Sourcing Agile teams

Part 2: Managing the 'Agile service delivery' model

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Traditional outsourcing models have become obsolete in various situations. Our clients are confronted with rigid service providers strictly adhering to (contractual) agreements and agreed KPIs, resulting in a long time-to-market, lack of flexibility and high costs. At the same time, the risk of vendor lock-in is lurking due to a lack of in-house (tacit) know-how and expertise. These are exemplary reasons why organizations opt to source 'Agile teams' from service providers. It can be an attractive and successful alternative that mitigates key drawbacks of traditional outsourcing models and staff augmentation, but not without challenges.

This article consists of two parts (separate documents). The first part (link) provides insights into the relevance of sourcing Agile teams, the implications for the sourcing strategy, and the challenges it poses to the sourcing lifecycle. The second part (this document) provides insights into how to successfully source and manage Agile teams.

Performance indicators

A contract for delivering Agile teams has different requirements than for instance a traditional outsourcing or staff augmentation contract. Having the right mix of service levels and KPIs will improve the client's ability to manage and control the quality and value that Agile teams deliver. In addition, it can stimulate a transparent and performance-based partnership between the parties, improving trust, agility and morale ('going the extra mile'). It is common practice for Agile teams to continuously improve by adopting metrics such as velocity and burndown rate and by following up on retrospectives and team self-assessments. When it comes to contractual arrangements, we recommend including service levels and KPIs on at least the following topics:

Client satisfaction

Client satisfaction should be measured periodically on subjects such as added business value, time-to-market, collaboration and transparency. Key client personnel involved in the service delivery should take part in the evaluation (e.g. the product owner).

Team stability

A large number of personnel changes can (among other factors) have a negative impact on: team moral, quality, effectiveness, velocity and knowledge retention. Team stability and attrition rates should therefore be measured periodically.

Predictability

In order to ensure continuous delivery, predictability should be measured based on the extent to which the committed features and enablers have been delivered and accepted within the measurement period (for instance a program increment).

Code quality and documentation

The quality of the delivered code and documentation should be examined in various ways, for example by an independent party and automated tooling. Aspects such as performance, security, maintainability and portability should be part of the regular reviews.

Conformity with DoD

All features and enablers should be accepted in accordance with the definition of done (DoD). The DoD largely determines the quality of the output and the extent to which the requirements are met. Non-compliance with the DoD can be used as an important quality indicator.

Choosing the right pricing model

When sourcing Agile teams, there are various pricing models to choose from. It is of importance that the pricing model facilitates the Agile way of working, reduces strategic behavior and avoids negative incentives. Client organizations should think carefully about the most appropriate pricing model for their Agile teams, considering the specific situation at hand. Choosing the appropriate pricing model depends on several factors, such as the client's maturity in managing Agile teams, the relationship with the service provider, the length of the collaboration, characteristics of the products that need to be delivered (time-to-market, (un)certainty, complexity etc.) and the client's risk appetite.

Some of the most common fundamental pricing models when sourcing Agile teams are illustrated below.

Outcome-based

A fixed price is agreed for delivery of the scope (e.g. features and enablers). The service provider commits to the delivery of the items on the backlog. The backlog may relate to a sprint or a longer period. The longer the horizon, the greater the uncertainty.

This model can be applied when the outcome can be pre-described in detail and when the dependencies are limited. As the service provider must commit to delivering the scope, any significant changes in scope must be recorded as additional work, and may need to be priced separately.

Time and materials

The activities of the Agile team are charged afterwards based on the actual hours worked by the team members and the agreed-upon hourly rates. It is good practice to cap the size of the team and the hours worked per sprint so that the fees of the service provider are predictable.

This model can be applied when it is difficult to pre-estimate how much capacity will be needed. This may be the case, for example, during the first sprints that a team works for the client. When the capacity stabilizes somewhat, a switch can be made to a fixed price per time increment.

Fixed price per time increment

A fixed price for the Agile team per time increment (e.g. sprint) is agreed upfront. Agreements are made on the composition and availability of the (core) team, but there must be flexibility so that expertise can be scaled up or down as required.

This model can be used when the Agile team is deployed for a longer period of time and when the team's capacity is somewhat stable. It removes the burden of managing timesheets and allows one to focus on the output of the Agile team. It does, however, require trust and a good relationship with the service provider.

Key success factors when sourcing Agile teams

Once Agile teams are successfully contracted, both the client and the service provider will need to make efforts to make the collaboration and the contract a success. The collaboration starts with the inclusion and acceptance of the Agile teams within the client organization and with ensuring that the teams adopt the client's modus operandi and tooling. Based on our experience, the key success factors for sourcing Agile teams include:

Collaboration tooling

Effective and shared collaboration tools (e.g. Confluence, Jira, Azure DevOps, etc.) are key to working together within and between Agile teams. Preferably, Agile teams adopt the collaboration tools that are used within the client organization. This also contributes to retaining information and knowledge within the client organization and to easier onboarding and transfer of knowledge.

Architecture

Agile teams should work within a clear architectural framework to facilitate standardization and reusability whilst stimulating innovation. Close collaboration between the service provider's solution architect and the client's architecture team can ensure that shared architectural principles are adhered to.

Contract and vendor management

Contract and vendor management is required to jointly build a cooperative, long-term, and adaptive partnership. A distinction should be made between managing the Agile team (as part of the client organization) and managing the service provider. Both require differemce types of governance and interactions. However, preferably they are managed from one integral perspective (i.e. by the same contract/vendor manager(s)).

Demand management

To enable Agile teams to timely deliver business value and respective deliverables, a clear translation of customer needs is paramount. Through collaboratively working with end-users and the product owner, the Agile team can contribute to a clear product roadmap and backlog.
By ensuring that the backlog items have a clear definition of ready and definition of done, the client's product owner (of product manager) has improved control and oversight over the success of the sourced Agile teams.

Culture and mindset

The performance of Agile teams thrives on an appropriate organizational culture and mindset of both leadership and employees. The (Agile) mindset should be focused towards continuous improvement, delivering value, transparency, collaboration and trust.

Contract

Contractual clauses are required that stimulate experimental and incremental ways of working and co-creation of value. Furthermore, the contract should facilitate a growth in maturity, for instance by allowing changes to be made to the pricing model.

Conclusion – Part 2: Managing the 'Agile service delivery' model

The previous part of this article

This articles builds on the first part (link), in which the Agile service delivery model and challenges that come with the sourcing of Agile teams are explained.

'Agile sourcing' and 'Sourcing Agile teams'

Agile sourcing methodologies (also referred to as 'Agile sourcing') can be used to source Agile teams. Agile sourcing introduces an Agile approach towards the tendering and contracting process. If you are looking for more information on Agile sourcing, we kindly refer you to read our article in Compact magazine.

How KPMG can help

We have in-depth experience and strong credentials in the selection, contracting and implementation of Agile teams. For more information, please refer to the contact information on the next page.

— **Sourcing strategy and selection process:** We can assist in drafting a future-proof and adaptive sourcing strategy that fits the organizational goals. While implementing the sourcing strategy, we can provide support in the selection process (including negotiations).

— **Contractual model:** We can support the contracting process with contract templates that facilitate an Agile way of working. More specifically, we have contract templates that are based on the Scaled Agile Framework (SAFe).

— **Implementation:** We can support with the implementation of Agile teams from external service providers and/or the implementation of an Agile way of working within your organization.

Contact information

Please contact our Sourcing experts below for more information.

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