

## FACILITY MANAGEMENT

# New Strategy Could Shake Up Outsourcing

In 'Vested' approach, success for provider depends on how well it creates success for facility organization

by kate vitasek

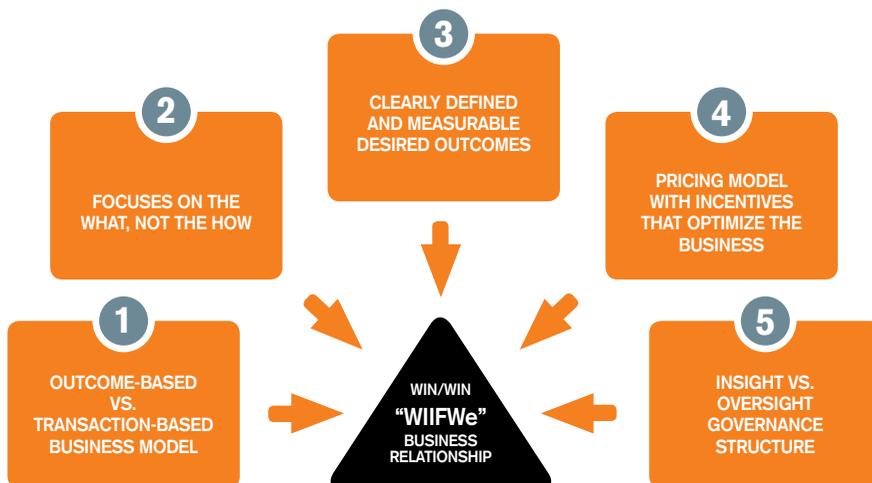
When it is done right, an outsourcing business strategy creates a value-laden win-win relationship between a company and its service provider that is purpose-built to create long-term value for the parties. The key — and the rub — is doing outsourcing right.

More than 10 years of research have gone into identifying how and why some of the world's most successful strategic outsourcing partner-

ships — including those at Procter & Gamble, McDonald's and Microsoft — performed so well. Why were these outsourcing relationships so successful when others (even with the same suppliers) failed?

What emerged from the research and field work was the Vested Outsourcing ("Vested" for short) business model, which is based on five rules and 10 contractual "elements" designed to spur collaborative and innovative mindsets. Today, the Vested business model is catching on, with companies like TD Bank and Novartis shifting to a Vested model in their quest to be more strategic with their facilities management outsourcing agreements. Facilities management experts in the government sector are also beginning to explore Vested, with the Canadian government just releasing a case study on their pilot for environmental services for their Vancouver Coastal Health hospital system.

## 5 RULES OF VESTED



The five rules are designed to allow the facility manager and outsourcing provider to create a contract that aligns both parties in a "what's in it for we" relationship.

## Basis of Agreement

In a Vested agreement, a buyer and service provider craft a win-win contract wherein the service provider's success is directly tied to its ability to drive success for the client. Ergo the name: The parties are vested in each other's success.

The business model is centered on five rules that, when followed, are designed to enable a buyer and service provider to create a true win-win contract that aligns how the parties will work across 10 essential contractual elements.

**RULE 1:** Focus on outcomes, not transactions. Shift the mindset from

a focus on specific transactions to desired outcomes. Instead of buying transactions, buy outcomes, which can include targets for availability, reliability, revenue generation, employee or customer satisfaction, and the like.

**RULE 2:** Focus on the “what,” not the “how.” If a partnership is truly outcome-based, it can no longer have a multiplicity of service level agreements (SLAs) that the buyer is micromanaging. The outsourced service provider has won the contract because it has the expertise the buyer lacks. Therefore, the buyer must trust the supplier to solve problems.

**RULE 3:** Agree on clearly defined and measurable outcomes. Make sure everyone is clear and on the same page about their desired outcomes. Ideally, use no more than about five high-level metrics. All parties need to collaboratively spend time to establish explicit definitions for how relationship success is measured.

**RULE 4:** Pricing model incentives that optimize the business. Vested does not guarantee higher profits for service providers; they are taking a calculated risk. But it does provide them with the tools, autonomy, and authority to make strategic investments in processes that can generate a greater ROI and value over time, perhaps more than a conventional cost-plus or fixed-

price contract might produce over the same period.

**RULE 5:** Governance structure should provide insight, not merely oversight. A flexible and credible governance framework enables all the rules to work in sync. The structure governing an outsourcing agreement or business relationship should instill transparency and trust about how operations are developing and improving.

The rules work in conjunction with the 10 elements to create strategic outsourcing arrangements that take the parties away from the traditional buy-sell, “what’s in it for me” sourcing business model to a highly collaborative “what’s in it for we” (WIIFWe) model where the parties’ mindsets, economics, and governance structures are aligned. (See the “10 Elements of a Vested Agreement” chart below.)

A key part of the methodology is for a buyer and service provider to work together to craft their physical contract around each of the elements.

The parties work jointly to create and share value for both the buyer and supplier. Embedding and nourishing a WIIFWe mindset creates an environment that fosters sustainable results based on a foundation of value creation and value sharing when the parties drive innovations that benefit the buyer’s business. In essence, the

parties architect a long-term “win-win” solution that benefits everyone.

This is not mere theorizing. Two examples show that the model can create transformational value for organizations that apply it for outsourced facilities management deals.

## Procter & Gamble

Procter & Gamble has always been at the forefront of innovation. The company took a groundbreaking approach to innovation and collaboration by understanding the power a supplier can bring to the innovation table, especially in areas where P&G lacks a core competency, such as facilities and real estate management. In 2003, P&G developed a highly strategic facility management outsourcing relationship with Jones Lang LaSalle (JLL). The companies created a commercial agreement that flipped the conventional outsourcing approach on its head by contracting for transformation instead of contracting for day-to-day work. JLL took over management of offices and technical centers, including maintenance and security. It was a groundbreaking deal that spanned more than 60 countries and included facility management, project management, and strategic occupancy services.

Rather than reward the provider for simply showing up to perform transactions such as janitorial and maintenance operations, P&G tied the service provider’s profitability to the latter’s ability to drive success against jointly defined business outcomes. The more successful P&G was, the more success for the provider. The size and complexity of the deal was a first for both companies, as was the approach for the commercial contract. Simply put, P&G wanted an outsourcing relationship that challenged the service provider to not just take care of its buildings, but to take charge of the buildings.

Their highly strategic partnership has consistently delivered results for more than 10 years — with JLL winning P&G’s supplier of the year award three of the last 10 years, out of P&G’s 80,000 suppliers, and helping P&G increase service levels and capacity to innovate.

## TD Bank

More recently, TD Bank’s Enterprise Real Estate (ERE) forged a Vested facilities management arrangement

## 10 Elements of a Vested Agreement

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

Element 1	Business Model Map
Element 2	Shared Vision Statement and Statement of Intent

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

Element 3	Statement of Objectives/Workload Allocation
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### Rule 3: Clearly Defined and Measurable Desired Outcomes

Element 4	Clearly Defined and Measurable Desired Outcomes
Element 5	Performance Management

### Rule 4: Pricing Model Incentives are Optimized for Cost/Service Tradeoffs

Element 6	Pricing Model and Incentives
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### Rule 5: Insight vs. Oversight Governance Structure

Element 7	Relationship Management
Element 8	Transformation Management
Element 9	Exit Management
Element 10	Special Concerns and External Requirements

that covers 25 million square feet of real estate. TD Bank had been outsourcing its facilities management services to Brookfield Global Integrated Services (BGIS)/CB Richard Ellis (CBRE) since 2009 with good results. The contract was not just renewed, but was entirely restructured to follow the Vested five rules — aligning interests through mutually defined desired outcomes and economics.

The process began with a formal review of the existing agreement to identify gaps between the existing outsourcing approach and the Vested model. The companies went on to address how they would incorporate each of the five rules into their contract and day-to-day operations. For example, for Rule 3 — clearly defined and measurable desired outcomes — they identified four key desired outcomes that would become the focal point of how they would measure their success. The desired outcomes include:

- Drive economic value to the organization through fair and transparent financials.
- Provide holistic, world-class real estate services.
- Be an environmental leader.
- Be an innovative organization.

A big hurdle was following Rule 4 — pricing model with incentives that optimize the business. In a Vested agreement, the pricing model is fully transparent in both organizations and is designed to optimize the business. Transparency of profit did not come easy for the service providers. And paying incentives was a new concept for TD Bank.

John De Benedictis of TD Bank explains the approach to the pricing model in the company's 2016 FMXcellence award submission to this magazine. "If the BGIS/CBRE teams can deliver services that require fewer hand-offs or total cost of ownership to deliver that function, they can receive an incentive that is mutually shared. So while the service provider may increase their expenses to deliver this function, if the total cost of ownership comes in less, both TD and BGIS/CBRE benefit in this win-win example." (See box on this page.)

The companies inked their deal in the fall of 2014. Kristi Ferguson, TD Bank Group's vice president, business management, enterprise real estate, and Anthony Cho, North Ameri-

can account director, Brookfield Global Integrated Solutions, shared first-year results at a CoreNet Global conference, reporting great success across each of the desired outcomes. For example, the service providers helped TD clinch a JD Power award by bringing in the top score in the "facility" category in both Canada

**With TD Bank,  
the pricing  
model is fully  
transparent  
in both  
organizations  
and is designed  
to optimize the  
business.**

and the United States with a decisive gap between first and second place. But TD Bank is able to get value for its money: The savings before the end of the contract's first year was already at \$16 million — well above what anyone thought was possible.

### Transaction-Based Approach Limits Thinking

Why have businesses been slow to adopt true win-win relationships with their strategic suppliers? Unfortunately, virtually all businesses use a conventional transaction-based approach regardless of how strategic their suppliers may be. Think of it this way: The supplier's revenue is directly tied to doing the work. The more work, the more revenue.

A Catch 22 comes into play because companies that use the trans-

actional-sourcing business model find that their suppliers or service providers can meet the contractual obligations and service levels — but innovations and efficiencies do not necessarily occur at the pace they envision, or need. Suppliers argue that investing in a customer's business is risky because buyers will simply take their ideas and competitively bid the work. Companies want solutions to close the gaps, but they do not want to make investments in people, processes, and technology where they do not have a core competency.

That's the Catch 22 and the result is that many organizations are finding themselves at a crossroads, with buyers and service providers wanting innovation, but neither willing to make the necessary investments due to the conventional transaction-based commercial structure of how the companies work together.

Following the Vested methodology allows organizations to take the theory of win-win and put it into practice by transitioning to a highly collaborative relationship purpose-built to drive innovation against the desired outcomes. The process enables companies to move beyond simply paying lip service to "collaboration" and "partnership," to actually creating win-win agreements and an atmosphere that drives transformative change. ■

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TD Bank Group won a 2016 FMXcellence award from Building Operating Management for a Vested outsourcing program. Visit [myfacilitiesnet.com/fmxcellence](http://myfacilitiesnet.com/fmxcellence) and click on "2016 FMXcellence Honorees."