

Chapter 2: Strategic Uses of Information Systems

TRUE/FALSE

1. Although many information systems are built to solve problems, many others are built to seize opportunities.

ANS: T PTS: 1 REF: 42

2. Practically any Web-based system that gives a company competitive advantage is a strategic information system.

ANS: T PTS: 1 REF: 43

3. In the 1950s, Japanese automakers brought robots to their production and assembly lines and reduced costs quickly and dramatically.

ANS: F PTS: 1 REF: 44

4. The larger the number of companies competing within an industry, the better off each company is.

ANS: F PTS: 1 REF: 45

5. Manufacturers of laser and ink-jet printers sell their printers at cost or below cost.

ANS: T PTS: 1 REF: 46

6. Instead of differentiating a product or service, an organization might actually add to the product or service to increase its value to the consumer.

ANS: T PTS: 1 REF: 49-50

7. Sometimes, alliances are formed by more than two organizations.

ANS: T PTS: 1 REF: 51

8. Google provides Target Corp. with its proprietary search engine, order-fulfillment and customer-service systems, as well as a patented one-click shopping application.

ANS: F PTS: 1 REF: 51-52

9. One way to lock in *buyers* in a free market is to create a situation in which customers fear high switching costs.

ANS: T PTS: 1 REF: 53

10. Microsoft's decision to give away its Web browser by letting both individuals and organizations download it free from its site was altruistic.

ANS: F PTS: 1 REF: 53

11. The reengineering process makes it possible to determine how much each change contributed to the organization's improved position.

ANS: F PTS: 1 REF: 55

12. In a highly competitive industry that traditionally has had a narrow profit margin, JetBlue managed to gain strategic advantage by *reducing cost* and therefore reducing the price to the customer.

ANS: T PTS: 1 REF: 58

13. To a great extent, the operating system determines which applications a computer can run.

ANS: T PTS: 1 REF: 61

14. The United States, the European Union, and many other countries outlaw monopolies.

ANS: F PTS: 1 REF: 62

15. Being on the bleeding edge often means that implementation costs are significantly higher than anticipated.

ANS: T PTS: 1 REF: 64

MULTIPLE CHOICE

1. The word "strategy" originates from the Greek word *strategos*, meaning "_____."

- a. ahead
- b. general
- c. task
- d. vision

ANS: B PTS: 1 REF: 42

2. We often use the terms "_____" and "strategic advantage" interchangeably.

- a. risk taking
- b. competitive
- c. competitive advantage
- d. strategic move

ANS: C PTS: 1 REF: 42

3. Some companies have developed information systems, or features of information systems, that are unique, such as _____'s "one-click" online purchasing.

- a. Amazon
- b. eBay
- c. Priceline
- d. Target

ANS: A PTS: 1 REF: 43

4. One way to increase market share is to lower prices, and the best way to lower prices is to _____.

- a. reduce costs
- b. share information
- c. train personnel
- d. update equipment

ANS: A PTS: 1 REF: 44

5. In the service sector, the Web has created an opportunity to automate what until recently was considered an activity that only humans could perform: _____.

- a. accounting
- b. customer service
- c. human resources
- d. customer resources

ANS: B PTS: 1 REF: 44

6. ____ holds a patent for online reverse (“name your own price”) auctioning, which has prevented competitors from entering its business space.
- a. Amazon.com
 - b. eBay
 - c. Priceline.com
 - d. Target

ANS: C PTS: 1 REF: 45

7. Establishing high ____ often locks in customers.
- a. service edges
 - b. standard costs
 - c. switching margins
 - d. switching costs

ANS: D PTS: 1 REF: 46

8. A ____ is a body of clients that is large enough to attract many other clients.
- a. client mass
 - b. client set
 - c. critical advantage
 - d. critical mass

ANS: D PTS: 1 REF: 47

9. Over a period of about ____ years, Google established itself as the best search engine.
- a. one
 - b. three
 - c. five
 - d. seven

ANS: B PTS: 1 REF: 48

10. Adding to a product or service to increase its value to the consumer is called ____.
- a. adding value
 - b. enhancing existing products or services
 - c. increasing value
 - d. incrementing value

ANS: B PTS: 1 REF: 49-50

11. Growing Web use for ____ has pushed organizations to create alliances that would be unimaginable a few years ago.
- a. e-commerce
 - b. e-mail
 - c. publishing
 - d. searching

ANS: A PTS: 1 REF: 51

12. On the Web, an obvious example of alliances is a(n) ____.
- a. affiliate program
 - b. common agreement
 - c. common program
 - d. affiliate task

ANS: A PTS: 1 REF: 51

13. The Web has generated ____ that would probably never be created offline.
- a. affiliate jobs
 - b. affiliate moves
 - c. strategic jobs
 - d. strategic alliances

ANS: D PTS: 1 REF: 52

14. ____ often involves adoption of new machinery and elimination of management layers.
- a. Engineering
 - b. Reengineering
 - c. Supermanaging
 - d. Supervising

ANS: B PTS: 1 REF: 55

15. Implementation of a(n) ____ requires a business to revamp processes—to undergo organizational change—to gain an advantage.
- a. BI
 - b. CRM
 - c. GIS
 - d. SIS

ANS: D PTS: 1 REF: 56

16. A system can only help a company sustain competitive advantage if the company continuously modifies and enhances it, creating a ____ for competitors.
- a. destiny
 - b. main goal
 - c. manifest destiny
 - d. moving target

ANS: D PTS: 1 REF: 57

17. ____ use physical characteristics of people, such as fingerprints and retina scans, for authentication and access to physical places and online information systems.
- a. Access codes
 - b. Biometrics
 - c. Human codes
 - d. Human metrics

ANS: B PTS: 1 REF: 59

18. Its use of IT technologies placed ____ at the top of the list for on-schedule departures and arrivals, a service that is very important, especially to business travelers.
- a. American Airlines
 - b. JetBlue
 - c. Morris Air
 - d. Southwest Airlines

ANS: B PTS: 1 REF: 59

19. The most important metric in the airline industry is ____, which is how much it costs to fly a passenger one mile of the journey.
- a. cost per available seat-mile (CASM)
 - b. cost per available seat (CAS)
 - c. cost per mile (CM)
 - d. cost per seat (CS)

ANS: A PTS: 1 REF: 60

20. An operating system (OS) is the software program that “mediates” between any computer program and the ____.
- a. computer
 - b. output
 - c. network administrator
 - d. database

ANS: A PTS: 1 REF: 61

COMPLETION

1. A company achieves _____ by using strategy to maximize its strengths, resulting in a competitive advantage.

ANS: strategic advantage

PTS: 1 REF: 42

2. The essence of strategy is innovation, so _____ is often gained when an organization tries a strategy that no one has tried before.

ANS: competitive advantage

PTS: 1 REF: 43

3. Companies that are first to adopt advanced systems that reduce labor enjoy _____ for as long as their competitors lag behind.

ANS: competitive advantage

PTS: 1 REF: 44

4. In today's highly competitive market, _____ might determine an organization's rise or fall.

ANS: strategy

PTS: 1 REF: 45

5. _____ are expenses incurred when a customer stops buying a product or service from one business and starts buying it from another.

ANS: Switching costs

PTS: 1 REF: 46

6. eBay's success demonstrates the strategic advantage of the _____, an organization that is the first to offer a new product or service.

ANS: first mover

PTS: 1 REF: 47

7. Charles Schwab gained a competitive advantage over other, older brokerage companies such as Merrill Lynch by opening a site for _____ stock transactions.

ANS: online

PTS: 1 REF: 50

8. Organizations can achieve competitive advantage if they are powerful enough to _____ suppliers to their mode of operation or buyers to their product.

ANS: lock in

PTS: 1 REF: 53

9. _____ gives away its Acrobat Reader software, an application that lets Web surfers open and manipulate documents created using different computers running different operating systems.

ANS: Adobe

PTS: 1 REF: 53

10. The goal of _____ is not to gain small incremental cost savings, but to achieve great efficiency leaps—of 100 percent and even 1000 percent.

ANS: reengineering

PTS: 1 REF: 55

11. In an environment where most information technology is available to all, _____ that are originally developed to create a strategic advantage quickly become an expected standard business practice.

ANS:

SISs

strategic information systems

strategic information systems (SISs)

PTS: 1 REF: 56

12. JetBlue saves office space, rent, and electricity by using reservation agents who work from home, which is known as _____.

ANS: telecommuting

PTS: 1 REF: 58

13. _____ software is software that the developer gives to potential adopters for trial use.

ANS: Beta

PTS: 1 REF: 60

14. In the 1970s, _____ was a small software company headed by its young president, who established the company at age 19.

ANS: Microsoft

PTS: 1 REF: 61

15. Ford created a joint venture with General Motors Corp. and DaimlerChrysler to establish _____, a Web site that serves as an electronic market for parts suppliers who can bid online on requests for proposals posted by the automakers.

ANS: Covisint

PTS: 1 REF: 62

16. When failure occurs because an organization tries to be on the technological leading edge, observers call it the _____.

ANS: bleeding edge

PTS: 1 REF: 64

ESSAY

1. List eight basic initiatives that companies can use to gain competitive advantage.

ANS:

Consider competitive advantage in terms of a for-profit company, whose major goal is to maximize profits by lowering costs and increasing revenue. A for-profit company achieves competitive advantage when its profits increase significantly, most commonly through increased market share. Eight basic initiatives that can be used to gain competitive advantage are: reduce costs, raise barriers to market entrants, establish high switching costs, create new products or services, differentiate products or services, enhance products or services, establish alliances, and lock in suppliers or buyers. It is important to understand that the eight listed are the most common, but not the only, types of business strategy an organization can pursue. It is also important to understand that strategic moves often consist of a combination of two or more of these initiatives and other steps. The essence of strategy is innovation, so competitive advantage is often gained when an organization tries a strategy that no one has tried before.

PTS: 1

REF: 43

2. Give an example of companies establishing high switching costs to gain competitive advantage.

ANS:

Manufacturers of laser and ink-jet printers sell their printers at cost or below cost. However, once you purchase a printer, you must replace a depleted ink or toner cartridge with one that the printer manufacturer sells, or take a risk with nonoriginal cartridges. As a cartridge customer, you face high costs if you consider switching to another brand. Even if comparable cartridges from another manufacturer are less expensive, you cannot use them; and if you decide to use those cartridges, you will lose your investment in the printer, because you must buy a new one. Thus, establishing high switching costs often locks in customers. Locking in customers by any means is a way to accomplish a strategic advantage.

PTS: 1

REF: 46

3. Provide one example of a company using the lock in buyers strategy successfully.

ANS:

Adobe gives away its Acrobat Reader software, an application that lets Web surfers open and read documents created using different computers running different operating systems, such as various versions of Windows, the Mac operating system, and UNIX. When the Reader user base became large enough, organizations and individuals found it economically justifiable to purchase and use the full Acrobat application (the application used to create the documents) and related applications. Using this strategy put Adobe's PDF (portable data format) standard in an unrivaled position.

PTS: 1

REF: 53-54

4. Why would you consider competitive advantage as a moving target?

ANS:

As you might have guessed, competitive advantage is not often long lasting. In time, competitors imitate the leader, and the advantage diminishes. So, the quest for innovative strategies must be dynamic. Corporations must continuously contemplate new ways to use information technology to their advantage. In a way, companies' jockeying for the latest competitive advantage is a lot like an arms race. Side A develops an advanced weapon, then side B develops a similar weapon that terminates the advantage of side A, and so on.

PTS: 1 REF: 56

5. Why is JetBlue considered to have gained a late mover advantage?

ANS:

Some observers cite the fact that JetBlue is a late competitor as an important factor in its success. The company is not burdened with antiquated information systems, or as IT professionals like to call them, legacy systems. This allowed its CIO, Jeff Cohen, to implement the latest available technologies: fast databases, VoIP, a slick Web site, laptop computers with the latest algorithms for fast calculation of routes and loads in the cockpit, and other technologies. This situation illustrates the strategic advantage of the late mover.

PTS: 1 REF: 60