



Online Ethics Center  
FOR ENGINEERING AND SCIENCE

# Hooked On Electronic Services

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## Description

Using the Competitive Forces Model, students are asked to evaluate the use of additional fees after a service has become very useful to the customer.

## Body

### Part I - Context

An important topic in the study of Information Systems is that of Strategic Information Systems. In numerous instances, the strategic use of Information Systems has led to a significant competitive advantage. The Competitive Forces Model and the strategies to confront them are commonly discussed as a means to identify strategies that can lead to competitive advantage.

One of the proposed strategies is that in which an organization “locks in” their suppliers or buyers, such that, the organization is in a better position to negotiate with them. A potential concern with this sort of approach is that an organization may abuse this kind of advantage.

The following exercise in ethics attempts to question the practice of some organizations that initially provide a product or service for free (or at a very low cost) as a way to attract customers. Once customers are “locked-in” to their product or service they reveal or initiate some type of fee.

## **Part II - Background**

The Banking Industry was one of the earliest to adopt to the use of computers and other Information Technologies to support their operations. The pioneers within the Banking Industry gained a competitive advantage by providing customers with unique services. Once these new services became widespread practice, from a customer’s perspective, there was no advantage of doing business with a particular bank. This situation presented managers with the challenge of how to attract and retain their customer-base.

**Step One - General Focus: Students may suggest a wide range of non-specific strategies.**

Management plans a meeting with relevant staff to brainstorm about different strategies that can lead to a larger customer-base. As one of the managers you are asked to assist and be prepared with ideas.

**Step Two - Information Technologies Focus: Students may suggest various IT based strategies.**

Management has been very satisfied with the benefits brought about by Information Systems in the past and believes it is time to explore new opportunities. As a result, top level management has decided to hire IT consultants to propose different courses of action to improve their customer-base.

**Step Three - Specific Focus - Students evaluate specific IT based strategies, e.g. Automated Teller Machines and Electronic Banking.**

An excellent example of the use of a competitive force strategy by XYZ Bank, well known for their innovative services, was their pioneering introduction of ATM cards. This innovative service granted them significant competitive advantage for years as this free and unique service helped retain and expand their customer-base. Eventually, this competitive advantage began declining as their competitors also

launched ATM card services, and especially when XYZ Bank initiated a monthly fee for the use of ATM cards. Interestingly, many customers continue to bank with XYZ despite the additional charge. XYZ Bank continuously launches innovative services; however, competitors very quickly counteract with similar services limiting any potential competitive advantage.

Recently, XYZ Bank introduced yet another pioneering service; namely, Electronic-Banking (EB) which allows customers to perform many common transactions from the comfort of their home personal computer. The EB service requires the use of a modem, which is common in most home personal computers. XYZ Bank provides the required EB software free of charge and the number the modem calls is a toll-free (800) number. The software is easy to install and user friendly. The main effort on behalf of the user is the initial setting up of the different payee accounts; afterwards, handling transactions with EB is so trivial that customers may hardly visit the bank again.

## **Questions:**

1. Applying the Competitive Forces strategies, recommend and discuss a solution that can regain the bank's competitive advantage. Evaluate your proposed approach. Is it ethical? (See Step One)
2. Applying the Competitive Forces strategies, recommend and discuss one or more IT based strategies that can regain the bank's competitive advantage. Evaluate each approach. Are they ethical? (See Step Two)
3. Do you believe this recent and unique EB service holds great promise of providing XYZ Bank with a competitive advantage once again? Why?
4. Do you believe this new EB service is cost effective? Why?
5. Do you believe that XYZ Bank should establish a fee once customers are comfortable with the service and appreciate it? Why?
6. Irrespective of how convenient ATM and EB banking may be, in the eventuality that all banks begin to charge for such electronic services, some people might think that the banking industry should guarantee alternative ways of banking that are free of charge for those who may not want to pay for such services. What do you think of this point of view and why?

## **Notes**

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