The Two-Way Benefits of Time and Materials Contracts

As demand for high-performing, long-lasting software increases, time and materials contracts have become much more common in the software development outsourcing world, but there are still a few doubts about how their open-ended structure can be beneficial.

Time and materials contracts generally involve the ability to work directly with an outsourcing company's development team at an hourly rate. These projects start with a general roadmap and an estimated completion timeline, but unlike a fixed-price model, nothing is concrete because of the dynamic nature of the project workflow.

This model of outsourcing agreement is great for companies looking to start sizable projects from a blank slate, as the software's functionality is defined as new iterations are developed. It's also ideal for the continuous improvement of existing platforms, allowing for ongoing tests, maintenance, and the introduction of additional features. For projects that fit into these scenarios, a time and materials contract can be highly beneficial for both sides of a software development outsourcing partnership.

Here we explore why time and materials contracts are so well-suited to modern software development projects, and the benefits of the project model for outsourcing companies and their clients.

The Quest for Long-Term Value

Building custom software is not the same as building a bridge or an office building; every piece of software is a completely new and unique product, a prototype that must be improved continuously. As such, it's impossible to know the full spectrum of functionality that users will demand, often

because of the ever-evolving nature of the environment they operate in and the continuous emergence of new technology.

This is why agile methodologies became so successful and so widely adopted by software development outsourcing companies. Agile allows development teams to build individual features, introduce those features to users, and then quickly improve them based on user or client feedback. This process is repeated until the business requirements of the feature are met, at which point it can start again with the next feature or requirement.

Due to the methodology's reliance on user feedback and continuous iterations, it's simply impossible to determine the end date — or total cost — of a software development project that is being approached with agile. In other words, a fixed-price/fixed-term contract creates challenging limitations and places unnecessary pressure on the software development outsourcing vendor, resulting in poor software and wasted potential for the business.

Time and materials became more popular because it enables companies to assess if each iteration or additional feature is going to provide future business value, instead of facing the more difficult challenge of assessing the entire platform. Fixed-price contracts don't allow for this, as the focus is more on a short-term expenditure rather than a long-term return on investment.

So what are the key benefits of the time and materials model for outsourcing companies and their clients?

Increased Team Involvement

Time and materials contracts usually include access to a project manager who acts as a communications middleman between the outsourcing company's development teams and the customer. **This allows clients to voice their concerns or feedback and have them immediately communicated to the engineering teams, without having to get deep into the technical weeds.**

There is often a higher need for client involvement in time and materials projects, especially when the software needs to continuously evolve alongside shifting business goals. Increased team involvement also occurs on the outsourcing company's side, as the client is paying for the time invested as specific features or functionalities are completed, creating more motivation to finish the job on time and to a higher quality.

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Flexible Projects

Perhaps the most beneficial aspect of a time and materials project is the ability for clients to quickly and easily make changes to the plan or workload, especially when the end-requirements or specifications of the software are not predictable. At any point they choose, they could shift directions, bring users in to try out new features, or even control which developers are used on the team.

Even with this amount of flexibility, time and materials contracts present a much lower risk on the outsourcing company's side, mainly because the project is broken into smaller parts that eventually make up the final product. This makes it easier for providers to present an accurate pricing estimate, focus on specific, actionable goals, deliver regular short-term wins, and thus build the client's trust.

Access to Information

Flexibility and team involvement require transparency, which is why clients are provided with uninterrupted access to all aspects of the development project. This is achieved through a mix of task management systems, shared resources, and communications platforms like Slack. This access to information creates a deep sense of accountability at every level of the project, something that is harder to achieve under a fixed-price contract.

While this birds-eye view of the project is a huge benefit for clients, there is a danger of sometimes over-extending or making so many requests for information, or demanding too many new requirements that the development team is distracted from getting maximum value from the original goal.

Pricing models and outsourcing contracts have become as diverse as the services on offer today. Even so, for companies that can build a goal-oriented strategy to their development requirements, while consciously working toward the long-term value of their software, the time and materials contract is a highly worthwhile and beneficial consideration in any new software development outsourcing partnership.