

Creating IT-enabled Business Options

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Agenda

- ⌘ Why justify IT investment?
- ⌘ What are business options?
- ⌘ Process of creating business options
- ⌘ Where are the 'options' opportunities?
- ⌘ Business Options cases from
 - ⌘ Trinity Health
 - ⌘ GE Aircraft Engines
 - ⌘ UPS – video clip
- ⌘ BREAK
- ⌘ How to prepare for creating business options?
- ⌘ Weaknesses and Opportunities
- ⌘ Issues in creating business options
- ⌘ Traits of option exploiting organizations

Why does an organization want technology justification?

- ⌘ What are the CFO's real concerns?
- ⌘ What are the CIO's fears?
- ⌘ What is the objective of an IT investment justification?

IT Justification is importantbut not executed well

- ⌘ 86% of IS professionals believe that IT value is a priority, but under 15% conducted post-implementation measurement*
- ⌘ Commonly used retrospective approaches
 - ⌘ Cost-Benefit analysis
 - ⌘ Net Present Value (NPV)
 - ⌘ Return on Assets (ROA)
 - ⌘ Total Cost of Ownership (TCO)

*Source: Giga Group survey

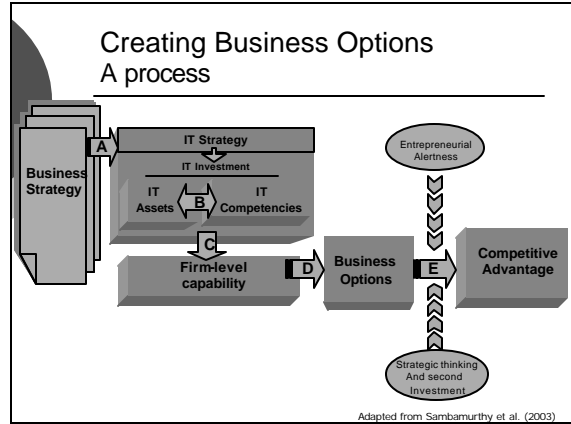
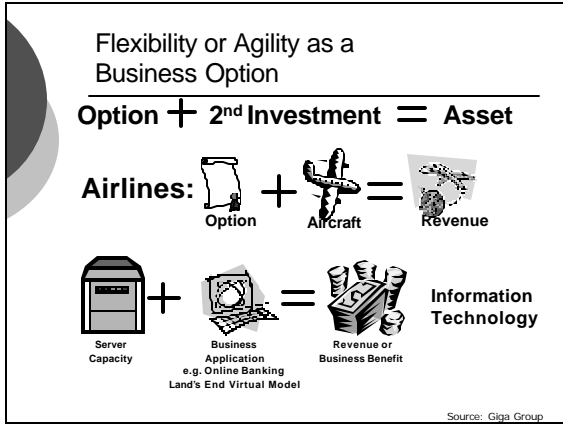
Most financial justification approaches consider tangible investments only

- ⌘ How do we account for investments that create assets that provide agility to businesses?
 - ⌘ First mover
 - ⌘ Killer Apps
 - ⌘ Process superiority
 - ⌘ Flexibility to launch products quickly
 - ⌘ Improved image from greater reliability
 - ⌘ Tighter integration with partners
 - ⌘ Compatibility with other products



What are IT-enabled business options?

- ⌘ IT-enabled business options are
 - ⌘ choices afforded, but not necessarily anticipated, from
 - ⌘ IT investment to
 - ⌘ exploit business opportunities to
 - ⌘ derive competitive advantage



Where are the opportunities for IT-enabled business options?

	Cost Mgt	Design	Production	Logistics
Opportunity				
IT Investment				
Options Enabled				

Where are the opportunities for IT-enabled business options?

	Cost Mgt	Design	Production	Logistics
Opportunity				
IT Investment	Fully allocated costs; ABC	Integrate Mfg. and Design	Computer Aided Mfg.	Link Dispatch, Warehouse, QC
Options Enabled	<ul style="list-style-type: none"> • BPR • TCO, Price-based-Costing • Contracting • Niche mktg. • AMT Choices 	<ul style="list-style-type: none"> • Use Designers Knowledge • Rapid Develop. • Simulated Testing 	<ul style="list-style-type: none"> • Robotics linked with design and admin. systems • Quick changeovers • Design Input • BOM – Costs • Update Design 	<ul style="list-style-type: none"> • Real time samples, tests, modification • Rapid Problem Detection • Scheduling Transportation • JIT Raw Materials

Cost Mgt can lead to Competitive Advantage*

Options creation at *AirTran* and *JetBlue*

- Managing Costs lead to lower cost per seat/mile
 - US Airways 11.8c
 - AirTran 8.4c
 - JetBlue 5.9c
- Leads to Available Cash
- Cash gives opportunities to invest in business options
 - Purchase profitable routes
 - Sweet deal on canceled Boeing plane orders
 - Hire experienced laid off workers

* With apologies to Michael Porter

Source: How Discount Airline Profited from the Bigger Rivals Woes Wall Street Journal August 12, 2004

Options Payoff for *AirTran*, *JetBlue*

"... keep on giving"

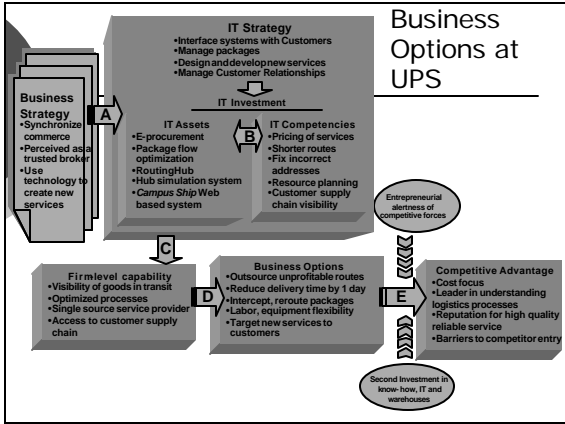
- New planes
 - Lower fuel costs and maintenance costs
 - Happier customers
- Additional Routes
 - Higher occupancy rate
 - Connections to more cities
- Hiring laid off workers
 - Lower pay scales
 - Younger employees have lower medical bills
- More cash
 - Lower capital borrowing costs
 - Lock-in lower fuel prices with hedges

Source: How Discount Airline Profited from the Bigger Rivals Woes Wall Street Journal August 12, 2004

Industry Examples of IT Enabled Business Options

- GE Aircraft Engines
- Trinity Health's Adverse Drug Event (ADE) System
- UPS Worldport Operations - Video clip

BREAK



Expected Outcomes from Business Options

- Caveat - IT-enabled business options are 'price of entry' which must be availed to create outcomes
- Outcomes include
 - New business opportunities – GE, UPS
 - Risk mitigation – Trinity Health
 - Improved customer service – UPS, Land's End
 - Cost Control – Holy Cross Health System
- Cost control in competitive markets can be as valuable as other outcomes

Weaknesses of IT-enabled business options

- Risk
 - business option might not payoff
 - limit future options by being locked into an IT infrastructure
 - short shelf life of the option – when competitors or vendors create better options
- Time consuming strategic thinking and planning
- Drain on people and systems resources
- Requires spending 'political capital' when the outcomes are unclear

Reducing risk from IT-enabled investment in business options

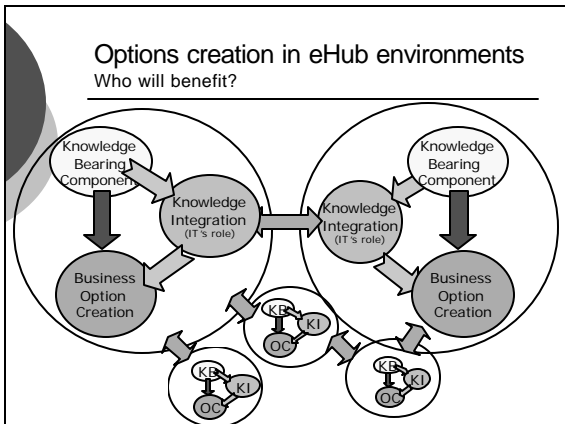
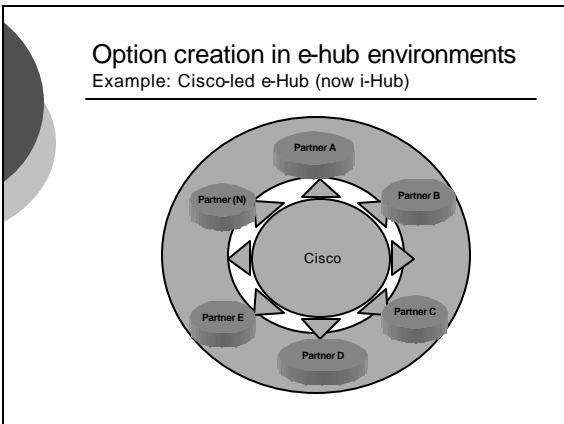
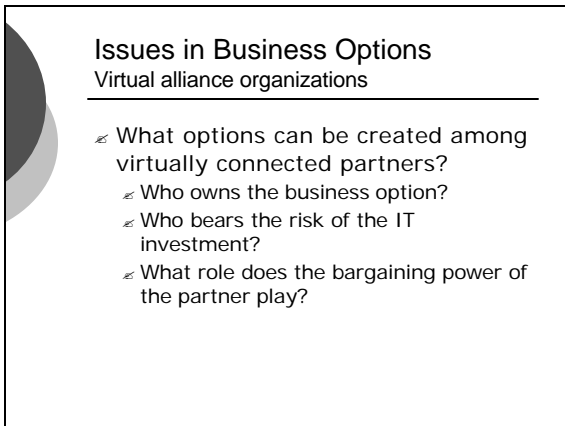
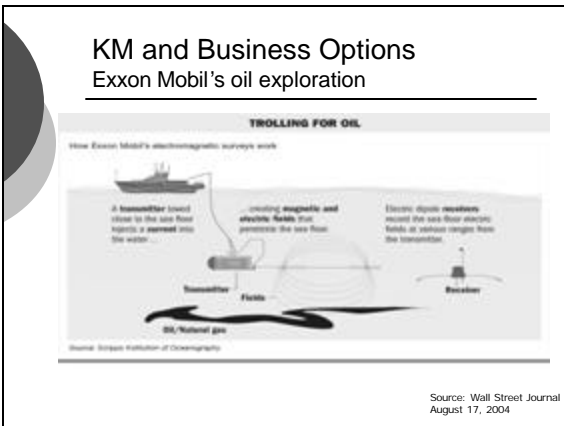
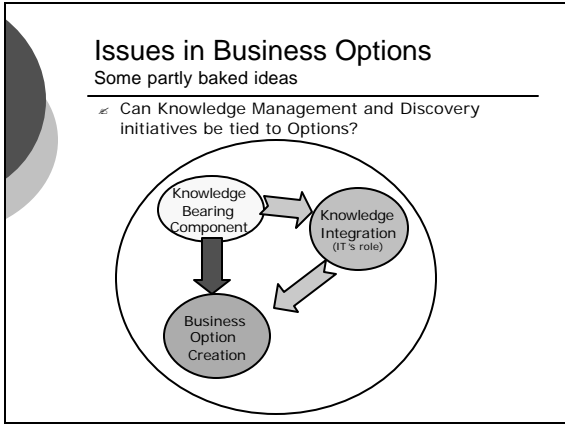
- Identify dual purpose IT investments that also accomplish
 - Cost reduction
 - Improved time to market
 - Greater accuracy or quality of products
- Partner with business leaders
- Fix 'pain' points of the organization
 - Lost contract bids
 - Aggressive competitor
 - Causes of litigation

How to Prepare for IT-enabled Business Options?

	Cost Mgt	Operations	Logistics	Customer Service
Impediments				
Resolutions				
Resources Needed				

How to Prepare for IT-enabled Business Options?

	Cost Mgt	Operations	Logistics	Customer Service
Impediments	<ul style="list-style-type: none"> Unclear strategy No immediate ROI Resistance to cost cutting 	<ul style="list-style-type: none"> Lack of communication between functions Limited job flexibility 	<ul style="list-style-type: none"> Limited bargaining power Lack of integration Substantial IT investment 	<ul style="list-style-type: none"> Higher customer expectations Customers' unwilling to pay
Resolutions	<ul style="list-style-type: none"> Strategy to exploit cost information Allocate profits to develop systems Communicate consequences 	<ul style="list-style-type: none"> Forum for dialog KM sharing incentives Engage customers in design and test 	<ul style="list-style-type: none"> Build SCM partner alliances Start with one Join an e-Hub 	<ul style="list-style-type: none"> Provide something of value Bundle services with products Merge IS into CRM
Resources Needed	<ul style="list-style-type: none"> Benchmarking data Managers' deep knowledge Plans to address scenarios under various situations 	<ul style="list-style-type: none"> Cross functional teams Hybrid managers Cross trained employees Involved customers 	<ul style="list-style-type: none"> Demonstrable contribution to partners Interface engine Deep understanding of business processes 	<ul style="list-style-type: none"> Integration of upstream systems Highly trained customer reps Centralized database Data standards





Traits of options exploiting organizations

- ⌚ An ambidextrous organization?
 - ⌚ Flexible yet stable business processes
 - ⌚ Encourages taking risks while rewarding successes
 - ⌚ Has visionaries as well as doers
 - ⌚ Insulates risk-takers from nay-sayers
 - ⌚ Thinks 'integration' of systems, data, customers
- ⌚ Cold reality
 - ⌚ Not all firms have the \$ to take on risks
 - ⌚ Few options will be successful
 - ⌚ There will be false-starts
 - ⌚ People will get 'burnt out'
 - ⌚ Serendipity will play a role