

MGMT 647

Scenario: John Smith

Five years ago, John L. Smith decided he wanted to start his own technology service business. He rented some office space, purchased some computer and network equipment, and installed a telecommunications circuit to the Internet. Almost immediately, he started to acquire customers who wanted him to host their business applications and for him to be responsible for the operational availability of the applications. In other words, John would provide the space, servers and local area network equipment, connectivity to the Internet, and an around-the-clock operational support staff. His customers would provide the business application software, and they would manage it remotely.

During the first 5 years, John's business grew substantially. He had to relocate his offices three times, add computer and network equipment, increase the bandwidth and connectivity to the Internet, and hire numerous administrative and technical support staff.

As John needed to add computer hardware, he would negotiate with local retail stores and purchase the lowest cost equipment. If he needed additional communication services, he would go to the local telephone company to add the bandwidth and connectivity he believed he needed.

Starting his sixth year in business, John has over 30 major long-term contracts, a 20,000 square foot data center, a small storeroom for service parts, over 400 servers; and 100 full-time employees. Additionally, he hosts 50 major business applications for his customers.

The organization configuration is fairly simple. John has set up an extremely flat organization in which the majority (approximately 80%) of the staff are technical or operations support (network, server, applications, operating systems, and database). Additionally, there is one contract, five helpdesk, one project manager, and five administrative support staff. John does all of the marketing and sales and personally negotiates each contract.

The cost structure is set up as follows:

- Floor space (includes utilities, rent, water, and so forth): \$100/square foot (John pays \$25/square foot)
- Hardware (servers): Actual cost of each server as well as the number of servers required (customers expected to reimburse John for parts)
- Labor: \$25/hour as required for break/fix, updates, and so forth
- Internet connectivity: Cost per month spread across all contracts

Each month, hours are tabulated and additional costs are billed to each customer.

Over the past several years, John has been one of the few providers in this hosting business; however, competition is now starting to challenge his company from a cost, efficiency, quality, and the kinds of services provided. Additionally, existing customers are starting to complain about slow response times, degradation of services, poor quality, lack of communication, and rising costs. In the past, when a

MGMT 647

customer made a request, the organization has accommodated for that request. As of recently, John is taking responsibility for nearly half of the customer applications to include updates and changes.

A number of the customers have told John that they will have to reduce their effort with him if the service-related issues are not corrected. A couple of them have sent correspondence to John stating the following:

- Response times: When they provide updates and changes, the support staff is taking longer and longer to implement the changes.
- Service degradation: The availability of the hardware platforms is trending downward. Where the platforms were available around the clock, they are now suffering from some frequent and long outage periods.
- Quality: When updates and changes are implemented, they are often not installed correctly and have to be reinstalled.
- Communication: Whether changes to the platforms or coordinating outages, the support team does not notify the customers and the issues are beginning to impact their revenue stream.
- Costs: In the past, when additional equipment was needed, John purchased, installed it, and billed it back to the customer each month. Also, the cost of support over the past few years has been steadily increasing.

John is now beginning to wonder whether he should outsource or even offshore some of the functions and services he is offering to an organization that specializes more in a specific area. He has contacted a number of outsourcing organizations as well as an organization in India that might be able to run his service center help desk. The cost seems to be less expensive than what he is able to provide to his customers. Also, he thought it might be a good idea because he is starting to expand his company to global customers. He now has two smaller contracts with European customers, and this appears to be an area that is going to grow.

Your task starts with assisting Smith with an assessment of his current business situation. Then, you will assist him in developing an operations strategy that can be used to improve his operational performance and business profile. The overall goal of assisting Smith is to help him assess and determine how each of these areas impacts his business and recommend some solutions so he can optimize his operations and competitive profile.