Chap XII-A: IT Policy in Business Management

[Meier] chap 1

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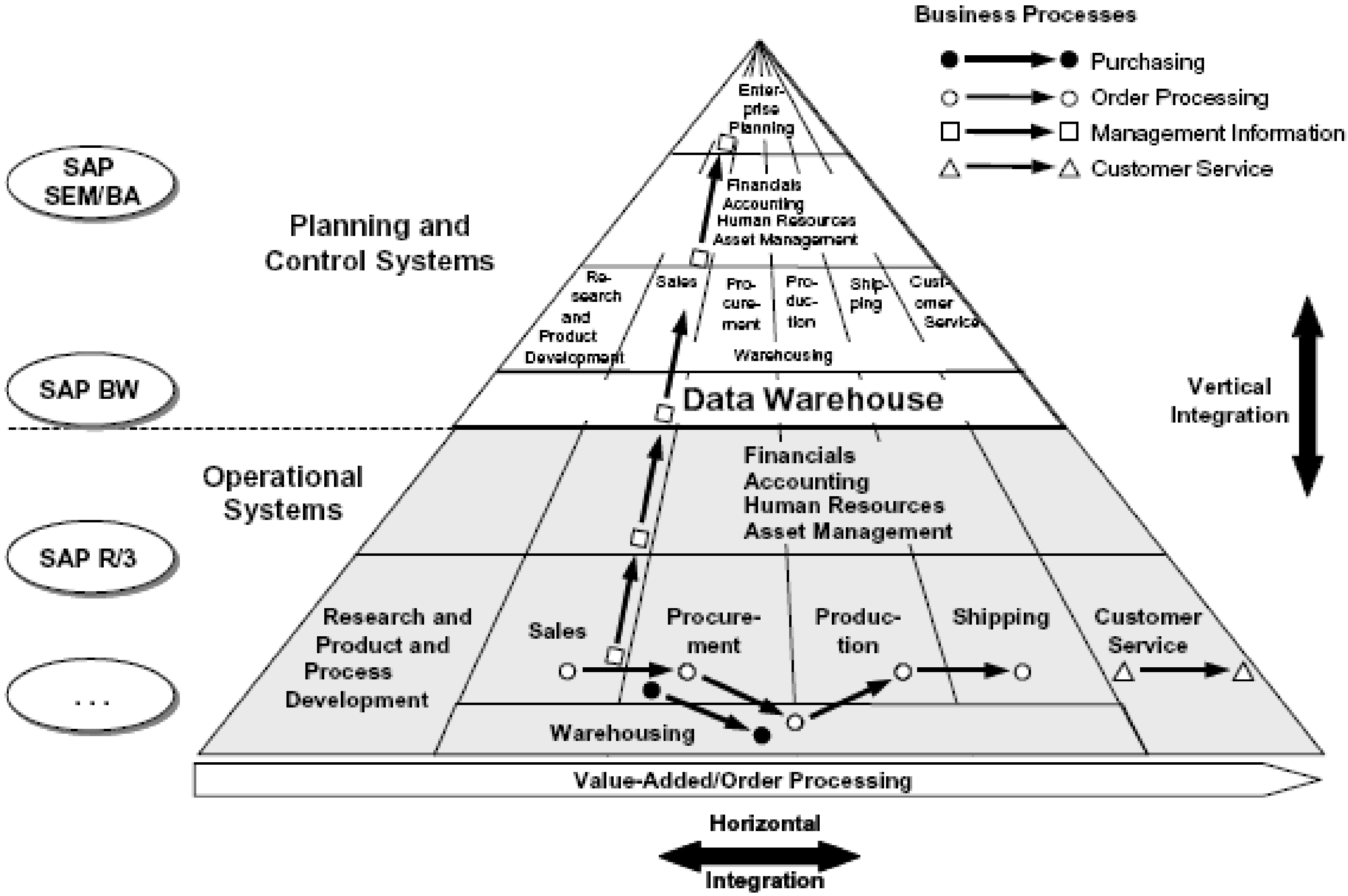
IT Compliance Problem

1. Strategy is not operationalized. Only 40% of middle management and 5% of other employees understand the strategy of the company. The corporate strategy is not broken down into its elements.
2. Only 50% of top management and 20% of middle management have a bonus system that is directly linked to the medium to long-term strategic goals.
3. 85% of management teams spend less than one hour per month on strategy discussions. 60% of resources of the company do not relate directly to the strategy.
4. The focus on financial figures is too one-sided as well as oriented toward the past, and too much stress is placed on reactive measures

Leading Factor as IT Policy

1. Ability to enact corporate strategy
2. Management credibility/capabilities
3. Quality of the corporate strategy
4. Innovation
5. Ability to recruit talented individuals

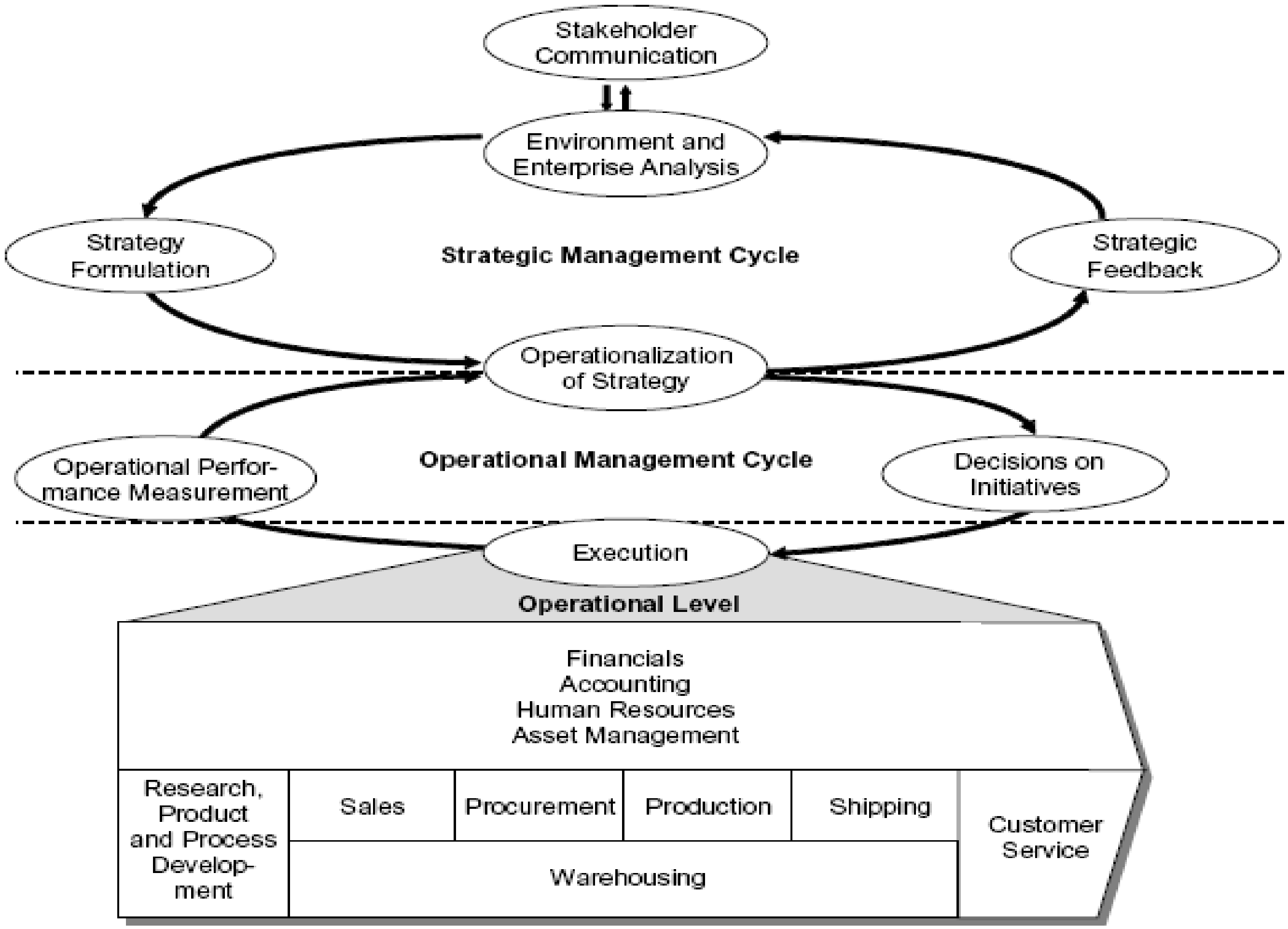
Business Information System



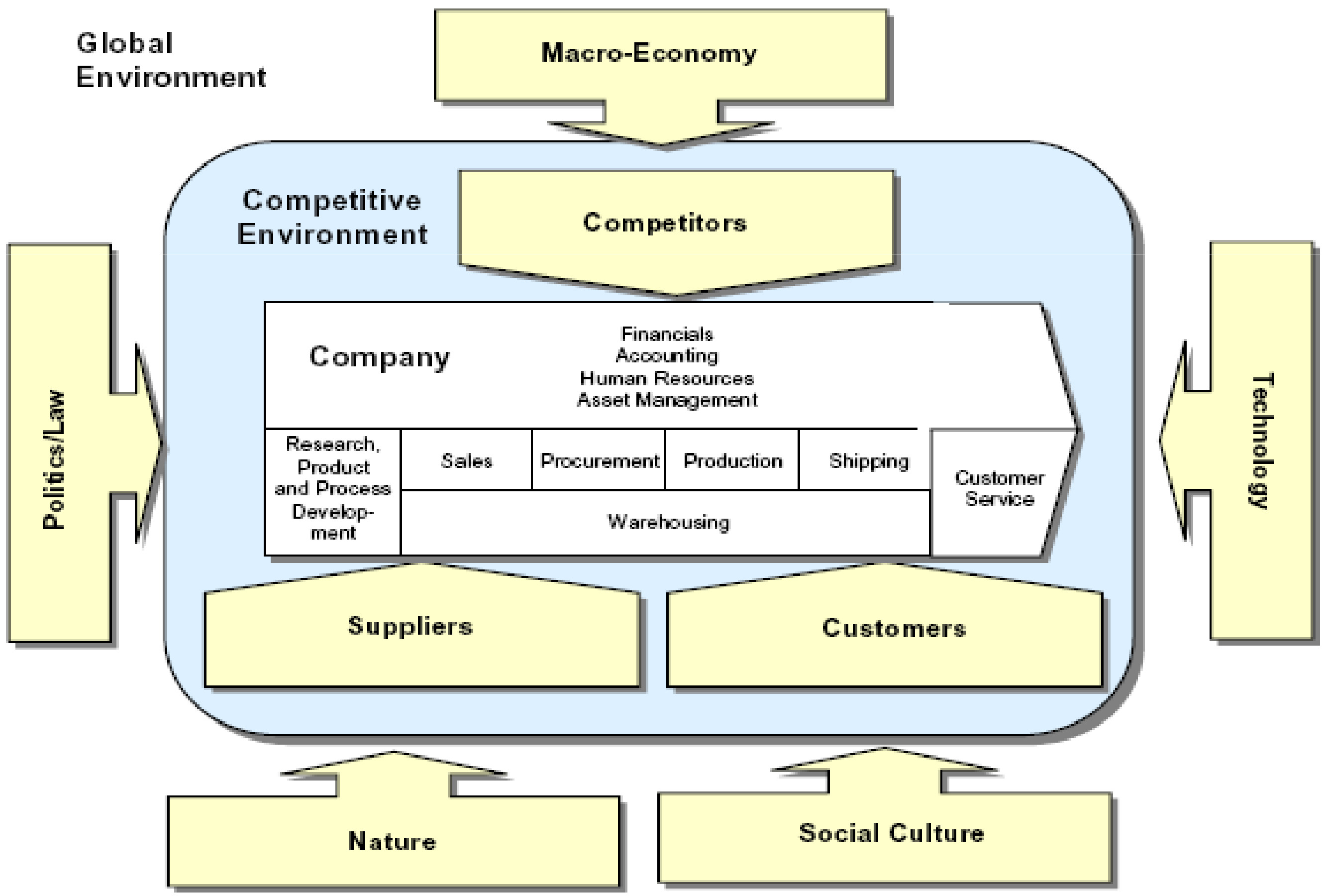
IT Policy Requirement

- *Information integration*
- *Function integration*
- *Module integration*
- *Process integration*
- *Global access via the Internet*
- *Multidimensional structure:*
- *Easy to learn and operate*
- *Interpretation models and visualization methods*
- *Business Content*
- *Personalization*

Policy in operational Management



Environment Analysis
(Strengths, Weaknesses, Opportunities, Threats Analysis).



Policy based strategic

<table>
<tr><th>Characteristic</th><th colspan="6">Characteristic Values</th></tr>
<tr><td>Participating Area</td><td colspan="2">Company</td><td colspan="2">Business area</td><td colspan="2">Functional area</td></tr>
<tr><td>Starting Points for Competitive Advantages (Porter)</td><td colspan="3">Cost leadership</td><td colspan="3">Differentiation</td></tr>
<tr><td>Reach (Porter)</td><td colspan="3">Core market</td><td colspan="3">Niche</td></tr>
<tr><td>Direction of Development</td><td colspan="2">Growth</td><td colspan="2">Stabilization</td><td colspan="2">Contraction</td></tr>
<tr><td>Product-Market Combinations (Ansoff)</td><td>Market penetration</td><td colspan="2">Market development</td><td colspan="2">Product development</td><td>Diversification</td></tr>
<tr><td>Regional Participating Area</td><td>Local</td><td colspan="2">National</td><td colspan="2">International</td><td>Global</td></tr>
<tr><td>Degree of Autonomy</td><td colspan="2">Own resources</td><td colspan="2">Cooperation</td><td colspan="2">Acquisition</td></tr>
</table>

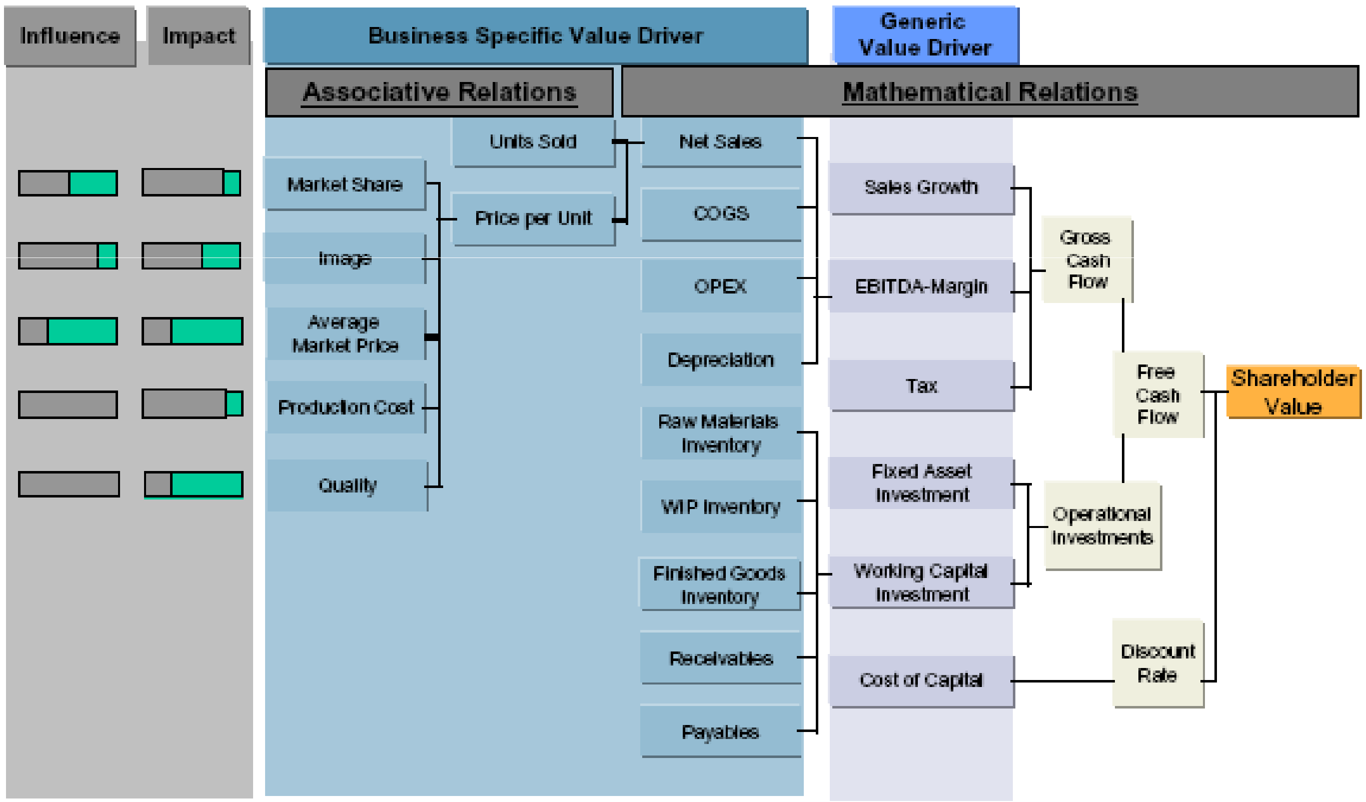
IT Policy Breaking Down Strategy Into Goal

Function	Explanation
Coordination	Goals help in aligning sub-activities.
Decision-making	Goals supply criteria for evaluating various options for action.
Motivation	Goals should encourage a common identity, a "we" feeling, that motivates employees.
Information	Employees and the company environment are both informed about the intentions of the company.
Control	Goals form the basis for the plan/actual comparison, and thereby represent a yardstick for Performance Measurement.
Legitimation	Goals serve as a justification of actions to stakeholders outside the company. This is indicated by the fact that goals such as “retention of jobs” are often included in annual reports.

IT Policy on Planning Object

Characteristic	Characteristic Values				
Basis of Planning	Liquidity	Costs	Revenue	Profit	Inventories
Timeframe	Short-term	Medium-term	Long-term		
Resources	Personnel	Materials	Operating funds		
Functional Area	Research/ Development	Sales	Procurement	Production	Shipping
Processes	Product launch	Purchase order handling	Order processing	Complaint processing	
Products	Divisions	Product groups	Products (variants)	Replacement parts (services)	
Regions	Global	Continental areas	Countries	Sales districts	

Policy in value drivers



COGS: Costs of Goods Sold, OPEX: Operating Expenditure,

EBITDA: Eearnings Before Interest, Tax, Depreciation, Amortization

Policy Goal in CRM

- “Products come and go; customer relationships stay

1. ***Higher market penetration** by wooing new and profitable customers*
2. ***Securing the relationships** to the most important regular customers*
3. ***Building relationships** through a targeted increase in profitability. Effective* measures here include increasing the share of profit – and thereby the share of customer potential (share of wallet) – or recognizing options for cross-selling. An example would be selling accessories or more valuable products (up-selling) to existing customers. In order to reach these goals, companies have to be abl

Risk Management in CRM Policy (phase and activies)

Phase	Activities
Risk Identification	a) Record potential risks for all business units b) Store them in a company-wide risk catalog c) Categorize risks and enter their detailed description
Risk Analysis and Risk Assessment	a) Focus on relevant risks per business unit b) Quantify affects of risks on targets and key figures
Risk Handling	a) Control risks by taking measures for avoiding, reducing or transferring risks b) Observe the overall risk situation before and after risk measures
Risk Controlling	a) Continuously monitor early risk indicators b) Record effects on key figures, goals, and strategies c) Risk manager makes decisions supported by the system d) Describe risk situation graphically and textually e) Adjust risk measures

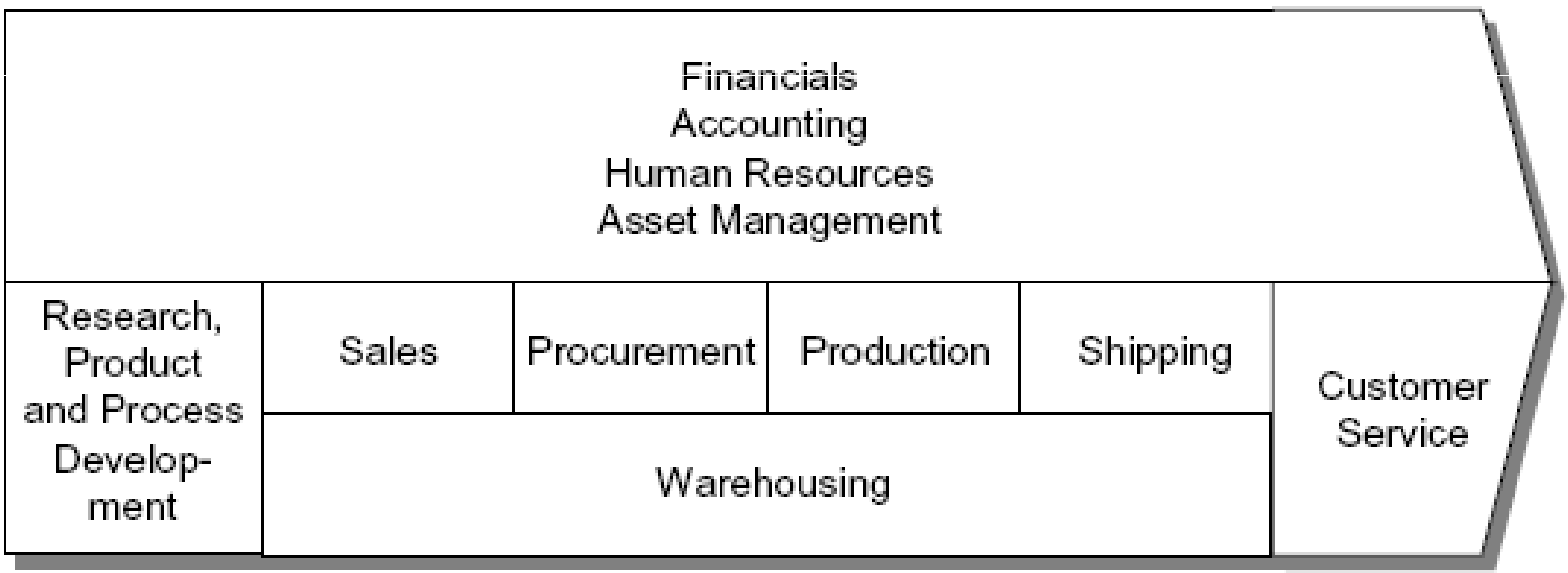
Risk Management in CRM Policy (functional area)

Function	Example Risks
Research and Development (Product and Processes)	Failed experiments, legal/political risks (such as curtailment of genetic research), late replacement of old product, rejected patent requests
Sales	Price crash, decline in sales
Procurement	Price increases, supplier problems
Warehousing	Obsolescence, shrinkage
Production	Machinery malfunctions, ill-chosen technologies, accidents
Shipping	Lateness, incorrect deliveries, contractual penalties
Customer Service	Warranty demands, recalls
Financials	Reduction in value of shares in other companies, changes in interest, currency fluctuations, liquidity risks
Accounting	Miscalculations, inadequate reserves
Personnel	Lack of suitable candidates, costs of severance
Asset Management	Fire, flooding, theft

Any Question ?

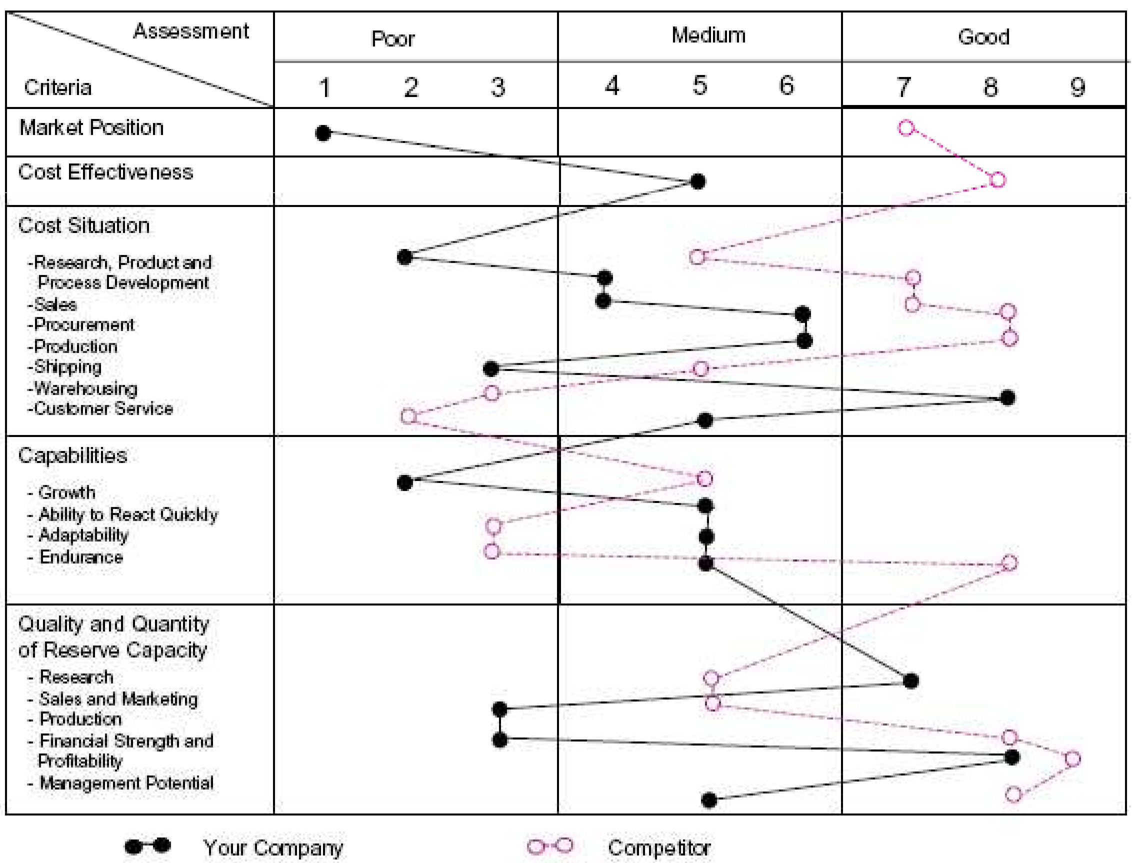
Instrument to analyze IT Policy

- **Value Chain**



Instrument to analyze IT Policy

Strength and weakness profile



Instrument to analyze IT Policy (2)

2. Benchmarking

- *Internal benchmarking*
- *Benchmarking of competitors*
- *General benchmarking*

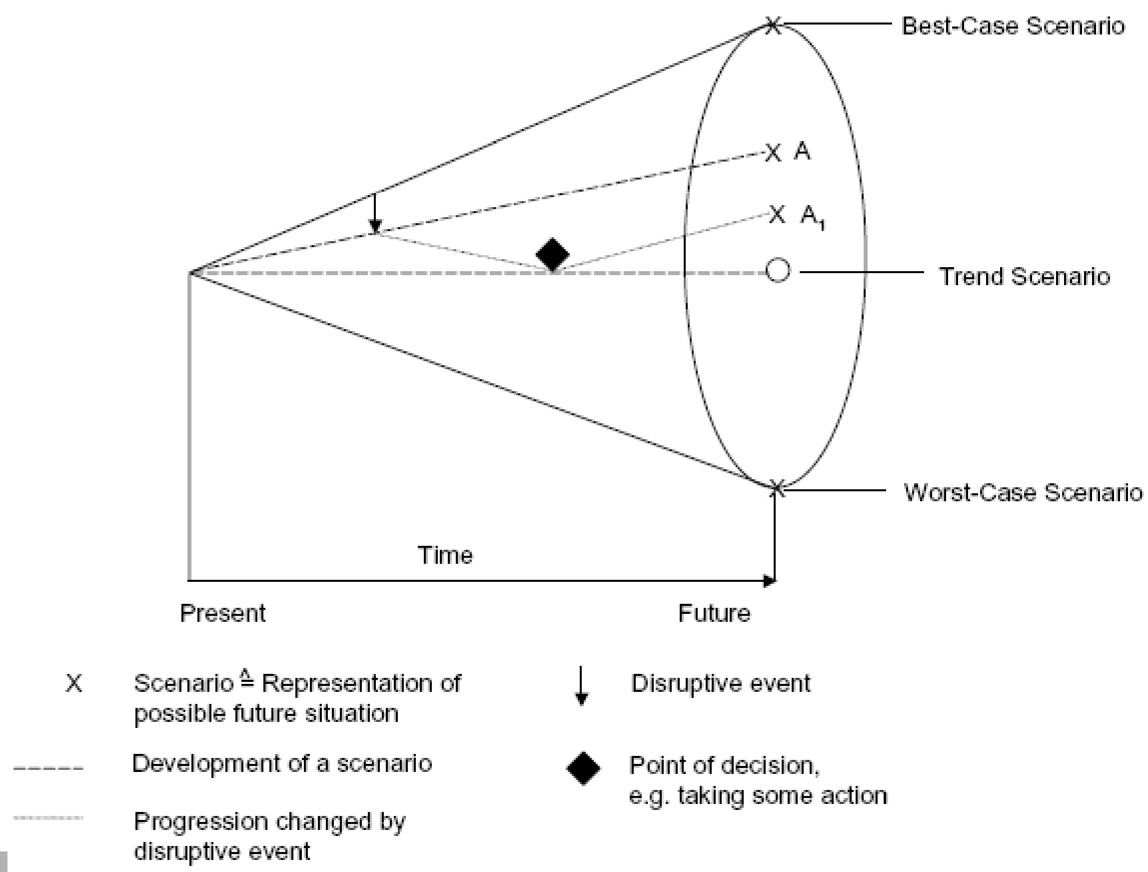
Instrument to analyze IT Policy (3)

3. Early Warning System

Areas	Discontinuities
Politics	• Expansion of the European Union • Social revolutions (Iran, the Eastern Bloc, Ethiopia) • Rise of Green parties in Western Europe
Economy	• Opening of Eastern European markets • Insolvency of developing countries • Legal restrictions of free market access (e.g. Japan and USA: automobiles) • Introduction of the euro
Ecology	• Increase in toxic chemicals • Environmental catastrophes (e.g. Chernobyl, various oil tankers)
Technology	• DRAM chip technology • Artificial intelligence • Internet
Cognitive Orientation	• Change in attitudes (post-materialistic values) in western industrialized countries • Growing fundamentalism in the Arab world

Instrument to analyze IT Policy (4)

4. Scenario Analysis



Instrument to analyze IT Policy (4)

4. Scenario Analysis

Scenario analysis can be broken down into the following phases:

1. Analysis

- **a) Decision about separate object of study (such as division or region)**
- **b) Definition of relevant environment areas (such as macroeconomy, technology, politics, or social demographics)**

2. Projection

- **a) Specification of indicators for describing the environmental areas (such as the unemployment rate or interest level)**
- **b) Determination of actual values and trends (such as a projection of market volume for the next five years)**
- **c) Specification of consistent group of assumptions for indicators that could develop differently**

Instrument to analyze IT Policy (4)

d) Building scenarios by monitoring these critical indicators over multiple blocks of time

e) Analysis of the effects of potential disruptive events on goals and key figures

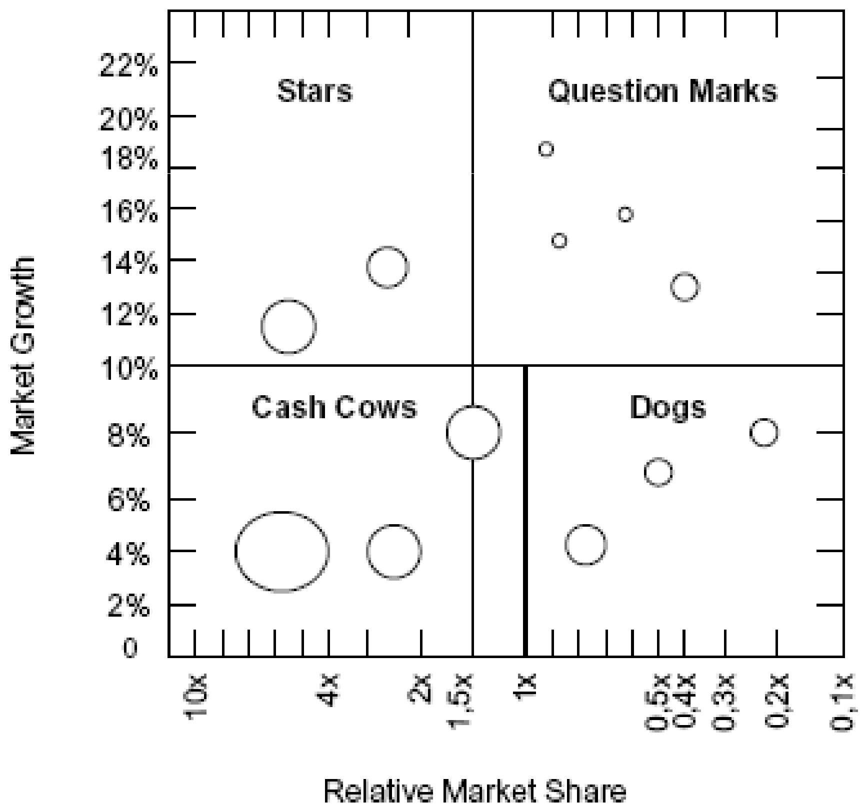
3. Evaluation

a) Assessment of the effects of the determined scenarios on the object being examined (confrontation with the strengths/weaknesses profile of the company)

b) Development of reaction strategies for each scenario

Instrument to analyze IT Policy (5)

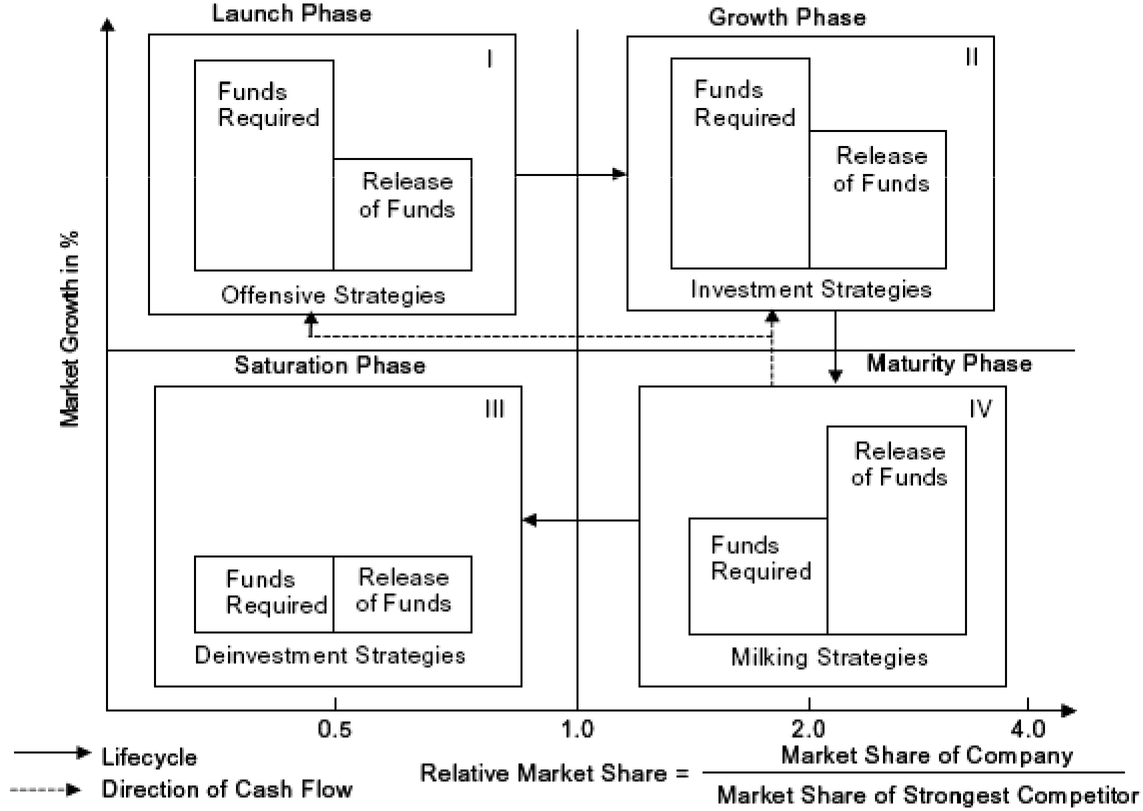
5. Portfolio Analysis



Example

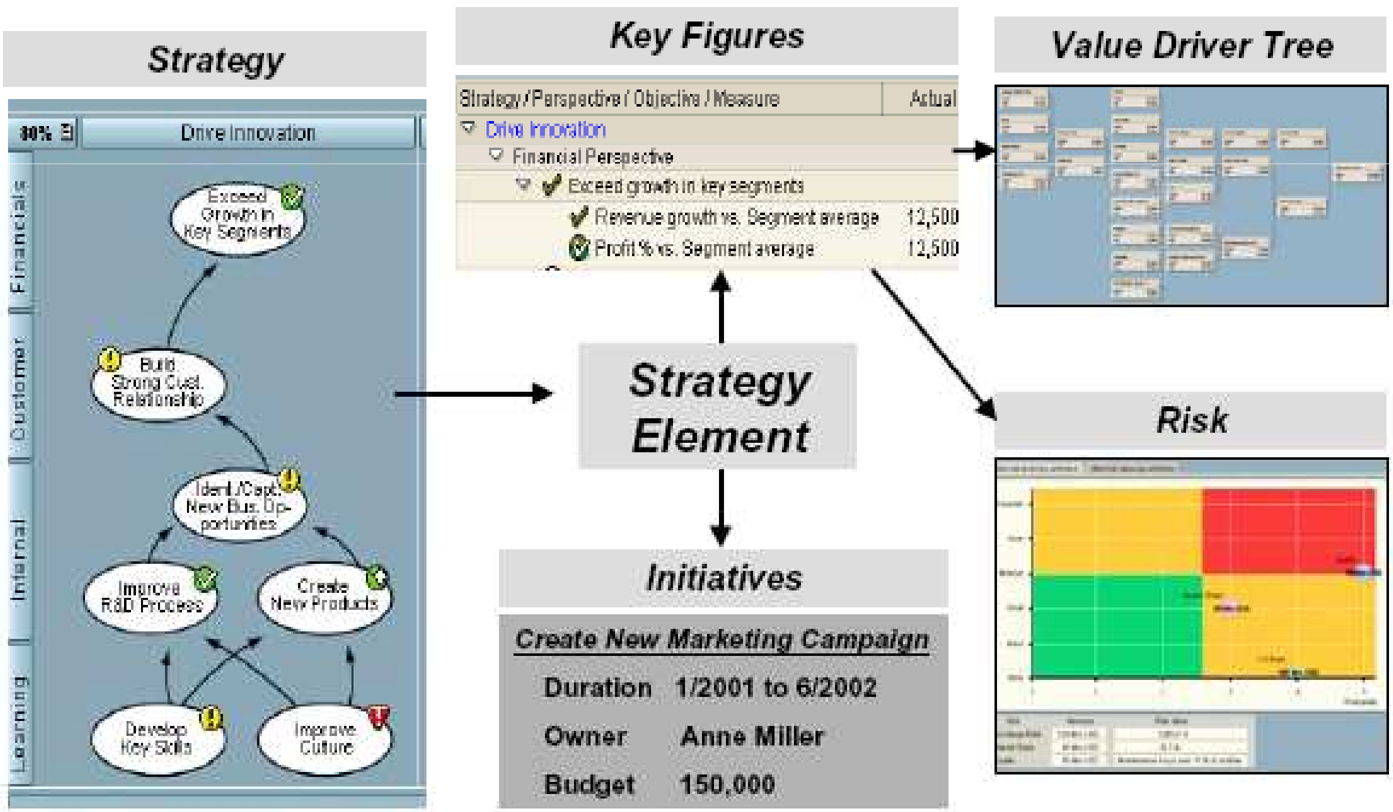
Instrument to analyze IT Policy (5)

5. Portfolio Analysis



Instrument to analyze IT Policy (6)

5. Balanced Scorecard (Robert S. Kaplan & David P. Norton)



Instrument to analyze IT Policy (6)

5. Balanced Scorecard (Robert S. Kaplan & David P. Norton)

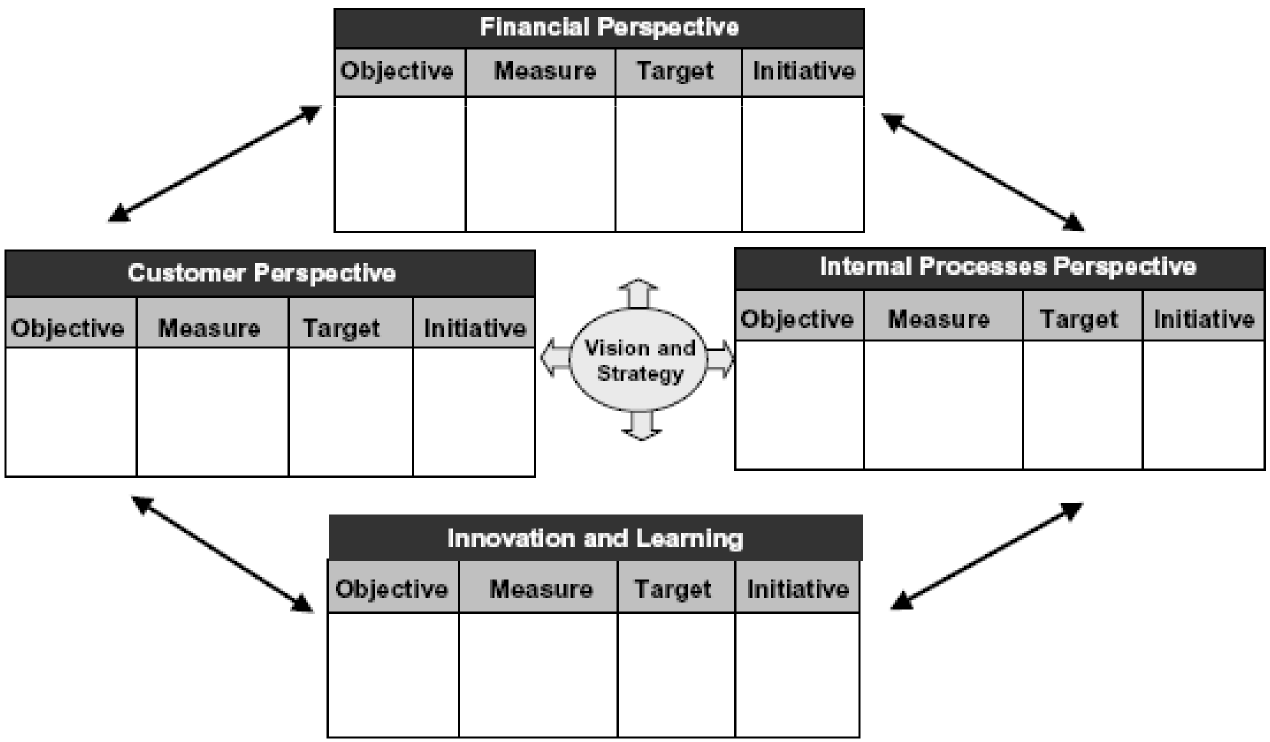
Element

- ***Perspective***
- ***Scorecard***
- ***Strategy***
- ***Strategy category***
- ***Objective***
- ***Initiative***
- ***Key figure***
- ***Risk***

Instrument to analyze IT Policy (6)

5. Balanced Scorecard (Robert S. Kaplan & David P. Norton)

Procedure



Instrument for Operational IT Policy

- **Target Costing**
  1. Design
  2. Calculation of Costs
  3. Determination of price as a function of costs

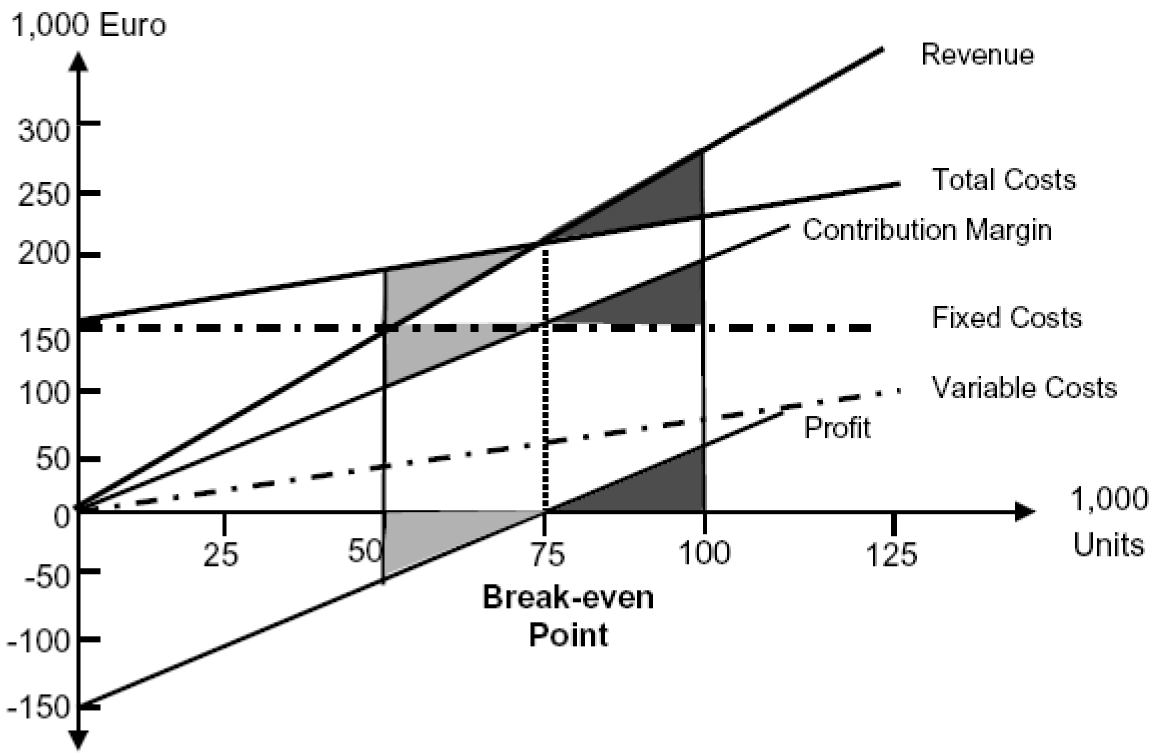
Instrument for Operational IT Policy(2)

- **Contribution Margin Accounting**
  - Preliminary costing
  - Control of the effect on net income of different alternatives for action
  - Profit planning related to orders, projects, and specific periods as well as across periods, and analysis of the source of profit by multidimensional evaluation objects (Riebel 1994)

Multistage Contribution Statement		*Allocation*					
Calc. Rules		*Stock Keeping Unit*	*Product Group*	*Business Field*	*Business Segment*	*Business*	*Company*
		A2	A1	E4	E3	E2	E1
+	Gross Sales of Goods						
-	Sales Discounts						
-	Translation/-action Difference from Receivables						
+	Royalty Income						
+	Other Income						
=	**NET SALES**						
-	Standard Cost of Goods Sold						
-	Direct Cost of Distribution						
-	Royalties						
=	**CONTRIBUTION I**						
-	Direct Promotion Cost						
-	Cost of Free Goods and Samples						
=	**CONTRIBUTION I A**						
-	Own Field Force						
-	Rented Field Force						
-	Commission Co.-Promotion						
=	**CONTRIBUTION II**						
-	General Promotion Activities						
-	Marketing and Sales Organization						
-	Indirect Cost of Distribution						
-	Research and Development I						
-	Medicine I						
-	Administration Cost						
-	Variances Cost of Goods						
-	Variances from other Int. Serv. Charges						
-	Income/Expenses I						
+	Cash Subsidies/Adjustment Payments						
-	Other Translation/Transaction Differences						
=	**CONTRIBUTION III**						
-	Marketing II						
-	Process Development						
-	Cost of Reserved Capacity						
-	Cost of Idle Capacity						
-	Variances Production						
-	Income/Expenses II						
-	Other Expenses in Production						
=	**CONTRIBUTION IV**						
-	Research and Development II						
-	Medicine II						
-	Income/Expenses III						
=	**OPERATING INCOME (LOSS)**						
+	Financial Income/Expenses						
+	Holding Income/Expenses						
+	Extraordinary Items						
=	**INCOME (LOSS) BEFORE TAXES**						
-	Taxes						
=	**INCOME (LOSS) AFTER TAXES**						

Instrument for Operational IT Policy(3)

❖ Break-even Analysis



Instrument for Operational IT Policy(4)

- **ABC Analysis**
  A = important, B = less important and C = unimportant

Instrument for Operational IT Policy(5)

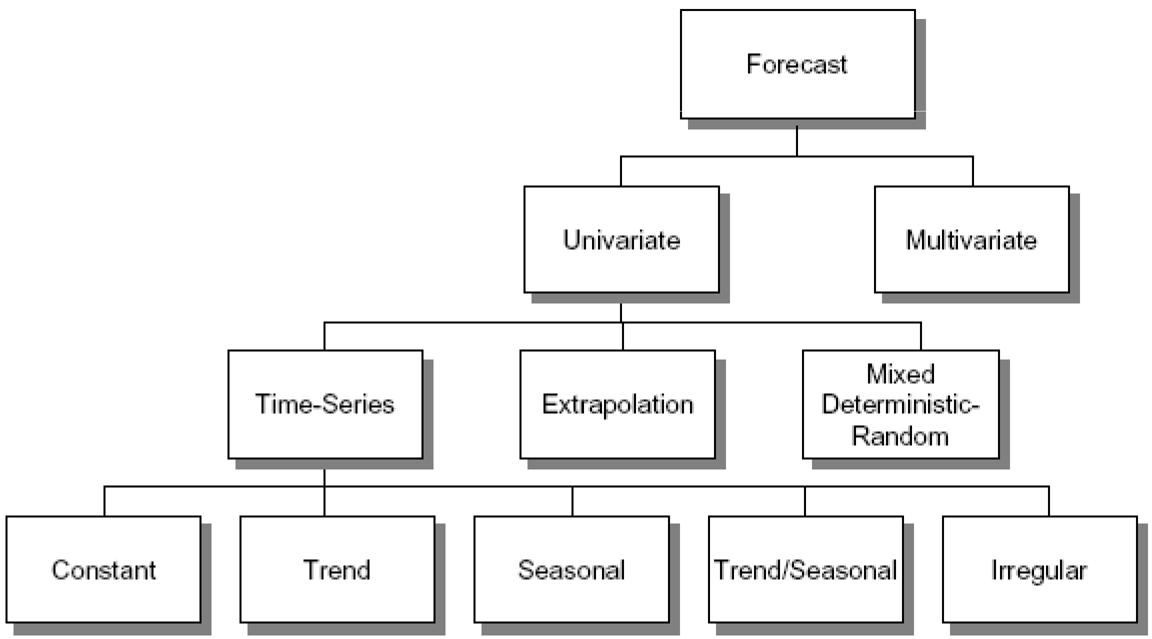
- **RFM Analysis**
  RFM (Recency Frequency Monetary Value) analysis is a procedure specifically for classifying customers so that the company can concentrate its marketing on those customers with whom the chances for success are the greatest
  1. *Recency:*
  2. *Frequency*
  3. *Monetary Value:*

Intsrument Combined Strategic-operational IT Policy

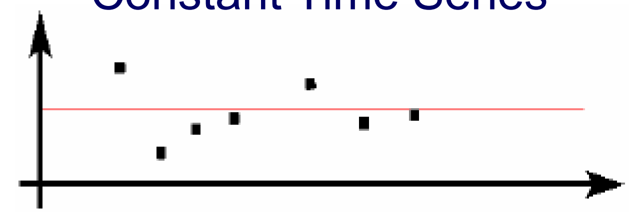
- **Activity-Based Costing**
  1. Determine costs per unit of time
  2. Identify the most important subprocesses on the cost center and determine their time requirements
  3. specify the cost objects (product, customer, or distribution channel, for example).

Instrument Combined Strategic-operational IT Policy(2)

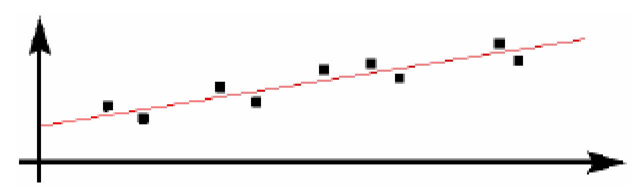
- **Forecasting Methods**



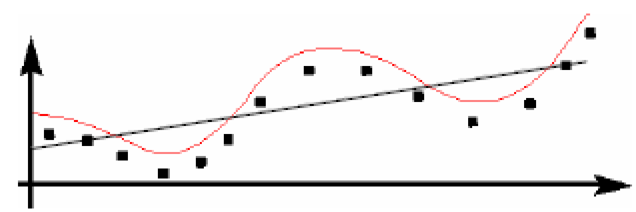
Constant Time Series



Trend Time Series

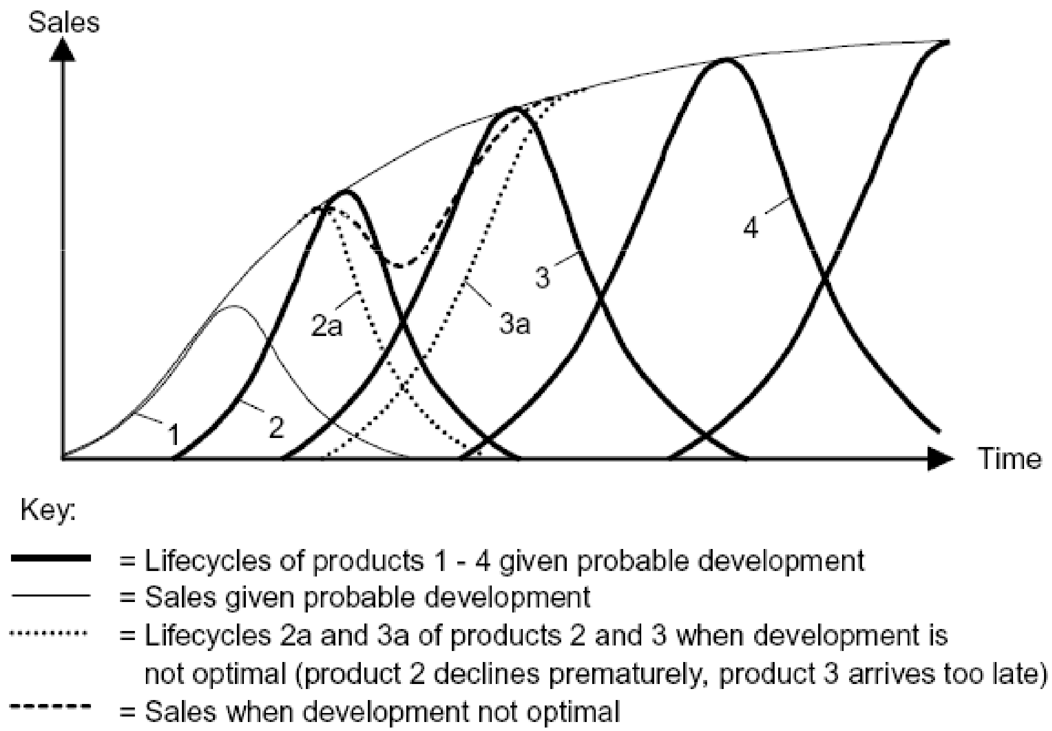


Trend/Seasonal Time Series



Instrument Combined Strategic-operational IT Policy(3)

- **Lifecycle Analysis**
  - *Development phase:*
  - *Launch phase:*
  - *Growth phase:*
  - *Maturity phase:*
  - *Saturation phase:*
  - *Degeneration phase:*



Instrument Combined Strategic-operational IT Policy(3)

Characteristics	Phases			
	Launch	**Growth**	**Maturity & Saturation**	**Degeneration**
Sales	Low	Rapidly increasing	Peak sales	Declining
Costs	High costs per customer	Average costs per customer	Low costs per customer	Low costs per customer
Profits	Negative	Rising	High	Falling
Customers	Innovators	Early adopters	Majority	Latecomers
Competitors	Few or none	Number of competitors and intensity of competition increases	Tendency to decrease begins	Number of competitors declines
Operational goals	Make product known, achieve initial sales	Maximum market penetration	Maximum profit, while also protecting market share	Cost reductions and skimming off last benefits

Characteristics	Phases			
	Launch	**Growth**	**Maturity & Saturation**	**Degeneration**
Product politics	Offer basic product	Offer variants of the product	Diversify brands and models	Eliminate articles with negative contribution margins
Pricing policy	Oriented toward maximum value for the consumer	Many alternatives, depending on the penetration strategy	Price same as competition or lower (fixed market price)	Price reductions
Distribution	Build distribution network selectively	Increase density of distribution network	Further increase density of distribution network	Selectively reduce distribution network according to contribution margin
Advertising	Make product known to early adopters and retail sector	Make product known on mass market	Emphasize distinguishing features and advantages of the brand	Advertising for holding on to the most loyal customers
Promotions	Stimulate initial sales using intensive promotions	Reduce expense of promotions, exploit high demand	Increase promotions, encourage switching brands	Reduce to a minimum