KEY CONCEPTS OF

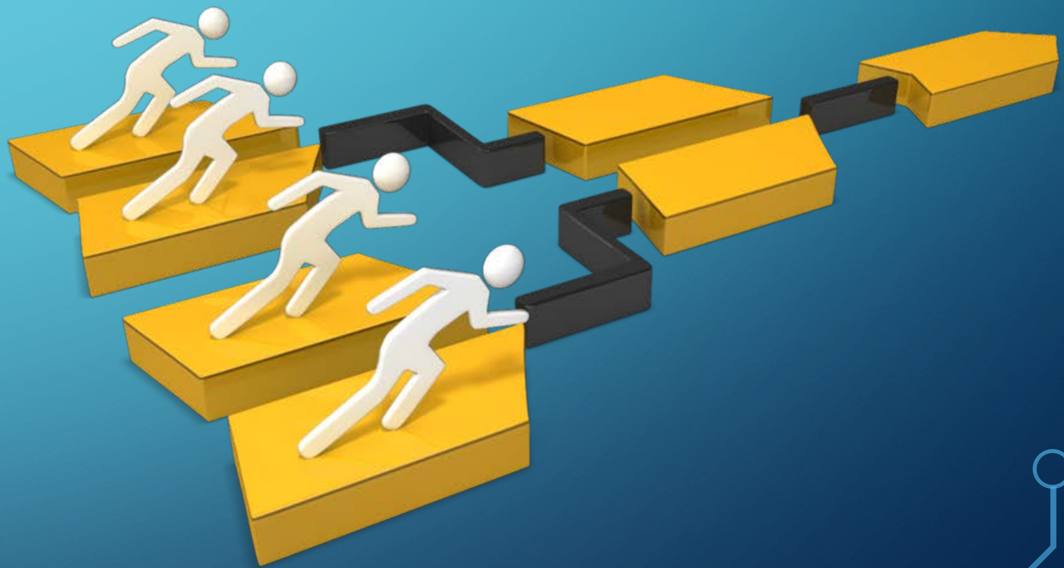
INVESTING IN THE IT THAT MAKES A COMPETITIVE DIFFERENCE

A HARVARD BUSINESS REVIEW
BY ANDREW MCAFEE AND ERIK BRYNJOLFSSON

PRESENTED BY MELISSA SCHWARZELL

WHAT THE RESEARCHERS FOUND

IT investment had been a catalyst for an acceleration in competition



- especially since the 1990's
- especially in IT heavy industries (companies with lots of fixed IT assets)

WHY THIS WAS TRUE

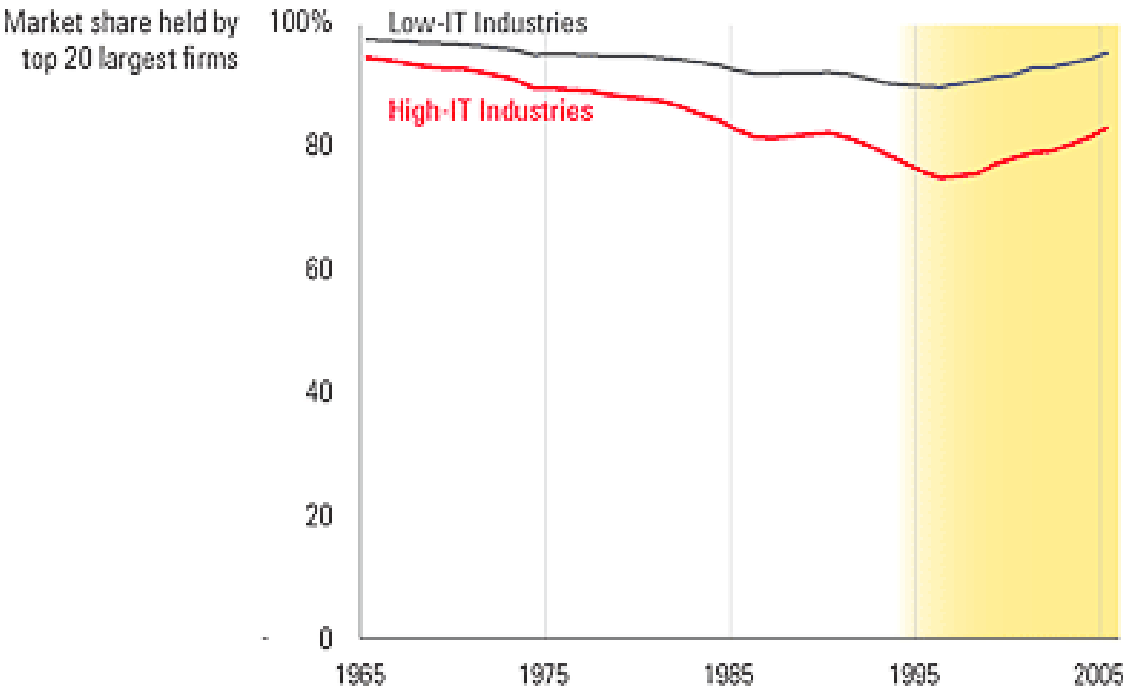
- IT enabled businesses to replicate process improvement through the entire business with much greater speed than before
- BUT, the competition could catch up with speed as well

"an innovator with a better way of doing things can scale up with unprecedented speed to dominate an industry"

"winners can win big and fast, but not necessarily for very long"

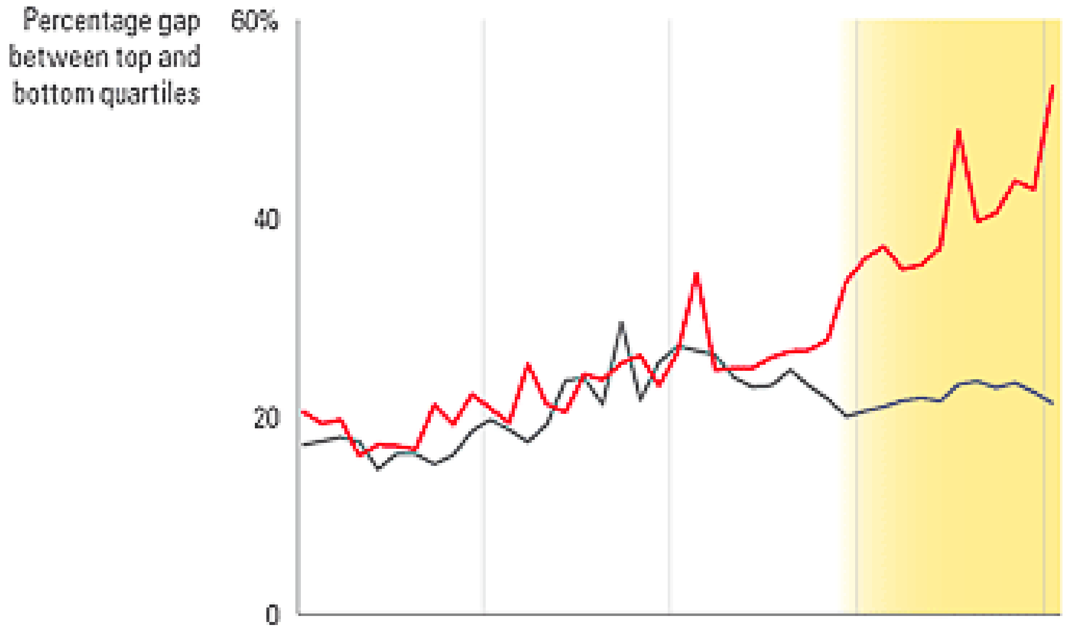
EFFECT #1: INCREASED INDUSTRY CONCENTRATION
(THE MARKET SHARE HELD BY THE TOP 20 LARGEST FIRMS)

Industry Concentration: After decades of decline in all industries, industry concentration began to rise in the mid-1990s. Though the absolute level is lower, the rate of rise is faster in high-IT industries than it is for low-IT industries.



EFFECT #2: INCREASE IN PERFORMANCE SPREAD (GROSS PROFIT MARGIN VARIANCE BETWEEN TOP AND BOTTOM QUARTILE COMPANIES)

Performance Spread: 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—an indication of the spread between winners and losers—has grown dramatically in high-IT industries since the mid-1990s.



EFFECT #3: INCREASE IN TURBULENCE
(AVERAGE JUMP IN THE NUMBER OF PLACES UP OR DOWN THE RANKINGS FROM THE PREVIOUS YEAR)

Turbulence: In turbulent markets, the top-selling company one year may not dominate the next. Today's 10th place company, for instance, might catapult to number one the following year. In less turbulent markets the same companies dominate year after year and there's very little movement up and down in rank order. By this measure, we found consistently more sales turbulence in high-IT industries—and a marked increase in the mid-1990s.