Agile Contracts

NK Shrivastava, PMP, RMP, ACP
CEO/Consultant - RefineM

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Agenda

1. What is Virtual Lunch & Learn
2. Your Expectations from this Webinar
3. Introduction – Myself
4. Agile Contracts
   a. Overview of Agile and Contracts
   b. What needs to be in an Agile contract?
   c. Types of Contracts
   d. Example of Agile Contracts
5. Upcoming Learning Opportunities from RefineM
6. How to get 1 PDU for this Webinar?
7. Q & A

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RefineM's Virtual Lunch & Learn

This is a monthly webinar delivered during the lunch hour in the first week (Wednesdays) of every month.
This month it is on second Tuesday.

It's designed to help you learn while you eat lunch, providing a relaxed environment to enhance your experience.

The monthly webinars will cover a variety of Project Management/ Agile topics.

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Your Expectations

What are your expectations from this webinar?

Why are you here today?

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Helping organizations turn their project management capability into a *competitive advantage*

My professional journey b/f RefineM

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* CEO/Consultant since Dec 2011
  * Agile Coaching/Adoption
  * Project Management/ Process Improvement Consulting and Training
  * Project Management Toolkits (for PMs, Executives and Agile Practitioners)
* Board Member – SWMO PMI Chapter

* 20+ years of Successful Project Leadership
  * Led 100s of projects of all sizes, successfully
  * Recovered many projects, saved millions of $
  * Implemented numerous process improvements
  * Coached/mentored 100s of PMs, and some executives

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Agile Contracts

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- **Overview of Agile and Contracts**

- **What needs to be in an Agile Contract?**

- **Types of Contracts**

- **Examples of Agile Contracts**

- **Q&A**
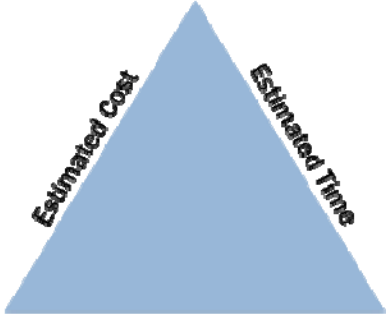
Waterfall vs. Agile

Waterfall	Agile
Fixed scope. Time/cost estimated	Fixed time/cost. Flexible scope
Clear picture of the end product	Product evolves over time
Product over process	Process over product
Delivery at the end	Continuous delivery throughout
Change requests controlled/resisted	Changes welcomed, even late

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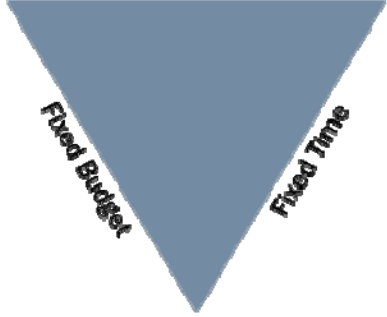
Waterfall Vs. Agile
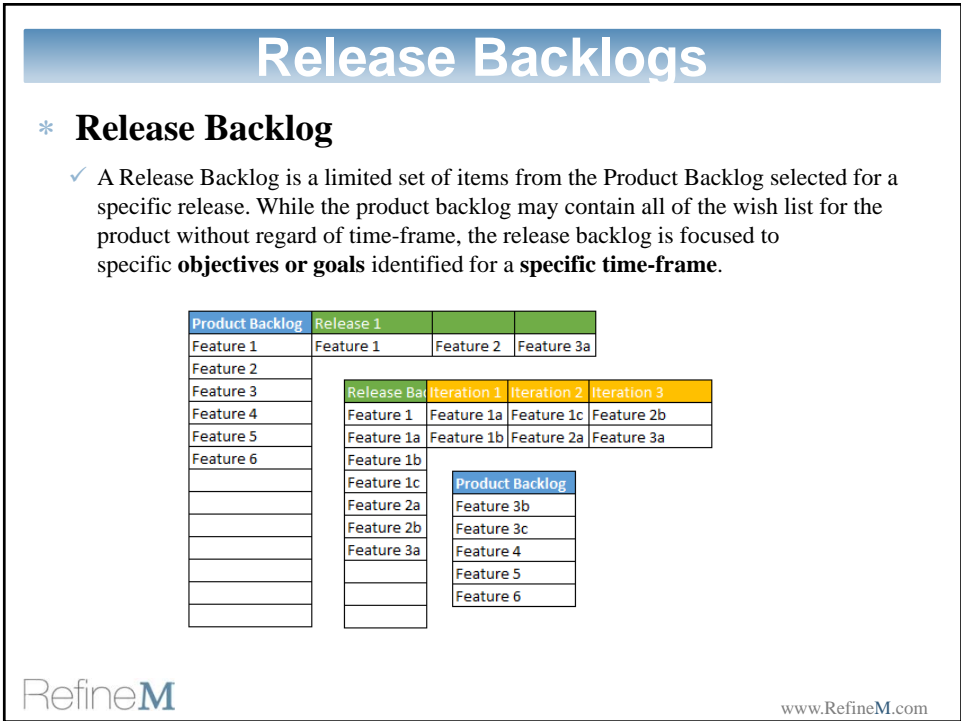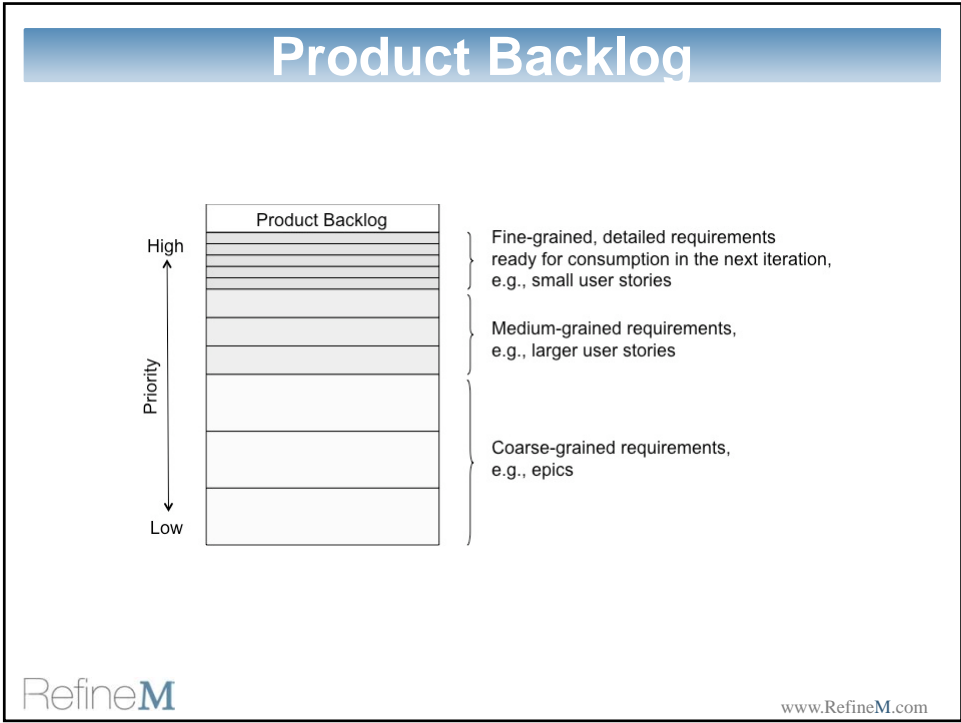### Flexible on scope/features

Traditional

Agile/Time-boxed

Flexible Scope

Estimated Cost

Estimated Time

Fixed Budget

Fixed Time

Fixed Scope

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Product Backlog

Product Backlog

High

Priority

Low

Fine-grained, detailed requirements ready for consumption in the next iteration, e.g., small user stories

Medium-grained requirements, e.g., larger user stories

Coarse-grained requirements, e.g., epics

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Release Backlogs

* **Release Backlog**

  ✓ A Release Backlog is a limited set of items from the Product Backlog selected for a specific release. While the product backlog may contain all of the wish list for the product without regard of time-frame, the release backlog is focused to specific **objectives or goals** identified for a **specific time-frame**.

Product Backlog	Release 1		
Feature 1	Feature 1	Feature 2	Feature 3a
Feature 2			
Feature 3			
Feature 4			
Feature 5			
Feature 6			

Release Ba	Iteration 1	Iteration 2	Iteration 3
Feature 1	Feature 1a	Feature 1c	Feature 2b
Feature 1a	Feature 1b	Feature 2a	Feature 3a
Feature 1b			
Feature 1c			
Feature 2a			
Feature 2b			
Feature 3a			

Product Backlog
Feature 3b
Feature 3c
Feature 4
Feature 5
Feature 6

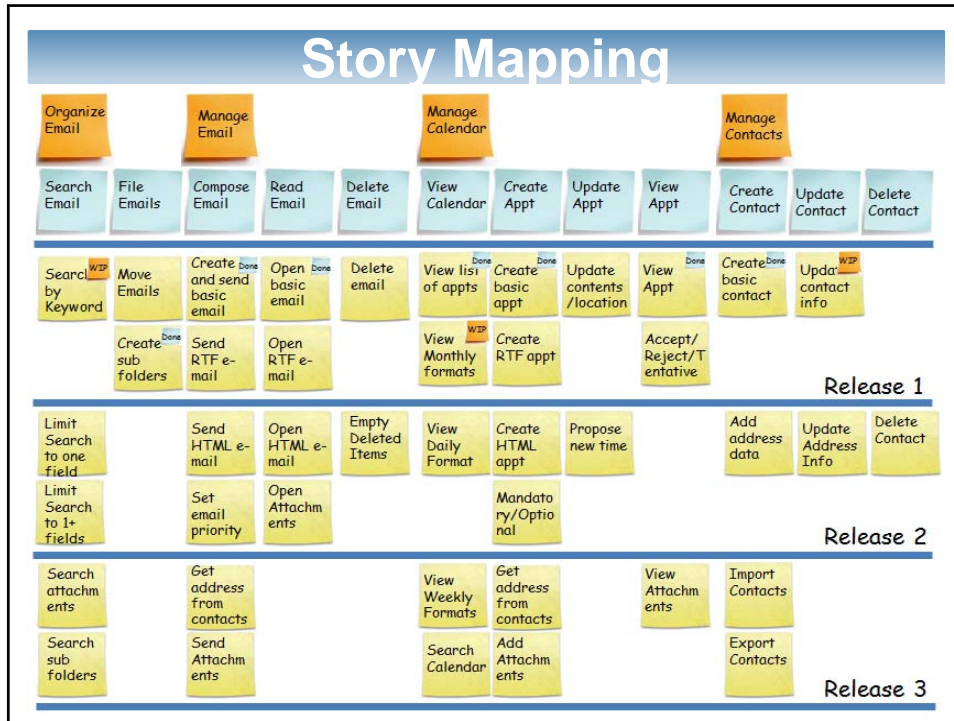RefineM

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Story Mapping

Manifesto for Agile Software Development

We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:

Individuals and interactions over processes and tools
Working software over comprehensive documentation
Customer collaboration over contract negotiation
Responding to change over following a plan

That is, while there is value in the items on the right, we value the items on the left more.

Was developed in 2001 by 17 agile advocates in Snowbird, UT

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Agile Twelve Principles

1. *Satisfy the customer thru early and continuous delivery*
2. *Welcome changing requirements even late in development*
3. *Deliver working software frequently a couple of weeks/months*
4. **Work together daily** (business people and developers)
5. **Motivated individuals,** build projects around them, and give them freedom
6. **Face-to-face conversations** is the most efficient and effective method
7. *Working software is the primary measure of progress*
8. **Sustainable development** i.e. maintain a constant pace indefinitely
9. **Continuous Attention** to technical excellence & good design enhance agility
10. **Simplicity** – the art of maximizing the amount of work not done – is essential
11. **Self-organizing teams** deliver the best architectures, requirements, and designs
12. **At regular Intervals** the team reflects on how to become more effective

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What Is A Contract?

* Three things needed for a procurement relationship:
  - ✓ Buyer
  - ✓ Seller
  - ✓ Contract

* A contract defines the relationship between buyer and seller and what each will receive as part of the deal.

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Why a Contract?

* Set the rules of engagement

* Share risks
  - ✓ Neither side should take on too much or too little risk
  - ✓ Otherwise the contract is not fair

* Build trust
  - ✓ Always look for ways to build trust
  - ✓ Helps in short-term as well as in long-term

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Benefits of Agile

* Customers get immediate, constant value
* Developers form self-motivating teams
* Both sides agree on:
  - ✓ Fixed cost and time (boxed)
  - ✓ Flexible scope – changes are expected, even late in the project
  - ✓ Collaboration – throughout the duration of the project

What needs to be in place for this to work?

A solid Agile contract

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Critical Success Factors for Agile

* Flexibility on scope
* Emphasis on early, continuous delivery
* Welcome changes
* Emphasis on how project is run
* Collaboration between customer and developer
* Constant feedback

How does the Agile contract meet these challenges?

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What needs to be in an Agile Contract?

* Flexibility

* Commitment

* Risk-sharing

* Defined checkpoints

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Flexibility

* **Flexibility around scope**
  - ✓ Allow team to work on highest-priority backlog items

* **Flexibility around process**
  - ✓ Emphasize their process, not product
  - ✓ Length of sprints
  - ✓ Number of story points delivered
  - ✓ Empowered team

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Commitment

* **Customer and team need to commit to collaboration**

* **Mechanism for prioritizing the backlog**

* **Attendance at ceremonies**
  - ✓ Release planning
  - ✓ Sprint review
  - ✓ Daily scrums
  - ✓ Sprint retrospectives

* **Adhere to the roles and responsibilities of customer and team**

Savage Chickens   by Doug Savage

I NEED YOU TO GIVE 110%.

FINE. I'VE BEEN GIVING ONLY 20% LATELY, SO I GUESS THAT BRINGS ME UP TO 22%.

www.savagechickens.com

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Risk Sharing

* **Both sides need to share risk of:**
  - ✓ Economic / price fluctuations
  - ✓ Cost / time overruns
  - ✓ Unforeseen circumstances

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Defined Checkpoints

* **Checkpoints related to sprints**
  - ✓ Is sprint review satisfactory?
  - ✓ Is customer satisfied with work done?
  - ✓ Definition of "Done".

* **Checkpoints related to releases**
  - ✓ Does customer want more sprints or is this enough?

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Major Types of Contracts

* **Fixed Price/Fixed Scope**
  (may be Fixed Time too)

* **Time and Material** (T&M)

* **Cost reimbursable**

Low — High
Fixed Price
FFP
FPIF
BUYER RISK
Time and Materials — SELLER RISK
Cost Reimbursable
CPIF
CPFF
CPF
CPPC
High — Low

T&M can be a high risk for buyer if contract does not include a "total not-to-exceed" (NTE)

Which one is most suited for Agile projects?

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Agile Contract Examples

- **Money for Nothing and Change for Free**

- **Graduated Fixed Price**

- **Fixed Price Work Packages**

- **DSDM Contract**

- **Customized Contract**

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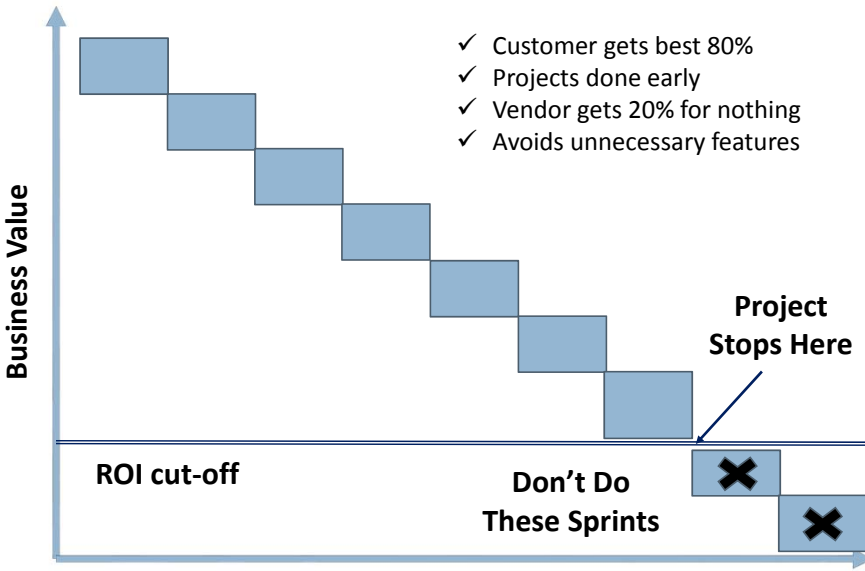
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Money for Nothing And Change for Free

* **Standard fixed price**

* **Time and materials clause for additional work**

* **"Money for Nothing" Option**
  - ✓ Customer can terminate early if ROI of remaining items not sufficient
  - ✓ Vendor gets back 20% of remaining contract value

* **"Change for free" option**
  - ✓ Customer can reprioritize backlog at end of iteration
  - ✓ If total contract work not changed, these changes are free
  - ✓ Customer *must* remain engaged in each iteration

Sounds pretty good, right?

"Money for Nothing, Your Change For Free" Created by Jeff Sutherland

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Money for Nothing
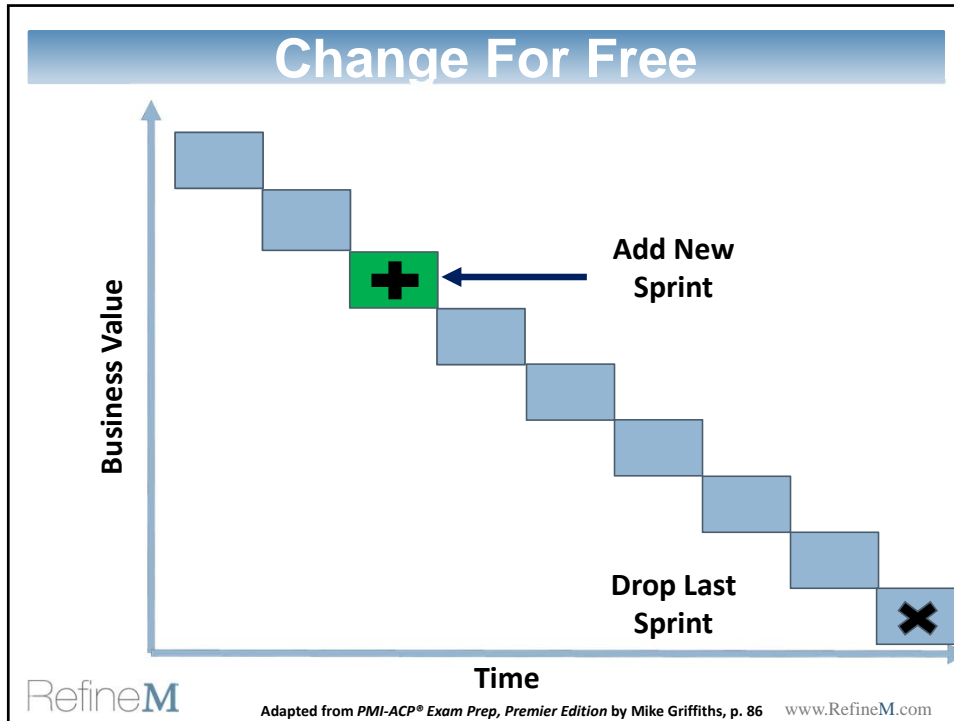

- ✓ Customer gets best 80%
- ✓ Projects done early
- ✓ Vendor gets 20% for nothing
- ✓ Avoids unnecessary features

Project Stops Here

Business Value

ROI cut-off

Don't Do These Sprints

Time

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Change For Free

Business Value (vertical axis)

Add New Sprint

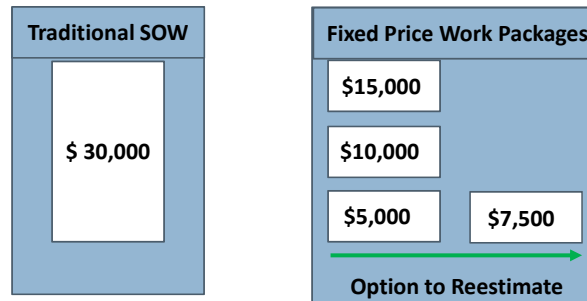Drop Last Sprint

Time (horizontal axis)

Graduated Fixed Price

* **Hourly rates for supplier differ based on delivery:**
  - ✓ Early: Customer pays supplier for fewer hours, but at a higher rate.
  - ✓ As planned: Customer pays supplier for hours worked at standard rate.
  - ✓ Late: Customer pays supplier reduced rate for the hours worked.

Project Completion	Total Hours Spent	Graduated Rate	Total Fee
Early finish	800	$120 / hour	$96,000
As planned	1000	$100 / hour	$100,000
Late finish	1200	$90 / hour	$108,000

Fixed Price Work Packages

* **Fixed price on work package level, not SOW level**
  - ✓ Allows customer and supplier to re-estimate based on new information
  - ✓ Allows smaller scope of estimation for greater precision
  - ✓ Used by Marriott International

Traditional SOW	Fixed Price Work Packages
$ 30,000	$15,000
	$10,000
	$5,000 $7,500
	Option to Reestimate

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DSDM

* <u>D</u>riving <u>St</u>rategy, <u>D</u>elivering <u>M</u>ore
  - ✓ Customer, supplier reach consensus on delivered value rather than work off specifications
  - ✓ Detailed contracts comprehensively cover project process

* Used primarily in UK, Europe

* DSDM.org (DSDM Consortium)

DSDM®
CONSORTiUM

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Customized Contracts

* **Combine elements of all of these**
  - ✓ Customer has flexibility to reprioritize work
  - ✓ No incentive for seller to add lot of contingency costs
  - ✓ Protects both parties
  - ✓ Encourages positive behavior

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Bottom Line

* **Agile contracts need to help development, not hurt**
  - ✓ Emphasize flexibility
  - ✓ Specify collaboration, roles and responsibilities
  - ✓ Define metrics for success

  An effective Agile contract is the base for success

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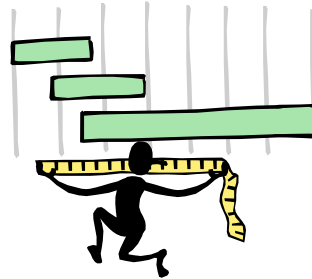# Metrics

* **Velocity**
  - ✓ Number of story points per sprint
  - ✓ How team is performing

* **Defects**
  - ✓ Measures quality of the code
  - ✓ Also measures understanding of requirements
  - ✓ Repair to build ratio

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Tools to Measure

* **Velocity**
  - ✓ Burndown chart (sprint level)
  - ✓ Burnup chart (release level)

* **Defects**
  - ✓ Bug / defect tracking system
    - ▪ JIRA
    - ▪ VersionOne
    - ▪ Other PPM tools
    - ▪ Open source/Free such as Bugzilla

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Summary

* **Agile contracts need to promote trust, flexibility, risk-sharing, and collaboration**

* **Many different options are available for Agile contracts**

* **The examples presented are just a starting point**

* **Define metrics for success and tools to measure**

Questions?

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More Learning Opportunities From RefineM

* **PMP® Exam Prep Course – Jul 15-25, 2014 – 36 Hrs/PDUs**
  - ✓ Instructor led virtual course, 8 sessions (4 hours every day, Tues-Fri, for 2 weeks)
  - ✓ Includes a full length mock test, and tips & tricks to pass the exam

* **A Project Manager's Toolkit – Jul 30-31, 2014 – 7 PDUs**
  - ✓ Learn more about simple processes to achieve high-level project results
  - ✓ Two instructor-led virtual sessions of four hours each

* **PMI-ACP® Exam Prep – Aug 27-28, 2014 – 21 PDUs**
  - ✓ Two full-day face-to-face sessions at eFactory (405 N.Jefferson, Springfield, MO 65806)
  - ✓ Learn all about Agile to prepare for the PMI-ACP exam

We also offer customized trainings, On-site & Virtual
Topics include Agile, Project Management, Strategy, Leadership, Process Improvement, and PMI Certifications.

More info at http://refinem.com/trainings/

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August Lunch and Learn

∗ *PMI-ACP Tips and Tricks*
   - ✓ What does it take to pass on the first try?
   - ✓ Study Plan
   - ✓ Test Preparation
   - ✓ Pitfalls and Best Practices
∗ *Wednesday, August 6, 12:00-1:00 PM CST*

Register Today - Don't wait for the last Minute

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How to Claim 1 PDU for this Webinar?

∗ PDU Category – B, Continuing Education
∗ Program Title – Webinar on "Agile Contracts"
∗ Date Started – Today's date
∗ Date Completed – Today's date
∗ Hours Completed – 1.00
∗ Provider
   - ✓ Name – RefineM
   - ✓ Phone # 417-414-9886
   - ✓ Email – nks@refinem.com
∗ PDUs Claimed – 1.00

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Questions?

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NK Shrivastava, MBA, PMP, RMP, ACP
CEO/Consultant, RefineM
Nixa, MO 65714, USA
nks@refinem.com, www.refinem.com
in http://www.linkedin.com/in/nkshrivastava   justrightpm

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Supporting Slides

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Contracts for Software Development

* For software development contracts, contract needs:
- ✓ The purpose of the project
- ✓ How it will be run
- ✓ What to do if things go wrong

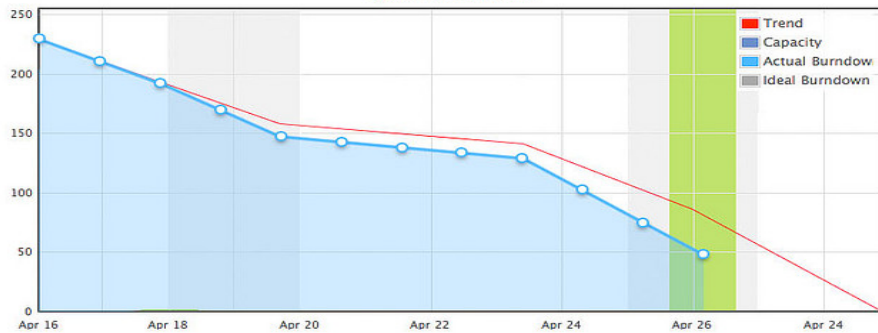**Software development process has special considerations**

Contract should also have these

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Example Burndown Chart

Sprint Backlog for j_sprint (team: b—team)   (displaying some of 2 items)
Start: 16.04.2009 End: 28.04.2009 Status:

Sprint Burndown Chart

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Fixed Price (FP)

* Buyer and seller agree on a set price for a defined scope
* Incentive Fee (FPIF)
  - ✓ Seller receives incentives for meeting specific performance goals
* Award Fee (FPAF)
  - ✓ Award amount is available for meeting performance goals
* Economic Price Adjustment (EPA)
  - ✓ Fixed price changes based on economic index factors (e.g. inflation)
* Specifics to Agile
  - ✓ Often shorter in Agile
  - ✓ Sometimes covers one sprint

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Time and Materials (T&M)

* Time and Material (T&M)
  - ✓ Seller is paid based on labor costs and material costs
  - ✓ Needs oversight to make sure costs controlled
* Capped T&M
  - ✓ Suppliers cover their costs up to a fixed cap
  - ✓ Customer doesn't pay more than the cap
  - ✓ Both sides share risk of cost overrun
  - ✓ Good for risk sharing

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Cost-Reimbursable (CR)

∗ **Cost-reimbursable contracts**

- ✓ The seller's cost are reimbursed, plus an additional amount.
- ✓ The buyer has the most cost risk because the total costs are unknown.
- ✓ This form of contract is often used when the buyer can only describe what is needed, rather than what to do.
- ✓ The seller will therefore write the detailed contract statement work.
- ✓ For Agile, important to keep costs under control due to changes.

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Cost-Reimbursable Types

∗ Cost Plus Fixed Fee (CPFF)

- ✓ Buyer pays all costs, but fee is fixed at specific amount
- ✓ Helps to control costs

∗ Cost Plus Incentive Fee (CPIF)

- ✓ Pays all costs and an agreed-upon fee plus performance incentives

∗ Cost Plus Award Fee (CPAF)

- ✓ Pays all costs with fee based on meeting performance criteria

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IDIQ / Delivery Order

* Indefinite Duration Indefinite Quantity / Delivery Order
* Another type sometimes used in Agile
  - ✓ Duration may change
  - ✓ Quantity may change
  - ✓ Most flexible
  - ✓ Hard to manage multiple ones at once

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