

'Fixed Price' Vs 'Time & Materials' Developments

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Introduction

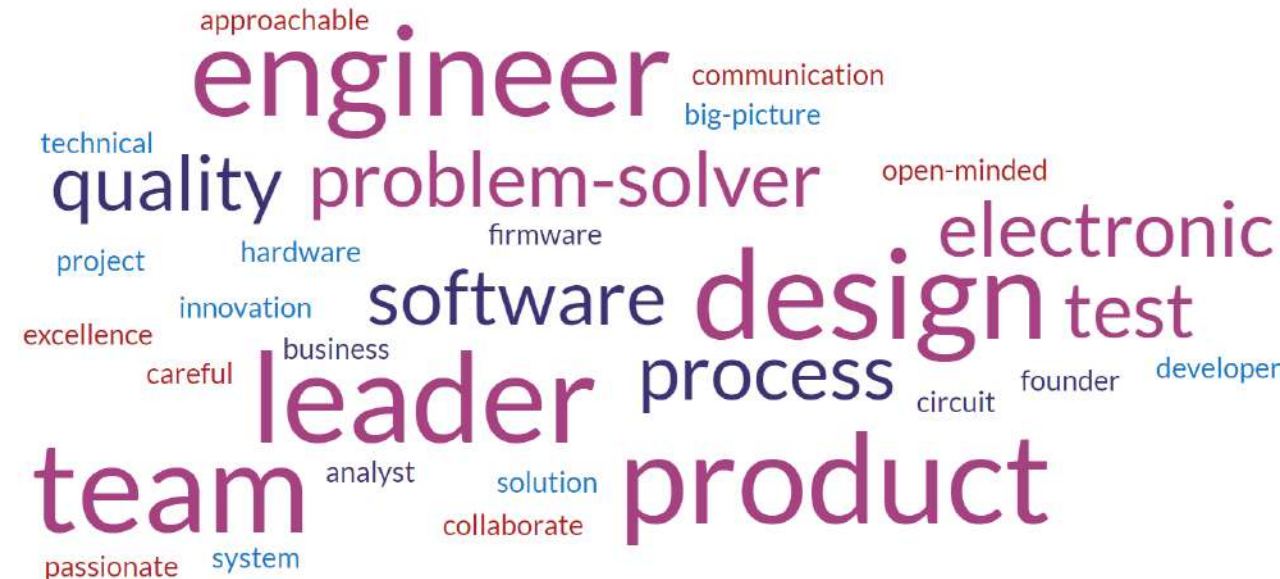
- **Partner Electronics** is an electronics and embedded software design team based in Silverstone
- Helping businesses with electronics since 2007
- Hundreds of projects in many market sectors

About Richard

Playing at electronics since 1983

Electronic Engineer since 1989

Business learner since 2007



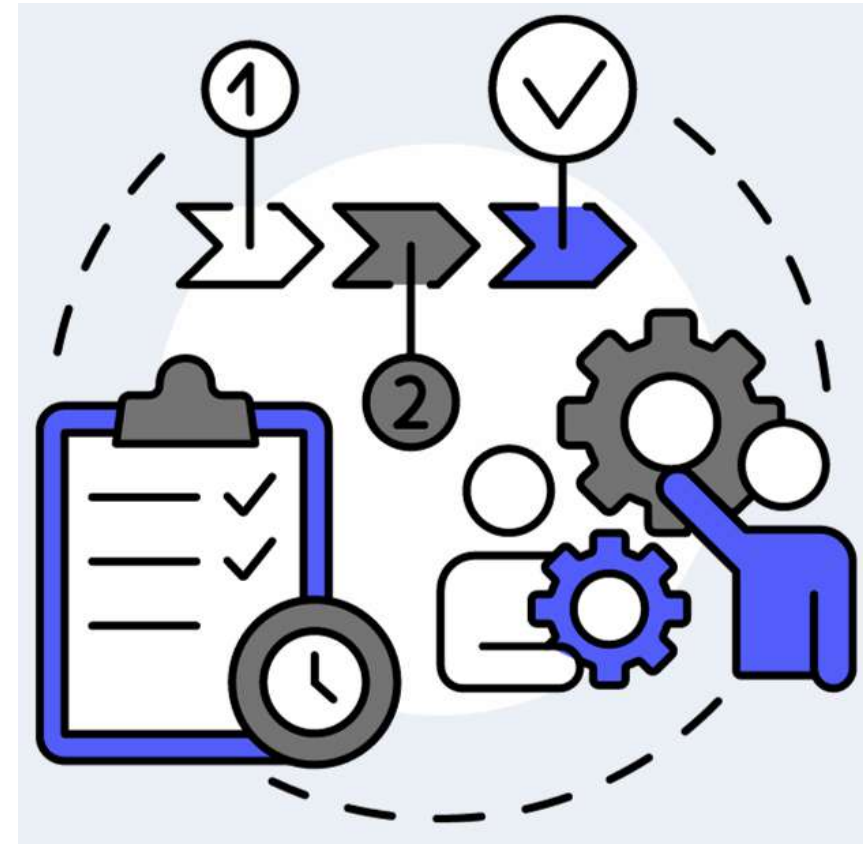
So you have a product idea...

- Developing a new product should be exciting and ultimately lucrative
- Often it is a journey of highs and lows
 - Sometimes it even fails
- It always takes a large investment of
 - Time
 - Money
 - Effort



Preparation for a Successful Project

- “By failing to prepare, you are preparing to fail.”
— Benjamin Franklin
- Prepare a business plan for the product
 - Product vision and lifecycle, market analysis, financial analysis, etc.
- Engage and invest in the best people
 - Character and experience over skill and charm



Assemble the Best Team

- Options for resourcing the project
 - Internal
 - Do we have the capability and capacity ourselves?
 - Temporary/Contractor/Freelance
 - Can we bring in individuals to enhance the team?
 - External design team
 - Benefit from the experience and capacity of a specialist design team
 - Subcontract to a Manufacturer
 - Get a manufacturer to develop the product and then sell the product to you.
- Only the external team and manufacturer options allow a ‘fixed price’ contract.
 - But is it a good idea?



What is 'Fixed Price'?

- 'Fixed price' is a contract to deliver against the requirements and acceptance criteria
- Keys words are:
 - **Contract:** Defines the payments, penalties and obligations
 - There is no normal here and the details really matter. Legal advice is generally required.
 - **Requirements:** All the project requirements, not just the specification
 - Clarity is needed to avoid misunderstandings and disputes
 - **Acceptance Criteria:** How project delivery and completion will be agreed
 - Consider assumptions to equate to commercial vulnerabilities!

It works well where BOTH the requirements and the work involved are VERY well understood.

Works best where similar work has been done before



Reality of Fixed Price Contracts

- More preparation time and upfront work on requirements to get an agreed contract
 - Tends to produce better requirements upfront
- Trades price for risk
 - A premium will be added corresponding to the project risk
 - Beware: If you don't know how to do something, there's no markup big enough!
- Finance departments prefer fixed-price contracts! But...
 - If the project goes well, the client has paid a premium
 - If the project goes wrong, the developer may lose money and deliver a bare minimum
- More rigid and procedural
 - Safety over innovation
 - Changes in the project requirements require contract updates, which deters innovation
- Communication and openness tend to suffer
 - Clients can step back and be less involved
 - Developers can be less open about problems
 - Both are ultimately unhelpful for a successful product

What is 'Time and Materials'?

- The 'Pay as you Go' option
- More collaborative
- Effectively employing more resources for the project, but without the employment commitments.
 - Bring in more skills, experience and capacity
- Contracts are generally simpler and allow more flexibility
 - However still review terms carefully, particularly for IP rights and tie-ins.
- Faster and simpler to get started, but susceptible to poor practises.
- It is easier for stakeholders to stop (or re-direct) the project if it's not working



Reality of 'Time and Materials' Contracts

- A more collaborative and flexible project team
- Lots of communication is needed
- Don't be lazy! Make sure good engineering and project practices are followed
 - Good requirements and acceptance definitions are still vital
 - However they are easier to evolve during the project
 - Don't let project management and good practice get lost.
 - Have clear roles within the wider team
- Keep in control of project decisions
 - Whether dealing with opportunities or problems – be decisive.

Key Points

- Fixed Price
 - Well-defined upfront specs
 - Suits low-risk work
 - Reduces financial risk
 - Has higher mark-up
 - Safer and more conservative
 - Do the well-known, well
- T&M
 - Clear product vision but flexible detail
 - Better for complex or high-risk
 - Innovation and opportunity
 - Suits evolving requirements
 - Close control and monitoring needed
 - More transparent costs/value
 - Trust and communication are vital
 - Tends to build longer relationships

Summary

- The choice between 'fixed price' and 'time and materials' contracts should be guided by
 - Project goals and scope
 - Stakeholder preferences
 - Project risks and opportunities
- The right commercial strategy will encourage the best project outcome



Thank you

Any questions?

A question for you...

- What have you learned from your experiences of working with external design teams?