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IT's limited advantage

By:

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New technology may give you a leg up, but not for long

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ComputerWorld Canada

Technological advantages have been exploited as long as humans have walked the earth. From weaponry to transportation, the first society to master a new technology invariably dominated the age. But often the advantages were short lived.

Though the business stakes are much less dramatic today, the same basic rules apply. All other things considered equal, the company with superior technology will win.

"Technology, used properly, always gives you a competitive advantage," agreed Peter de Jager. But de Jager, a Brampton, Ont.-based management consultant, has a caveat. "It is always temporary."

From the longbow to nuclear weapons, from the database to a Web presence, strategic advantages are infinite, that is until the competition, or enemy, develops an equivalent. To add to the problem, the window of competitive advantage is open for weeks or months at most, not years or decades as in the past.

BMO Financial Group CEO Tony Comper agrees.

"Strategic advantage based on IT is rarely, if ever, going to be permanent," Comper said at the IBM Global Financial Services Forum conference in San

Francisco last month.

"I mean, it was a great kick to beat our rivals in providing real-time banking to Canadians coast-to-coast, but I knew our competitors would all catch up, and they did in typically short order."

But for Comper and BMO, knowing that a technological advantage would not last was not reason enough to avoid striving for it in the first place.

"As individual banks, operating in one of the most highly competitive banking environments in the world, we all understood that falling seriously behind in the IT race could, and likely would, be fatal.

"We found ourselves caught up in the IT race as surely and fully as anyone else, convincing ourselves, not inaccurately, that we had no choice," Comper said.

Thus the dilemma facing executives today is that any technological advantage gained by being on the leading edge will be both costly and short lived. On the other hand, if you wait until an equivalent solution is a commodity, your company may be too far behind to recover. You are damned if you do; you are damned if you don't.

The cost of being a technology pioneer is considerable, said Nicholas Carr, author of the recent article in the *Harvard Business Review* titled IT Doesn't Matter - an article which has caused quite a stir in the IT community.

"I think you can (get a competitive advantage), as long as you can keep the technology proprietary," he said.

But as history has shown, even this is not solace, as competent and motivated groups regularly beat technologically superior opponents. The history of war is replete with examples, as is business.

The key to unravelling this enigma starts with making sure any technology being installed is not a crutch, not overshadowing a larger corporate frailty.

"In reality, what we are looking for is a shortcut to competence," de Jager said, referring to what is often the reason for installing new technology. But if what you have is incompetence to start with, no amount of technology can rectify the situation, he said. "You will still have incompetence."

"In the wild spending days (of the late 1990s) there were no concerns about efficiencies," said Stephen Ibaraki, the chairman of iGEN Knowledge Solutions Inc. in New Westminster, B.C.

de Jager agrees, and adds that there is some irony in today's corporate reaction to technology. "We have become very dubious about claims of productivity increases" through use of technology, he said. "(But) I think that we do the right things sometimes for the wrong reasons."

Today, companies with constrained IT budgets are being forced to fix problems by introducing new and better business processes rather than trying to get technology to solve problems. It is the right way to be thinking, but it was pushed by the wrong reason - lack of money.

trust your gut

It is often difficult not to fall for a brilliant sales pitch.

Few vendors, if any, will admit the competition's solution is as good as theirs, nor will they admit that their own solution has reached commodity status, thereby effectively eliminating its strategic business advantage.

Vendors, today more cautious of making claims that are largely unattainable, still want buyers of technology to believe their wares are a better and, more importantly, wiser purchase decision than the competition.

From a technical perspective this is seldom the case, de Jager said. Of the top five vendors in any category, the best technology is often a "coin toss," he said. "They will, of course, argue that there is (a competitive difference) - that is a given."

"Just because it is ubiquitous, doesn't mean it is being used the same way," argued a spokesperson for one of the world's largest database vendors. But he continued by saying exactly what de Jager predicted he would say. "There are absolutely edges" to be gained using our database technology, he said.

Ibaraki agrees with de Jager. "In terms of the large database vendors, there isn't a lot of difference what a corporation can use them for."

is there competitive advantage?

The question to ask yourself is whether the advantage gained in being a first or early adopter of a new technology can be exploited into to a long-term market advantage, and if so, is it worth the cost?

For the most part, Carr argues against being first in the pool. "The longer you wait to make an IT purchase, the more you'll get for your money. In some cases being on the cutting edge makes sense. But those cases are becoming rarer and rarer as IT capabilities become more homogenized."

"I would argue in general now that a company should be a follower rather than a leader," said Carr.

BMO's Comper brought this up at the conference in San Francisco.

BMO launched mbanx, an online banking solution, in 1996, and while the technology hit the mark, the demographic it was aimed at proved to be smaller than anticipated. So, eventually mbanx was "rechristened mbanx Direct in Canada, and integrated into the larger banking operation," Comper said.

"Our high-profile foray into strategic advantage territory was hardly catastrophic," he clarified. "We had to develop a first-class, full-spectrum electronic banking channel in any case, just as our rivals were doing, and with mbanx Direct, that's exactly what we've got."

But Comper did not completely disagree with Carr, whose theories, he said, "apply more to the present

than to 1996, when strategic advantage was still the prevailing mantra."

For every company that succeeded in leveraging cutting edge IT into a long-term market edge (Dell, Amazon, Wal-Mart), there are literally dozens that did not. In fact, even technology vendors with the best technology and almost no competition often didn't succeed.

Applications didn't match business procedures so square pegs were hammered into round holes. The results were neither pretty nor matched the vendor promises, though the latter was not entirely to blame.

The question to ask, according to Ibaraki, is whether "the advantage outweighs the costs involved."

For Wal-Mart it did. In part to solve to the conundrum (your solution, my business), Wal-Mart Stores Inc. realized an off-the-shelf software solution was never going to solve its complex and unique IT requirements, nor would it offer it a competitive advantage. To this day, the company builds many of its own solutions. Retail Link is one example. It is a system that allows all of Wal-Mart's suppliers to track their own merchandise in every store, down to the minute.

Wal-Mart and suppliers, knowing exactly what is moving where, can keep inventory as close to just-in-time as possible (something Dell Corp. is also very good at). The goal is for Wal-Mart to achieve its own mix of the right product, at the right time, at the right price, according to Andrew Pelletier, a spokesperson for Wal-Mart Canada. Less inventory means less storage and less cost. The savings can be passed on to customers, which not surprisingly, helps to increase sales. "It is almost as if they (Wal-Mart and suppliers) are one business," he said. Since the average Wal-Mart store sells more than 80,000 different items, streamlining supply and demand has palpable results.

If the decision is made to build your own solution, there is one more major question to answer. Do we build, and get a return on investment from our proprietary use of the technology and the ability to delineate ourselves

in the market by its use (Wal-Mart), or do we build and get our return by selling off the technology (Sabre and American Airlines)?

The joint American Airlines and IBM development of the Sabre reservation system fits into the latter category. Originally designed to reduce the error rate for what was in the 1960s the very manual process of booking flights on American Airlines, Sabre today is the largest reservation system in the world. The return on investment has come from Sabre's ubiquity (now a separate company owned by American's parent AMR Corp.), not its proprietary nature.

The ongoing debate, replete with cost benefit economists, will unlikely solve the build or buy dilemma, but it is beside the point. Instead companies have to spend more time figuring out whether to use technology or business processes to streamline the bottom line.

Build it or buy it, but use it right

What has become increasingly difficult for Canadian companies today is figuring out how to differentiate between legitimate competitive advantage gained through proper use of specific technology and the competitive advantage gained through streamlining business processes.

But, as is almost always the case, good business policies and procedures trump good technology. You can succeed with the former and not the latter, but not the inverse.

"A lot of companies, pre-Y2K, were buying what they thought was out-of-the-box software and ended up customizing that software to match their prior business processes," said Mississauga, Ont.-based Information Technology Association of Canada president Bill Bergen. "So they really didn't change the business processes that would have given them that competitive advantage."

"If you don't change your business process up front, then technology is not going to give you a competitive advantage."

Often failures were blamed on the technology. As it turns out, it was seldom the sole cause. When used properly, the technology usually did what it was supposed to do.

"We see so many companies that choose great technology but do a miserable job of implementing it," said Terry Stuart, partner in the technology and integration practice with Deloitte & Touche in Toronto.

The Internet boom forced a lot of corporate hands with a combination of smooth marketing and the media's fixation on a new economic paradigm. If you didn't buy product X, or use solution Y, your company was as good as toast. Immediacy was equated with survival. It didn't matter if the solution cost millions, if your competition beat you to it you were done.

The pressure worked. Literally billions of dollars were spent on IT-based solutions with absolutely no business case justifying their existence.

A recent Gartner Inc. survey found that, in 2002, 42 per cent of CRM software licences purchased went unused. This represented more than US\$1 billion being spent with absolutely no return on the investment. Unjustified buying, though slowing, seems to have some staying power.

Not surprisingly most IT vendors, well aware the heady days are long gone, have moved heavily into the services side of IT solutions. Their market differentiator is no longer the technology they sell, rather their ability to help their customers use their technology more efficiently - in essence getting them to buy less, but be happier with what they buy.

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