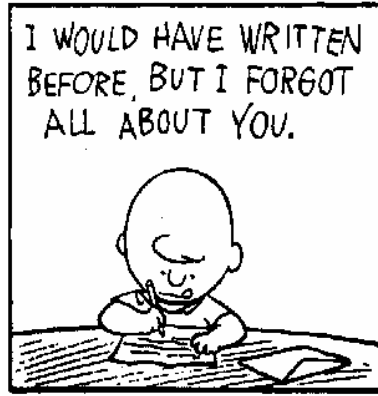




## ROI - It's Your Job!



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## Agenda of Talk

**THE  
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GROUP**

- Review of CHAOS Research
- Overview of ROI
- Your Project
- SACWIS - Florida vs. Minnesota
- ROI Questions

## **CHAOS Research**

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- Scope of Application Software Development Project Failures
- Major Factors that Cause Software Projects to Fail
- Key Ingredients that Can Reduce Project Failures
- Internally Funded -- Pure Research

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## **Methodology**

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- Started in 1994
- Research over 35,000 AD projects
- Surveys
- Focus Groups
- Personal Interviews
- Group Therapy Sessions
- CHAOS University®
- Other Studies

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## What Happens to AD Projects?

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- **Success**
  - Project is Completed On-time, On-budget, and with Most of the Features & Functions
- **Challenged**
  - Project is Completed Over-budget, Over-time, and/or with Fewer Features & Functions
- **Impaired**
  - Canceled & Unused

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## Types of Projects

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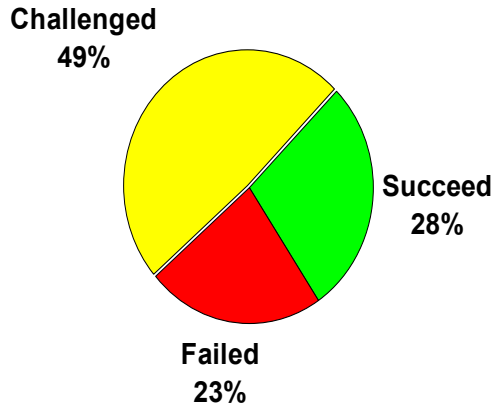
Developed from scratch using traditional languages and methods	33%
Purchased application & modified	15%
Developed from scratch using an object model	13%
Developed some components & purchased others	13%
Purchased application & modified extensively	12%
Purchased components & assembled the application	9%
Purchased application & performed no modifications	5%

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# CHAOS 2000 Results

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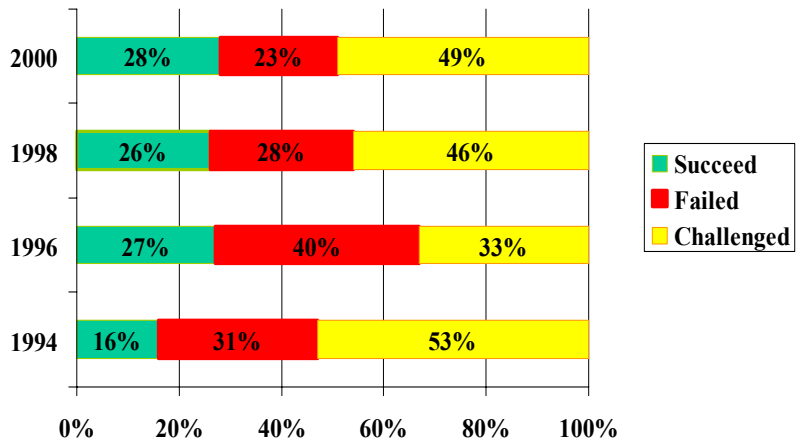


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# CHAOS History

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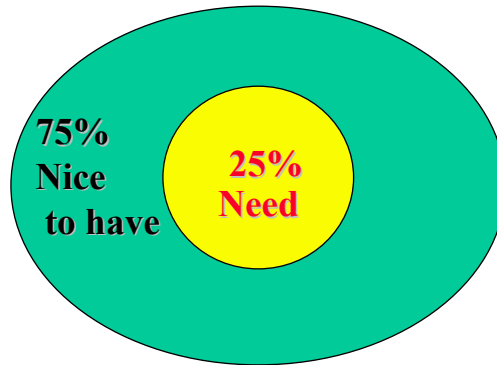


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# DuPont Study

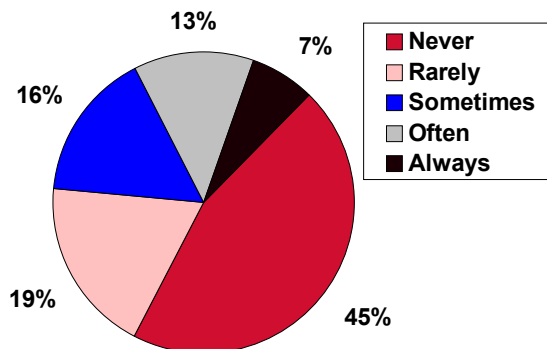
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# Features & Function Usage

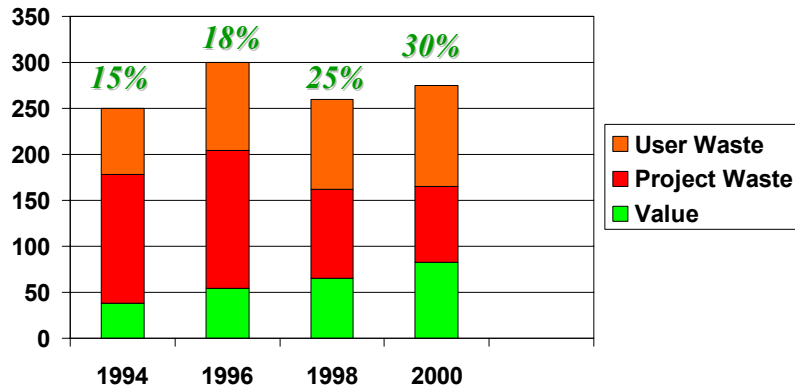
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## Value to Waste

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## Size by Outcome

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Size	Successful	Challenged	Impaired
Under \$500K	38%	44%	19%
\$501K - \$3M	27%	52%	21%
\$3M - \$6M	16%	55%	29%
\$6M - \$10M	4%	57%	39%
Over \$10M	0%	66%	34%

**CHAOS'2000**

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## Success by Size

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Size	Successful
Under \$500K	68%
\$501K - \$3M	22%
\$3M - \$6M	9%
\$6M - \$10M	1%
Over \$10M	0%
Total	100%

CHAOS 2000

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## TOP 10 Reasons for Success

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- Executive Support
- User Involvement
- Experienced Project Manager
- Clear Business Objectives
- Minimized Scope
- Standard Infrastructure
- Firm Basic Requirements
- Formal Methodology
- Reliable Estimates
- Skilled Staff

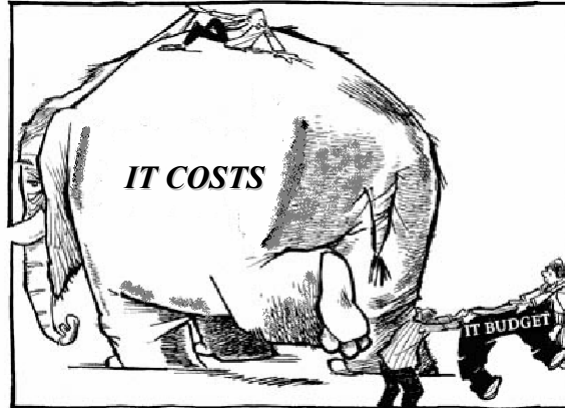
CHAOS 2000

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## Doing more with less..

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*At CHAOS University - 20%*

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## ROI?

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- Return On Investment
- Risk Of Investment
- Resumé Once Impaired
- Replace Old Intellect



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# ROI = Return On Investment

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Warren Buffet



Erik Brynjolfsson

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## Warren's Car

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\$100,000 New Car

VS



\$10,000 Used Car

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## Warren's Car

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\$100,000 New Car  
Worth \$30,000 Year Ten

**VS**



\$10,000 Used Car  
Worth \$1,000 Year Ten

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## Warren's Car

**THE  
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\$100,000 New Car  
Worth \$30,000 Year Ten

**VS**



\$10,000 Used Car  
Worth \$1,000 Year Ten  
\$90,000 Worth \$360,000

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## Warren's Car

THE  
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\$100,000 New Car  
Worth \$30,000 Year Ten  
**Real Cost = \$331,000**

VS



\$10,000 Used Car  
Worth \$1,000 Year Ten  
\$90,000 Worth \$360,000

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## ROI

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- Company Standard
  - ROA
  - ROE
  - NPV, EVA
- Multiple
- Your Own
- Payback
- Risk/Reward

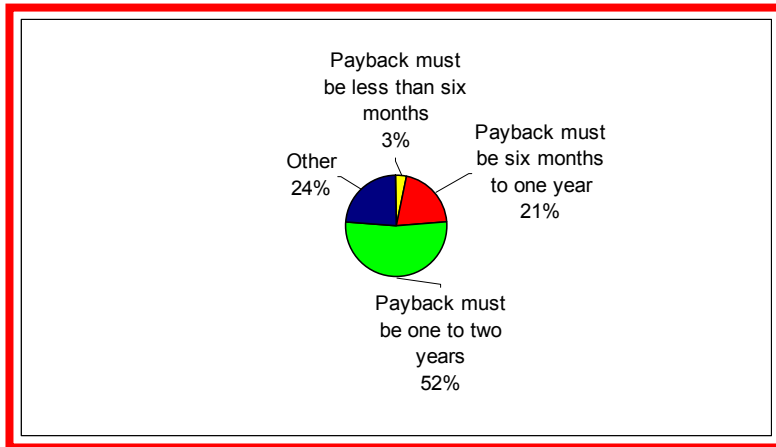


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# Expected Return

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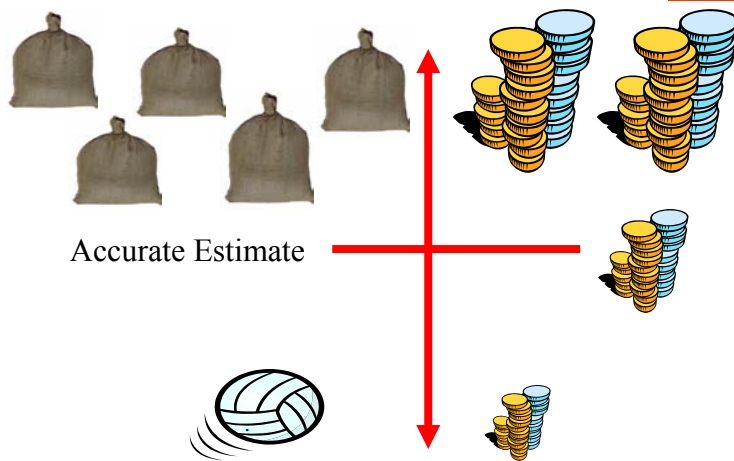


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# Low Balling vs. Sand Bagging

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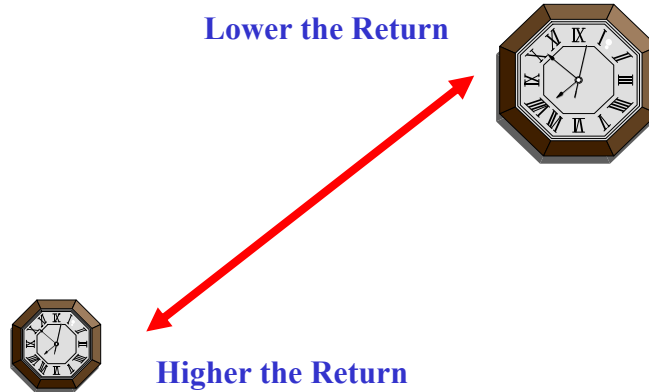


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## Key: Manage Time

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## Simple ROI

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Your Project is #3 & Company has total project budget of \$4M

Cost	Project 1	Project 2	Project 3
Manpower	\$ 500	\$ 2,000	\$ 2,500
Other Cost	\$ 500	\$ 500	\$ 500
Total	\$ 1,000	\$ 2,500	\$ 3,000
Savings/Revenue	1,000	2,000	2,000
Payback/Months	12	15	18
Project Months	6	12	24

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## Simple ROI - 3 Years

**THE  
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Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Simple ROI - 3 Years

**THE  
STANDISH  
GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	875	750	500	0	\$3,000	0
Project 3 - Return					\$1,500	\$1,500	\$3,000	\$0

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## Reduce Project 3 by Four Months and \$500K

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GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 2 - Cost	875	875	875	750	0	0	\$2,500	1.6
Project 2 - Return				\$1,000	\$1,500	\$1,500	\$4,000	\$1,500

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## Reduce Project 3 by Four Months and \$500K

**THE  
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GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 2 - Cost	875	875	875	750	0	0	\$2,500	1.6
Project 2 - Return				\$1,000	\$1,500	\$1,500	\$4,000	\$1,500

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## Reduce Project 3 by Six Months and \$875K

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GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	750	500	0	0	\$2,125	2.1
Project 3 - Return				\$1,500	\$1,500	\$1,500	\$4,500	\$2,375

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## Reduce Project 3 by Six Months and \$875K

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GROUP**

Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.5
Project 1 - Return		\$500	\$500	\$500	\$500	\$ 500	\$2,500	\$1,500
Project 2 - Cost	\$1,000	\$1,000	\$ 500	0	0	0	\$2,500	1.6
Project 2 - Return			\$1,000	\$1,000	\$1,000	\$1,000	\$4,000	\$1,500
Project 3 - Cost	875	875	750	500	0	0	\$2,125	2.1
Project 3 - Return				\$1,500	\$1,500	\$1,500	\$4,500	\$2,375

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## Net Present Value

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Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.4
Project 1 - Return		\$500	\$485	\$485	\$470	\$ 470	\$2,410	\$1,410
Project 2 - Cost	\$1,000	\$1,000	\$ 515	0	0	0	\$2,515	1.5
Project 2 - Return			\$ 970	\$ 970	\$ 940	\$ 940	\$3,820	\$1,305
Project 3 - Cost	875	875	773	901	530	0	\$3,079	0
Project 3 - Return					\$1,410	\$1,410	\$2,820	(\$259)

*NPV compares the value of a dollar today versus the value of that same dollar in the future after taking inflation and other factors. If the NPV of a prospective project is positive then it should be accepted, but if it is negative then the project probably should be rejected because cash flows are negative.*

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## Project 3 delivers some function early

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Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.4
Project 1 - Return		\$500	\$485	\$485	\$470	\$ 470	\$2,410	\$1,410
Project 2 - Cost	\$1,000	\$1,000	\$ 515	0	0	0	\$2,515	1.5
Project 2 - Return			\$ 970	\$ 970	\$ 940	\$ 940	\$3,820	\$1,305
Project 3 - Cost	875	1375	901	773	0	0	\$3,049	1.6
Project 3 - Return		\$ 500	\$485	970	\$1,410	\$1,410	\$4,775	\$1,726

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## Project 3 delivers some function early & reduces cost by \$500

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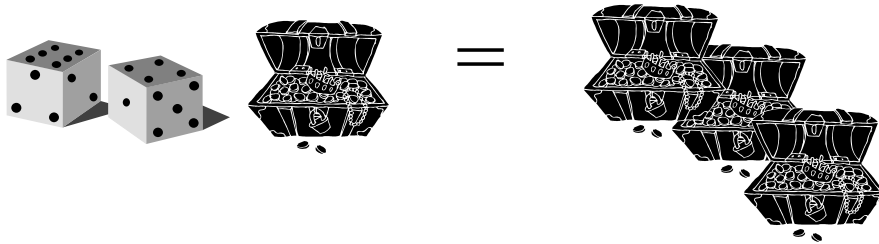
Months	1 to 6	7 to 12	13 to 18	19 to 24	25 to 30	31 to 36	Total	Net
Project 1 - Cost	\$500	\$ 500	0	0	0	0	\$1,000	2.4
Project 1 - Return		\$500	\$485	\$485	\$470	\$ 470	\$2,410	\$1,410
Project 2 - Cost	\$1,000	\$1,000	\$ 515	0	0	0	\$2,515	1.5
Project 2 - Return			\$ 970	\$ 970	\$ 940	\$ 940	\$3,820	\$1,305
Project 3 - Cost	875	1375	773	386	0	0	\$2,534	1.9
Project 3 - Return		\$ 500	\$485	970	\$1,410	\$1,410	\$4,775	\$2,241

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## Calculated Risk for a Calculated Return

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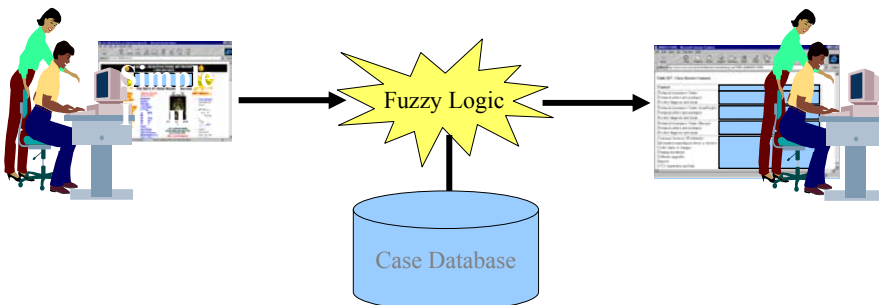


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## Case-based Solution

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# RAM Screen Shot

## Risk Estimator

### Results

#### Our historical database gives this project the following resolution probabilities:

- A 16% probability that this project is completed on time and on budget, with all features and functions as originally specified.
- A 30% probability that this project is completed and operational, but over-budget, over the time estimate, and with fewer features and functions than initially specified.
- A 54% probability that this project is cancelled before completion.

#### Success Factor Ratings

1.	User Involvement	POOR
2.	Executive Management Support	GOOD

# Risk Points

### Our historical database

- A 0% probability that this project is completed on time and on budget, with all features and functions as originally specified.
- A 54% probability that this project is completed and operational, but over-budget, over the time estimate, and with fewer features and functions than initially specified.
- A 46% probability that this project is cancelled before completion.

Project #2

Project #3

### Our historical database

- A 16% probability that this project is completed on time and on budget, with all features and functions as originally specified.
- A 30% probability that this project is completed and operational, but over-budget, over the time estimate, and with fewer features and functions than initially specified.
- A 54% probability that this project is cancelled before completion.

	Project #2	Project #3
Succeed	0%	16%
Challenged	54%	30%
Impaired	46%	54%
Risk Points	2.7	3.1



# Risk/Reward

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	Project #2	Project #3
Succeed	0%	16%
Challenged	54%	30%
Impaired	46%	54%
Risk Points	2.7	3.1
ROI Ratio	1.5	1.9
Risk/Reward	4.2	5.0

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State of Florida

VS



State of Minnesota

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## State of Florida's SACWIS

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GROUP



- Project Began in 1990
- Original cost estimate of \$32 million
- Planned completion date of 1998
- 109 People Working on Project

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## State of Florida's SACWIS

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- So far \$170 million spent
- New cost estimate of \$230 million
- New completion date of 2005
- 3 IBM Consultants: Project Manager, Project Architect and Project Analyst

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## State of Minnesota's SACWIS

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- Project Began in 1999
- Planned completion
  - Sept '99 for phase one
  - Mid-2000 for phase two
- Estimated cost \$1.1 million

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## State of Minnesota's SACWIS

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- Completed in early 2000
- 8 People
- Spent \$1.1 Million
- Attribute success to:
  - Standard infrastructure
  - Minimized requirements

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## Questions from CHAOS University

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- Know your company's policy
  - Does the project meet the policy
  - What and when do you capitalize and expense
- Cost savings or revenue generation
  - Hard ~~or~~ soft dollar
  - Where do they come from
- Do these savings or revenue have time limits
  - Can your project meet these time limits

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## Questions

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- Who can I trust to tell me the truth
  - Do I trust myself
  - **ALL VENDORS LIE!!!**
- What are the hidden costs
  - What is the hidden revenue and savings
- What about training and turnover
  - Have you added help desk cost

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## Questions

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- Can you tie features & functions to ROI
  - What are the low ROI features
  - Accent the high and eliminate the low ones
- Can you deliver some early
  - What are the high value features
- What are the other projects
  - What's their ROI

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## Questions

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- Do you know your break-even point
  - What is the company policy
- What happens when you go beyond budget
  - Is there a kill switch
- Can you get stakeholders to agree on ROI
  - Users and executives

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