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Michael Porter, in his important book, *Competitive Advantage*, (Free Press, 1985) and in several *Harvard Business Review* articles that have appeared more recently, has argued that companies achieve competitive advantage by creating large-scale processes that are so well integrated that competitors can duplicate them by just copying parts of the overall process. Porter refers to this concept as “fit.”

Before the company creates a well-integrated process, of course, it needs to have a well-defined strategy. Assuming Company X has such a strategy, and wants to sell premium-priced Widgets to a targeted group of buyers, then the next step is to create a process that will create and deliver Widgets efficiently, in a manner that will please customers. Once the basic process is laid out and implemented, Porter suggests that smart, successful companies keep improving the process and integrating the elements of the process until they all fit very tightly together. It’s the “fit” of the entire Widget value chain that prevents competitors from quickly duplicating Company X’s Widget process.

Today, companies are increasingly using IT to integrate applications rather than to create them.

Let’s assume a new startup, Company A, buys everything off-the-shelf. All the applications come from SAP or Oracle. Finance, Human Resources, Inventory, Manufacturing Control Applications and Customer Relationship Management and Sales Applications – all from one vendor. It follows that any company that decides to compete with Company A will be able to acquire all of the applications that Company A uses. What will differentiate Company A for its competitor? It’s strategy, it’s people, certainly, the exact design of the product or service, and the integration of its off-the-shelf applications. Also, perhaps, the integration between Company A’s processes and those of its suppliers and distributors.

An established company, like Company X, probably has some legacy applications that it depends on. Best case, it has a tailored application that it created internally, that tailors Widgets very efficiently, in response to customer requests. Company X may also decide to invest in off-the-shelf applications, and then combine them with its existing applications. Once again, the integration between the legacy and the packaged applications will determine the overall effectiveness of Company X’s value chain.

Of course, there’s integration and then there’s integration. One problem with many packaged applications is their tendency to resist tailoring or integration with legacy applications or applications from other packaged vendors. It’s hard to mix and match, or to tailor when you depend primarily on off-the-shelf application.

Another problem is the tendency of corporate executives to treat integration as if it’s a part of new product development. The company decides to buy a new inventory application and a fixed amount is allocated for infrastructure work. In a rational world, IT infrastructure, like cross-department process management, ought to be treated as independent costs that need to be maintained by the corporation to assure that specific applications can be developed or changed quickly. In other words, IT infrastructure and the architecture on which it is based ought to come before the specific applications and be planned for the entire enterprise.
Companies that take integration and process fit seriously are going to stress these concepts. Processes should be constantly improved and integrated to increase their efficiency and fit and to further delight customers. At the same time, the IT infrastructure should be maintained and improved to assure that new applications can be added and integrated quickly as needs change.

Till next time,

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