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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<th>OCTOBER 2012</th>
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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?
IT Strategic Impact Grid (1/2)

If IT fails, business fails.

Operational dependence — Existing operating systems

Strategic impact — Applications development portfolio

We need IT for our strategy & future.
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 be in each grid?

Operational dependence—Existing operating systems

Strategic impact—Applications development portfolio

Qualifier

Operational
High

Compete

Support

High

Low

Strategic

Turnaround
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”? 

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<thead>
<tr>
<th>High</th>
<th>Qualifier</th>
<th>Compete</th>
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<td>Operational dependence—Existing operating systems</td>
<td>Factory</td>
<td>Strategic</td>
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<td>Strategic impact—Applications development portfolio</td>
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Min-Seok Pang – Oct.12.2015
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 brief of up to 200 words by 5:30pm, Oct. 19.

● Bring “Volkswagen of America” case next week.