




Modern Systems Analysis and Design

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Initiating and Planning Systems Development Projects



Learning Objectives

- ✓ Describe the steps involved in the project initiation and planning process.
- ✓ List and describe various methods for assessing project feasibility.
- ✓ Describe the activities needed to build and review the baseline project plan.
- ✓ Describe the activities and participant roles within a structured walkthrough.

The Process of Initiating and Planning IS Development Projects

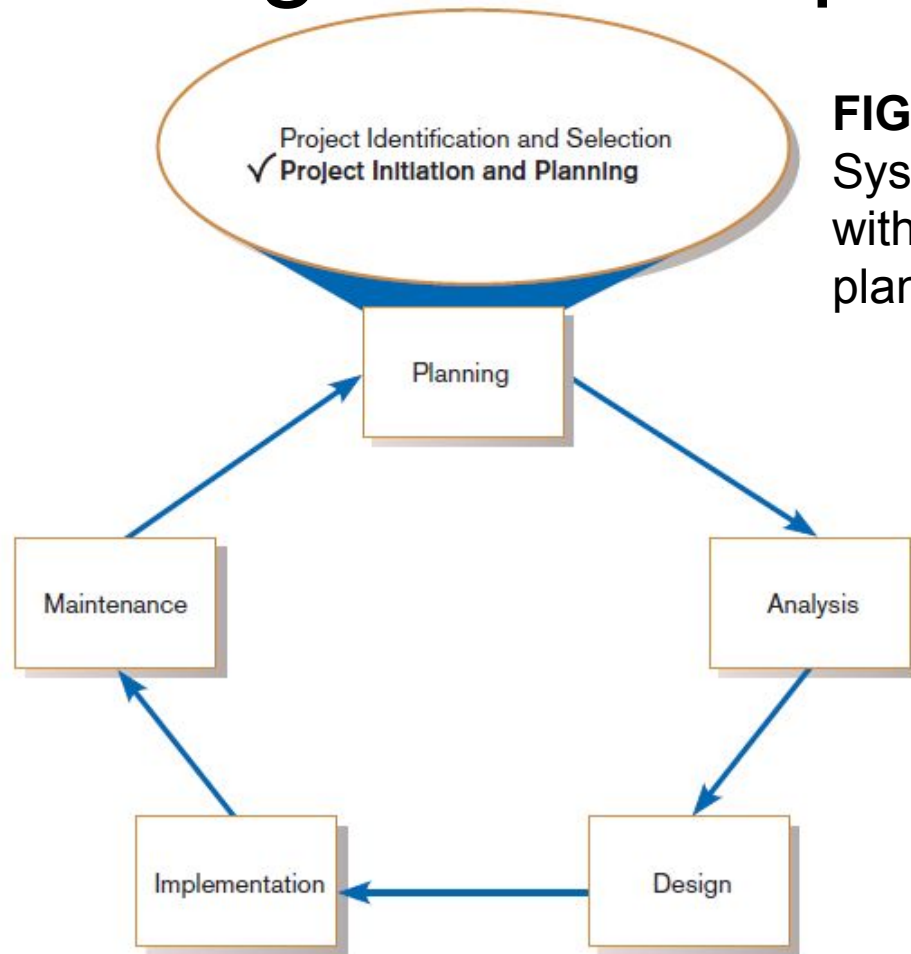


FIGURE 5-1

Systems development life cycle with project initiation and planning highlighted

- Project initiation focuses on activities designed to assist in organizing a team to conduct project planning.



Initiating and Planning Systems Development Projects

- What must be considered when making the decision on the division between project initiation and planning (PIP) and analysis?
- How much effort should be expended on the PIP process?
- Who is responsible for performing the PIP process?
- Why is PIP such a challenging activity?



The Process of Initiating and Planning IS Development Projects (Cont.)

- *Establishing the Project Initiation Team*
- *Establishing a Relationship with the Customer*
- *Establishing the Project Initiation Plan*
- *Establishing Management Procedures*
- *Establishing the Project Management Environment and Project Workbook*
- *Developing the Project Charter*



The Process of Initiating and Planning IS Development Projects (Cont.)

- The key activity of project planning is the process of defining clear, discrete activities and the work needed to complete each activity within a single project.
- The objective of the project planning process is the development of a *Baseline Project Plan (BPP)* and the *Project Scope Statement (PSS)*.



The Process of Initiating and Planning IS Development Projects (Cont.)

■ **Business Case**

- Justification for an information system
- Presented in terms of the tangible and intangible economic benefits and costs
- The technical and organizational feasibility of the proposed system



Elements of Project Planning

- Describe project scope, alternatives, feasibility.
- Divide project into tasks.
- Estimate resource requirements and create resource plan.
- Develop preliminary schedule.
- Develop communication plan.



Elements of Project Planning (Cont.)

- Determine standards and procedures.
- Identify and assess risk.
- Create preliminary budget.
- Develop a statement of work.
- Set baseline project plan.



Deliverables and Outcomes (Cont.)

■ **Baseline Project Plan (BPP)**

- A major outcome and deliverable from the PIP phase
- Contains the best estimate of a project's scope, benefits, costs, risks, and resource requirements



Deliverables and Outcomes (Cont.)

■ **Project Scope Statement (PSS)**

- A document prepared for the customer
- Describes what the project will deliver
- Outlines at a high level all work required to complete the project



Assessing Project Feasibility

- Economic
- Technical
- Operational
- Scheduling
- Legal and contractual
- Political

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Assessing Project Feasibility (Cont.)

- **Economic feasibility:** a process of identifying the financial benefits and costs associated with a development project
 - Often referred to as a *cost-benefit analysis*
 - Project is reviewed after each SDLC phase in order to decide whether to continue, redirect, or kill a project



Determining Project Benefits

- **Tangible benefits** refer to items that can be measured in dollars and with certainty.
- Examples include:
 - reduced personnel expenses
 - lower transaction costs, or
 - higher profit margins.



Determining Project Benefits (Cont.)

- Most tangible benefits will fit within the following categories:
 - Cost reduction and avoidance
 - Error reduction
 - Increased flexibility
 - Increased speed of activity
 - Improvement of management planning and control
 - Opening new markets and increasing sales opportunities

Determining Project Benefits (Cont.)

TANGIBLE BENEFITS WORKSHEET Customer Tracking System Project	
	Year 1 through 5
A. Cost reduction or avoidance	\$ 4,500
B. Error reduction	2,500
C. Increased flexibility	7,500
D. Increased speed of activity	10,500
E. Improvement in management planning or control	25,000
F. Other _____	0
TOTAL tangible benefits	\$50,000

Figure 5-3

Tangible benefits for Customer Tracking
System (Pine Valley Furniture)



Determining Project Benefits (Cont.)

- **Intangible benefits** are benefits derived from the creation of an information system that cannot be easily measured in dollars or with certainty.
 - May have direct organizational benefits, such as the improvement of employee morale
 - May have broader societal implications, such as the reduction of waste creation or resource consumption

Determining Project Benefits (Cont.)

TABLE 5-3 Intangible Benefits from the Development of an Information System

- | | |
|--|---|
| • Competitive necessity | • More confidence in decision quality |
| • More timely information | • Improved processing efficiency |
| • Improved organizational planning | • Improved asset utilization |
| • Increased organizational flexibility | • Improved resource control |
| • Promotion of organizational learning and understanding | • Increased accuracy in clerical operations |
| • Availability of new, better, or more information | • Improved work process that can improve employee morale or customer satisfaction |
| • Ability to investigate more alternatives | • Positive impacts on society |
| • Faster decision making | • Improved social responsibility |
| | • Better usage of resources ("greener") |

(Source: Based on Parker and Benson, 1988; Brynjolfsson and Yang, 1997; Keen, 2003; Cresswell, 2004.)



Determining Project Costs

- **Tangible cost:** a cost associated with an information system that can be measured in dollars and with certainty
- IS development tangible costs include:
 - Hardware costs
 - Labor costs, or
 - Operational costs, including employee training and building renovations.



Determining Project Costs (Cont.)

- **Intangible cost:** a cost associated with an information system that cannot be easily measured in terms of dollars or with certainty
- Intangible costs can include:
 - Loss of customer goodwill,
 - Employee morale, or
 - Operational inefficiency.



Determining Project Costs (Cont.)

- **One-time cost:** a cost associated with project start-up and development or system start-up
- These costs encompass activities such as:
 - Systems development,
 - New hardware and software purchases,
 - User training,
 - Site preparation, and
 - Data or system conversion.



Determining Project Costs (Cont.)

- **Recurring cost:** a cost resulting from the ongoing evolution and use of a system
- Examples of these costs include:
 - Application software maintenance
 - Incremental data storage expenses
 - Incremental communications
 - New software and hardware leases, and
 - Supplies and other expenses (i.e., paper, forms, data center personnel).

Determining Project Costs (Cont.)

ONE-TIME COSTS WORKSHEET Customer Tracking System Project	
	Year 0
A. Development costs	\$20,000
B. New hardware	15,000
C. New (purchased) software, if any	
1. Packaged applications software	5,000
2. Other _____	0
D. User training	2,500
E. Site preparation	0
F. Other _____	0
TOTAL one-time costs	\$42,500

Figure 5-4

One-time costs for Customer Tracking System (Pine Valley Furniture)

Determining Project Costs (Cont.)

RECURRING COSTS WORKSHEET	
Customer Tracking System Project	
	Year 1 through 5
A. Application software maintenance	\$25,000
B. Incremental data storage required: 20 GB \$50 (estimated cost/GB = \$50)	1000
C. Incremental communications (lines, messages, . . .)	2000
D. New software or hardware leases	0
E. Supplies	500
F. Other _____	0
TOTAL recurring costs	\$28,500

Figure 5-5

Recurring costs for Customer Tracking System (Pine Valley Furniture)



Determining Project Costs (Cont.)

- Both one-time and recurring costs can consist of items that are fixed or variable in nature.
- *Fixed costs* are billed or incurred at a regular interval and usually at a fixed rate.
 - Example: facility lease payment
- *Variable costs* are items that vary in relation to usage.
 - Example: long-distance charges

Determining Project Costs (Cont.)

TABLE 5-4 Possible Information Systems Costs

Type of Cost	Examples	Type of Cost	Examples
Procurement	Hardware, software, facilities infrastructure Management and staff Consulting and services	Project	Infrastructure replacement/ improvements Project personnel Training Development activities Services and procurement Organizational disruptions Management and staff
Start-Up	Initial operating costs Management and staff Personnel recruiting	Operating	Infrastructure replacement/ improvements System maintenance Management and staff User training and support

(Source: Based on King and Schrems, 1978; Sonje, 2008.)



Determining Project Costs (Cont.)

TABLE 5-5 Guidelines for Better Cost Estimating

1. Have clear guidelines for creating estimates.
2. Use experienced developers and/or project managers for making estimates.
3. Develop a culture where all project participants are responsible for defining accurate estimates.
4. Use historical data to help in establishing better estimates of costs, risks, schedules, and resources.
5. Update estimates as the project progresses.
6. Monitor progress and record discrepancies to improve future estimates.

(Source: Based on Lederer and Prasad, 1992; Hubbard, 2007; Sonje, 2008.)



The Time Value of Money

- **Time value of money (TVM):** the concept that money available today is worth more than the same amount tomorrow
- **Discount rate:** the rate of return used to compute the present value of future cash flows (*the cost of capital*)
- **Present value:** the current value of a future cash flow



The Time Value of Money

- Net Present Value (NPV)
 - Use discount rate to determine present value of cash outlays and receipts
- Return on Investment (ROI)
 - Ratio of cash receipts to cash outlays
- Break-Even Analysis (BEA)
 - Amount of time required for cumulative cash flow to equal initial and ongoing investment

The Time Value of Money (Cont.)

■ Net Present Value

- PV_n = *present value* of Y dollars n years from now based on a *discount rate* of i .
- NPV = sum of PVs across years.
- Calculates *time value of money*

$$PV_n = Y \times \frac{1}{(1 + i)^n}$$



The Time Value of Money (Cont.)

- **Break-even analysis:** a type of cost-benefit analysis to identify at what point (if ever) benefits equal costs

$$\text{Break-Even Ratio} = \frac{\text{Yearly NPV Cash Flow} - \text{Overall NPV Cash Flow}}{\text{Yearly NPV Cash Flow}}$$

The Time Value of Money (Cont.)

	A	B	C	D	E	F	G	H	I	J	K
1	Pine Valley Furniture										
2	Economic Feasibility Analysis										
3	WebStore Project										
4											
5				Year of Project							
6		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	TOTALS			
7	Net economic benefit	\$0	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000				
8	Discount Rate (12%)	1.0000	0.8929	0.7972	0.7118	0.6355	0.5674				
9	PV of Benefits	\$0	\$44,643	\$39,860	\$35,589	\$31,776	\$28,371				
10											
11	NPV of all BENEFITS	\$0	\$44,643	\$84,503	\$120,092	\$151,867	\$180,239	\$180,239			
12											
13	One time COSTS	(\$42,500)									
14											
15	Recurring Costs	\$0	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)	(\$28,500)				
16	Discount Rate (12%)	1.0000	0.8929	0.7972	0.7118	0.6355	0.5674				
17	PV of Recurring Costs	\$0	(\$25,116)	(\$22,720)	(\$20,286)	(\$18,112)	(\$16,172)				
18											
19	NPV of All COSTS	(\$42,500)	(\$67,916)	(\$90,666)	(\$110,952)	(\$129,061)	(\$145,236)	(\$145,236)			
20											
21											
22	Overall NPV							\$35,003			
23											
24											
25	Overall ROI - (Overall NPV / NPV of All COSTS)							0.24			
26											
27											
28	Break-Even Analysis										
29	Yearly NPV Cash Flow	(\$42,500)	\$19,196	\$17,140	\$15,303	\$13,064	\$12,200				
30	Overall NPV Cash Flow	(\$42,500)	(\$23,304)	(\$6,164)	\$9,139	\$22,803	\$35,003				
31											
32	Project break even occurs between years 2 and 3										
33	Use first year of positive cash flow to calculate break-even fraction - $((15303 - 9139) / 15303) = 40.3$										
34	Actual break-even occurred at 2.4 years										
35											

Figure 5-6

Summary spreadsheet reflecting the present value calculations of all benefits and costs for the Customer Tracking System (Pine Valley Furniture)
(Source: Microsoft Corporation.)

The Time Value of Money (Cont.)

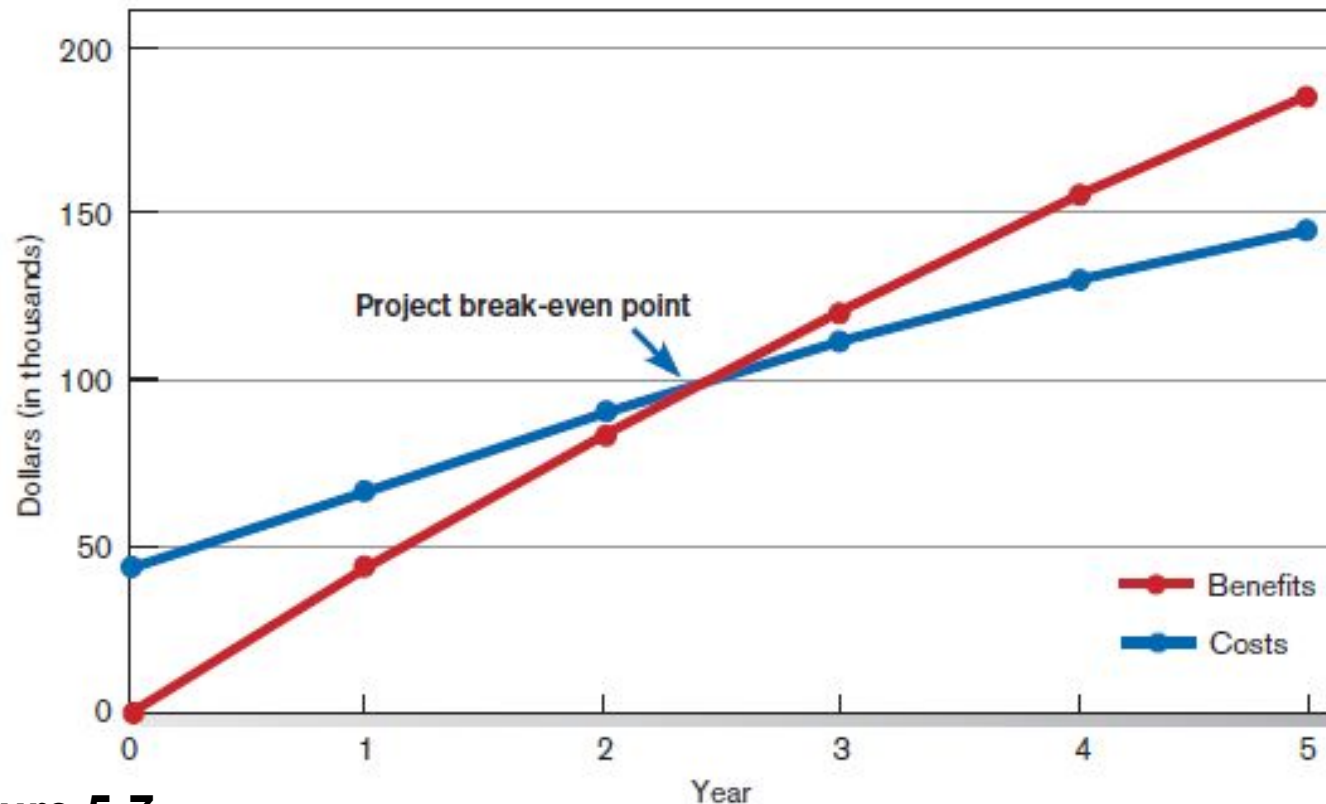


Figure 5-7
Break-even analysis for Customer Tracking System (Pine Valley Furniture)



Assessing Technical Feasibility

- **Technical feasibility:** a process of assessing the development organization's ability to construct a proposed system
- Assessment of the possible target hardware, software, and operating environments
- Consider system size, complexity, and the group's experience with similar systems



Assessing Technical Feasibility (Cont.)

- The potential consequences of not assessing and managing risks can include:
 - Failure to attain expected benefits from the project
 - Inaccurate project cost estimates.
 - Inaccurate project duration estimates.
 - Failure to achieve adequate system performance levels.
 - Failure to adequately integrate the new system with existing hardware, software, or organizational procedures.



Project Risk Factors

- Project size
 - Team size, organizational departments, project duration, programming effort
- Project structure
 - New vs. renovated system, resulting organizational changes, management commitment, user perceptions
- Development group
 - Familiarity with platform, software, development method, application area, development of similar systems
- User group
 - Familiarity with IS development process, application area, use of similar systems



Assessing Technical Feasibility (Cont.)

- Four general rules of risk assessment:
 1. *Larger projects are riskier than smaller projects.*
 2. *A system in which the requirements are easily obtained and highly structured will be less risky than one in which requirements are messy, ill structured, ill defined, or subject to the judgment of an individual.*



Assessing Technical Feasibility (Cont.)

3. *The development of a system employing commonly used or standard technology will be less risky than one employing novel or nonstandard technology.*
4. *A project is less risky when the user group is familiar with the systems development process and application area than if unfamiliar.*

Assessing Technical Feasibility (Cont.)

		Low Structure	High Structure
High Familiarity with Technology or Application Area	Large Project	(1) Low risk (very susceptible to mismanagement)	(2) Low risk
	Small Project	(3) Very low risk (very susceptible to mismanagement)	(4) Very low risk
Low Familiarity with Technology or Application Area	Large Project	(5) Very high risk	(6) Medium risk
	Small Project	(7) High risk	(8) Medium-low risk

FIGURE 5-8

Effects of degree of project structure, project size, and familiarity with application area on project implementation risk (*Source: Based on 7th Applegate, Austin, and McFarlan. 2007; Tech Republic, 2005.*)



Assessing Other Feasibility Concerns

- **Operational**

- Does the proposed system solve problems or take advantage of opportunities?

- **Scheduling**

- Can the project time frame and completion dates meet organizational deadlines?

- **Legal and Contractual**

- What are the legal and contractual ramifications of the proposed system development project?

- **Political**

- How do key stakeholders view the proposed system?



Building the Baseline Project Plan

- A **Baseline Project Plan (BPP)** is a document intended primarily to guide the development team.
- Sections:
 - Introduction
 - System description
 - Feasibility assessment
 - Management issues



Building the Baseline Project Plan (Cont.)

- Project Scope statement is part of the BPP introduction.
- Sections:
 - Problem statement
 - Project objectives
 - Project description
 - Business benefits
 - Deliverables
 - Expected duration



Summary

- In this chapter you learned how to:
 - ✓ Describe the steps involved in the project initiation and planning process.
 - ✓ List and describe various methods for assessing project feasibility.
 - ✓ Describe the activities needed to build and review the baseline project plan.
 - ✓ Describe the activities and participant roles within a structured walkthrough.