

March 24, 2003

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Critical Note: Chapter 5 - Business Level Strategy

Michael Porter states that strategy is based on the competitive position of a company within an industry. He states that his outside-in approach by using the five forces is necessary to increase a company's profit potential compared to other firms within the industry. Porter discusses in detail how these forces affect the industry; however, it is unclear how the five forces can be implemented at the business level. Not all businesses can use this outside-in approach. Several firms have achieved competitive success by identifying and developing organizational capabilities that distinguish themselves from its competitors instead of emphasizing on competitive positioning as a leading strategy principle. *conclusion*
Detail

A good example is the Charles Schwab Corporation. Charles Schwab was one of the world's first discount brokerage firms after SEC eliminated fixed-rate commissions on brokerage. In the mid 1990's when discounted Internet trading was in high demand, Charles Schwab changed their conventional way of trading (in person at a branch office or by telephone) by realigning their resources. Even though Schwab is known to be a discount brokerage firm, many do not know that this company is founded on information technology. The company has always invested a substantial amount of time and money into innovative technology since the firm's founding days in 1975 [<http://www.aboutschwab.com/sstory/evolution.html>, site accessed March 22, 2003]. At the core, Schwab is really a technology company that happens to be in the financial service business¹. By having the IT trading system in-house and understanding the importance of this resource (many other firms depended on third parties for technology), it provided Schwab with a competitive advantage. When the discounted Internet trading started to boom with companies such as E*Trade and AmeriTrade, Schwab was easily able to make the switch to Internet trading because of their internal resources (the technology was already in place). Not only did the in-house technology provided the company a lead on Internet trading, it was cost effective and allowed Schwab to continually provide customers with superior service that they were use to with the in-branch and telephone trading. Schwab's strategy was not based on the external environment (i.e. rivals analysis, differentiation, buyer power, supplier relationships, etc.) or the analysis of the industry as stated in the Porter's theory but was dependent on their resource flexibility to change with the environment.

¹ Applegate, Lynda M., "Creating Business Advantage in the Information Age" McGraw Hill, New York, 2002, pg. 4-2.3

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