IT does Matter, if One so Wishes

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Information technology is not important. It has become a commodity and therefore does not provide any competitive advantage for business. This is the thesis of the article IT Doesn’t Matter, which the editor of The Harvard Business Review, Nicholas Carr, published in the journal and which has caused quite a stir between academics and directors.

Carr states that, in today’s environment, information technology is ubiquitous and available to any company, therefore differentiation just doesn’t exist. The author compares IT to previous technologies, such as the railway, electricity or the telephone, to show that the impact of technology is minimised as it becomes global and its price falls. The fact is that most of Carr’s arguments are right. The growing interest of users in standardised packages of common tools and the progressive decrease in prices of products and support have generalised the use of certain IT services. In this way, companies enjoy the same opportunities to control the quality and cost of their basic processes.

ERP systems (Enterprise Resource Planning), like SAP, have been particularly criticised for this reason. These systems, that bundle applications for any function of business imaginable (finances, payrolls, purchases, operations, marketing, sales), combine common data in a single source, thereby eliminating duplication and reducing errors. But, as Carr points out, the use of this technology in corporate systems only means repeating what one’s competitors are doing. I mean, there is no strategy involved in the standard application of those packages. In fact, standardised offers only imply suitable processes that when applied properly, are turned into efficient solutions. Generally speaking, companies can take advantage of the standardised packages to support simple processes like electronic mail, desktop applications and even internal processes like payrolls and account payments. In fact, trying to personalise any system that supports a non strategic function without being sure of what savings in costs are involved is, to say the least, imprudent.

The danger stems from the use of standard applications in areas of the company that are essential for success. A company with a clear advantage based on its trade mark could risk this superiority if it put a packaged marketing solution into practice. Carr points out, with good reason, that many firms are doing exactly this: placing all their hopes on making themselves different by using a one size fits all solution.

However, the HBR editor makes a mistake when he denies the strategic advantages of information technology. What he sees as generalised technology, the hardware and
software found in the box, are really business tools. What determines whether they are strategic is not their physical or virtual appearance, but their use. eBay, the online auction site, is an example of a company that uses a generalised structure (the Internet) to build a strategic advantage, as their turnover of 1,214 million dollars proved in 2002 with an awesome profit margin of 20% in an industry that many had given up for dead.

This example shows that technology has always been a business tool, even in the case of systems as complex as the huge servers with their own software. The argument of whether IT is or is not a commodity is irrelevant in the discussion of whether it provides an advantage for the company. What will enable a company to build a sustainable competitive advantage is not the box it uses, but the way in which it is placed to create value for its customers.

How can companies get the greatest competitive advantage out of Information Technology?

Information is the key
Josep Valor, IESE professor
To get competitive advantage out of Information Technology, the companies whose main business is not technology must assume that the lion’s share of this concept is information. The reason stems from the fact that anyone can enjoy technology, but information is the exclusive property of each company. Therefore, while technology may become a commodity (something the sellers of technology are already experiencing), information allows companies to differentiate from each other and, as a result, can provide superiority over rivals.

Technology is essential to update information, test it and manage it quickly and efficiently and so take decisions that are more and more correct. Furthermore, a suitable use of information enables one to eliminate inefficiencies that come from sharing corporative data with the other agents in the sector (be they suppliers, customers or partners), with an immediate impact on the profit and loss account.

One must know how to identify one’s objective
Juan Pérez Vilaplana, Director de Technology at PwC
Information technology is crucial for companies both as a commodity and as something that makes a difference. What is important is that companies know how to identify the goal they are pursuing by applying different IT, all of which is within a global and integrated business strategy design. The business objective of IT as a commodity is usually the search for a more efficient operating system and an alignment of the costs associated with each process, in other words, improving profitability. The development and implementation of IT in its differentiating role provides more added value for customers than that of the competitors. It increases market share. Sustainable businesses are viable in XXI century because they apply and use IT with rigor. The real competitive advantage is attained only when IT is an integral part of the business strategy. Otherwise, it becomes an added disadvantage.