Vested For Success Case Study
How P&G and JLL Transformed Corporate Real Estate

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In 2000, A.G. Lafley took the helm as P&G’s CEO to lead the organization into the 21st century. Innovation became a hallmark under A.G. Lafley’s leadership. Questioning the sustainability of the in-house-invent-it-ourself model, Lafley bet looking beyond P&G walls could produce highly profitable innovations that would drive value for both P&G and the parties.

The thinking required rejection of "not invented here" to enthusiasm for those ideas "proudly found elsewhere." By 2003, P&G extended this thinking to how they worked with suppliers. P&G believed that, by working with world class outsource service providers it could drive costs lower and ensure service offerings remain on the leading edge of best practice.

In 2003, P&G signed a groundbreaking contract with JLL that spanned 60 countries and included facility management, project management and strategic occupancy services. While the size and complexity of the deal was a first for both companies, the approach for the commercial contract was also a first. Simply put, P&G wanted an outsourcing relationship that challenged JLL to not just take CARE of their buildings, but to take CHARGE of their buildings. The companies created a commercial agreement that was “Vested” in nature. The solution was to flip the conventional outsourcing approach on its head where P&G would create a business model around contracting for transformation instead of contracting for day-to-day work.

Laying The Foundation: Getting To We

Both companies had a long history of being able to deliver results that add real business value to their bottom line. But the P&G and JLL relationship had a new twist. Both companies understood winning needed to be a shared experience. Creating a true win-win mentality meant changing the rules of the game whereby both P&G and JLL shared in the risk and reward associated with the transformation efforts. Instead of thinking about ‘What’s In It For Me’ (WIIFMe), the organizations adopted a ‘What's In It For We’ (WIIFWe) approach. Starting with values and moving through day-to-day operation, P&G and JLL set out to achieve alignment to create a truly winning partnership.

P&Gers like to think of this approach as pulling on a rope in the same direction. The traditional approach is to have a buyer and supplier on each end of a rope, with each party having a give-and-take as they negotiate. The P&G way of thinking is to have suppliers on the same side of the rope as P&G, with both parties pulling in the same direction to achieve P&G’s cost and service objectives.

The end result of having JLL and P&G sitting on the same side of the table yielded an outsourcing agreement that was designed for transformation and structured with enough flexibility to allow the companies to embrace whatever dynamic changes the business world throws their way.

Larry Bridge, the P&G leader in charge of contract governance, puts it this way, “As much as we give credit to relationships, we have a really good contract. It is simple and drives the right behaviors. The transparency, cost pass through, and incentives features allow us to be aligned
versus being on opposites sides of the table negotiating.

But, what were the secret ingredients to architecting a contract that the right behaviors? In short, P&G and JLL established a business agreement where both parties have a Vested interest in each other success. They are most successful when they are both successful. Their secret sauce per se involved constructing a business agreement that rigorously adheres to five key rules – or tenets. Each of the five tenets is explained below.

**Rule 1: Focus on Outcomes, Not Transactions**

P&G made it clear the real reason why they outsourced was to drive transformation and achieve “the power of AND.” Their contracting approach relied on JLL to bring new ideas and determine the best way to get results. P&G believed that linking the service providers’ pay to achieving the Desired Outcomes would best meet P&G’s need to drive transformational changes in how the work was done, while still allowing P&G to have some control over the transformational efforts.

P&G shifted the economics of outsourcing to an outcome-based approach whereby P&G bought desired outcomes, not individual transactions or service level for a set book of business. P&G paid the service provider – JLL - based on its ability to achieve mutually agreed outcomes. Under this approach, both P&G and JLL share a Vested interest in achieving P&G’s strategic goals.

**Rule 2: Focus on the WHAT, not the HOW**

A key component for P&G was to focus on the WHAT – not the HOW. The contract negotiation was considerably simplified when P&G decided they were serious about trusting and delegating responsibility to JLL. Exhaustive lists of potential tasks/details were unnecessary because the entire responsibility was turned over. It was JLL’s job to figure out what was needed and how to get it done.

Bill Thummel, now JLL’s Chief Operating Officer, shouldered the challenge to transfer approximately 550 P&G employees and help them understand the difference of doing their jobs for JLL. “Most of the former P&G employees had never worked for another company outside of P&G due to P&G’s “promote from within” culture – yet JLL was on the hook for delivering transformation – not just for doing the work. Employees needed to learn how to be JLL employees and accept responsibility to drive innovations in jobs where they had worked for years. At JLL, the former P&G employees needed to understand they were a critical enabler,” explained Thummel.

**Rule 3: Clearly Defined and Measurable Desired Outcomes**

Both P&G and JLL understand that measurement drives behavior. Instead of focusing on time and tasks, they focus on measuring success against P&G’s business priorities. Together, the organizations work out the details of how they measure their success. Looking at various dimensions, they ultimately create a “balanced” approach regarding how to measure the
business.

A unique aspect of how P&G and JLL measure the business is that each year the companies jointly review the metrics and determine their appropriateness against P&G’s overall business objectives. For example, when JLL began their relationship, the focus was on a successful transition. Then, in 2005, the focus switched to the successful integration of the Gillette and Wella acquisitions. The annual review allows P&G and JLL to realign the focus based on current business priorities.

A second key point is the lack of focus on detailed Service Level Agreements (SLA). Unlike most outsource contracts; there is no mention of SLAs. Because SLAs are variable and do not offer flexibility, there are no performance measures related to them. They may have documented service levels at the site level—but there are no documented and contractual SLAs. This assures focus stays on results, not minutia.

**Rule 4: Pricing Model with Incentives**

The P&G/JLL global team developed a pricing model that is fair, yet drives accountability and transformation. Key components include:

- **Cost Pass Through** - JLL is responsible for managing the budget and the costs, but P&G retains responsibility for the bills. Using this approach, JLL is not responsible for costs that are out of their control. For example, if the cost of electricity suddenly doubles, P&G bears the burden of expense.

- **Base Scope of Work Management Fee at Risk** - One of P&G’s goals is to hold JLL accountable for delivering results. A creative way to do this is use a concept known as a “management fee at risk.” Under this arrangement, JLL places a portion of their management fee at risk pending their ability to achieve results against how well they perform. P&G pays the “at risk” portion only after JLL achieves success predefined success factors.

- **Above-Base Scope Work (Additional Fee)** - For unplanned “out of scope” work, P&G created a structured approach for JLL to charge P&G an additional management fee for any work above the base scope of work.

- **Glidepath and Shared Savings** – This adds shared shavings incentives when JLL helps P&G reduce its costs and beat its budget.

**Rule 5: Insight versus Oversight Governance Structure**

For far too many companies, thinking about how to manage a deal is an afterthought. P&G and JLL decided it was important to design governance into the agreement itself – in essence, contractually obligating the firms to manage the business, changes and relationship in a proactive manner.

One of the most important aspects of the P&G / JLL governance structure is that the companies live (and manage) the business following the Vested “Win-Win” philosophy. They do this with
what they have coined as a “2 in a Box” approach which identifies both a P&G and a JLL person as owners of core process. JLL is not successful unless P&G is successful, and vice versa. Shared goals are consistent across the relationship. The “2 in a Box” encourages communication at the process level and assures business plans and action plans are aligned between P&G and JLL. “It’s our role at P&G to support our JLL counterparts –not to duplicate their work or micromanage them. When JLL succeeds, we succeed”, explains Jacobs-Horton.

Inspired to achieve Win-Win, “2 in a Box” has the potential to be functionally Lose-Lose. That is, if one partner in the Box fails, so does the other. Shared function. Shared Win. Shared Disgrace. It motivates folks to do everything possible to enable their box mate to succeed.

In addition, P&G and JLL focus on the process of governance, establishing processes to create the necessary foundation to be effective partners. It’s starts with transparency and includes key features such as having formal governance with tiers that enable organizational alignment. In addition, the parties adhere to a regular communication cadence that establishes a “rhythm of the business.” JLL also established a “One View Service Center” that delivers real-time reporting results as well as a platform for work requests and immediate access to current activity and progress.

Lastly, the parties embrace a culture that believes change is good. Circumstances can change, and so must the contract. In fact, the P&G/JLL contract is designed to be changed as business requirements and priorities change. But change is also something that is proactive, as with transformation. Transformation was a fundamental driver of why P&G outsourced

**Vested for Success**

While P&G deems all of its outsourcing highly effective, the business relationship with JLL has been, by all factors, wildly successful. In just 5 short years, JLL went from being a new supplier to P&G to winning “Supplier of the Year” two years in a row among 80,000 suppliers.

A true Vested Outsourcing agreement is designed when all parties are winners. After eight years, the P&G / JLL deal proves that it is possible to develop a true win-win partnership. JLL proved it can balance what some would call a paradox – achieving high service levels AND reducing costs. P&G proved it could truly outsource work – manage the WHAT not the HOW, and work for the betterment of both companies. P&G is on record saying that GBS has reduced cost as a percentage of sales by 33% for it’s outsourced operations. These savings were not achieved at the expense of customer satisfaction. P&G’s “customers” – the employees that use the facilities – are the real customers of JLL. JLL exceeded the satisfaction target for six consecutive years.

Regardless of how you measure it – P&G is happy with how well the JLL outsourcing relationship has grown. In fact, P&G has been so happy that JLL is the only supplier to be awarded the GBS Excellence Award three years in a row and was also awarded the coveted P&G Supplier of the Year award in 2008 and 2009.
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FOR MORE INFORMATION

Visit the University of Tennessee’s website dedicated to Vested Outsourcing at www.vestedoutsourcing.com where you can download white papers, watch videos, read articles and subscribe to our Vested Outsourcing or register for one of Vested Outsourcing classes.

We encourage you to read our other books:


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