

Economics of Agile

Today's market shifts demand that organizations move faster and produce better results. Many organizations turn to Agile to address their organizational and technology challenges.

Why Do Agile?

Agile approaches increase organizational performance. Improvements go beyond mindset shifts. They are deeply rooted in measurable economic outcomes. Compared to more traditional approaches, Agile efforts are:



4 times less expensive

[Money Pit Technical Report](#)



Over 3 times more likely to succeed

[Chaos Report](#)



10 times faster to deliver return on investment

[Money Pit Technical Report](#)

What Are the Economic Benefits of Agile?

As the [14th Annual State of Agile Report](#) illustrates, high-performing organizations achieve significantly better outcomes with Agile. More rapid value delivery, accelerated learning, and less wasted effort lead to clear economic benefits, including:



Faster time to market

from more efficient use of time and effort



Improved productivity

from increased focus and reduced waste



Improved predictability

from shorter and more consistent delivery cycles



Increased employee satisfaction

from more frequent releases and opportunities to succeed



Higher quality solutions

from more rapid feedback and faster defect identification



Reduced overall costs

from lower overhead and increased self-organization



Reduced delivery risk

from shortened lead times



Reduced business risk

from more accurate identification of customer needs

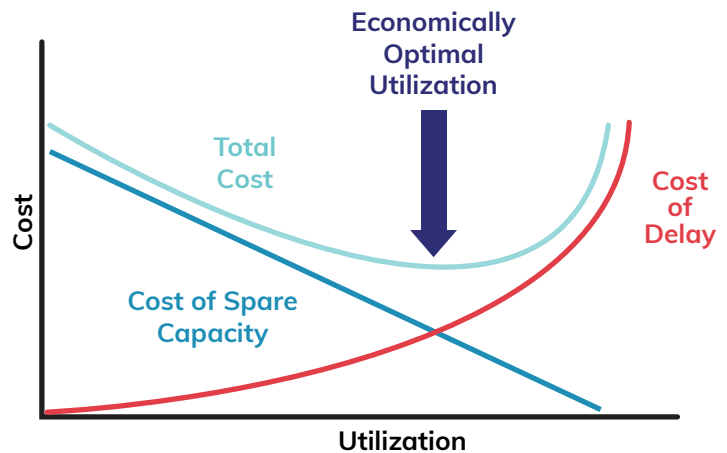


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What Does Delay Cost?

The economic benefits of Agile are not always immediately apparent because traditional accounting methods fail to quantify the largest development cost, the opportunity lost due to delayed delivery.

Consider the following example. A new tool is being considered to streamline proposal work and reduce the time analysts spend on proposals by 4 hours/week. With 20 analysts doing the work, a total of 80 hours/week will be saved. At \$100/hour, this represents an economic benefit of \$8,000/week. Every week the tool is unavailable, we are losing out on that benefit. \$8,000/week is the **cost of delay**. This **cost must be quantified** to make accurate assessments of the economic impact of development approaches.



Quantifying cost of delay allows more effective decisions, grounded in economics. In the table below, three options are presented:

- A traditional method
- An Agile team that accelerates delivery by dedicating people to the effort
- A minimal investment approach where team members treat it as a lower priority

Evaluating the Options

Quantifying Delay Cost	Traditional Method	Agile Team	Minimal Investment
Investment Cost	\$100,000	\$400,000	\$50,000
Delivery Timeline	1 year	3 months	2 years
Cost of Delay	\$416,000 (52 * \$8,000)	\$104,000 (13 * \$8,000)	\$832,000 (104 * \$8,000)
Total Cost	\$516,000	\$504,000	\$882,000

Based on the table above, the Agile team is clearly best, and this abstract example understates the case. It assumes delivery speed and investment costs are directly related, so that when development costs go up four times, the delivery is four times faster. In the real world, these relationships are more complex because development involves **knowledge work**, and knowledge decays. Feedback is an essential part of knowledge acquisition, and the speed of feedback determines the efficiency of our development efforts. Compared to the traditional method, Agile teams deliver substantially faster with four times less cost.

How Valuable Is Knowledge?

Agile teams are much more effective than traditional organizational approaches because they account for uncertainty. They embed knowledge, responsibility, feedback, and action into self-organizing teams. These teams:



Integrate **knowledge** about the user, the technology, and the process



Gather **feedback** from users on the product and from themselves on their process



Assume **responsibility** for successful delivery



Take **action** to improve the product and their process based on that feedback

This regular process of self-organization embeds crucial knowledge within the team and drives continuous improvement. It avoids one of the most wasteful aspects of traditional approaches, the handoffs that come when work is transferred from one organizational function to another (e.g. from requirements analysis to development). Typically **70% of knowledge is lost** in these transfers, no matter how well documented.





Agile development efforts are **four times less expensive** than traditional approaches.

This knowledge has to be reacquired by downstream functions. Often, before that happens, a defect is introduced. Defects take many forms, to name some:

- Misunderstanding of user needs
- Date and schedule slips
- Software coding bugs
- Security flaws

[Agile approaches](#) find these defects within the team, reducing the cost to address them and improving overall efficiency. This is how Agile approaches become **four times less expensive, three times more likely to succeed**, and deliver **return on investment 10 times faster**.

How to Optimize Economic Outcomes?

Agile has become so prevalent because it delivers clear economic benefits. Agile is helping organizations accelerate delivery, improve productivity, reduce risk, enhance quality, and reduce costs. Excella is deeply skilled at partnering with organizations at all stages of their [Agile journey](#) to deliver these benefits and maximize economic outcomes.

[We know Agile is more than a mindset](#). It's an organizational paradigm that unlocks new potential by balancing the true economic costs of development efforts, including the cost of delay, the value of knowledge, the cost of spare capacity, as well as other essential factors.

Partner with Excella to help your teams accelerate delivery, improve quality, and increase predictability by **maximizing the economic benefits of Agile**.

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