

Reducing the risks of sourcing value



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Agenda



- Risk: an operational definition
- Threat #1: mismatch between the supplier's goals & the customer's desired outcomes
- Threat #2: a long-term commitment to one partner may not deliver consistent, sustained results
- Threat #3: a 'broken consortium'
- Threat #4: customer staff no longer feel accountable (they have a supplier to blame)
- Threat #5: stakeholder interest may wane over time unless the ROI is continuously proved
- Threat #6: outsourcing & offshoring adds process steps, damages communications, & increases costs
- Threat #7: "...a tale told by an idiot; full of sound & fury, signifying nothing."
- Conclusion

Risk



Some operational definitions

⋮

Risk occurs when a desired outcome is under threat



- If we have no requirements, nothing is at risk
- Conversely, requirements are subject to many threats
- For any specific threat:
 - **Exposure = Impact x Likelihood**
- The total exposure you should be willing to take is a function of the value (i.e. benefit) to be realized
- So you need to quantify both the benefits & the threats

When an organisation sources critical IT projects or systems, the risk exposure may increase or decrease



- Whether insourced or outsourced, outcomes are put 'at risk' by...
 - the **capability** of the 'supplier(s)' – CMMI Maturity Level & service levels
 - the **behaviour** of the customer management and staff – % goals achieved
- Will outsourcing increase or decrease...
 - the **number of threats**?
 - the **impact** of specific threats? – cost to mitigate or rectify
 - the **likelihood** of specific threats? – probability %
 - the **timing** or schedule of specific threats? – dates & thresholds

Threat #1



**Mismatch between the supplier's
goals & the customer's desired
outcomes**

Although the required performance may be demonstrated at the start,
performance & expectations will diverge if goals aren't aligned

The risk exposure resulting from outsourcing will be increased by mismatches between supplier strategy & customer needs



Source : Treacy & Wiersma, 1995
"The Discipline of Market Leaders"

Why is the supplier chasing your business?

The supplier provides domain knowledge to deliver a tailored solution to meet the customer's precise needs e.g. niche consultancy practice

Customer intimacy
(one-stop shop, domain knowledge)

Suppliers pride themselves in providing features, and numerous variants, thereby maximising the chance of selling to different customer groups , e.g. Sony, Nokia

Supplier value proposition

The supplier has a "formula" for product or service delivery, and the customer adapts as necessary e.g. FedEx, McDonald's, Ryanair

Product leadership

(innovation, pioneering R&D)

Customer value demand

Operational excellence

(low cost, reliable, WYSIWYG)

“Marry in haste, repent at leisure”



HOME



BACK



NEXT

- Be clear about your goals & expectations
- Try to understand your suppliers' objectives
- Multi-source rather than single-source
- Consider & prepare your exit route
- Baseline your starting state
- Track performance trends & the distance travelled toward your goals

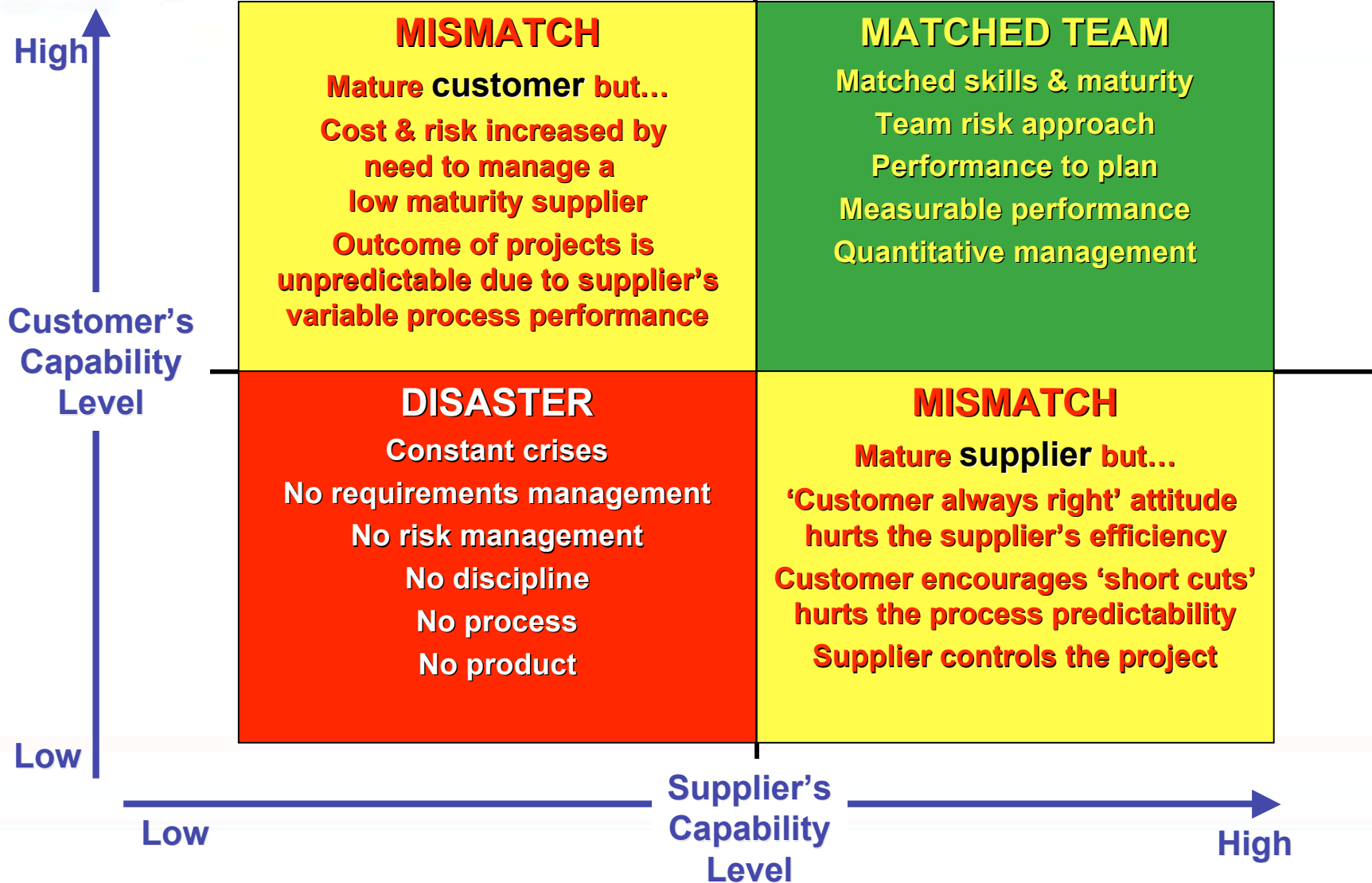
Threat #2



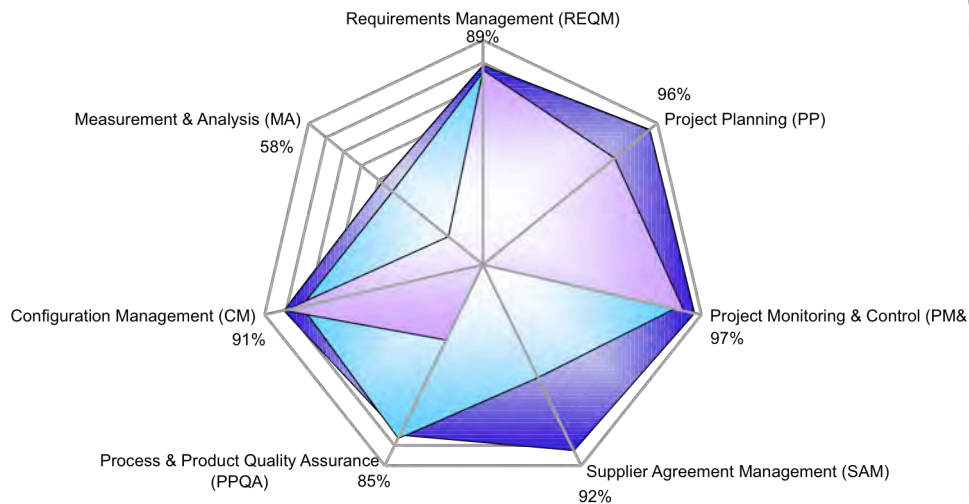
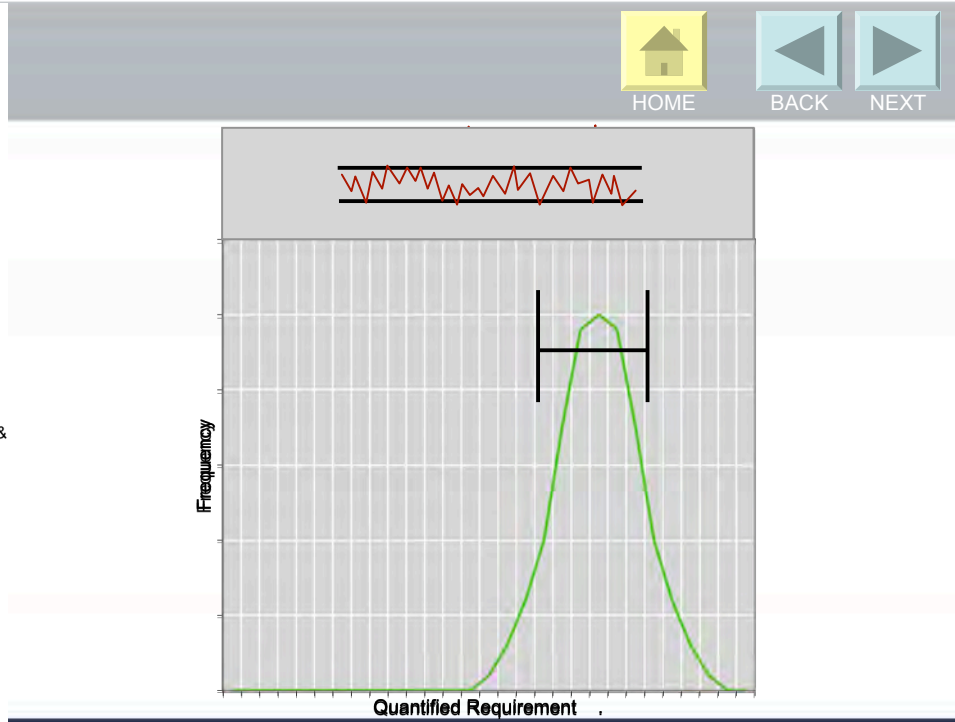
A long-term commitment to one partner may not deliver consistent, sustained results

Partners age, and their performance varies over time

The risk exposure will be increased by mismatches between a supplier's and the customer's capability maturity level



Measure successive baselines – track process performance between baselines



Sourcing is the supplier's business – but customer staff rarely have the relevant experience – hence we advise the help of a trusted 'customer friend'



Provides experience

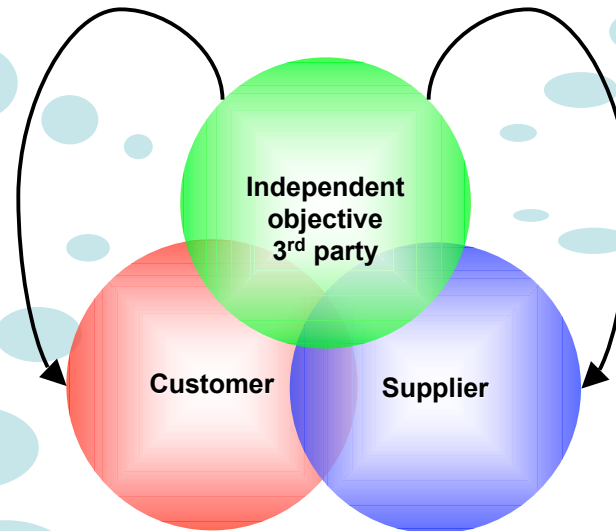
A proven record delivering output-based contract management services to the public & private sectors

- Output-based contracts since 1994
 - Automotive AD&E and S&M
 - Banking & Finance
 - Defence
 - Energy
 - Entertainment & Recreation
 - HM Government & Public Admin
 - Insurance
 - Telecommunications
 - Transport & Logistics
 - Utilities

Is agile & capable

A 3rd Party consulting team focused on the customer's desired outcome (with a view to mitigating the associated risk), responding with adequate resources, in-depth skill & expertise at short notice

Assurance



Applies objectives techniques to measure & track

Customer value
Functionality delivered
Waste & rework
Efficiency & effectiveness

- The inventor of MkII FPA
- COSMIC Core Team members
- Authors on estimating - IBM LEAD - ECUG
- Consultants implementing measurement & CMMI in RUP environments
- Counting Practice Committee members

Uses Industry Standards to ensure 'best practice'

e.g. CMMI, ITIL, ISO, CoBIT

SMS contributes to:

- ISO committees
- ISBSG UK Representative
- BSI Chair on Software Methods
- IEEE Software Advisory Board
- Measurement User Groups (UKSMA, IFPUG, FISMA, NESMA, ASMA, ESEPG, etc)

Interprets between cultures

Has the ability to ensure the supplier understands & appreciates what the customer perceives as 'value'

Threat #3



A 'broken consortium'

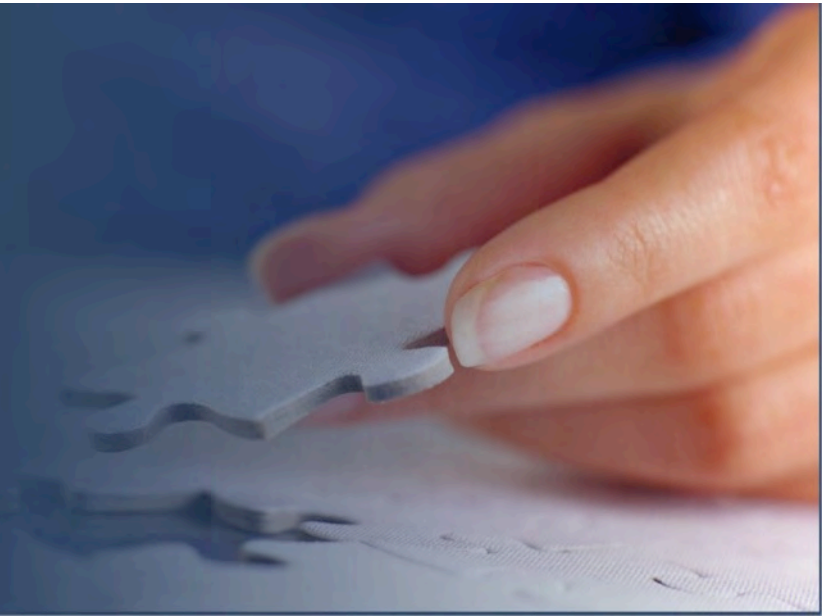
Members of consortia have different goals, and these may diverge.
'The buck' may be passed between organisations, without delivering results.

Success is a characteristic of the entire value stream



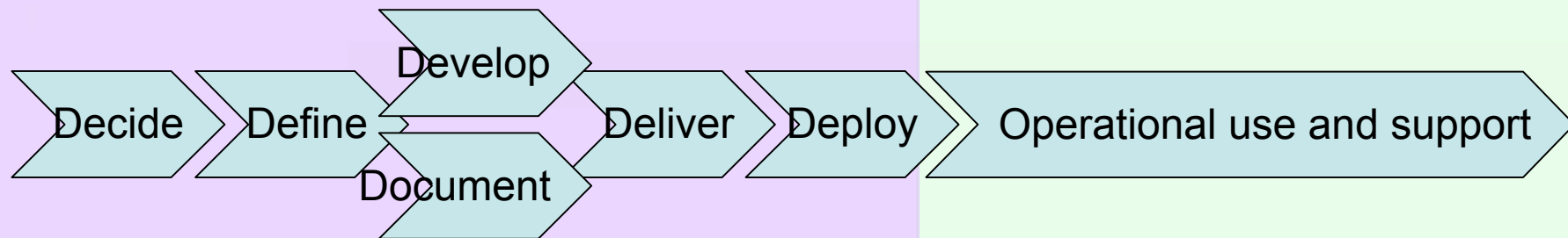
- Success depends on all the steps, both those that add value and those that don't
- To reduce risk, we need to understand the process performance & the threats to that performance
- We need to quantify the performance of the whole value stream in terms of the outputs as well as the inputs
- Plan for success (using data) - not failure (wishful thinking)

The pace of technological advance requires customers to integrate product development & service delivery



System Development Life-Cycle = Product Development

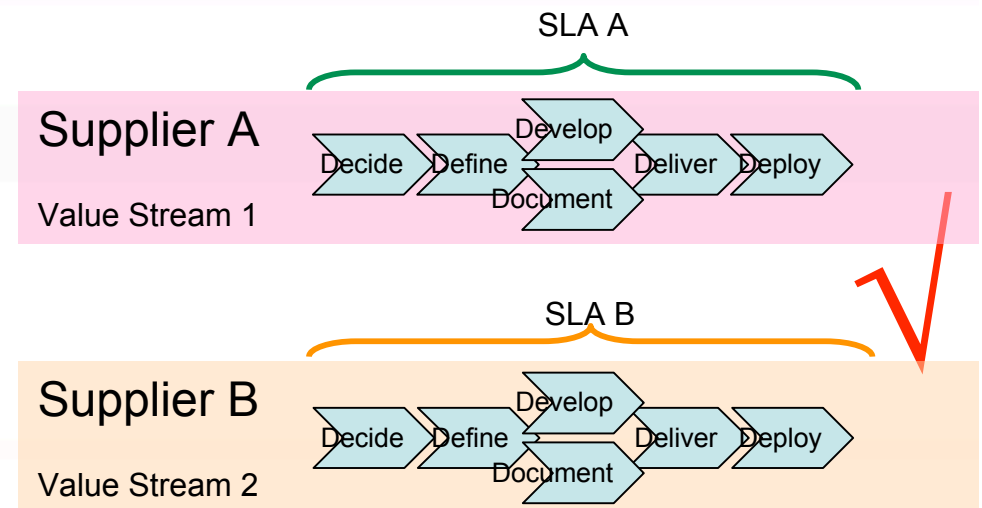
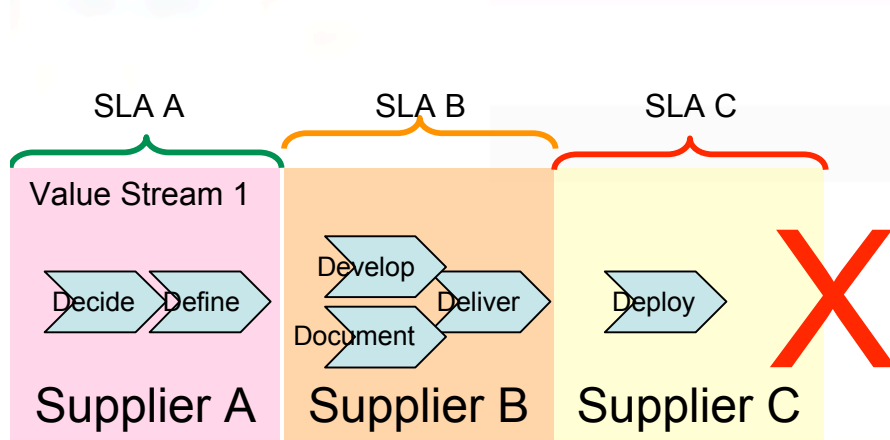
Operations & service delivery



Delivery systems need constant support & regular refurbishment

Product development & service delivery form one integrated value stream

One supplier to each complete value stream clarifies where the 'buck stops'



The customer's
desired outcomes
need to be linked to
each supplier's
contracted outputs



- Align
 - The customer's objectives & required value
 - Contract set-up & initiation
 - Contract administration
 - Day-to-day measurement of process performance

Threat #4



Customer staff no longer feel accountable (they have a supplier to blame)

Customer staff are key contributors to the end-to-end value stream, and a single point of failure will undermine the performance of the whole

The wrong measures, & local optimisation, *will* incentivise dysfunctional behaviour



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The customer ought to define 'what';
while the supplier ought to define 'how'



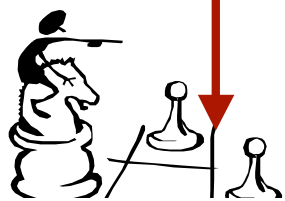
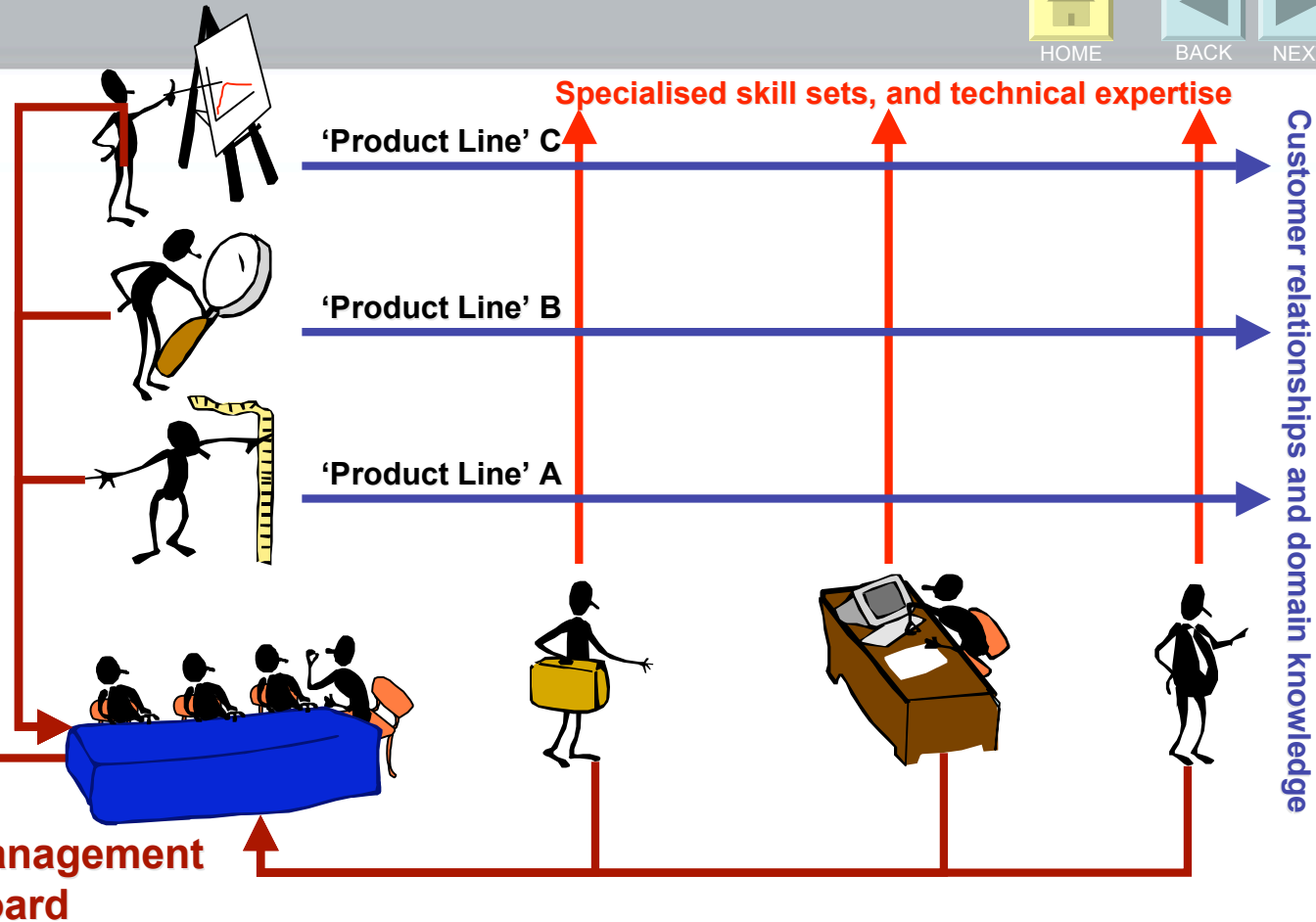
- Outcomes & outputs are the customer's concern
- The delivery process is the supplier's concern
- Both customer & supplier senior management need ***continuing assurance*** that the delivery process will deliver the desired outcome

Value Stream Managers are the 'customers' of, and in tension with, the Heads Of Function – the CEO must ensure a balance



Value Stream Managers

- accountable for delivering value to customers;
- accountable for system design, whole-life of product;
- accountable for making 'products' profitable



Chief Executive Officer

Heads of Function

- accountable for efficiency & effectiveness in their Department;
- accountable for growing knowledge & staff capability

A basket of measures is needed to ensure that a balanced view is maintained



- Customer value
- Delivering the 'right thing'
 - Profitability
 - Net Promoter Score
 - Availability service levels
 - Demand-to-deployment time
 - Value demand cf. Failure demand
- Technical capability
- Delivering the 'thing right'
 - Predictability (time & cost)
 - Project delivery rate (wh/fp)
 - Velocity (fp/elapsed month)
 - Rework cf. '1st pass yield'
 - Staff skills & experience

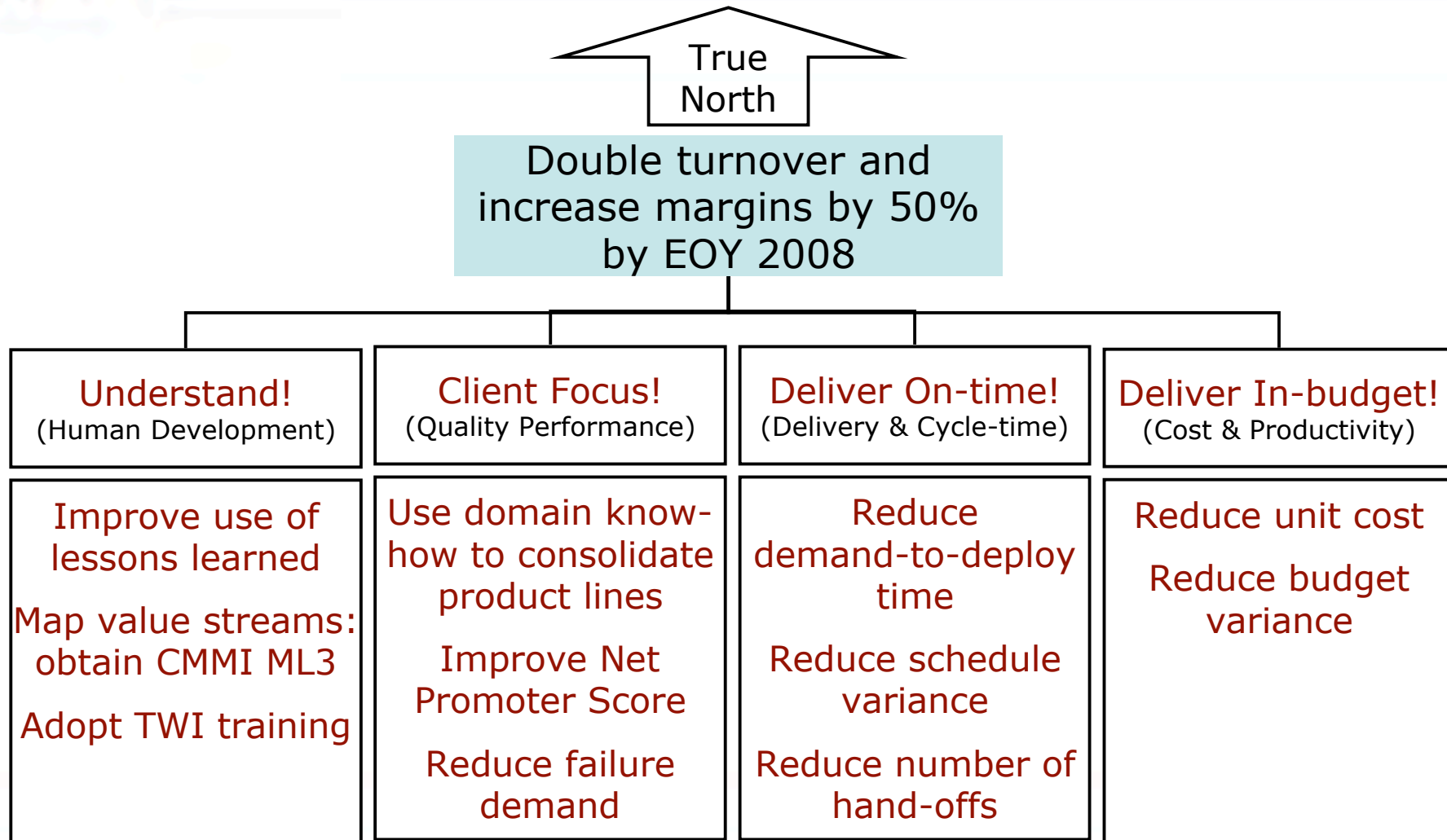
Threat #5



**Stakeholder interest may wane
over time unless the ROI is
continuously proved**

Share-holders, board members, and senior managers with limited tenure often focus on short-term results... value & benefit must be delivered incrementally

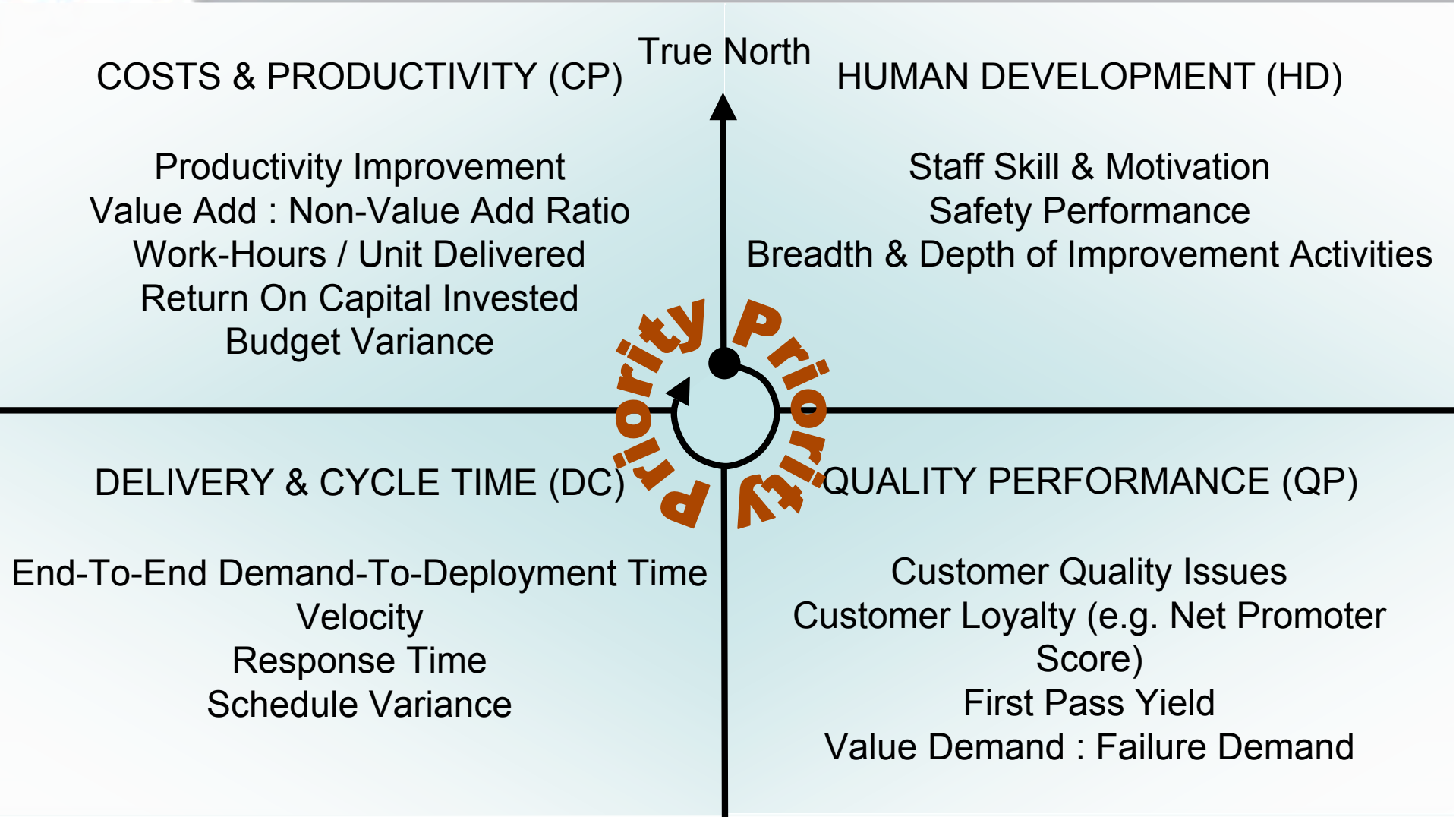
Align, communicate & deploy improvement strategies



Track 'True North' Metrics as a Balanced Score Card



"Strategy Deployment: Linking Lean to Business Strategy", George Koenigsaecker, Manufacturing Engineering, March 2006 Vol. 136 No. 3



Threat #6



Outsourcing & offshoring adds process steps, damages communications, & increases costs

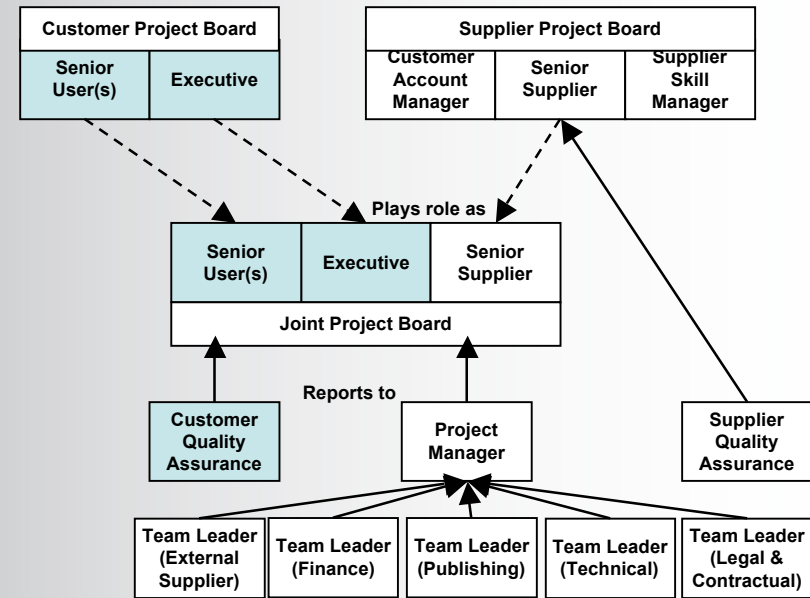
The customer must manage their relationship with the supplier(s), while the supplier must manage product development and/or service delivery

Customer-supplier relationships have many inherent inefficiencies



- Multiple layers of customer-side & supply-side management
- Separation of business domain & technical knowledge
- Multiple hand-offs & hand-backs
- 'Batch & queue' thinking cf. single-piece flow
- 'Push' from supply-side cf. the 'Pull' of customer demand
- Cultural & language barriers to communication
- 'Always say yes' culture cf. realistic plans & resourcing

A strong Project Board with explicit Executive leadership, is essential



- Integrated teaming techniques, and a shared vision, are critical to communication & success
- Only the Executive Sponsor can resolve issues between Senior Users and the Senior Supplier
- Keep all parties focused on the desired outcomes (cf. 'how' to do it)
- Co-locate customer & supplier representatives where possible
- Use visual management methods to make progress visible to all contributors
- Use an independent, objective 3rd party 'Scope Manager' to measure progress
- Use client & supplier QA to trace-to-close product & process non-compliances

Threat #7



“...a tale told by an idiot; full of
sound & fury, signifying nothing.”

Shakespeare's 'MacBeth', Act V, Scene 5

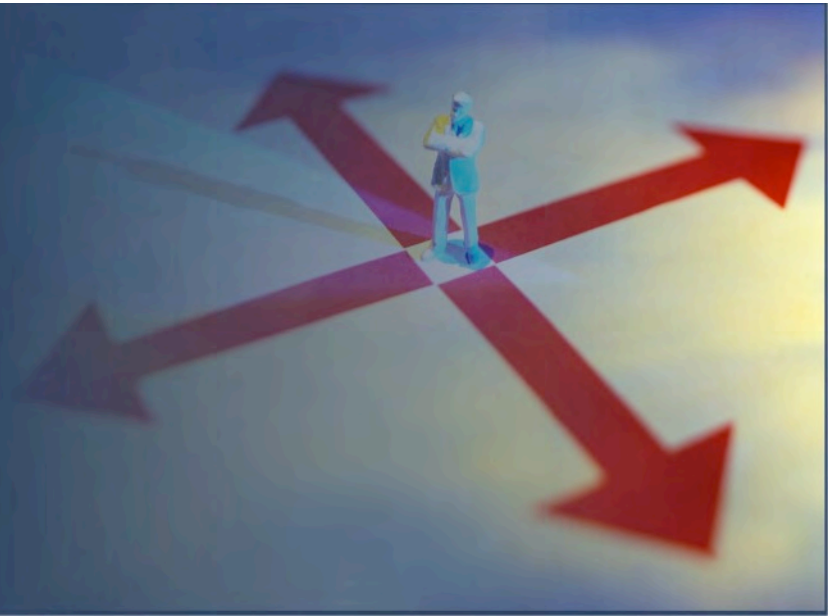
Much hard work, energy & dedication can be expended, but it is waste
unless all that work, energy & dedication is focused on doing the right things

Responding quickly to customer complaints is good – but it is better to remove the root cause(s)



- ‘Value demand’ is that demand from the customer which delivers some benefit ... and for which they are prepared to pay
- ‘Failure demand’ is that demand that results from a failure to do something or to deliver the expected value during the first opportunity
- Customers don’t expect to pay for work resulting from ‘failure demand’
- Analyses suggest that as much as 50% or more of the work demanded (e.g. in Call Centres & Help Desks) is ‘failure demand’
- Identifying & removing root causes therefore offers an obvious ROI

Software development work based on wrong or out-of-date requirements is 'failure demand'

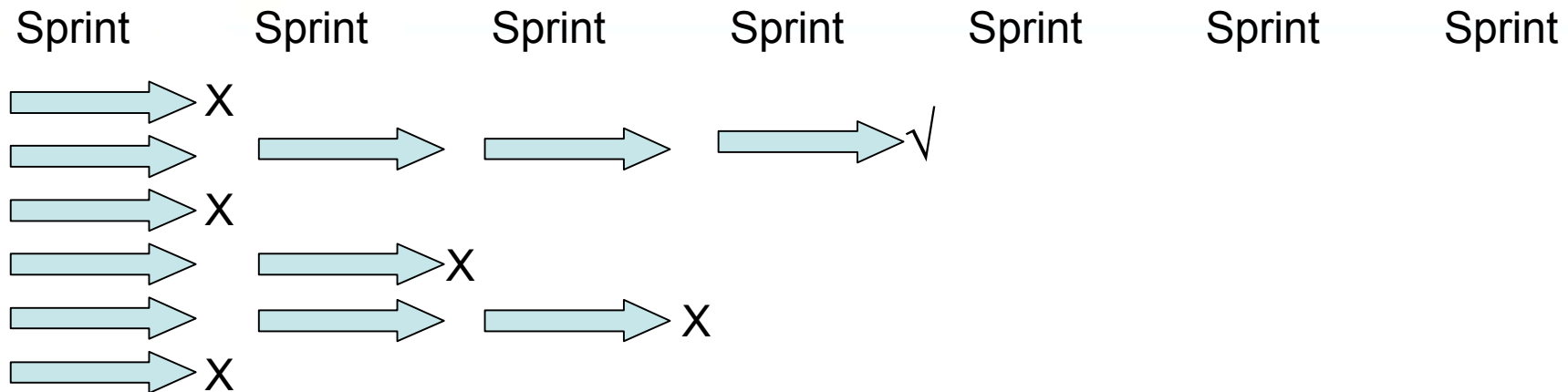


- Both customer & supplier contribute to getting the requirements right, & to successful user acceptance tests
- As customer needs, goals & requirements age over time, incremental delivery is less prone to 'failure' than traditional 'batch & queue' development
- Efficiency is improved by a focus on the '**single useful next step**' and managing resources to meet agreed deadlines

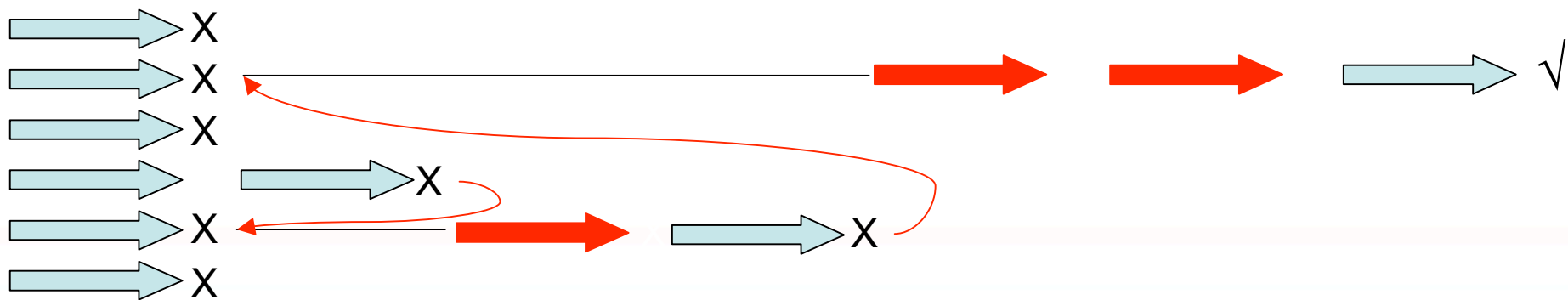
Delaying commitment to a specific solution option until as late as possible helps reduce the demand-to-deployment time



Set-Based Concurrent Engineering



Agile project with 'refactoring'



Conclusion



- However products & services are sourced, clear expression of the desired outcomes will reduced customer's risks
- Management strategy must be communicated to all parties, and activities must be purposefully aligned with goals
- Executives remain responsible for success, so need visible feedback on progress toward the goals & non-conformities
- The measures of size, effort, duration, staffing, defects, etc. are not complicated, but data collection must be regular and accurate
- Preparation & early investment can mitigate sourcing risks considerably

Software Measurement Services Ltd.



If you have been, thanks for listening

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