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SKU: 9781259567322-SOLUTIONS

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CHAPTER TWO
Identifying Competitive Advantages

This section discusses how an organization can identify competitive advantages using tools such as Porter's Five Forces, three generic strategies, and value chains. Gaining competitive advantages are critical for organizations. Organizations also must understand that competitive advantages are typically temporary since competitors are quick to copy competitive advantages. For example:

- United was the first airline to offer a competitive advantage with its frequent flyer mileage (this first-mover advantage was temporary)
- Sony had a competitive advantage with its portable stereo systems (this first-mover advantage was temporary)
- Microsoft had a competitive advantage with its unique Windows operating system
- Ask your students if Microsoft still has a competitive advantage with its Windows operating system
  - Ans: Perhaps – primarily due to its first-mover advantage since it is difficult to switch operating systems and users face interoperability issues if they are using different operating systems at the same organization.
  - How many students in your class are currently using Windows?
  - What are the competitors to Windows? Ans: Linux and Macintosh
  - Why are there only three primary competitors (Microsoft, Macintosh, and Linux) in this large operating system market?

LEARNING OUTCOMES

Learning Outcome 2.1: Explain why competitive advantages are temporary along with the four key areas of a SWOT analysis.

A competitive advantage is a feature of a product or service on which customers place a greater value than they do on similar offerings from competitors. Competitive advantages provide the same product or service either at a lower price or with additional value that can fetch premium prices. Unfortunately, competitive advantages are typically temporary because competitors often quickly seek ways to duplicate them. In turn, organizations must develop a strategy based on a new competitive advantage. Ways that companies duplicate competitive advantages include acquiring the new technology, copying business processes, and hiring away employees.

A SWOT analysis evaluates an organization's strengths, weaknesses, opportunities, and threats to identify significant influences that work for or against business strategies. Strengths and weaknesses originate inside an organization, or internally. Opportunities and threats originate outside an organization, or externally, and cannot always be anticipated or controlled.

Learning Outcome 2.2: Describe Porter's Five Forces Model and explain each of the five forces.

Porter's Five Forces Model analyzes the competitive forces within the environment in which a company operates, to assess the potential for profitability in an industry.

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- Buyer power is the ability of buyers to affect the price they must pay for an item.
- Supplier power is the suppliers' ability to influence the prices they charge for supplies (including materials, labor, and services).
- Threat of substitute products or services is high when there are many alternatives to a product or service and low when there are few alternatives from which to choose
- Threat of new entrants is high when it is easy for new competitors to enter a market and low when there are significant entry barriers to entering a market
- Rivalry among existing competitors is high when competition is fierce in a market and low when competition is more complacent

Learning Outcome 2.3: Compare Porter's three generic strategies.
Organizations typically follow one of Porter's three generic strategies when entering a new market: (1) broad cost leadership, (2) broad differentiation, (3) focused strategy. Broad strategies reach a large market segment. Focused strategies target a niche market. Focused strategies concentrate on either cost leadership or differentiation.

Learning Outcome 2.4: Demonstrate how a company can add value by using Porter's value chain analysis.
To identify competitive advantages, Michael Porter created value chain analysis, which views a firm as a series of business processes that each add value to the product or service. The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a cost advantage or product differentiation. The value chain groups a firm's activities into two categories—primary value activities and support value activities. Primary value activities acquire raw materials and manufacture, deliver, market, sell, and provide after-sales services. Support value activities, along the top of the value chain in the figure, include firm infrastructure, human resource management, technology development, and procurement. Not surprisingly, these support the primary value activities.

CLASSROOM OPENER
GREAT BUSINESS DECISIONS – Cyrus McCormick's Reaper

On a hot summer day in 1831, several dozen farmers and hired laborers gathered in a wheat field in Virginia to watch a horse-drawn wood-and-iron device mow down rows and rows of golden wheat. On this day, twenty-two-year-old Cyrus McCormick demonstrated the reaper that his father invented and changed history as the mechanization of farming began. Soon the process of industrialization began, which turned the nation's economy into the world's most productive workforce. As the historian, William Hutchinson noted, "Of all the inventions during the first half of the nineteenth century which revolutionized agricultures, the reaper was probably the most important."

Interestingly, the McCormicks were not the only individuals to build and develop a reaper. In fact, many other companies and individuals developed similar technology; however, Cyrus McCormick invented the business of making reapers and selling them to the farmers of America and foreign countries. His real genius was in the area of gaining and protecting patents for his technology. McCormick turned the reaper into a commercially viable product and introduced many new business practices including free trials, money-back guarantees, and installment payment plans.

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CLASSROOM EXERCISE
Comparing Porter's Five Forces

Porter's Five Forces is an easy framework to understand and offers students a quick way to analyze a business. Porter's Five Forces is also reinforced throughout the text and it is important that your students have a solid understanding of each force. For this exercise, break your students into groups and ask them to choose two products to perform a Porter's Five Forces analysis. The two products must compete in the same market.

Potential Products

- Laptop Computer and Desktop Computer
- PDA and Laptop Computer
- iPod and Walkman
- DVD Player and VCR Player
- Digital camera and Polaroid Camera
- Cell Phone and Blackberry PDA
- Coca-Cola Plastic Bottle and Coca-Cola Glass Bottle
- GPS Device and a Road Atlas
- Roller skates and Rollerblades
- Digital Books to Printed Books
- Digital Paper to Paper

CLASSROOM EXERCISE
Analyzing Porter's Five Forces

Porter's Five Forces is an easy framework to understand and offers a quick way to analyze a market. Porter's Five Forces was introduced in the text and you can review the below examples to ensure you have a solid understanding of each force. For this assignment, choose a product from the following list and perform a Porter's Five Forces analysis. Feel free to use the below Porter's Five Forces template for your assignment.

- Desktop Computer
- Address Book
- Walkman
- VHS Player
- Polaroid Camera
- Telephone
- Textbook

Be sure to add in examples of loyalty programs or switching costs you could implement to help retain your market share.

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CLASSROOM VIDEOS
Porter Videos

- **Michael Porter – The Five Forces that Shape Strategy** (10 Mins)
  http://www.youtube.com/watch?v=mYF2_FBCvXw

- **Michael Porter - Global Competitiveness Report 2007** (15 Mins)
  http://www.youtube.com/watch?v=kzn9-M2umFQ

- **Michael Porter with Charlie Rose** (60 Mins)
  http://www.youtube.com/watch?v=SJVkUbGh3w4

- **Michael Porter: Long-term strategies in a down turn** (13 Mins)
  http://www.youtube.com/watch?v=mwc073nNI3Q

CORE MATERIAL

The core chapter material is covered in detail in the PowerPoint slides. Each slide contains detailed teaching notes including exercises, class activities, questions, and examples. Please review the PowerPoint slides for detailed notes on how to teach and enhance the core chapter material.

OPENING UNIT CASE STUDY QUESTIONS
Buy Experiences, Not Things

1. **Imagine you are working for Costco as a manager in its Chicago store. Using Porter's Five Forces Model, analyze buyer power and supplier power for Costco.**
   Buyer power is high for Costco as they have many choices for competing stores such as Sam's Club, Wal-Mart, or generic brands at grocery stores. Supplier power is lower for Costco since the company competes on prices if the suppliers choose to increase prices Costco would just drop the product and since their warehouse is constantly changing products with no guarantees to any product they have reduced supplier power.

2. **Which of the three generic strategies is Costco following?**
   Costco is following a cost leadership strategy.

3. **Only members of Costco can purchase products at Costco. Which of Porter's Five Forces did Costco address through the introduction of its members-only program?**
   Costco is working the loyalty program as you must be a Costco customer to even shop at Costco.

CHAPTER TWO CASE
Michael Porter on TED

1. **In today's global business environment, does the physical location of a business matter?**
   Porter calls this the location paradox. If you think of globalization, your first reaction is to think that location doesn't matter anymore. There are no barriers to investment. But the paradox is that location still matters. The U.S. is still the most important space in the world, for example,

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and regions have tremendous specialization. Anything that can be easily accessed from a distance no longer is a competitive advantage. But the more there are no barriers, the more things are mobile, the more decisive location becomes. This point has tripped up a lot of really smart people. As a result, the bottom half of U.S. locations are facing more stress. Many cities used to have a natural advantage just become they were in the U.S. But that is not such an advantage any more. We are finding a tendency for the rich regions to get richer.

2. **Do you agree or disagree that business can solve social problems? Justify your answer.**
   There is no right or wrong to this question – makes for an interesting debate as your students combine the concepts of MIS in Chapter One with a real business.

REVIEW QUESTIONS

1. **What is the relationship between a business strategy and stakeholders?**
   Stakeholders must believe in and support the business strategy to ensure its success. If a company creates a business strategy that employees or shareholders do not value it is doomed to failure. Having support of all stakeholders when setting goals and strategies for the business is crucial for survival.

2. **Who are the top three most important stakeholders in a business?**
   The answer to this question varies depending on the stakeholder. Shareholders do not always care about employees and employees do not always care about shareholders. Of course, in an ideal environment every stakeholder would have the same goals, but this is rarely the case in business. Clearly employees are the number one stakeholder because without employees there is no business. Clearly customers are the number one stakeholder because without customers there is no business. Obviously, you can make this statement for every stakeholder – hence the dilemma with defining who are the three most important.

3. **When would you use a SWOT analysis to help you make business decisions?**
   The question should be when would you not use a SWOT since this tool is amazingly simple to use for analyzing every aspect of business. I can't think of time you would not want to gain the insight of a SWOT analysis in business.

4. **What is the role Porter's Five Forces Model plays in decision making?**
   Formally defined, Porter's Five Forces Model analyzes the competitive forces within the environment in which a company operates to assess the potential for profitability in an industry. Its purpose is to combat these competitive forces by identifying opportunities, competitive advantages, and competitive intelligence. If the forces are strong, they increase competition; if the forces are weak, they decrease competition.

5. **How could a company use loyalty programs to influence buyer power?**
   Companies can also reduce buyer power with loyalty programs, which reward customers based on their spending. The airline industry is famous for its frequent-flyer programs, for instance. Because of the rewards travelers receive (free airline tickets, upgrades, or hotel stays), they are more likely to be loyal to or give most of their business to a single company. Keeping track of the activities and accounts of many thousands or millions of customers

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covered by loyalty programs is not practical without large-scale business systems, however. Loyalty programs are thus a good example of using MIS to reduce buyer power.

6. **How could a company use switching costs to lock in customers and suppliers?**
   One way to reduce buyer power is by manipulating switching costs, costs that make customers reluctant to switch to another product or service. Switching costs include financial as well as intangible values. The cost of switching doctors, for instance, includes the powerful intangible components of having to build relationships with the new doctor and nurses, as well as transferring all your medical history. With MIS, however, patients can store their medical records on DVDs or thumb drives, allowing easy transferability. The Internet also lets patients review websites for physician referrals, which takes some of the fear out of trying someone new

7. **What are Porter's three generic strategies and why would a company want to follow only one?**
   Porter has identified three generic business strategies for entering a new market: (1) broad cost leadership, (2) broad differentiation, and (3) focused strategy. Broad strategies reach a large market segment, while focused strategies target a niche or unique market with either cost leadership or differentiation. Trying to be all things to all people is a recipe for disaster, since doing so makes it difficult to project a consistent image to the entire marketplace. For this reason, Porter suggests adopting only one of the three generic strategies.

8. **How can a company use Porter's value chain analysis to measure customer satisfaction?**
   To identify these competitive advantages, Michael Porter created value chain analysis, which views a firm as a series of business processes that each add value to the product or service. Value chain analysis is a useful tool for determining how to create the greatest possible value for customers. The goal of value chain analysis is to identify processes in which the firm can add value for the customer and create a competitive advantage for itself, with a cost advantage or product differentiation. The value chain groups a firm's activities into two categories, primary value activities, and support value activities. When performing a value chain analysis, a firm could survey customers about the extent to which they believe each activity adds value to the product or service. This step generates responses the firm can measure to describe how each activity adds (or reduces) value. Then the competitive advantage decision for the firm is whether to (1) target high value-adding activities to further enhance their value, (2) target low value-adding activities to increase their value, or (3) perform some combination of the two.

MAKING BUSINESS DECISIONS

1. **SWOT YOUR STUDENTS**
   Hopefully, everyone immediately recognizes the importance of this course as they watched the Friedman video. As you begin to compete in a Flat World you need all the technology skills and experience you can possibly find! I've never heard anyone say - "My career was right on track until I learned about technology - I sure wish I had never learned technology it ruined my career".
   - Amazon is a book selling company - not a technology company.
   - Netflix is a video rental business - not a technology company.

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- eBay is a consumer trading business - not a technology company.

All of these businesses were started by BUSINESS people who understood the value of technology so well that they fundamentally changed the primary business processes of buying books, renting videos, and trading goods. Every BUSINESS person should understand technology, without it they won't be able to spot the competitive advantages that are just waiting for the next brilliant entrepreneur to discover.

There are huge strides in third world countries. We now have Internet carts that can drive around and provide remote villages in Neap and India and Africa with computers and access. Some argue that the world between the haves and the have-nots is widening because of technology - I personally believe it is closing. With a computer, I can literally get a PHD from an online school no matter where I am located - a remote village in Antarctica.

Here is a question for your students. Is the world flat for everyone? When I view Friedman, and try to think of a job that isn't flat I actually tend to come up with blue collar jobs. White collar jobs are easily outsourced - CPAs are doing our taxes in China, Legal work is done is Africa, Architecture work is done in India, Programming code is done is Ukraine, Doctors are reading our x-rays in India, etc. But can a nurse, garbage man, house painter, contractor, waitress, librarian, (service industry) jobs be outsourced? Don't get me wrong - I completely agree that the best thing you can invest in is your education - but in a flat world I no longer agree that it means your skill set won't be outsourced.

2. KEEPING SENSITIVE DATA SAFE WHEN IT'S NOT IN A SAFE

Sensitive organizational data includes:

- Human resource data
- Competitive data
- Strategic data
- Pricing data
- New product development data
- Marketing data
- Finance data
- Employee salary data
- Customer data

Keeping sensitive data safe is a key priority for digital companies. Today one angry employee can walk out the door with terabytes of corporate data. Policies for data sharing and data capture can help mitigate the issues of data security.

Top 10 Questions Managers Should Ask Regarding Information Security:

1. Does the board of directors recognize information security is a board-level issue that cannot be left to the IT department alone?
2. Is there clear accountability for information security in the organization?
3. Do the board members articulate an agreed-upon set of threats and critical assets? How often do they review and update these?
4. How much is spent on information security and what is it being spent on?
5. What is the impact on the organization of a serious security incident?

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6. Does the organization view information security as an enabler? (For example, by implementing effective security, could the organization increase business over the Internet?)
7. What is the risk to the business of getting a reputation for low information security?
8. What steps have been taken to ensure that third parties will not compromise the security of the organization?
9. How does the organization obtain independent assurance that information security is managed effectively?
10. How does the organization measure the effectiveness of its information security activities?

- **The importance of educating employees on information security**
  Adding to the complexity of information security is the fact that organizations must enable employees, customers, and partners to access information electronically to be successful in this electronic world. Doing business electronically automatically creates tremendous information security risks for organizations. Surprisingly, the biggest issue surrounding information security is not a technical issue, but a people issue.

  The CSI/FBI Computer Crime and Security Survey reported that 38 percent of respondents indicated security incidents originated within the enterprise. Insiders are legitimate users who purposely or accidentally misuse their access to the environment and cause some kind of business-affecting incident. Most information security breaches result from people misusing an organization's information either advertently or inadvertently. For example, many individuals freely give up their passwords or write them on sticky notes next to their computers, leaving the door wide open to intruders.

3. PURSUING PORTER

The types of professionals your students might list include:

- Bill Gates
- Steve Jobs
- Seth Godin
- Malcolm Gladwell
- John Kotter
- Jim Collins
- Peter Drucker
- Clayton Christensen
- Jack Welch
- Stephen Covey
- Dale Carnegie

4. CHOOSING A CAREER

Student answers to this project will vary depending on their area of expertise. This project is aimed at getting your students excited about information technology, even though they are not IT majors. By researching the IT implications for their majors, they will begin to realize how important IT will be in their future. The most important part of your students' answers will be the justification for their analysis.

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If your students are still determining their potential majors and areas of expertise you can break your students into groups and assign each group a different major or industry to research. Have your students present their findings to the entire class. This helps provide an overview of all areas and related IT influences.

Potential majors:

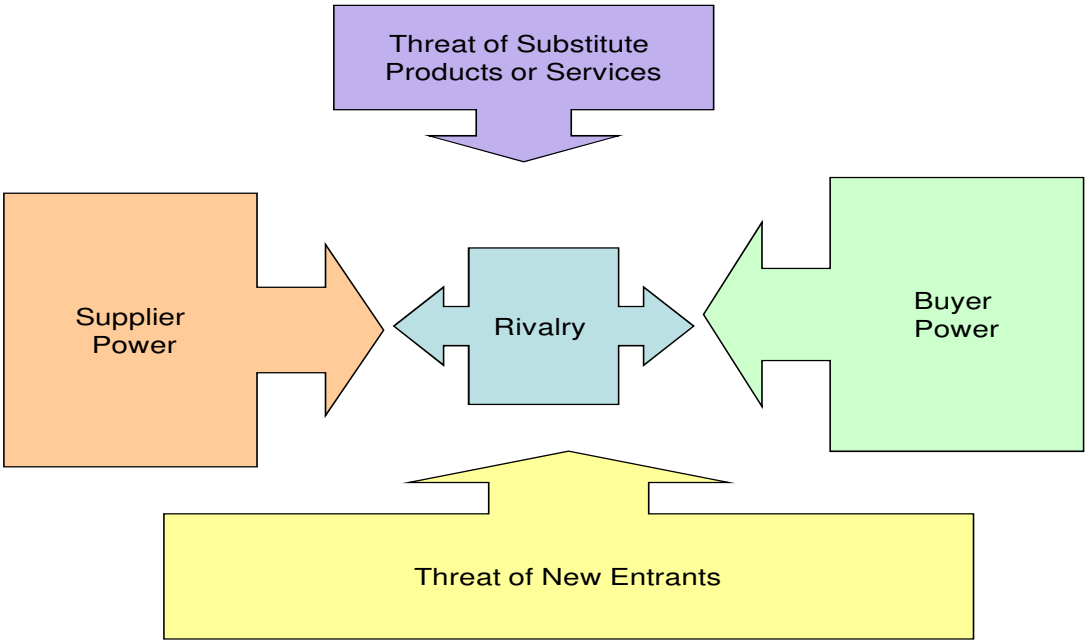
- Accounting – Oracle financials, payroll systems, QuickBooks
- Finance - Oracle financials, payroll systems, QuickBooks
- Management – HR systems that can pinpoint potential employee issues and risks
- Marketing – Blogs, eMarketing, RSS, podcasts, sales force automation
- IT/MIS – Design tools such as Irwin or Rational Rose or Rational RUP
- Statistics - SAS
- Operations – i2, supply chain systems, logistic systems

Potential industries:

- Telecommunications
- Health care
- Finance
- Education
- Strategy services
- Products
- Energy
- Fashion

5. DEATH OF A PRODUCT

Answer to this questions will vary – below is a template for your students to use as they analyze their products.



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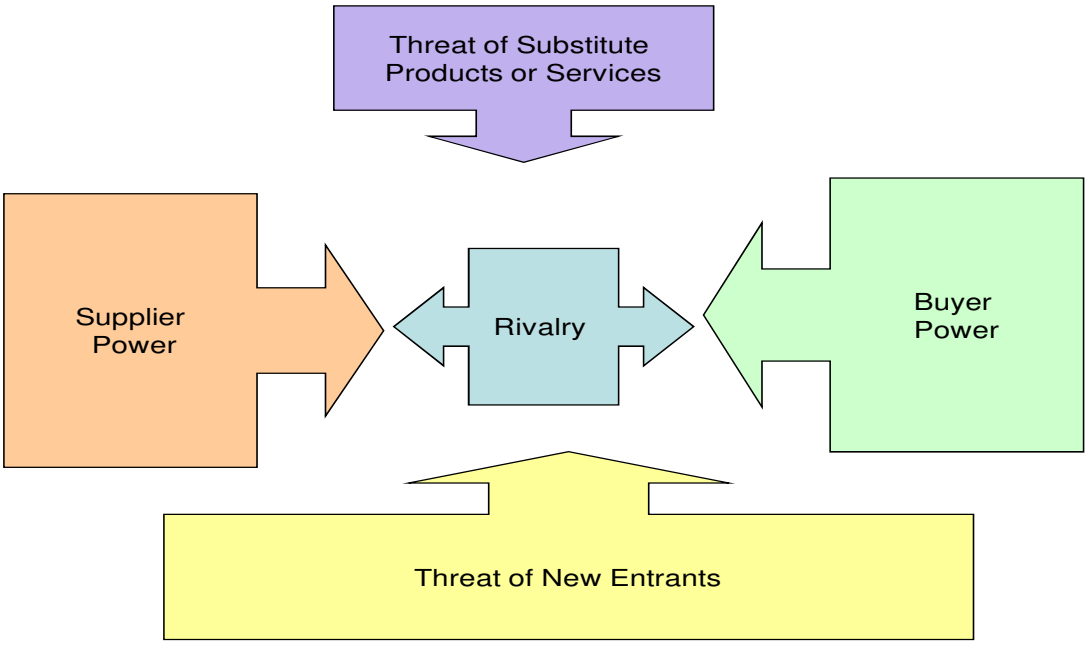
6. APPLYING THE THREE GENERIC STRATEGIES

Organizations typically follow one of Porter's three generic strategies when entering a new market. (1) Broad cost leadership, (2) broad differentiation, (3) focused strategy. Broad strategies reach a large market segment. Focused strategies target a niche market. Focused strategies concentrate on either cost leadership or differentiation. Student answers will vary depending on which industries they choose to research.

7. IOT TIME MANAGEMENT

Answer to this questions will vary – below is a template for your students to use as they analyze their products.



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BUSINESS PLUG-IN B2
Business Process

LEARNING OUTCOMES

1. **Describe business processes and their importance to an organization.**
   A ***business process*** is a standardized set of activities that accomplish a specific task, such as processing a customer's order. Business processes transform a set of inputs into a set of outputs (goods or services) for another person or process by using people and tools. Without processes organizations would not be able to complete activities.

2. **Compare the continuous process improvement model and business process reengineering.**
   Many organizations began business process improvement with a continuous improvement model. A ***continuous process improvement model*** attempts to understand and measure the current process, and make performance improvements accordingly. ***Business process reengineering (BPR)*** is the analysis and redesign of workflow within and between enterprises. BPR relies on a different school of thought than continuous process improvement. In the extreme, BPR assumes the current process is irrelevant, does not work, or is broken and must be overhauled from scratch. Such a clean slate enables business process designers to disassociate themselves from today's process and focus on a new process. It is like the designers projecting themselves into the future and asking: What should the process look like? What do customers want it to look like? What do other employees want it to look like? How do best-in-class companies do it? How can new technology facilitate the process?

3. **Describe the importance of business process modeling (or mapping) and business process models.**
   Business process modeling (or ***mapping***) is the activity of creating a detailed flow chart or process map of a work process showing its inputs, tasks, and activities, in a structured sequence. A ***business process model*** is a graphic description of a process, showing the sequence of process tasks, which is developed for a specific purpose and from a selected viewpoint. A set of one or more process models details the many functions of a system or subject area with graphics and text and its purpose is to:
   - Expose process detail gradually and in a controlled manner
   - Encourage conciseness and accuracy in describing the process model
   - Focus attention on the process model interfaces
   - Provide a powerful process analysis and consistent design vocabulary

4. **Explain business process management along with the reason for its importance to an organization.**
   The latest area to discover the power of technology in automating and reengineering business process is business process management. Business process management (BPM) integrates all of an organization's business process to make individual processes more efficient. BPM can

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be used to solve a single glitch or to create one unifying system to consolidate a myriad of processes. Many organizations are unhappy with their current mix of software applications and dealing with business processes that are subject to constant change. These organizations are turning to BPM systems that can flexibly automate their processes and glue their enterprise applications together.

CLASSROOM OPENER
Cable Not Ready

A current cable subscriber calls up to change the date for activating the service at a new address from Feb. 22 to March 1. The subscriber is successful and hangs up the phone happy. However, on February 22nd the cable at the current home is disconnected and the customer is no longer happy. The customer service representative forgot to change the date of the disconnection and only changed the date of the activation.

Practically speaking, these two events will almost always be linked - and the system probably should have prompted the customer service representative to ask if they were. The point: In focusing on business process, it is important to facilitate real-world tasks that are, by nature, "integrated."

- Ask your students to discuss times that a business process problem caused them problems. What did they do to solve the problem?
- What could the company do to solve the problem?
- What can a company do to anticipate operational process problems before they occur?
- What can a company do to keep their customers after a process malfunction?

CLASSROOM OPENER
Examining and Reengineering Business Processes

Ask your students to discuss issues they have encountered around the college due to an inefficient or ineffective process. Choose one of the processes, break your students into groups, and ask them to reengineer the process. How would they change it to make it more effective or more efficient? Would they add a new technology device to help with the process such as RFID or 3D printing? Be sure to have them diagram the As-Is process and the To-Be process. Have them present their reengineered processes to the class.

CORE MATERIAL

The core chapter material is covered in detail in the PowerPoint slides. Each slide contains detailed teaching notes including exercises, class activities, questions, and examples. Please review the PowerPoint slides for detailed notes on how to teach and enhance the core chapter material.

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MAKING BUSINESS DECISIONS

Instructor Note: There are few right or wrong answers in the business world. There are really only efficient and inefficient, and effective and ineffective business decisions. If there were always right answers businesses would never fail. These questions were created to challenge your students to apply the materials they have learned to real business situations. For this reason, the authors cannot provide you with one version of a correct answer. When grading your students' answers, be sure to focus on their justification or support for their specific answers. A good way to grade these questions is to compare your student's answers against each other.

1. **DISCOVERING REENGINEERING OPPORTUNITIES**
   Project Purpose: To reengineer a class registration process.
   Potential Solution: Broken, redundant, and antiquated processes can cause tremendous business inefficiencies. Your students should be able to easily identify which processes in your class registration system are broken, redundant, and antiquated since they are intimately familiar with this system. Since all colleges use different class registration systems the answer to this question will vary. The important part is to ensure they are identifying the issues along with suggestions for new ways to improve the process and fix the broken, redundant, and antiquated processes.

2. **MODELLING A BUSINESS PROCESS**
   Project Purpose: To practice diagramming and improving business processes.
   Potential Solution: Student answers to this question will vary depending on the process they have chosen to fix. Review Figures for examples of improved processes.

3. **REVAMPING BUSINESS PROCESSES**
   Project Purpose: To practice diagramming and improving business processes.
   Potential Solution: The answer to this problem will vary, a sample answer appears below.

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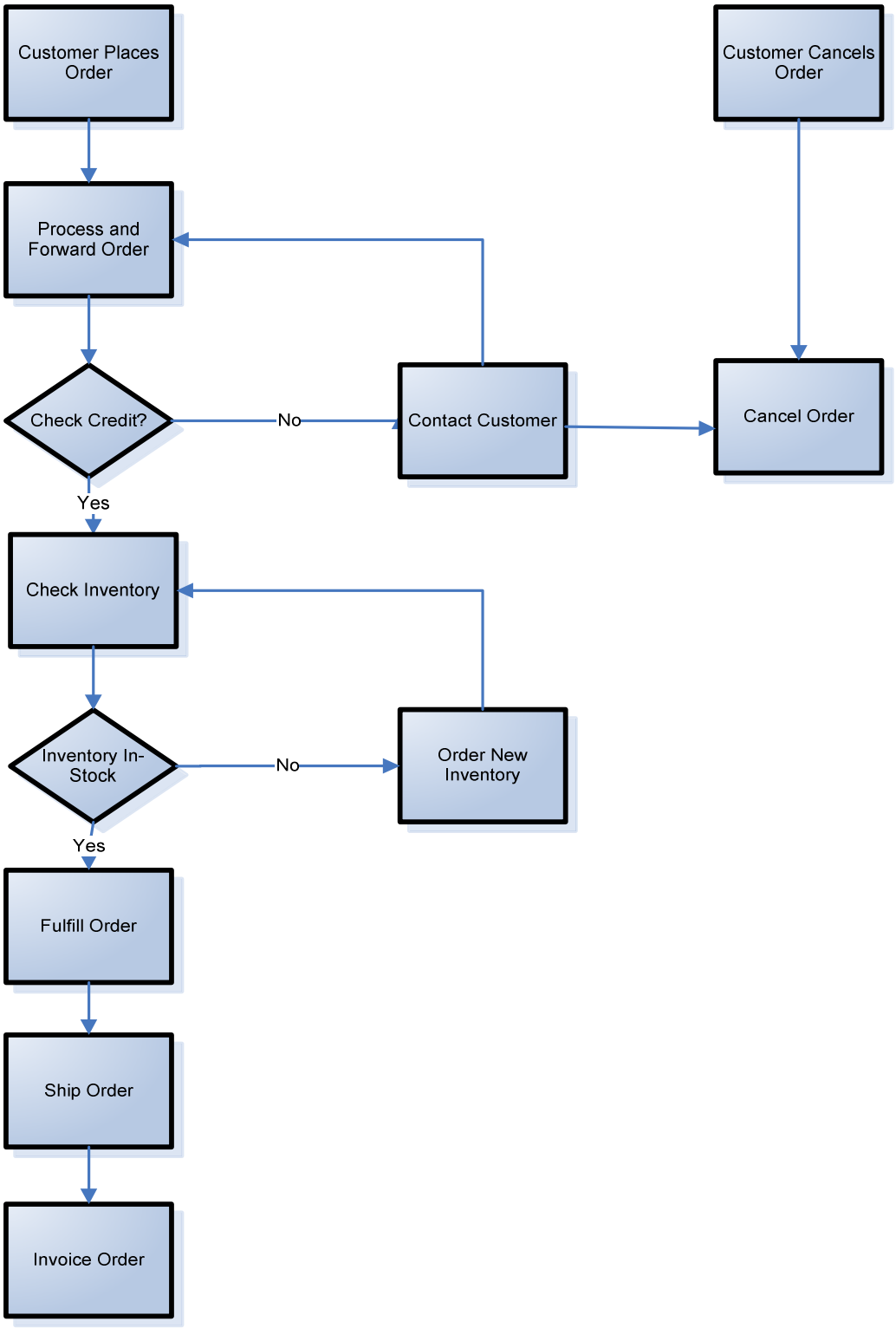

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4. REVAMPING ACCOUNTS

Project Purpose: To revamp an accounting department using BPM.

Potential Solution: A key advantage of technology is its ability to improve business processes. Working faster and smarter has become a necessity for companies. Initial emphasis was given to areas such as production, accounting, procurement, and logistics. The next big areas to discover technology's value in business process were sales and marketing automation, customer relationship management, and supplier relationship management. Some of these processes involve several departments of the company and some are the result of real-time interaction of the company with its suppliers, customers, and other business partners. The latest area to discover the power of technology in automating and reengineering business process is business process management. Business process management (BPM) integrates all of an organization's business process to make individual processes more efficient. BPM can be used to solve a single glitch or to create one unifying system to consolidate a myriad of processes.

Many organizations are unhappy with their current mix of software applications and dealing with business processes that are subject to constant change. These organizations are turning to BPM systems that can flexibly automate their processes and glue their enterprise applications together. BPM technologies effectively track and orchestrate the business process. BPM can automate tasks involving information from multiple systems, with rules to define the sequence in which the tasks are performed as well as responsibilities, conditions, and other aspects of the process. BPM not only allows a business process to be executed more efficiently, but it also provides the tools to measure performance and identify opportunities for improvement - as well as to easily make changes in processes to act upon those opportunities such as:

- Bringing processes, people, and information together
- Identifying the business processes is relatively easy. Breaking down the barriers between business areas and finding owners for the processes are difficult
- Managing business processes within the enterprise and outside the enterprise with suppliers, business partners, and customers
- Looking at automation horizontally instead of vertically

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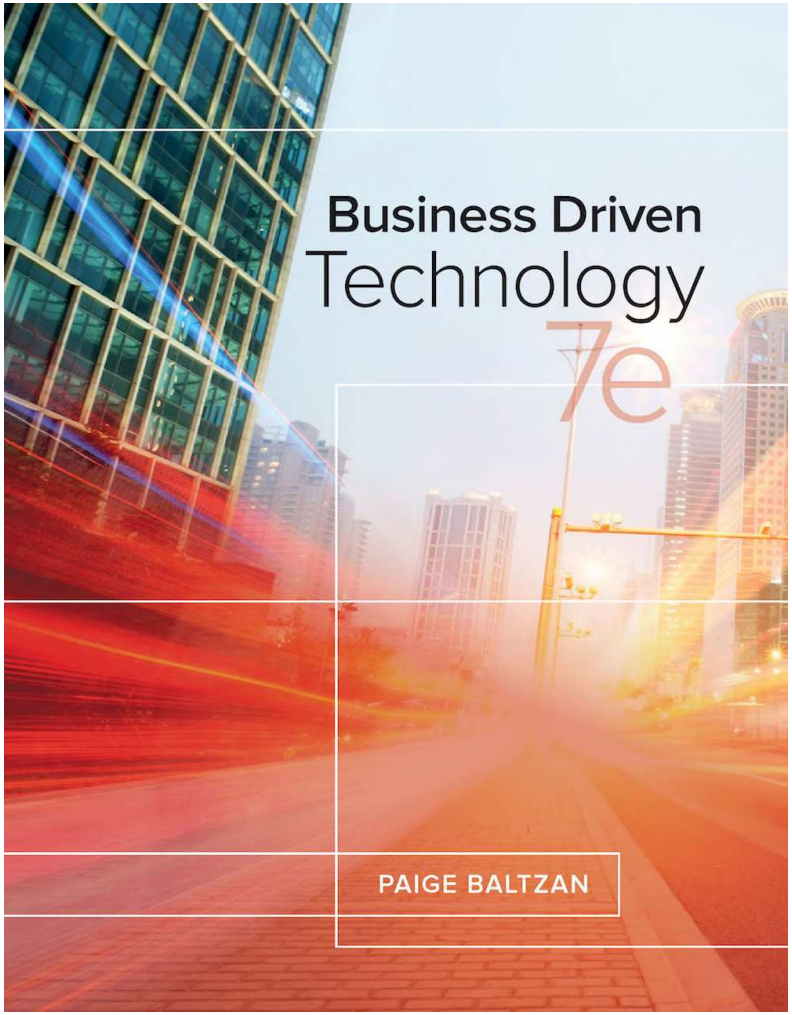
Hill Education

CHAPTER TWO

IDENTIFYING COMPETITIVE ADVANTAGES



Because learning changes everything.™

LEARNING OUTCOMES

1. Explain why competitive advantages are temporary along with y the four key areas of a SWOT analysis
2. Describe Porter's Five Forces Model and explain each of the five forces
3. Compare Porter's three generic strategies
4. Demonstrate how a company can add value by using Porter's value chain analysis

IDENTIFYING COMPETITIVE ADVANTAGES

- **Business strategy** – A leadership plan that achieves a specific set of goals or objectives such as
  - Developing new products or services
  - Entering new markets
  - Increasing customer loyalty
  - Attracting new customers
  - Increasing sales

IDENTIFYING COMPETITIVE ADVANTAGES

IDENTIFYING COMPETITIVE ADVANTAGES

- **Competitive advantage** – A product or service that an organization's customers place a greater value on than similar offerings from a competitor

- **First-mover advantage** – Occurs when an organization can significantly impact its market share by being first to market with a competitive advantage

IDENTIFYING COMPETITIVE ADVANTAGES

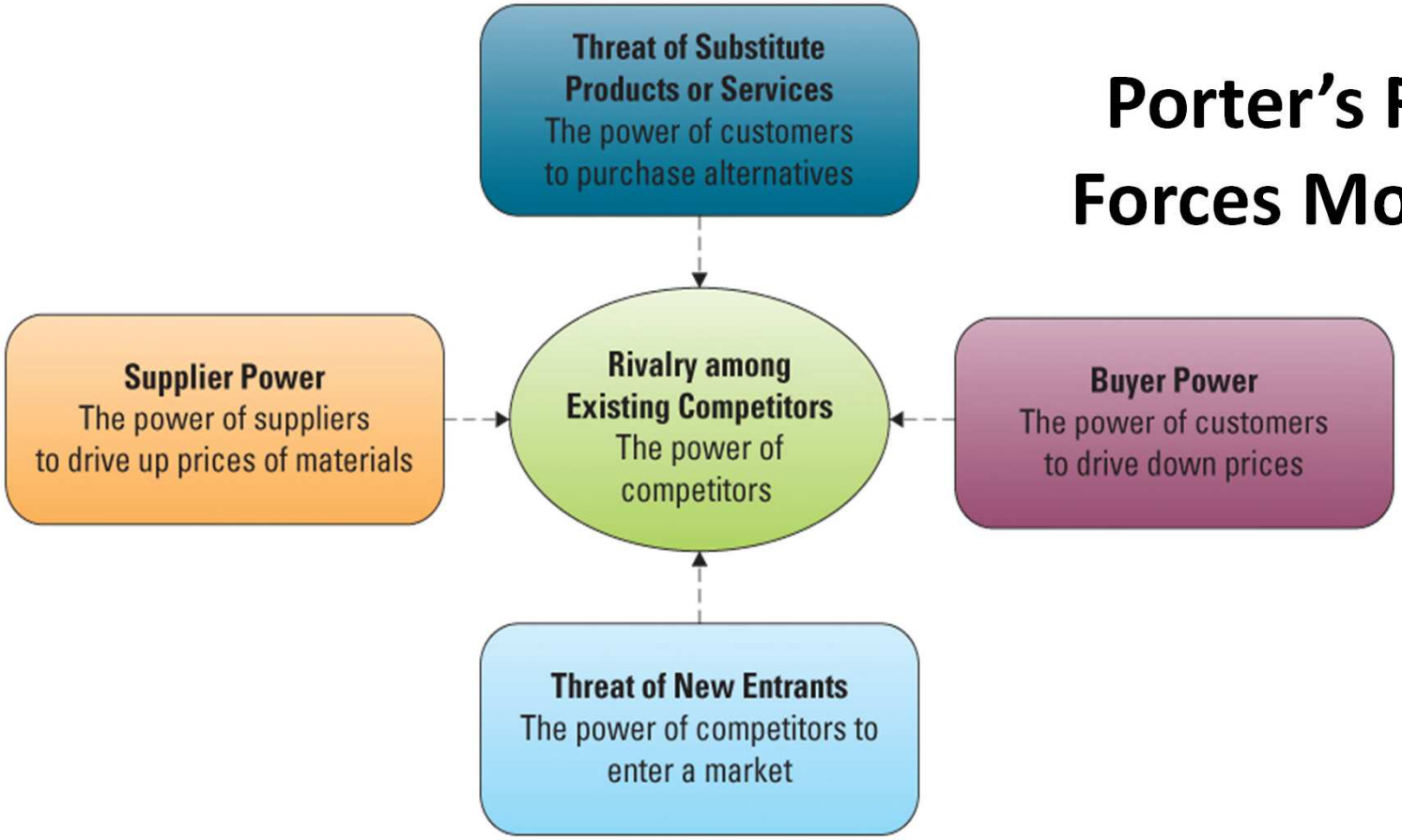
Because learning changes everything.™

SWOT ANALYSIS

- A ***SWOT analysis*** evaluates an organization's **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats to identify significant influences that work for or against business strategies

	HELPFUL	HARMFUL
INTERNAL	**STRENGTHS** Core Competencies Market Leaders Cost Advantages Excellent Management	**WEAKNESSES** Lack of Strategic Direction Obsolete Technologies Lack of Managerial Talent Outdated Product Line
EXTERNAL	**OPPORTUNITES** Expanded Product Line Increase in Demand New Markets New Regulations	**THREATS** New Entrants Substitute Products Shrinking Markets Costly Regulatory Requirements

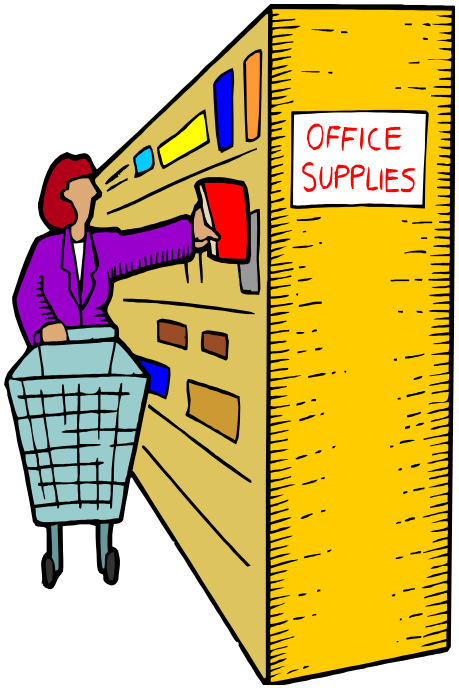
THE FIVE FORCES MODEL –
EVALUATING INDUSTRY ATTRACTIVENESS



Porter's Five Forces Model

BUYER POWER

- **Buyer power** – The ability of buyers to affect the price of an item
  - **Switching cost** – Manipulating costs that make customers reluctant to switch to another product
  - **Loyalty program** – Rewards customers based on the amount of business they do with a particular organization



SUPPLIER POWER

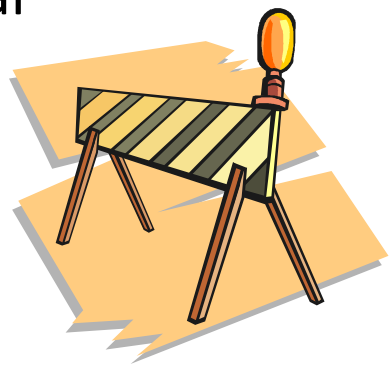
- **Supplier power** – The suppliers' ability to influence the prices they charge for supplies
  - **Supply chain** – Consists of all parties involved in the procurement of a product or raw material

THREAT OF SUBSTITUTE PRODUCTS OR SERVICES

- **Threat of substitute products or services** – High when there are many alternatives to a product or service and low when there are few alternatives

THREAT OF NEW ENTRANTS

- **Threat of new entrants** – High when it is easy for new competitors to enter a market and low when there are significant entry barriers
  - **Entry barrier** – A feature of a product or service that customers have come to expect and entering competitors must offer the same for survival



RIVALRY AMONG EXISTING COMPETITORS

- **Rivalry among existing competitors** – High when competition is fierce in a market and low when competitors are more complacent

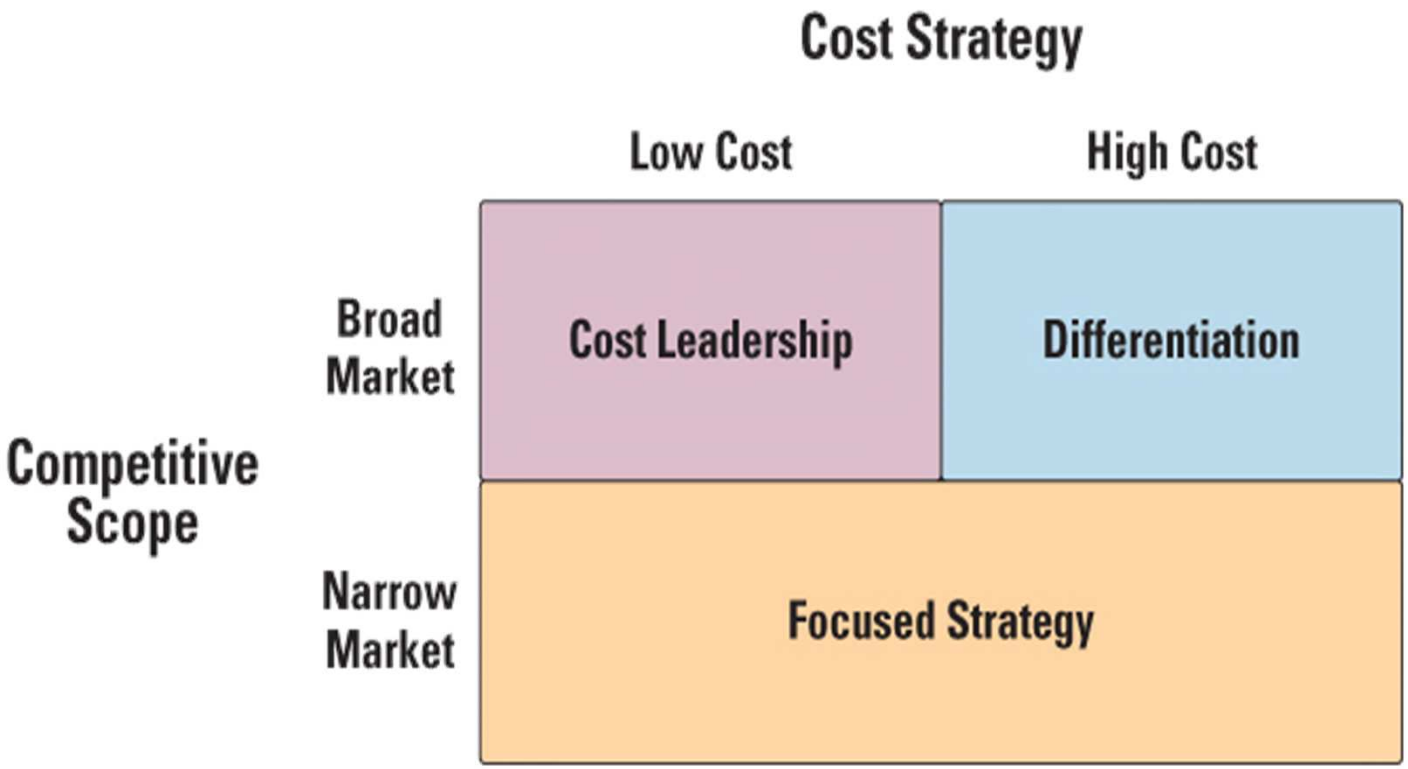
  - **Product differentiation** – Occurs when a company develops unique differences in its products or services with the intent to influence demand

ANALYZING THE AIRLINE INDUSTRY

- Perform a Porter's Five Forces analysis of each of the following for a company entering the commercial airline industry

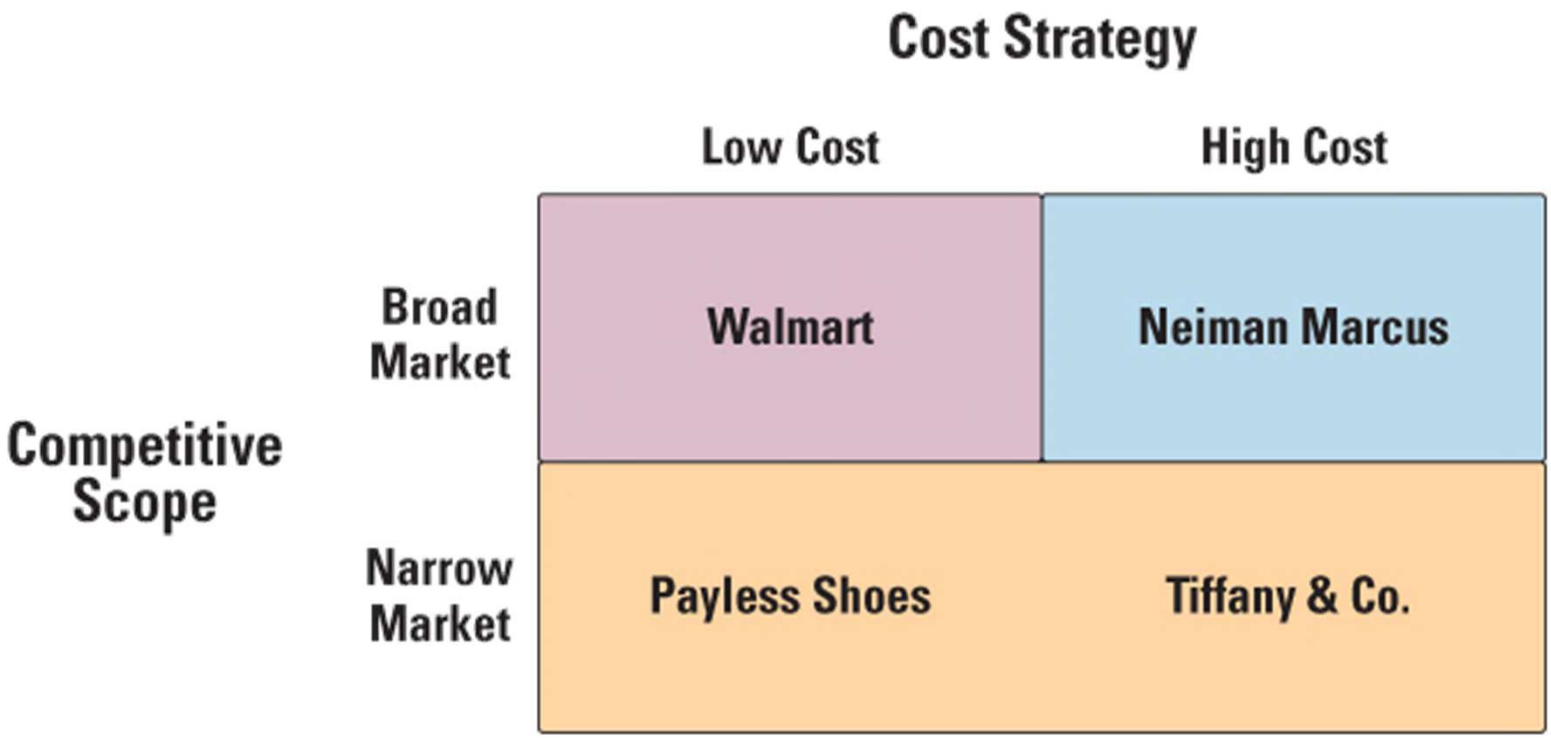
  - Buyer power
  - Supplier power
  - Threat of substitute products/services
  - Threat of new entrants
  - Rivalry among competitors

THE THREE GENERIC STRATEGIES
CHOOSING A BUSINESS FOCUS



Porter's Three Generic Strategies

THE THREE GENERIC STRATEGIES
CHOOSING A BUSINESS FOCUS



Porter's Three Generic Strategies

VALUE CHAIN ANALYSIS
EXECUTING BUSINESS STRATEGIES

- **Business process** – A standardized set of activities that accomplish a specific task, such as a specific process
- **Value chain analysis** – Views a firm as a series of business processes that each add value to the product or service

VALUE CHAIN ANALYSIS
EXECUTING BUSINESS STRATEGIES

- **Primary value activities**
  - **Inbound logistics -** Acquires raw materials and resources, and distributes
  - **Operations** - Transforms raw materials or inputs into goods and services
  - **Outbound logistics** - Distributes goods and services to customers
  - **Marketing and sales -** Promotes, prices, and sells products to customers
  - **Service -** Provides customer support

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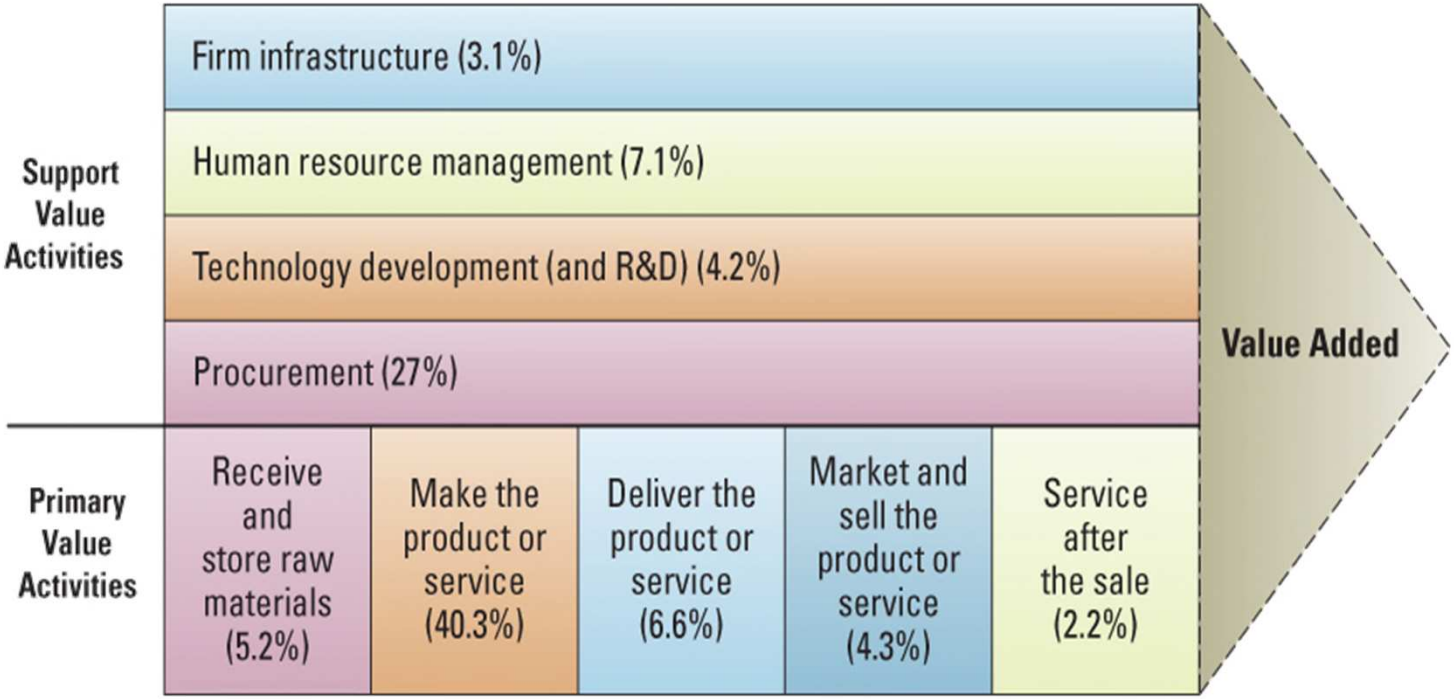
VALUE CHAIN ANALYSIS
EXECUTING BUSINESS STRATEGIES

- **Support value activities**
  - **Firm infrastructure** – Includes the company format or departmental structures, environment, and systems
  - **Human resource management** – Provides employee training, hiring, and compensation
  - **Technology development** – Applies MIS to processes to add value
  - **Procurement** – Purchases inputs such as raw materials, resources, equipment, and supplies

VALUE CHAIN ANALYSIS

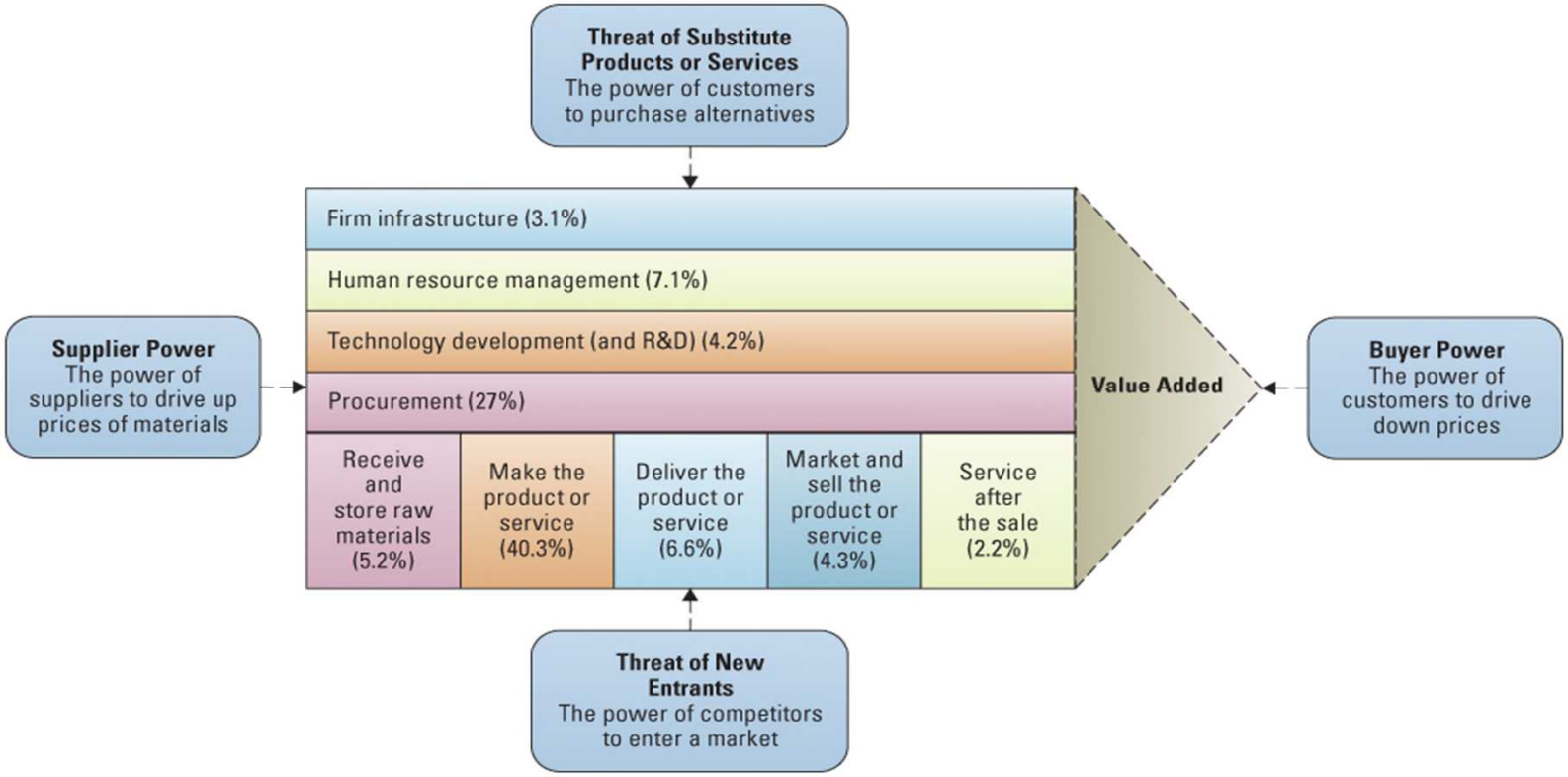
EXECUTING BUSINESS STRATEGIES



Porter's Value Chain

VALUE CHAIN ANALYSIS

EXECUTING BUSINESS STRATEGIES



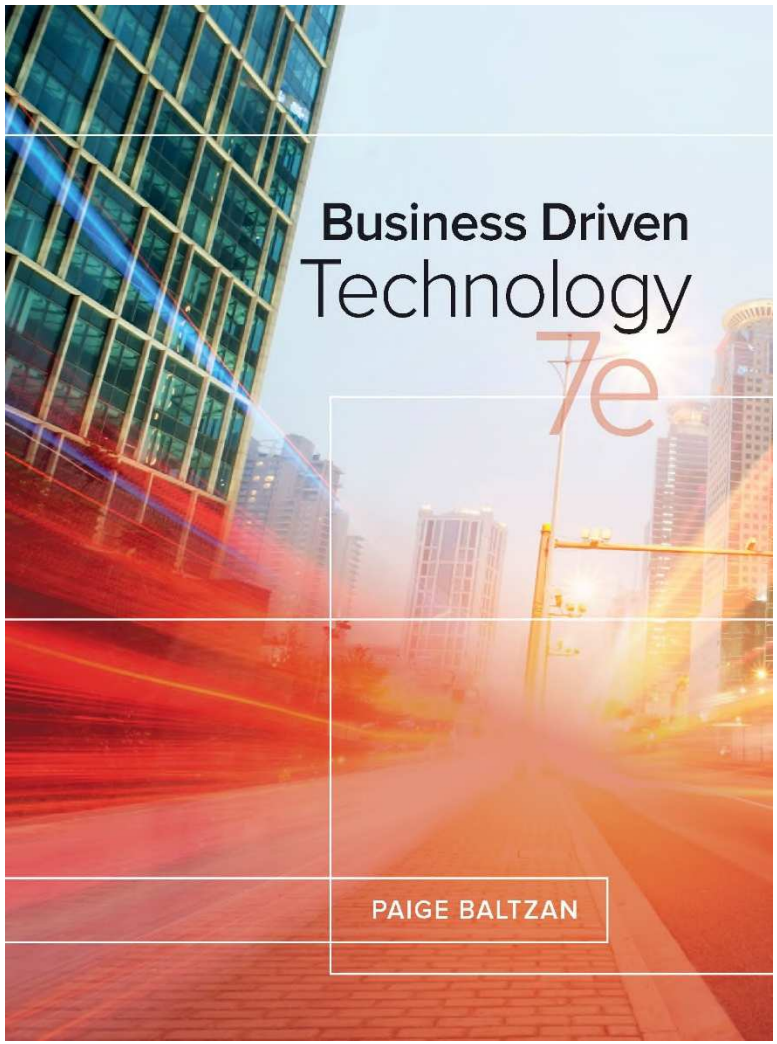
Value Chain and Porter's Five Forces Model

LEARNING OUTCOME REVIEW

- Now that you have finished the chapter please review the learning outcomes in your text

BUSINESS PLUG-IN B2

BUSINESS PROCESS



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LEARNING OUTCOMES

1. Describe business processes and their importance to an organization
2. Compare the continuous process improvement model and business process reengineering
3. Describe the importance of business process modeling (or mapping) and business process models
4. Explain business process management along with the reason for its importance to an organization

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INTRODUCTION

- Business process improvement will, at a minimum, double the gains of a project by streamlining outdated practices, enhancing efficiency, promoting compliance and standardization, and making an organization more agile

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INTRODUCTION

- Business process improvement involves three key steps
  1. Measure what matters to most customers
  2. Monitor the performance of key business processes
  3. Assign accountability for process improvement

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EXAMINING BUSINESS PROCESSES

Business process characteristics:

- The processes have internal and external users
- A process is cross-departmental
- The processes occur across organizations
- The processes are based on how work is done in the organization
- Every process should be documented and fully understood by everyone participating in the process
- Processes should be modeled to promote complete understanding

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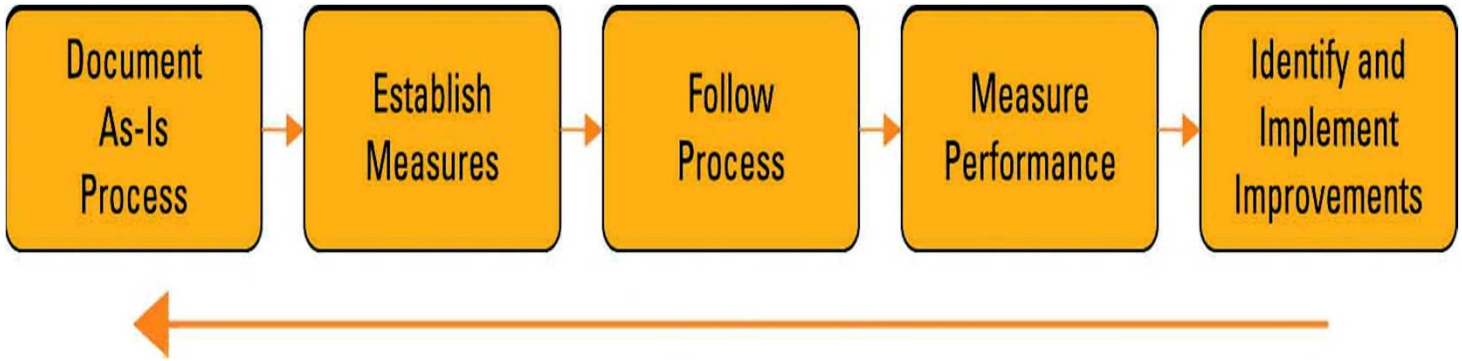
BUSINESS PROCESS IMPROVEMENT

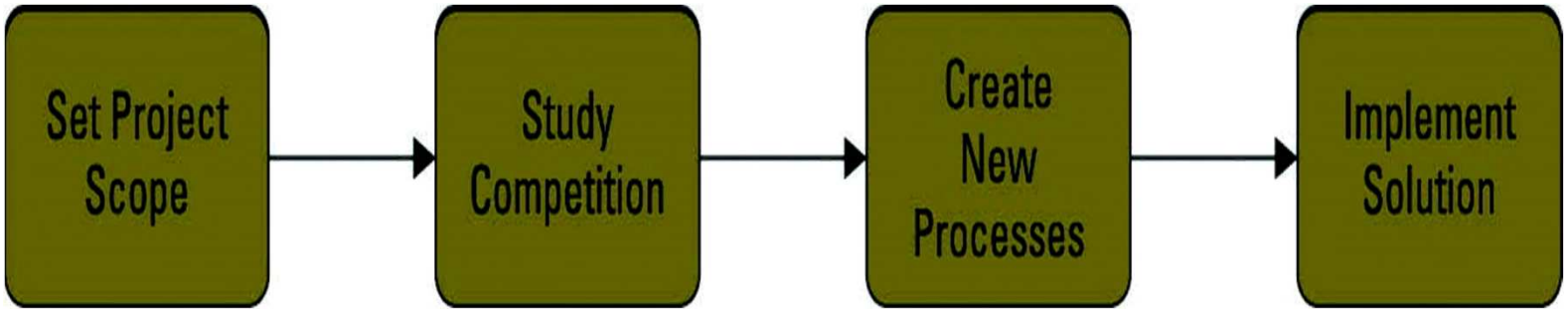
•Companies are forced to improve their business processes because customers are demanding better products and services

•***Continuous process improvement model*** - attempts to understand and measure the current process, and make performance improvements accordingly



BUSINESS PROCESS REENGINEERING

- ***Business process reengineering (BPR)*** - analysis and redesign of workflow within and between enterprises



BUSINESS PROCESS REENGINEERING

- **Managerial approach to reengineering projects**
  1. Define the scope
  2. Analyze
  3. Evaluate
  4. Plan
  5. Approve
  6. Execute

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BUSINESS PROCESS DESIGN

- ***Business process modeling*** (or ***mapping***) - the activity of creating a detailed flow chart or process map of a work process showing its inputs, tasks, and activities, in a structured sequence

- ***Business process model -*** a graphic description of a process, showing the sequence of process tasks, which is developed for a specific
    - As-Is process model
    - To-Be process model

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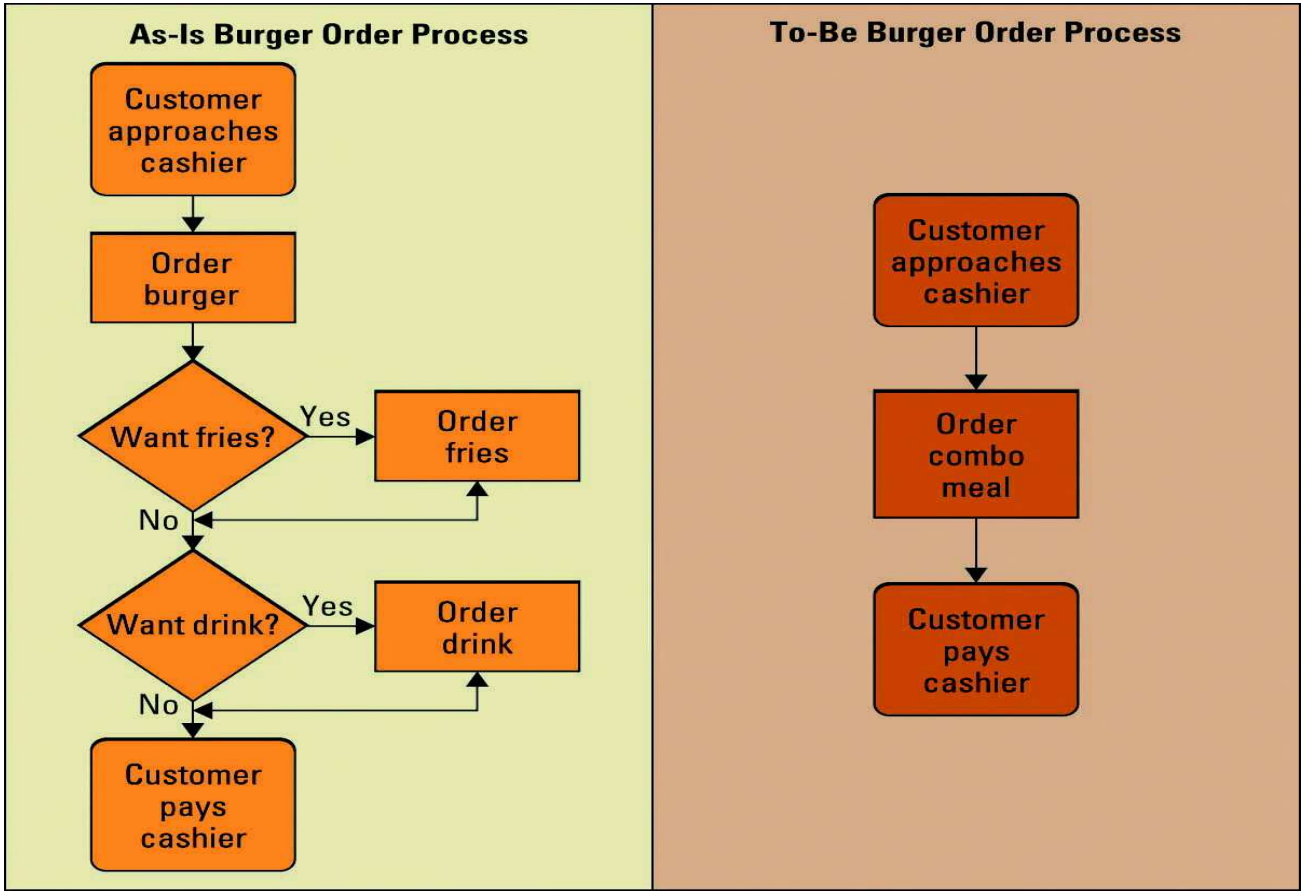
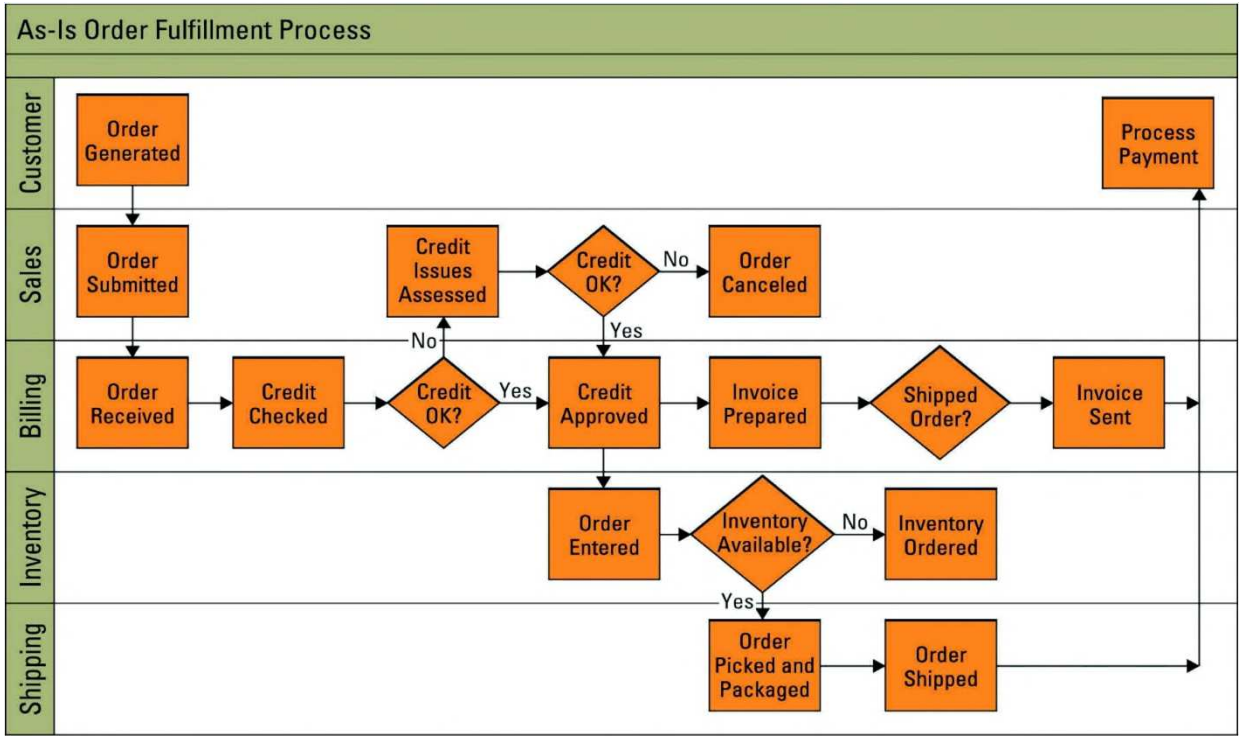
BUSINESS PROCESS DESIGN



BUSINESS PROCESS DESIGN



BUSINESS PROCESS DESIGN

Issues in the As-Is Order Process Model
• Sales representatives take too long to submit orders.
• There are too many process steps.
• Sales administration slows down the process by batch-processing orders.
• Credit checking is performed for both old and new customers.
• Credit checking holds up the process because it is done before (rather than concurrently with) order picking.

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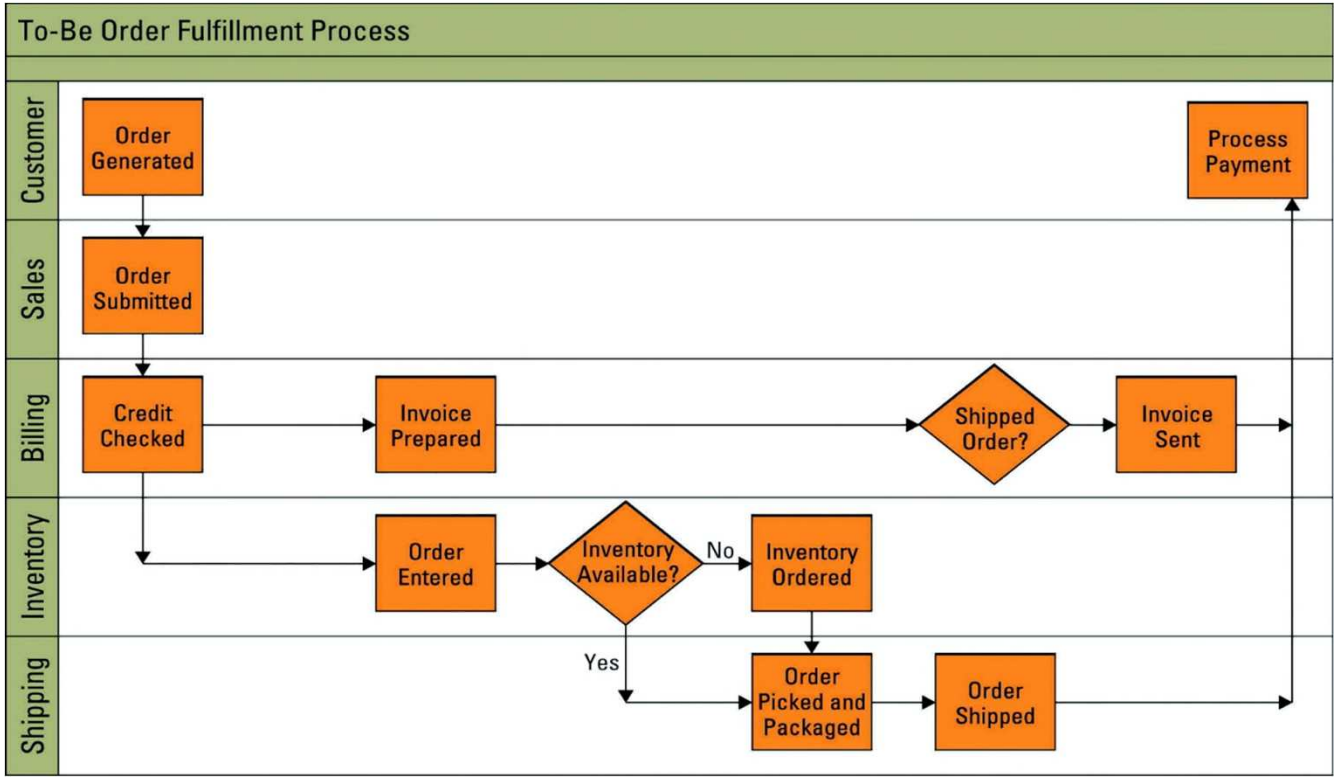
BUSINESS PROCESS DESIGN



SELECTING A PROCESS TO REENGINEER

Criteria to determine the importance of the process:

- Is the process broken?
- Is it feasible that reengineering of this process will succeed?
- Does it have a high impact on the agency's strategic direction?
- Does it significantly impact customer satisfaction?
- Is it antiquated?
- Does it fall far below best-in-class?
- Is it crucial for productivity improvement?
- Will savings from automation be clearly visible?
- Is the return on investment from implementation high and preferably immediate?

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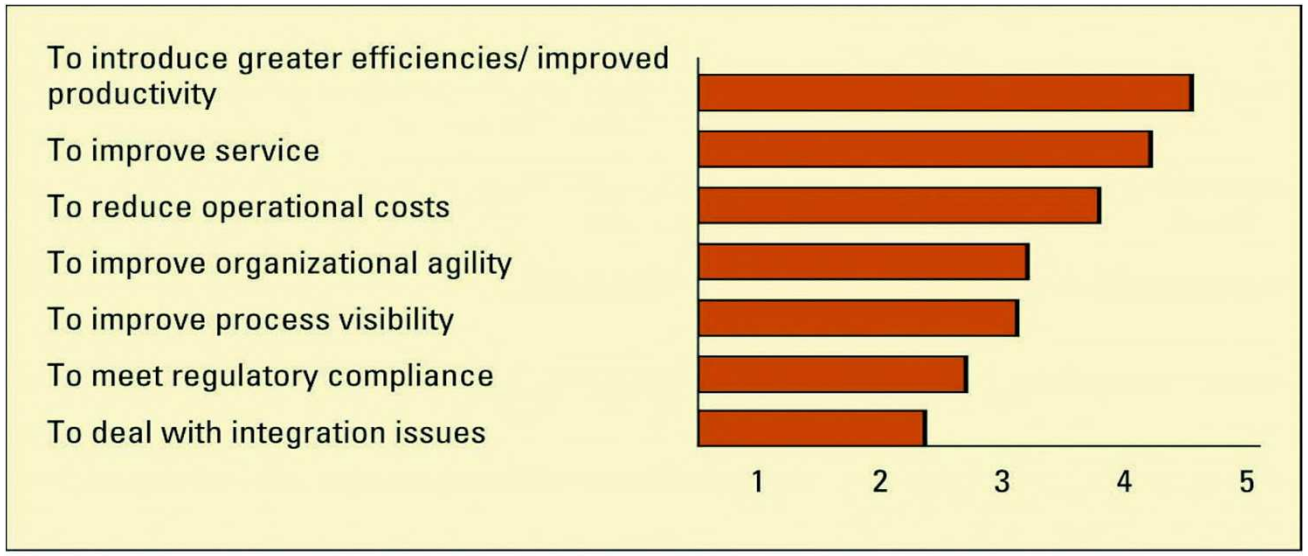
BUSINESS PROCESS MANAGEMENT



Scale 1 to 5 where 1 = not important and 5 = very important

- ***Business process management (BPM)*** **-** integrates all of an organization's business process to make individual processes more efficient

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BUSINESS PROCESS MANAGEMENT

•BPM allows business process to be executed more efficiently and measures performance and identifies opportunities for improvement, BPM benefits include:

- Update processes in real-time
- Reduce overhead expenses
- Automate key decisions
- Reduce process maintenance cost
- Reduce operating cost
- Improve productivity
- Improve process cycle time
- Improve forecasting
- Improve customer service

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BPM TOOLS

Business process management tool - an application that designs business process models and simulates, optimizes, monitors, and maintains various processes

Tool Name	Company Name
BPM Suite	Ultimus
Process Suite	Staffware
Business Manager	Savvion
Pega Rules Process Commander	Pegasystem
E Work Vision	Metastorm
Team Works	Lombardi Software
Intalio	Intalio
Bizflow	Handysoft
FugeoBPM	Fugeo
Business Process Manager	Filenet

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CRITICAL SUCCESS FACTORS

1. Understand reengineering
2. Build a business and political case
3. Adopt a process management approach
4. Measure and track performance continuously
5. Practice change management and provide central support
6. Manage reengineering projects for results

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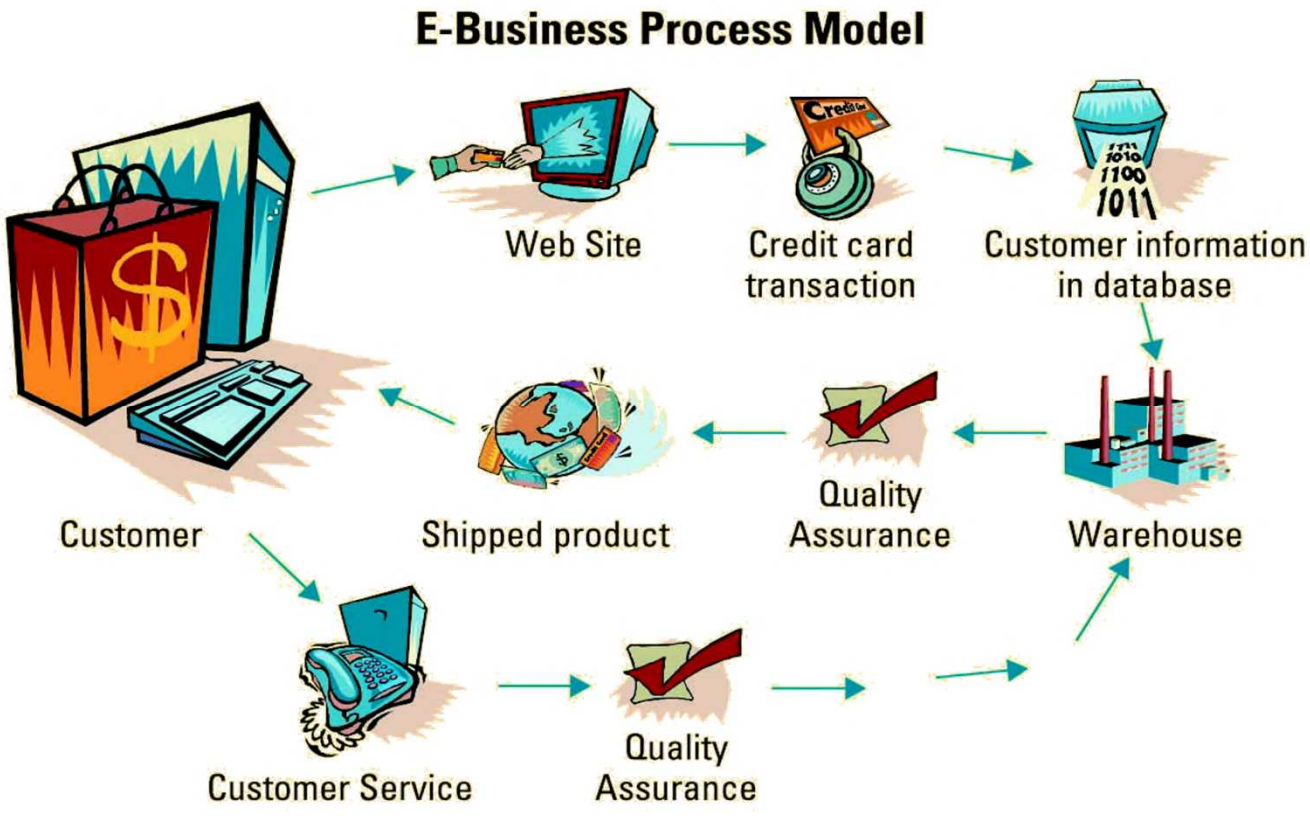
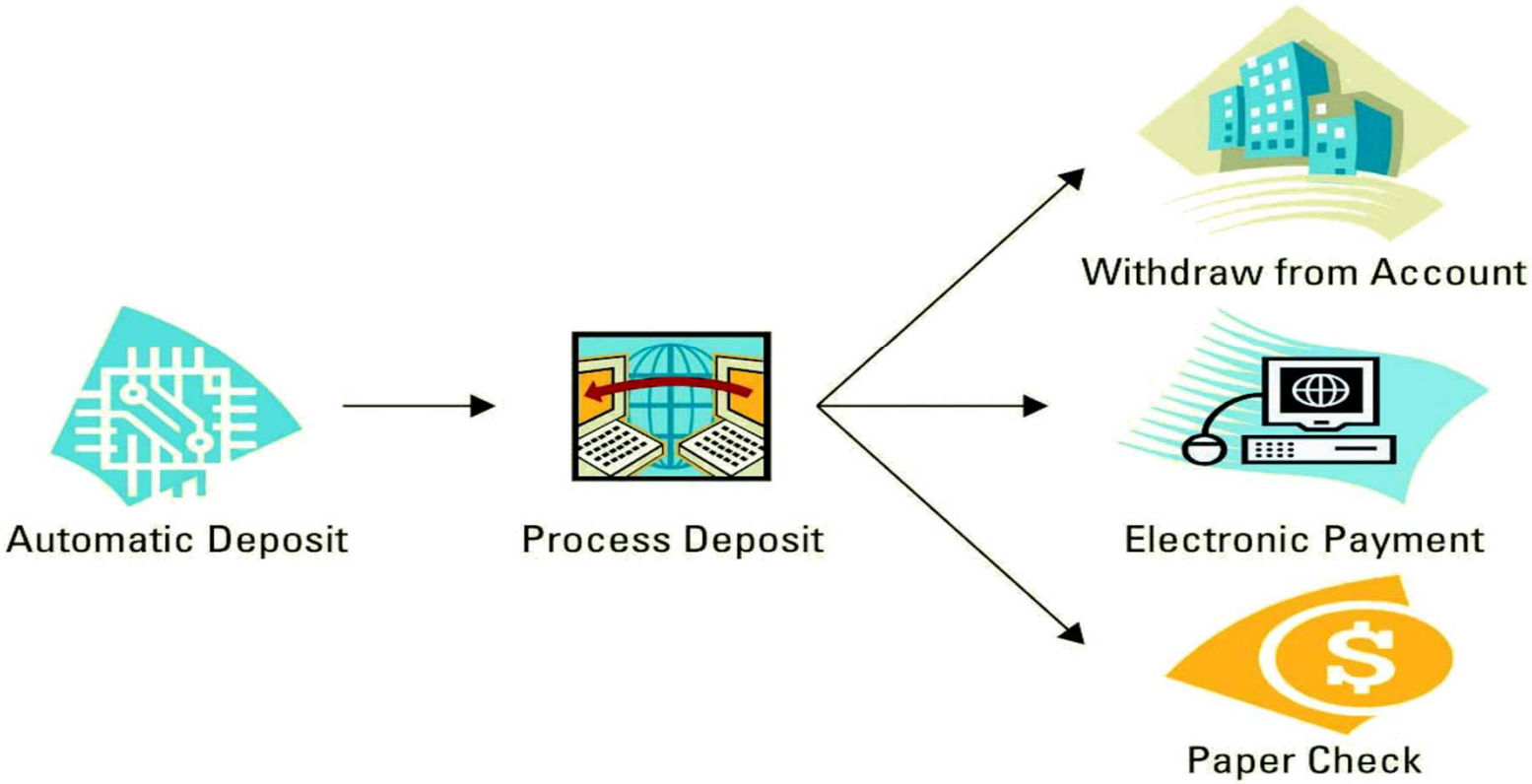
BUSINESS PROCESS MODELING EXAMPLES



BUSINESS PROCESS MODELING EXAMPLES

Online Banking Business Process



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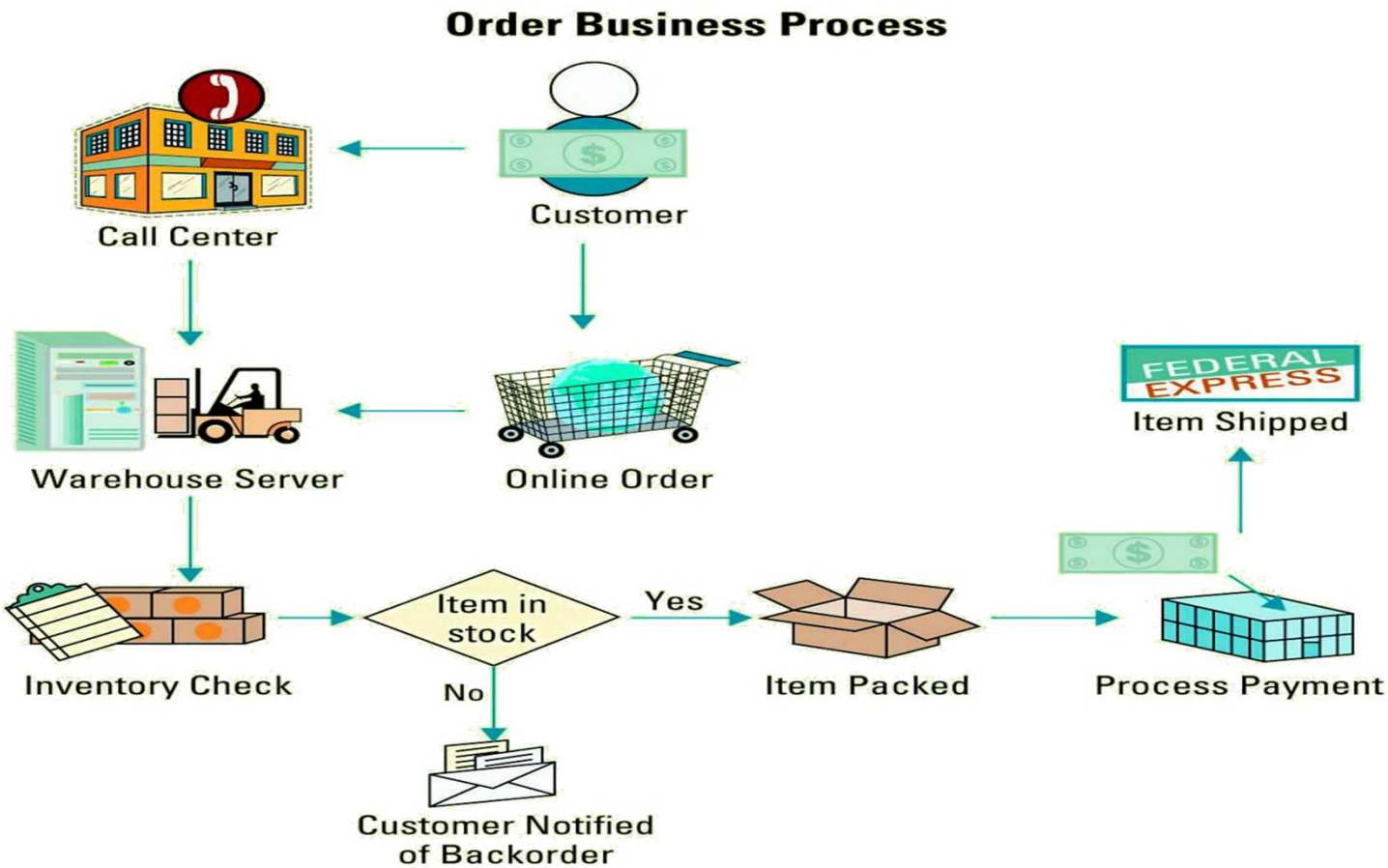
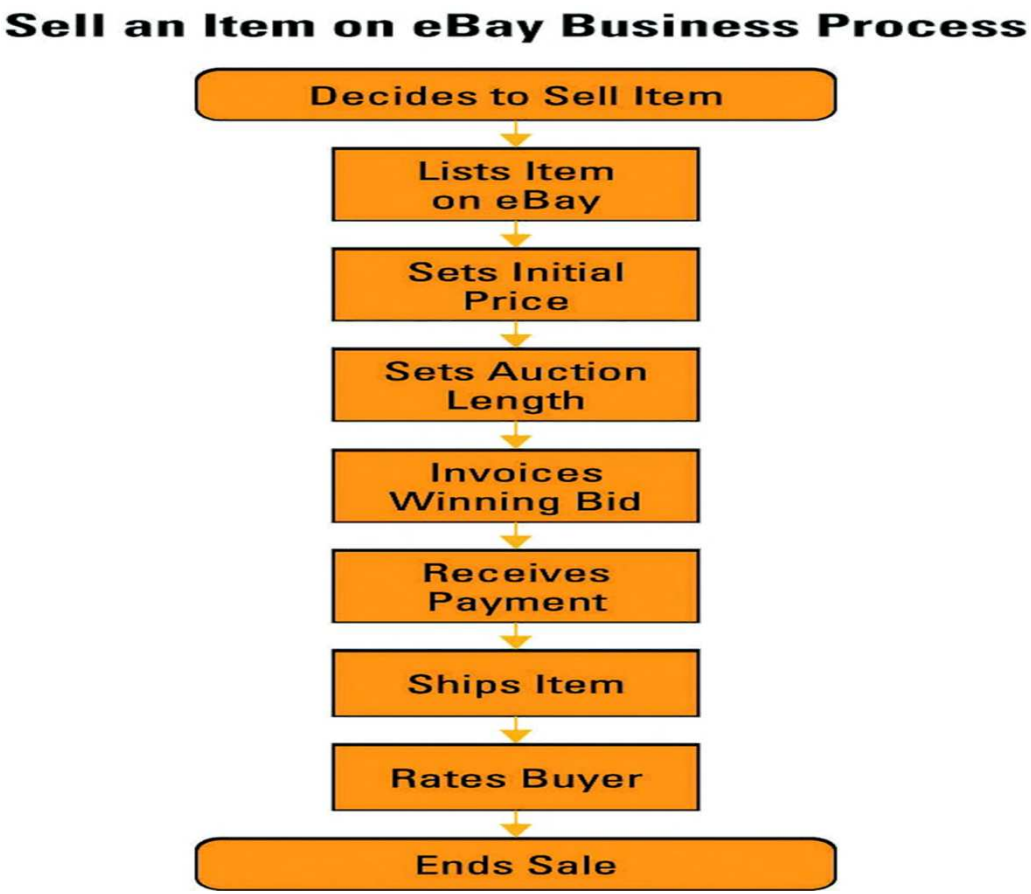
BUSINESS PROCESS MODELING EXAMPLES



BUSINESS PROCESS MODELING EXAMPLES

Purchase an Item on eBay Business Process

BUSINESS PROCESS MODELING EXAMPLES



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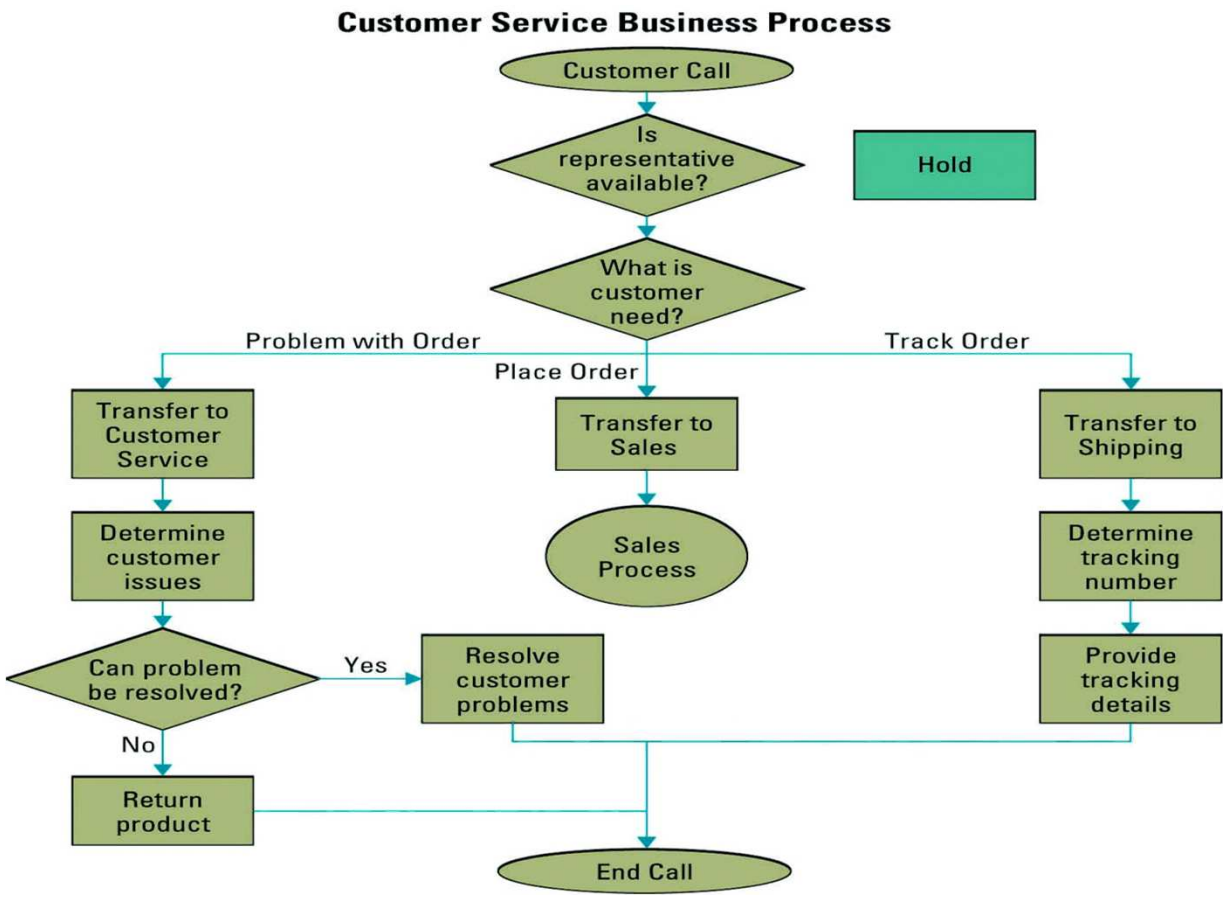
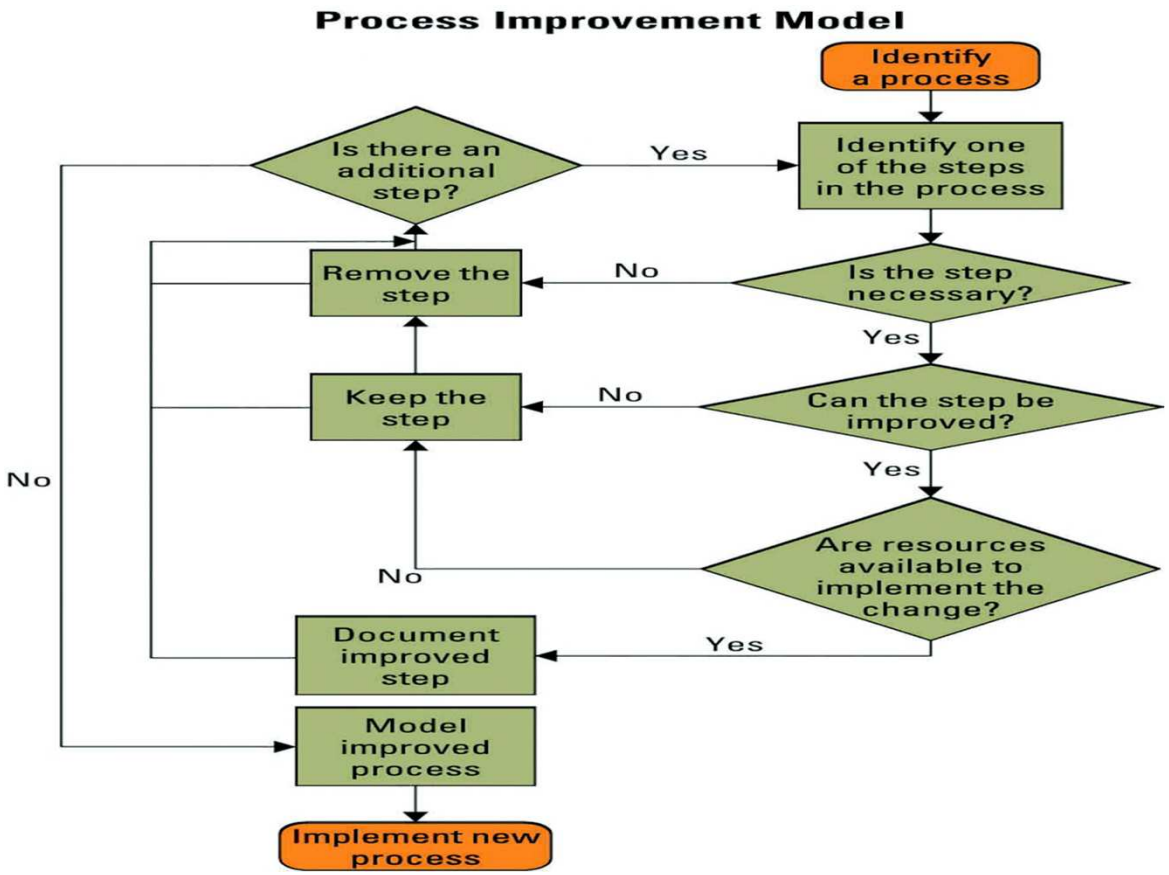
BUSINESS PROCESS MODELING EXAMPLES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