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Outsourcing, Insourcing, Offshoring, Onshoring: Sizing for Surviving

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Professional Metrics Consultant
President

Abstract

Earn more than \$25K/yr? You are a candidate for management “savings” by Offshore Outsourcing. How can you get into the loop?

Learn how others have used sizing metrics, with other data, to be more Proactive in influencing decisions; to prove and report value, and to adapt in global markets.

Learn what to ask. What data to collect. How to collect it quickly. How to create the right samples. How to report it...

Value

To Realize the Value of

one year: Ask a student who has failed a final exam.

one month: Ask a mother who has just had a premature baby.

one week: Ask an editor of a weekly newspaper.

one day: Ask a daily laborer who has 10 kids to feed.

one hour: Ask the lovers who are waiting to meet.

one minute: Ask a person who has missed a plane, train or bus.

one second: Ask a person who has survived an accident.

one millisecond: Ask an Olympic silver medal winner.

Time waits for no one. Treasure every moment and share it with someone special.

Biography: Bill Hufschmidt

Bill Hufschmidt is President of and Professional Metrics Consultant for Development Support Center, Inc. Now in their twentieth year, Bill and the Development Support Center have assisted with the implementation of measurement programs worldwide in over 250 companies and organizations covering over two dozen industries, proving multi-million dollar savings. Bill helped establish IFPUG; gave it its name; served as first president plus multiple terms on the Board and key committees. He has been a keynote or featured speaker at SIM, QAI, ASM, CASMA, CQAA, PSQT, IFPUG, ICSPI and other regional, national and international productivity, quality and measurement forums. Bill holds a BA in Economics and has been named to Who's Who in American Business. (CFPS, CSQA, CSMS)

Bill's former careers include Sr. Analyst-Fleet Mortgage, Manager Claims Systems-Blue Cross Blue Shield WI, Manager Business Systems-Wisconsin Gas, Manager Productivity-Metavante/M&I Data Services.

Partial Client List



**Ameritech/SBC/PacBell, BellSouth,
Wisconsin Gas, Eckerd Drug, Bank ONE,
GE, Dell, NCR, Allied Signal, Guidant,
British Airways, US Army,
Montgomery County Public Schools,
State of WI
20 Years, 250+ clients**

Agenda/Objectives



Sizing Framework and Context

Understanding the Competition

What Management Wants

Examples

Lessons Learned

3 Universal Measures and 5 Business Decisions Reasons

Time, Money, Software Size/Functionality!

Mandatory: Legal, Regulatory, Corporate, Political

Increase Sales or Market Share

Increase Efficiency (Cash Flow, Cost, Cycle Time)

Increase Customer Satisfaction

Future Investment

Question



What is the product of IT for a Business?

Mainframes, Servers?

Web, Internet?

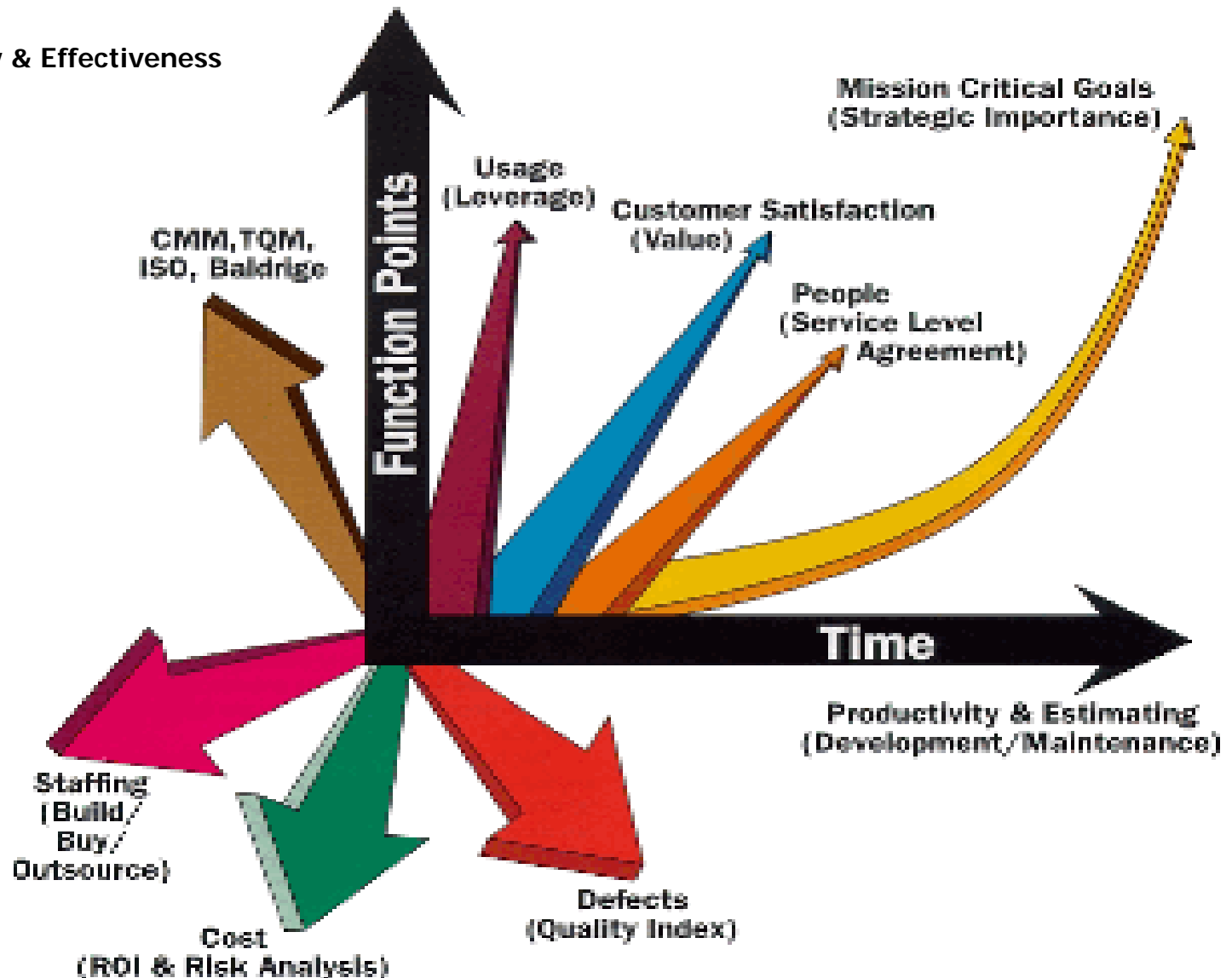
Software Functionality for Business Users to do their jobs?

What do you measure?

Doing Things Right and Doing The Right Things!

Tactical

Efficiency & Effectiveness



Understanding the Competition



Staff: Describe yourself 2-4 words

Problem Solver vs. Salesman

Mgmt: Cowboys

Vend: CMM being used against US

Understanding the Competition (Risk vs. Cost)

Company 1

Company 2

Company 3

Company 4

Company 5

Where does Mgmt perceive itself?

Where does Mgmt perceive you?

Understanding the Competition

Would you be interested in saving \$10M?

Outsourcing Questions Back:

What Prod & Qty is guaranteed?

What Improvement is guaranteed?

How will they do it?

How will they prove it?

Where can we visit? Just like packages.

What if they (we) fail? (3-5 yr marriage – prenuptial)

Understanding the Competition

“It doesn’t matter because they are only 1/3 of the cost.” - Political Decision.

Business Case of Outsourcing.

And they are CMM3, 4, 5 – Certification!

Classes in Nebraskan English!

**CEO Bragging Right –
5X Productivity, 10X Quality!**

What Management Wants



On Time, Within Budget, Satisfied Customer

No Surprises

Managed Expectations (Risks)

Use Function Points for Estimating

Ask for Management Input

Pre-Project Customer Satisfaction Survey

Trust, Comfort, Loyalty, Reliability, Integrity

Sometimes TLC

Cost (It's not the only factor.)

What Management Wants/Needs: Real Costs

- \$30 + Infrastructure,**
- +PM (Overall, Here, There, Bus...)**
- +QA, Security, Chg Ctl, Test...**
- +Supplier Relations, +Resource Planning**
- +Direct Assignment Supervision (25%)**
- +Management Oversight, Audit, ...**
- +Training, Turnover, Terrorism, Disease!**
- + Productivity Differential, + 1:1?**

Chain letter, Grapes of Wrath, Tech stocks in late 90's, No risk-No profit.

What Management Wants/Needs: Real Costs vs. Real Savings?

$\$ 100 \times 1000 \text{ hr} = \100K

$\$ 50 \times 1000 \text{ hr} = \50K , *save 50K*

Redo

$\$ 50 \times 1000 \text{ hr} = \50K , *save 50K*
save 100K

Without Function Points, You're Just Another Opinion!

Outsourcing

(Strategic Need vs. Tactical Dept)



Examples

What Management Needs: Vendor Comparisons

| | <u>Vendor A</u> | <u>Vendor B</u> |
|---------------------|-----------------|-----------------|
| Cost per Hour | 100 | 30 |
| Hours to Develop | 40,000 | 60,000 |
| Total Cost | 4,000,000 | 1,800,000 |
| Function Points | 4,000 | 1,800 |
| Hrs per FP (Prod) | 10 | 10 |
| Norm (Unit) Cost/FP | 1,000 | 1,000 |

Estimating

CJ - RFP

\$110,000

\$250,000

\$450,000

Fixed Price Bid

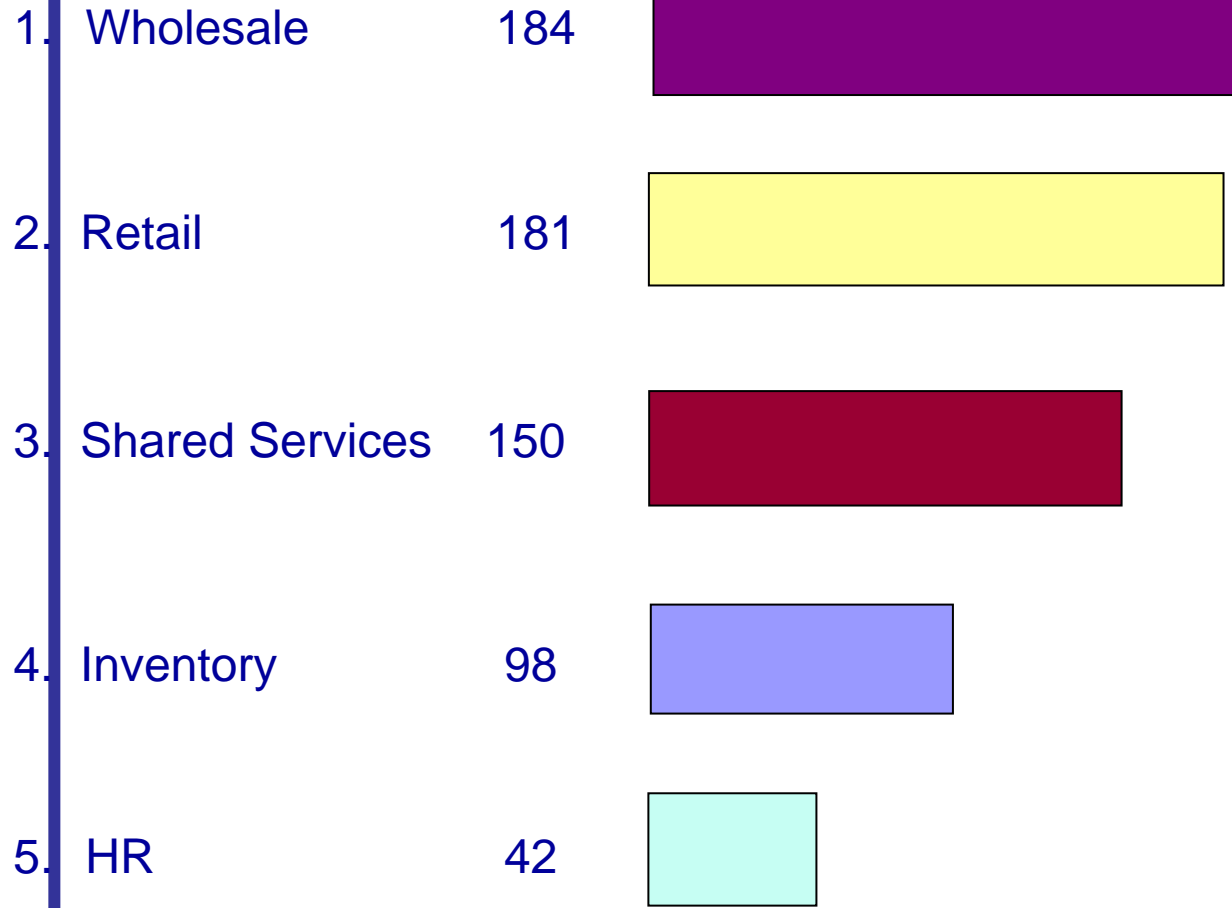
FP * \$/Hr = \$200,000

Quality Status

| | | | | |
|-----------|-----------------|-------------------------------------|--------|------------|
| Claims | Bill Hufschmidt | 5000FP 9/9 _{MethPoints} | \$2.5M | OT, WB, SC |
| Finance | Other | 6/9 | \$1.0M | Notes |
| Marketing | Other | 5/9 | \$1.5M | |
| Member | Other | 1/9 | \$1.2M | Interfaces |

Methodology/Embarrassment **Points**

For the Period 1/1/05 – 12/31/05



Inspections

Conservative Assumption 1: Any deviation will affect at least one user function, screen, report, interface transaction (input or output) or file.

Conservative Assumption 2: An average user function = 4-5 FP. Most = 6-7 FP.

Ind Avg Productivity is 10 Hr/FP.

Inspections

2005 Savings = 2005 Deviations

*** 6.5 FP/Deviation**

*** 10 Hr/FP**

*** \$100/Hr**

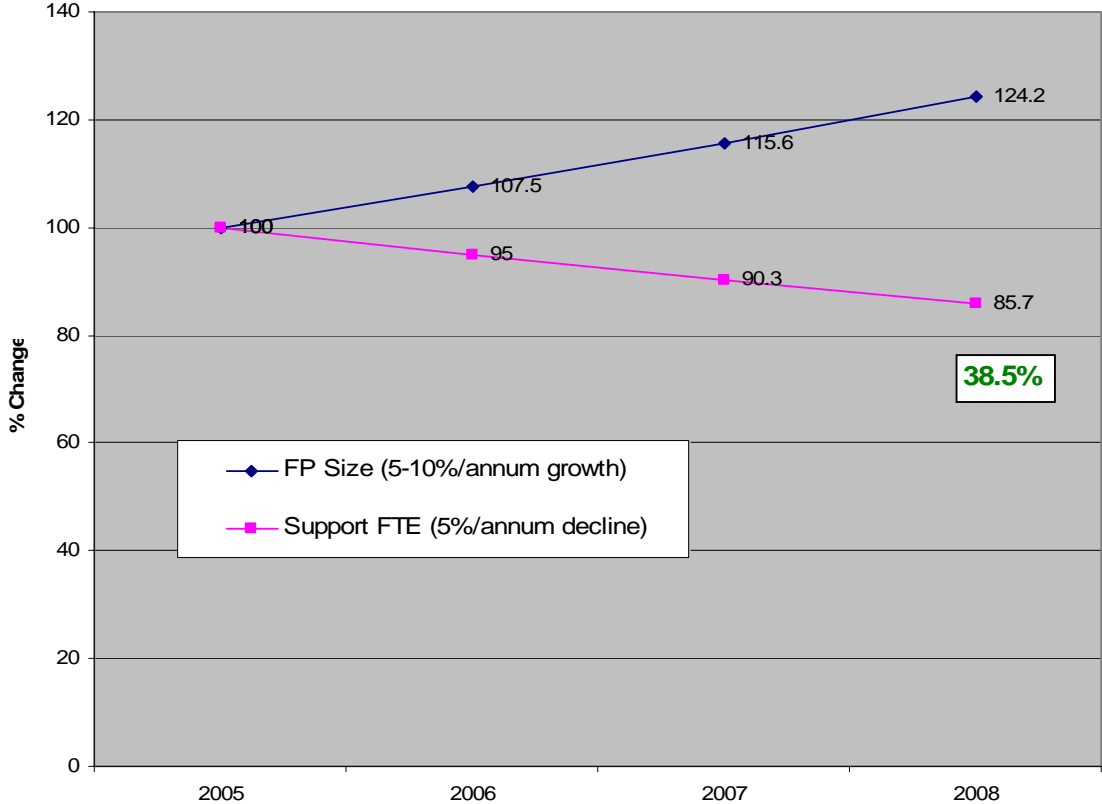
= 151 * 6.5 * 10 * \$100

= \$975,000

= \$3M (3 years)

Unreported Support Savings

Unreported Savings - Unit Cost Support



Churn II



$$\begin{aligned}\text{Churn} &= 1 - (\text{Fun Added} / \text{Fun Worked}) \\ &= 1 - (100 / 200) \\ &= 1 - (.5) = .50 = 50\%\end{aligned}$$

**Mandatory: Legal, Regulatory, Corporate,
Political**

Churn III

Supp Prod=100,000FP/100FTE=1000FP/FTE

100 Dev *150Hr *12Mon =180,000Hr/Yr.

@10Hr/FP (Ind Avg) = 18,000FP/Yr.

@50% Churn = 9000 new FP.

100,000FP + 9000FP = 9% Inc Baseline

= 9% Supp Prod Gain

= 9% Savings

Applies to 250 Operations FTE as well.

Churn IV

250 FTE

* **.1 Productivity (rounded)**

* **2000 Hr (rounded)**

* **\$100/Hr (rounded)**

* **5 Yr**

\$25M savings.

Lessons Learned



Understand Environment:

Partial, All, Chargeback

What is your Productivity Rate, Quality Rate, Unit Cost... (See Vendor Comp)?

What is differential? Surtax? (Reqmt Volatility)

What is strategy?

If save \$10M – 1 yr vs. 3 yr?

Savings vs. new ceiling?

Lessons Learned

Potential Offshoring Applications:

Non-Core,

Limping/stalled (resources, \$, skills),

Large backlog of defects or enhance,

Migration to new tech,

Turnkey (Pkg + Supp),

Static Requirements.

Lessons Learned



Higher Risk:

**Requires business knowledge,
High mgmt profile and/or interaction.**

Lessons Learned

Questions and Challenges to Management

What if goals aren't met?

Commodity vs. Knowledge?

Experience Index?

Lessons Learned

Experience Index

$$10 \times 10 = 100 \quad (\$1\text{M})$$

$$(9 \times 11) + (1 \times 1) = 100$$

$$(5 \times 11) + (5 \times 1) = 60 \quad \langle 40\% \rangle = \text{Risk!}$$

$$(5 \times 100) + (5 \times 50) = \$750 \quad \langle 25\% \rangle = \text{Save!}$$

Lessons Learned



!!!!!!!!!!!!NEVER OUTSOURCE CHAOS!!!!!!!!!!!!


Cutting Cost vs. Cutting Chaos?

Management: Problem or Solution?

Can they answer the BIG question?

Create a Chaos Index!

Lessons Learned, Lessons Learned



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Cutting Cost vs. Cutting Chaos?

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Lessons Learned



Hall of Shame: Commodity vs. Knowledge

Former #2 in Industry

Cutting Costs, Cutting Staff – Bidding War

Former #1 in Industry

Yellow Pad

Kodak – Drop off Dow

GM – now # 2

You Can't Manage What You Can't Measure!

Lessons Learned

Lead Charge with Sizing and other Measures

Quality without Metrics is just Cheerleading!

Sizing must be Low Overhead! (Big book of graphs/ wallpaper)

Benchmarking may be overrated? (Interesting vs. Insight)

Certifications a bane? (Allow mgmt to pigeonhole us)

Reporting must be Flexible and Fast! (1,2 vs.10,12)

Measures are often one time! (Strategic vs Tactical) (M&I:40 peo, abuse)

“What I really need to know is ...” (moving target)

Lessons Learned: Personal



Network, Network, Network
Educate, Educate, Educate

Shop for a Sponsor.

Shop for Backups.

(Do a presentation. Go in early. 2 minutes. Send CQAA summary email. Call Friends. ...)

Lessons Learned: Personal II



Sizing is very Important, but

There is a Point of Diminishing Returns.

**Ad Hoc capability is more valuable than
scrapbook of reports.**

Be vigilant for Business Opportunities.

Lessons Learned: Personal III



Question: Which will come first?

Bush says war was wrong.

Dems say war was right.

Mgmt reports unmet savings.

Hell freezes over.

Supplemental Measures and Questions to Gain Staff Support

Ratio of igloo's circumference to diameter: Eskimo Pi.

2000 pounds of Chinese soup: Won ton.

1000 aches: one megahertz.

1000 grams of wet socks: one literhosen.

8 nickels: two paradigms.

1 millionth of a mouthwash: one microscope.

2000 mockingbirds: two kilomockingbirds.

Can a hearse carrying a corpse use the carpool lane?