In this chapter, we introduce the adVANTAGE contract model that can serve as a framework for agile software projects undertaken by external contractors. In this name, “ad” stands for “agile development”, and the whole term aims to indicate that both parties to the contract should gain an advantage compared with conventional approaches and the contract models they typically involve. This advantage can take many forms. It depends on:

- the application of an agile method (fast start of development activity, omission of costly advance specifications, fast availability of software that can be demonstrated, close collaboration between users and developers, flexible adaptation of requirements, acceptance of late requirements, etc.), and
- the application of a fair contract model that represents the agile method (eliminating inflated costs for specification work, billing according to features actually delivered, fair distribution of risks, fair distribution of opportunities).

From a high-level perspective, adVANTAGE consists of three elements: a price model, a contract model, and procedures that can be applied in the Interaction Room. In short, adVANTAGE = price + contract + procedures. Like the Interaction Room, adVANTAGE is shaped by the recognition that custom software development by an external contractor model always involves considerable uncertainty. The exact result of the project is not known in advance, there are many ways that the product could be built, and nobody can predict exactly how expensive the whole project be in the end. Accepting this is the core idea behind adVANTAGE. The model has been tested and adapted many times in practice, resulting in a framework for pragmatically handling the economic aspects which can (and should) be adapted to the individual situation of every new project.

The adVANTAGE model supplies general provisions for the legal and commercial aspects that have to be regulated between the client and contractor in an agile custom development project. Accordingly, Appendix C.1 provides a concrete template for an actual contract document. However, it is much more important to illuminate the
fundamental principles underlying the adVANTAGE model. For one thing, we recommend adaptation to concrete project situations, and for another, we believe that it is far more important to develop a good feeling for the compatibility of cultures of the client and contractor than to establish legal certainty down to every detail.

While the adVANTAGE model is a very good fit for some project types, it may not be suitable for others. This chapter therefore introduces some general principles underlying adVANTAGE and discusses whether the application of adVANTAGE is suitable for a certain project constellation. These principles are a willingness of the supplier to assume risk, mutual trust, budget certainty, shared pain, rewarding efficiency, and of course agility. If the organizational cultures of the partners in a project match these principles (discussed in more detail in the following sections), the adVANTAGE model should be considered. When a partner’s culture clashes with some of the principles, the model is better not used.

For example, we will see that the adVANTAGE model would lose its foundation without the supplier’s willingness to assume a certain measure of financial risk (which is not solely within the supplier’s control). There are however contractors in the IT sector whose risk management policies are so strict that getting them to sign an adVANTAGE contract would be simply impossible. This may be desirable if company policy demands a choice of one of the less risky contract types described above.

### 14.1 Commitment to Agility

Making agility a core principle of a contract model for agile projects may sound very much like a tautology. However, one should actually seriously consider whether the project for which one is seeking a legal-commercial framework can truly be realized best using an agile approach. If a detailed specification that supports estimates is already available for example, with a lot of groundwork having been done and leaving little uncertainty regarding the characteristics of the development results, then why not use a classic plan-driven development approach and agree on a fixed price? But perhaps all stakeholders agree that they want to be as free as possible, deciding again from iteration to iteration on how to continue—these are indications in favor of an agile method.

Deciding in favor of agility in the partnership between a client and contractor does not however mean establishing an agile process model such as Scrum. It mainly assumes the readiness to accept uncertainty—not just uncertainty regarding the resulting software product, but also regarding

- the number of iterations required to achieve an adequate, acceptable, or desirable result,
- the capabilities of the chosen technology and the resulting technology risk,
- the productivity of the development team and its progression over time, possibly through numerous iterations,