Using LEAN to Reduce Development and Maintenance Costs

May 2010

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One of the questions I have been asked about both as a CIO and as a consultant is *"Are my costs in line?"* The business always has an innate belief that IT costs are higher than they should be. They are always usually right, by 20-35% and here's why.

Labor costs make up between 75-85% of the development budget and continuing to grow. As a result it is not surprising to see renegotiation of outsourcing rates, heighted focus on governance, and growing use of offshoring. These reduce costs, perhaps, but the real need is to improve the PRODUCTIVITY of the staffs. Otherwise, the one-time ratcheting down of labor costs will continue to rise, usually at a faster rate, such that in a few years an enterprise can find themselves back to where they were. So what can be done?

Well, I would consider using LEAN approach is a good place to start, in only to answer the question on costs. LEAN is concept from manufacturing; it is really a set of concepts, ideas, and tool that allow for "waste" to be eliminated from the production process. We have all heard about time wasted at meetings (especially larger group meetings), people flooding the work queues with work that will not be put to use in the next few months, wrong people assigned to projects, etc. Well, these could be examples of waste, or not.

The key areas of **Waste** include:

1. Inventory - Maintenance backlogs, many partially completed requests.
   Example: task list with multiple years' worth of development.
2. Talent - Key resources not available when expected
3. Rework - Requirements incorrect or changing, application bugs
4. Over-production – Produce code faster than business can absorb it.
5. Over-processing - Produce reports not used, software functionality not necessary.

So, there is not just one place where inefficiency creeps in. At the core is usually a business wanting some new work to be done for good cause and an IT group eager to please. They both takes on too much work without realizing they have resource or skills gaps and voila' lots of waste and projects that could have been done get delayed.

Now that the areas of WASTE are identified, what can be done? Assuming there is a Governance process which would actively help winnow activity to what is needed for the enterprise, the following ideas from LEAN can be applied.

1. Standardization – All software requests follow standard process to assure work proceeds when work is known. No more casual requirements.
2. Release Management – Aligns supply of resources with demand (Demand Management) prevents waste due to delays in resource availability.
3. Load balancing – Distribution of work to "best available" resources locally or offshore as needed.
4. Quality – All groups touching the changes need to approve them and participate as needed in testing. The more systems touched the more difficult to manage end to end however, throwing over the wall to let the other silo figure things out is a sure path to enterprise level problems.

A Lean Transformation requires time and focus from the business and its IT organization to determine what, where, and how to make the changes in the production process. At the enterprise level executive level support is required in both the business and IT to make it work. The good news is that using a LEAN approach can deliver results within 1 quarter and in the longer term create sustainable advantage. The even better news is that these cost reductions can result in talent being re-purposed towards the topline revenue growth.

If you have any questions or questions please let me know.