Using Information Technologies for Competitive Advantage

Organizations of all sizes are using various information technology tools and applications in order to become more competitive. In many organizations, a percentage of total sales is usually devoted to the information technologies budget. Experts believe, if information technologies are employed properly, they should make organizations more efficient and effective. Michael Porter, a professor at Harvard Business School, identified three strategies for competing in the marketplace successfully:  

• Overall cost leadership  
• Differentiation  
• Focus

Information systems can help organizations reduce the cost of products and services and, if designed correctly, assist with differentiation and focus strategies, too. For example, Wal-Mart has been using overall cost leadership strategies successfully.  

Information technologies can help bottom-line and top-line strategies. The focus of a bottom-line strategy is to improve efficiency by reducing overall costs. A top-line strategy focuses on generating new revenues by offering new products and services to customers or increasing revenues by selling existing products and services to new customers. For example, e-commerce businesses are adapting business models to reduce distribution costs dramatically. A good example is antivirus vendors using the Internet to distribute software. For a subscription fee of around $30, you can download the software and get updates for a year. Without the Internet for easy, inexpensive distribution, vendors couldn’t afford to offer software at such a low price.

Many organizations use enterprise systems, such as supply chain management, customer relationship management, enterprise resource planning, and collaboration software, to reduce costs and improve customer service. The goal of these systems is to use information technologies to create the most efficient, effective link between suppliers and consumers. A successful CRM program, for example, helps improve customer service and create a long-term relationship between an organization and its customers.

For differentiation strategies, organizations try to make their products and services different from their competitors. Apple has been successful with this strategy by designing its computers
to look much different from PCs and focusing on its computers’ ease of use. As another example, Amazon.com has differentiated its website by using certain information technologies, such as personalization technologies to recommend products to customers based on their previous purchases. Amazon.com also uses the one-click system for fast checkout. With this system, customers can enter credit card numbers and addresses once, and in subsequent visits simply click once to make a purchase, without having to enter information again.

With focus strategies, organizations concentrate on a specific market segment to achieve a cost or differentiation advantage. Apple has also used this strategy to target iPhones to consumer users rather than business users. Similarly, Macintosh computers are heavily marketed to creative professionals such as designers, photographers, and writers. As another example, Abercrombie & Fitch targets high-end clothing to low-income customers, such as teenagers and young adults, while Nordstrom targets their high-end clothing to high-income customers. Information technologies could assist these companies in reaching their target market segments more cost effectively.

Remember that focus and differentiation strategies work only up to a certain point. Customers are often willing to pay more for a unique product or service or one with a specific focus. However, cost still plays a major role. If a product or service becomes too expensive, customers might not be willing to purchase it.

Sources: