VESTED For Success Case Study

Telia and Veolia: From Supplier to Strategic Partner

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Telia is a Swedish listed telecommunications company and mobile network operator founded in 1853 that operates in Denmark, Finland, Sweden, Turkey and the Baltic States. Telia was the first company in the Nordics to pilot the Vested methodology. As part of their original pilot, Telia worked with CIRIO Law Firm – a Vested Center of Excellence in the Nordics – to help transition its existing supplier agreements involving the roll-out of Swedish fiber Internet cables to a Vested agreement. Telia liked the results and wanted to use the Vested sourcing business model with other strategic supplier relationships.

Telia set out to explore Vested for its infrastructure contracts in 2016.

Telia's Tech Sites organization managed Telia's infrastructure across 16,000 technical sites covering four site types mobile network, fixed network, caves, and tunnels. Previous sourcing decisions and re-organizations had resulted in over 60 contracts supported by over 20 suppliers. When Telia first set out to explore Vested for its infrastructure contracts, it did not know which of the 20 suppliers – if any – would be the right Vested partner. CIRIO Law Firm recommended Telia work with EY's Nordic Outsourcing Advisory team, which is also a Vested Center of Excellence to assist with an assessment and a Request for Partner process that would ultimately help Telia pick the best partner to make the transition to a Vested model.

Telia kicked off the Vested journey by having EY conduct a six week "pre-study" that included more than 20 different functions within Telia. The pre-study revealed several key things. First Telia's numerous contracts were rooted in transaction-based models, which created misalignment of goals between. Telia had "stiff contracts" that were not flexible in allowing suppliers to optimize maintenance operations. The pre-study also uncovered how the exiting budgeting process led to Telia putting its money in the in the wrong places.

A key part of the pre-study was to validate that a Vested model was indeed a good fit. This meant completing a Business Model Mapping exercise. The complexity and dependency demanded a clear shift to a relational contracting model. In addition, shifting to an outcome-based economic model was the most appropriate way to help Telia unlock the potential value of working with a potential partner.

With the pre-study and business model mapping complete, Telia's leadership team decided to make the shift to a highly strategic long-term contract. However, unlike their previous Vested deals, Telia did not have an obvious answer as to which of its 20 suppliers would be the best fit to make the shift to a Vested model. EY and CIRIO suggested Telia pilot the University of Tennessee's Request for Partner process. The Request for Partner (RFPartner) process is a highly collaborative competitive bidding process used when a buyer is actively seeking not just a strategic solution from a supplier but also the ability to assess multiple providers' cultures, mindsets, and willingness to engage in a collaborative relational contract. A key purpose is to select a supplier with the intent of creating a highly collaborative environment where cultural fit and a win-win mindset are essential to managing a longer-term supplier relationship in a dynamic environment.

In May 2016, Telia began what would be the Nordics' first use of theRequest for Partner process.

A key part of the Request for Partner process includes a series of stakeholder workshops where both the buyer and supplier partner(s) co-create how they will follow the Vested Five Rules. As part of the process, Telia ultimately felt Veolia was the best fit supplier to help them transform their infrastructure operations. Telia-Veolia inked their Vested deal in April 2017 under the virtual company name of "OneTech". But the journey really began more than a year before that milestone and included 17 highly interactive workshops where the parties jointly defined the rules of how they would work.

Vested Rule 1: Outcome-Based vs. Transaction-Based Business Model

A foundational concept of Vested is that the buyer and supplier develop a contract for the future, not just to perform the work to meet today's needs. This means developing a flexible contracting framework that will help the parties navigate the dynamic nature of business changes and share risk/share reward on the journey. One those workshops was to co-create a Shared Vision and Desired Outcomes that would become the overarching beacon for the relationship. The following was the Shared Vision and Desired Outcomes coming out of the Veolia workshop – one of three down selected potential partners.

Shared Vision:
Together we proactively create optimal conditions for the future way of communicating. Our modern partnership creates common value and success through innovative and sustainable solutions.

The Desired Outcomes:

1. Deliver high quality FM-services with high stakeholder satisfaction and high network reliability
2. Contribute to TechSite's transformation program and improved maintenance
3. Create a continuously improved financial result for both parties
4. Become a role model within sustainability
5. Create a OneTech with a winning, safe and innovative culture

The parties also formally established and agreed to six Guiding Principles (**reciprocity, autonomy, honesty, loyalty, equity, integrity**) which would become the social norms for how the parties would work and make decisions—not only during the contracting phase, but as part of the ongoing governance and management of the relationship after the contract was signed.

Vested Rule 2: Focus on the What, not the How

Making the shift to a Vested agreement means making a clear shift where the statement of work would describe the what – but not the how. This would enable Veolia to identify improvement opportunities and areas they could streamline work across the 16,000 technical sites

The statement of work became much less prescriptive under the Vested agreement. This flexibility enabled Veolia to identify improvement opportunities in one site that it could then apply in other sites.

Rule 2 concluded with Telia and Veolia developing a responsibility matrix. Unlike conventional statements of work, a Vested agreement identifies the responsibility of both the buyer and supplier. Instead of supplier "shall," the focus becomes how the parties will work together to achieve the Desired Outcomes.

Vested Rule 3: Clearly Defined and Measurable Desired Outcomes

Vested's Rule 3 is "Clearly Defined and Measurable Desired Outcomes." Telia and Veolia came together for 2.5 days of workshop time spanning three different days where they identified how they would measure success against the Desired Outcomes. The figure shows the Requirements Roadmap outlining how the parties mapped nine objectives and 11 metrics to the five Desired Outcomes.

Vision	Outcomes	Objectives	Measures
Together we proactively create optimal conditions for the future way of communicating. Our modern partnership creates common value and success through innovative and sustainable solutions.	**1. Deliver high quality FM-services with high stakeholder satisfaction & high network reliability**	1.1 Continuously meet the need of the stakeholders using the sites and create a high stakeholder satisfaction	Stakeholder satisfaction index
		1.2 Minimize the number of network interruptions and the reset time after an interruption	No. of network interruptions caused by supplier
			Percent of fault responses meeting response time
	2. Contribute to TechSite's transformation program & improved maintenance	2.1 Deliver projects in time and on budget	Percent of projects meeting time & budget
		2.2 Optimize the maintenance	Effective implementation index (year 1)
	3. Create a continuously improved financial result for both parties	3.1 Optimize OneTech's Total Cost of Ownership	Total cost of ownership reduction (OPEX, excl. rent & electricity)
			Power Usage Effectiveness (PUE)
	4. Become a role model within sustainability	4.1 Reduce Co2-emissions and optimize energy consumption	Co2-emissions due to travel/transportation
		4.2 Minimize non-compliance of environmental policies	Usage of prohibited and restricted substances (kg)
	5. Create a OneTech with a winning, safe & innovative culture	5.1 Implement and live in a Vested culture	Relationship index, Compatibility and Trust assessment (CaT)
		5.2 Create a high employee satisfaction	Employee satisfaction index (for OneTech)
		5.3 Minimize work related accidents	Sick leave due to accidents

Vested Rule 4: Pricing Model with Incentives to Optimize the Business

The pricing model was where Telia and Veolia made the leap from a conventional, transactional "price" approach to a pricing model with incentives. Sebastian Hamlund – one of the leads for Veolia - reflected on just how difficult it was to make the mind shift when it came to the economics of a Vested deal:

> "What we discovered at the start is that it's really important not only for us – but also for Telia – to transparently communicate the intent of the pricing model to the broader organizations. Under the pricing model, Veolia makes less profit on base services. However, we have the potential to earn above market profit margins on our project/transformation initiatives. Shifting to Vested means both Telia and Veolia now look at the financials across the whole portfolio of business together and not just the price of individual projects or services. We are now making much smarter and collaborative business decisions that ultimately motivate Veolia to make investments that will have a high ROI for both parties."

Vested Rule 5: Insight vs. Oversight Governance Structure

With the pricing model under their belt, Telia and Veolia shifted their focus on how the parties would govern the relationship. In Vested, the emphasis is on managing the business with the supplier, not simply of how to manage (and definitely not how to micro-manage) the supplier.

The parties embedded the following Vested concepts into the design of their governance structure.

1. **Two-in-a-Box** – A key philosophy of Vested is to govern with insight versus oversight. Telia would entrust Veolia to do the work and provide it with the autonomy and flexibility needed to make improvements to the business and solve for day to day issues.
2. **Managing for Today and For Tomorrow** – In Vested, Telia was buying the future: the Desired Outcomes. This would mean a key aspect of governance was to manage not just for today (operational green scorecard), but also to manage for tomorrow (transformation to achieve the Desired Outcomes
3. **Continuous Focus on Results** – Telia and Veolia translated the Desired Outcomes into nine objectives and 11 distinct measures. These objectives and measures were then driven down to the appropriate two-in-a-box team responsible for achieving results for the areas they were accountable for.
4. **Supporting Processes** – The Telia-Veolia governance playbook consisted of 12 governance support processes.

Telia-Veolia inked their Vested agreement in April 2017 under the virtual company name of "OneTech". But the journey really began more than a year before that milestone and included 17 highly interactive workshops where the parties co-created how they would follow the Vested Five Rules. The launch of OneTech was a huge success and continues to operate with success well after the transition to a Vested relationship.

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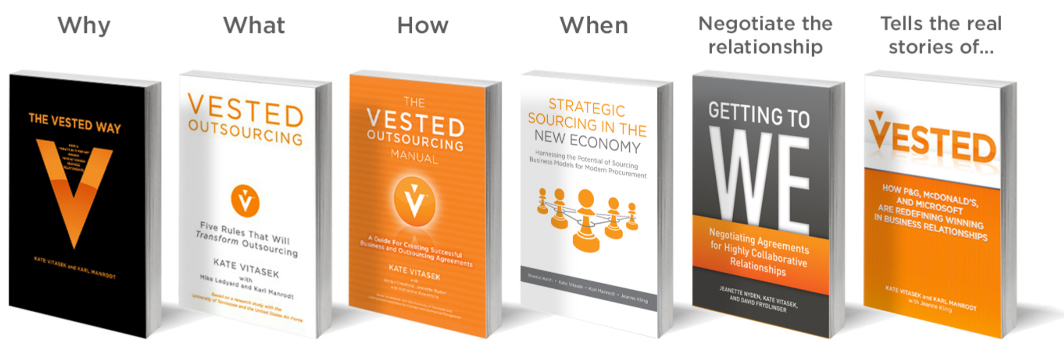
FOR MORE INFORMATION

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored six books on the Vested business model and its application in strategic sourcing.



We encourage you to read our six books on Vested, which can be found at most online book retailers (e.g. Amazon, Barnes and Noble) or at www.vestedway.com/books. Visit the University of Tennessee's website dedicated to Vested at www.vestedway.com where you can download white papers, watch videos, read articles and subscribe to our blog or register for our online or onsite courses.

ABOUT THE AUTHORS

Kate Vitasek is one of the world's authorities on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of six books and a Graduate and Executive Education faculty member at the University of Tennessee Haslam College of Business, she has been lauded by World Trade Magazine as one of the "Fabulous 50+1" most influential people impacting global commerce. Vitasek is a contributor for Forbes magazine and has been featured on CNN International, Bloomberg, NPR and Fox Business News.

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