

THE ITERATIVE ENGAGEMENT MODEL

A CALCULATED RISK AND A WHOLE LOT OF REWARD

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The traditional vendor engagement model is flawed.

Technology initiatives are only getting more and more complex, time consuming and costly. Consequently, the risks associated with technology investments continue to pile up.

Complexity increases the number of weak links, prolonged timelines introduce changes to landscape and priorities, and budgets are inevitably blown by vendors that offer unrealistically low costs that they cannot later sustain.

While some organizations may feel that the problem is the result of selecting the wrong vendor, the challenge may in fact be the typical vendor contract.

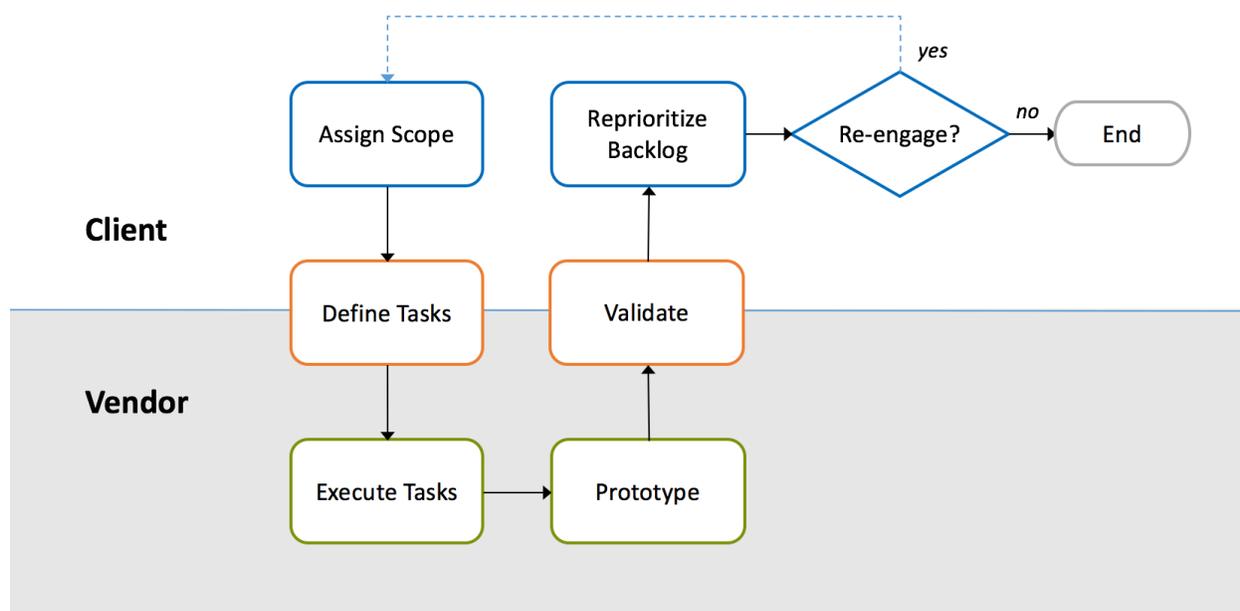
Long-term vendor commitments are a burden for most organizations. The only way to prevent surprises from a vendor relationship is to not commit to a relationship.

You might say that signing vendors to large contracts follows the pattern of a bad marriage: After a couple of months of honeymoon, there is a period of trying to make it all work with good intentions, followed by an increasing rate of disagreements and, ultimately, a big argument and the decision to see other people.

The problem is the very premise that an organization needs to be “married” to its vendor. In fact, long-term vendor commitments are a burden for most organizations.

The only way to prevent surprises from a vendor relationship is to not commit to a relationship. This can be done using an iterative engagement model, where an organization signs a vendor to a sequential series of short-term engagements, each of which has a clear scope, deliverables, and benefits.

The Iterative Vendor Engagement Model



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Iterative engagement will improve vendor performance.

Here is how iterative vendor engagement works: the most manageable iteration lengths are between two and four weeks. The first engagement is planning-heavy, and the biggest outcome from it is a first version of the backlog. Subsequent iterations start with reprioritization of backlog opportunities and selection of the top few as a scope for the iteration.

As the iteration draws to a close, the backlog is updated and plans are adjusted. At the end of the iteration, the organization gets a chance to hand the next cycle to the current vendor or assign a different mix of resources.

An organization also can choose to put the project entirely on hold and switch valuable resources to a more critical project. Can you think of a better way to keep a vendor on their toes?

At the end of the iteration, you will have a tangible deliverable that you can validate. If the requirements are incomplete, you take action.

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Let's look at an example. Say your organization is implementing a new software application. The current phase is requirements definition. This is a phase that so many vendors get wrong if they are signed up for the entire implementation, as they often are looking only for a quick signoff so they can move forward.

But say you didn't sign that large contract and simply asked a vendor to take on one department or one business area and gather their requirements in three weeks. At the end of the iteration you will have a tangible deliverable that you can validate. If the requirements are incomplete, you take action.

This demonstrates how the iterative engagement model can be an effective tool in keeping a vendor fully in check. If you only sign a vendor for short, manageable iterations, you can expect:

- The initiative will have a higher likelihood of staying on time and on budget because the plan will be adjusted dynamically to cut out "waste" activities and tasks.
- The project focus at every given moment will be on the most critical backlog activities that produce the most outcomes.
- The vendor will be motivated to watch its performance constantly as it runs a risk of not being re-signed.
- Sponsors and stakeholders will gain high visibility into the inner-workings of the initiative and get a chance to participate in prioritization of the work (whether they like it or not).
- You will avoid the whole change order process altogether – what a relief!

Not everyone is a believer yet.

The one main reason the iterative engagement model is not the norm today is its perceived inconvenience. It is typical for both a vendor and a customer to feel excited about an upcoming big project, and the idea of a cyclical re-engagement may seem like a nuisance. Yet too many of these relationships end up not working out — a far greater nuisance. Here are some of the objections that you might hear against using the iterative engagement model and respective responses:

Source	Objection	Reality
Project Sponsor	“We chose this vendor because they deliver these types of projects all the time. Let’s follow their lead as they are the experts.”	Your organization is unique and so are expected performance outcomes from this project. Make sure you are not getting a basic solution that everyone else implemented.
Procurement	“The best way to drive down the cost of components is to bundle them into one big deal with one vendor.”	The vendor will compensate for low margins by attempting to cut corners. Reduce the overall cost a lot more by cutting out waste activities and tasks if you break the deal into focused efforts.
Project Manager	“Signing a new contract every so many weeks is a bureaucratic nightmare.”	Actually, most organizations require far less paperwork for small contracts, so this is a wash.
Project Stakeholders	“Participation in frequent project review meetings requires disproportionate time commitment.”	Traditional long-term contracts make it too easy to speed through early project stages. The only way to get a firm grip on the project is to increase the controls, including scope and vendor re-engagement.
Vendor	“Our legal and finance controls will never allow short-term commitments.”	That seems like a personal problem. If you are putting the customer first, you should be able to adapt to a cyclical re-engagement.
Project Team	“Long term contracts give us time to build effective working relationships with vendors.”	If the point of the relationship is to get better results, wouldn’t you rather set a cadence of delivery of results first?

Client risks and rewards.

The risks on the client side are mostly tied to the disruptive nature of the engagement model. It requires project sponsors, stakeholders, legal, procurement, and the project team to think differently. If they don't adapt to the model, a number of issues can occur, including:

- Lack of discipline around prioritization, which can be detrimental to the scope and thus the timeline and cost.
- Patchy participation from key decision makers, which can result in poor prioritization and thus misappropriation of time and resources.

Moreover, it will be tempting for partnerships to revert to the traditional engagement model after a working relationship has been established with a vendor through a few productive iterations. This is a trap. If the model is working for you, stick to it.

There are abundant rewards for a client organization that adopts this model. The key to the rewards stems from tighter control and vendor vulnerability. Rewards include:

- Lower cost as you only pay for the most critical deliverables designated at the time of assignment.
- Increased flexibility, since any project parameter – including scope, timeline, resources, expected benefits, etc. – can be effectively adjusted at any time. In addition, the project can be cancelled, go on hold, or get deprioritized any time.
- Greater control, since there is very little, if any, dependency on the vendor.

Vendor risks and rewards.

Clearly, the iterative engagement model increases vendor risks. In fact, the model is the most effective “risk with the vendor” approach. The client can fire a vendor at the end of a current iteration without legal repercussions.

Here are the risks the vendor faces:

- Revenue backlog is limited to a very short commitment from a client.
- Resources tied to the project can be benched with little to no notice.
- Scope can change from cycle to cycle.
- Administrative costs can add up for vendors that don’t embrace the model in their business operations.

However, there are plenty of rewards for vendors that play their cards right, including:

- Quicker processing time for shorter client engagements.
- Payment processing is a breeze as clients consume predictable deliverables at the end of each cycle.
- An immediate feedback loop on quality of deliverables.
- Loyal, satisfied clients.

The iterative engagement model increases vendor risks, but there are plenty of rewards for vendors that play their cards right.

Which vendor engagement model wins?

Here is a side-by-side comparison of the two models:

Category	Traditional Model	Iterative Model	Winner
Scope	Because the scope is outlined in a very large contract, activities are focused on fulfilling the commitments. This results in waste activities as well as in missed opportunities discovered in the course of the engagement.	Dynamic planning means that the vendor will always focus all of its energy on a short list of the most critical tasks.	Iterative
Timeline	The vendor will do everything in its power to complete the agreed-upon deliverables as quickly as possible. However, more often than not, additional efforts are required to make the solution truly effective.	Due to constant reprioritization, the amount of work will actually be less. Normally, less work means less time required for completion. However, clients will inevitably use opportunities to stop and restart the engagement, resulting in delays.	Tie
Budget	The budget is naturally tied to the scope and not the benefits. To meet all expectations from sponsors and stakeholders clients can expect to spend more.	Backlog provides clients with ultimate transparency and control, allowing for more effective use of allocated funds.	Iterative
Predictability	If the vendor is signed up for a standard procedure, predictability is critical. Better get it all in one contract so there is no opportunity for a scope creep.	Lack of predictability is not for everyone. If your organization's culture demands no-nonsense interaction, dynamic re-planning will only get you fired.	Traditional

Category	Traditional Model	Iterative Model	Winner
Flexibility	The longer the initiative, the higher the chances that internal and external factors will drive a need for changes to scope, timeline, and budget.	At the start of every iteration a new scope is set reflecting the most up-to-date demands from the business.	Iterative
Administration	The overwhelming bureaucracy associated with large vendor contracts is well documented. Once the contract is signed, though, you are in cruise control. Until the first change order.	Smaller repetitive engagements require significantly less paperwork and approvals. While having to process a new contract often may seem like a nuisance, once you get a hang of the routine it will become second nature.	Tie
Benefits Realization	The benefits outlined in the internal business case are not a part of the contract. Your results can vary.	Every re-engagement provides a client with a chance to focus deliverables on business objectives.	Iterative
Quality	Clients can expect minimum acceptable quality as defined in the contract.	Appropriate quality can be attained for each deliverable through continuous improvements.	Iterative
Overall	Engaging vendors the way you've always engaged them means you should expect the same results as what you have been getting to date.	Julius Caesar said "divide and conquer." Sounds like great advice in regards to vendor engagement.	Iterative

Setting expectations for your first iterative engagement.

It's true that switching to an innovative vendor engagement model is easier said than done. After coming up with the idea, our consulting practice needed almost a year before we gave it a go with one of our clients. Not only did we have to figure out the operational side of the model on our end, but we also needed to find a client organization that would be open to the idea.

Our first iterative engagement client was a fast growing software company in Boston. We ended up staying for four iterations and exceeded client expectations in volume of deliverables, quality and, most importantly, impact.

Let me share with you a few of the lessons we learned from the experience, as you might find them useful as you get ready to give the iterative engagement model a test-drive:

1. Choose a project with high uncertainty. Cyclical discovery, trial-and-error, and subsequent directional changes are a norm for such projects. Management may be more receptive to allocating funds to a loosely defined project in small chunks so they can see if it is worth perusing and reserve the right to cancel at any time.
2. Find a sponsor for the project who is willing to allocate time to the engagement in return for higher quality of deliverables.
3. Try it with a smaller vendor. A large vendor may initially agree to give the new model a try and then pressure you to sign a contract for the remainder of the project.
4. Take extra time reprioritizing after each iteration. Don't let the natural tendency to switch into cruise-control take over.

The iterative engagement model is a very effective way of getting the most out of a vendor relationship. Organizations that embrace the trend will see better outcomes from their initiatives. Vendor firms that adapt the model will prosper.

About the Author

Mikhail Papovsky, CEO and founder of Abraic Inc., has been delivering value from IT initiatives throughout his career. His background in operations, development, and database administration has helped him to build strategic visions for other IT areas and link business value streams with IT solutions. As an internal IT executive, Mikhail has handled administration, budgeting, RFP issues and outsourcing management, among other areas.



He founded Abraic in 1996 to help businesses maximize the return on their ERP investments. Since then, Mikhail has managed large-scale projects across many industry segments and around the world.

About Abraic

We at Abraic believe that the iterative vendor engagement model is the answer to a traditional, flawed, long-term commitment routine. In the coming years we will see more and more organizations turning to series of short, targeted engagements with vendors as a way of systematically improving outcomes from their investments. Abraic has developed and employed the iterative engagement model with great success.

Abraic helps organizations achieve the best outcomes from their IT investments. Since 1996, our boutique firm has taken great pride in generating sustainable business value through an iterative, outcome-based delivery model. Painlessly turn around failing projects, exceed internal customer expectations, overhaul legacy systems, or optimize underperforming digital assets with Abraic's team of specialists and strategists.

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