



VESTED For Success Case Study

Novartis and JLL:
From Performance-based to a Vested Agreement

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From Performance-based to a Vested Agreement



Sometimes the journey to success is not a straight line. The same can be said for the journey to a Vested agreement. The Novartis – Jones Lang LaSalle (JLL) case study is a good example of the real journey the two partners took.

The Novartis-JLL relationship dates back to 2010 when Novartis decided to outsource its real estate and FM operations across 24 Novartis sites in North America. Novartis was seeking to shift to an Integrated Facilities Management (IFM) agreement where they could integrate maintenance & repair, site operations, and workplace services under a single service provider contract. A key objective of Novartis' IFM initiative was to drive down costs. Leveraging Novartis's purchasing power across significantly less suppliers gave it significant negotiating power during the bid process.

When Novartis started its outsourcing initiative, FM operations were decentralized across each of the seven business divisions within Novartis. Each division had own objectives, own budgets, and own needs. There were over 5000 suppliers, which were ultimately reduced to four strategic suppliers. JLL was chosen as the supplier to manage Novartis' facilities through a competitive bidding process.

The transition was frustrating for both parties. First, Novartis was new to outsourcing. Often referred to as a "first generation" outsourcing relationship, a large number of Novartis employees jobs were transitioned (i.e., outsourced) to JLL. In addition many of the Novartis sites personnel viewed the relationship as a threat.

It is also important to note that when Novartis started the outsourcing initiative, its FM operations were decentralized. While there was one overarching contract with JLL across all 24 sites, there were still challenges. Michal Thompson, Managing Director, Life Sciences Business for JLL, talked about the impact of this on JLL. "Working under the agreement meant we had to establish seven different relationships and seven different savings glidepath targets for each division. Often the goal and contractual commitments were completely at odds with what the Novartis people at the sites wanted."

The Original Agreement And Why The Shift To Vested

The original contract between Novartis-JLL was a performance-based agreement. Performance-based agreements are not a new concept: however, they only began to get traction for FM deals in the early 2000's when consulting firms began advising clients on the merits of performance-based agreements. Under a performance-based agreement the buyer typically shifts risks to the supplier by negotiating for guaranteed costs savings and guaranteed Service Level Agreements. If the supplier is not able to meet these commitments, they are faced with penalties. Thus, the term "performance-based" agreement as the supplier's payments are tied to performance.

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By the end of the second year, Novartis-JLL had worked through many of the bugs of their original outsourcing effort. Thompson noted, “We had pretty much settled in; our reporting was solid, our governance meeting cadences were good. We had consciously replaced some underperforming staff and our processes around finance, work orders, safety -- day-to-day stuff -- had become much more solid.” In short, JLL was achieving a green scorecard.

On the financial front things had improved as well, with JLL hitting all of the marks financially and achieving the savings commitment that year. Thompson was pleased to see JLL was even earning incentive fees after year two.

The performance-based agreement was now working as it was designed to work. Novartis was getting operational stability with a green scorecard and was achieving financial targets per the glidepath. This set the stage for year three of the relationship.

Louis Fitzpatrick, Novartis Business Services Facilities Management Category Manager, and Thompson began to discuss the pros and cons of a performance-based agreement versus a Vested Agreement, they began to challenge the underlying constructs of not only their existing contract, but a performance-based model in general. One of the things that concerned Fitzpatrick was the sustainability of the performance-based business model. Fitzpatrick explained, “You can't completely decouple the business model from financial performance. If you have poor operational performance there's likely going to be an impact financially as well. We were now hitting year over year glidepath savings, but we wondered if this was sustainable.”

This ultimately led to both parties having discussions around the viability of moving to a Vested business model. The parties engaged The Forefront Group do a formal “Deal Review” to assess the existing relationship and contract. A Deal Review is a neutral third party assessment of an outsourcing agreement that reviews all aspects of an outsourcing agreement.

The results of the Deal Review were clear. Novartis and JLL had definitely outgrown their existing performance-based contract. Both parties wanted much more than just year-over-year glide path results, but to get to the next level it was clear the contract and existing behaviors needed to change from a performance-based agreement buying contractual outputs to a highly collaborative Vested Agreement that could help them drive mutual value against bigger picture business outcomes.”

A Vested Agreement would allow them to shift to an outcomes-based agreement and incentivize Novartis to invest in much-needed innovation that would be essential if Novartis was going to sustain year over year cost savings and continued value-add services.

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Facilitated “Vested Reset”

With the Deal Review findings in hand, Novartis-JLL made the decision to proceed with what the parties came to call a “Vested reset,” in which they would work through the Vested methodology to close the gaps in their agreement (e.g. getting scores on all 10 elements up to a minimum of a score of 4).

The companies started by establishing a small “Core Team” to lead the initiative to restructure the contract. The companies used a combination of the University of Tennessee’s ‘Creating a Vested Agreement’ online course, facilitated workshops, and offsite coaching support to help them architect their agreement. The online course provided the backbone of the methodology, allowing team members who were located in different cities to learn by doing.

The team finalized the agreement on Jan. 1, 2015. As part of the process, The Forefront Group “scored” the final agreement. The parties made great strides, but fell short of a fully Vested agreement in two of the areas.

Reflecting on the Process

While the parties did not reach a fully Vested Agreement, the Vested methodology brought great value by helping Novartis-JLL shift their thinking and structure to a much more effective agreement that was more aligned with Novartis’s business needs. Fitzpatrick reflects, “The Vested methodology enabled Novartis-JLL to get aligned on really what they were trying to get out of the relationship.”

Thompson added his perspective: “The Vested online course of working through the different sections of the contract provide fantastic structure. I knew that we needed that type of structure. We also really valued having a neutral third party Certified Deal Architect to provide program management and to frame the different sections of the agreement that we needed and coach us through the process. I don’t think we would have gotten to a renewed contract without it, honestly.”

Both companies stated the weak point in going from concept to contract was that Novartis’s senior executives had not been fully educated on what it really meant to have a Vested agreement. According to Fitzpatrick, “While Novartis’ senior management in procurement had chartered the conversion to a Vested deal, it became apparent we did not give them enough background and education when we shared the pricing model with them. It was a setback, but a good lesson that we used in the next phase – our Vested Refresh.”

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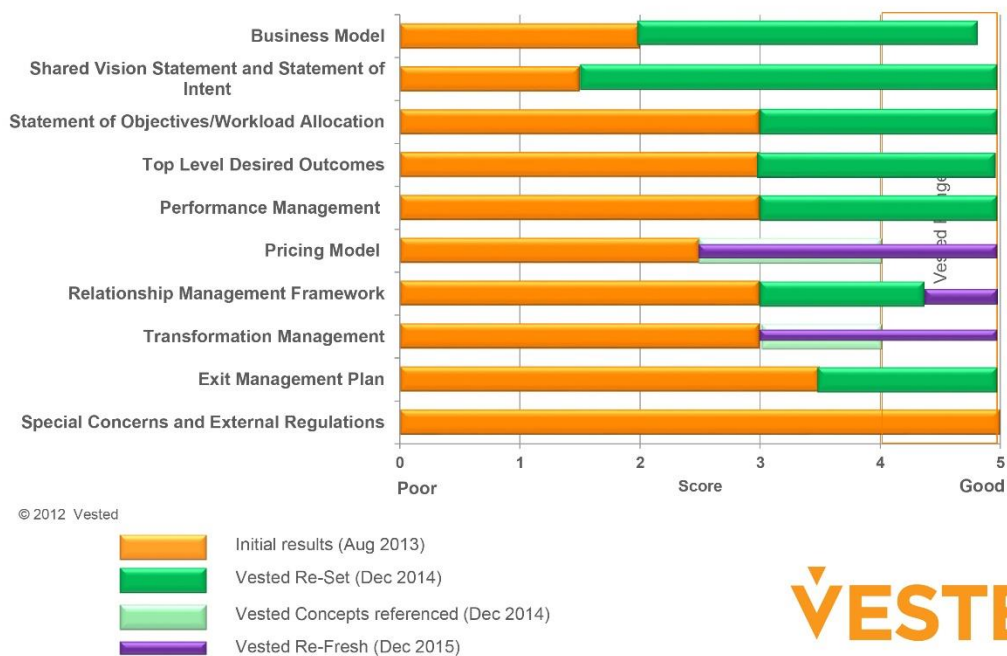
The Vested Refresh Agreement

During the Summer/Fall of 2015, Novartis senior executives began to see the promise of what Vested could bring. Even though the “reset” contract was less than a year old, the decision was made to reopen the entire agreement to address the outstanding pricing and governance issues – key areas that now were becoming apparent were going to hold Novartis and JLL back if they did not have them in place.

Once Fitzpatrick and Thompson got approval to reopen the contract and close the remaining gaps, things moved very quickly. Thompson and Fitzpatrick found themselves once again at the helm of leading the organizations to a Vested Agreement. But this time the goal was a truly Vested Agreement. The duo began to refer to this phase of their Vested journey as the “Vested Refresh,” because their objective was to quickly refresh the agreement and close the remaining gaps they had that were preventing Novartis-JLL from having a truly Vested relationship.

The parties signed the fully Vested Agreement on Jan. 1, 2016. It is a five year agreement with provisions for two one year extensions. The contract now covers about 35 facilities spanning North America and South America. However, as any good Vested Agreement, it is structured as a flexible framework and allows Novartis with an easy option to add other regions, such as Southeast Asia. Figure 1 shares the complete progress of the Novartis-JLL Vested journey.

10 Elements of a Vested Agreement



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Conclusion

As we stated earlier, sometimes the journey to a Vested Agreement is not a straight path. By acknowledging that concept, the parties were able use stepping stones along their journey that ultimately culminated in a fully Vested Agreement where Novartis-JLL are working in a highly collaborative manner with both a win-win spirit and win-win economics.

Today, both parties feel they are winners. The deal is architected so that Novartis gets additional cost savings and JLL gets additional scope and incentives for achieving mutually defined Desired Outcomes. And both get alignment with better governance, better KPIs, better outcomes, and performance metrics that truly align Novartis and their JLL counterparts.

The Novartis-JLL case study demonstrates the commitment of both parties to relentlessly pursue a true win-win relationship. Fitzpatrick beams with enthusiasm: “In moving closer to a Vested arrangement, everyone got on the same page. The methodology itself contributed to our success and enabled us to think about it from an entirely new perspective that is not antagonistic. We now have a very strong foundation and our efforts demonstrated the value of the Vested process to the Novartis community.”

“I’m very, very happy with the results,” Fitzpatrick asserted. “While there were some tough moments and disappointments in the Vested Reset, it is to be expected when you start talking about a lot of money. But being able to use Vested as a framework to keep people engaged on the outcomes that we’re trying to achieve and focusing on what we’re really trying to deliver was very unifying. And our persistence paid off.”

Roger Humphrey, JLL Executive Managing Director/Life Sciences, believes the entire industry could benefit from the Vested methodology. He adds, “We’re encouraging folks to try to see it as groundbreaking. Many think the only way to get a better deal is to use a highly competitive bid process. But through Vested, you are able to change the discussion and find additional value through collaboration versus competition. The Vested process clearly brought additional value to both Novartis and JLL.”

Mark D’Orio, JLL Vice President and Site Lead for the Novartis account, makes a bold prediction. “I believe we will point to the launch of our Vested journey in a couple of years as a turning point of the relationship that enabled us to accelerate the improvement of the relationship.” Thompson adds, “As an overall concept, who wouldn’t want to work in a highly collaborative win-win manner? With win-win scenarios – we are taking on more risk, but we are rewarded for it; following Vested’s structured methodology enabled us to move from concept to contract and that is very powerful.”

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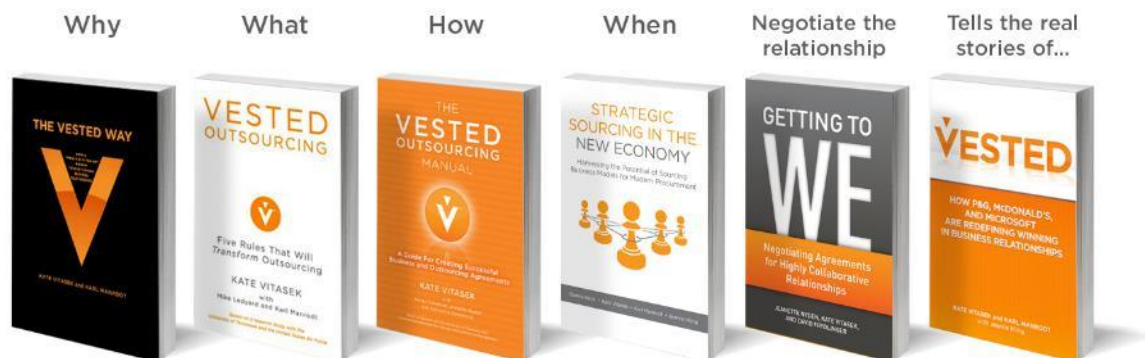


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FOR MORE INFORMATION

Visit the University of Tennessee's website dedicated to Vested Outsourcing 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. We encourage you to read our six books on the Vested topic, which can be found at most online book retailers (e.g. Amazon, Barnes and Noble) or at www.vestedway.com/books.





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.

Bonnie Keith is a co-author of *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement*. She is President of The Forefront Group, LLC, an international leader in Strategic Sourcing Transformation concepts. Bonnie’s business experience includes Corporate Executive and Officer positions for three Fortune 100 companies and two Fortune 500 companies where she provided international, successful procurement and supply management strategies. Keith also served as a member of the White House Advisory Counsel for the Pharmaceutical Industry.

Donna Massari is on The Forefront Group consulting team where she brings more than 20 years of global sourcing and supply chain leadership. Her breadth of experience includes roles for GE, AlliedSignal, Reichhold Chemicals and Lexmark Printers – giving her unique leadership and perspective on a variety of sourcing and supply chain contracting. Donna is a Certified Deal Architect and has experience architecting deals ranging across the entire spectrum on of the sourcing continuum.

William DiBenedetto is a research associate for the University of Tennessee Haslam College of Business, working closely with Kate Vitasek on Vested editorial and media projects. His passion and excellence for research and writing runs deep and has a practical and applied approach to research – a perfect compliment for the Vested team.