



ISBSG

IT Confidence 2020

Using Productivity in Outsourcing



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- ✓ **G1.** Aims of measurement in outsourcing
- ✓ **G2.** Issues
 - ✓ Measurement awareness
 - ✓ Keeping it fair for both organisations
- ✓ **G3.** Example contract setup
 - ✓ Possible measures
 - ✓ How to begin with no history
 - ✓ Service level agreements

Aim is to create an contract/environment where

1. Outsourcer can have confidence
 - There is enough incentive to improve and not overwhelm
 - That supplier is not going to take over and go slow
2. Supplier has significant incentives to improve productivity and other measures.
3. SLAs are well rounded to ensure that supplier addresses all areas.
4. Keeping it fair for both parties. When significant changes occur reassess how this impacts the current contract.

Measurement in Outsourcing

Aims of measurement in outsourcing

Pros for Outsourcer

- Reduced cost of IT
- Access specialised skills
- Focus on core business
- Achieve balance with measures

Cons for Outsourcer

- Increased overheads in contract management
- Suppliers focus will always be on the measure with other areas possibly neglected

Pros for Supplier

- Major contract
- Opportunity to exceed SLAs and make bonuses

Cons for Supplier

- Possible intake of new staff
- Maybe held to unachievable metrics and hence penalties.

Measurement Awareness

- Education
- Involvement in Measurement Community
- Measurement Certification
- Awareness of accuracy/repeatability of size measure
- Relevance of measurement technique for application

Possible solutions examples

- IFPUG ISMA conference
- GUFPI-ISMA meetings
- COSMIC/IFPUG/NESMA certification
- Engagement on consultants for advice on techniques and accuracy for application.

Important that significant changes can be addressed and contract altered.

Measurement in Outsourcing

Possible measures

Measures to be considered

- Hours/Function Point or Function Point/Staff Month
- \$/FP
- Defects delivered, defect clearance rate
- On time, on budget
- Customer satisfaction
- Quality Assurance ratings
- Staff retention
- Time to market
-

**Service Level
Agreements can
be individual
and/or in an
overall balanced
scorecard**

Options

1. Create a baseline using industry database such as ISBSG or use consultants to create a baseline.
2. Measure for the first year (or however long it takes) to create a baseline on which to improve.

Significant demographics of the baseline should be noted.
e.g. MF/MR/PC or project size ranges.

Also define what scope of work is included/excluded
e.g. Include design through to end of system test.
Exclude consulting, decommissioning, performance tuning....

Recommend doing both options to achieve greater accuracy

How many data points are needed in the baseline

1. The number of data points needed to create the baseline will vary depending on the correlation of the data points.

Engage a statistician to get this right.

2. Options are:
 - Continue establishing baseline until get p-value of $< .05$.
 - Ensure the targets in the contract factor in possible error in the baseline.

Measurement in Outsourcing

Setting up the contract – D & E

Establish the target productivity improvement year on year.

Take into the consideration the accuracy of the measure

Should this target be cumulative or over the previous year actual?

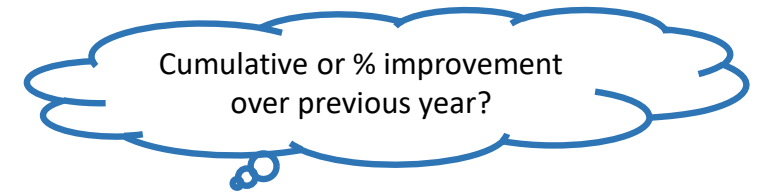
Neutral band - no penalty/bonus is paid.

Target for SLAs - achievable encouraging continuous improvement.

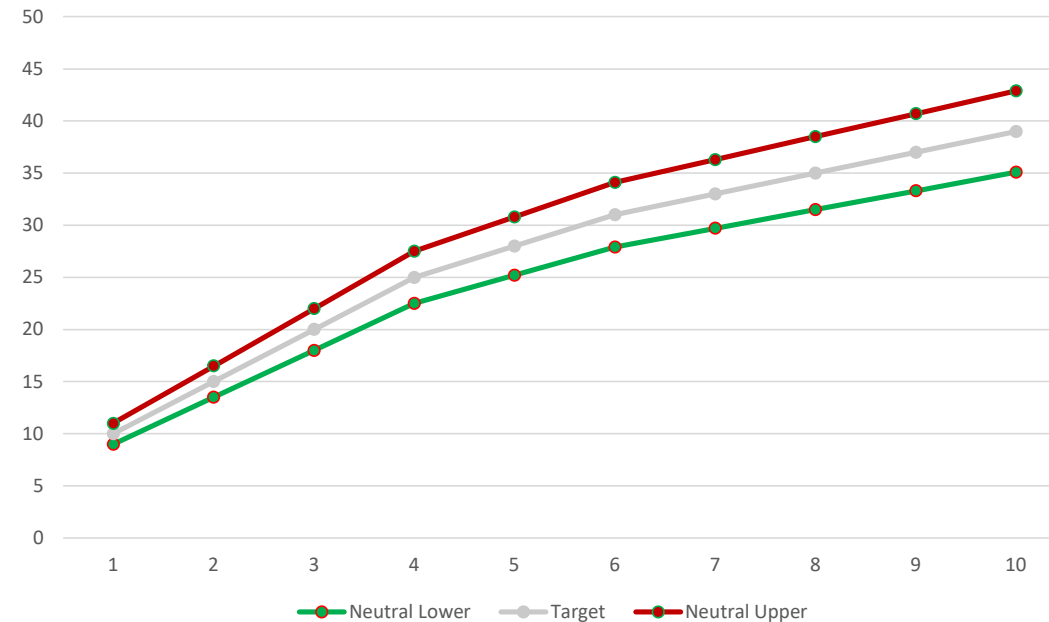
Bonus/penalty - % of revenue or another measure.

Maximum bonus/penalty – Maximum % of revenue

Service Level Agreements



% Improvement Cumulative Hours/FP



Defining penalty/bonus %

Year	% Revenue Bonus/Penalty	% Revenue Maximum Bonus/Penalty
0		
1	0.2%	5%
2	0.3%	5%
3	0.5%	4%
4	0.5%	4%
5	0.5%	4%
6	0.5%	3%
7	0.5%	3%
8	0.5%	3%
9	0.5%	2%
10	0.5%	2%

Bonus = revenue * Year % * improvement %

Maximum 5% revenue at risk year 1 and 2.
Significant incentive to get immediate improvements.

Measurement in Outsourcing

Bonus/Penalty

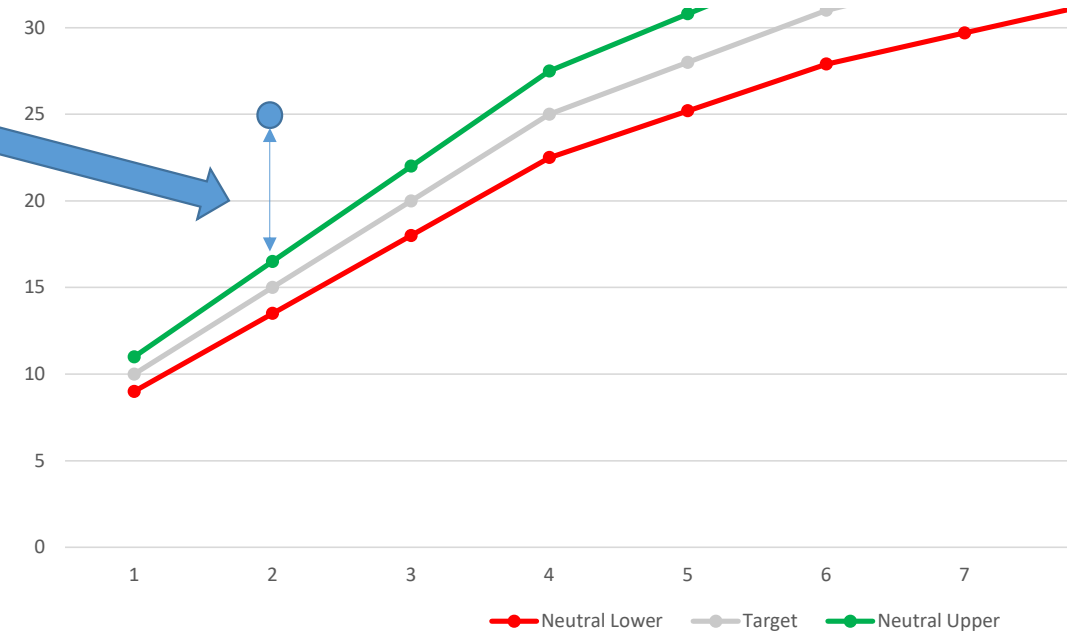
Calculation of bonus/penalty example

Calculate % outside the neutral zone

Multiply by the revenue bonus/penalty

Multiply by revenue for year.

Year	% Revenue Bonus/Penalty	% Revenue Maximum Bonus/Penalty
0		
1	0.2%	5%
2	0.3%	5%
3	0.5%	4%
4	0.5%	4%



Measurement in Outsourcing

Example calculation for Year 2

Year 2 improvement over baseline is 25%.

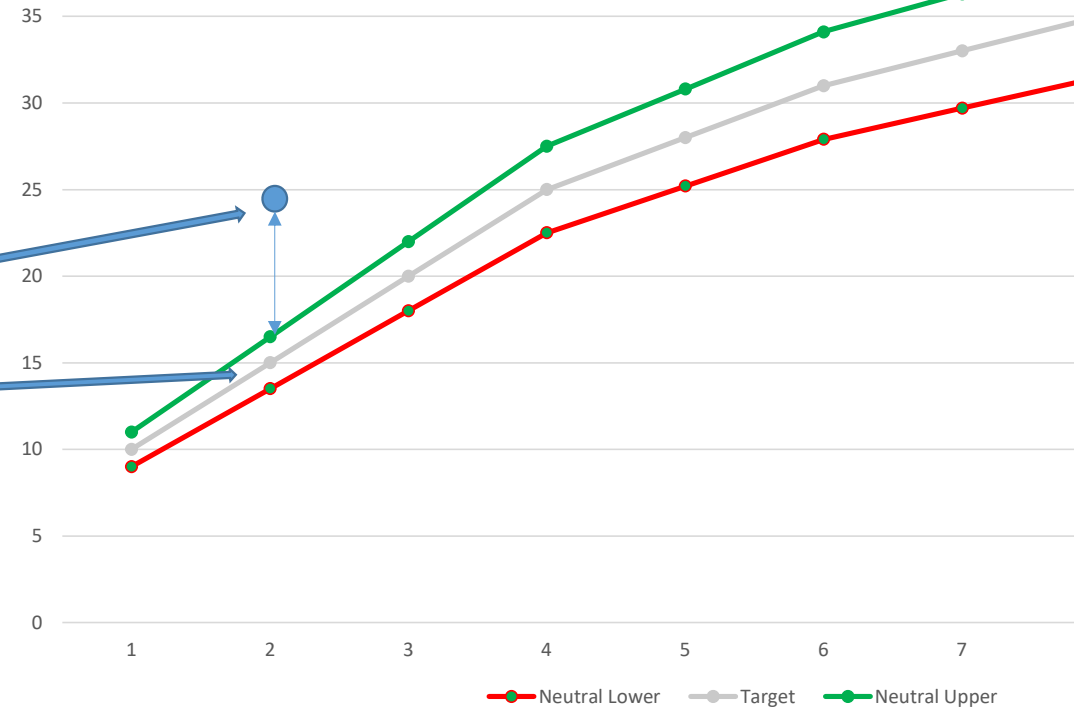
Target improvement in year 2 is 15%.

Bonus starts at 16.5%

Result exceeds bonus level by 8.5 (25%-16.5%)

Bonus is \$10M revenue * 8.5 * 0.3%
= \$255,500

Maximum bonus is \$10M revenue * 5%
= \$500,000



Year	% Revenue Bonus/Penalty	% Revenue Maximum Bonus/Penalty
0		
1	0.2%	5%
2	0.3%	5%
3	0.5%	4%
4	0.5%	4%

Adjustments

- Cost of Living adjustment for SLAs linked to \$\$\$
- Adjustments of reported SLAs due to change in mix of work
 - Platform
 - Size of project

Changes to contract

- When SLA is no longer relevant due to changes in business focus.
e.g.
 - Focus on \$\$\$ and not on effort.
 - Increased focus on testing due to business customer satisfaction issues.

Setting up the contract – Maintenance

1. Estimate/Size the maintenance portfolio size
2. \$/1000FP (KLOC) for maintenance & support
3. Adjust \$\$\$ for fixed price contract each year
4. \$\$\$ adjustments due to excessive change in size of portfolio
5. Portfolio adjustments due to change in type of applications. e.g.MF/MR/PC.

Example

1. Portfolio size 100,000FP
2. \$500/1000FP for year 1
3. Adjustment is reduction of 5% hence Year 2 is \$475/1000FP
4. Increase in portfolio of 5000FP changes increased \$\$\$ received for maintenance
5. Increase of MF mixture by 5% but this is within the allowable change of mixture prior to adjustment of rate.

Take-aways

- **Focus on what is important**
- **Keep it simple**
- **Keep the dialogue open**
- **Must be win/win for both parties**

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Questions?