

# Sourcing Agile teams

## Part 1: The 'Agile service delivery' model

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# Sourcing Agile teams – Part 1: The ‘Agile service delivery’ model

## An attractive alternative to traditional outsourcing models and staff augmentation

Organizations that use traditional outsourcing models are often confronted with rigid service providers strictly adhering to (contractual) agreements and agreed KPIs, resulting in 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. At the other end of the sourcing spectrum, delivery models based on ‘staff augmentation’ offer full flexibility, but lack the contractual obligations for the service provider to deliver performance and quality, often relying solely on best effort. Both are reasons for organizations to look for a middle ground between these models. Hence, we see that our clients more often choose to source ‘Agile teams’ from service providers. It can be an attractive and successful alternative that mitigates the key drawbacks of traditional outsourcing models and staff augmentation, but not without challenges.

This article consists of two parts (separate documents). The first part (this document) 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 provides insights into how to successfully source and manage Agile teams.



### Traditional outsourcing

The scope of the services is agreed in advance at a fixed price. The service provider is fully responsible for the service delivery. This sourcing model is most suitable for predictable services.

Desire for more flexibility and ability to swiftly respond to market requirements



### Agile teams

The service provider delivers one or more teams. A team consists of individuals with specific skills and who work according to an Agile methodology and rituals. There are contractual obligations regarding the performance and output of the team.

The client can be part of the team (for instance as the product owner) and effectively participate in the value being delivered.



### Staff augmentation

Individual employees of the service provider are hired on a temporary and best efforts basis. The employees are controlled by the client. Often there are no performance obligations. This sourcing model is more suitable for unpredictable services.

Desire for contractual obligations on performance and output

# Agile as the new way of working

## Organizational benefits of the Agile way of working and impact on collaboration with service providers

Over the last few years, we have observed that organizations in both the private and public sector are increasingly adopting the Agile way of working in order to provide an answer to rapidly changing customer needs and a highly volatile environment. This rise of the Agile way of working has also impacted the way clients and service providers work together. In some situations, the way service providers organize their service delivery, as well as the underlying contractual arrangements, need to match the Agile way of working of the client.

Organizations that have adopted an Agile way of working may experience benefits as described below.



### 01 Business value

The Agile way of working allows organizations to develop and prioritize products, services and processes based on business value, and increases overall business performance ([source<sup>1</sup>](#))



### 02 Employee satisfaction

Increased freedom, flexibility and a sense of autonomy for employees can increase employee engagement up to 30% ([source<sup>2</sup>](#))



### 03 Productivity and time-to-market

Agile teams can experience a 35% increase in productivity and 50% faster time-to-market compared to traditional project teams ([source<sup>2,3</sup>](#))



### 04 Corporate innovation

An Agile way of working stimulates innovation throughout the organization and can contribute to more innovative products and services ([source<sup>4</sup>](#))



### 05 Product/market fit

Early and continuous customer feedback in the development process can contribute to the success rate of products and services ([source<sup>5</sup>](#))

# An Agile way of working has implications for the sourcing strategy

An Agile way of working has a profound impact on an organization's sourcing strategy. Traditional sourcing objectives such as cost reduction and risk mitigation shift towards value creation. Moreover, by sourcing Agile teams, client organizations aim to realize the following benefits:



## More flexibility and scalability

The client can more easily adapt to changing circumstances. Sourcing Agile teams introduces a more flexible and scalable layer of capabilities, allowing the client to more easily shift priorities and change the portfolio.



## Faster access to talent, knowledge and expertise

Contracting Agile teams from one or more service providers allows a client to access the required capabilities and expertise more quickly within the agreed-upon contractual boundaries.



## Shorter sourcing and contracting lead times

Less emphasis can be given to pre-defined detailed designs, lengthy tender processes, elaborate contracts, disputable fixed prices, and unavoidable lengthy and formal change management procedures. This leads to a faster start of the service delivery.

A continuous focus on value creation through an Agile way of working impacts not only the organizational processes and governance, but also the organizational culture. As such, it may require a thorough (re)evaluation of an organization's strategic capabilities and attributes. This is inherently one of the main reasons for defining a sourcing strategy. Therefore, we advise to (re)define your organization's sourcing strategy as an integral part of implementing an Agile way of working.

## 'One size does not fit all'

Agile teams are not always the most suitable sourcing model. Choosing the right sourcing model is highly dependent on the nature and characteristics of the business/IT domain in question. Agile teams are most beneficial for business/IT domains that are subject to more rapidly changing environments requiring higher agility. Traditional outsourcing models can work as good, if not better (and potentially at lower cost) in stable and predictable business/IT domains.

## Client case

The implication of the Agile way of working on sourcing strategies and models can also be seen in practice. During a recent engagement, KPMG assisted a client at the heart of the Dutch digital government in formulating a sourcing strategy for application services and organizing the subsequent (European) tenders.

The client recently implemented an Agile way of working based on the Scaled Agile Framework (SAFe). One of the key findings was that sourcing Agile teams fits well with the Agile way of working, since the Agile teams follow the SAFe cadence, become part of the organization and fill in the required knowledge and expertise. In addition, this sourcing model was perceived to contribute most to applications that require agility and which are close to the core business.

Subsequently, KPMG assisted in several (European) tenders that led to new contracts for Agile teams, which in some cases replaced existing contracts based on more traditional outsourcing models. However, the client also found that sourcing Agile teams was not the best solution for all services. For a highly specialized and stable service, the client opted for a traditional outsourcing contract.



# Sourcing Agile teams introduces new challenges in the sourcing lifecycle

Sourcing Agile teams requires a different approach throughout the sourcing lifecycle compared to more traditional sourcing models. To optimally benefit from the advantages that Agile teams bring, organizations should be aware of the following challenges in the sourcing lifecycle:

## Knowledge retention

Agile teams extensively build up knowledge and experience regarding the solution/services being offered. Retaining 'critical knowledge and experience' in-house to ensure continuity and reduce long-term dependency can be challenging.

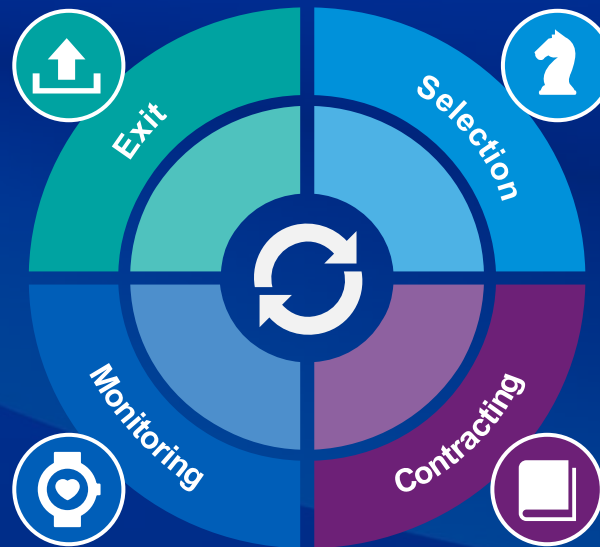
## Performance indicators

Controlling and monitoring the performance of Agile teams without introducing meaningless measures that reduce velocity or introduce bad incentives is one of the biggest challenges.

## Contract and vendor management

There is a clear distinction between managing Agile teams (e.g. as part of an Agile Release Train) and managing service providers. This introduces a challenge to organize contract and vendor management in accordance with the Agile way of working.

## Sourcing lifecycle



## Selection criteria

A clear definition of selection criteria that fit the organizational goals and resemble the expected performance of Agile teams is essential for the selection of a service provider. Defining fit-for-purpose criteria, which differ from more traditional outsourcing arrangements, can be challenging.

## Steering mechanisms

Managing a contract for Agile teams is more challenging as it demands better and more intimate interaction with the service provider to manage delivery and respective risks (both from a content and a relationship perspective). This differs from the traditional outsourcing model, where the scope and risk allocation, as well as the steering mechanisms, are often pre-defined.

## Pricing model

There are several options for pricing Agile teams that have an impact on the behavior and quality of the teams and the output. Selecting and managing the right pricing model for the specific organizational situation at hand can be challenging.

# Conclusion – Part 1: The ‘Agile service delivery’ model

## Part 2 of this article

Has this article drawn your attention? In part 2 of this article, you can read more about the challenges in managing Agile teams, and how to successfully overcome them.

## ‘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 \(source<sup>6</sup>\)](#).

## Sources and further readings

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5. **Dennehy A., Kasraian L., O’Raghallaigh P., Conboy K (2016)**  
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An Agile Approach To Sourcing:  
Increased Speed And Quality In Supplier Selection And Contracting

## 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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