

MIS 3534 Fall 2016 – Strategic Management of Information Technology *Week 6 – Cost of IT (I)*

Min-Seok Pang

**Management Information Systems
Fox School of Business, Temple University
minspang@temple.edu**

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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

OCTOBER 2012						
SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
	8	9	10	11	12	13
	5	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?

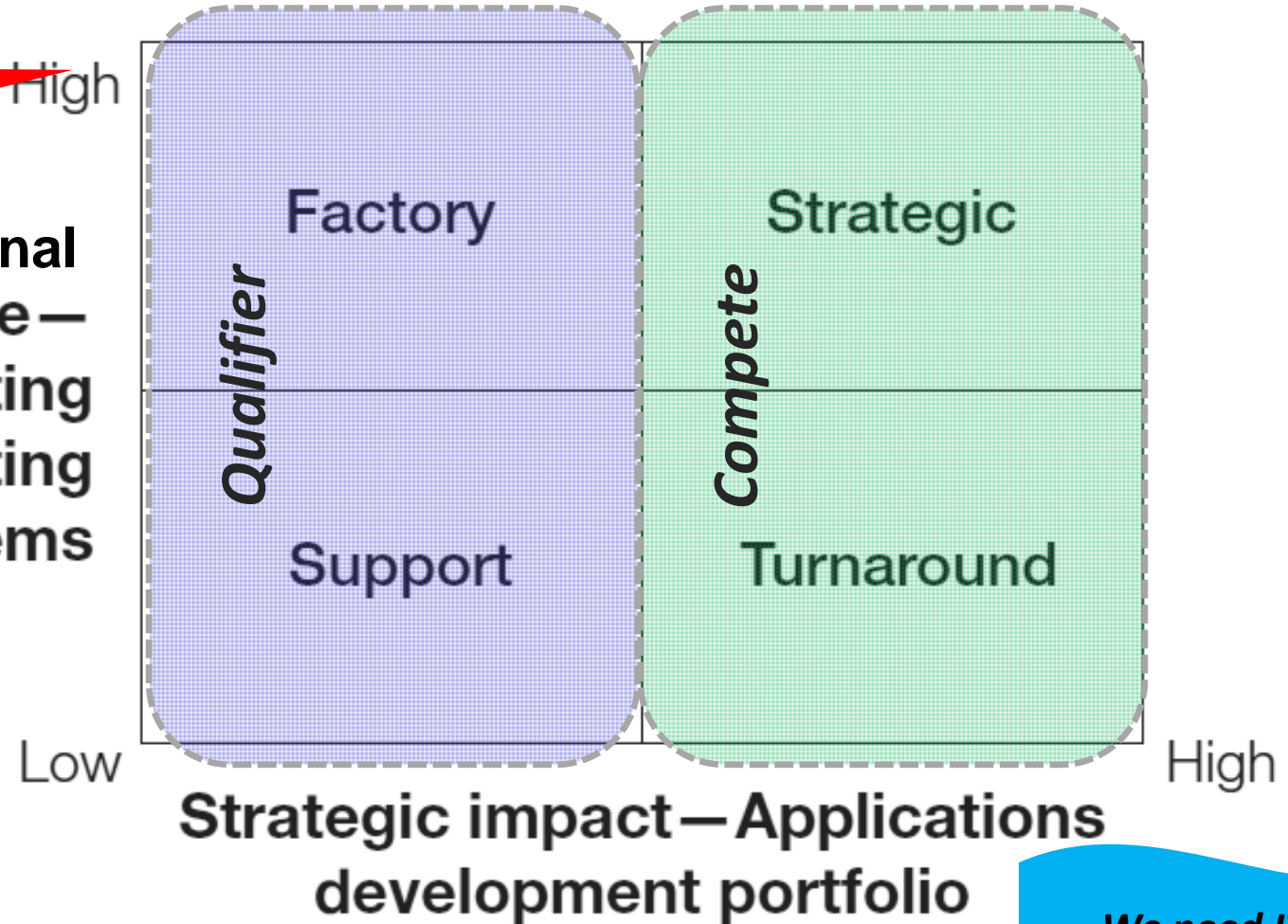


<http://www.evansautocare.com/services/>

IT Strategic Impact Grid (1/2)

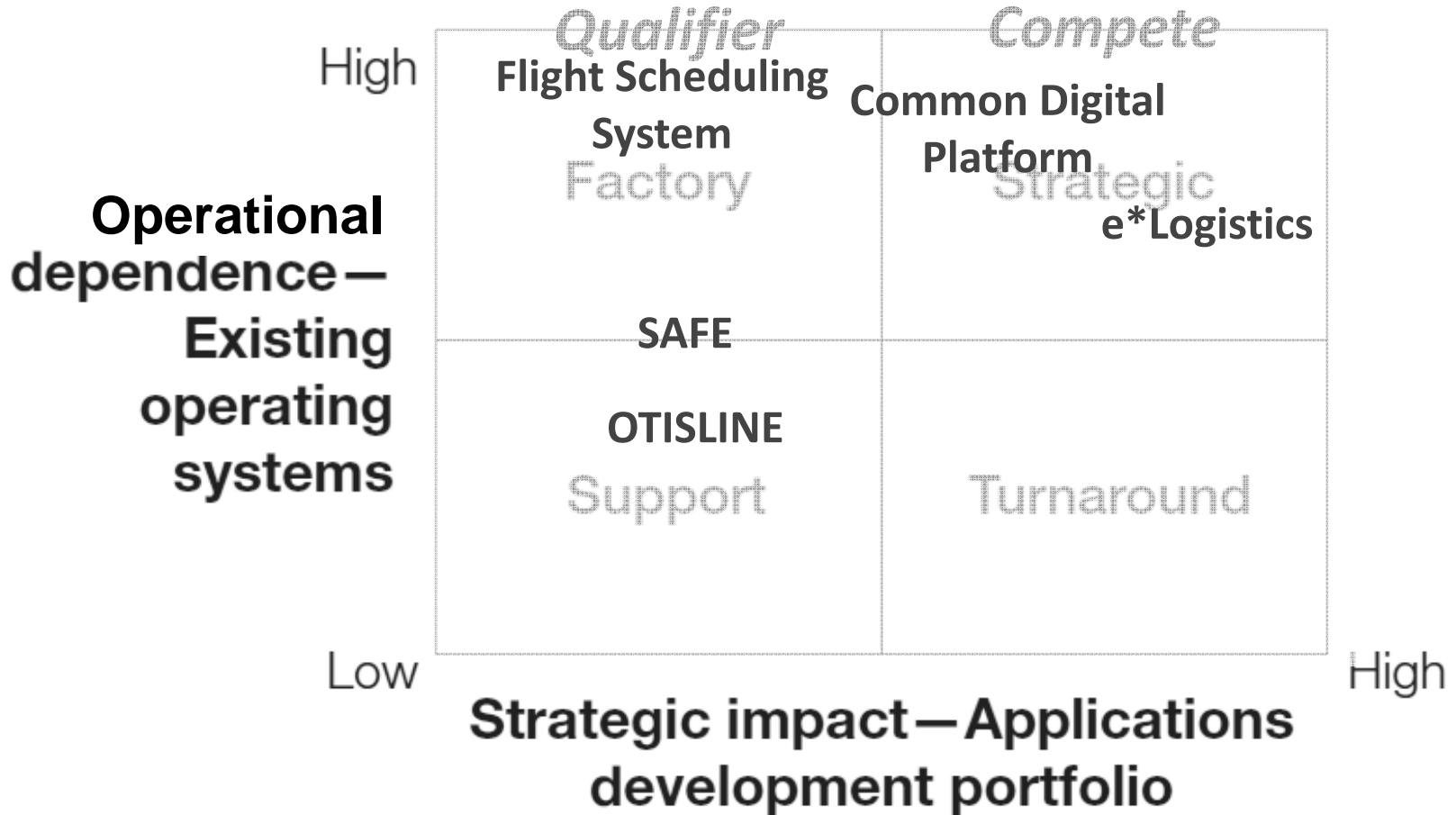
If IT fails, business fails.

**Operational
dependence –
Existing
operating
systems**



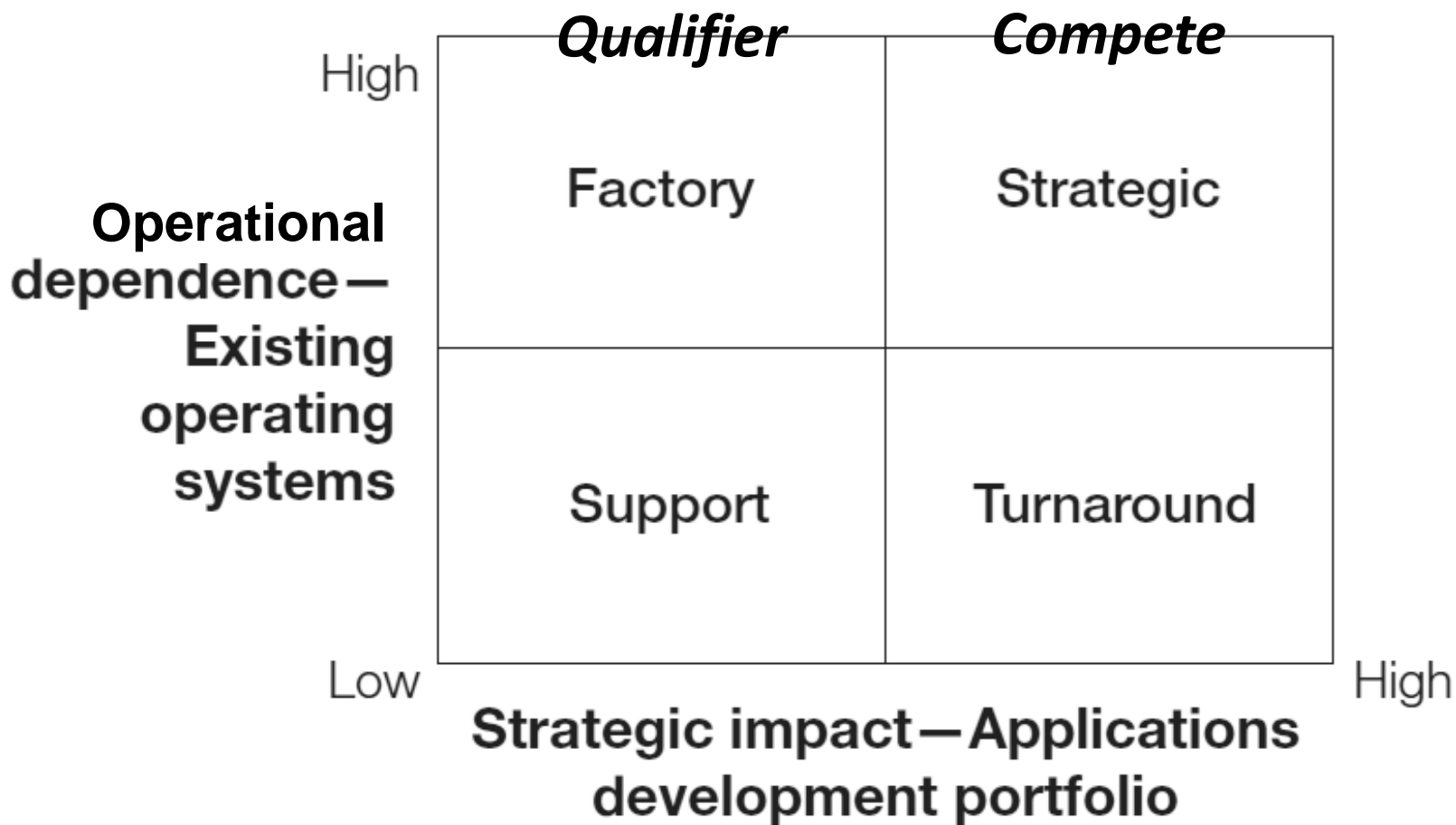
*We need IT for
our strategy & future.*

IT Strategic Impact Grid (2/2)



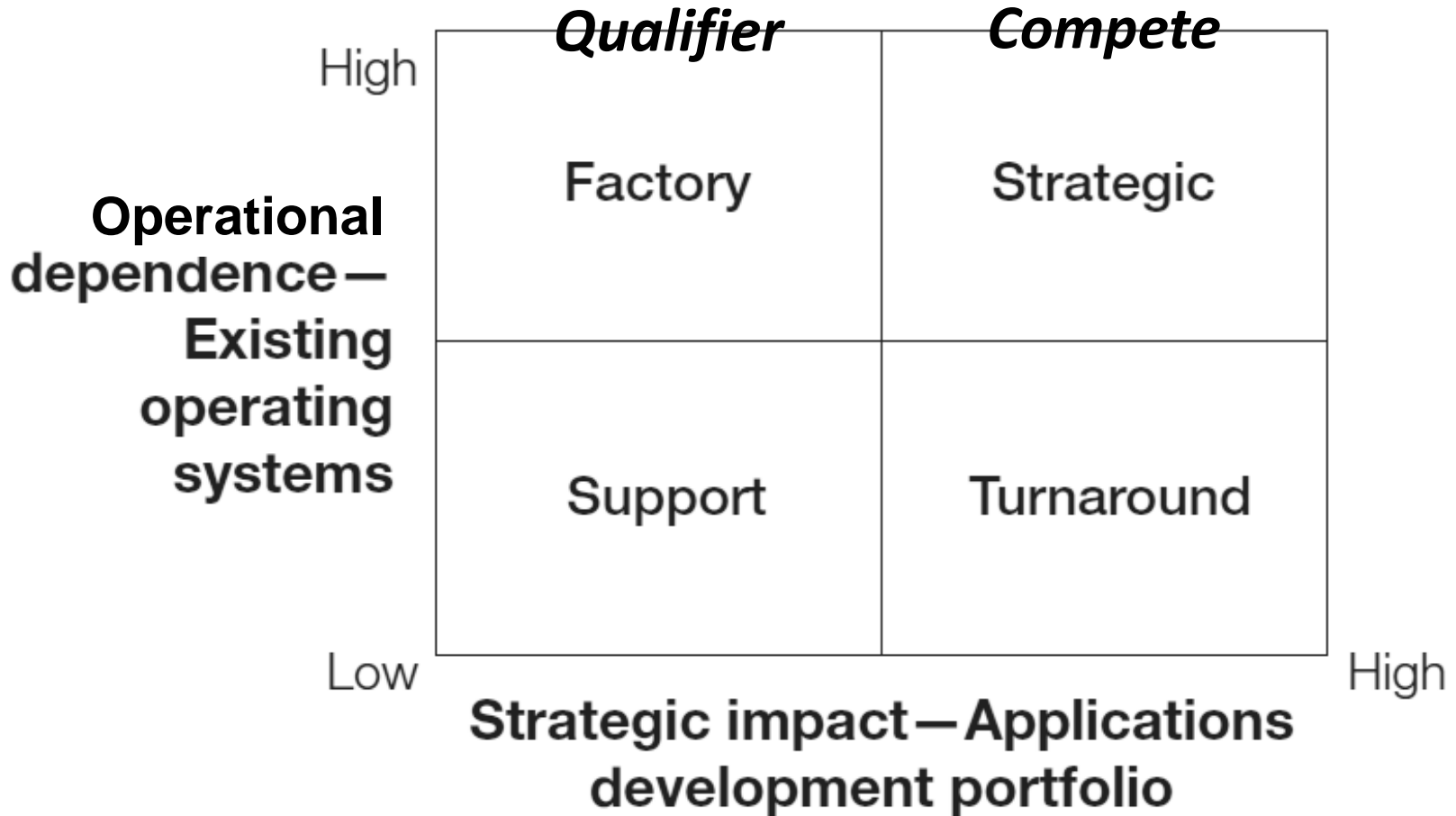
- Where can we put OTISLINE, e*Logistics, Common Digital Platform, a flight-scheduling system, and San Francisco SAFE?

Strategic Grid and IT Cost (1/3)



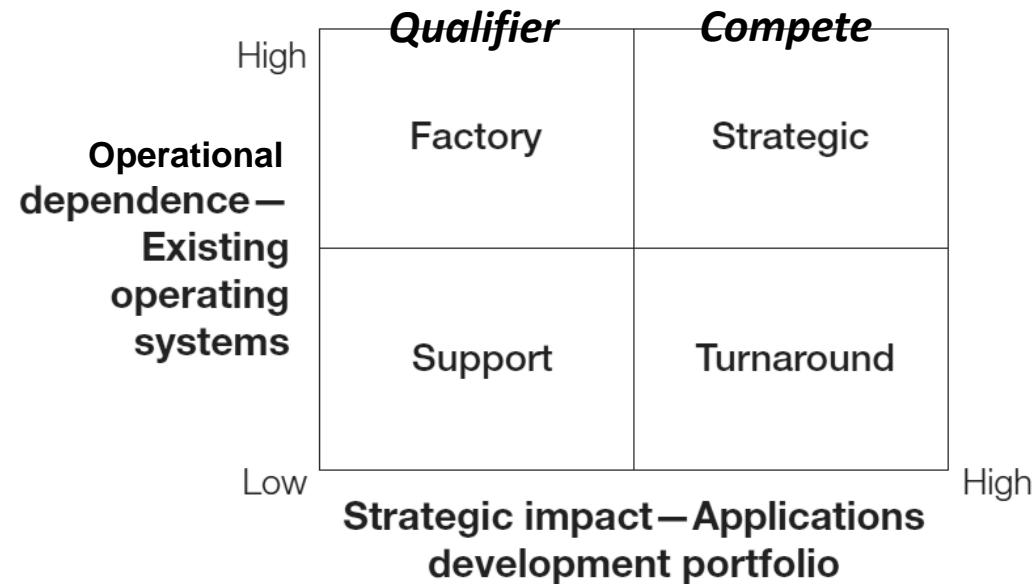
- What should the *right* amount of IT spending in each grid?

Strategic Grid and IT Cost (2/3)



- 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.