



TRIARI

Fixed Price Agile

Teemu Toivonen – an introduction



TRIARI (triari.fi)

- Enterprise Agile done **right!**
- Co-founder & Principal Consultant

Experience

- Jack of all trades, master of none 😊
- > 15 years in IT
- > 10 years with Lean and Agile

Professional focus and passion

- Large scale Agile (end to end)
- Change – large and small scale
- Agile portfolio management

Hobbies

- Fishing and basketball
- Critical thinking and provoking

Fixed price projects are the devils invention



Fixed price projects are the devils invention



- “Death march”
- The estimates will be wrong
- The requirements will change
- We will discover better opportunities
- Technical surprises
- Dependencies outside the project
- Shouting and pressure from mgt.
- No shared understanding of scope
- ...

A story about dogmatism – the cargo cult(s)



Three important perspectives

Managing risk

Perceived value

Psychological security

Managing risk



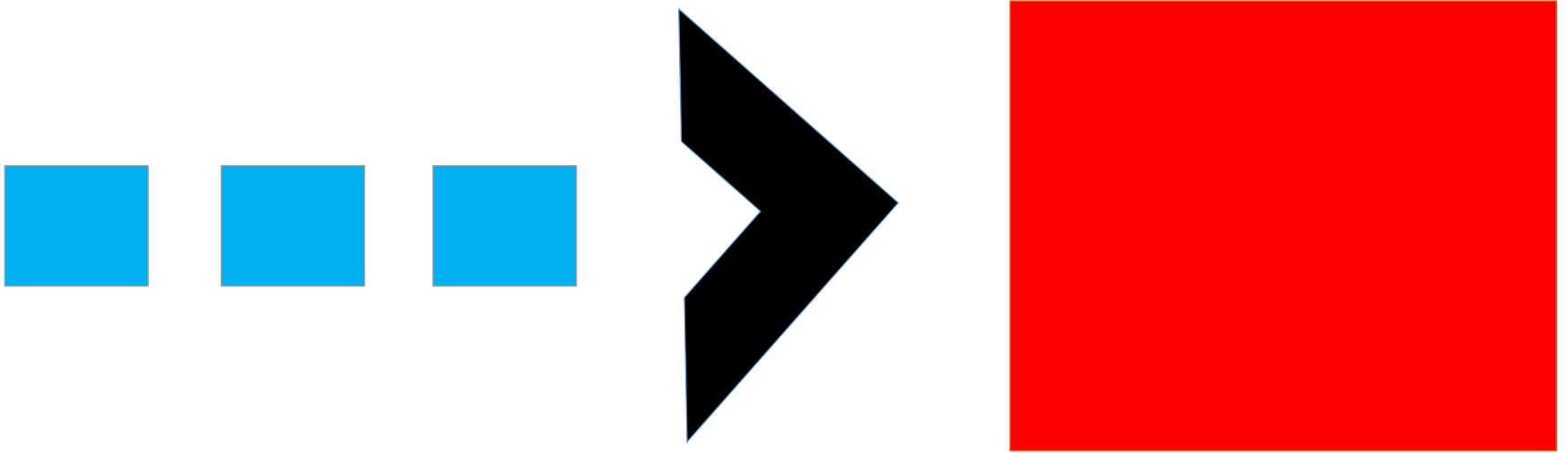
Sources of risk:

- Build the wrong thing – market changes
- Oops.. I thought we could..
- External dependencies – I thought they would..
- Actually I wanted
- And many more..

Consequences:

- It will cost more
- It will take more time
- We will have to change the plan

Managing risk – size matters



Managing risk – Agility matters



Turning on a dime for a dime

- Relaxed requirements
- Ability to solve problems on the fly
- The right kind of design

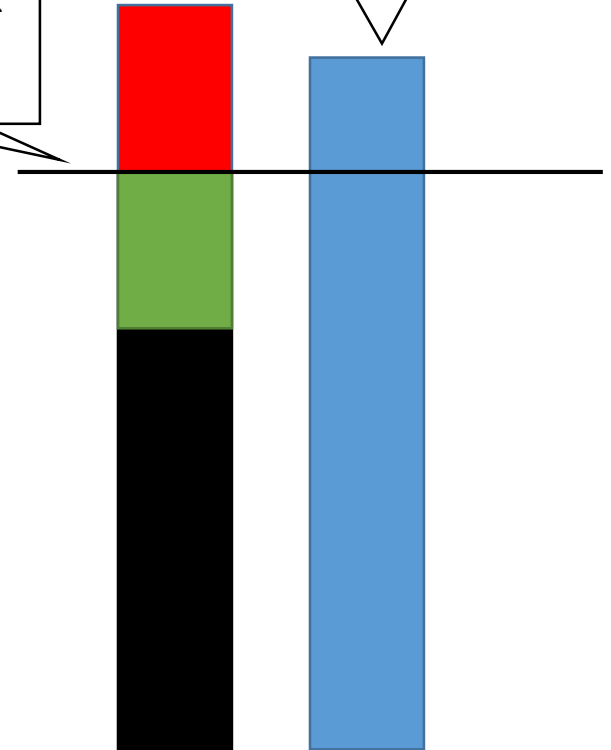
Managing risk – it's all probabilities



Expected work
(average)

Pricing point
with risk margin

Huge difference between large one off”
projects and small repeat business projects



Perceived value – why people want fixed price



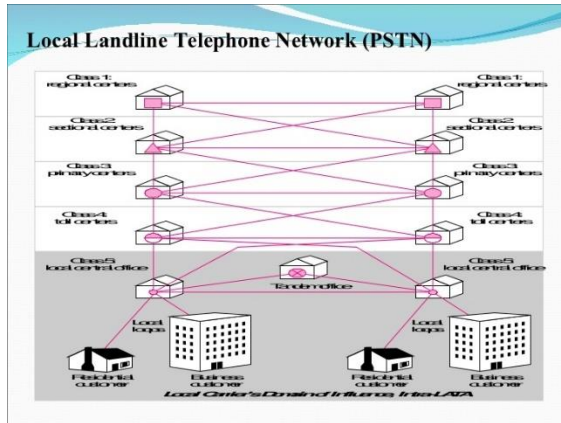
Perceived value != ROI

When looking at what we value it is rarely just a matter of calculation.

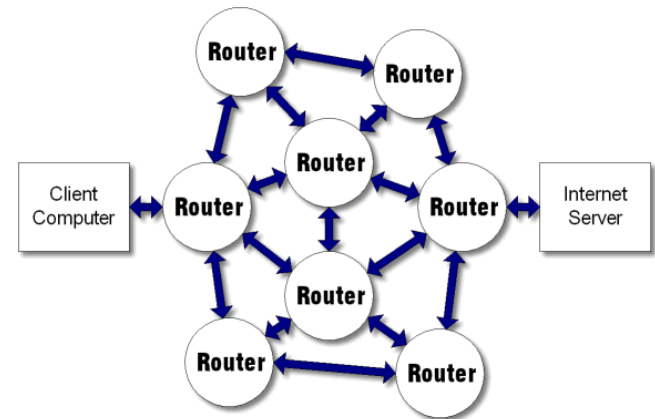
Often emotional aspects are important:

- Risk aversity
- Compliance with existing structure
- Outsourcing inconvenience

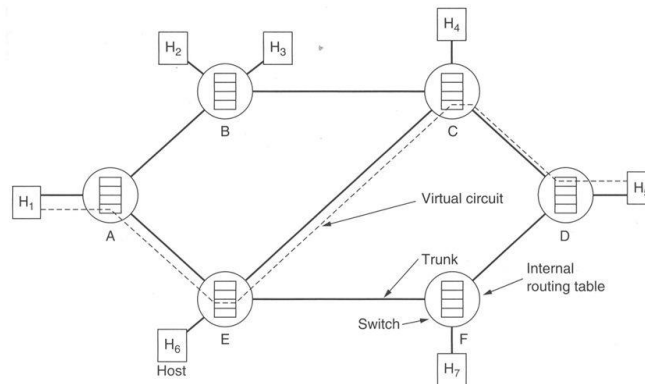
“Third way” - analogy by network design



Fixed connection



IP networks



Asynchronous transfer mode (ATM)

Safety matters



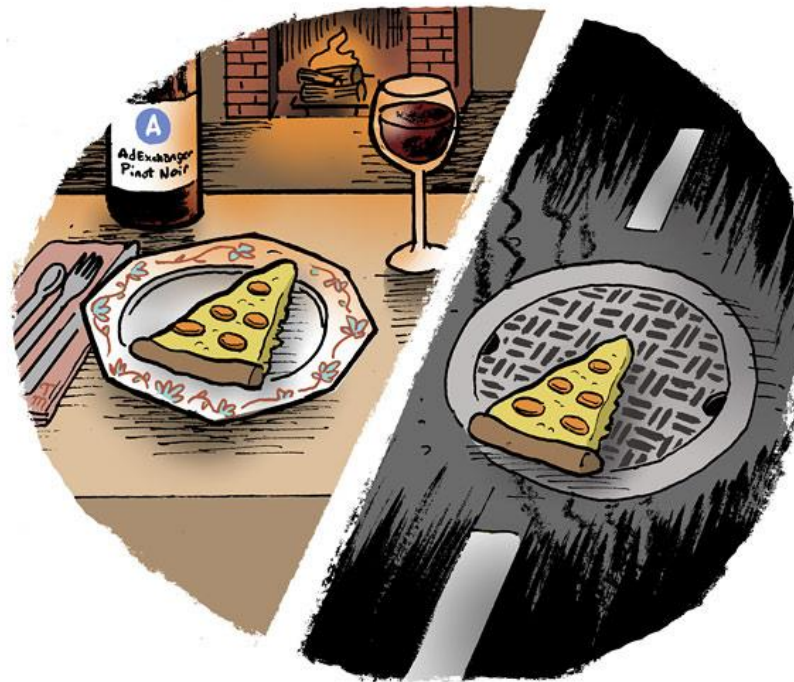
Not only is psychological safety important from a quality of life/ethics point of view... it is also the key building block of high performance

Ways of creating safety



- Focus on process, not outcome
- Managing to learn
- Transparency
- Being on the same boat
- Gambling for the right bets
- Trust that is build over time

An example with imagined context



Context Matters

Imaging a context where...

- Government department
- Provider has effective monopoly for existing systems
- Provider will on average bill what the customer has in the budget
- Tradition of fixed price projects
- There are many, many, many projects going on simultaneously

“Flow”

- Provider requires detailed requirements
- Buyer wants specific fixed price tag
- Provider spends a lot of effort in analyses and gives price tag
- Buyer thinks it is too expensive, but does not really have a choice
- Predictable prices are important because governance forum has to approve them
- Deliveries are often full of surprises
- Customer refuses to pay extra
- Provider will put the expenses in the next project and spend even more time in analyses

Traditional Agile to the rescue

- Customer pays for bandwidth
- Customer manages backlog
- Agile team delivers (Scrum, Kanban, whatever..)
- Limited planning, analyses → no promises



Pros

- Less waste, more focus on value delivery
- Better environment for team
- Approval by Agile advocates ;)

Cons

- Customer has all the risk – feeling uncertain
- Mismatch with governance practices (budgeting, decision making, approvals, etc)
- **Too big of an leap to take – mismatch with risk averse culture**
- **Lower profits for supplier?**

Fixed price Agile

The model for this context

- 1 month fixed price project (time, cost, scope)
- Using business requirements (relax requirements)
- Scope base on team estimation relative – minus % from estimate
- Pricing contains 20 % overhead for risk
- Project contains all changes in a business area (many teams)
- LeSS or SAFe coordination and planning between teams
- Safe and trust is created with good history and openness about the model
- It does not matter if an individual project goes over – it will even out over the year

Pros

- Still agile way of working in teams (no extra pressure, just estimating 2 sprint at a time (sucks a little))
- Safe for the customer – paying a little for not having the risk
- Fits existing structure (governance, budgeting, etc) and culture
- **High profit margins for supplier & high perceived value for customer**

Cons

- Not ideal from a working an Agile perspective
- Risk of loosing sense of trust and security (needs to be managed really well)
- No stamp of approval from Agile aficionados ;)

Which is better?



Not enough context to really judge

If you want to try fixed price Agile

Is their willingness to pay for risk aversion?

- If no, than don't do it

Manage risk

- Small “project” batch size
- Agile enough to handle surprises / turn on a dime for a dime

Create a safe environment

- Find a way of creating a safe and trusting atmosphere
- Transparency, not “caring about the outcome”...

Key “take-a-way”

~~Fixed price Agile is great – now I’m enlightened~~

Context matters – think, don’t assume

A challenge for you!



Challenge your assumptions with an experiment!

No, not those ones .. The ones that you don't want to challenge!!!