Exercise 1 (Use cash flow handout)

You have a plan to deploy an information system in your company. Your boss tells you to deploy your proposed information system if the return on investment is more than 12% (no one knows where he came up with that figure). Suppose the information system requires an initial investment of $25 thousand, and you calculate it will result in a savings of $8 thousand in year 1, $15 thousand in year 2, $12 thousand in year 3, and no savings in the years 4 and after. What is the rate of return (ROR) of the investment? Should you deploy the information system? For purposes of calculation, assume that the savings are realized in “lump” sums each year rather than distributed throughout the year. This is illustrated by the figure below.

Exercise 2

Complete the review quiz of O’Brien chapter 2 (found at the end of the O’Brien chapter 2 material in your course reader).

Help: You can use a table with 2 columns; one with the heading ‘key term’ and one with the heading ‘definition/example’, each row containing the corresponding answers (numbers).
Exercise 3

Construct a basic Porter 5-forces model for Ikea. Define the industry; list some of Ikea's direct competitors, its suppliers, buyers, substitutes for its products, and potential new entrants. Draw your Porter model in the classic way that we used to draw our example in class. For each item you list in your model, state whether you think that item has strong or weak negotiating power, or is a strong or weak threat, and justify your answers.