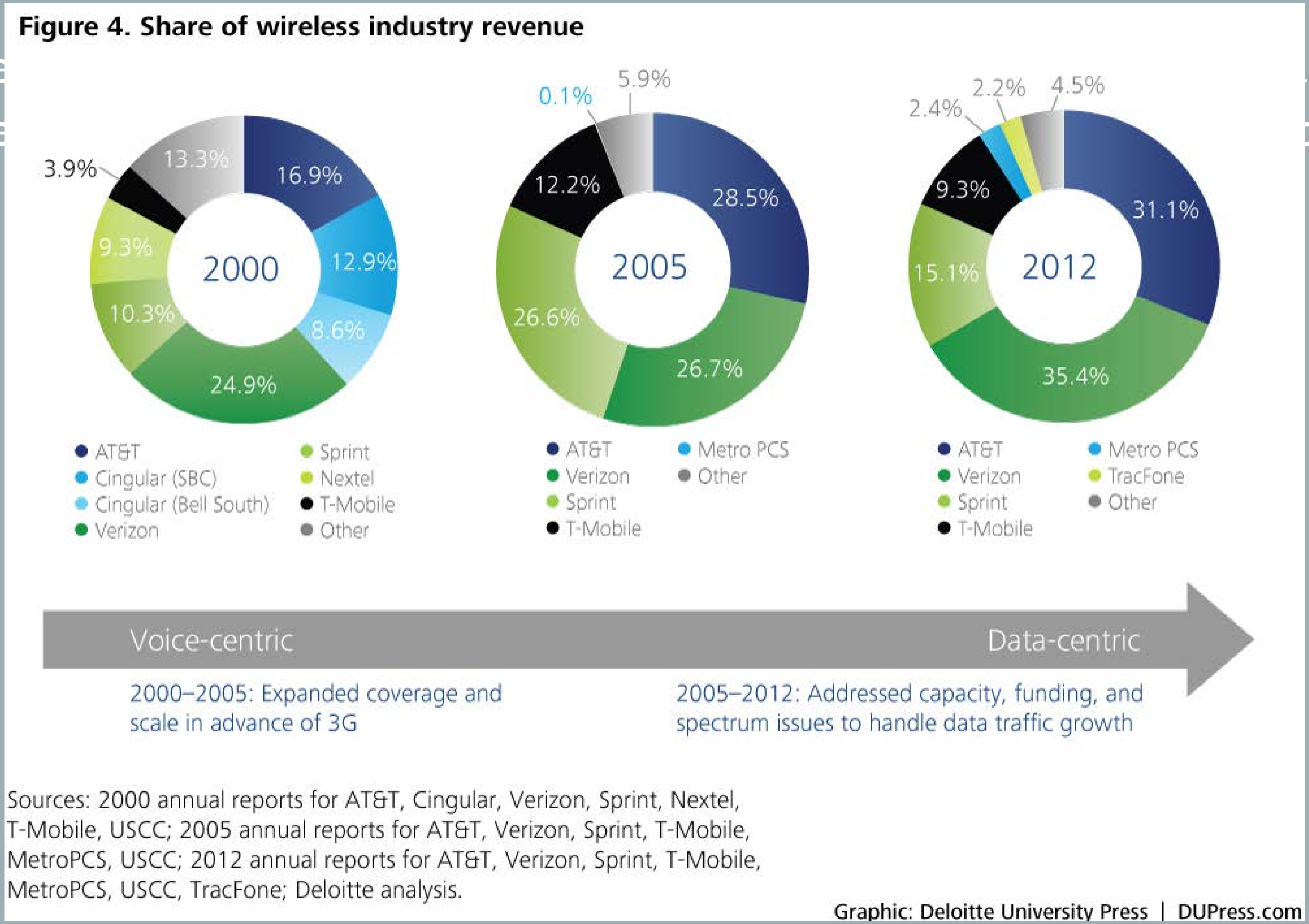
TURBULANCE

- A sector is turbulent if the sales leaders in it are frequently leapfrogging one another in rank order.
- Top-selling company one year may not dominate the next.
- For example, 10th place company could become 1st placed in industry following year



PERFORMANCE SPREAD

- Performance ... rd performance ... tion per $ of revenue.

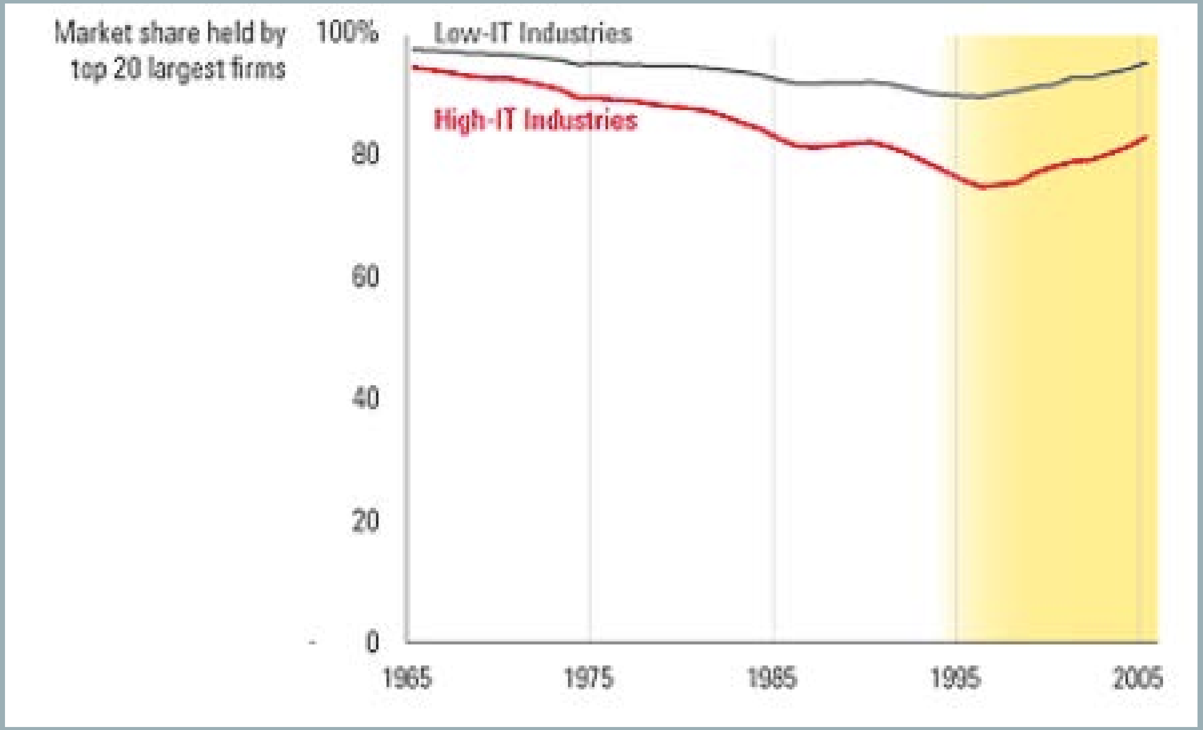


WHAT THEY WERE TRYING TO DISCOVER

Were the changes more pronounced in industries that were more IT intensive— that is, where IT made up a larger share of all fixed assets within an industry?

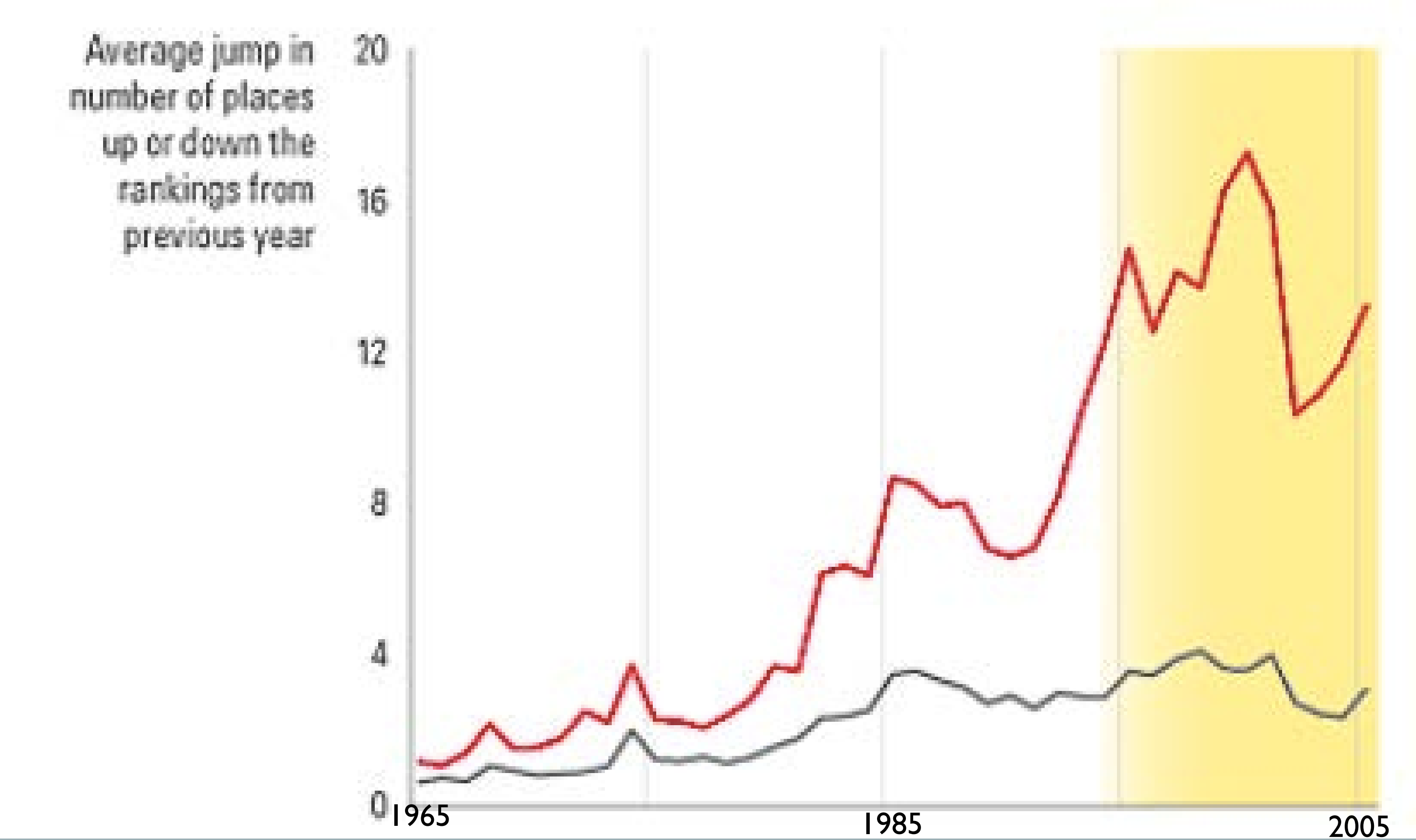
CONCENTRATED INDUSTRIES

- After decades of decline in both low IT and high IT industries both began to rise in mid 1990's
- While both grew, high IT industries grew at a faster rate



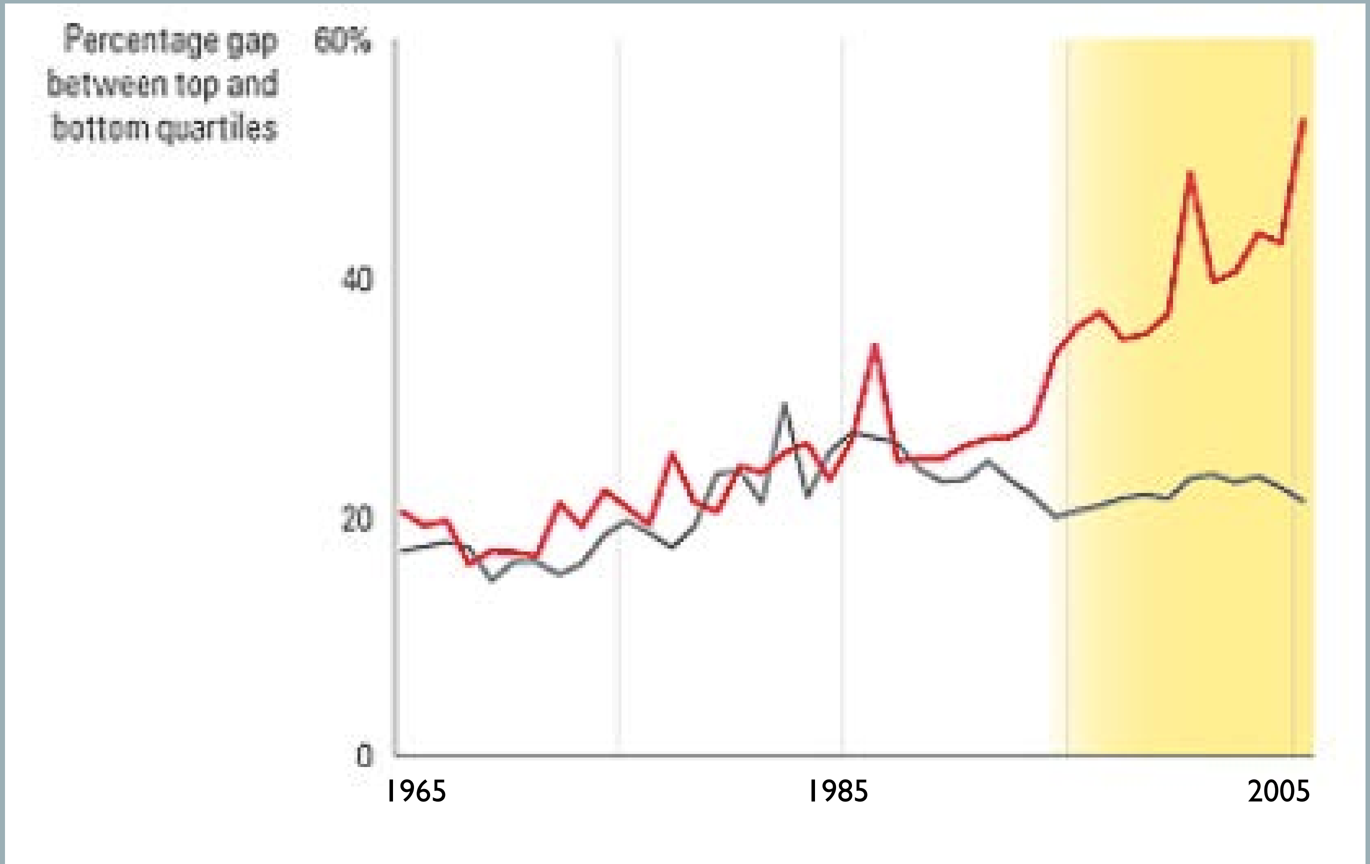
TURBULANT INDUSTRIES

- More turbulence in high IT industries
- Average turbulence within U.S. industries rose sharply starting in the mid-1990s



PERFORMANCE SPREAD

- Shows the spread in gross profit margin between the company performing at the 25th percentile in its industry and the company performing at the 75th percentile



“We believe that an overabundance of new technologies is not the fundamental driver of the change in dynamics we’ve documented. Instead, our field research suggests that businesses entered a new era of increased competitiveness in the mid-1990s not because they had so many IT innovations to choose from but because some of these new technologies enabled improvements to companies’ operating models and then made it possible to replicate those improvements much more widely.“