An agile approach to outsourcing
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Outsourcing can be a complex endeavor, even for experienced companies with a number of outsourcing transaction projects under their belts. Depending on scope, organizations may spend six months to a year or more in the transaction process, honing in on the right providers and negotiating a contract that will stand for just a few years.

Those years go by quickly, and before you know it, it is time to consider recontracting with the existing providers or going back to the marketplace. Technology and client demands have changed dramatically in that time, making it incumbent on business executives to seek new capabilities offering higher quality at lower costs.

Meanwhile, the competition is closing in. In today’s rapidly changing business landscape, spending another year on a conventional outsourcing project is a luxury decision makers can no longer afford, especially given the influx of cloud-enabled solutions, digital labor, and other “as-a-service” (AaS) outsourced offerings available today. These plug-and-play alternatives allow faster time to market, while offering greater value potential and cost savings without the complexities of being locked into the structured, long-term commitment of traditional outsourcing arrangements.

What is a CIO to do? Managing outside vendors is a growing part of the role. With increasing pressures to contain costs and add value, how can outsourcing still meet the demands of the rapidly changing business landscape? In many cases, an “agile” approach to outsourcing can help. This paper aims to illustrate how organizations can accelerate the benefits of outsourcing by establishing the foundation necessary to take advantage of today’s cloud-driven AaS solutions.
Advancing technology is transforming business models across the industry spectrum, and outsourcing is no exception. Service providers are changing outsourcing models to meet the evolving needs of a dynamic marketplace and incorporate a variety of new technologies into their mix. As a result, technology innovation has vastly improved the development, delivery, and maintenance of outsourcing services. It has also improved company and service provider interactions by simplifying a traditionally complex request for services (RFx) process.

Much of this is being driven by business leaders who are increasingly embracing today’s cloud-enabled AaS market, which disrupts the rules of engagement between buyers and providers of outsourced services. And it is easy to see why. AaS offerings simplify the outsourcing transaction and transition process by providing readily available solutions, minus the capital investment. Onerous technology implementation can now be replaced with more standard, plug-and-play options for IT infrastructure, payroll, and other products and services delivered and updated regularly via the cloud.

As more service providers embrace new technologies such as AaS and cognitive computing and incorporate them into their offerings, the outsourcing market is expected to outpace the former outsourcing explosion of labor arbitrage deals that offered costs savings through cheaper labor. However, new technologies up the ante. Buyers are now looking for added value, too.

While cost savings remains a primary driver for companies to outsource certain functions, other factors are gaining importance. These include the ability to improve quality, offer access to new skills, decrease time to market, and enable financial flexibility. AaS offerings not only have the potential to be more cost-effective than their predecessors, but also easier and faster to implement, with a wider menu of advanced solutions.

Today, companies not only desire a streamlined approach to outsourcing, they expect it. From evolving technologies and changing client demands, an outsourcing methodology that can deliver on these expectations can ignite the next big wave of outsourcing deals.
Global trends, technology innovation, and changing client demands are driving the adoption of a more accelerated and collaborative outsourcing process.

While cost continues to remain a primary reason for IT outsourcing, clients are now looking to **achieve more than just cost savings**, and to enable them to better serve their business. **Rationale for outsourcing over the next 2–3 years**:

- **Cost savings**: 25 percent
- **Quality improvement**: 21 percent
- **Financial flexibility**: 11 percent
- **Time to market**: 11 percent
- **Access to skills**: 19 percent

The **next big wave in commercial IT outsourcing transactions** will dwarf earlier labor arbitrage deals as service providers transform their service portfolio to “**AaS**” and cognitive computing solutions.

- **$9.1 trillion market size**
- **$140 billion market size**

**Source**: KPMG Emerging Market Trends in IT Outsourcing, April 2016

Global trends, technology innovation, and changing client demands are driving the adoption of a more accelerated and collaborative outsourcing process.
Companies can take a number of steps to make sure they are as prepared as possible for this new, agile approach to outsourcing.

1) Define your **business strategy**, including the future state of your business services. Think ahead about how outsourcing will impact your company down the road. Are there multiple functions that you are considering for optimization or outsourcing? Is the work global in nature? Are there business considerations that necessitate remaining local? Is an internal investment going to enable objectives, and would it do so in a timely fashion? Answers to these questions become the framework for your business strategy. With your company’s future state in mind, a few reasons to consider an outsourced solution include:

- Increasing cost of internal labor
- Need for growth and scalability
- Technology advances
- Inability to effectively measure and manage internal performance
- A change in business direction.

This process takes time, but exploring the outsourcing market without the strategy in place can increase the expense, internal resource commitment, and overall implementation time line.

2) Create your **base case**. Gain a strong understanding of current-state costs for doing business. This is an essential enabler to achieving managed service success, whether an agile or a traditional approach is taken. Organizations make a common mistake of including only the resources associated with delivery of the service today, leaving out of the base case the facilities, administration, and other costs that may be retained down the road.

Once created, the base case is used in normalizing provider pricing and becomes the foundation of the future-state case for change.

3) Understand your **target operating model (TOM)**, which is predicated on the business strategy. Coupled with the base case, the TOM includes an understanding of how mature the existing processes are, along with the aging of the technology in place and the capabilities and skills of the existing resources. It will also consider the “what” and the “where” aspects of the outsourcing transaction. Once the TOM is finalized, it is far easier to calculate the potential benefits of internal optimization versus outsourcing or resourcing, and gain a clear understanding of what must be retained versus sourced.

4) Build a mature and dedicated **transaction team** with independent, self-managed resources who were part of building the strategy from the beginning, and who are empowered to work closely with the providers. Not only will these individuals be actively involved in the day-to-day planning, design, and documentation of the solution, but they are also the experts who will provide the insight and experience necessary to achieve the desired business outcomes and truly reap the benefits of a more agile approach.

By taking the time to develop the strategy, base case, TOM, and transaction team prior to initiating an RFx, businesses are better able to hit the ground running. Following these steps before the RFx process begins reduces the time typically spent at the beginning of the transaction creating and evaluating transaction scope and requirements.
What is an agile approach?

An “agile” approach to outsourcing borrows from the project management process by the same name in which participants engage in constant communication and collaboration. In agile outsourcing, that constant interaction occurs across the transaction life cycle between buyer and provider who, together, incrementally establish the content of the RFx, adapting it along the way as needs or markets change. This helps ensure business requirements are well understood at the point of the RFx release and, as a result, the traditional 26-week time line is potentially reduced to 12–18 weeks.

Unlike the traditional “waterfall approach” which follows a linear, step-by-step implementation, an agile approach is more fluid and maintains flexibility to change as necessary. Each of the four key steps—prep and teach, write up, engage, and contract—is still important, but the agile approach reshuffles the order of these activities to significantly speed up time to market. This requires a much more collaborative and outcome-based approach, involving continuous interaction between the buyer and provider.

This speedier implementation is driven in great part by the predefined solutions that providers are bringing to the table. These more commoditized offerings reduce the buyer’s need to draft extensive statements of work related to their particular business environment. Now the focus is on high-level outcomes, rather than detailing the process of how those outcomes have to be achieved. And because buyers are looking at standard market offerings, there is also less negotiation around service levels, types of equipment to use, or any of the more configurable items. Discussions take place earlier and more frequently, resulting in an easier negotiation process that takes less time.

Sprints replace the long journey

Moreover, an agile approach to outsourcing increases the frequency of communication and level of involvement of clients with their service providers. The process initiates with a series of “sprints,” similar to the iterative process used in agile software development. The sprints engage providers and organizations in dialogues to explore creative and proven solutions in the market, and align capabilities more accurately with business goals. Sprints are structured to flesh out the details, and in the process, much of the provider-side due diligence is achieved. In this agile scenario, the interaction is centered around outcomes.

Not to be confused with agile project management methodology, agile in the context of outsourcing represents the ability to move quickly and easily through the transaction process, potentially reducing the traditional 26-week time line to 12–18 weeks.

We believe bringing the providers in to the discussion early is an important enabler to a reduced transaction time line. It not only allows for much of the up-front due diligence to occur, but also serves to help educate the client on standard solutions available in the market that address their desired outcome.

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It is also during the series of sprints that the “prep and teach” phase occurs almost simultaneously. Both client teams and providers are educated on what is necessary, and expectations are set in planning out the balance of the transaction process and schedule. Negotiation considerations are brought to the forefront. Both sides can then quickly understand where sticking points might exist and begin working toward a resolution.

**The informed RFx**

The “write up” phase then becomes merely the formalization of what has already been discussed so that service providers have an opportunity to respond with the exact recommended solution and pricing.

By taking time to review business requirements and terms with a smaller set of providers who are able to discuss their solution with stakeholders, much of the due diligence gets done up front. As a result, the providers’ proposals have more relevant information with shorter time lines. Scoring and evaluation become easier for the buyer when the information in the responses incorporates those previous discussions.

Pricing, of course, remains a primary factor in buyer selection. Sharing the expected savings and the base case with providers during the process is recommended. Regardless, at least two rounds of pricing should be planned. Discussions around key business terms (KBT) during the iterative sessions, and the inclusion of mutually defined client/provider KBT as part of the RFx package, condenses the negotiation process and promotes more effective decision making.

At the end of the process, when the time comes for contracting, the bulk of the heavy lifting has already occurred. Moving to contract with the final, down-selected provider is accomplished with less time and often less frustration.

Are the days of the lengthy outsourcing transaction gone forever? It depends. We must consider what qualifies a transaction for an agile approach, what the reduced time line might look like, and when that approach may or may not be in the best interest of the customer.
The traditional “waterfall” approach does not engage providers until much later in the process and is no longer meeting the needs of businesses or the market.

An agile approach applies the concept of “sprints” in joint solution sessions as part of a lightweight, repetitive framework, helping to substantially reduce the period from project launch to contract signing and achieve a more robust solution.
Is agile outsourcing right for you?

Not all companies or outsourcing projects are an appropriate match for an agile transaction. Candidates considering an agile approach should review the following five areas:

1. Are you experienced with outsourcing transactions?
2. Is your company prepared to move ahead with all of the analysis in place to make the right strategic decisions?
3. Is your project complex? Does it involve multiple functions, providers, contracts, and/or locations?
4. Do you have committed leadership and resources?
5. How would you characterize your organization’s decision-making processes?

How advanced organizations are in each of these five areas directly impacts how quickly they can complete a project. For example, a company with limited outsourcing experience requires additional workshops and education, potentially adding weeks to the timeline. Likewise, organizations without a concrete strategy and analysis in place before starting the process will continue to drain resources and expand the time frame to implementation.

**Agile outsourcing success factors**

**Leadership buy-in** to adopting new, more standardized AaS outsourcing options from providers and using a different approach bring them on board.

**Frequent client iterations** driving constant communication, versus intermittent, milestone-based reviews.

**A dedicated project team** including those who were part of building the strategy from its inception, empowered to make decisions.

**A focus on outcomes** versus deliverables.
Benefits of agile outsourcing

**Stronger collaboration.** Agile outsourcing builds stronger collaboration within the client and the supplier ecosystem. Rather than having to compete with each other, suppliers can jointly work together to solve clients’ issues and reap rewards for the work put in.

**Fast turnaround.** Be it responding to volatile demand, spinning up infrastructure, or simply driving results from the get-go, agile outsourcing makes the most of dynamic market offerings and helps organizations respond faster to change.

**Scalability.** The advent of cloud infrastructure means organizations no longer have to wait on lengthy lead times.

**Lower capital investment.** Lower cost of investment, especially in IT infrastructure and commoditized resourcing arrangements, means organizations can spend more time focusing on business growth initiatives.

**Focus on business outcomes.** Outsourcing is evolving from the conventional procurement transaction to an accelerated and collaborative partnership, leading to an outcome-focused transaction that benefits all parties.
Innovation is driving both the companies who seek outsourced solutions and the providers who serve them to change the way they do business.

As existing contracts expire and business requirements evolve, we have witnessed a shift in the buyer’s desire to pursue lengthy, resource-laden transactions with heavy price tags. Time is at a premium. Outcomes have never been more critical, and commoditized AaaS solutions that provide greater transparency with faster time to contract are allowing businesses to gain a jump on the competition. As a result, the traditional, linear methodology used to conduct an outsourced transaction is being replaced by a faster, flexible, and agile approach.

Not all companies have the basics in place to allow for this more collaborative and outcome-based method, and not all transactions are ripe for an agile approach. However, companies should be compelled by the opportunity to reduce their outsourcing transaction time line to as short as 12–18 weeks from the standard 26, and they would be wise to determine their readiness for an agile approach now in order to take advantage when the need arises.
For the right organization and the right transaction, an agile approach to outsourcing can increase speed to market, reduce costs, and produce a better outcome. KPMG’s proprietary, detailed qualification process helps clients determine if they have the foundation in place for an agile approach. We qualify clients up front so that they know what it will take to drive an agile transaction, whether the transaction is ripe for an agile approach, and how their time line for completion can shift based on their level of preparation and the decisions they make along the way. We also review and, if needed, work with clients on their strategy, base case, and TOM.

When an agile approach to outsourcing makes sense, KPMG engages the client and the providers from the beginning of the journey, at the appropriate pace and with enough flexibility to enable the right solution. We keep our eye on the primary goal to shorten the duration of the transaction without compromising the quality of the deliverables.

Whether you seek an agile or more traditional approach to your RFx, KPMG’s leading sourcing advisors welcome the opportunity to assist you in your transaction process.

KPMG LLP helps our clients transform their business service delivery to realize improved value, increased agility, and sustainable business performance. We bring together expertise in global business services, shared services, outsourcing risk, transactions, tax, and compliance.

If your organization is seeking innovative ways to achieve genuine business services delivery transformation, KPMG Shared Services and Outsourcing Advisory can help. For more information, there’s no better place to start than by accessing our research and thought leadership on the KPMG Shared Services and Outsourcing Institute: www.kpmg.com/us/insights.
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