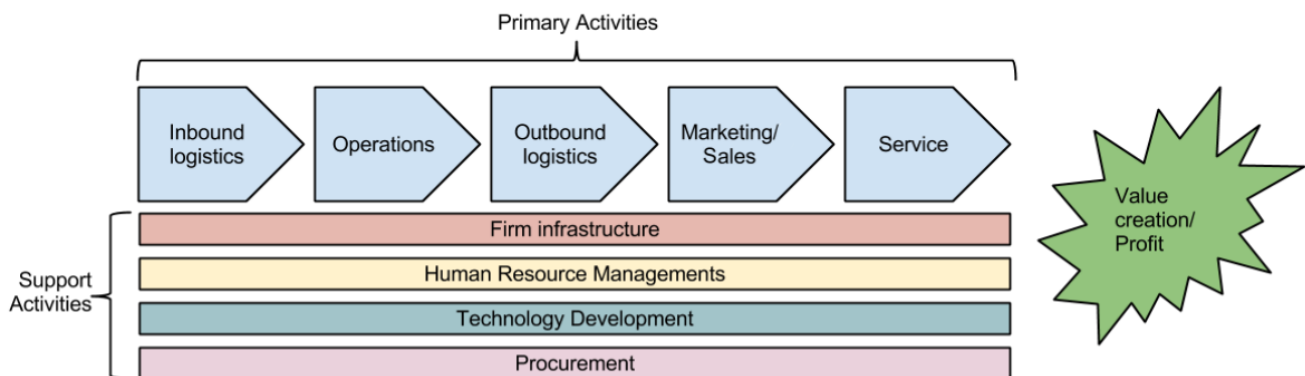


Learning Resource

How Organizations Use Information Systems Strategically

So far you've learned about what is meant by information system and how IT matters in organizations, as well as how businesses align their strategy with the use of information technology. It's important to keep in mind that organizations have basically two ways to increase profits—either raise prices or reduce expenses (or a combination of the two). Organizations can't just focus on money coming in because there are expenses that must be paid out of that income resulting in a net income ($\text{Gross Income} - \text{Expenses} = \text{Net Income}$). Even governmental agencies and nonprofit companies need to take in money (governmental budgets, taxpayers, donations, etc.), pay the expenses incurred in achieving the organization's mission, and have money left over to reinvest in the business.

In the section *Does IT Matter?*, the concept of the **value chain** was presented. Each of the five primary areas of the value chain along with the support activities (frequently referred to as back-office functions) provide opportunities to improve profitability and identify where technology can help improve processes. Each business would define specifically what its primary activities are and then analyze where there are opportunities within each area.



Porter's Value Chain

Series of activities that contribute to the overall value of a product or service

Does IT Matter? also introduced **Porter's Five Forces**, a framework to help organizations assess its environment. Understanding how the five forces impact the organization can help organizations determine where to focus to increase their competitive advantage. For example, if operating in a highly competitive environment (many companies offering the same or very similar products or services), then the company could establish a strategy to provide its goods and services at a lower cost or to target a specific market niche. When a company has decided its strategy, then it's time to look at how to achieve that strategy. Here's where the use of information technology and information systems can come into play. Improving the ability to deliver goods and services at a lower cost or in a unique way can be enabled by information systems.

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