A story

• The application must enable us to do X and Y
• That will take 3 persons for 6 months
• Pay $100/hour and 2 * $50,000 when putting into production
Collaborative Agile Contracts
- an experience report

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Talk at Agile 2009
2009-08-27
Background

• In the past 8 years, BestBrains has provided
  – agile and lean consulting for software businesses, and
  – time-and-material subcontracting for software projects

• A year ago we decided to enter a new business
  – deliver software solutions
  – using agile practices

• This required us to develop an adequate contract form for such projects
What's wrong with existing contracts?

• Time and material
  – Supplier doesn't care
  – Customer is frustrated

• Fixed price
  – Supplier is frustrated
  – Customer doesn't care
Our vision for good software projects

- Customer and supplier collaborate
- The project is finished early with the right amount of functionality
- Customer states requirements iteratively
- Supplier delivers high quality software iteratively
- Suboptimization is prevented
- Risks and gains are shared between customer and supplier
Two collaborative agile software projects

• The Event Bureau
  – small, lively company
  – software for participant interactivity at top management conferences
  – 1-3 programmers since August 2008

• The Energy Corporation
  – large, traditional corporation
  – software for power plant registration
  – 3 programmers, from January to September 2009
Collaboration climate experience

- Customer and supplier help each other with specifications, testing, IT environment
- Supplier delivers software early, fixes bugs fast
- Customer changes requirements
- Customer changes priorities
- Customer decides late to value cost over scope
Our contract with The Energy Corporation

- A few pages of specification, divided into 6 separate areas of functionality
- 1 week iterations, automated tests
- Pricing:
  - Completion price is paid for each area when deployed

* Prices are fictional

\[
\text{money} \quad \text{effort} \\
\quad 1.2 \text{M DKK}^* \\
\quad 500 \text{ DKK}^* \\
\quad 1 \text{ estimated at 2400h}
\]
Finish 25% early

- Price for customer: 87,000
- Hourly price for supplier: 117
Finish on time

- Price for customer: 100,000
- Hourly price for supplier: 100
Finish 25% late

- Price for customer: 113,000
- Hourly price for supplier: 90
### Hourly price vs completion price

<table>
<thead>
<tr>
<th></th>
<th>Incentive</th>
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</thead>
<tbody>
<tr>
<td><strong>Supplier</strong></td>
<td>Lower risk</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td>Easy to get extra features</td>
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</tbody>
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<tbody>
<tr>
<td><strong>Supplier</strong></td>
<td>Higher profit for smart solutions</td>
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<tr>
<td><strong>Customer</strong></td>
<td>Extra features are cheap</td>
</tr>
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<td></td>
<td>Fast time to market</td>
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- **Time & Material** payed by the hour
- **Fixed Price** payed at completion
Future learnings

• Large scope changes
  – new contract, or
  – extend estimate and completion price?

• Subcontractors
  – extend the agile contract model to subcontractors?

• Maintenance periods

• Tenders

• An early exploratory phase
Collaborative Agile Contracts

- Supplier is happy
- Customer is happy
- Traditional contract manager is frustrated?