INCREMENTAL FUNDING MODEL

Outcome

An incremental funding model takes a Return On Investment (ROI) informed approach to release planning. It looks to identify small releasable subsets within a larger product development project, and sequence and schedule product releases to maximise business advantage.

Function

Instead of trying to justify and secure funding up-front for large development projects, an incremental funding model seeks a small initial injection of funding either to realise some initial value and/or to learn much more about the opportunity. What is learned from the initial investment is then fed back into framing and justifying the next small investment step, and so on.

When you are developing a new product or service, the beginning is the point at which you know and understand the least. Logically, this is the wrong time to make huge investment bets on large, risky endeavours, which could well be fundamentally flawed. Instead, you should aim to invest little and often. Each investment should try to maximize the opportunities for the early release of value as well as gain feedback and learning.

Benefit

There are many variations on incremental funding models, depending on how certain you are about your final destination. You may have a fair idea of the kind of product or service that you wish to develop and a fair level of certainty that it is worth investing in. At the other extreme, you might have no idea of the value of the initial idea, where it might lead, or how long you wish to continue investing in it. Two different variations of the incremental funding model can be identified accordingly:

Incremental ('more development than research')

Who

- You have a vision of an outcome you wish to achieve and an outline vision of the kind of product or service you intend to develop to achieve it.
- You want to control your level of exposure and maximise your opportunities for learning - this will help converge on an accurate business solution.
- You want the option of a graceful exit at many points along the way, i.e. to stop funding the project without significant adverse consequences.
- The default assumption is usually "you expect to continue with the next investment each time, unless what you have learnt indicates that you should not".

Scaling Factors

Progressive ('more research than development')

- You have no concept of the whole.
- You just keep deciding to make additional small incremental investments as long as they can be justified.
- The default assumption is usually "you will not continue unless you can justify further investments".

Difficulty

Implementation

Prerequisites

- Each potential large investment (e.g. the development of a new products or service) is broken down into smaller incremental funding steps, each with indicative costs and anticipated value (measured either in end-user value or in value to the development organisation in terms of feedback and learning, which will lead to risk reduction and improved future funding decisions).
- There is visibility of these product release increments (also known as minimum marketable features or MMFs) and their value models at the level in the organisation at which funding decisions are made (e.g. programme level and portfolio level).
- Investments can actually be made on an individual increment basis – for example, where external suppliers are contracted, the contracting mechanisms exist, suppliers can be engaged and contracts cost-effectively drawn up and managed on an increment-by-increment basis.

1. **Identify releasable product increments** – identify a stepwise / interim investment goal / outcome that delivers measurable anticipated value.
2. **Sequence the increments** – decide on the order that the product increments should be released. This should be ROI informed, i.e. the sequencing is based on the cash flow profiles that would result from each release and therefore the opportunity costs of delay associated with each release. It also needs to take into account the technical dependencies of each release such that the release sequence is technically feasible and the costs associated with each release can be calculated to complete the cost-benefit equation.
3. **Make investment decision** – decide whether or not to make the investment. If not, the process is abandoned. If so, proceed to next step.
4. **Make incremental investment** – initiate the funded activity.
5. **Assess outcome** – at the end of the funded activity, use the results to decide whether it is worth investing in trying to identify another potential increment to fund. If not, the process is abandoned. If so, repeat the process.

Potential pitfalls

- The fixed costs of each investment increase the overall transaction costs and decrease the cost-benefit case of the whole.
- The potential complexities associated with accurately calculating and comparing the ROI profiles associated with all possible release sequences cause 'analysis paralysis' or the abandonment of the practice. The key remedy is to adopt an appropriate and pragmatic level of economic modelling.

If you want to learn more, consider reading:
Software by Numbers - Low-Risk, High-Return Development by Mark Denne and Jane Cleland-Huang
Agile Software Requirements: Lean Requirements Practices for Teams, Programs, and the Enterprise by Dean Leffingwell
Practices for Scaling Lean and Agile Development by Craig Larman and Bas Vodde