

MINI CASE

IT Planning at ModMeters⁴

Brian Smith, CIO of ModMeters, groaned inwardly as he listened to CEO John Johnson wrapping up his remarks. "So our executive team thinks there are real business opportunities for us in developing these two new strategic thrusts. But before I go to the board for final approval next month, I need to know that our IT, marketing, and sales plans will support us all the way," Johnson concluded.

Brian mentally calculated the impact these new initiatives would have on his organization. He had heard rumors from his boss, the COO, that something big was coming down. He had even been asked his opinion about whether these strategies were technically doable, *theoretically*. But *both* at once? Resources—people, time, and money—were tight, as usual. ModMeters was making a reasonable profit, but the CFO, Stan Abrams, had always kept the lid screwed down tightly on IT spending. Brian had to fight for every dime. How he was going to find the wherewithal to support not one but *two* new strategic initiatives, he didn't know.

The other VPs at this strategy presentation were smiling. Taking ModMeters global from a North American operation seemed to be a logical next step for the company. Its products, metering components of all types, were highly specialized and in great demand from such diverse customers as utility companies, manufacturers, and a host of other industries. Originally founded as Modern Meters, the firm had grown steadily as demand for its metering expertise and components had grown over the past century or so. Today ModMeters was the largest producer of metering components in the world with a full range of both mechanical and, now, digital products. Expanding into meter assembly with plants in Asia and Eastern Europe was a good plan, thought Brian, but he wasn't exactly sure how he was going to get the infrastructure in place to support it. "Many of these countries simply don't have the telecommunica-

tions and equipment we are going to need, and the training and new systems we have to put in place are going to be substantial," he said.

But it was the second strategic thrust that was going to give him nightmares, he predicted. How on earth did they expect him to put direct-to-customer sales in place so they could sell "green" electric meters to individual users? His attention was jerked back to the present by a flashy new logo on an easel that the CEO had just unveiled.

"In keeping with our updated strategy, may I present our new name—MM!" Johnson announced portentously.

"Oh, this is just great," thought Brian. "Now I have to go into every single application and every single document this company produces and change our name!"

Because of its age and scientific orientation, ModMeters (as he still preferred to call it) had been in the IT business a long time. Starting back in the early 1960s, the company had gradually automated almost every aspect of its business from finance and accounting to supply-chain management. About the only thing it didn't have was a fancy Web site for consumers, although even *that* was about to change. ModMeters currently had systems reflecting just about every era of computers from punch cards to PCs. Unfortunately, the company never seemed to have the resources to invest in reengineering its existing systems. It just layered more systems on top of the others. A diagram of all the interactions among systems looked like a plate of spaghetti. There was *no way* they were going to be able to support two new strategic thrusts with their current budget levels, he thought as he applauded the new design along with the others. "Next week's IT budget meeting is going to be a doozy!"

Sure enough, the following week found them all, except for the CEO, back in the same meeting

⁴Smith, H. A., and McKeen, J. D. "IT Planning at ModMeters," #1-L05-1-008, Queen's School of Business, September 2005. Reproduced by permission of Queen's University, School of Business, Kingston, Ontario, Canada.

room, ready to do battle. Holding his fire, Brian waited until all the VPs had presented their essential IT initiatives. In addition to what needed to be done to support the new business strategies, each division had a full laundry list of essentials for maintaining the *current* business of the firm. Even Abrams had gotten into the act this year because of new legislation that gave the firm's outside auditors immense scope to peer into the inner workings of every financial and governance process the organization had.

After listening carefully to each speaker in turn, Brian stood up. "As many of you know, we have always been cautious about how we spend our IT budget. We have been given a budget that is equal to 2 percent of revenues, which seriously limits what we in IT have been able to do for the company. Every year we spend a lot of time paring our project list down to bare bones, and every year we make do with a patchwork of infrastructure investments. We are now at the point where 80 percent of our budget in IT is fixed. Here's how we spend our money." Brian clicked on a PowerPoint presentation showing a multicolored pie chart.

"This large chunk in blue is just about half our budget," he stated. "This is simply the cost of keeping the lights on—running our systems and replacing a bare minimum of equipment. The red chunk is about 30 percent of the pie. This is the stuff we *have* to do—fixing errors, dealing with changes mandated by government and our own industry, and providing essential services like the help desk. How we divide up the remainder of the pie is what this meeting is all about."

Brian clicked to a second slide showing a second pie chart. "As you know, we have typically divided up the remaining IT budget proportionately, according to who has the biggest overall operating budget. This large pink chunk is you, Fred." Brian gestured at Fred Tompkins, head of manufacturing and the most powerful executive in the room. It was his division that made the firm's profit. The pink chunk easily took up more than half of the pie. Tompkins smiled. Brian went on, pointing out the slice that each part of the firm had been allotted in the previous year. "Finally, we come to Harriet and Brenda," he said with a smile. Harriet Simpson and Brenda Barnes were the VPs of human resources and marketing, respectively. Their tiny slivers were barely visible—just a few percent of the total budget.

"This approach to divvying up our IT budget may have served us well over the years"—Brian didn't think it had, but he wasn't going to fight past battles—"however, we all heard what John said last week, and this approach to budgeting doesn't give us *any* room to develop our new strategies or cover our new infrastructure or staffing needs. Although we might get a little more money to obtain some new applications and buy some more computers"—Abrams nodded slightly—"it won't get us where we need to go in the future."

A third graph went up on the screen, showing the next five years. "If we don't do something *now* to address our IT challenges, within five years our entire IT budget will be eaten up by just operations and maintenance. In the past we have paid minimal attention to our infrastructure or our information and technology architecture or to reengineering our existing systems and processes." A diagram of the "spaghetti" flashed on. "This is what you're asking me to manage in a cost-effective manner. It isn't pretty. We need a better plan for making our systems more robust and flexible. If we are going to be moving in new directions with this firm, the foundation just isn't there. Stan, you *should* be worried that we won't be able to give our auditors what they ask for. But you should also be worried about our risk exposure if one of these systems fails and about how we are going to integrate two new business ventures into this mess."

Tompkins looked up from his papers. It was clear he wasn't pleased with where this presentation was headed. "Well, I, for one, *need* everything I've asked for on my list," he stated flatly. "You can't expect me to be the cash cow of the organization and not enable me to make the money we need to invest elsewhere."

Brian was conciliatory. "I'm not saying that you don't, Fred. I'm just saying that we've been given a new strategic direction from the top and that some things are going to have to change to enable IT to support the whole enterprise better. For example, until now, we have always prioritized divisional IT projects on the basis of ROI. How should we prioritize these new strategic initiatives? Furthermore, these new ventures will require a *lot* of additional infrastructure, so we need to figure out a way to afford this. And right now our systems don't 'talk' to the ones running in other divisions because they don't use the same terminology. But in

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the future, if we're going to have systems that won't cost increasing amounts of our budget, we are going to have to simplify and integrate them better.

Tompkins clearly hadn't considered the enterprise's needs at all. He scowled but said nothing. Brian continued, "We are being asked to do some new things in the company. Obviously, John hopes there's going to be a payback, but it may take a while. New strategies don't always bear fruit right away." Now looking at Abrams, he said pointedly, "There's more to IT value than short-term profit. Part of our business strategy is to *make* new markets for our company. That requires investment, not only in equipment and product but also in the underlying processes and information we need to manage and monitor that investment."

Harriet Simpson spoke for the first time. "It's like when we hire someone new in R&D. We hire for quality because we want their ideas and innovation, not just a warm body. I think we need to better understand how we are going to translate our five key corporate objectives into IT projects. Yes, we need to make a profit, but Stan needs to satisfy regulators and Brenda's going to be on the hot seat when we start marketing to individuals. And we haven't even spoken about Ted's needs." As the VP of R&D, Ted Kwok was tasked with keeping one or more steps ahead of the competition. New types of products and customer needs would mean expansion in his area as well.

Abrams cleared his throat. "All of you are right. As I see it, we are going to have to keep the cash flowing from Fred's area while we expand. But Brian's got a point. We may be being penny wise and pound foolish if we don't think things through more carefully. We've put a lot of effort into developing this new strategy, and there *will* be some extra money for IT but not enough to do that plus everything all of you want. We need to retrench and regroup *and* move forward at the same time."

There was silence in the room. Abrams had an annoying way of stating the obvious without really

helping to move the ball forward. Brian spoke again. "The way I see it, we have to understand two things before we can really make a new budget. First, we need to figure out how each of the IT projects we've got on the table contributes to one of our key corporate objectives. Second, we need to figure out a way to determine the *value* of each to ModMeters so that we can prioritize it. Then I need to incorporate a reasonable amount of IT regeneration so that we can continue to do new projects at all."

Everyone was nodding now. Brian breathed a small sigh of relief. That was step one accomplished. But step two was going to be harder. "We have a month to get back to the board with our assurances that the IT plan can incorporate the new strategies and what we're going to need in terms of extra funds to do this. As I said earlier, this is *not* just a matter of throwing money at the problem. What we need is a *process* for IT planning and budgeting that will serve us well over the next few years. This process will need to accomplish a number of things: It will need to take an *enterprise* perspective on IT. We're all in these new strategies together. It will have to incorporate all types of IT initiatives—our new strategies, the needs of Fred and others for the new IT to operate and improve our existing business, Stan's new auditing needs, and our operations and maintenance needs. In addition, we *must* find some way of allocating some of the budget to fixing the mess we have in IT right now. It must provide a better way to connect new IT work with our corporate objectives. It must help us prioritize projects with different types of value. Finally, it must ensure we have the business *and* IT resources in place to deliver that value."

Looking at each of his colleagues in turn, he asked, "Now how are we going to do this?"

Discussion Question

Develop an IT planning process for ModMeters to accomplish the demands as set out above.