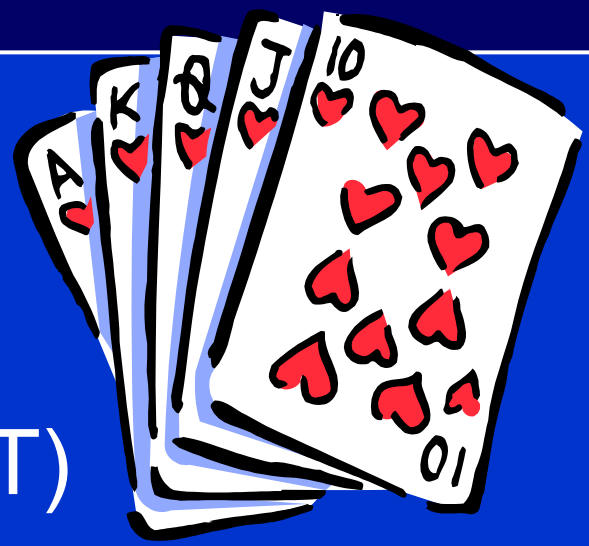
Texas Hold 'Em
(DA Approaches to IT)



Jim Weller, Senior IT Project Consultant - ChevronTexaco

jimweller@chevrontexaco.com

Gerald J. Lieberman, Partner - Decision Strategies Inc.

glieberman@decisionstrategies.com

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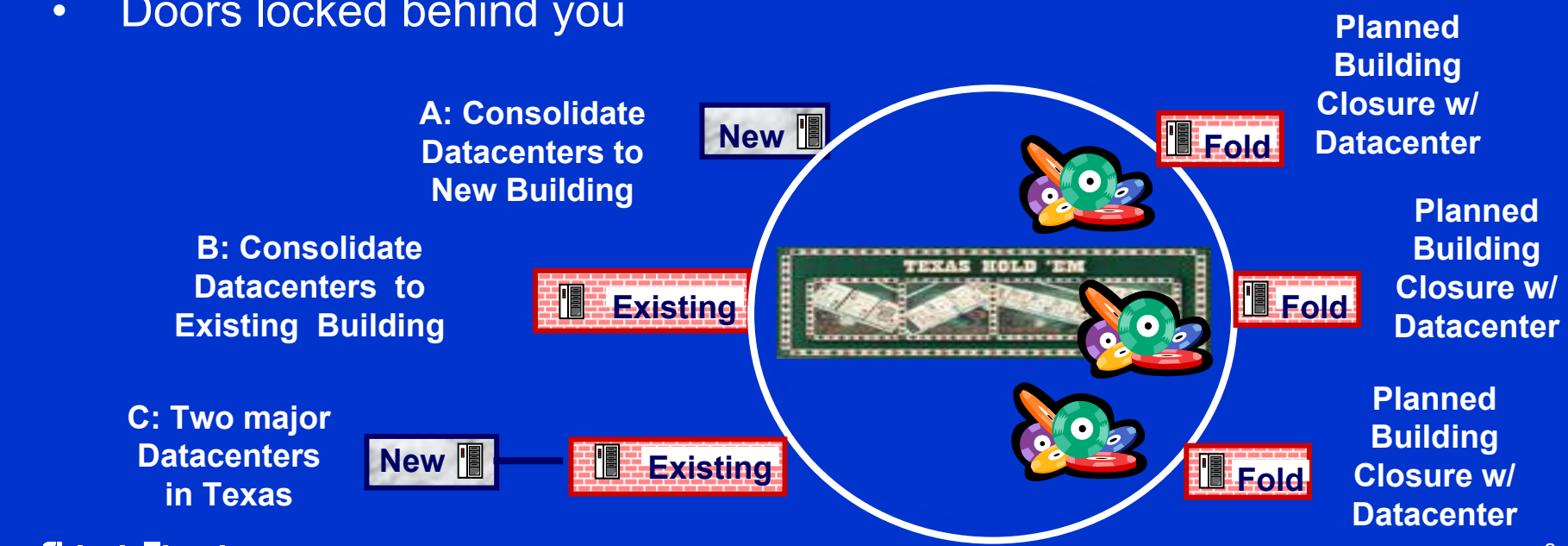
House Rules for Texas Hold 'Em

- The game is underway and you're the new player
- The "hands" were already dealt and some have folded
- You get to pick the "hand" you will bet on
- Bet on the winning hand – "Win Big"
- Bet on a weak hand – "Split the Pot"
- Bet on a losing hand – you and your company go to "Poor House"
- Doors locked behind you



A closer look at the hands – "It's A High Stakes Game!"

Major business initiatives

- Building Portfolio consolidation to New Building
- Production & Exploration moving to New
- Downstream Supply & Trading moving to New

Majority of employees in Texas moving to new building

Opportunity

Determine the most strategic and optimal design and location of the Texas Datacenter to best serve business needs

Alternatives

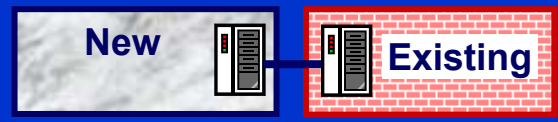
A: Consolidate Datacenters to New Building

- Consolidate the Existing and Folded Datacenters into New

B: Consolidate Datacenters to Existing Building

- Consolidate Folded Datacenters into Existing

C: Two major Datacenters in Texas



- Move Production and Exploration computing to New and keep rest in Existing

Now "Show me the money ……"

Total Cost of Ownership Approach

Gather Costs

- Project Team gathered costs for each alternative and built cash flow model
- Project Team did not agree with model results, since the model did not reflect significant differences in business benefits
- Project Team asked for help with Business Case

Alternative B Looks Best
• Best NPV - looking at cost only

Alternatives

5 Year Cash flow Results (relative NPV at EV from Base)

- $14MM NPV	**$0 MM NPV (Base Case)**	**- $8 MM NPV**
A: Consolidate Datacenters to New Building	**B: Consolidate Datacenters to Existing Building**	**C: Two major data centers in Texas**
New	Existing	New — Existing
• Optimal computing performance for Production and Exploration and 70% of employees in Texas	• Optimal computing performance for 30% of employees in Texas	• Optimal computing performance for Production and Exploration and 70% of employees in Texas

Business benefits crucial and far larger than IT costs

Gather Benefits

Production and Exploration computing is worth billions and requires:

- A high-speed network to deliver business value (response time)
- People and computing historically in the same building, since some critical Exploration and Production IT applications may not work over distances (technical risk)
- Highly reliable datacenter facilities (reliability)

"There's a snake in my boot!"

Alternative C Looks Best

- **Most Benefits protected**
- **Lowest costs (of remaining)**

Alternatives

5 year Cashflow Results

- $14MM NPV

A: Consolidate Datacenters to New Building

- High-speed network in New
- Production and Exploration people and computers in New
- New facility is highly reliable

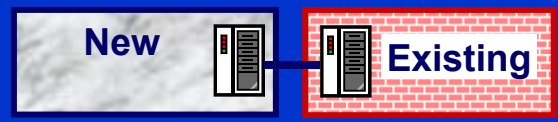
$0 MM NPV (Base Case)

B: Consolidate Datacenters to Existing Building

- Network from Existing to New is too slow
- Technical Risk is high
- Existing facility needs upgrade

- $8 MM NPV

C: Two major Datacenters in Texas



- High-speed network in New
- Production and Exploration people and computers in New
- Existing facility needs upgrade
- New facility is highly reliable

New Approach: Redefine Alternatives to level set benefits and then compare based on costs

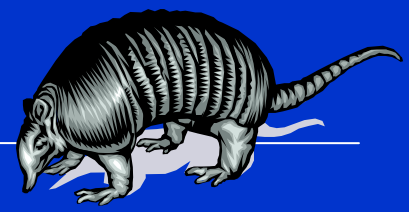
Attempt to Level set Benefits

- To alternative A, include future synergy optionality from a single datacenter
- To alternative B, account for existing facilities upgrades, network upgrade, technical risk, and future synergy optionality from a single datacenter
- To alternative C, account for existing facilities upgrades

Alternative A Looks Best

- Best NPV, including value of future optionality

"That dog can't hunt!"



Alternatives

5 year Cashflow Results

+ $10MM NPV

A: Consolidate Datacenters to New Building

- Optimal computing performance for 70% of employees in Texas

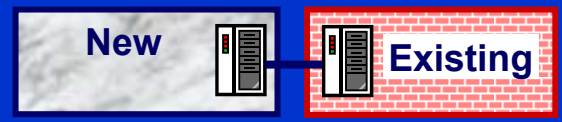
$0 MM NPV (Base Case)

B: Consolidate Datacenters to Existing Building

- Optimal computing performance for 70% of employees in Texas

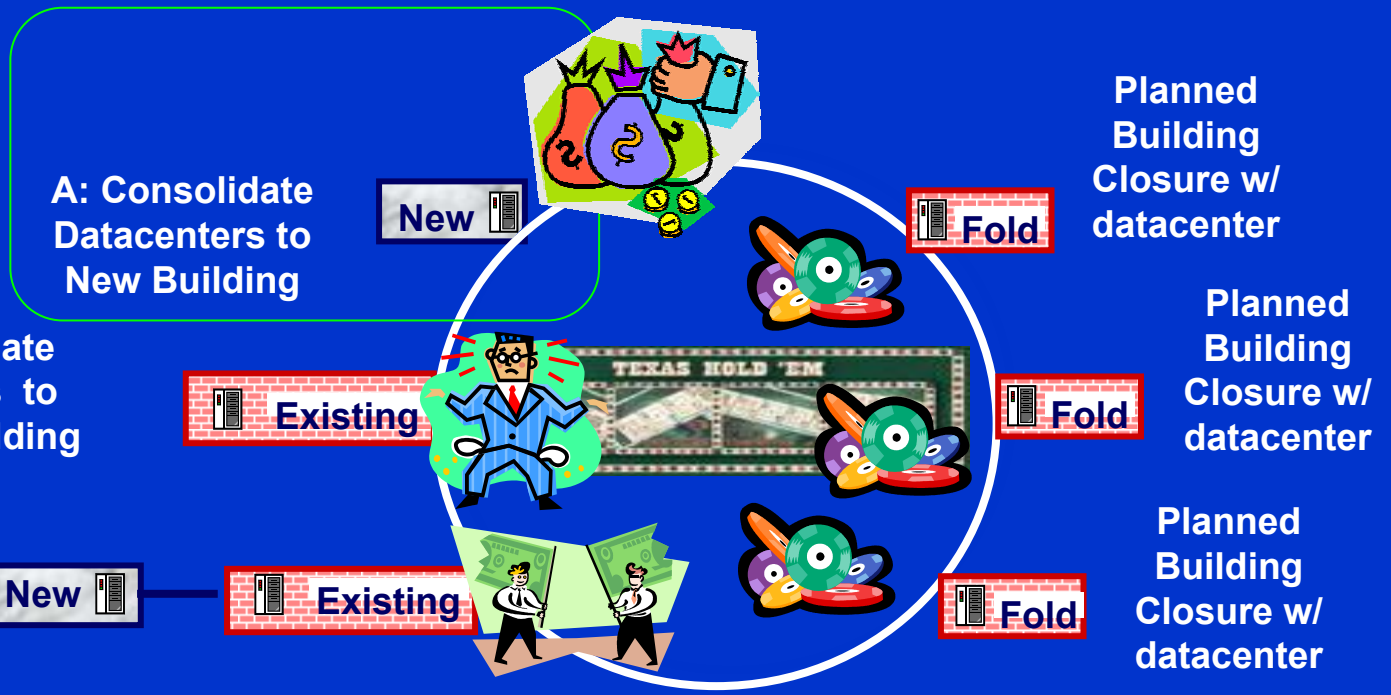
- $2 MM NPV

C: Two major Datacenters in Texas



- Optimal computing performance for 70% of employees in Texas
- Inefficiencies from two Datacenters

“Read ‘Em and Weep!” - The results are in, and the winner is…



Case Study Lesson: Sometimes the right way to value the benefit provided by an underlying technology project is not to value the business benefit, but rather to value the cost differences in providing the same business benefit.

Desired General Discussion Issue: How to appropriately capture the value provided by a technology to the core business.

IT Case Study Review

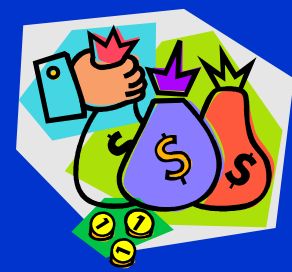
1. **The challenge with IT projects is often how to capture the benefits.**
2. **IT cost savings are fairly straightforward.**
3. **Business benefits enabled by the IT project are usually much larger and trickier to properly value.**
4. **After framing this problem, it was apparent that the business benefits of a good IT infrastructure were many orders of magnitude larger than any IT costs to achieve them.**
5. **The key realization in this project was that any feasible alternative strategy had to achieve these business benefits.**
6. **The reasonable action was to redefine the alternatives to provide the same business benefits.**
7. **This left us with the value of the project being driven not by differences in business benefits provided, as originally framed, but rather by differences in IT costs required to provide the business benefits. The IT project decision then became easy to make.**

“Don’t start a game you can’t finish!” – Conclusions

Traditional IT = Total Cost of Ownership = Risk of “Poor House”

Traditional DA applied to IT = Cost & Benefit = Risk of “Split the Pot”

Case Study DA for IT = Attempt to Level set Benefits and then Compare = Likely “Win Big”



Key point

Often business benefits are orders of magnitude larger than IT costs, so attempting to level set IT alternatives first, to optimize or protect business benefits, and then comparing the alternatives will result in better IT decisions