Measuring Business Value
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SAFe Fellow
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<table>
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<th>Audience Poll</th>
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<td><strong>In your organization, which holds your highest proxy for business value?</strong></td>
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<td>a) Return on Investment (ROI)</td>
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<td>b) Net Present Value (NPV)</td>
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<td>c) Market Value Added (MVA)</td>
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<td>d) Shareholder Value Approach (SVA)</td>
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<td>e) User Value/Customer Value/Business Value</td>
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Interesting, what’s wrong with these metrics?

- Return on Investment (ROI)
- Net Present Value (NPV)
- Market Value Added (MVA)
- Shareholder Value Approach (SVA)
- Business Value/User Value/Customer Value
BACKWARDS
ROI (Return on Investment)

- ROI is lagging indicator with no real time knowledge
  \[ \text{ROI} = \frac{\text{Return}}{\text{Investment}} \]

- The difficulty is that the ‘return’ can be almost anything at any given time

  "Prioritizing features through ROI is challenging because it involves making trade-offs between different types of value, and revenues generally cannot be allocated on a feature by feature basis."

  "Even if ROI was the right metric, it would be difficult to implement."

  —Dean Leffingwell
MVA (Market Value Added) / SVA (Shareholder Value Approach)

- MVA (Market Value Added) is the difference between the current market value of a firm, and the capital invested.

- SVA (Shareholder Value Approach) holds shareholders equity as the highest objective.

- Managers aim on making investments to maximize MVA or SVA. In order to maximize, managers must combine investment decisions with decisions about how to raise financing, signals from the stock market, and when to return cash to investors.

Isn’t this misaligned with the notion of Measuring Business Value?
NPV (Net Present Value)

- NPV is the difference between the present value of cash inflows and the present value of cash outflows.
- NPV is used in capital budgeting to **analyze** the profitability of a **projected** investment or project.

*NPV relies heavily on assumptions and estimates. How can this be the proxy?*
Business Value/User Value/Customer Value – Oh My!

- Manifesto says: *Valuable software* …
- Schwaber says: *Increments of business value* …
- Highsmith says: *Conformance to business value* …
- And later…says: *Customer value* …
- Cohn definition of user stories says:
  
  *As a < type of user >, I want < some goal > so that < some reason >*

- **HUGE VACILLATION IN THE MARKET!!!!**
Business value is mentioned everywhere, but not clearly defined, or pushed onto others to resolve.

—Phillipe Kruchten
… in order to have a complete picture of business value, we must consider the goals of the organization, the interest of the stakeholders, and a variety of indicators of value, some of which may be quantifiable.

—Mark Schwartz, The ART of Business Value
Business value cannot be a given; it must be discovered.
Business value is a hypothesis held by the organization’s leadership as to what will best accomplish the organization’s ultimate goals or desired outcomes.

—Mark Schwartz, The ART of Business Value
Ultimately, it turns out that business value is just that; It is what the business values RIGHT NOW.
What is the best proxy?
A CIO says:

Here’s what this PI is costing me. I’m not funding it until I know exactly what I’m getting”
What is the ‘API’ between what we need and what we get?

- COST ($1.5 M)
- BV
- PI OBJECTIVES (proxy)
- VALUE (Actual value received)
What exactly are PI Objectives?

PI Objectives are PI Planning outputs that don’t always map directly to the Features in the backlog.

Examples:

- Aggregation of a set of features, stated in more concise terms
- A milestone like a trade show
- An Enabler Feature needed to support the implementation
- A major refactoring
Examples of PI Objectives

- Release billing self-service
- Release batch customer de-duping
- Fix all current P1 defects
- Submit 5 hiring packets to HR
- Research GoFIn API for Epic 206 sizing

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- Fix all P2 defects
- Refactor Account Inactivation workflow for extending next PI

Aggregation
Single Feature
Maintenance
Improvement
Exploration Enabler
Maintenance
Refactor
FROM THE OLD WAY…
As Business Owners, it is our responsibility to help everyone understand how the business perceives business value.

—A business owner at a large insurance company
Why use PI Objectives?

PI Objectives provide the closest proxy to how best to incrementally achieve the organization’s goals and desired outcomes.

At the start of the PI:

- They validate understanding of intent
- They focus alignment on outcomes rather than process
- They summarize data into meaningful and steerable information

At the end of the PI:

- They provide the second level (ART) feedback loop for fast system-level learning and feedback
Why isn’t the business value inherited from the Features?

- WSJF provides guidance for what Features should be brought into PI Planning
- Features may be split across teams
- Independent stories (not originating from Features) may make their way into the Team Backlog
- The understanding of value may change during PI Planning
Considerations for assigning business value

- **Market share** – Will it help us attract or retain the right customers?
- **Operational efficiency** – Will it help decrease our operational costs?
- **Penalties** – Are there penalties by not being done? If so, what is the cost?
- **Time criticality** – Can it wait until a later PI, or must it be done now?
- **Risk** – Can it be used to reduce risk and increase later predictability?
- **Learning** - Can it be used to validate a hypothesis?
- **Relentless improvement** – Will it help us improve the system?
- **And …**

*It’s part of the MVP! Oh, wait. What about …*
Exercise – Considerations for assigning business value

- Discuss with the people around you the most important considerations currently in your context for assigning business value
- Use information from the previous slide, as well as your understanding of Cost of Delay (CoD), Weighted Shortest Job First (WSJF), and the Economic Framework
- Be prepared to share
Ways of assigning Business Value in PI Planning

When assigning Business Value, two approaches are commonly used:

1. **Relative within teams**
   - Each team starts with their most valuable PI Objective as a ‘10’
   - All remaining PI Objectives are relative to that first 10
   - Does not require normalizing across teams
   - Easy way to get started
   - All teams typically feel they are equally valuable since they all have at least one 10
When assigning Business Value, two approaches are commonly used:

2. **Relative across teams**

- Values are comparable across teams
- Provides visibility into priorities across the train and can facilitate tradeoffs and redistribution of work
- Contributes to a shared understanding of value
- May result in some teams with mostly low values and a lesser feeling of contribution
Example of approach 1 – relative within teams

For each team:

1. Find the highest value and call it a 10

PI OBJECTIVES

- Release billing self-service
- Release batch customer deduping
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• Fix all P2 defects
• Refactor Account Inactivation workflow for extending next PI

For each team:

1. Find the highest value and call it a 10
2. Determine whether there are any other 10’s by considering external commitments or key drivers of Portfolio-level Strategic Themes
Example of approach 1 – relative within teams

### For each team:
1. Find the highest value and call it a 10
2. Determine whether there are any other 10’s by considering external commitments or key drivers of Portfolio-level Strategic Themes
3. Use the previous guidance on what gives business value to determine lower values

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4. Review whether any Stretch Objectives move to committed in light of Business Value assignment

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**Tips:**

- Keep in mind your relative estimating guidelines! A 10 gives twice the value of a 5.
- If one team is dependent on another for their PI Objective, then inherit their value. Their 10 is your 10.
- Timebox. We’re splitting hairs by discussing a 7 versus a 6

**THE GOAL:** Provide enough guidance for the ART so that, should impediments occur, quick decisions can be made on how to pivot.
Review with your peers two ways of assigning Business Value in the following summary slide.

Which best fits your context?
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## Team performance assessment

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### How did we do?

- Review and rate the team’s PI achievements:
  - How well did we do against our stated objectives, including (a) timeliness, (b) content, and (c) quality?

- Remember: it is a collaborative discussion between the Business Owners and the team to continue building a shared understanding value.
Team PI Performance Report

**PI OBJECTIVES**

- Release billing self-service: BV 10, ABV 8
- Release batch customer de-duping: BV 6, ABV 0
- Fix all current P1 defects: BV 8, ABV 4
- Submit 5 hiring packets to HR: BV 10, ABV 10
- Refactor Account Inactivation workflow for extending next PI: BV 7, ABV 7

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- Fix all P2 defects: BV 3, ABV 0
- Research GoFin API for Epic 206 sizing: BV 5, ABV 5

**TOTAL**

- BV: 41
- ABV: 34

% Achievement: 83%

**Team PI Performance Report**

- Planned total does not include stretch objectives
- Actual total includes stretch objectives
- % achievement = Actual total/Planned total
- A team can achieve greater than 100% (as a result of stretch objectives achieved)
- Target range is 80 – 100%
- Effort required for stretch objectives is included in the load (i.e., not extra work the team does on weekends)
Program Predictability Measure

- Program percent achieved is calculated as:

\[
\text{Program Percent Achieved} = \text{Average of all teams’ Percent Achievement score}
\]

- Percent achievement for each team and the program is graphed on the Program Predictability Report.

\[
\text{Program } \% \text{ Achieved} = \text{Average} \left( 88\% + 97\% + 63\% + 92\% + 94\% + 114\% \right) = 91\% \checkmark
\]
Try applying OKRs, “Objectives, with Key Results”

Leverage the “Key Results” part

Example:

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Key Results:

• Billing self-service released to entire user base no later than 9/30/19
• Users are notified of new capability
• Baseline uptake data is captured
What conclusions can we draw?

- Business value is a consensus-based hypothesis as to what near term objectives will best help achieve the optimum business outcomes.
- Initial business value is collaboratively assigned by the Business Owners who have the ultimate responsibility for those outcomes.
- Business value hypotheses are measured in short, meaningful feedback loops.
- The most meaningful feedback loop is the PI, when Business Owners and Trains collaboratively align on PI Objectives, and assess during Inspect & Adapt.
- This supports fast learning by turning the hypotheses into action that creates knowledge.