Guiding requirements scoping using ROI: towards agility, openness and waste reduction

Krzysztof Wnuk  
Department of Computer Science  
Lund University  
Lund, Sweden  
Krzysztof.Wnuk@cs.lth.se

David Callele  
Department of Computer Science  
University of Saskatchewan  
Saskatchewan, Canada  
callele@cs.usask.ca

Björn Regnell  
Department of Computer Science  
Lund University  
Lund, Sweden  
Bjorn.Regnell@cs.lth.se

Abstract—We present a model for supporting scoping decisions that is based on an analysis of the ROI for a given feature. Employing a ROI threshold value for making scoping decisions, the utility of the model was investigated using data from a single large project and identified a group of outlying features responsible for a disproportionate wasted investment. These initial results are promising and indicate that further investigation and validation efforts are warranted.

Keywords: Requirements visualization, process evaluation, scope, efficiency, cost estimation, economics

I. INTRODUCTION

In rapidly changing markets, the scope of a project must adapt to competitive pressures and remain responsive to changing conditions - some degree of flexibility is necessary. Responding in a timely manner and making appropriate scope decisions is a vital part of developing software systems that meet stakeholders’ needs and expectations [1]. However, the prioritization techniques reported in the literature (e.g. [2]) typically model the scoping decisions as discrete temporal events that are binary (keep or cancel) and final. This approach does not capture the reality of dynamic development methodologies – other options (such as investigate further, reschedule, decompose or refine) are not supported and the resulting model(s) may not adequately address the needs of highly dynamic markets. The model presented here represents the decision-making criteria as temporal functions, not absolute values, which facilitates their use even in dynamic situations with uncertain scoping decisions.

II. AN ECONOMIC BASIS FOR SCOPING DECISIONS

In this model, the estimated market value \( V(t) \) of a feature is expressed as follows:

\[
\int_a^b V(t) \, dt \tag{1}
\]

where \( t = a \) is when the feature begins to have market value and \( t = b \) is when the feature ceases to have market value.

The development costs \( C(t) \) is the summation of the individual cost factors over time. The costs for the feature accrue at different rates, at different phases of the project, and are expressed as follows:

\[
\int_a^b C(t) \, dt \tag{2}
\]

where \( a \) is the beginning of expenditures on the feature, \( b \) is the end of expenditures on the feature (either the feature is implemented or the feature was removed from the scope) and \( k \) is the number of cost factors included in the estimate.

The cost factors supported in the model are as follows; \( C_1 \) is a direct cost, all other identified costs are indirect costs.

\begin{align}
C_1 & \quad \text{Requirements development} \quad \text{The cost of product and feature definition and associated requirements engineering efforts.} \\
C_2 & \quad \text{Production personnel} \quad \text{Canceling a feature can lead to inefficiencies such as the overhead associated with changing focus or, in worst case, idle capacity.} \\
C_3 & \quad \text{Other production resources} \quad \text{Canceled features can also incur costs such as those associated with capital equipment, carrying costs, etc.} \\
C_4 & \quad \text{Project Management} \quad \text{Significant costs are incurred when project plans are changed. Planning for, capturing, and implementing the changes can result in the loss of management focus on critical tasks or areas.} \\
C_5 & \quad \text{Estimated Cost of Development} \quad \text{Summary estimate for preparing the feature for production.} \\
C_6 & \quad \text{Estimated Cost of Production} \quad \text{Summary estimate for production cost of feature, aggregated over all units.}
\end{align}

Given the value of a feature and the associated costs, we can calculate the Return On Investment (ROI). We propose that features should be kept within project scope until an ROI threshold level is reached – once the feature ROI drops below the ROI threshold, the feature is canceled.

\[
\frac{\int_a^b V(t) \, dt}{\int_a^b C(t) \, dt} \leq \delta \tag{3}
\]

The value of the ROI threshold, \( \delta \) is value/cost only in the simplest models – \( \delta \) generally includes other business factors such as probability of market success based on past performance and analyses of projected market conditions at
the time of product release. The flexibility inherent in the
development process can be manipulated by adjustments to
the value of \( \delta \) – increasing the value of \( \delta \) increases the
probability of feature cancellation.

*Feature Impact:* The overall impact of a set of features
within a development cycle can be calculated using the
following equation:

\[
\sum_{k=1}^{K} \left( \int_{a}^{b} V_k(t) \, dt - \delta_k \right)
\]

where \( K \) is the number of features analyzed, \( a \) is the point
in the project when the feature was added and \( b \) when the
feature was canceled (the values for \( a \) and \( b \) are not
necessarily the same for different \( k \)). If the feature impact is
negative for the entire set of features in a product cycle then
the project manager can not expect that the product cycle
will be profitable. A negative value for feature impact is
generally acceptable only if there are enough infrastructure
features (whose true value is deferred) to dominate revenue
generating features.

III. Investigating Model Utility

The utility of this model was investigated using data from
a large industrial project with 223 features, 120 of which
were canceled during the analysis period. The data set con-
tains data for the time from feature inclusion to cancellation
and estimated effort data for each feature. However, the
data set does not contain all of the cost function and value
function data necessary for the model; the missing data was
simulated according to the following characteristics:

- The value of effort exerted on requirements definition
  (\( C_1 \)) was based on actual effort data records from the
  project. The effort was prorated on a per-milestone basis
  (from Milestone 1 (MS1) to Milestone 4 (MS4)). Effort
  before MS1 (feature definition phase) was depreciated by
  50%, between MS1 and MS2 was at full cost
  (requirements definition should be complete by MS2),
  and after MS2 was inflated by 50% (to penalize late
  requirements definition efforts).
- The other costs \( C_2, C_3, C_4 \) were assumed to grow lin-
  early at a cumulative rate of 15% per milestone (e.g.
  15%, 30%, 45%) and were assigned a base cost equal
to \( C_1 \).
- The market value was synthesized from a random distri-
  bution seeded by the cost data. Market value was calcu-
  lated as a weight ((between 0 and 10 units)*(cumulative
cost)) that was then depreciated at the rate of 20% per
  milestone until the feature was canceled.

In Figure 1 we see a graph of the resulting ROI values
for the individual features that were canceled. The absolute
magnitude of the peak ROI is a function of our simulated
data, and in this case we can see that the threshold ROI
value for the canceled features was approximately 4. The
dispersion along the y-axis is a function of the effort invested
in the feature and the time delay associated with the eventual
decision to cancel the feature. The data point ID is arbitrary.

Upon further inspection of Figure 1 we note that the ROI
data is clustered in two regions. The upper region represents
those features that had greater potential to be kept in the
project, based on their projected ROI. If any of these features
are canceled, the investment in these features may be lost –
but there was a sound basis for making the investment. The
lower region, below the ROI threshold value of 1.5, contains
the outliers and they represent approximately 21% of the
canceled features. However, the effort spent on the features
in this region corresponds to 77% of the total investment
on features that were cancelled. The data indicates that
the wasted investments in these features are significantly
larger, on a per feature basis, than the features in the
upper region. It appears that this model and technique may
facilitate identifying these outlier features, enabling project
management to cancel the features earlier and reducing
wasted effort.

IV. Conclusions

In this work, we present a new model for supporting
scoping decisions. Based on an analysis of the ROI for
a given feature, and employing a ROI threshold value for
making scoping decisions, the utility of the model was
investigated using data from a single large project. Initial
results are promising and indicate that further investigation
and validation efforts are warranted.

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References


methods for prioritizing software requirements. *Information