MIS 3534 Fall 2014 – Strategic Management of Information Technology

Day 5 – Cost of IT (I)

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Today, we will discuss …

● Why does IVK have to invest in IT maintenance?
● How do competitive strategies affect IT investment decisions?
IT System Maintenance (1/3)

- Why does an IT system need maintenance? It does not become rusty!
  - Or does it?

- On Page 58, it reads “we’ve run closer to 5 to 6 percent of sales on IT spending. Which, by the way, Davies thought wasn’t enough to keep IT assets from degrading over time.”
  - Why does Mr. Davies mean by degrading?
Hurricane Sandy and DC Metro

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After Hurricane Sandy, DC Metro ran a Sunday schedule on Tue. 30 but charged riders the *weekday and rush-hour* fares.

IT System Maintenance (2/3)

IT maintenance is needed because

- business requirements are always, constantly changing.
- IT system needs to accommodate, for example, new products, new business processes, new suppliers and customers, and so forth.
- IT system degrades not by itself, but by surrounding, supporting technologies such as hardware, network, or operating systems that are becoming advanced.
IT System Maintenance (3/3)

- If it needs to spend money in maintaining IT systems, how much does a company need to spend on it?
  - What happens with too little spending in maintenance?
  - What happens with too much? Then, a business cannot initiate something “new” and gets behind of competition.
  - It should depend on what?
If IT fails, business fails.

We need IT for our strategy & future.
IT Strategic Impact Grid (2/2)

Operational dependence—Existing operating systems

High

Qualifier
Flight Scheduling System Factory

Compete
Strategic
e*Logistics

Low

Strategic impact—Applications development portfolio

Where can we put OTISLINE, e*Logistics, ByRequest, a flight-scheduling system, and San Francisco SAFE?
Strategic Grid and IT Cost (1/3)

- What should the *right* amount of IT spending in each grid?
If you’ve got $10 million for your IT budget, how would you divide into each grid? depends on what?
Where to Spend More?

- if you are #1 in a stable, mature industry?
- if you are a follower and want to be #1?
- if you are in a dynamic, growing industry?
- if you are in a tightly-regulated industry?
- if you are in an industry where IT is “mission-critical”? 
Strategic Grid and IT Cost (3/3)

- The division of a limited IT budget amongst the four IT grids depends on competitive strategies and business environments.
  - If you are #1 in a stable, mature industry, spend more in Qualifier (Factory/Support).
  - If you are a follower who wants to be #1 or in a growing, dynamic industry, spend more in Compete (Strategic/Turnaround).
  - If you are in a tightly-regulated industry, spend more in Qualifier (Factory/Support).
  - If you are in an industry where IT is very dependent or “mission-critical”, spend more in Factory and Strategic.
Next Week

- Cost of IT (II)
- Read the IT Adventure Chapter 8 and write a summary of up to 200 words by 5:30pm, Oct. 6.
- Sign up for presentation
  - IT Adventure – Chapter 4
  - IT Adventure – Chapter 8
  - HBS Case – “Volkswagen of America”
- Bring HBS “Volkswagen of America” Case next week.