Making the case for Shared Risk Contracts!

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VP – Trifork Agile Excellence
Agenda

1. About Creuna
2. What not to do
3. The true nature of budgets and deadlines
4. Contract models
5. Tracking and reporting
6. Take-aways

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Darker colours
You're basically free to use the different saturations of the colours, but we still recommend these second to darkest ones

Our five basic colours
Yellow, Blue, Red, Green and Grey
These are the colours we use for backgrounds

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About Creuna
Kort om Creuna

**Type**
Nyere bureautype.
Digitalt udspring.
Full-service.

**Alder**

**Størrelse**
340+ ansatte. 7 kontorer i alle 4 nordiske lande. Største bureau af vores art i Norden. Ca. 90 i Danmark.
Forretning, design og teknologi – under ét tag.
Vores kompetencer

St  Strategy services
Ic  Ideation & concepts
Ux  User Experience
Bd  Branding & Design

Ct  Content production
Sd  System development
La  Insights & Analytics
Pm  Project management

© Creuna
Du finder os her

- Helsinki
- Stockholm
- Gøteborg
- Helsingborg
- Aarhus
- Stavanger
Vores kunder

Arla
ARRIVA
AS3 Companies
BoConcept
Carlsberg
DSB
durex
EUROPARK
Falck Healthcare
FITNESS WORLD
FLSmidth
GRUNDFOS
HAY
Hi-Fi klubben
KMD
IT Med Indsigt
krifa
Kristelig Fagforbund
Mannaz
Metro
Microsoft
nets
nobia
Nordea
POST
Q8
REJSEPLANEN
RocKwool
SimCorp
TELLERE
Tryg
VELUX
Vestas

© Creuna
Known knowledge

Nothing new here sorry

© Creuna
What not to do
This time we will be "Agile"
It’s not waterfall – we are using User Stories!

AGILE - SCRUM

I CANT’T GIVE YOU ALL OF THESE FEATURES IN THE FIRST VERSION.

AND EACH FEATURE NEEDS TO HAVE WHAT WE CALL A “USER STORY.”

OKAY, HERE’S A STORY: YOU GIVE ME ALL OF MY FEATURES OR I’LL RUIN YOUR LIFE.
Next week we will have a 3 day estimation workshop
3 years and 186 user stories later
This time we know what we want

“Insanity: doing the same thing over and over again and expecting different results.”

Albert Einstein
But, “Guesstimate” is not a real word
Well, we spent your money but we are not quite there yet...
Fixed price, fixed scope deadlines
Why do we make the same mistakes again and again and again?
Many times, when we finally break a constraint, we do not go back and review and change the rules and policies that caused the constraint initially.
The true nature of budgets and deadlines
Estimates are not single numbers
Neither are deadlines

Time

Frequency

90 percent

99 percent
Business needs will be missing
Front loading provides 100 percent lost effort guarantee

- Often or always used: 20%
- Sometimes: 16%
- Rarely: 19%
- Never: 45%

Standish Group Study Reported at XP2002 by Jim Johnson, Chairman
© 2004 Poppendieck LLC
Don’t fight the laws of nature
IT is not manufacturing
Embrace uncertainty

Uncertainty will always be part of the taking charge process.

- Harold S. Geneen
Variability pooling – the good news

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How we work
Creuna Way of Work

- Get to know each other
- Learn the domain
- Conceptualize
- Set a target budget and choose shared risk model
- Iterate
It is a partnership
With multidimensional risk
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Contract models
It starts with the contract
What is wrong with Time & Materials?
Why Shared Risk?

Sure glad the hole isn't at our end.
Target Cost
Max. price
Fixed Price, “Loose” Scope

![Fixed Price, "Loose" Scope Graph](image_url)
Fixed price, Fixed scope
Comparison

• Target cost is the cheaper option in most cases
• Both Target cost and Max. price are value focused
• Fast feedback and close customer collaboration are essential success factors and can be seriously challenged by fixed price contracts
Finding the “right” Target Cost
Base it on ROUGH estimation of business needs
Best, worst and realistic scenario

- Minimal Risk
- Moderate
- Higher Risk
Be data driven!
Triangulate
Communicate the uncertainty clearly

- **Example 1:**
  - Target DKK 600.000
  - Spent 600 hours at DKK 1000 each
  - Invoiced DKK 600.000

- **Example 2:**
  - Target DKK 600.000
  - Spent 400 hours at DKK 1000 each
  - Invoiced DKK 400.000

- **Example 3:**
  - Target DKK 600.000
  - Spent 800 hours at DKK 1000 each
  - Invoiced DKK 700.000
Perfect is the enemy of good enough

Equals 83% hours invoiced at full price

50% effort overrun

25% budget overrun
First time vs. on going
Tracking and reporting
No matter the contract model you need to be proactive
Oh no, that means discipline!
Fortunately real backlogs do not look like this
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But more like this
### Predictability

<table>
<thead>
<tr>
<th>Backlog</th>
<th>Specification</th>
<th>Sprint Ready</th>
<th>Sprint Backlog</th>
<th>Development</th>
<th>Test</th>
<th>Demo</th>
<th>QA</th>
<th>Prod</th>
<th>Accepted</th>
</tr>
</thead>
</table>

**Really we want it here**

**Too many focus here**

**Easy from here**
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CFD

Arrival Rate
WIP
Cycle Time
Velocity
Cycle time

Cycle Time (UX/Design prep)
Data eats detail for breakfast
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It really does 😊
The power of data
WARNING: Velocity is the easiest metric to game
Don’t forget the vision
Take-aways

- Successful Innovation is paved with uncertainty
- Don’t try to fight the laws of nature
- Establish contract models that acknowledges that we don’t know the exact cost or value
- Shared Risk is a benefit for both parties
- Agile forecasting requires data and discipline
- Data eats detail for breakfast
Up-coming training

• Optimizing value flow with Kanban
  • Aarhus, 1-2 oktober
  • share@delta.dk
Thanks!

Jesper Boeg, Process Development Lead