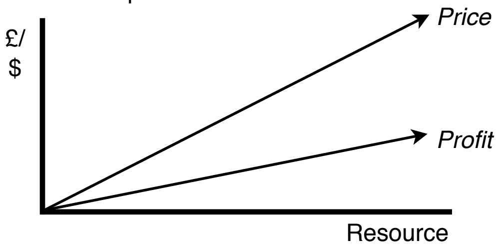
Creative Contracting models for Agile

1. Time and Material (T&M)

Regularly invoice for labour used in pursuit of the solution



For (+)

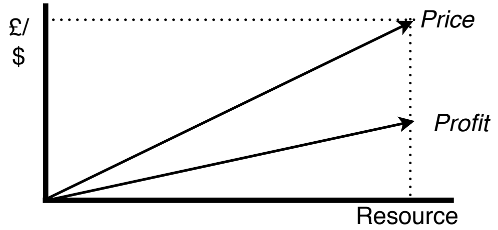
- Low risk for supplier
- Clarity over what is being contracted for (i.e. labour)

Against (-)

- Limited scope for supplier to differentiate from competition
- Supplier becomes a body shop
- Customer focused attention on day rate rather than value delivered
- Most of risk held with customer

2. Capped Time and Material

Regularly invoice for labour used in pursuit of the solution but with an upper limit



For (+)

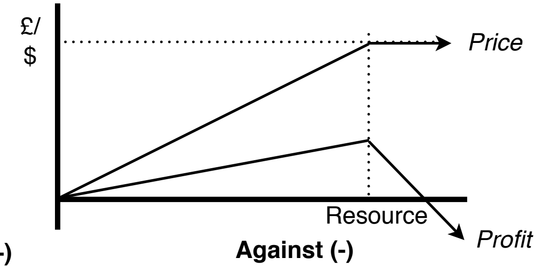
- As per T&M
- Fixed financial liability on customer
- More incentive on supplier to ensure benefit is realised before cap is reached

Against (-)

- As per T&M
- Slight increased risk on supplier that the project is perceived as a failure if cap not set realistically

3. Capped Time and Material, Fixed Scope

Agreed fixed scope, customer may pay less for early delivery, supplier retains delivery risk



For (+)

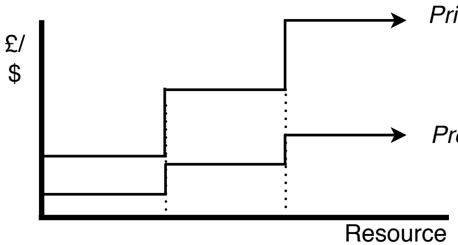
- Low customer risk, Customer benefits if either the project is delivered early or late.
- Supplier is incentivised to deliver on time

Against (-)

- Supplier is not incentivised to deliver early
- Risk is not shared equally
- Quality likely to suffer in the result of overrun

4. Incremental Delivery

Customer pays for incremental agile units of work (this would be coupled up with other approaches)



For (+)

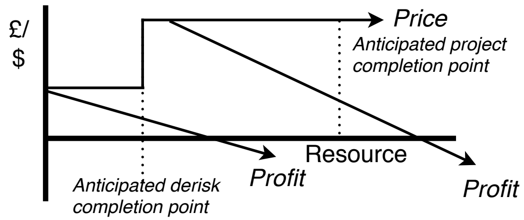
- Opportunities to be creative over what is being contracted for (labour, story points, out comes etc.)
- Risk can be varied depending on experience of working together (e.g. start with labour, move to story points)
- Supplier is incentivised to delivery
- Shared risk

Against (-)

- No confirmed upfront price for customer
- Long term pipe line of work not guaranteed for supplier

5. Two(+) Phase Fixed Price and Scope

Fixed cost to derisk, fixed cost to deliver



For (+)

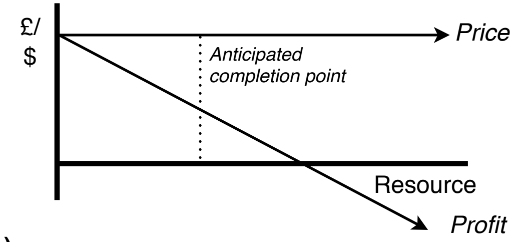
- Promotes good agile practice to derisk early (think UP Inception/ Elaboration)
- Shared risk between customer and supplier
- Provides customer with defined costs and deadlines
- Incentives supplier to work effectively in both phases

Against (-)

- No confirmed upfront price for customer
- Temptation for supplier to use derisk phase to produce detailed specification to reduce risk of change later (V model)

6. Fixed Price and Scope

Price and scope are fixed at the start of project (usually via competitive tender)



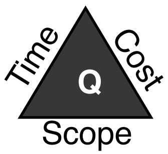
For (+)

- Lower risk for customer
- Supplier drives the project and manages resources
- Change is handled explicitly
- Opportunity for increased profit/cheaper solutions if economies of scale leveraged

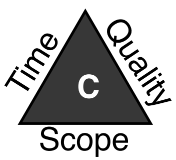
Against (-)

- Does not foster a collaborative relationship
- "Change", cost and what is considered change likely to become contentious
- Risk mostly with supplier
- Quality likely to be traded in the event of overruns

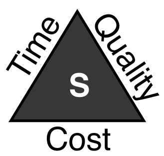
Iron Triangles



= Only **quality** needs to flex



= Only **cost** can flex



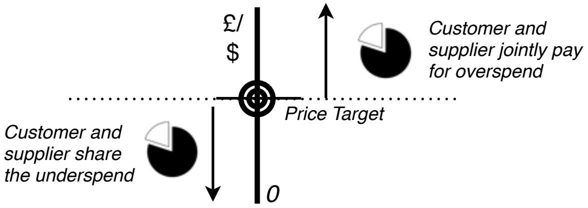
= Only **Scope** can flex

MVP offers a solution to classic Fixed Scope Approach

Agile can be successfully worked into Fixed Scope contracts by defining a core Minimum Viable Product rather than agreeing to delivery absolutely everything. The MVP represents only what is absolutely essential in order for the product to be useable. This offers the advantage that the customer knows that they will get something of real business value (i.e. the MVP), whilst introducing some additional risk contingency to the supplier in the form of non-mandatory requirements within the fixed price to sock up any unforeseen complexity delivering the MVP.

7. Price Target

Both parties agree a realistic price and contribute to overspends or share underspends (Toyota model)



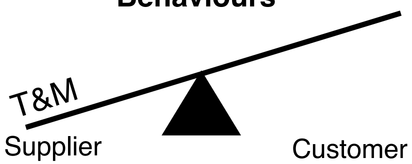
For (+)

- Risk is shared (general in proportion to the size different between customer and supplier - bigger party taking on more risk)
- Both sides are incentivised to deliver

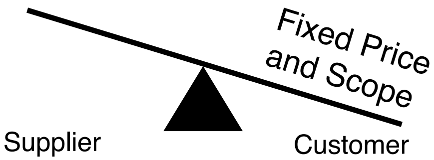
Against (-)

- Agreeing "what" the cost target is for (i.e. scope) becomes the issue again
- Change needs to be handled carefully.
- Need to negotiate sharing proportions

Behaviours



T&M does not drive the correct supplier agile behaviours owing to a lack of incentive to deliver early or to use resources creatively. Customer retains majority of the risk.

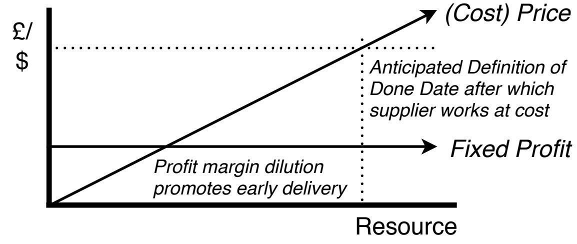


Fixing price and scope does not drive the correct agile customer behaviours owing to a focus solely on price rather than working together to deliver. Change is likely to be contentious.

8. Fixed Profit

(Money for Nothing, Change for Free)

A fixed profit point is agreed after which the project runs at cost. Customer can pull out at any time by paying the remaining profit. Supplier fixes "definition of done" to a given amount of scope (e.g. 80%) at a defined quality level



Money for Nothing

Customer can terminate (if value proposition no longer makes sense) by paying remaining profit.

Change for Free

If the customer remains engaged, they can replace items (of equal value) in the backlog with anything they choose.

For (+)

- Risk is split between parties
- Supplier is incentivised to deliver early and has costs covered in the event of an overrun
- Customer retains control of backlog and has freedom to request change
- Quality is controlled in the event of an overrun

Against (-)

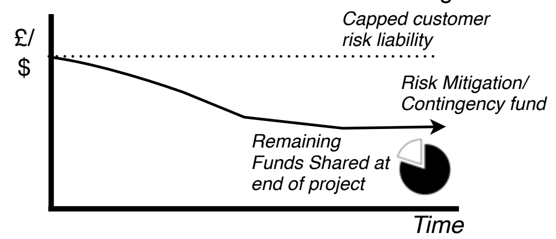
- Careful attention is required to define the definition of done to the satisfaction of both parties (which is now the central commercial agreement) - arguably this is promoting good commercial practice!
- Follow on work after the delivery date will need reconstructed
- Customer does not have a fixed price for the work (but will benefit through "cost price" on additional effort resulting through other runs)

See Jeff Sutherland definition

Fixed Price, Shared Risk Budget

(Appropriate to any fixed price approach)

Customer and Supplier have access to a shared risk pot in the event of risk materialise or need mitigation



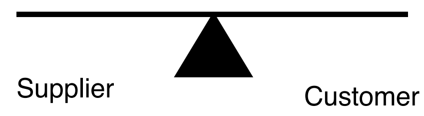
For (+)

- Formal arrangement for customer and supplier to share risk
- Allows customer to cap exposure to delivery risk, but supplier also has some protection for unforeseen circumstances
- Both parties incentivised not to raid risk pot

Against (-)

- Additional formality, complexity and cost of setting up contract
- Customer may be reluctant to share risk funds

Behaviours



Working Together, equally...

- Customer passes on risk around delivery to their supplier, but retains (some) risk around scope - this drives a reduction in the supplier second guessing requirements with resulting contractual tensions
- Supplier is incentivised to be creative in the delivery of the project (e.g. bringing in experts, overtime, using different delivery centres) - this can promote quicker delivery and lower costs for customer
- Contract establishes a joint approach to delivery, with the customer an active participant. The customer has real say in aspects of the project and are not just passengers - this is the Agile way.

"About the author"

With over 20 years in the IT industry, **Stefan Brittain** is currently a Senior Manager and lean development proponent at a leading UK defence company. Stefan holds certifications in PRINCE2, ITIL, TOGAF and ISEB-ISTQB.
www.nonose.co.uk/whitepapers

Further Reading

http://agilesoftwaredevelopment.com/blog/peterstev/10-agile-contracts
http://scrumology.com/an-overview-of-agile-contracts/
http://www.twobirds.com/~/media/PDFs/Brochures/Contracting%20for%20Agile%20software%20development%20projects.pdf

Acknowledgement

Peter Stevens - Incorporates and extends on ideas from 10 ways to contract agile from agilesoftwaredevelopment.com (see further reading) and is therefore released under the same license:
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