

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

Flexibility or Agility as a Business Option

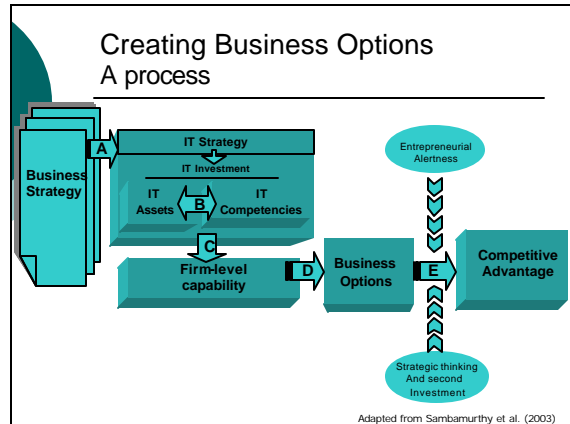
Option + 2nd Investment = Asset

Airlines: Option + Aircraft = Revenue

Information Technology: Server Capacity + Business Application = Revenue or Business Benefit

*e.g. Online Banking
Land's End Virtual Model*

Source: Giga Group



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	Fully allocated costs; ABC	Integrate Mfg. and Design	Computer Aided Mfg.	Link Dispatch, Warehouse, QC
IT Investment	Cost Information Systems	Knowledge Based Systems	Robotics linked with design and admin. systems	Real time samples, tests, modification
Options Enabled	<ul style="list-style-type: none"> BPR TCO, Price-based-Costing Contracting Niche mktg. AMT Choices 	<ul style="list-style-type: none"> Mfg. Errors Use Designers Knowledge Rapid Develop. Simulated Testing 	<ul style="list-style-type: none"> Quick changeovers Design Input BOM - Costs Update Design 	<ul style="list-style-type: none"> 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"

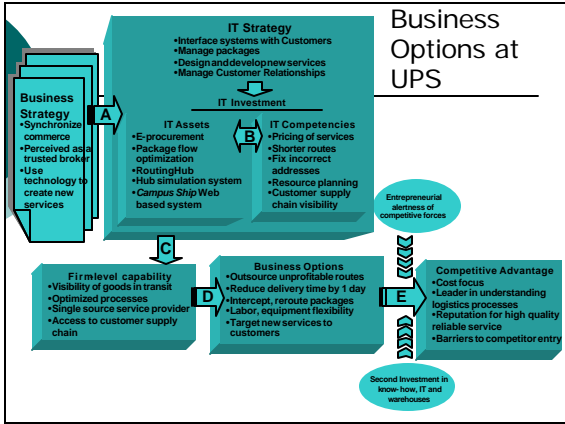
- New planes
 - Lower fuel costs and maintenance costs
 - Happier customers
- Additional Routes
 - Higher occupancy rate
 - Connections to more cities
- Hiring laid off workers
 - Lower pay scales
 - Younger employees have lower medical bills
- More cash
 - Lower capital borrowing costs
 - Lock-in lower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

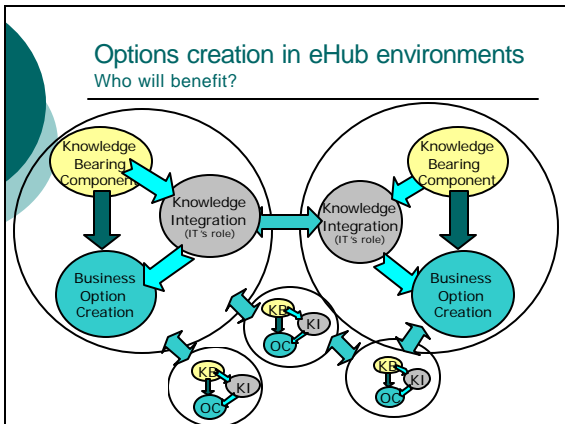
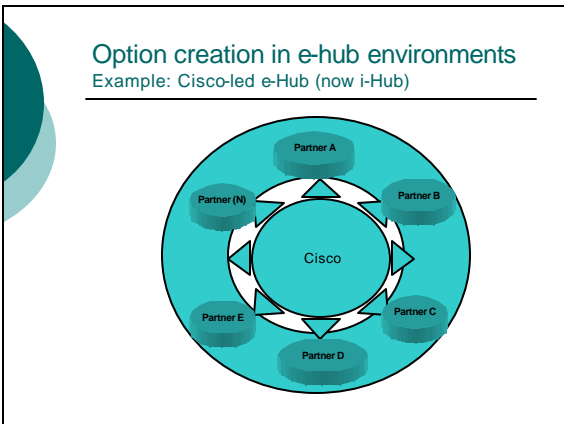
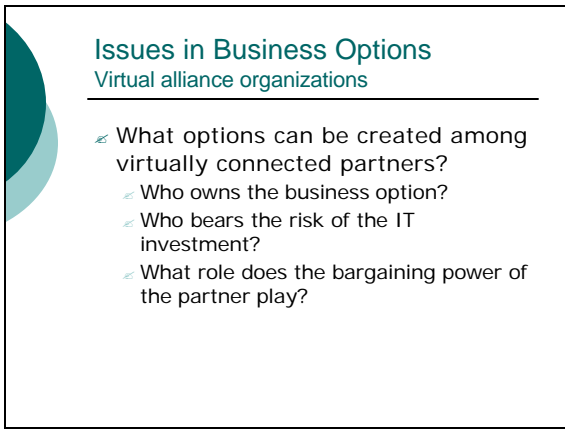
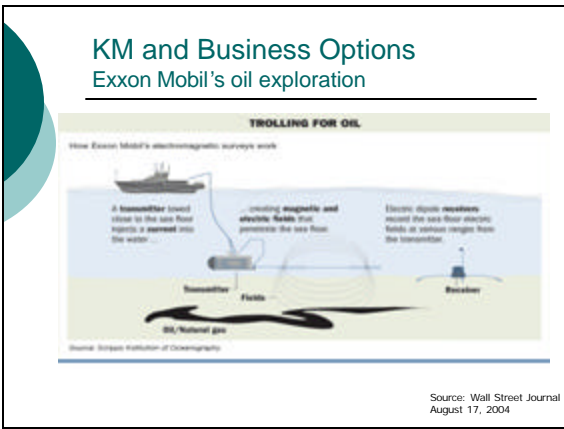
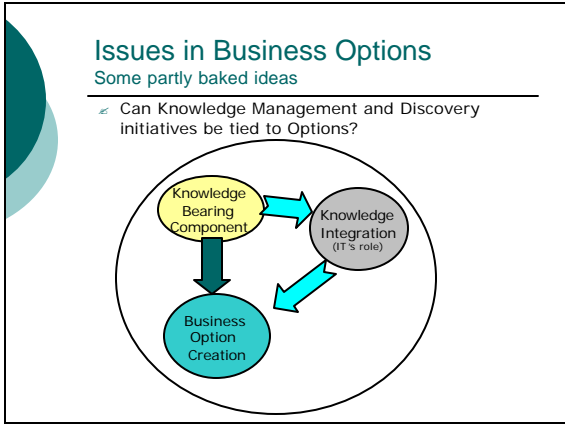
- Identify dual purpose IT investments that also accomplish
 - Cost reduction
 - Improved time to market
 - Greater accuracy or quality of products
- Partner with business leaders
- Fix 'pain' points of the organization
 - Lost contract bids
 - Aggressive competitor
 - Causes of litigation

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