The Strategic Planning Debate

- there has been a long-running battle in the strategic planning arena between those who believe in formalised planning processes, and those who say that much planning is bunk
- members of each school tend to heap criticism and insults on each other whenever possible
- it is partly a matter of temperament and attitudes which determines the school an individual belongs to
- the strategy and planning literature is truly enormous but
- the best overview is in Mintzberg, H. 1994. The Rise and Fall of Strategic Planning.

Formal IT Strategic Planning

- an exemplary formal planning process
  - Phase 1 (strategic IT planning)
    - develop IT strategies which are aligned with corporate strategies
    - eg: the possibility of developing a system which will streamline the supply chain
    - this phase includes an organized search for strategic opportunities based on formal analyses etc.
  - Phase 2 (information requirements)
  - Phase 3 (resource allocation)
  - Phase 3 (project planning)

Formal Planning in the IT Context

- in Phase 1 the IT area determines what it would like to achieve for the organization
- in Phase 2, a more detailed analysis is conducted to see what in the way of information, processes and applications is required to achieve the goals
- in Phase 3, a process is followed to determine just how much and what work can be done in the next calendar year towards achieving high-level goals
- finally in Phase 4, detailed project planning is conducted to ensure outcomes meet expectations

“Emergent” Strategies

- the alternative view is that many, and maybe even most, strategies “emerge” as the consequence, often unintended, of other actions
- strategy formation is thus much more ad-hoc, much more unpredictable, and much less controlled, than the formal theorists believe
  - Honda (general strategy)
  - American Hospital Supplies (IT)

The Honda Success Story (1)

- this is the tale of how Honda came to dominate the lightweight motorcycle industry in the USA during the period 1960-1966
  - Honda
  - was already an extremely successful supplier in Japan in 1959
  - meticulously planned to become a strong competitor in the US market

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The Honda Success Story (2)

- set up an American subsidiary in 1959 where the market leaders were Harley-Davidson ($16.6M sales), Norton and Triumph
- NB US registrations were 575,000 in 1960 and 1.382m in 1965 so this was a period of rapid growth

The Honda Success Story (3)

- Honda
  > followed a policy of progressive expansion by region
  > started with the smallest, lightest-weight motorcycles on the market
  > sold bikes for <$250 compared with $1500+ for the Harleys and Nortons
  > had the slogan “you meet the nicest people on a Honda” - not the Hell’s Angels/Wild Bunch image
  > had sales of $500K (1960) to $77M (1965) by when they had 63% of the motorcycle market measured by sales

- this has become a classic business management success story

The Honda Success Story (4)

- two key men were involved, Honda and Fujisawa
- Honda was an inventor and racing enthusiast who primarily wanted the company to be successful in racing
- he invented the lightweight high-HP “Supercub” in 1956

The Honda Success Story (5)

- Honda was now convinced of his own inventive genius (justifiably so) and wanted to try his arm in the USA
- Kawashima (the Honda representative at the time) said:
- “in truth we had no strategy other than the idea of seeing if we could sell something in the US. It was a new frontier, a new challenge, and it fit the success against all odds culture Mr. Honda had established”

The Honda Success Story (6)

- Honda had faith in his larger machines - the shape of the handlebar was like that of Buddha’s eyebrow
- the three reps were so strapped for cash in the LA startup they shared a single apartment in which two slept on the floor
- by April 1960 reports were coming in that the larger machines were leaking oil and encountering clutch failure
- they had not attempted to sell the 50cc Supercubas because they did not seem to fit the US market or culture at all

The Honda Success Story (7)

- they used the small bikes themselves to ride round LA on errands
- they had some inquiries from Sears but still refused to go through distributors
- when the larger bikes started breaking they had no option but to start selling the smaller ones to sporting goods stores for enough revenue to keep going
- in 1963, through another inadvertent series of events, they adopted the “nicest people” campaign and the rest was history

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**Strategic IS Planning**

- to summarize
  - formal methods are still the ones most companies will follow
  - they are reliable and give a predictable result
  - we will focus on these, but
- It is important to realize that formal methods are not the whole picture
  - successful strategizing is as much about opportunism as it is planning - success is about recognizing and acting on that good idea

**Strategic Information Systems**

- a SIS is a system which significantly affects how business is done, in some cases to the extent of providing an organization with a competitive advantage

**IT for Competitive Advantage**

- there are two key assumptions behind theory in this area
  - that IT is intrinsically a strategic technology
  - that its application for competitive advantage can be planned in advance
- these are justified as follows:
  - IT can be introduced at various points in the value chain to streamline communications etc.
  - most products and services now have a significant information component

**Michael Porter**

- a leading theorist on competition and strategy
- has developed a complementary set of models which can be used to analyse strategic possibilities and approaches
- has been widely adopted as the “guru” in IT competitive theory

**Porter (1) - the Value Chain Model**

- Accounting, Finance, Management Support
- Human Resource Management
- Technology Development/Product Development
- Procurement
- Information Technology
- Inbound Logistics
- Operations
- Outbound Logistics
- Sales and Marketing
- Service

**Porter (2) - the Value Chain System**

- it is possible to have value chain links between organizations as well as within organizations
  - eg - from copper mines to Copperart
  - inter-organizational linkages can be facilitated by inter-organizational systems (IOS)
**Porter (3) - Generic Strategies**

- **differentiation**: offering “better” or distinctive products and services
- **costs**: aiming to achieve cost leadership within or across industries
- **focus/niche**: targeting specific areas like customer groups, geographic areas, particular product types.
- **NB1**: within a particular niche it is still necessary to select between a costs or differentiation approach
- **NB2**: IT can be applied to support each type of strategic approach

**Porter (4) - the Five Forces**

- Threat of new entrants
- Threat of substitute products/services
- Rivalry among existing competitors
- Bargaining power among suppliers
- Bargaining power among customers

**Response Strategies**

*(Porter, 1985)*

- **FOCUS**: Selecting a niche market and achieving cost leadership and/or differentiation.
- **DIFFERENTIATION**: Being unique in the industry.
- **COST LEADERSHIP**: Providing products and/or services at the lowest cost in the industry.

**Response Strategies** *(added by Porter and others)*

- **GROWTH**: Increasing market share, acquiring more customers or selling more products.
- **IMPROVE INTERNAL EFFICIENCY**: To improve employee and customer satisfaction.
- **ALLIANCES**: Working with business partners to create synergy & provide opportunities for growth.
- **INNOVATION**: Developing new products & services.
- **CRM**: Customer-oriented approaches, e.g. the customer is king (queen)

**Porter’s Model in Action**

- **Step 1**: The players in each force are listed.
- **Step 2**: An analysis is made which relates Porter’s determining factors.
- **Step 3**: A strategy is devised to defend against these factors.
- **Step 4**: Support information technologies are employed.

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Monash and the Five Forces

- threat of new entrants
  - Bond University/overseas universities
- bargaining power among suppliers
  - threat of strikes by lecturers
- bargaining power among customers
  - university boycotts
- threat of substitute products
  - TAFE courses/Microsoft accreditation
- rivalry among existing competitors
  - attempts to change the established pecking order
  - price competition
  - competition on ease of degree acquisition

Current Examples

- IT-enabled competitive advantage
  - amazon.com
  - other e-commerce start-ups
- IT-caused competitive disadvantage
  - "traditional" organizations (eg non-reactive banks)

Examples of Internet-based SIS

- Electronic Auctions
- Electronic Biddings
- Buyer-Driven Commerce
- Direct Sales
- Industry Consortia
- Web-based Call Centers
- Web-based Tracking Systems
- Web-based Intelligent Agents
- Accessing knowledge via Intranets

Examples of Who is Using SIS

- Otis Elevator
  Centralized call center, self diagnosing elevators' malfunctions and maintenance analysis
- Baxter International
  Terminals in customers' hospitals
- Merrill Lynch
  Cash management accounts system
- American Airlines
  Computerized reservation system (SABRE)

Understanding Competitive IT (1)

- there are some prerequisites
  - (1) technology should work in practice (ie - be robust)
  - (2) the implications should be well understood for the technology to be applied successfully
  - (3) the business should be well understood
  - (4) the necessary expertise is available or can be developed
  - (5) business support for the initiative must be available

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State of Theory and Research (1)

- most firms are now well aware that IT represents an ongoing potential for change
- it is less clear that firms are convinced of the benefits of innovating or being at the cutting edge
- there are fewer organizations and managers who subscribe to theories of IT-enabled competitive advantage
- some difficulties exist even if somebody has a good idea
  - IT timelines
  - the delay before benefits can be achieved
  - obtaining funding (champions and sponsors)
  - gaps in the IT knowledge of the business
  - gaps in business managers' understanding of IT

State of Theory and Research (2)

- there are two additional concepts of critical importance
  - sustainability
  - strategic necessity

Sustainability

- It is rarely enough to be able to obtain a competitive advantage, it must be held for long enough to make the initial investment economic
  - traditionally most firms have calculated ROI over something like a 5-7 year period for major IT investments
  - this is still OK when dealing with internal efficiencies and effectiveness
  - it is now likely be too long if used for something of competitive significance

Sustainability

- concept of SISs and competitive advantage had been around a few years before issues of sustainability were seriously examined
- various reasons were found for questioning the concept of sustainable advantage
  - IT-based innovations can often be copied at a fraction of the initial cost
  - an innovation may be leap-frogged - ie a competitor may improve on the original idea, or implement it more cheaply with new technology
  - the innovation may not produce the results expected - many technical innovations look good but may be overlooked or ignored by consumers

Strategic Necessity

- ultimately, some IT innovations may simply raise the ante for competing
- this happens when it becomes essential to invest in technology simply because the consumers expect it, or because the rules of the industry have changed
  - ATMs were the first example in banking
  - now internet banking is another

POS Systems

- point-of-sale systems are now being widely used throughout the retail industry
  - EFTPOS is an extension of the original concept
- the functionality provided can encompass sales analysis, stock control, purchasing etc.
- the bigger the organization, the easier it is to introduce the technology (ie large organizations can carry the initial investment more easily than smaller ones)
Topic: Maintenance

Retail Pharmacies

- have embraced POS technology with enthusiasm and in great numbers
- may have over 5000 lines of stock to manage and track
- use the systems to manage a range of KPI (key performance indicators)
- a pharmacy intranet was under construction during 1998 (may have been implemented)

Strategic Necessity - Pharmacy X

- the chemist is keen to use new technology wherever possible
- had however heard considerable anecdotal evidence about the problems of using pharmacy POS systems

Strategic Necessity - Pharmacy X

- the downside (partly anecdotal)
  - staff increased not reduced because of the extra people needed to manage the system
  - electronic links not existing for all suppliers (some are aligned with one supplier such as Amcal, but may buy from as many as 20 suppliers altogether in the interests of costs management)

Strategic Necessity - Pharmacy X

- the downside (partly anecdotal)
  - prescription drugs (highest turnover items) are not all supplied with a bar code
  - comparative IT efficiencies are low cf supermarkets (since a group of supermarkets may be supported by one IT unit)

Strategic Necessity - Pharmacy X

- the strategic necessity argument
  - the pace of pharmacy business is increasing
  - the level of competition is increasing (supermarkets etc.)
  - gross profits are declining so costs reductions are critical
  - potentially, POS systems can deliver:
    - stock control efficiencies
    - staff management and control enhancements
    - can enable direct marketing and loyalty campaigns
    - enhanced customer support
    - generation of KPIs (at-hand profit and revenue figures)
  - ie the chemist may wish to run a “traditional” pharmacy but that may no longer be an option

Summary

- most IT expenditure is still non-strategic in the sense that it is not expected to make major competitive differences
- stories of substantial competitive advantages being achieved through IT have dried up to some extent (but e-commerce...)
- defensive and exploratory investment levels are on the rise however, as organizations seek to protect themselves against their competitors’ activities
- many important systems now are those which provide competitive advantage in the traditional ways - by reducing costs and enabling more effective processes to be implemented

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Topic: Maintenance

Reference

Turban, Leidner, McLean & Wetherbe
Chapter 14