



VESTED For Success Case Study

How a Small Business Wins Big with Vested



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Laying the Foundation

Dan Keto and Dean Dorcas wanted to go into business together. Because both men had a knack for managing people, and neither of them had significant start-up capital, starting a temporary staffing agency came to mind. Employee turnover is high in the temporary staffing world. In order to offer stable, dedicated employees, Dan and Dean decided to rely on a more “senior” workforce and focus on administrative and white-collar type work. In 1996, Dan and Dean gave birth to their business, Senior Staffing. The company was renamed Integrated Management Services about a year later.

Dan and Dean felt strongly their agency should be more than a body shop; it should offer brainpower to help companies be more productive and solve production needs. Also, it should be more than a manpower provider with typical markup and it should create value – for themselves, their customers, and their employees. This case study provides insight into their approach and success.

IMS Evolves From “What’s in for Me” to “What’s In it for We”

Using workers that are in the senior age category was a pretty clever idea, but, in practice, there was a fatal flaw – especially if you staff your workers in manual, light industrial type jobs like production assembly and warehousing. “Customers didn’t think older workers could be productive in more manual jobs” explained Dean. After all, IMS was wanted to replace workers half their age and, seemingly, more fit. It was a tough sell.”

IMS came up with an offer that was hard to refuse. Dan and Dean approached a potential customer in the retail industry that was using about 10 temporary workers every day to bag and tag clothing. “Rather than simply ‘staff’ workers and charge the typical markup, we went to the customer with the idea for him to ‘outsource’ the work to Senior Staffing for 5 percent less than what they were currently paying. We thought if we could guarantee our client a cost savings and we took the risk of getting the workers to do the same work faster, we’d have a better chance of winning the work.” And win work they did. IMS has been named one of the fastest growing companies in Washington State three times.

The remainder of the Case Study will provide insight into ways IMS depends on and adheres to the Five Rules of Vested[®] – proving that a Vested mindset is not just for big companies..

Rule 1: Focus on Outcomes, Not Transactions

IMS’s culture is centered on value creation for its clients. While the form and specifics of goals and objectives for IMS clients vary, there is a common mantra: making the customer happy will not only make the customer happy – but it will also make Dan and Dean **and** the workers at IMS happy. The challenge is in defining what the customers want. For IMS, there is a common thread across clients regarding value creation. Businesses want lower costs. Businesses want improved



productivity. Businesses want innovative ideas that help them grow their market share and revenue potential.

IMS seeks to create a Vested[®] relationship in which the three primary stakeholders—customer, IMS management, and employees—share in success and financial reward. Having a balanced perspective where all three of the stakeholders “win” enables everyone to be aligned. The more the client wins, the more IMS wins, the more the IMS workers win. IMS understands this dynamic and strives to make it happen to clearly define outcomes with their clients and align these outcomes all the way to the shop floor where their workers provide value every day where the work is done.

For example, for a large retailer that needed 200 warehouse workers, IMS was able to increase productivity by 27 percent – not only improving throughput to help the retailer get their product to their stores quicker, but also greatly reducing costs along the way.

Rule 2: Focus on the WHAT, Not the HOW

When IMS takes over the role of finding workers for their clients, all too often the client provides them with a detailed job description. The norm in the temporary service industry is to hire workers and get out the bullwhip to micromanage them to get the job done. After all, how can someone doing manual labor and making near minimum wage have the brainpower to do a job better?

But at IMS, Dan and Dean resisted the industry norm. With a senior workforce, many of their employees would not be able to work faster than competitive firms who were employing much younger workers. With a Vested mindset, Dan and Dean went to work—but not on getting out the bullwhip. Instead they went to their employees and studied *how* the work was being done. Could work be streamlined? Could they eliminate non-value-added activities? Could they teach slower workers to work as fast as the best workers?

The duo used team-based approaches to identify opportunities and developed formalized tracking and incentive programs to track productivity and motivate employees. They relied heavily on the concept of team. “We believed if the group of ten worked cohesively, they could achieve significant productivity gains. We did the math and established productivity targets. If the workers could increase their productivity, we would share some of our extra profits with them.”

Increased productivity is facilitated by a Vested[®] agreement that allows for flexibility and open collaboration.



Rule 3: Agree On Clearly Defined & Measureable Outcomes

For IMS's large retail customers, the desired outcomes and metrics were very clear: cost, quality and timeliness of service delivery. The customer's goal is to have the lowest per unit labor cost and the highest quality level while meeting the high demands of fast service delivery. IMS has developed tracking and reporting tools that monitor and reveal performance in real time and historically. IMS uses its proprietary technology platform to develop detailed labor standards and performance measurements on all processes and employees it manages.

Karl Koehler, who joined IMS in 2005 as a partner and, subsequently became chief operating officer. In 2006, points to the power of following the Vested[®] methodology: "The Vested[®] approach keeps the employees, IMS management, and our client all aligned with the same priorities. We have developed sophisticated tracking and monitoring tools and processes to ensure we are all in sync with performance against goals. We all have the same goals, and when we achieve these goals, there are clear incentives for each of the three groups."

Rule 4: Pricing Model / Incentives For Cost/Service Trade-Offs

The typical approach for pricing temp labor is very transactional in nature - whether it is cost per labor hour or cost per unit. It takes a lot of time and education to get customers to move towards a cooperative, risk and reward sharing structure. IMS has moved away from transaction-based pricing to an open book policy with clients. The open book nature transparently shares all details of costs and productivity.

Using a transparent approach for pricing enables the IMS and its clients to work together to identify where additional savings can be made and ways to improve the operation.

Traditional temporary staffing margins for high-volume warehousing operations range from 5 percent to 10 percent on the very high end, and the hope is to achieve EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) earnings of 1 percent. Dan explained the power of using a Vested approach: "With IMS's Vested approach, our business model is structured around 25 percent gross margins target with an EBITDA of 10 percent. At first, customers think this is too high. But then they realize we use much of these higher margins to invest back into their business to make further improvements. And – most importantly – we are not charging them the high margins unless we are delivering results."

A key feature of IMS's Vested pricing model is the use of a rebate program with their clients. Client agreements state any margin above the specified IMS 25 percent required gross margin is rebated back to the customer. The rebate thresholds and amount shared depend on the exact relationship structure, but in general, 50-75 percent of margin above the IMS goal margin is rebated back to the customer.



Using this approach aligns the economic interests of IMS and their clients because the more money IMS can save their client, the more money IMS gets. IMS then takes the savings and share a percentage with workers – who are the ones who are generating the ideas to improve the client's business.

Using an incentive-based approach with employees greatly improves IMS's ability to move from a minimum-wage-type job to a living wage job. For the larger retailer, employee wages increased from \$8.75 to \$11.50. Dean comments "Employees love it. Our retention rates are excellent . Within the first year we were able to reduce the employee turnover rate by half."

Rule 5: Insight vs. Oversight Governance Structure

IMS believes the employees that work in the process are the best experts on the process versus using arbitrary industry standards that often miss the nuances in any operation. On a peer-to-peer level, IMS holds daily meetings with the customer to address issues and problem solve.

IMS and each client schedule quarterly review sessions to go over key issues and progress toward goals. Because this is a more involved relationship than our customers are experienced with, this is a work in progress.

Meetings vary depending on the situation. During peak season they are largely tactical focusing on the urgencies at hand and then off season more strategic and "lessons learned" to operate better and more efficiently.

Transformation is expected. An idea will be brought up in a meeting and proposed. If everyone agrees, it will be implemented and because of extensive data collection and reporting, quickly evaluated. If the idea is not mutually agreed upon, a test of the idea with a small portion of the work force is conducted. The data results are used to validate or invalidate the idea. If the idea is validated, the idea is proposed again with requisite support data.

Vested for Success: The Results

IMS has since expanded its operations nationally into a company of \$10 to \$14 million in revenues and has also commercialized its software technology into a product called Easy Metrics which, using the same IMS methodology, has helped its customers increase their productivity by more than 40 percent on average. Using a Vested approach has helped IMS grow rapidly; it has been named one of the fastest growing companies in Washington State on three occasions.

This case study points to the fact Vested® deals can – and do –work effectively with both small and large teams. Vested® has worked for IMS, from the original contract of less than a dozen workers to later jobs with hundreds of workers. Much like the results we seek, the beauty of Vested® reveals itself in flexibility and scalability. Vested® works...for the little guy as well as the Fortune 500 company.



Acknowledgments

The University of Tennessee and the authors would like to thank Integrated Management Systems for its openness and assistance. The complete case study is featured in our Executive Education classes and will be featured in the upcoming book [Vested: How P&G, McDonald's and Microsoft Are Redefining Winning in Business Relationships](#), which will be available in September 2012.

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 blog or register for one of Vested Outsourcing classes.

We encourage you to read our [other books](#):

The Vested Way: Why a What's in it for WE Approach is THE Framework 21st Century Business Relationships are Build on (Palgrave Macmillan, 2012)

Vested Outsourcing: Five Rules That Will Transform Outsourcing (Palgrave Macmillan, 2010)

The Vested Outsourcing Manual: A Guide for Creating Successful Business and Outsourcing Agreements (Palgrave Macmillan, 2011)

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Kate Vitasek is an internationally recognized author, educator and business consultant. Vitasek's award-winning research with the University of Tennessee and the United States Air Force has led to a four books published by Palgrave Macmillan. Her work has been featured in over 300 articles, including *Forbes*, *Chief Executive Magazine* and *CIO Magazine*. *World Trade Magazine* named Vitasek to their list of the 50 most influential people and ideas impacting global trade. Vitasek is a faculty member at the University of Tennessee's Center for Executive Education and is the Founder of Supply Chain Visions – a boutique-consulting firm.

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