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*?

http://www.mountainlodgeinfo.com/Maintenance-Page.html

Hurricane Sandy and DC Metro

SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
8	9	10	11	12	13
15	16	17	18	19	20
22	23	24	25	26	27
28	29	30	31			

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

http://blogs.cio.com/risk-management/17518/superstorm-hurricane-sandy-aftermath-video
http://www.freeismylife.com/2012/09/freeismylife-october-2012-calendar-dont.html
http://en.wikipedia.org/wiki/Washington_Metro

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.
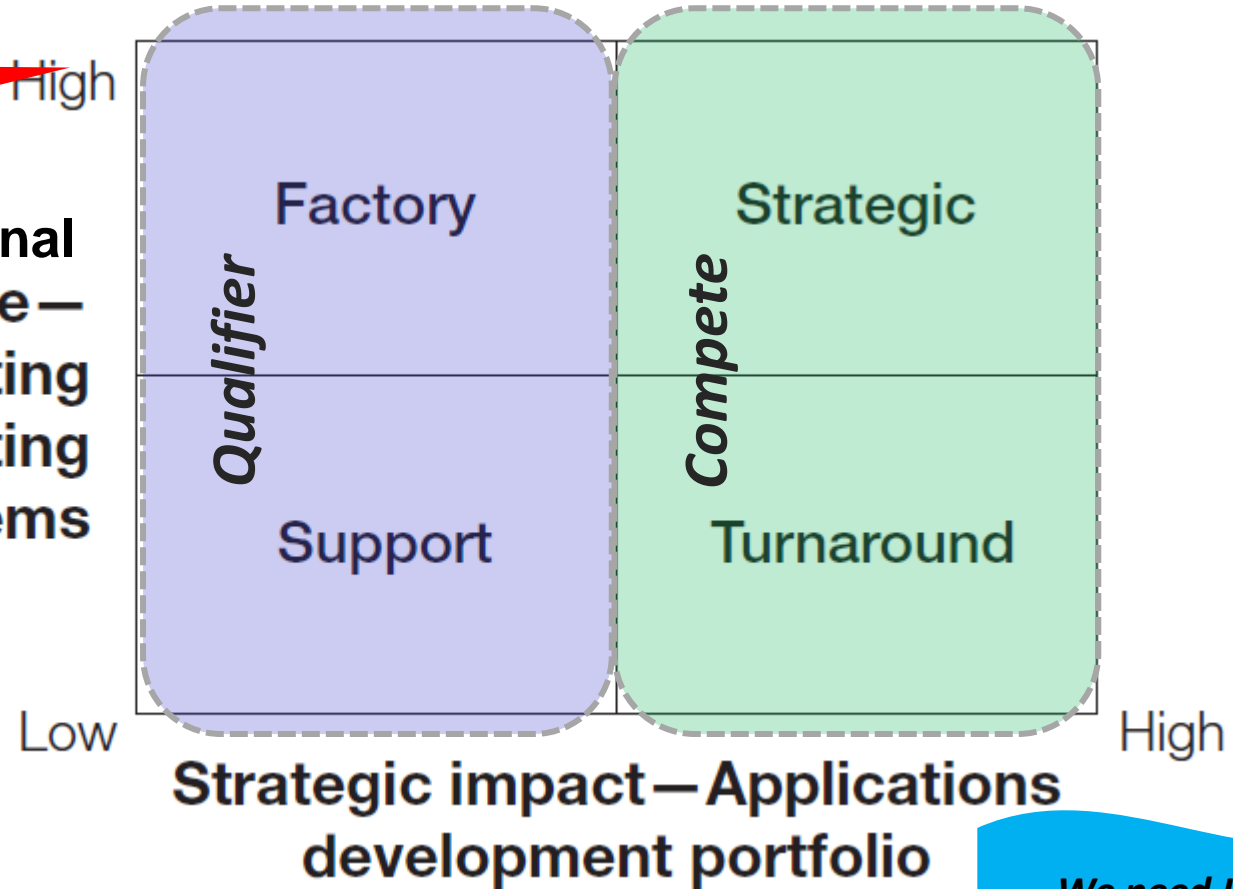
- It should depend on what?

http://www.evansautocare.com/services/
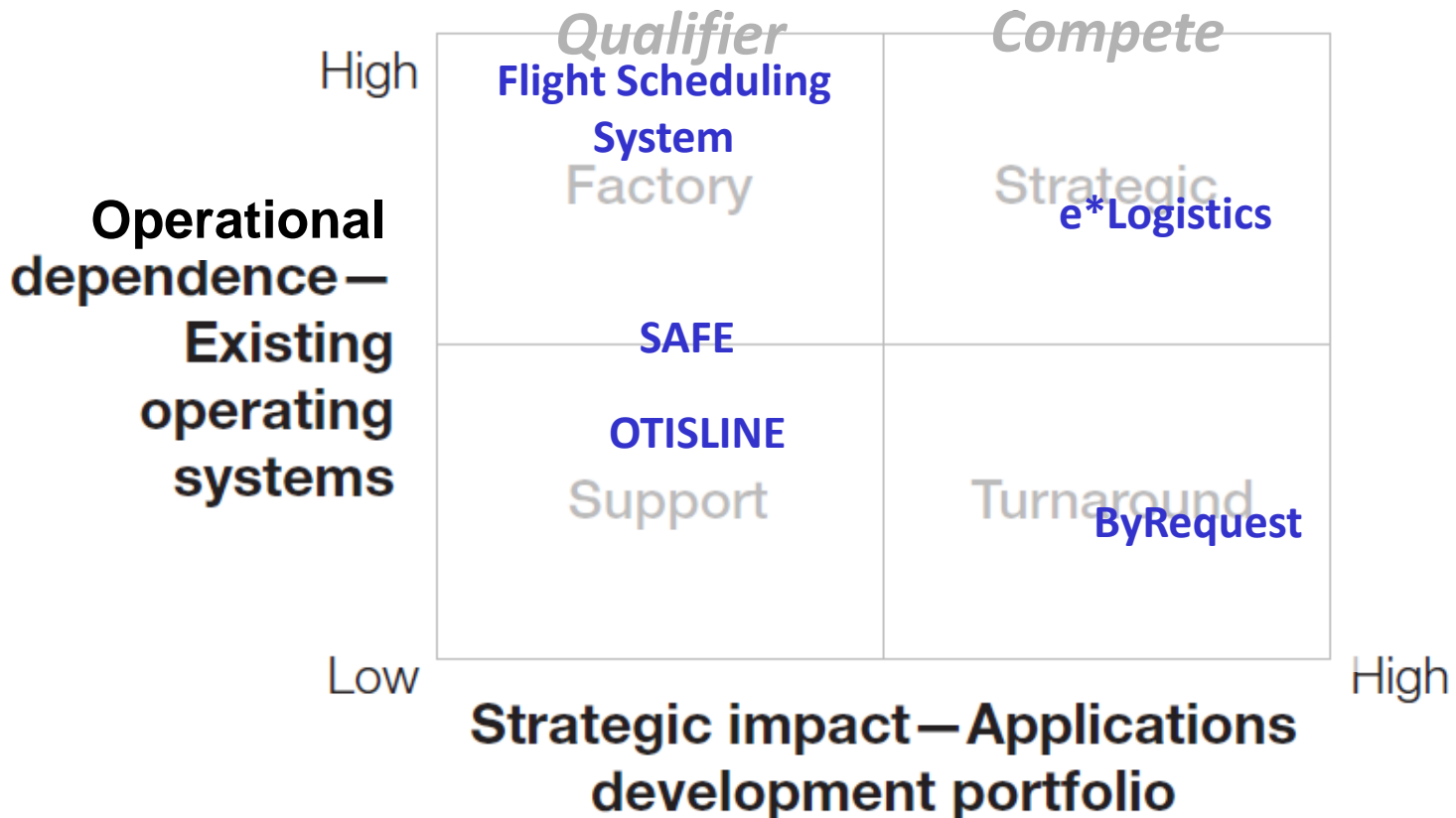
IT Strategic Impact Grid (1/2)

If IT fails, business fails.

Operational dependence— Existing operating systems

High

Low

Factory

Support

Qualifier

Strategic

Turnaround

Compete

High

Strategic impact—Applications development portfolio
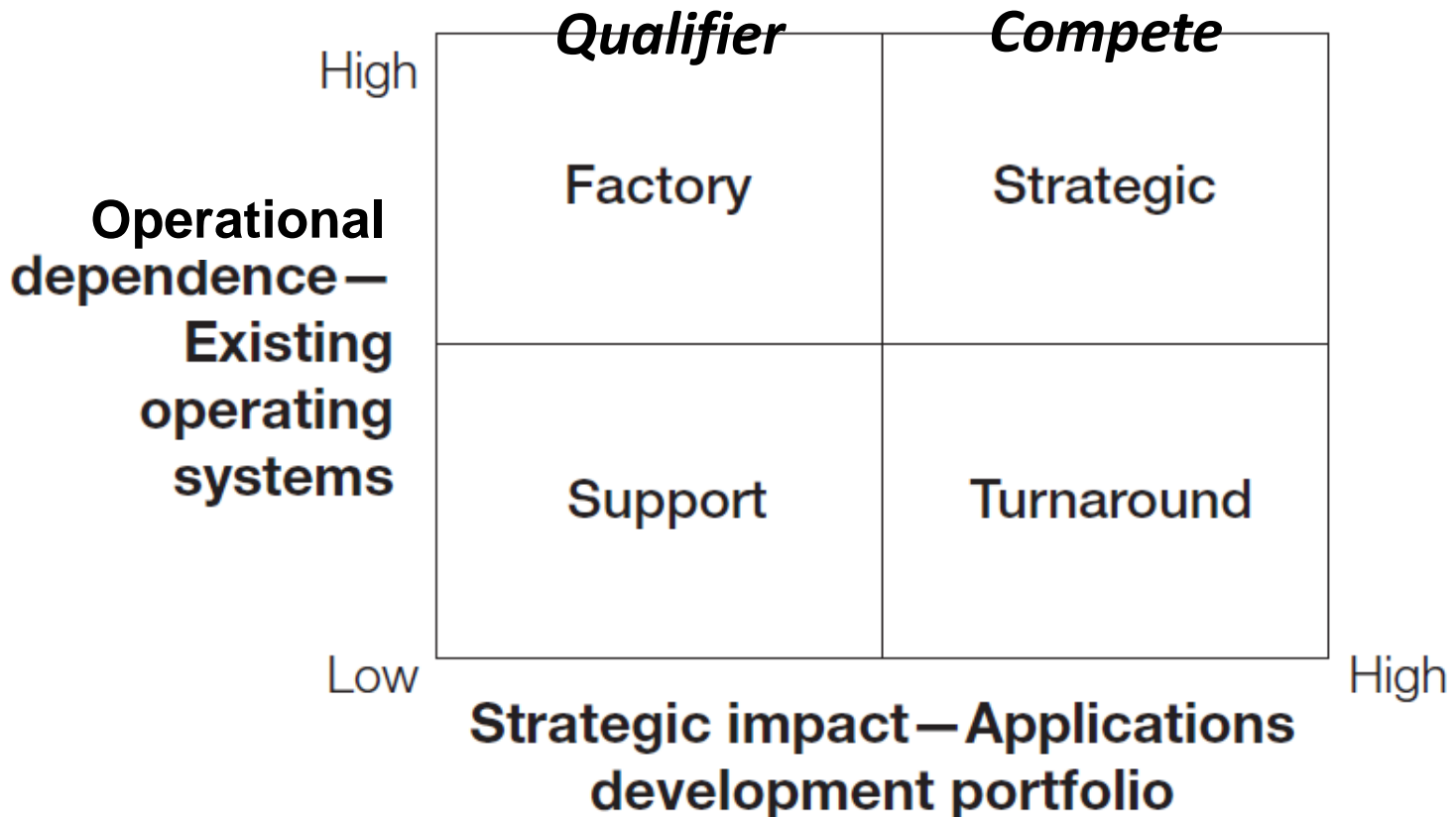
We need IT for our strategy & future.

IT Strategic Impact Grid (2/2)

- Where can we put OTISLINE, e*Logistics, ByRequest, a flight-scheduling system, and San Francisco SAFE?

Strategic Grid and IT Cost (1/3)

Qualifier   *Compete*

	Qualifier	Compete
High	Factory	Strategic
Low	Support	Turnaround

Operational dependence— Existing operating systems

Strategic impact—Applications development portfolio

● What should the *right* amount of IT spending in each grid?

Strategic Grid and IT Cost (2/3)

Qualifier   *Compete*

High

Operational dependence— Existing operating systems

Factory	Strategic
Support	Turnaround

Low   High

Strategic impact—Applications development portfolio
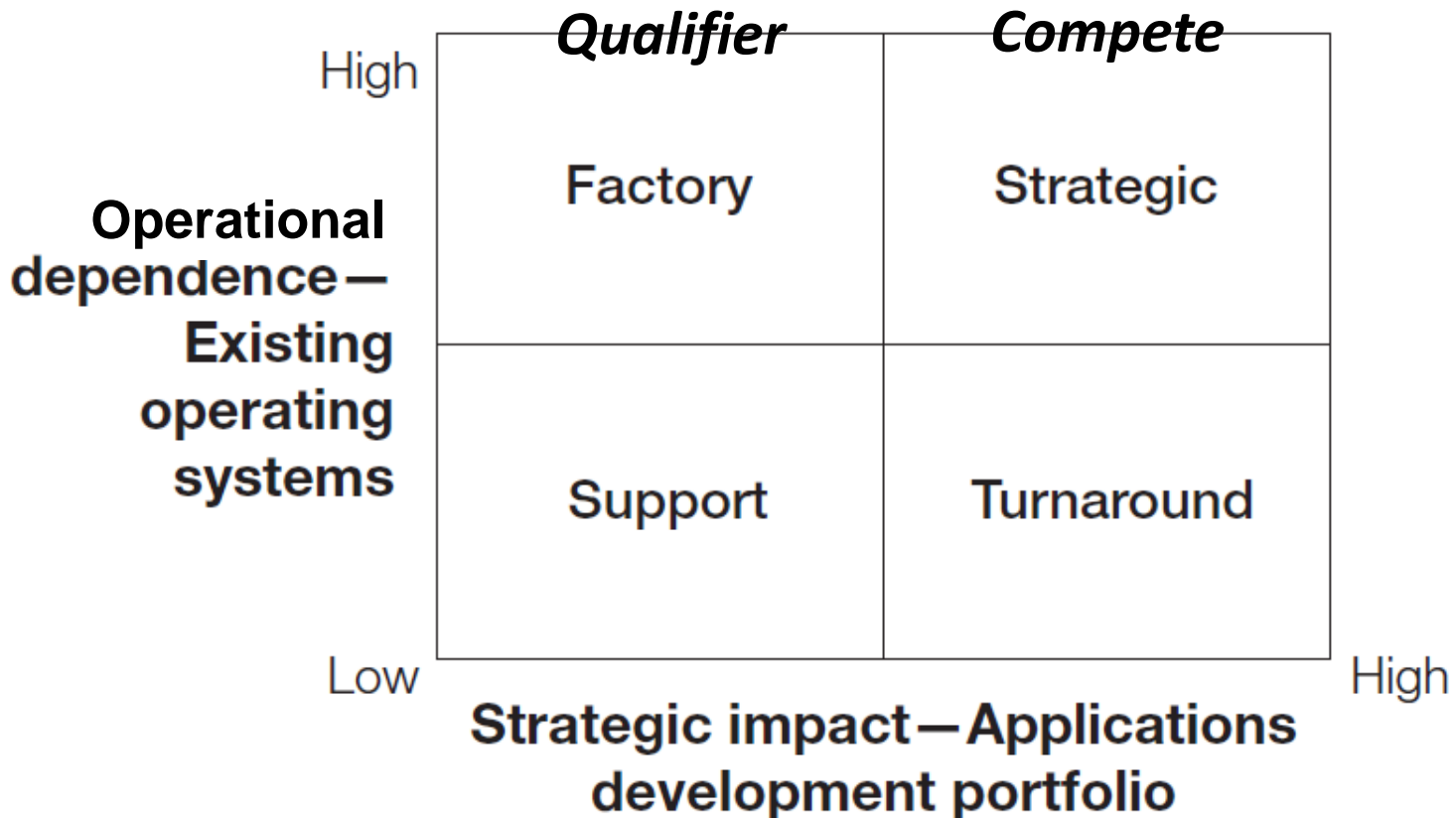
● If you've got $10 million for your IT budget, how would you divide into each grid? depends on what?

Where to Spend More?

Qualifier   *Compete*

High

Operational dependence— Existing operating systems

| | Factory | Strategic |
| Support | Turnaround |

Low   High

Strategic impact—Applications development portfolio
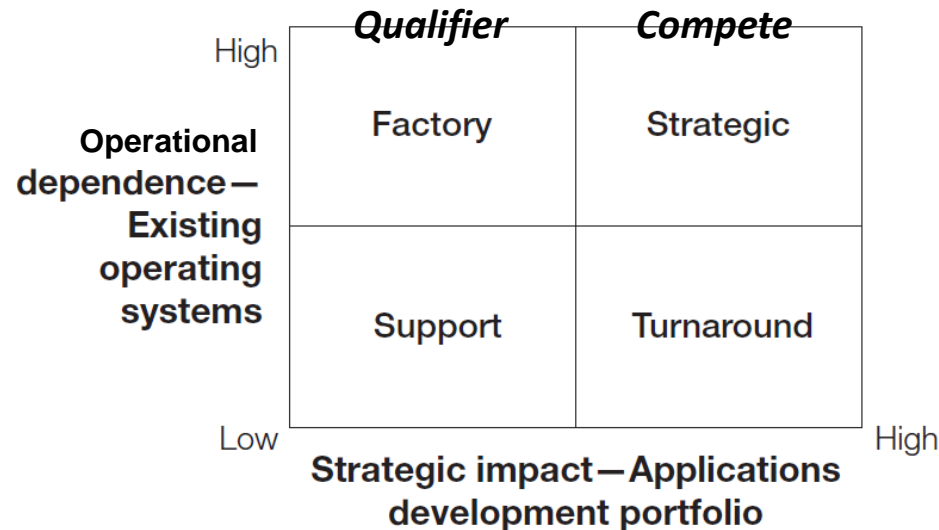
- if you are #1 in a stable, mature industry?

- 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 <u>IT Adventure Chapter 8</u> 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.