Chapter 2

Information Systems for Competitive Advantages

This chapter will review competitive forces and competitive information systems strategies for gaining competitive advantages, explain concepts of value chain, value web and business ecosystems & co-opetition, and discuss innovation strategy.

2.1 Competitive Strategies

Gaining competitive advantage is critical for organisations. Baltzan and Phillips (2010, p. 16) define competitive advantage as ‘a product or service that an organization’s customers value more highly than similar offerings from its competitors’ (in other words, you have something useful (i.e. products, services, capabilities) that your competitors do not have). Competitive advantages are typically temporary as competitors often seek ways to duplicate the competitive advantage (Baltzan & Phillips 2010, p. 16). In order to stay ahead of competition, organisations have to continually develop new competitive advantages. This section discusses how an organisation can analyse, identify, and develop competitive advantages using tools such as Porter’s Five Forces, three generic strategies, and value chains.

Michael Porter’s Five Forces Model is a useful tool to assist in assessing the competition in an industry and determining the relative attractiveness of that industry. Porter states that in order to do an industry analysis a firm must analyse five competitive forces (Baltzan & Phillips 2010, p. 17):

- Rivalry of competitors within its industry
- Threat of new entrants into an industry and its markets
- Threat posed by substitute products which might capture market share
- Bargaining power of customers
- Bargaining power of suppliers.
To survive and succeed, a business must develop and implement strategies to effectively counter the above five competitive forces. O’Brien and Marakas (2011, p. 49) suggest that organisations can follow one of five basic competitive strategies, which are based on Porter’s three generic strategies of broad cost leadership, broad differentiation, and focused strategy. The five competitive strategies are: cost leadership, differentiation, innovation, growth, and alliance. Meanwhile, information systems could be a critical enabler of these five competitive strategies (see Table 2.1).

Table 2.1: Competitive Strategies & Roles of Information Systems

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<th>Competitive Strategy</th>
<th>Roles of Information Systems</th>
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<td>Cost Leadership</td>
<td>Organizations can use information systems to fundamentally shift the cost of doing business (Booth, Roberts &amp; Sikes 2011) or reduce the costs of business processes or/and to lower the costs of customers or suppliers, i.e., using online business to consumer &amp; business to business models, e-procurement systems to reduce operating costs.</td>
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<td>Differentiation</td>
<td>Organizations can use information systems to develop differentiated features or/and to reduce competitors’ differentiation advantages, i.e., using online live chatting systems and social networks to better understand and serve customers; using technology to create informediaries to offer value-added service and improve customers’ stickiness to your web site/business(Booth, Roberts, and Sikes 2011); applying advanced and established measures for online operations to offline practices (i.e., more accurate and systematic ways of measuring efficiency and effectiveness of advertising) (Manyika 2009).</td>
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