Information systems: porters forces

The meaning of Information System has a variety of definitions and more complex by itself. Many authors have precisely mentioned this fact, though they gave their own definition.

“ An information system (IS) can be any organized combination of people, hardware, software, communications networks, data resources, and policies and procedures that stores, retrieves, transforms, and disseminates information in an organization”. (Chapter 1 (MIS6341) – Bauer MBA Resource Wiki, 2010)

In today’s world, the competition in industry among the organization is very high. Each and every company wanted to make strenuous efforts toward their goals. Not only that, they aim to overcome the competitive rivalries and become the top in their industry. The organizations handle so many strategies to accomplish their objectives over their competitors.

Michael Porter of Harvard Business School came up with the theory of five forces of competitive position which will assist in understanding the nature of competition in the industry. (Porter, 1980)

Porter’s five forces are:

Competitive rivalry among existing organizations.

The threat of new entrants to the industry.

Bargaining power of customers

Bargaining power of suppliers

Threat of substitutes from another industry

The pressure on the organisation increases when the amount of competitive forces increase. The pressure on the organisation decreases when the amount of competitive forces decrease. (Porter, 1980)

Competitive rivalry among existing organizations

The term “ Competitive rivalry” means the intensity among the existing competitors in an industry. If there is intense competition among many organisations then the threat of competitive rivalry can be high. If the competition is not intense and if it is only among few organisations, then the threat of competitive rivalry is low. The competitive rivalry also goes high when there is more possibility of a new entrant and when switching to substitute product is easy (What Makes a Good Leader 2008).

Competitive rivalry does not necessarily need to be the same in all the industries. Usually it defers from an industry to another.

Analysing Competitive rivalry among existing organizations

The analysis of competitive rivalry will let us know about the tactics and strategies which can be taken by the competitors to obtain a higher market position in the industry.

The following factors should be considered when analysing the competitive rivalry within an industry. “ Industry growth rate, high fixed cost, intermittent over capacity, product differences, brand identity, switching costs, informational complexity, concentration and balance, industry commitment, and exit barriers.” (What Makes a Good Leader 2008)

The threat of new entrants

The threat can arise from a new entrant to the industry or from an old competitor who comes up with a new brand. A new competitor may destroy some of the existing customer base. So the organisations should be aware of the new entrants who can destroy your customer base. This will be a great challenge for the existing organisations. But new entrants are usually bound to up front capital investments, implementing the new information systems, registrations and licensing. So the existing organisations' market position sis likely to be safe for a little while. However, if there was no boundary of any kind to entry, then the organisations' market position could be weakened.

A new competitor does not have existing customers. So in order to survive, they will need to acquire a market share as quick as possible. To acquire, they may come up with the strategy to put an all-out effort for the growth. On a very rare case, the entry of new entrants to the industry can be a definitive advantage. Whereas a collective scale of marketing, and branding in the local area can be attracting and driving more traffic of people to the area, which may result in the improvement of the existing organisations' business and profit (What Makes a Good Leader 2008).

Analysing the threat of new entrants

Analysing the threat of new entrant will help recognise the difficulties of new entrants, which can also be the power of existing organisations that makes harder for new entrants (What Makes a Good Leader 2008).

The following factors should be considered when analysing the threat of new entrants in the industry. " Economies of scale, proprietary product differences, brand identity, switching costs, capital requirement, access to distribution, absolute cost advantage, government policy, expected retaliation, industry profitability, stage in industry life cycle”(What Makes a Good Leader 2008)

The bargaining power of customers

The bargaining power of customers is the pressure exerted by the customers or the demand for an improved service or a better quality product at a lower price. If the bargaining power of the customer is high, then the profitability will be less (Buyer Bargaining Power – wikiCFO, 2010).

Analysing the bargaining power of customers

The pressure on the organisation increases when the bargaining power of the customers goes high. Same as that the pressure on the organisation decreases when the bargaining power of the customers goes low.

The following factors should be considered when analysing the bargaining power of customers.

“ The differentiation of outputs, switching costs, presence of substitutes, industry concentration, relative to buyer concentration, importance of volume to buyers, cost relative to total buyer purchases, impact of outputs on the cost of differentiation, buyer information about supplier products, buyer profitability, decision makers’ incentives, and threat of backward integration” (What Makes a Good Leader 2008)

The bargaining power of suppliers

The potential suppliers can put pressure on the organization by raising the prices or reduce the quality or the reducing the additional services offered with products and services. These can increase the competition in the industry and pave an impact on the profit of the organization, where they cannot increase the price or cannot afford the cost increases. (Porter, 1980)

Analyzing the Bargaining Power of your Suppliers

Supplier power analysis is similar to the analysis of buyer power. The following factors should be considered when analysing the bargaining power of suppliers.

“ Differentiation of inputs, switching costs, substitute products, supplier concentration relative to industry concentration, importance of volume to the supplier, cost relative to the total purchases of the industry, impact of inputs on cost or differentiation, and threat of forward integration” (What Makes a Good Leader 2008)

Threat of substitutes from another industry

The threat of substitute product or services is considered as an alternative product or service from another industry allows the customer to switch to it. The effect of substitute products outside the industry will defer based on the accept rate of the customers. (Porter, 1980)

The pressure on the organisations increases when the bargaining power of the suppliers goes high and the pressure decreases when it goes low.

Analyzing the threat of substitutes from another industry

The following factors should be considered when analysing the bargaining power of suppliers

“ The relative price performance of substitutes, Switching costs, and Buyer propensity to substitute” (What Makes a Good Leader 2008)

How Information Systems can influence each of Porter’s Five Forces

In early days, single owner systems have provided distinct advantages among the rivals in a highly competitive industry. Because the features and functionalities are less likely to be exposed to the competitors. But, now the organisations have established a presence online. So the unique features and functionalities introduced to the customers are exposed to all. It does not take quite longer for the competitor to adopt and implement the same or better features. Though there can be marginal differences, it will definitely lead to intense competition in the industry.

To overcome these competitive rivalries, Tesco provides wide range of offers and discount coupons to attract more customers over their competitors. Tesco also announces online exclusive offers which drives immense traffic to their website and be competitive among the rivals.

Tesco introduced a loyalty card which is known to be “ clubcard” in 90’s and provided clubcard points which motivated the customers to spend more at Tesco. Not only that, the buying habits of each clubcard holder was stored in a centralised database, where the customer could be able to use it across any branch or online. As a revolution in the retail industry, Tesco launched the android and iPhone application with extensive features which made the life of the customer's easier and increased the profitability of Tesco over its competitors among the industry. Those mobile apps let the smartphone users to scan through any barcode of a product to add to the shopping cart. Tesco is the only retail grocery supermarket to have an iPhone app to scan through the barcodes of a product and order them from the smart phone (iPhone App – Free Groceries App – Tesco. com, 2011).

" Tesco will also introduce an iPhone Clubcard app for customers in the coming months. The app will enable users to scan their phone screen at checkouts without having to search for their card. Other improvements include an on line Clubcard facility – allowing customers to spend their vouchers on line for Clubcard Deals and groceries." (Tesco ireland Media Centre, 2010)

The web multiplies the threat of new entrants to the industry for most organisations. The new entrants easily enter the industry as an online presence by overcoming the traditional barriers of a physical store. This may be from a well-established organisation entering a new market in another country or region. This makes a huge impact on the existing organisations turn over. There have been many successful organisations who runs their business solely online i. e. mandmdirect. com, secretsales. com, shytobuy. com etc. Some entrants act as an intermediate trader between the buyer and seller. For example www. mysupermarket. co. uk allows the users to compare the prices and experience the best possible deals across the largest supermarkets in UK, such as Tesco, Asda, Sainsbury's, Ocado, Majestic and Virgin wines. (mySupermarket, 2005)

However, as an existing organisation Tesco provides its wide range of products explicitly on their own website whereas the intermediate websites like mysupermarket. co. uk leads to the checkout of Tesco though they allow selecting products through them. Although Tesco allows these intermediate websites to access part of its information systems, the strategy is to increase the turnover. Tesco reduces the prices by a very competitive margin based on the buying habits of online customers. So these websites, who lets the customers to compare the prices, make an impression that the prices of Tesco are cheap.

Ultimately the large organisations like Tesco overcomes thee supplier power by dominating the suppliers with huge volume of orders. So the supplier will have a very marginal profit due to the volume of order. It is difficult for the suppliers of this kind to obtain a big profit per item though they earn a larger net profit.

Many organisations use the auto ordering functionality to order the stocks from their suppliers and receive goods and services at the right time. So there is less human interaction when an order is made. But however, the supplier holds the advantage of increasing the price of a product, and the organisations may have to accept it regardless of the cost increase due to the intensity of the demand. However, the large organisations have an interconnection with the supplier chain where the order goes to the supplier with the least cost, fastest deliverer and required stock availability. Many supermarkets like Tesco uses their advanced information system to take control over the automated process and still accomplish the task unmanned.

To overcome the power of supplier, Tesco uses their own branding and product