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2011 Galorath International Conference  
Eindhoven, December 8<sup>th</sup> 2011

# Estimating & Pricing of Application Management

# Agenda

## Estimating & Pricing of Application Management

### ➤ Estimating & Pricing at Ordina

### ➤ Estimating Application Management

- Principles of our Estimating Model
- The choice for SEER

### ➤ First results

- Building the model
- Validating the model
- Next steps



## Local player with a global reach

- Ordina adds to the success of customers by:
  - Advising on the improvement of processes
  - Developing and integrating applications that support these improvements
  - Manage or outsource IT-portfolios
- We have knowledge of local markets and regulations
- We know our customers and speak their language
- We maintain long-lasting customer relations
- We have over 3,000 dedicated professionals
- We spot opportunities for successful connections and bring parties from all over the globe together to activate that success
- We connect knowledge from within and outside our organisation to improve the results of our customers



Based on sound  
Estimating & Pricing

# Estimating & Pricing

## Two very different disciplines



- Estimating is an engineering discipline that leads to:
  - Best estimation of units
  - Best way of sourcing and staffing
  - Cost price calculation of the results
- A good estimation is a combination of (at least) two different estimation techniques

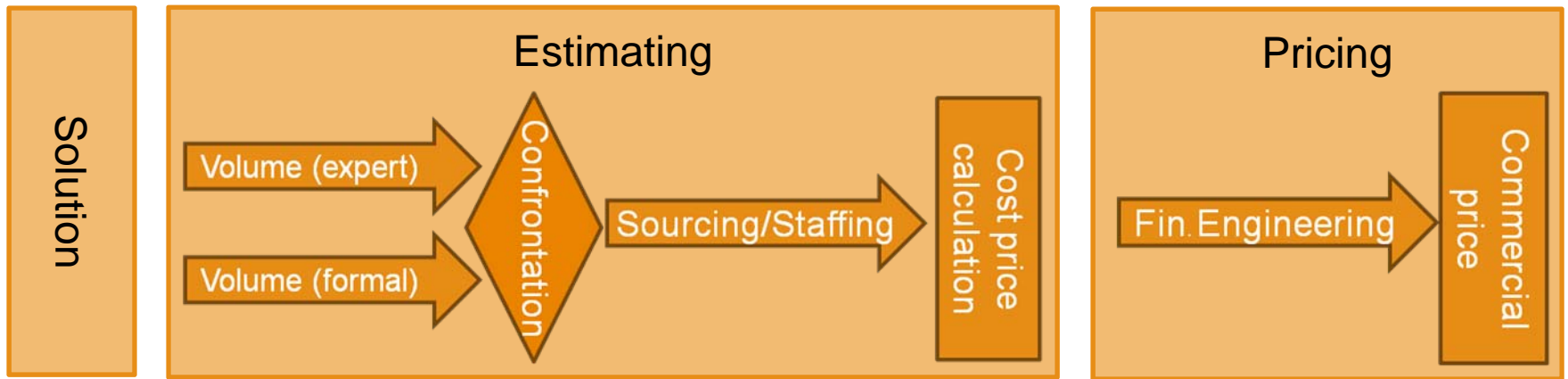
- Pricing is a commercial discipline that leads to:
  - A pricing structure that is optimised to win the deal
  - An offering that meets the customer's acceptance criteria
- The cost price calculation is the starting point and is not under debate for Pricing



# Estimating & Pricing

## Nothing new and innovative, really

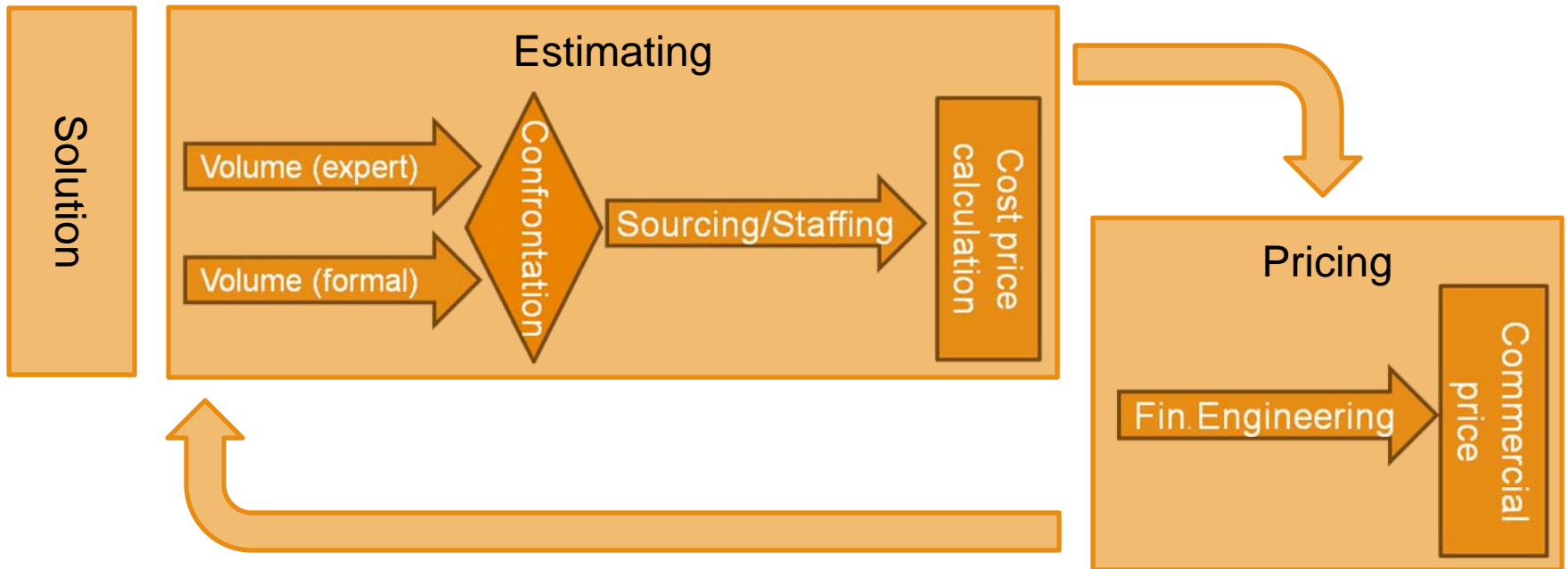
- Although estimating and pricing of Application Management can be very complicated, the process must be as simple as possible



# Estimating & Pricing

## Nothing new and innovative, really

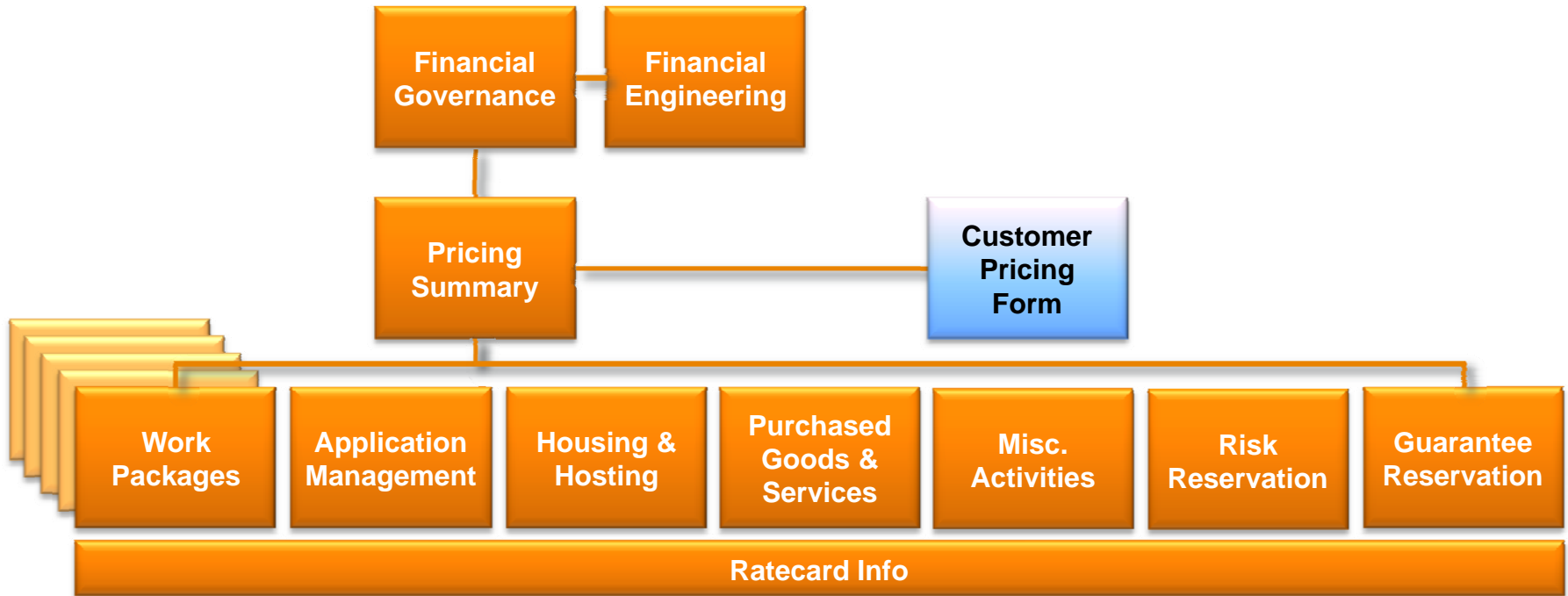
- In practice Estimating and Pricing can be an iterative process
- Keep the responsibilities separated



# Estimating & Pricing at Ordina

## Break-up into repeatable components

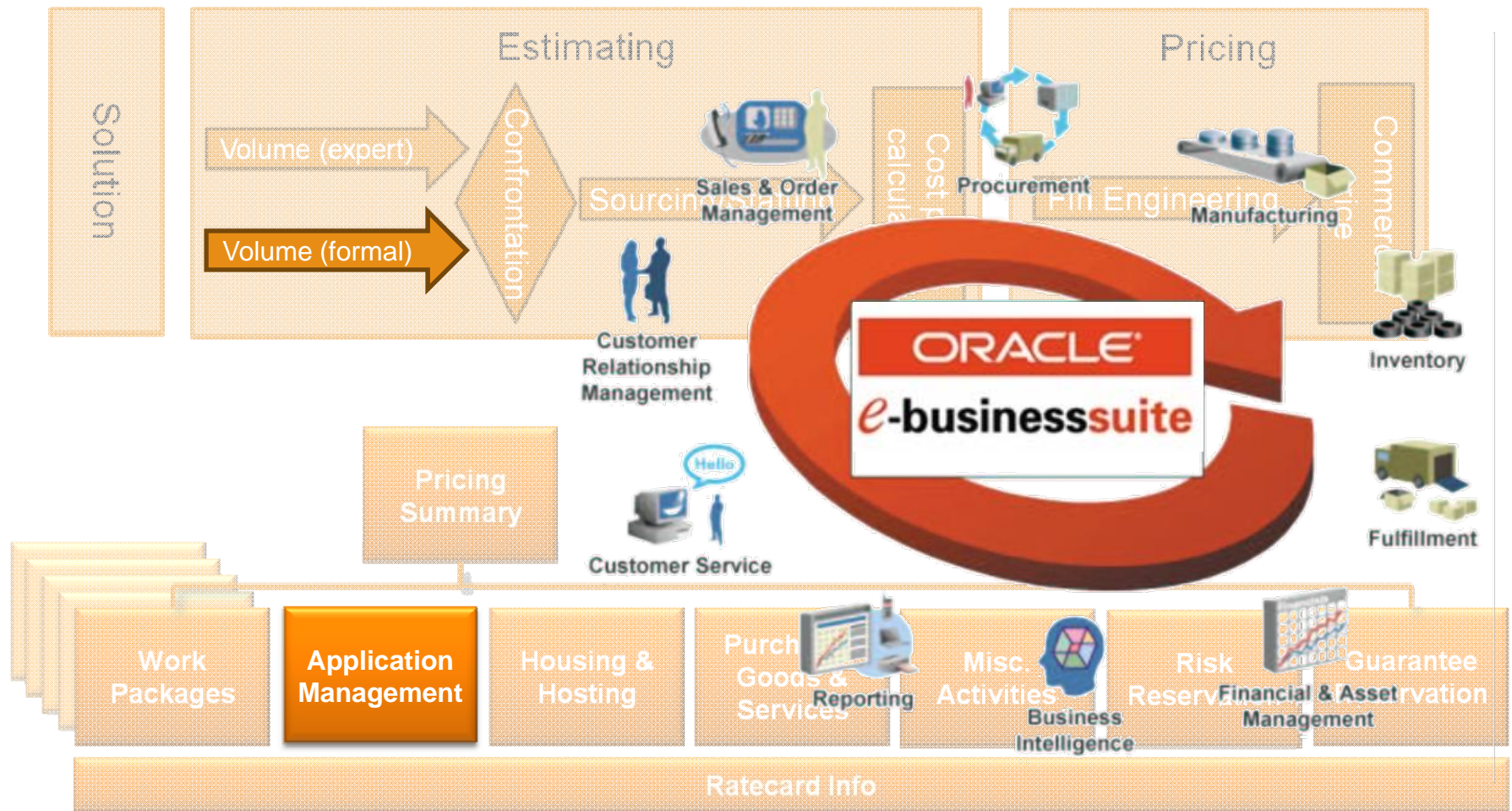
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- Keeps the process simple and straightforward
- Ability to create custom service offerings easily
- Re-using tested knowledge about components minimises estimating or pricing errors
- Break-up into repeatable components creates internal track-record

# Estimating & Pricing at Ordina

## Estimating Application Management for Oracle E-Business Suite



# Estimating Application Management

## One size fits all

- Most of the existing estimation models are:
  - Based on one set of input parameters
  - A sophisticated algorithm
  - One output for all activities

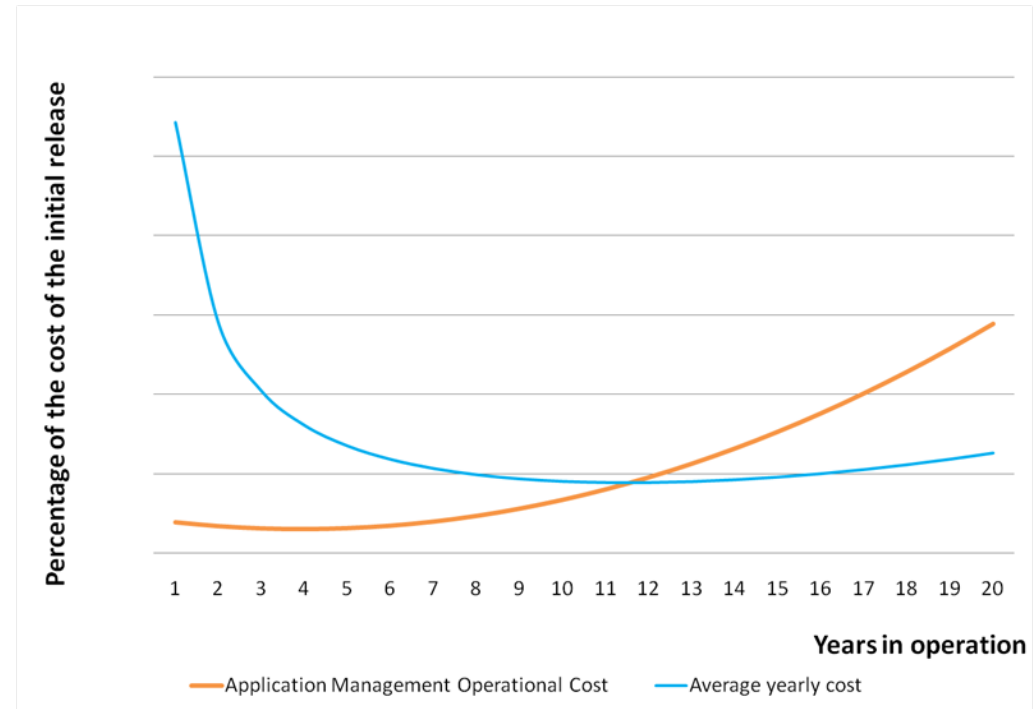


**CORDARES**

$$\left(0,0666 Y^2 - 0,7838 \frac{Y+100}{Y} + 9,1872\right) * I$$

Y = Years in operation

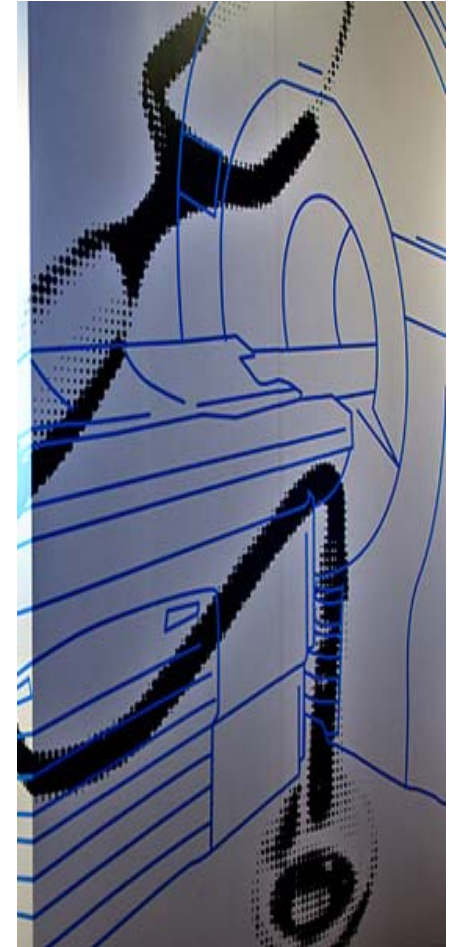
I = Cost of the initial release



# Estimating Application Management

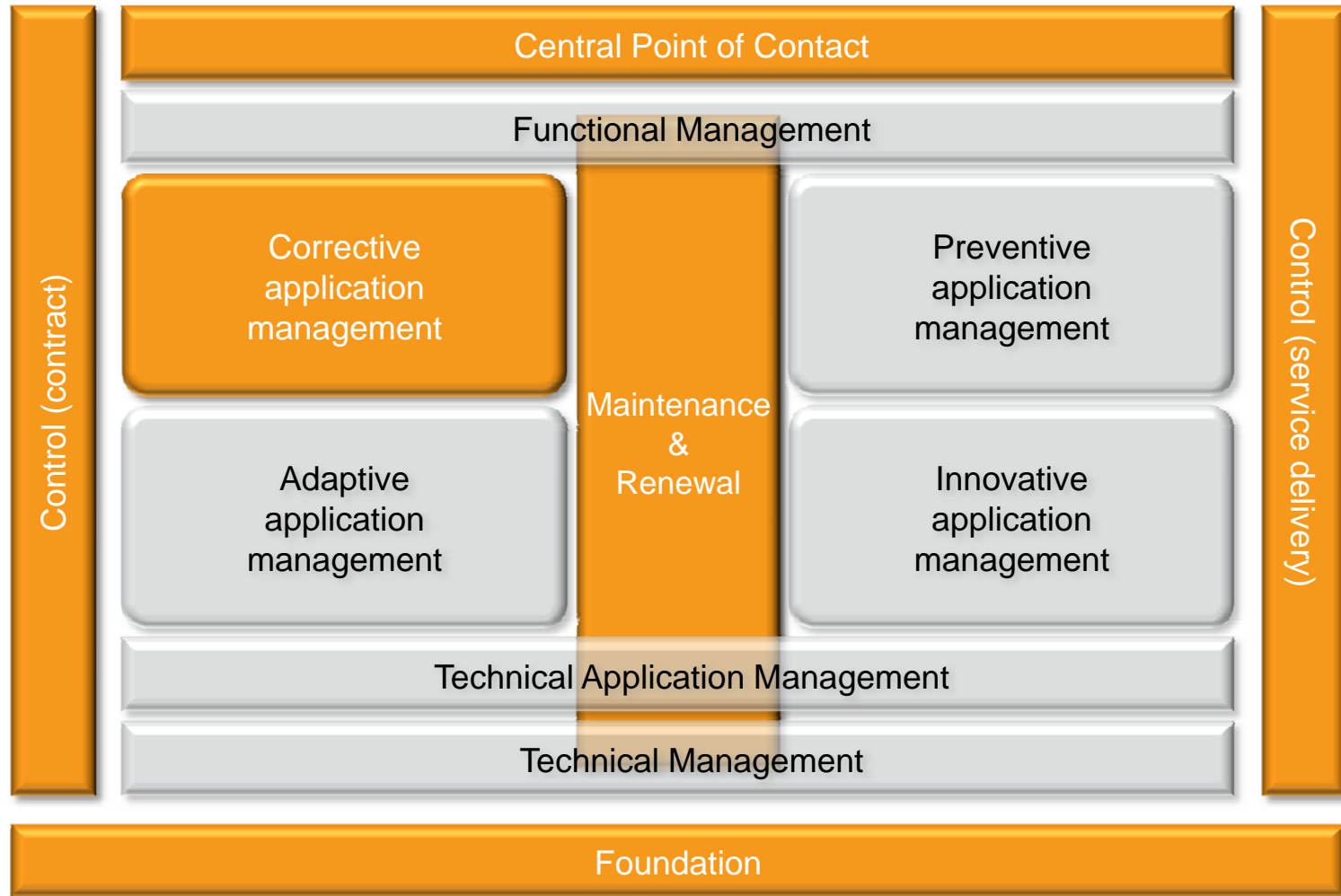
## Principles of our Estimating Model

- We do not believe in “One size fits all” for Application Management
- Different activities have different cost-drivers:
  - Functional size
  - Age of the application / implementation
  - Technical debt
  - Number of users
  - Governance
  - Service level
    - Service window
    - Response time
- The estimating model needs to have a breakdown structure that can accommodate different cost-drivers
- Our model is designed for outsourced Application Management



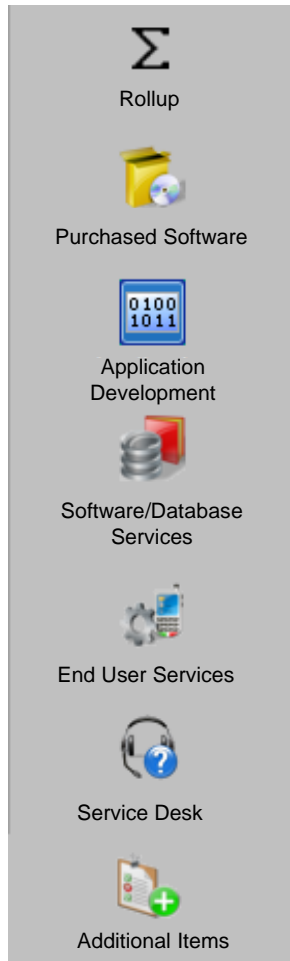
# Estimating Application Management

## The Ordina Service Component Model




# Estimating Application Management

## The choice for SEER



*The estimating model needs to have a breakdown structure that can accommodate different cost-drivers*

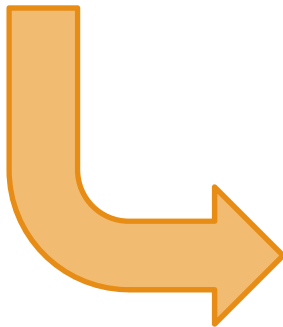
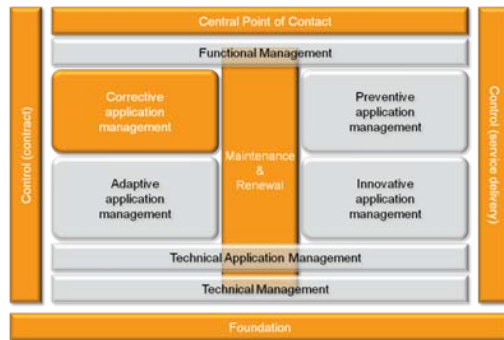
- Requirements for a supporting tool:
  - Ability to facilitate a breakdown with different cost-drivers
  - Based on experience data
  - Possibility of calibrating the data with own experience
- SEER for IT as the basis for the model
  - Six types of knowledge bases (out of 12)
- SEER for Software for Application Development calculations 



# The first results

# The first results

## Building the Estimating Model



- Σ Basis
- Σ **Central Point of Contact**
  - Non-skilled Service Desk
  - Consignment
  - Client Portal
- Σ **Corrective Application Management**
  - Σ Financial Modules
    - First year
    - Subsequent years
  - Σ Logistic Modules
    - First year
    - Subsequent years
  - Σ Project Modules
    - First year
    - Subsequent years
  - Exotic Modules
  - Customizations
- Σ **Enhancement & Renewal**
  - Business Packages
  - Critical Patch Update
  - Family Packs
- Σ **Control**
  - Contract Management
  - Service Management
- Σ **Foundation**
  - Configuration Management
  - Quality Management
  - Knowledge Guarantee

- 19 estimation elements
- 9 roll-ups for structuring the model
- 4 estimation elements without appropriate knowledge base:
  - Consignment
  - Contract Management
  - Service Management
  - Knowledge Guarantee
- Different experience model for corrective maintenance

# The first results

## Validating the Estimating Model

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### ➤ First calculation

	Estimated	Contract data	Δ
Contract A	21.094	18.762	+12%
Contract B	4.721	4.180	+13%
Contract C	4.271	3.599	+19%
Contract D	1.425	1.000	+43%

### ➤ Calibration

	Calibrated	Contract data	Δ
Contract A	19.378	18.762	+3%
Contract B	3.956	4.180	-5%
Contract C	3.461	3.599	-4%
Contract D	1.108	1.000	+11%

### ➤ Re-estimate the contracts

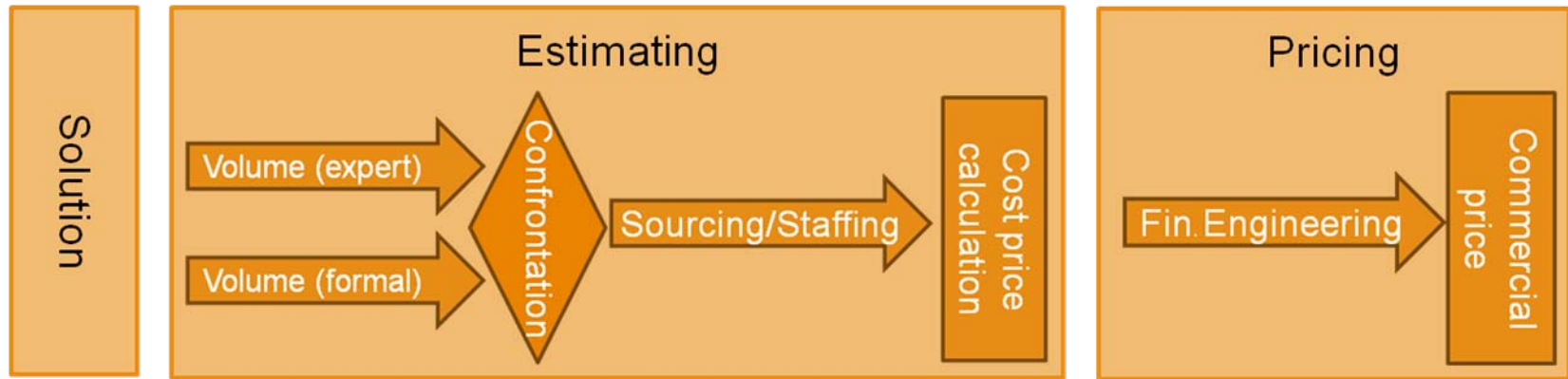
	Estimated	Contract data	Δ
Contract A	19.378	18.762	+3%
Contract B	4.122	4.180	-1%
Contract C	3.014	3.599	-16%
Contract D	1.180	1.000	+18%

*Data represents normalised monetary units for the first three years of the contract*

# Next steps

## Testing and improving the Estimating Model

- Test it as a reference model in new service offerings



- Further automation of the model using scenarios
- Work together with Galorath to have more knowledge bases based on application or environment related characteristics



- Estimating & Pricing are two different processes,
  - with different rules
  - requiring different skills and mindset!
  
- Estimating Application Management
  - We don't believe in "One size fits all"
  - Different activities have different cost drivers
  - Create a flexible break-down model
  
- Papers on this subject available on my blog

# Questions and Suggestions

## Estimating & Pricing of Application Management

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