

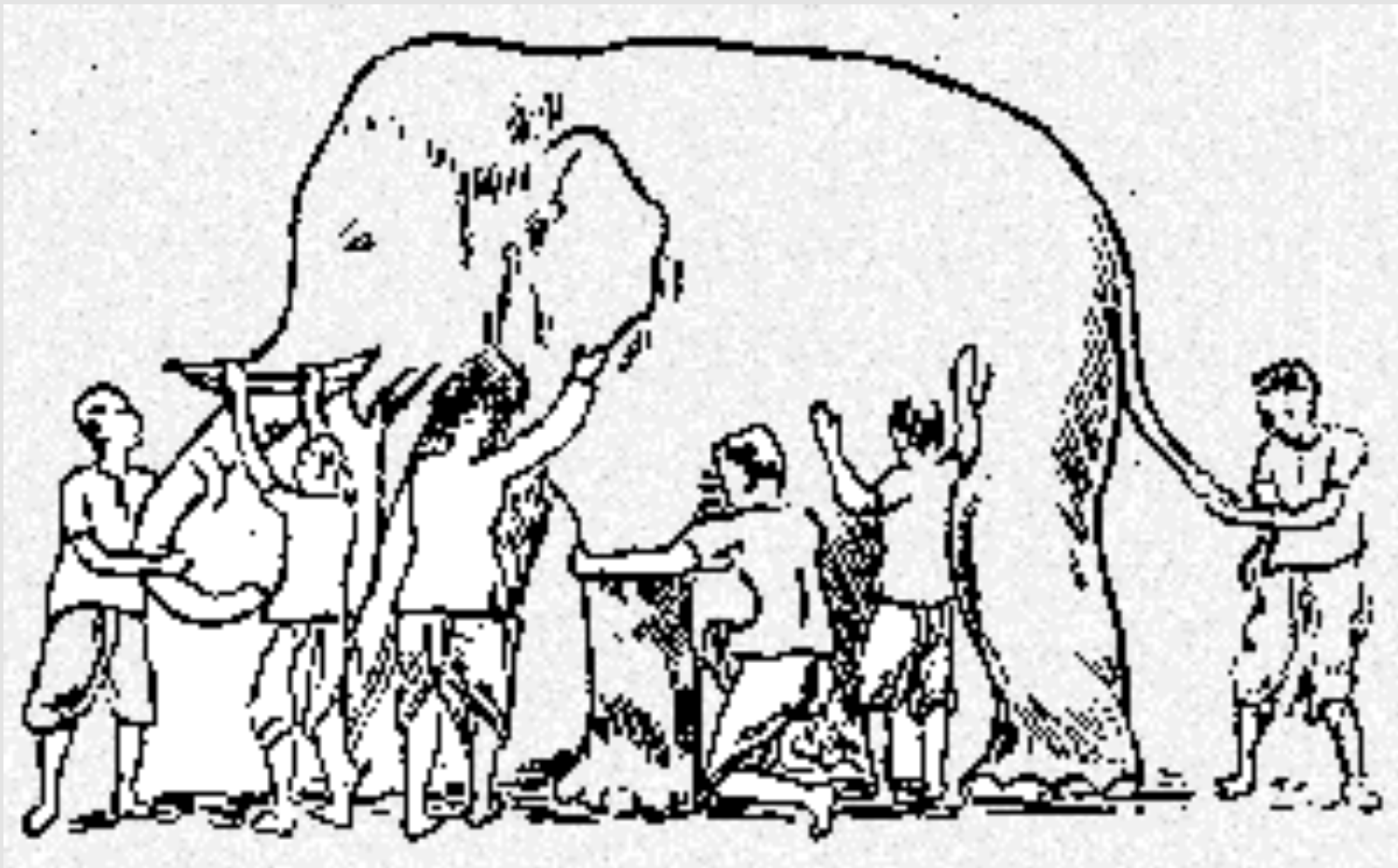
# Business Value: The next iteration

Agile 2008

Aug 5, 2008

Joe Little

# 6 Blind Men & the Elephant



# Joe Little

- ✓ Agile Practitioner, Coach, and Trainer
- ✓ Practicing Agile for 4 years
- ✓ Practiced Waterfall for 18 years; recovering Waterfall
- ✓ Background in PM/PMO and management consulting to JP Morgan Chase, Citibank, Deutsche Bank, BNP Paribas, and Bank of America
- ✓ 20+ years in financial services
- ✓ MBA, CST

# Introductions

- Please tell us...
  - Your Name
  - Something else (your company, your home town, etc.)
  - One sentence: Why you are interested in this topic?

"You've got to be very careful if you don't know where you're going, because you might not get there."

Yogi Berra

# Ways to an answer

- What is the right question?
- When is the right time to answer the question?
- What is the answer?



# Agenda

1. Some ideas before, after and around Business Value - “Toward a general theory of Business Value”
2. What is it?
3. Show me the money! (I want action.)

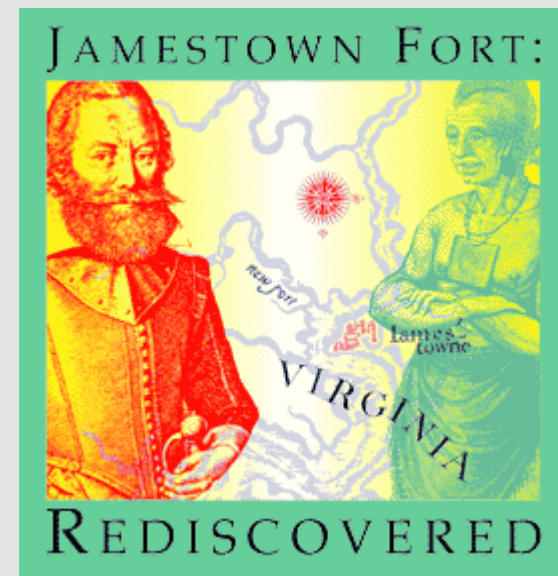
# Does the Business Value of a project ever change?

- In what ways?
- Why?
- How do you discover the change?

“The Chinese GDP is already the second biggest in the world.”



Shanghai, PRC





# The Business Manifesto

- Customer satisfaction over Team interactions
- Business value delivered over Working Software
- Really solving the problem over Just collaborating
- Responding to BV change over Responding to project change

Note: This is a koan, to start people thinking. Not a serious replacement for the Agile Manifesto.

# The First Problem

- Can we ever finally understand what the customer(s) needs?
- What are the problems beneath that?

# La donna e mobile

<http://www.youtube.com/watch?v=xCFEk6Y8TmM>

# La donna e mobile

## *Refrain*

Woman is flighty  
Like a feather in the wind,  
She changes the tone of her voice and her  
thoughts,  
And her thoughts!  
And her thoughts!

# Change

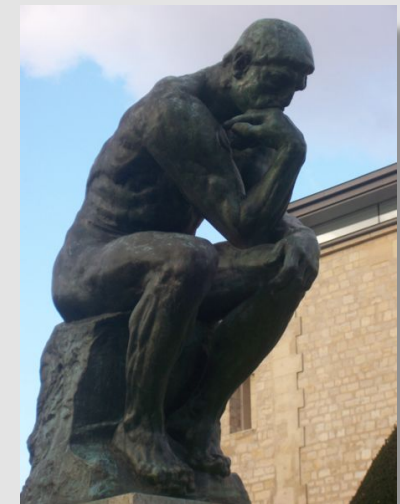


The Thing itself

“What do women want?” Freud



The prism



The team's understanding

# Change in the understanding of the customer

- Our understanding improves
- Our perception improves (eg, we get new data)
- The best business approach to solving the problem changes
- The situation changes (business, competitive, etc, etc)
- What the customer wants changes

# The Is questions

- Why is Business Value important?
- How do you define Business Value?
- Which definitions of Business Value align best with which people?
- What do customers really want? What did you buy today and why?
- Does the Business Value of a project ever change? Why? How did you discover that change?
- Which tools should we use to uncover Business Value?
- In a project, who should care about Business Value?
- Does Business Value seem easier or harder now?

# Why is Business Value important?

- Helps us make big decisions (eg, to do a project)
- Helps us decide which features to do first
- Helps us motivate & influence behavior generally (eg, some developers really do great work when they see the business value)
- Guides smaller work (eg, if this features has small BV, then I will put less into it)





# Confusion: Who are we really doing this for?

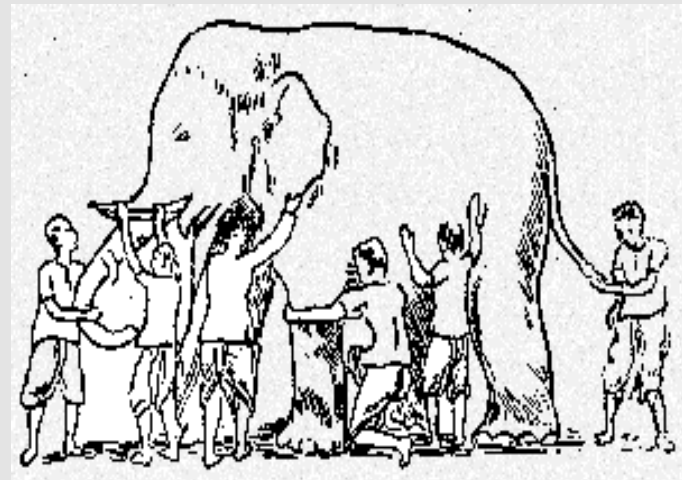
- The owner/advocate
- The buyer
- ***The external users*** (often many types)
- The internal users (often many types)
- Those who benefit from the system (often different than the above)
- Shareholders, other Stakeholders

# Time, Time, Time

- The time value of satisfaction
- We have to complete this project before the next management reorg
  - ie, usually within 3 months
- The time value of money
  - Ex: Release earlier and you start earning money sooner. Thus, total value increases

# What is Business Value?

- Break into small teams for 5 minutes.
- Then small teams share.
- What is your general definition of Business Value?
- What is your Operational Definition of Business Value



# Example of BV Definition

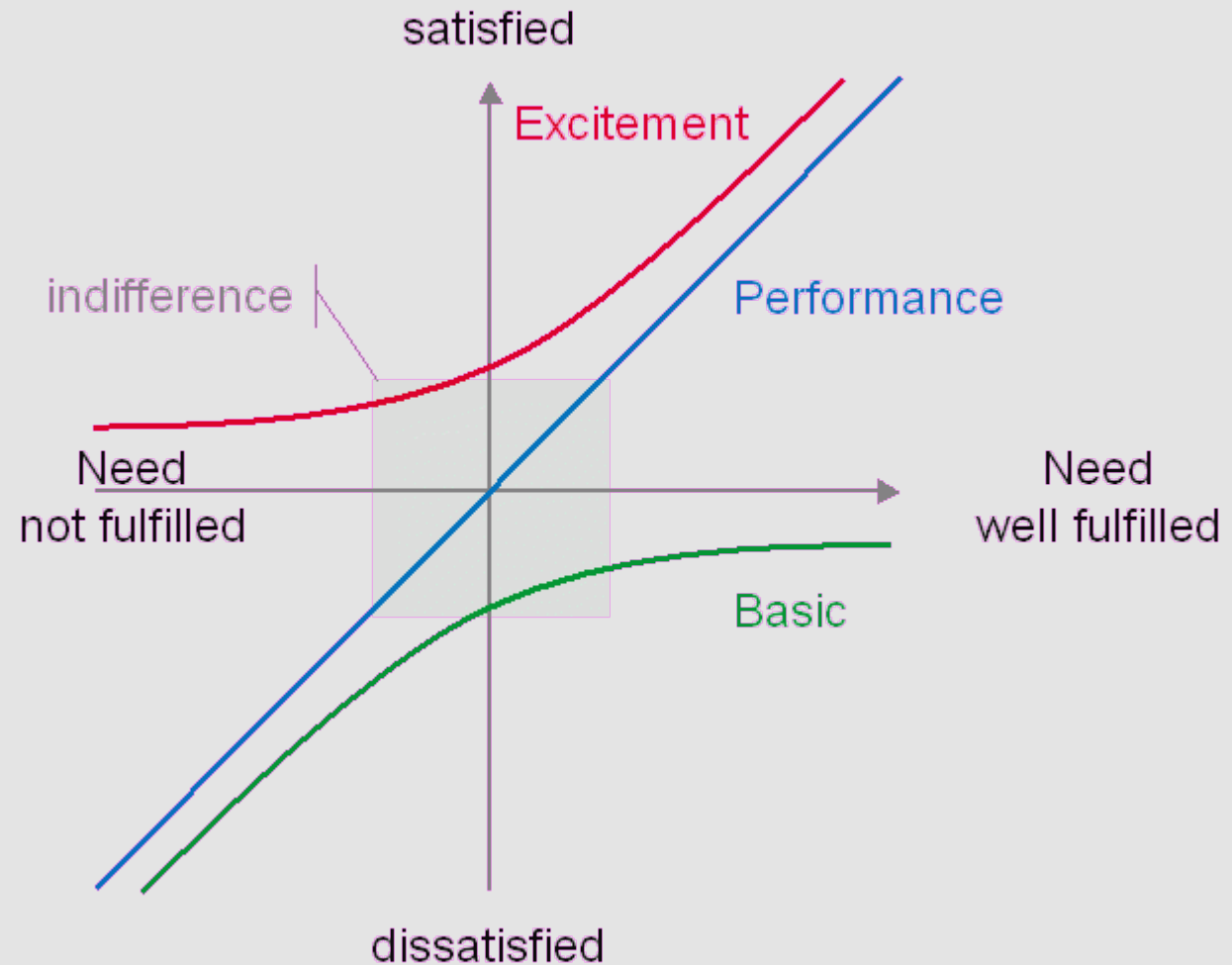
- General: The Net Present Value of the effort.
- Operational: We have a detailed definition of all the inputs to that equation, which cash flows to include, the time horizon, and the discount rate (or how it varies). These are all well-understood.
- Comment: For efforts that use NPV, we only use NPV

# Some other definitions

- Net Promoter Score
- Kano model
- Lean Cycle Time
- Time To Market [TTM] (Time to Value)
- ROI (specifically...)
- Reduced Risk
- Reduced risk put into an underwriting model that yields a \$ value
- Increased customer satisfaction
- Improvement in one of a thousand process or product metrics
- Improved employee satisfaction
- Lower costs (specifically...)
- Improvements in one of a thousand “customer measures” (more eyeballs, JD Powers report, easier usage, etc.)
- Etc
- Etc
- Because I say so
- Because the employees want to do it

# Kano Model

- \* Attractive
- \* One-Dimensional
- \* Must-Be
- \* Indifferent
- \* Reverse



1. Must-haves
2. The more the better
3. Exciters

# Which definitions of Business Value align with which people?



Workers



Stockholders



What do you *really* know about your customers ?

Customers

# The workers are important

“Every evening, all our assets go down the elevator.”

Leo Burnett (of Leo Burnett Advertising)



# Why are workers important?

- Only the workers can solve the customer's problem.
- Only the workers, as a team, have the creativity.
- They are people...among other things: they deserve satisfying work.

# “Money talks and nobody walks”

- Are \$ the most important (only) measure of BV?
- Drucker:
  - Creating BV for customers is most important
  - Providing returns to shareholder is a constraint; must be done, but not the key mission

# What do customers really want?

- Pair up. One person is the Buyer, one the Guesser
- The Buyer secretly identifies the last “thing” he/she bought
- The Buyer jots down 3 reasons they bought it
- The Guesser gets one general question (Ex: “When or where did you buy it?”)
- The Guesser must guess
  - What it was
  - One reason it was bought



# Some things customers want...

- A product or service (or both)
  - Or some more features
- A lower price (if everything else is the same)
- At a better location
- At the best time
- With the right experience
- Higher quality



# Some key factors for customers

- What other problems do I need to solve?
- How does this fit in my budget vis-a-vis other things I need (will need)?
- What are other semi-competitive products? (at least competing for that overall budget)
- How much “fun” is this product compared to others?
- What is my risk tolerance? How sanguine am I about things?
- How interested am I in trying something new today?

# A Lean Definition

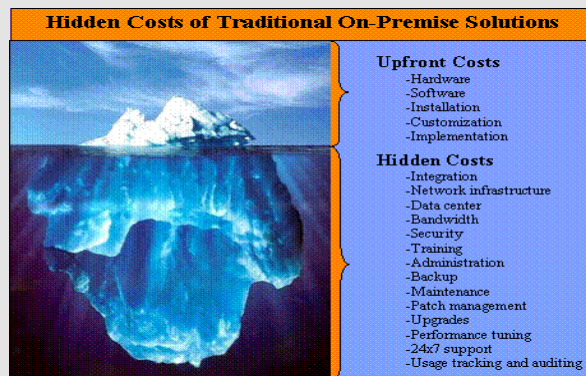
"The critical starting point for lean thinking is value. Value can only be defined by the ultimate customer. And it's only meaningful when expressed in terms of a specific product (a good or a service, and often both at once), which meets the customer's needs at a specific price at a specific time."



Womack & Jones  
(emphasis added)

# From “Lean Solutions”

1. Solve the customer’s problem completely by insuring that all the goods and services work, and work together.
2. Don’t waste the customer’s time.
3. Provide exactly what the customer wants.
4. Provide what’s wanted exactly where it’s wanted.
5. Provide what’s wanted where it’s wanted exactly when it’s wanted.
6. Continually aggregate solutions to reduce the customer’s time and hassle.



Underline added.  
From Womack & Jones

# BV is about communication

- We use BV to communicate (value, priorities, motivation, etc)
- We all have to learn how to communicate better about it
- If a worker doesn't care about \$, talking about BV in \$ might not be effective



# Which tools should we use to identify Business Value?

- Discuss in teams for 2 mins and report.
- “Tool” is broadly defined. Anything that helps us understand what Business Value is.



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# Some tools

- We mentioned some in defining BV (Net Promoter Score, Kano Model)
- Customer interviews
- Spreadsheets
- Calculations (NPV, ROI)
- Graphs (see Denne, for example)
- Focus groups
- Surveys
- Observing work or other situations
- Six Sigma toolkit
- Lean Value Stream maps
- Root Cause Analysis (eg, 5 Whys)
- Etc, Etc

# Pareto Principle (80-20 Rule)

- The Pareto Principle says that in any population of things, 80% of the effects come from 20% of the causes.
- We need to use this idea to always work on only the top BV items.
- We challenge you to determine, in your situation, whether 80% of the value comes from 20% of the work (stories)

# No correlation

- Assume: There is no expected correlation between work and Business Value.
- More specifically, we usually expect that many high BV things take relatively little effort (once we discover them)

# Who should care about Business Value?

- Who is responsible? Who leads? Who contributes? Who cares?
- Business people?
- Execution Team?
- Product owner?
- Internal customers?
- Operations?
- Stakeholders? (many types)
- Others?

# All on the same page?

- Would it be helpful if all of these people were on the same page about the BV of a specific effort?

# An apology...

I know you would prefer that...

- $BV = x$

But...

# Maybe it is...

- $BV = F(x) + F(y) + F(z) + \dots$
- That is, a complex function where we must balance multiple things

...while they are changing!



# Does Business Value seem easier or harder now?

- Did you learn anything you can apply?
- While it may feel harder, will it help?
- Advice: Don't wait for perfection.



# Now we switch gears

Light! Camera! Action!

See this:

<http://www.youtube.com/watch?v=OaiSHcHM0PA>

# BV is not the weather

...where everybody talks about it,  
but no one does anything about it.

# It's in the action

When the rain is blowing in your face  
And the whole world is on your case  
I could offer you a warm embrace  
To make you feel my love

...

The storms are raging on the rollin' sea  
And on the highway of regret  
The winds of change are blowing wild and free  
You ain't seen nothing like me yet

I could make you happy, make your dreams come true  
Nothing that I wouldn't do  
Go to the ends of the earth for you  
To make you feel my love

Lyrics: Make You Feel  
My Love by Bob Dylan  
(emphasis added)

# Shall we take action?

Whether 'tis nobler in the mind to suffer  
The slings and arrows of outrageous  
fortune

**Or to take arms against a sea of troubles  
And by opposing end them.** To die, to  
sleep--

No more--and by a sleep to say we end  
The heartache, and the thousand natural  
shocks

That flesh is heir to. 'Tis a consummation  
Devoutly to be wished. To die, to sleep--  
To sleep--perchance to dream: ay, there's  
the rub,

For in that sleep of death what dreams may  
come

When we have shuffled off this mortal coil,  
Must give us pause. There's the respect  
That makes calamity of so long life.

For who would bear the whips and scorns of  
time,

Th' oppressor's wrong, the proud man's  
contumely

The pangs of despised love, the law's delay,  
The insolence of office, and the spurns  
That patient merit of th' unworthy takes,  
When he himself might his quietus make  
With a bare bodkin? Who would fardels  
bear,

To grunt and sweat under a weary life,  
But that the dread of something after death,  
The undiscovered country, from whose  
bourn

No traveller returns, **puzzles the will,  
And makes us rather bear those ills we  
have**

**Than fly to others that we know not of?**  
Thus conscience does make cowards of us  
all,

And thus the native hue of resolution  
Is sicklied o'er with the pale cast of thought,  
**And enterprise of great pitch and  
moment**

**With this regard their currents turn awry  
And lose the name of action.**

# The DO Questions

- Do we need some basic concepts around using Business Value?
- What should we do before we commission an IT project?
- What should we do first, once a project is commissioned? (Product Backlog / Stories)
- What should we do in the Iteration Planning Meeting?
- What should we do during an Iteration?
- What should we do at Iteration Review?
- What should we do at Release Time? What should we do at the end of an IT Project? What do we do well after an IT project is over?
- Can we use Business Value across multiple projects? If so, how and when?
- If there is change and learning about Business Value, how is that best incorporated?
- Who should take all the actions you've proposed?
- What is the biggest thing you learned in this session?

# Do we need some basic concepts around using Business Value?

- Cost-benefit analysis
- Decision-making (vs. cost of information)
- Precision vs. Accuracy

# Minimum Marketable Feature Set

- See Software By Numbers by Denne and Cleland-Huang
- Key idea: identifying and releasing these MMFS's quickly is key to increasing BV.



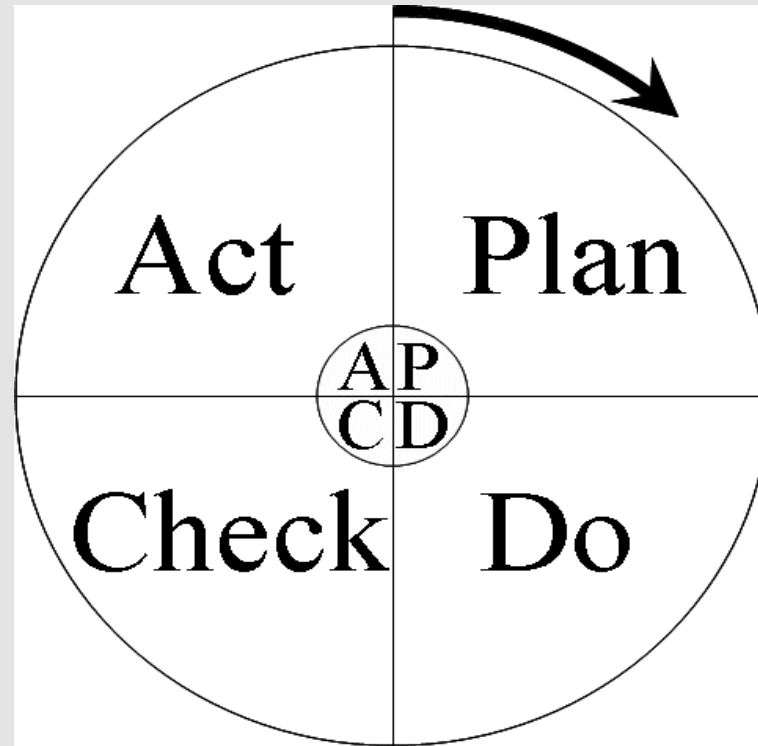
# The F Word

Maybe it inhibits us from learning.

I failed.

# Deming Cycle

- Like the scientific method



# Toyota Way: Learn by Doing

## Fujio Cho, President, 2002 (now Chairman)

- We place the highest value on actual implementation and taking action. *Agile Principle #1*
- There are many things one doesn't understand, and therefore we ask them: why don't you just go ahead and take action; try to do something? *Agile Principle #3, #11*
- You realize how little you know and you face your own failures and redo it again and at the second trial you realize another mistake ... so you can redo it once again. *Agile Principle #11, #12*
- So by constant improvement ... one can rise to the higher level of practice and knowledge. *Agile Principle #3*

# More at bats

- Baseball is a sport where hitting .300 in the majors is a great success
- Eric Schmidt: "Assume that you don't have all the answers," Schmidt said. "I can assure you that we don't." "The best way to be lucky is to create more luck," he said. "And the best way to create more luck is to create more at bats."

[Source](#)

# What do your teams do about BV now?

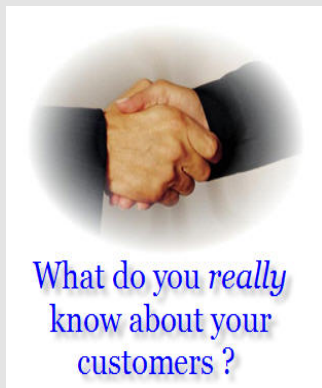
- At your tables, share actions for 2 min.
- Then, report back to the group.

# Context

Let's discuss action in this context...

- ...a Scrum project
- Project commissioning
- Release planning
- Sprint Planning
- Iteration work
- Sprint Review
- Retrospective
- Release go-live
- End of project
- After that...

# What should we do before we commission an IT project?



# Before commissioning...

- Identify BV
- Agree on definition(s) of BV for this effort
- Establish metrics deltas
- Identify approach to learning about BV
- Identify approach to frequent release of BV



# Experiment

- At this point, we have formed the hypothesis, and identified how we will measure this experiment.
- This is how we learn...we don't expect to have “all knowledge” now.

# What should we do during Release Planning?

Assume Release Planning includes:

- Product Backlog (stories)
- Prioritize by BV (rank order)
- Do Story Points
- Order work (stories)
- Plan next release (eg, date)

# What should we do during Release Planning?

- Use BV points (extended Fibonacci scale)
  - Consider multiple orders of magnitude differences
  - Small differences not very meaningful?
- Communicate about BV with everyone
- Order the work to learn more about BV faster
- Focus on MMFS to Release
  - Simplicity, Simplicity, Simplicity

# What should we do in Sprint Planning ?

- Standard: Choose highest BV things
- Maybe: Choose things that will help us learn more about BV faster
- Discuss BV: Be sure Execution team is motivated by it
- Be honest about the different types of BV involved

# What should we do during the Sprint?

- Std: Do the highest BV things first
- Discover BV
- Watch for poor communication. Re-explain the BV in relation to Cost
- New ideas about BV will come to the Team in the course of doing work; use them
- Std: Refactor the Product Backlog (BV more)

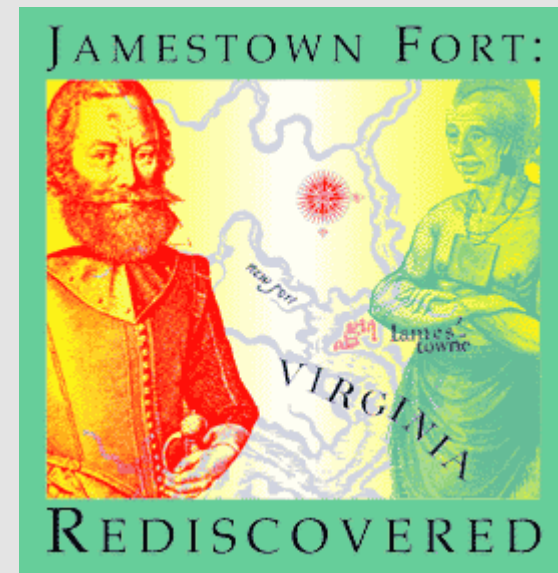


# What should we do at Sprint Review?

- Std: Confirm that Business Value delivered
- Identify what we have learned about BV
- Consider adjusting our BV model (eg, financial model & key inputs)



Shanghai, PRC



# What should we do at Release?

- At release: Adjust expected metrics delta
- Gut check: Did we really do what we expected?
- Learning: What do we know now about BV?
- Refactor Product Backlog
- Plan to gather actuals



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# What should we do after Release?

- Measure actual metrics delta
- What do we learn from the data?
- Revise expectations (eg, for future releases)
- Revise hypotheses (typically)
- Refactor Product Backlog



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# What should we do after the Project is over?

- Measure actual metrics delta
- What do we learn from the data?
- Revise expectations (eg, for this project)
- Learn about BV (eg, revise hypotheses)
- Learn to estimate it better for the next project



	A	B	C	D	E	F	G	H	I	
1	<b>PROJECT NPV</b>	<b>Forecasting Cash Flows</b>								
2	(in thousands of \$)	2001	2002	2003	2004	2005	2006	2007	2008	
3		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	
4	<b>Key Assumptions</b>									
5	Unit Sales	2000	4000	5600	6800	7400	3700	1800		
6	Inflation Rate	2.0%	2.5%	3.0%	3.5%	4.0%	4.0%	4.0%		
7	Real Cost of Capital	11.0%	11.2%	11.4%	11.6%	11.8%	12.0%	12.2%		
8	Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%		
9										
10	<b>Discounting</b>									
11	Discount Rate = Cost of Capital		13.2%	14.0%	14.7%	15.5%	16.3%	16.5%	16.7%	
12	Cumulative Discount Factor	0.0%	13.2%	29.0%	48.1%	71.0%	98.9%	131.6%	170.3%	
13										
14	<b>Price or Cost / Unit</b>									
15	Sales Revenue / Unit		\$9.70	\$9.94	\$10.24	\$10.60	\$11.02	\$11.46	\$11.92	
16										
17	Variable Costs / Unit:									
18	Direct Labor		\$3.50	\$3.59	\$3.70	\$3.82	\$3.98	\$4.14	\$4.30	
19	Materials		\$2.00	\$2.05	\$2.11	\$2.19	\$2.27	\$2.36	\$2.46	
20	Selling Expenses		\$1.20	\$1.23	\$1.27	\$1.31	\$1.36	\$1.42	\$1.47	
21	Other		\$0.70	\$0.72	\$0.74	\$0.76	\$0.80	\$0.83	\$0.86	
22	Total Variable Cost / Unit		\$7.40	\$7.59	\$7.81	\$8.09	\$8.41	\$8.75	\$9.10	
23										
24	Cash Fixed Costs:									
25	Lease Payment		\$2,800	\$2,870	\$2,956	\$3,060	\$3,182	\$3,309	\$3,442	
26	Property Taxes		\$580	\$595	\$612	\$634	\$659	\$685	\$713	
27	Administration		\$450	\$461	\$475	\$492	\$511	\$532	\$553	
28	Advertising		\$930	\$953	\$982	\$1,016	\$1,057	\$1,099	\$1,143	
29	Other		\$520	\$533	\$549	\$568	\$591	\$615	\$639	
30	Total Cash Fixed Costs		\$5,280	\$5,412	\$5,574	\$5,769	\$6,000	\$6,240	\$6,490	



# Can we use Business Value across multiple projects?

- If so, how and when?

# If there is change and learning about Business Value...

- ...how is that best incorporated?
- Which is better?
  - (Sshhh! Don't tell anyone!)
  - “It was a test, and we learned a lot.”

# Who should take all the actions you've proposed?

- Leaders take action
- Managers take action
- A whole bunch of others take action, too?
  
- Or do we leave it all up to the one Product Owner?

# What have we left out?

- Lots more about product management and product development
- Organizing for better business value engineering
- How Business and IT must always work together
  
- What else??
- Where would you like more detail??

# What did you learn?

- What will you take action on soon?...
- Even if on something we only hinted at...

# Does Business Value seem easier or harder now?

- While it may feel harder, does it help?
- Advice: Don't wait for perfection. Make haste slowly.



# Some resources

- Software by Numbers by Denne & Cleland-Huang
- The New New Product Development Game by Takeuchi & Nonaka
- The Knowledge Creating Company by Takeuchi & Nonaka
- The Concept of Ba by Nonaka & Konno
- Wikipedia: Kano Model
- Lean Thinking by Womack & Jones
- Wikipedia: Product Management
- Wikipedia: Value Stream Mapping
- Implementing Lean Software Development by Mary & Tom Poppendieck
- Agile Estimating & Planning by Mike Cohn
- Wikipedia: Net Present Value
- Wikipedia: Business Value
- Wikipedia: Peter Drucker



# Contact Info

## Joe Little

- 704-376-8881
- 917-887-1669 (cell)
- [jhlittle@kittyhawkconsulting.com](mailto:jhlittle@kittyhawkconsulting.com)
- <http://www.LeanAgileTraining.com>
- <http://agileconsortium.blogspot.com>
- <http://agileconsortium.pbwiki.com>