Aligning sourcing models

Ensuring the success of Enterprise Product through the effective alignment of third-party sourcing models

MOZAIC

The future of the Operating Model

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THE SERIES

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- The future of the technology operating model
- Focusing on value
- The importance of culture in transformation
- Measure the things that really matter
- Aligning sourcing models to support Enterprise Product
- Value stream management - it's time to stop throttling change
- Data driven operations
- Addressing legacy constraints

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Alignment of sourcing models

> The latest evolution of the technology Operating Model, Enterprise Product, offers significant advantages delivering greatly improved technology and business agility. But speed to market often requires the support of third parties, and traditional sourcing models either constrain collaboration and flexibility or fail to provide the safeguards clients need. In this paper, we discuss models for aligning sourcing models with Enterprise Product.

Outsourcing is common in every aspect of our lives, both at home and at work. We regularly engage third parties to help us solve problems, be that with the help of electricians, builders, plumbers, or highly specialist software engineers.

Why do we outsource?

- To address skills gaps or capability shortages
- To achieve something faster than would otherwise be possible
- Because we think someone can do something better than we can
- Because we think they can achieve more for less
- Because the task in hand is not core to our skillset

Of course, whatever the motivation, there is always a commercial imperative to ensure value for money. With this in mind, contracts have at various times been tensioned on, amongst other things, cost, quality, and commodity (e.g. standardised services potentially subject to SLAs).

When working within an Enterprise Product model, the main tension is that of flexibility. If the contractual model does not allow teams to collaborate and quickly adapt to address customer needs, the business will be constrained. However, ensuring value for money involves a number of other considerations: the need for the right level of capability and expertise; the level of quality delivered; and of course, that the desired outcome is delivered i.e. the teams are working on the right things.

This implies a potential paradox - the ideal modern contract should tension on the outcome (i.e. the value delivered), but it is the client Product Managers who are best positioned to provide the value insights and be accountable for achieving that value. As a result, over the last ten years, we have seen the supply of contingent labour on a time and materials basis become the norm as the need for flexibility has ruled, but this is neither ideal for the client nor the supplier.

In an Enterprise Product Model, the client and supplier should work collaboratively together to drive value, and contracts should be appropriately tensioned. This requires a high degree of trust between the parties and continual, collaborative alignment on intent.

From specialists to value

Unsurprisingly, there is no one size that will fit all when sourcing, and organisations will mix and match their approach and evolve their models to meet emerging requirements. Below we discuss the options available, from individuals working under the full direction and control of the client organisation, to the ideal of full teams, working to achieve value.

SOURCING INDIVIDUAL SPECIALISTS

The simplest form of outsourcing is that in which individuals are contracted to work within teams, very much akin to permanent employees, fully under the direction and control of the client organisation. This approach provides complete flexibility to the client but makes delegation of responsibility for the achievement of outcomes difficult - product teams are multi-disciplinary and work collaboratively together to deliver value; focusing on individual contributions creates a barrier to collaboration and reduces team flexibility.

As such, sourcing of individuals is typically on a time and materials basis with little “protection” for the client. Of course, a number of individuals may also be contracted from a single supplier in a similar way without this constituting a team.

SOURCING TEAMS AND APPLYING SLAs

As the footprint of third-party suppliers become larger within an organisation and they take on more responsibility as a team or teams, it is possible to delegate some level of outcome. For example, if a supplier were to provide all the Software or DevOps engineers in a particular area, it is then possible to attribute specific measurements (KPIs) to their success and include aligned SLAs within the contract (see below). These measures are, of course, only leading indicators to the overall outcome, and not directly attributable to customer value. They also typically only represent part of the value delivered by the team. However, such a contract will provide a level of quality measure relating to the value of the service provided, and hence some confidence to the buyer.

The final progression is for third parties to supply full teams or squads, in addition to analysts, engineers, DevOps engineers and testers. This may also include SMEs. However, as discussed above, it is unlikely that the outsourced team will provide the Product Owner or Product Manager, and therefore the decisions regarding how best to meet the customer needs and deliver value remain firmly with the client. As such, it is difficult to tension the contract on value, as this is not fully under the Supplier’s control. Instead, it is more likely to remain focused on the leading indicators within the control of the supplier.

Of course, if a “full” product team is measured according to a whole range of quality and throughput KPIs, this will provide a good indication of performance. And, if the Product Manager and SMEs are doing their jobs, the product teams should be optimised for value.

EXAMPLE KPIS

There are many different metrics that can be used to provide an assessment of the quality of the software development process through engineering, DevOps, testing, and deployment. Importantly, most can be objectively measured and therefore can be used in Service Level Agreements. For example:

- **Waste:** How much time is wasted due to bottlenecks and hand-offs in the process. This measure is a good proxy for throughput.
- **Code Coverage:** This metric measures the percentage of code that is covered by automated tests. A higher code coverage indicates that more of the code has been tested and is less likely to contain defects.
- **Code Duplication:** This metric measures the amount of duplicated code in the software. Higher code duplication can indicate that the code is less maintainable and prone to defects.
- **Bug Density:** This metric measures the number of defects per unit of code. Higher bug density can indicate that the code is more error-prone.
- **Deployment frequency:** This metric measures how often code is deployed to production. High deployment frequency is a sign of a well-functioning DevOps team.

Other measures include lead time for changes, mean time to recovery, change failure rate, cyclometric complexity, and code test coverage, to name a few.

TENSIONING FOR VALUE OUTCOMES

The ideal for Enterprise Product (and other product-aligned operating models) is that sourcing be tensioned on value, ensuring both parties are continually aligned and collaborate to maximise outcomes. The approach is relatively simple and relies on the basic tenet that the client will always be focused on achieving value, and if a portion of the client fees are contingent upon achievement, both parties will be aligned in their collaboration – it is in both parties' interests to succeed.

Of course, what is required to achieve the value will change over time, and this must be addressed through the appropriate process. However, such a "change" process should not over-incumber the teams, reducing flexibility.

Critical to the success of this approach is the identification of clear value metrics that can be achieved within reasonable timescales (i.e. timescales that are acceptable to both parties). If only a portion of the fees are contingent on achievement of value the supplier may be willing to accept a delay in recognition of the up-side.

Importantly, value measures are typically those that are used for Board reporting and therefore less open to gaming or incorrect interpretation. They, therefore, make a good basis for contractual agreement and measurement.

IMPACT

The following tables summarise the considerations of each model, and the impact they have within the Enterprise Product model.

	Individual Specialists	Specialist Teams	Complete Development Teams "Product team"
	The placement of individual specialists, including individuals from a single third-party supplier to provide capacity.	Teams of specialists from a single supplier to "own" a specific domain e.g. DevOps, User research.	The provision of complete product teams to own the end-to-end implementation. This may include maintenance and support.
Agreement on scope and prioritisation	• The individuals are treated as part of the team and can be involved in ideation and design under the direction of the client.	• The third party can be involved, but overall goals are set by the in-house lead. The engagement is likely to be restricted to their specialism e.g. teams of user researchers are more likely to be engaged in scope definition and prioritsation than DevOps engineers.	• The team is fully engaged under the direction of the client. They are contributors and offer innovation. • Ideally, the contract is tensioned on value, and therefore the scope extends to its achievement.
Performance management and influence on resource continuity	• Performance is managed by the client. • For individual contractors there is an increased importance of 'continuity' clauses in contract	• Suitable metrics for the capability (e.g. throughput, error rates) • 3rd party will develop and manage their own resources • In-house Practice participation optional	• Measured based on the accumulation of delivery metrics. • **A portion of fees are contingent upon value realisation.**
Contracting / commercial management process	• Time and materials contract with few safeguards (other than termination). • Individuals can be substituted but at the detriment of the sense of 'team' • May need multiple providers (different specialisms) • For third-party supplied individuals, retention and the right to interview, and replace, resources are critical	• Sourced through skills-based supplier under a 'call-off' services contract • Occasional substitution is likely, but retention is negotiable • Potential to engage a single supplier for all members • Ability to flex based on demand	• Option for team-based contract with SLAs or outcome-based. • Outcome focused contract – focusing on "what" over "how" – a delivery risk with 3rd party. • The contract must account for PO providing ongoing prioritisation and speedy resolution approach – not the traditional escalation procedure. Supplier may lay claim to IP

	Individual Specialists (including "teams" of individuals)	Specialist Teams	Complete Development Teams "Product team"
Financial impact, management and treatment	• Potentially better value from a dedicated FTE resource • Could use BAU budgets as they are semi-permanent resource • Flat cost profile	• Consultancy-style contract based on day rates • Can use project or initiative budgets • Variable cost if demand is flexed, but opportunity to use fixed cost model	• Defined contract based on number of team instances, SOW and agreed sizing • Can use project or initiative budgets • Pricing profile of 'managed service' under greater control of the supplier- risk of setting a high-cost bar at the outset. • Reduced support, infrastructure and resourcing costs (carried by supplier)
Day-to-day logistics and ways of working	• Typically demand same location (or remote) as rest of client team • Easier to fully induct into Client systems and process • Largely as per an employee - would need full access to Client systems • More transparent, highly likely to be amenable to client ways of working	• Resources are more likely to be remote but reachable (although this may change over time). • Process workarounds needed to accommodate supplier and their style • Offshored suppliers may present language and cultural differences • May need technical workarounds to deal with security constraints • The client team may need to represent supplier work in governance	• Reduced engagement and touchpoints in change with supplier – will work on a relationship management basis • Third-party likely to provide own systems and access to Client end users where appropriate • Design artefacts dictated by the supplier • Governance may be avoided through suppliers working outside Client systems, so supplier governance is trusted
Alignment to product ways of working	• Better team contribution from a sense of belonging • Greater involvement across the team's change cycle • Full participation in team ceremonies	• Partial team contribution with some shielding of resources by the lead • Negotiable involvement in the change cycle, though likely to be limited • Good participation in team ceremonies, if the supplier supports team ways of working	• Minimum flexibility to adjust working practices • Likely involvement in team ceremonies, limited to SOW relevancy • Limit to low-risk/static services. • Client loses some prioritisation control and sprint visibility • Little to no involvement in team ceremonies.

It’s time to optimise your sourcing

Business agility requires adaptability and speed to market in technology, Enterprise Product offers this. But like the challenges of legacy systems, outdated approaches to sourcing will constrain teams, significantly reducing their ability to succeed.

When developing a model, it is important to balance the tensions of flexibility and collaboration with value for money, but this can be achieved through the application of value-based sourcing models, or to a lesser extent, the use of SLAs applied to KPIs. Of course, mutual trust is the primary enabler of super-charged, collaborative relationships.

If you’d like to know more about the approach or are embarking on your journey and would like to benefit from deep experience, please contact info@mozaic.net, or contact either of the authors – contact details on the following page.

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