2011

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Agile Contracting

The Cooperation-Contract ("Real Fixed-price")

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Motivation

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Agile development and management techniques are evolving very quickly. However most teams experience that the actual contract with the client is not so agile and that they have to adapt to this interface.

The selection from the actual contracts is limited to the "so called" Fixed-Price-Contract or Time & Material-Contracts!

This situation still results in more than half of the IT projects being not successful and we strongly belief it is due to the first wrong step with the contract not suiting the real needs!

To overcome the next barrier towards more successful projects we discuss a new contract model:
✓ **Agile Fixed-Price ("The Real Fixed-Price")**

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To summarize some general facts…

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- Studies show that the scope of IT projects is changing with up to 3% per month. Note: this means 1/3 of the scope in a 1-year project!
- Software can not be specified without any ambiguity, this means there is no 100% correct detailed specification!
- Specification gets outdated – link a 6 month requirement engineering phase as project preparation to e.g. the car industry….
- The "so called" fixed price contracts are often very attractive looking at the initial amount, however many share the experience that the overall project-costs are often very different!

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Customers Situation

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Decision makers: „... want a fixed price and fixed scope and... of course a fixed timeline (with just some little Change Requests)"!

Even though the disadvantages of the well known contract options have been experienced the customer does not see any suitable alternatives.

Even if alternatives are brought up there is no experienced partner giving confidence for a new setup

Procurement Incentives start to change from fixed prices vs. budget to an end-to-end on top of budget view

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Supplier Situation

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Efficient Supplier of Software and System Integration projects changed to agile development methodology

Sales force and Pre-sales are still confronted in creating contracts which do not fit to the development methodology. This reduces the advantages of the agile methodology on both sides.

There is motivation to assist the customers in their transition of mindset also on the level of contracting

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The underlying model is the basis – let's spend a minute on the Agile Paradigm

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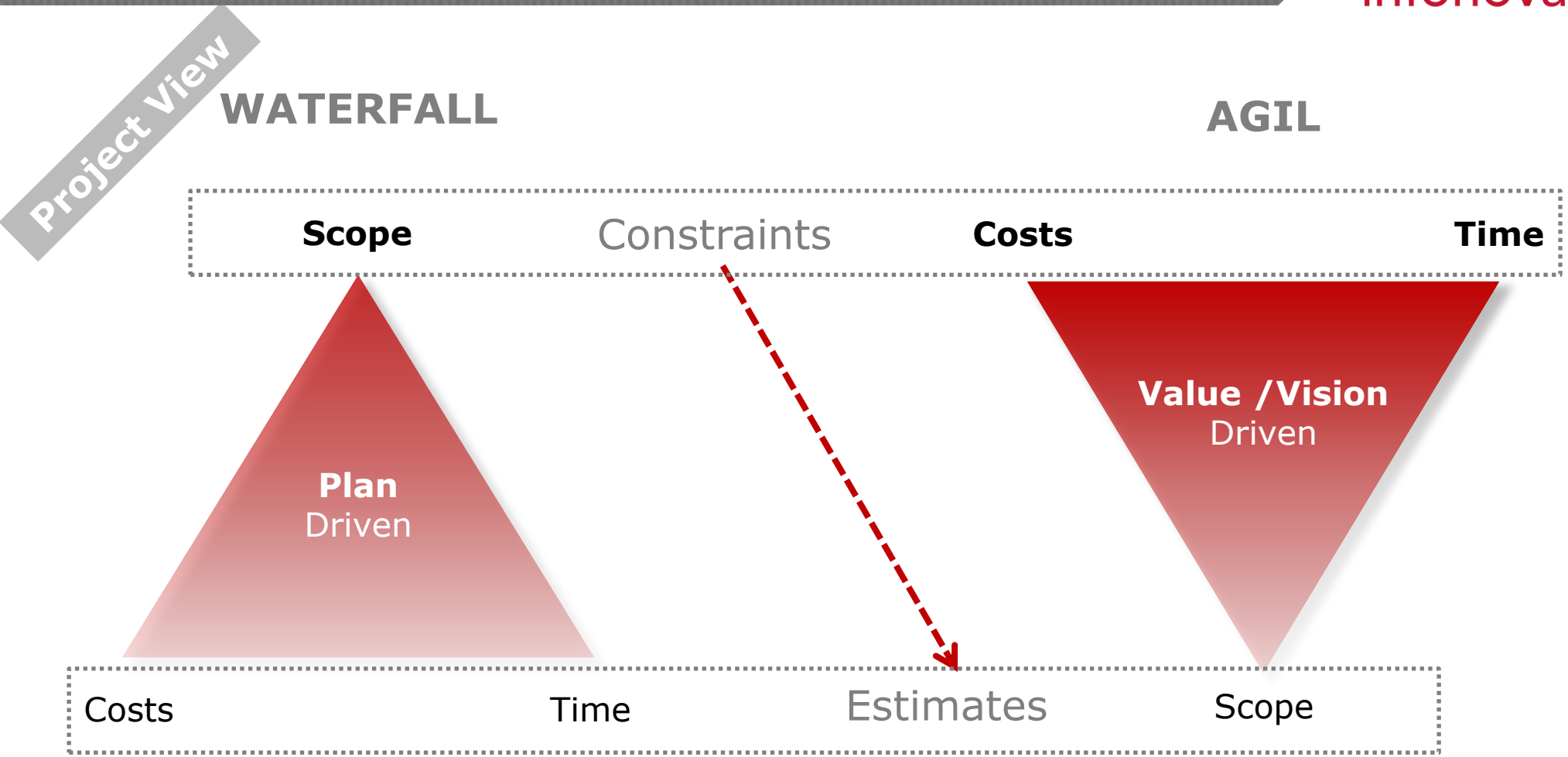

Note: The scope changes over time!

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The collaboration approach optimizes the customers position

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Contract View

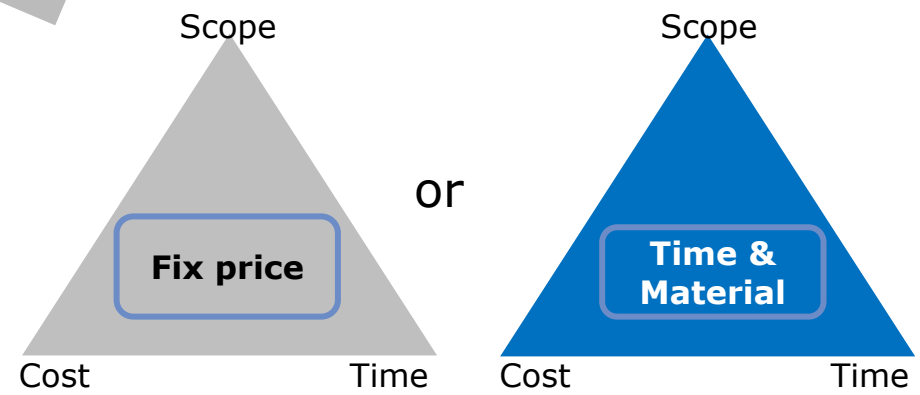
Classical Sourcing Models

Overall Project

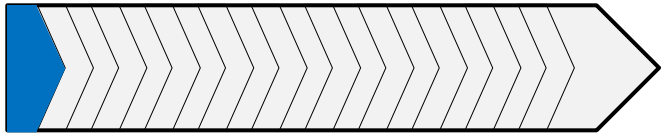
or

Overall Project

Realized by:



Agile Modell



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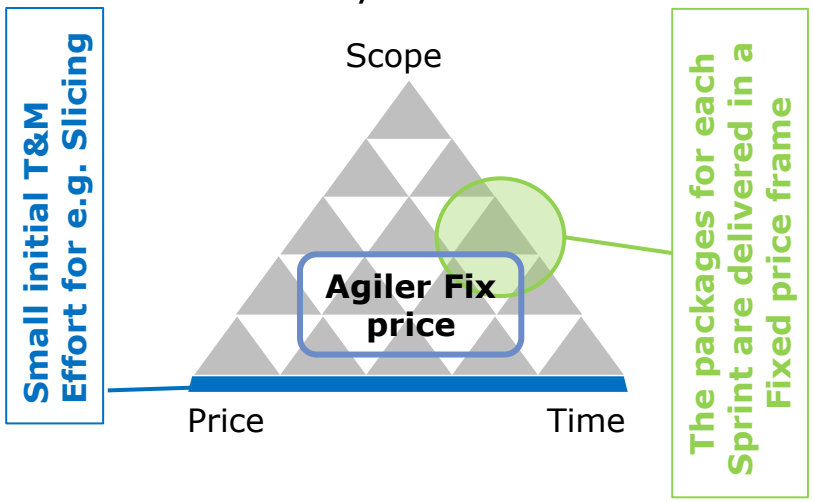

Frame conditions

☹ Scope initially estimated
☺ Price fixed by an RfP
☺ Regulatory: RfP competition
☹ Only at the time of the RfP
☹ Method: cannot be influenced
☹ Transparenz: Minimal

Frame conditions

😐 Joblevel|Price of resources (Persons) estimated
😐 Price defined by capacity
☺ Regulatory: Price / Capacity (perm.)
😐 Method: can be selected
☹ Transparency: On time but not scope

Frame conditions

😐 Joblevel|Price of resources (Persons) estimated
☺ Price defined by scope and/or capacity
☺ Regulatory: Teambenchmark (perm.)
☺ Method: bought but adaptable
☺ Transparency: Permanently (binary)

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From vision to realization – estimate a fixed price

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Customer Management 40

Customer Inquiry & Complain 52

Customer Order 21

Capture Customer Data 19

Display Cust. Inventor 7

Merge Customer 14

Epic n

Userstory1 1

Userstory2 3

Userstory3 5

Userstory4 4

Userstory5 3

Userstory6 1

Userstory m 2

User Story for one branch do a detailed Mapping Into User Stories

For a set of 4-5 User Stories do a detailed specification and an estimation

This results in the Story Point vs. Man-days mapping!

Sum it up:
=1000 Story Points
= e.g. 3000 Man-days

- **The verify collaboration approach start with a first subset of the scope on Time & Material (with a contractual risk share)**
- **Afterwards commit to a fixed price for the remaining Story Points!**

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Participate in the optimization during the fixed price project!

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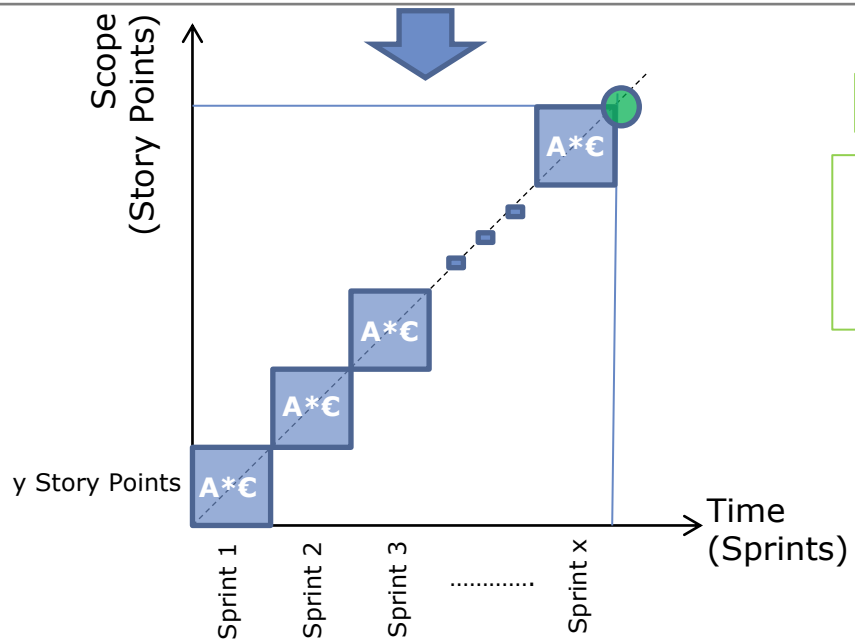
- The scope for a sprint is fixed
- User Stories with respective complexity value in Story Points is defined (User Stories with high business value and high risk first).

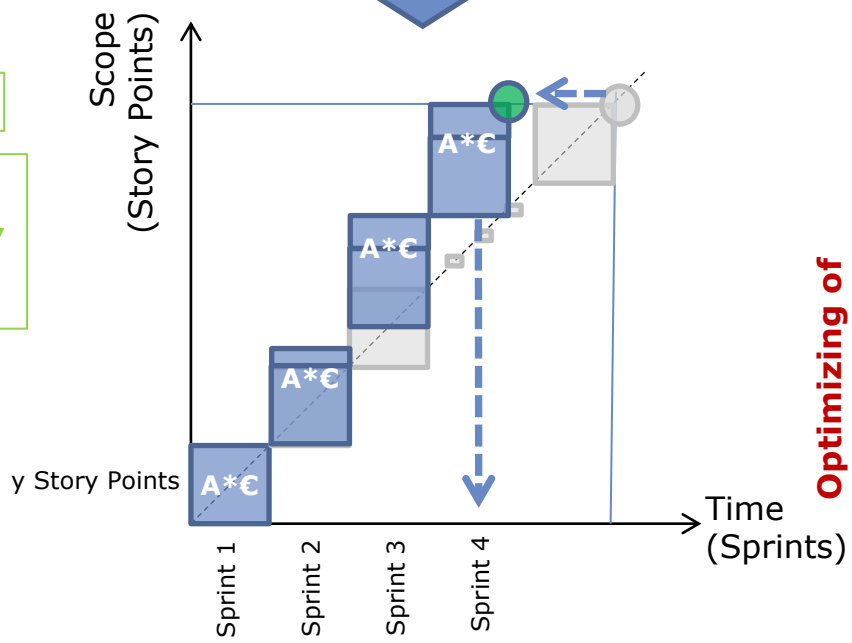
- This results in an agreed block for one sprint for which the effort is fixed. E.g. 10 Story Points for 15.000 € (=A*€). Even though 10 Story points map to e.g. 30 man-days we are of course in fixed price mode! selection!

- The „Velocity" of a team increases over the experience in a project
- The Agile Model optimized in small iterations the „costs per piece". This means that the customer can receive more value for the same amount of money over time
- Motivations for the contractor to make the increase of velocity transparent are the pressure by competitors and in certain cases a Bonus system



Open Book

Saleable Measureable, Quality, Transparent



Optimizing of Costs vs. Business Value

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The agile methodology does additionally bring high business value first!

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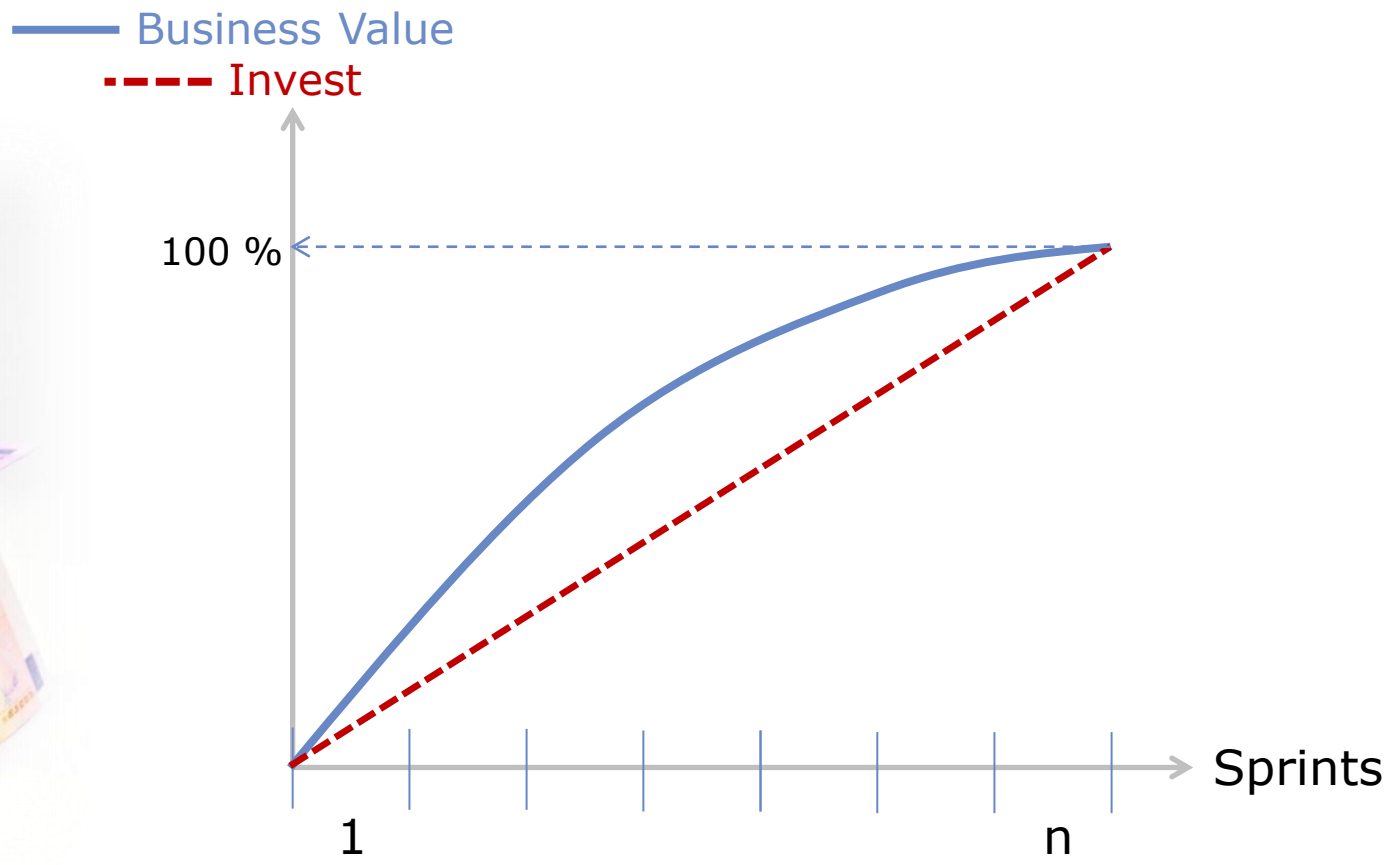

Save your money – Start with the most valuable part
Instead of the easiest for the supplier…

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Template for agile corporation contract – Agile Fixed-Price ("The Real Fixed-Price")

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- Explanation of the general agile approach
- Definition of the project vision on a high level in the form of Themes (and/or Epics).
- Agree initial T&M Slice and the percentage in risk share
- Specification of the clients contribution (iterative creation of specification, acceptance). Note this approach does not work without collaboration!
- Description of the „Open Book" approach and mandatory reports of the supplier.
- Create an estimation and define the process of change in scope (ex-change for free!)
- Governance for reporting and monitoring of overall scope and efforts
- Define additional motivation of the supplier by a bonus system

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The Agile Fixed-Price has many advantages and no significant disadvantage!

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- (Ex)Change for Free!
- Permanent insurance of the already generated (and paid) business value (end-to-end)
- Competition situation also during the project
- The customer interaction is a key principle
- The progress control is more accurate and efficient due to the binary reporting

	Fix price	Time&Material	Agile Fixed Price
Budget	☺	☹☹	☺☺
Flexibility on Requirements	☹☹	☺☺	☺☺
Effort for Negotiation	☹	☺	😐
Estimation reliability	☹☹	☹☹	☺☺
Risk on quality	☹	☺	☺☺
Excessive over-fill of prices	☹	☺	☺☺
Winning chance	☺☺	☺	☺
Loss risk	☹☹	☺	☺☺
Order guaranty	☺☺	☹	☺
Effort for Acceptance	☺	☺	😐
Calculation transparency	☹	☹	☺☺
Permanent regulative	☹☹	😐	☺☺
Early business value	☹☹	😐	☺☺

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The key – a experienced and qualified partner!

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- Case Study on "borisgloger.com" (2010): „Scrum bei Infonova – 80 Teammitglieder auf einem Nenner?"
- Borisgloger.com asked to do another visit in 2011
- Various talks on the topic "Agility" (see list on the next slide)
- Supervision of two companies in the process of changing to agile methodology
- Article in Objekt Spektrum (6/2008): "Parallele Multi-Team-Produktentwicklung mit Scrum"
- Talks and lessons at various Austrian Universities
- White Papers and Case Studies at the Telemanagment Forum

Infonova and BearingPoint come with a high amount of experience in the area of Software Development and Agile Methodology.

Area	Certification
Scrum	Certified Scrum Master (CSM), Certified Product Owner (CSPO)
Java	Java Certified Programmer (JSCP) , Java Certified Developer (JSCD),
Oracle	Oracle Certified Associate (OCA), Oracle Certified Professional (OCP), Oracle Certified Master (OCM)
ITIL	ITIL V3 Foundation, ITIL V3 Manager
PMP	PMP Certifications
Requirements – Mgt.	Certified Professional for Requirements Engineering (CPRE)
Software Testing	ISTQB Certified Tester - Advanced Level: Testmanager
TMF	Business Process Framework (eTOM) & Information Framework (SID) Certified

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Conclusion

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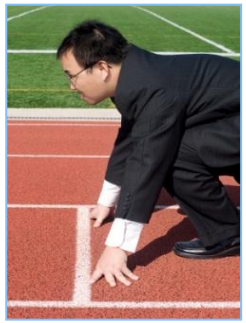
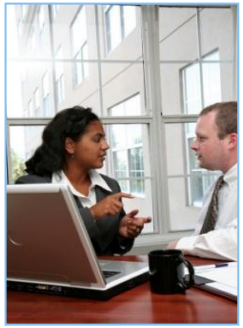


Get Ready fast

- No expensive and time-consuming detailed requirements preparation
- Build visions!
- Collaboration and a straight governance instead of surprises !

Contractual Foundation

- Fixed-price on complexity of the vision
- Exchange scope and reprioritize over time – react to changing scope!
- Transition in Mindset is ongoing to request such contracts already in the proposal phase!



The end-to-end agile approach – a Transparency creates Trust

- Deliveries in short intervals allow a proper steering of the project
- Transparency creates Trust
- The Agile Fixed-Price contract shows no disadvantage!
- Result: The Vision is realized within the time and a fixed price in a sufficient degree of details

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