

Choice of contracts



ComMedia IT Solutions have been developing software for our clients globally for over a decade. Our experience shows that we tend to use contracts that we're familiar with, and so base our decisions on what has worked in the past. However our clients and we ourselves are finding that our experience and expectations are changing. We are much more use to contracts now that cover either Fixed project effort, timelines and cost or Capped T & E and Incremental Delivery. These are the most common types of Agile contracts we see today. Fixed bid / price as a contract:

The majority of contracts our clients use are fixed effort and timeline contracts. With these type of contracts there is no need for the client to get involved into long-term partnership; the agreement regarding the price is decided at the beginning and is not subject to changes anymore; we charge by "milestones" that are agreed upon before any work starts: after a milestone is finished and if the customer is satisfied with the quality and timeliness, we send an invoice. There is a minimum of administrative burden and risks.

Development of projects with fixed price assumes that we come to an agreement on the price for development of the project, after which moment the price is not subject to any changes unless certain provisions are introduced into fundamental documents like agreements or contracts. In this case even the number of employees working on the project doesn't matter as the amount of payment does not depend on the amount of resources or time expended. We recommend this service for small-size or urgent projects.

This option works perfect if the specifications of the software to be developed clearly specified, clearly defined and stable.

Time and material contracts,

This is where ComMedia IT Solutions is mostly paid on the basis of actual cost of direct labour, usually at specified hourly rates. Pricing is based on direct labour hours at specified fixed hourly rates already including all sorts of expenses. These contracts are suitable for situations when the requirements are not fully known, or are expected to change and can also be used, when the client wishes to augment their development team, by off-loading some parts of the application to be developed. In T&M contracts the customer should be able to estimate the hours needed for a job and negotiate lower hourly rates to reduce the total cost.

Capped T & M

The most common contract is the Time and Materials contract (or T & E Time and Expenses as is often called) contract, but while this style of contract protects the supplier it doesn't provide any protection for the customer. The customer is fully exposed to the entire risk, while the supplier shares none of that risk. So, a common extension of T & E contracts from ComMedia IT Solutions is a Capped T & E contract. These are contracts that are T & E up until a fixed agreed upon upper bounds (or cap). Capped T & M contracts provide benefit to the supplier early on by fully covering their expense; but also provide benefits to the customer towards the end of the project by providing a limit to the total exposure. It's in both parties interest to deliver high value functionality as early as possible and to avoid cost over runs.

Incremental delivery

Incrementally Delivery contracts are structured with regular inspection points, and at each inspection point the customer makes a decision; they can continue with the development of the product or they can stop development. In stopping development the customer can push the product into production and save the remaining balance of the contract. This style of contract works quite naturally for Agile teams because they simply work in an iterative fashion until the point of inspection.

For example, consider a year-long contract that has inspections points every quarter; a team working with two-

week sprints would work for six sprints and then present their work to the customer, who then decides to either continue the contract, or not. We can adjust the interval between inspection points to allow for how aggressive the customer wishes. If they wish to inspect more often, then monthly inspection points can be written into the contract.

Contracts based on Offshore Development Centre (ODC) / Offshore Dedicated Team (ODT)

This type of contract is a perfect solution for businesses wishing to augment their software development productivity without bearing too much of additional expenses like hiring extra staff or investing into other resources. Software development outsource based on ODC/ODT models works well for start-up companies aiming at reducing expenses and getting guaranteed results. The client is the manager of developers and is able to manage their offshore team in the appropriate way, adjusting office hours to the convenient time zone and reporting practices; the client does not need to worry about routine matters and waste time on organisational tasks like hiring qualified developers and project managers, renting an office and so on.

Cost targeted contracts

Finally, it's worth discussing Cost Targeted contracts. Some organisations have attributed these contracts to their long relationship with their suppliers. With Cost Targeted contracts both parties agree on a realistic final price of the product. Then, if the supplier comes in under budget then both parties share the benefit of those savings. However, if the supplier goes over budget then both companies pay some penalty. The amount of benefit or penalty that a company has to pay is usually inline with the ratio of the two companies, so the large of the two companies receives a larger share of the benefit, or pays a larger share of the penalty.

The difficult part with Cost Targeted contracts is agreeing on a realistic final price of the product. Software estimation is (at best) an educated guess, and trying to determine what the final price will be is extremely difficult. We have my doubts whether this style of contract will ever be common in the software industry . although as Bob Dylan said " the times they are a changing



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