



TenStep Supplemental Paper

15 May 2002

Fixed Price Mentality can make your Internal Development More Efficient

Everyone has heard complaints from business clients on the cost of internal development projects. The complaints come in two flavors – either the clients think development costs are too high to begin with, or they are dissatisfied with your ability to deliver within the estimated budget and timeline. It doesn't matter if you charge the business units back directly for your development work or if you have an indirect yearly allocation. They always think development costs are too high. Sometimes if you read between the lines, what they are really saying is that they believe they could get the work done cheaper somewhere else.

You know the sad truth may be that they could. As a good steward of your company's money, can you justify paying more for internal development than you would if the development were outsourced? Of course, there are many reasons for maintaining an internal development staff other than just the specific cost of development. But, is your organization even open to the alternatives and options that outsourcing would bring?

Bring the discipline of fixed-price development to your organization

Fortunately, there are some semi-radical alternatives to opening up every development project to an outsourcing option. You can start to simulate a competitive and fiscally accountable environment by setting up fixed-price contracts for your internal development. Think about the advantages of fixed-price work and how it could transform your development function. Just as it does with third-party development shops, committing to fixed price work provides the following incentives and motivations.

- It forces you to do more detailed and thorough planning.
- It forces you to break projects down into more manageable phases. For instance, bid first on the requirements gathering phase, and then give a fixed bid on the remainder of the work.
- It requires your developers to be better and more methodical estimators.
- It forces you to manage scope changes more tightly.
- It gives an internal development organization more of an entrepreneurial spirit.
- It provides an incentive to reuse more, in terms of templates, documentation, processes, code, etc.
- It encourages the entire team to think of better ways to do things, and facilitates process improvements for the entire organization.

Find the right business partner first



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One of the practical matters you will need to resolve is what it means to be over or under your fixed price. What incentives, such as bonuses, are available to the teams that hit their numbers? Since you are not actually a profit/loss center, there needs to be some accounting behind the scenes to account for the overall internal 'profit' or 'loss.' For example, an incentive could be extra funding for training and hardware purchases if the project is delivered under budget.

Take the challenge, then take on the marketplace

When implementing change, you want to start in a small pocket, where you can introduce the concepts, work out organizational processes, and find early success. Then branch out into the rest of the organization over time. Of course, just like in the marketplace, not all work is a candidate for fixed price bidding. But overall, this shift can increase the personal accountability and responsibility level that your developers take in their work. Later on, if you decide to open the development work to fixed price bids from third-party developers (more radical!), you will find that your development organization always wins the bidding. You will also find your business clients have a much better appreciation for the value they are getting for their development dollars.

Summary

If your business customers think your development is too slow and too expensive, they may be right. Estimating and executing internal projects at a fixed price will give your organization a powerful incentive to improve. They will learn to be better planners, estimators and project managers in general. To be successful, you must find the right business partner and start slow. You need to make sure the right processes and incentives are in place to ensure success. Once you can successfully execute fixed price internal development, open the door to outside firms to bid against you. You should never lose a contract!