

CUSTOMER PROJECT “Z” PHASE I ESTIMATE

Document Date
PROVIDED BY XYZ CORP.
FOR CUSTOMER “A”

This document provides information concerning a formal Estimate for the Customer Project “Z”. Additional information concerning the development of the Estimate is provided.

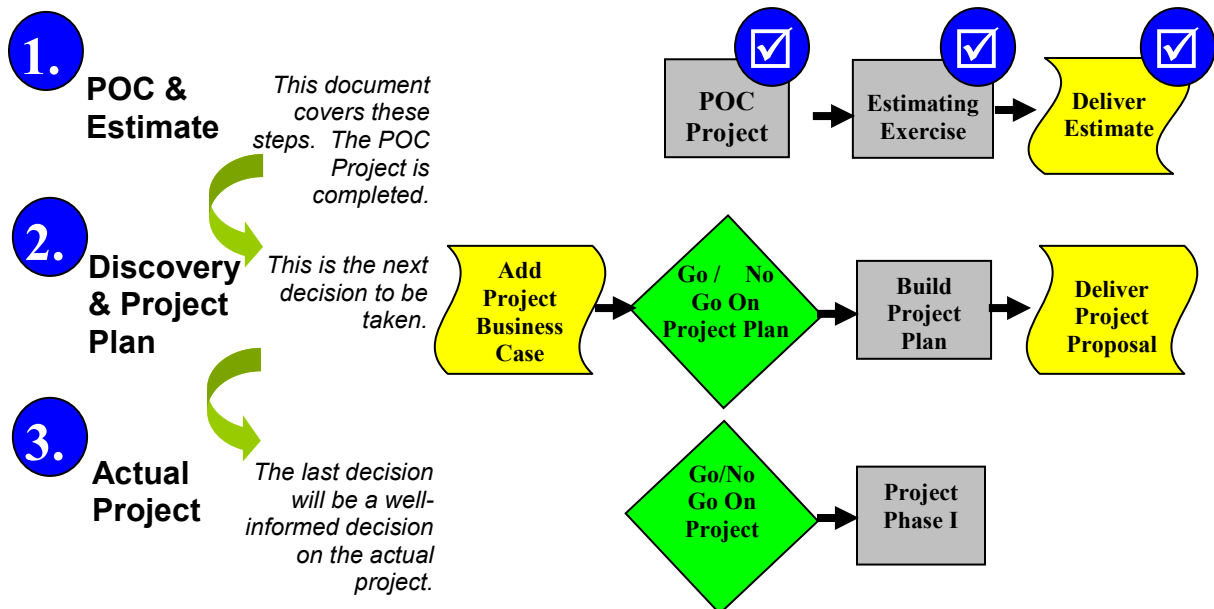
1. WHAT IS THE SUMMARY OF XYZ CORP’S ESTIMATE FOR THE PROJECT Z?

- a) Phase I is estimated to require an investment of \$ 300K, will take 5.0 months, and will deliver 20 Use Cases (25% of estimated total use cases).
- b) Phase II is estimated to require an investment of \$ 350K, will take 4.0 months, and will deliver 30 Use Cases (32% of estimated total use cases).

Together, Phase I & II will require an investment of \$ 650K, will take about 9 months, and will deliver almost 60% of the functionality specified in the Project WBS (Work Breakdown Structure). XYZ Corp has followed a conservative approach in building this estimate. As discussed below, we recommend a discovery/project planning exercise to define a project plan with a narrower contingency, and possibly lower cost. The numbers shown here have a estimate contingency ranging from a low of – 30% to a high of + 50%.

2. HOW DOES THE ESTIMATE FIT INTO THE OVERALL PROJECT PROCESS?

Here is a schematic of the overall Project Process. The first steps in the process have now been complete, with the execution of the POC and the delivery of the Estimate. The next step is to decide on the to proceed with the overall Project, based on the Estimate and the Business Case.



3. WHAT IS AN ESTIMATE?

An estimate is the first step in risk management associated with new project development.

XYZ Corp inc. follows a methodology of quoting and estimating based on the amount of information which is available. In preliminary stages of investigation, little information is available and the variation on cost attributed to the project will be higher. In the case here, we believe that the project as understood will have a variation of – 30% to + 50%, 19 times out of 20.

4. WHAT IS THE BUSINESS VALUE OF AN ESTIMATE AS OPPOSED TO A QUOTE?

An estimate helps the customer decide if the envisioned project is affordable.

An estimate is not an offer to do business. A quote on the other hand can be an offer to do business, and as such is based on a thorough, complete and responsible assessment of project costs.

Nevertheless, the estimate can be useful to the customer who is considering whether a given project should be investigated further, and whether the ultimate cost is likely to be affordable and beneficial.

5. HOW IS AN ESTIMATE DEVELOPED?

Although an estimate is not based on a comprehensive discovery and planning investigation, its value is still based on a methodology. An XYZ Corp inc. estimate is based on a multi-step process involving a tally of top-level business requirements, a tally of large-grained technical functionality, a comparison of required development patterns with XYZ Corp experience, and an application of estimated costs to this tally. Even if individual elements in an estimate are shown later to be incorrect, the probability is that the overall estimate is “in the ballpark”. In summary, an estimate has value based on the experience and training of the estimators, and on the dialogue between the parties.

6. WHAT IS THE MOST IMPORTANT ASSUMPTION ON WHICH THE ESTIMATE IS BASED?

The most important estimating assumption is the definition of the project itself. For instance, in a multi-phase project, the definition as to what would be included in the first phase of the project is most important. Inclusion of tasks in the first phase of a project is dependent both on business cost and benefits, and on technical dependencies and feasibilities.

7. ON WHAT OTHER ASSUMPTIONS IS THE ESTIMATE BASED?

1. **Technology** – That all the technology required to execute the project is reasonably well understood, including interactions between technology. This is the responsibility of XYZ Corp and the customer together.

2. **Skills** – That all the skills required to execute the project are available. This is the responsibility of XYZ Corp and the customer together.

3. **Support** – That the customer provides all required support, for both business and technical topics, in a timely and sustained way.

4. **Interfaces** – That intra-project interfaces and interfaces to existing systems are well-documented and function as required. This is the responsibility of the customer.

5. **Data** – That data is well-documented, conforms to specified quality standards and is available. This is the responsibility of the customer, but may require XYZ Corp investigation.

6. **Performance** – That system, business and transaction loads are understood and the appropriate hardware is in place to support reasonable performance. This is the responsibility of the customer and XYZ Corp working together.

7. **Task Estimates** – That task estimates, based on dialogue between customer and XYZ Corp, are reasonable. We have assumed average effort for these tasks; if there are a disproportionate number of underestimated high-effort tasks in any phase, this will affect the accuracy of the estimate. Errors in task estimates are usually derived from misunderstandings concerning project requirements.

8. **Application Development** – That requirements for “traditional application development” are understood. In a case where there is very little requirement for traditional application development, costs will be correspondingly lower. For instance, a project which consists mostly of integration, assembly or “mashups” of pre-existing commercial-off-the-shelf, opensource and homebuilt applications, will obviously require little traditional coding.

9. **Use Cases** – The total project consists of likely 80 defined business functions (“use cases”), as captured in the Work Breakdown Structure. We have assumed average effort for these use cases; if there are a disproportionate number of high-effort use cases in any phase, this will affect the estimate. However, in the case at hand and based on a basic analysis of use cases, we believe that the likelihood of such estimating surprises is low.

10. **Common Foundation** – The estimate is based on an understanding that common technology will underpin many or even most of the use cases, thus generating significant savings when compared to having to build everything from scratch.

8. HOW SHOULD AN ESTIMATE BE USED?

A project estimate should be the basis of a “go/no go” decision for a discovery and project plan – not for a project itself. It is expected that any “outlier” project cost results that were not anticipated during the estimating process, would be discovered at this stage. It is sometimes appropriate to cancel a project based on full discovery; in such a case the cost to the project sponsor is much less than the cost of a failed project.

9. PROJECT Z PHASE I & II DEFINITIONS

The definition of the PROJECT Z Phase I project is as defined in the attached MS Project File.

Project Phases are defined as follows:

- 40% of the total project effort is allocated to Phase I
- 30% of the total project effort is allocated to Phase II
- 30% of the total project effort is allocated to Phase III

For three (3) full-time developer equivalents, **Phase I** is estimated to take the following time:

Estimate 5.0 months

For three (3) full-time developer equivalents, **Phase II** is estimated to take the following time:

Estimate 4.0 months

Actual services will include a mix of developer, architect, usability specialist and project management.

10. WHAT IS XYZ CORP'S ESTIMATE OF INVESTMENTS REQUIRED FOR THE PROJECT PHASES I & II?

XYZ Corp estimates that Customer A's **Phase I** project would require the following investment, 19 times out of 20:

Low	\$ 230,000	Which is 30% under "likely"
Estimate	\$ 290,000	Likely
High	\$ 430,000	Which is +50% over "likely"

XYZ Corp estimates that Customer A's **Phase II** project would require the following investment, 19 times out of 20:

Low	\$ 170,000	Which is 30% under "likely"
Estimate	\$ 220,000	Likely
High	\$ 320,000	Which is +50% over "likely"

11. WHAT IS DELIVERED IN PHASES I & II?

XYZ Corp bases its estimation of effort required to execute the Project Z Project on a need to deliver approximately 80 use cases. The term "use cases" is a proxy for both units of business functionality implemented in software, and software specific infrastructure requirements such as system architecture, security planning, company-specific user interface design, data modeling, data integration, process modeling, systems management planning, performance planning etc.

The majority of overall project effort, as measured by use cases, is dedicated to delivering business functionality.

The following number of use cases would be delivered in each Phase of the project:

Phase I	20 Use Cases
Phase II	26 Use Cases
Phase III	34 Use Cases

This means that in Phases I & II of the project, about 60% of the overall defined Project Z would be delivered. This includes most of the foundation infrastructure and many of the re-usable function templates. According to the Estimate, significant base business functionality would be delivered.

12. ESTIMATE DISCLAIMER

This estimate is not an offer to do business, but the provision, in good faith, of information which may be helpful to the customer. XYZ Corp inc. does not warrant the completeness or correctness of this estimate, including the information in this email and any associated documentation. It is up to the customer to decide if further investigation is warranted, and then on the basis of such further investigation, decide if the envisioned project is in fact a wise investment.

On behalf of your XYZ Corp. team, we would like to say that we have very much appreciated engaging with you through the Proof-of-Concept. We are excited about the opportunity to continue to work with XYZ Corp. to undertake such a useful and exciting project. We will work hard to ensure your success!

Best regards and thanks,

John

John Morris
Client Executive
XYZ Corp