Creating IT-enabled Business Options

MIS Research Center
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University of Minnesota
November 12, 2004

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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 important…
…but 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

Server Capacity
Application
Business Technology
A & B
Online Banking
Lane’s End Virtual Model

Information Technology

Where are the opportunities for IT-enabled business options?

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<th>Cost Mgt</th>
<th>Design</th>
<th>Production</th>
<th>Logistics</th>
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Cost Mgt can lead to Competitive Advantage*

- 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

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

* With apologies to Michael Porter

Source: Giga Group

Adapted from Sambamurthy et al. (2003)

Source: How Discount Airlines 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

Caveat - IT-enabled business options are ‘price of entry’ which must be availed to create outcomes

- 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

Expected Outcomes from Business Options

- Fix ‘pain’ points of the organization
  - Lost contract bids
  - Aggressive competitor
  - Causes of litigation

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

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
- Cost focus
  - Time consuming strategic thinking and planning
  - Drain on people and systems resources
- Requires spending ‘political capital’ when the outcomes are unclear

How to Prepare for IT-enabled Business Options?

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How to Prepare for IT-enabled Business Options?

- Provide something of value
- Bundle services with products
- Merge IS into CRM
- Build SCM partner alliances
- Start with one
- Join an e-Hub
- Forum for dialog
- KM sharing incentives
- Engage customers in design and test
- Strategy to exploit cost information
- Allocate profits to develop systems
- Communicate consequences
- Higher customer expectations
- Customers’ unwilling to pay
- Limited bargaining power
- Lack of integration
- Substantial IT investment
- Lack of communication between functions
- Limited job flexibility
- Unclear strategy
- No immediate ROI
- Resistance to cost cutting
- Integration of upstream systems
- Highly trained customer reps
- Centralized database
- Data standards
- Demonstrable contribution to partners
- Cross-functional teams
- Cross-trained employees
- Cross understanding of business processes
- Integration of upstream systems
- Highly trained managers
- Centralized database
- Data standards
- Involved customers
- Cross functional teams
- Hybrid managers
- Cross trained employees
- Involved customers
- Integration of upstream systems
- Highly trained managers
- Centralized database
- Data standards

Issues in Business Options

Some partly baked ideas

- Can Knowledge Management and Discovery initiatives be tied to Options?

KM and Business Options

Exxon Mobil’s oil exploration

Source: Wall Street Journal
August 17, 2004

Issues in Business Options

Virtual alliance organizations

- What options can be created among virtually connected partners?
- Who owns the business option?
- Who bears the risk of the IT investment?
- What role does the bargaining power of the partner play?
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