RealPlay® Tool

Is Vested Right For Your Situation?

Business Model Mapping Toolkit

Second Edition: Revised to Include Environmental and Sustainability

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RealPlay® was created by Kate Vitasek, a faculty member of Graduate and Executive Education at the University of Tennessee's Haslam College of Business Administration. ***RealPlay*** takes role-playing to the next level. Instead of merely being assigned roles and a potential problem or situation to work through, ***RealPlay*** allows course attendees to take the material they have just covered in the course and immediately put the Vested theory and methodology into practice with their own situation, creating tangible decisions and deliverables essential for developing a Vested Agreement.

The *Business Model Mapping Toolkit* is provided with compliments from the University of Tennessee and the authors of the book Strategic Sourcing in the New Economy – Bonnie Keith, Kate Vitasek, Karl Manrodt and Jeanne Kling.

Use this Toolkit to harness the power of Sourcing Business Models in your organization!

Business Model Mapping Toolkit

Sourcing Business Model theory grew out of a collaborative research project led by the University of Tennessee. The concept was first shared in The Vested Outsourcing Manual: The Guide for Creating Successful Business and Outsourcing Relationships. The theory was later refined in collaboration with the Sourcing Industry Group, the World Commerce and Contracting Association, and the Center for Outsourcing Research and Education in a white paper first published in 2012, then revised in 2015. The white paper inspired the book ***Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement***, which provides a robust understanding of the "how" to turn the theory into practice.

This Sourcing Business Model Toolkit is provided as an open-source resource for organizations to use on a non-commercial basis to help improve their sourcing efforts. The Toolkit complements the book and includes three resources.

Part 1. Business Model Mapping Diagnostic – easy-to-follow instructions and templates to help you to determine which Sourcing Business Model is most appropriate for your situation.

Part 2. Business Model Architecture "Cheat Sheet" –a one-page quick reference guide to help you sense-check how to properly architect supplier agreements for each of the Sourcing Business Models.

Part 3. Sourcing Consideration Checklist - includes seven checklists (one for each Sourcing Business Model) that provide an easy-to-use way to ensure you do not forget any major decision points that need to be made as you work through your sourcing initiative.

Enjoy! ***Bonnie Keith*** ***Kate Vitasek*** ***Karl Manrodt*** ***Jeanne Kling***

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Part 1:

Business Model Mapping Diagnostic

This part of the Business Model Mapping Toolkit provides easy to follow instructions and business model mapping templates to help you to determine which Sourcing Business Model is most appropriate for your situation.

Business Model Mapping Diagnostic Instructions

Objective: The objective of completing a Business Model Mapping exercise is to help you determine which Sourcing Business Model is the "best fit" for your relationship.

Tip!

Ideally, a Business Model Mapping exercise is conducted as a facilitated workshop/strategy meeting with key stakeholders present. If not all of the stakeholders are familiar with various Sourcing Business Models, have them read the Unpacking Sourcing Business Models white paper – a free resource published by the University of Tennessee in conjunction with Sourcing Industry Group (SIG), Center for Outsourcing Research and Education (CORE), World Commerce and Contracting Association and American Society for Public Administration (APSA). Download the white paper here. Vested Centers of Excellence are available to professionally facilitate a Business Model Mapping exercise if you would like assistance or are new to Business Model Mapping.

This exercise includes four steps that – when properly completed – will help you determine what is the most appropriate Sourcing Business Model for your specific situation.

Step 1: Select the defined spend category/categories you are sourcing/potentially sourcing.

Step 2: Use the ***Business Model Mapping Template*** to determine the best relationship model for what you are sourcing (map the first 19 attributes provided in the template on page 12).

Step 3: Use the ***Business Model Mapping Template*** to determine the best economic model for what you are sourcing (map the 13 attributes provided in the template on page 13).

Step 4: Use the ***Sourcing Business Model Matrix*** to develop a consensus view of which Sourcing Business Model is right for you. The best Sourcing Business Model will be a combination of which relationship model and which economic model you choose. The matrix can be found on page 20.

Once you have determined the most appropriate Sourcing Business Model for your situation, you will need to architect your supplier agreement. Part 2 of this Toolkit includes a one-page "cheat sheet" for how to best architect a supplier agreement for each of the Sourcing Business Models. We have also included a robust "Sourcing Consideration Checklist" (Part 3), which is designed as an easy-to-reference guide to ensure you do not skip any important decisions that need to be made as you embark on your sourcing initiative.

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Do this exercise with your potential partner(s) before you make your final decision about which Sourcing Business Model is right for you. We consistently find that, when organizations share their Business Model Map with their partner(s), it is not uncommon for organizations to have a mismatch in their perspectives of the business environment and desired business outcomes. We highly recommend that the parties work together to discuss gaps in perceptions and develop a consensus on the overall business environment and the objectives of the initiative. The exercise should prompt discussions with the goal of developing a solid understanding of the differences in how important each attribute is to each organization.

If you have an existing relationship with your business partner, this will most likely involve hosting a facilitated strategy session with your partner. If you do not have an existing partner or are going through an RFP process, do this exercise before developing your RFP or as a key part of the process with your "shortlisted" or "down-selected" suppliers to facilitate feedback from potential suppliers and communicate your priorities and objectives.

We also recommend completing a Business Model Map exercise for each of the spend categories in scope. For example, an organization sourcing facilities management might map facilities management, energy management, and project management separately. We then suggest you repeat the Business Model Mapping exercise with a broader perspective asking, “What if I bundled the spend categories into a broader, more holistic category? How would bundling the separate spend categories affect supplier dependency and risk? Would bundling give a supplier an opportunity to create more value than managing each spend category separately? If we did bundle, which categories could be bundled and still be managed effectively by potential suppliers?” “Are there possibilities to bundle which would enable higher impact on environmental or social sustainability objectives than other bundles?” Many find bundling will enable the creation of more value through economies of scope and scale.

Step 1: Select the defined spend category/categories you are sourcing/potentially sourcing.

The first step is to define the spend categories of products/services your organization needs to either make or buy. This includes products/services currently insourced, currently sourced/outsourced, or, perhaps, even new products or services you will need to decide to make or buy. For example, a facilities management category could include three broad "buckets" including facilities management (cleaning and day-to-day maintenance), energy management, and project management (e.g., building a new bank branch, remodeling an office, or managing employee relocations).

Step 2: Use the Business Model Mapping Template to determine the best relationship model for what you are sourcing. (Map the 19 attributes on page 12 of the template)

To complete Step 2, use the Business Model Mapping template to map each attribute that will affect your relationship model (complete first page of the template). This exercise helps you answer the following questions about your business environment:

- What is the overall level of dependency associated with each spend category?
- What is the strategic impact of the spend category?
- Does this spend category provide your organization with a core competency or competitive advantage?
- What is the degree of risk associated with this spend category?
- What are the levels of dependency, strategic impact and risks to the business associated with environmental and social sustainability matters?

As you complete the exercise, you will "map" your response on the template by noting which is the most appropriate column or "answer box." The example below shares one of the attributes you will map as an example.

Attributes to Determine the Best Relationship Model	Transactional Contract		Relational Contract			Investment
Level of supplier Integration/interface required (systems, support processes)[4,5]	None	None	Medium	High	Very High	Critical

You will notice there are six possible "answer boxes" with responses ranging on a scale from none to critical. In some cases (like the example), you may find that the "answer" spans more than one "answer box." There may also be places in the template where there is no difference in the response such as under a transactional contract where "None" is in two columns, and a “None” answer will therefore span two boxes in that example as well (both “None” boxes). As you work through each attribute, you will eventually have a “map” that profiles your spend category.

Let's say you work for an insurance company, and your COO (chief operating officer) wants to find a Business Process Outsourcing partner to transform the back office procure-to-pay processes. You know your existing processes are woefully inadequate, and there needs to be significant automation and interfacing with your existing claims systems. In this case, the supplier would likely need to invest in highly customized business processes, workflows and specialized skills that may require a service supplier's significant investment. The stakeholder group cannot determine how much integration will be needed – but they know it is significant. You mark the answer box with (high) and (very high). It is OK for your answer to "span" columns because your final decision for which Sourcing Business Model is most appropriate will be a factor of your complete map – not just one attribute.

As you work through each attribute in the Business Model Map template, stakeholders should openly debate their perspectives for each attribute. For example:

- A procurement professional new to the spend category might easily underestimate the level of integration required with the claims process to support the procure-to-pay processes to meet the organization's requirements.
- The Director of Operations is a 30-year veteran who has personally run the claims processing group during his career. He is adamantly against outsourcing the procure-to-pay process because of its interdependence with the claims process and views the work as so critical it cannot be outsourced.
- A sustainability professional focuses on the working conditions of the staff working within the procure-to-pay process. He is not against outsourcing but raises the work-related risks of a too strong efficiency perspective when doing the outsourcing.

You invite two potential suppliers to participate in the Business Model Mapping exercise. Both have suggested there is a high level of integration needed with the claims process, but that many other insurance companies have successfully outsourced procure-to-pay processing. Based on their experience, they think the supplier integration attribute should be High.

Getting a cross-functional consensus helps ensure you are looking at the spend category holistically. It also helps you make the most appropriate and informed selection for each of the mapping attributes.

Once you have mapped all of the relational attributes, you should see a pattern emerge. At this point, it is normal if your map simply indicates an overall preference for a transactional, relational or investment-based model. This is OK because you will use this information in Step 4.

Step 3: Use the Business Model Mapping Template to determine the best economic model for what you are sourcing (map the 13 attributes on page 13 of the template)

Step 3 completes the Business Model Mapping template by helping you map attributes that point you to the most appropriate economic model for your situation. An economic model determines how you will manage the economics of the relationship (e.g., pay the supplier). There are three economic models.

- Transaction-based economic model – the supplier is paid per transaction. This can be a price per unit, per hour, per mile, per kilometer, per kilo, per call answered, or any other basis most suitable to your situation.
- Output-based models are where a supplier's payment is typically tied to the achievement of pre-defined measures, such as process-based SLAs (Service Level Agreements). Performance-Based (Managed Services) agreements use output-based economic models in situations where a buyer negotiates pre-defined efficiency or performance targets.
- An outcome-based economic model is more sophisticated than an output-based economic model because it typically ties the supplier payment to mutually agreed boundary-spanning business outcomes – not just the process or functionally focused performance outputs. To achieve true business outcomes, a buyer and supplier must work together in a highly integrated and collaborative fashion. There is shared risk and shared reward in pursuing desired business outcomes.

The Business Model Mapping template includes 13 attributes across four dimensions focused on helping you understand what is the best economic model for your situation. The mapping exercise enables you to answer the questions:

- How much potential is there to create a mutual advantage by collaborating with a supplier, including opportunities to improve on environmental and social sustainability objectives?
- What is the nature of the work scope?
- What is the criticality of the work?
- What are your risk tolerance preferences?

Based on your stakeholders' requirements, you will select one of the three economic models.

The example on the following page illustrates how to map one of the attributes: potential efficiency gains. As you map this attribute, you will determine to what extent there will be an opportunity to drive efficiency. For example, let's return to the insurance company looking to potentially outsource a legacy claims processing function.

Attributes to Determine the Best Economic Model	Transaction-Based Economic Model			Output -Based	Outcome -Based	
Potential Efficiency Gains	None	Low	Medium	High	Very High	Significant

As the example illustrates, there are six possible “answer boxes” with responses ranging on a scale from None to Significant. As with the relationship model template, stakeholders should openly debate their perspectives for each attribute. If they are uncertain, have each stakeholder brainstorm potential ideas for efficiency gains. In addition, have the invited suppliers share benchmarks of what they have seen.

Once you have mapped all of the attributes, you will likely see a pattern emerge. At this point, it is normal if your map simply indicates an overall preference for a transactional, output or outcome-based economic model. This is OK because you will use this information in Step 4.

We recommend that teams create a Business Model Mapping template for each category you are potentially sourcing. For example, if you are sourcing facilities and real estate management services with facilities management/maintenance, relocation/moves, construction/capital project management, environmental services, and real estate transaction services – you would complete five Business Model Mapping Diagnostic Templates.

To maximize the real value in this exercise, the parties should complete the template individually first, and then compare results with their business partner. This will create a dialogue about the gaps between the views. As part of the strategy session, encourage questions and double-check assumptions about capabilities, potential opportunities to demonstrate added value, and further alignment. The process will likely also generate a discussion around each party’s capabilities if they were not previously visible.

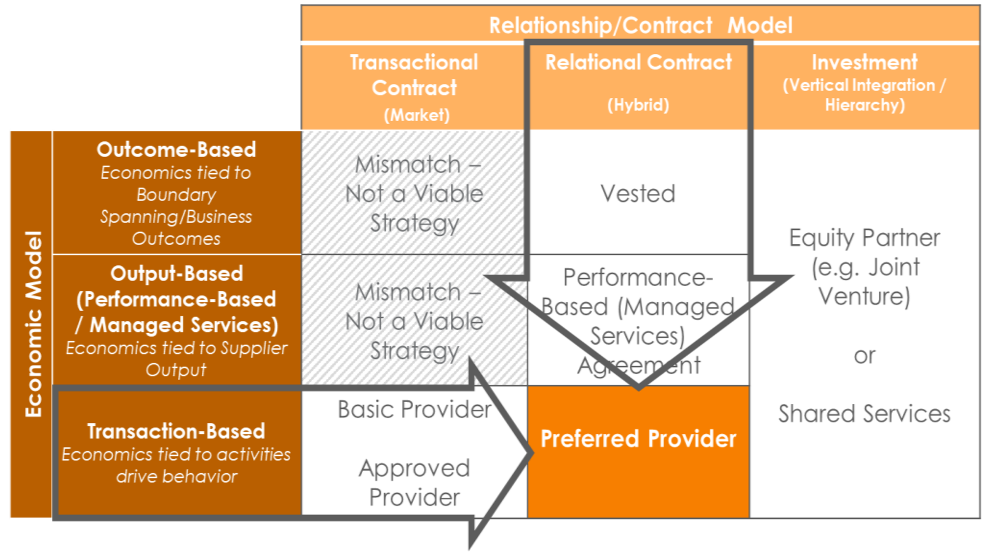
Once you have completed the exercise, consider doing it again with the view of potentially “bundling” one or more products or service categories you are sourcing. The reason is that often there is great value in "bundling" related work scope because service providers can create process efficiencies and/or the service provider can optimize across the scope of work to lower the total cost of ownership. For example, P&G bundled all aspects of facilities management in its original agreement with Jones Lang LaSalle (to learn more, read *Vested: How P&G, McDonald’s and Microsoft are Redefining Winning in Business Relationships* and/or register for the University of Tennessee’s Vested Five Rules online course). In the second-generation sourcing effort, they later combined real estate transactions into the scope of work. Bundling allowed JLL to create more value than had they split up the work across multiple suppliers or had different contracts for the same service provider.

Business Model Mapping Toolkit

Step 4: Use the Sourcing Business Model Matrix to determine which Sourcing Business Model is right for you.

In this step, you will use the information provided by Steps 2 and 3 to identify which of the seven Sourcing Business Models is most appropriate for your situation. The answer stems from a combined view of both the relationship model and the economic model.

To complete Step 4, use the Sourcing Business Model matrix *(provided in the Appendix)* in this Toolkit (as shown to the right). The Sourcing Business Model matrix is a simple 3x3 matrix with the three relationship models on the horizontal axis and the three economic models on the vertical axis. Take your “answer” from Steps 2 and 3 and “plot” them into the matrix. For example, if the predominant columns for the relationship model map fell under “Relational Contract”, your ideal contracting model would be a relational contract. And if your answers predominantly fell into the “Transaction-Based Economic Model” columns, your ideal economic model is transaction-based. When you plot this on the 3x3 matrix, you will see that a Preferred Provider Sourcing Business Model is best suited for what you are sourcing.



As you complete this exercise, ask these questions:

1. How does your mapping compare to your potential partner’s mapping? Why?
2. Did conversations about mismatches between the views resolve the differences and foster a better understanding between the parties?
3. Does the economic aspects and the sustainability aspects of the mapping point towards the same Sourcing Business Model? If not, how did you discuss and solve trade-offs?
4. Which Sourcing Business Model is the most appropriate? How did this compare with your original expectations?
5. Did your viewpoint change when you bundled one or more services?
6. How does this knowledge change your perception of which Sourcing Business Model is appropriate for what you are sourcing?

Once you know which Sourcing Business Model is most appropriate for your situation, you will need to architect your supplier agreement. The book ***Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models in Modern Procurement*** provides over 500 pages of detail about how to apply the Sourcing Business Model theory in practice. Part 2 of this Toolkit offers a one-page “cheat sheet” that summarizes the key dimensions you need to apply to each Sourcing Business Model.

Relationship Model Mapping Template (See page 14-16 for Definitions)

Attributes to Determine the Best Relationship Model	Transactional Contract		Relational Contract			Investment
DEPENDENCY						
Cost to Switch						
The overall cost to switch suppliers[1,4]	Low	Low	Medium	Medium to High	High	High
Physical asset specificity (location, machinery, processes)[1,5]	Low	Low	Medium	Medium to High	Medium to High	High
Skill level needed for predominant personnel[4,5]	Unskilled	Semi-skilled	Skilled	Professional	Professional	Expert
Level of supplier integration/interface required (systems, support processes) [4,5]	None	Low	Medium	High	Very High	Critical
Availability						
Overall availability of service/product in marketplace[4,5]	Widely Available	Widely Available	Moderate Availability	A limited number of capable suppliers	A limited number of capable suppliers	Scarcely Available
Availability of qualified and skilled personnel [4]	High	High	Medium	Low	Low	Low
Availability of required technology[4]	Universal	Limited	Restricted	Restricted to Scarce	Scarce	Unique
Availability of environmentally or socially sustainable solutions**	High	High	Medium	Low	Low	Low
Access to buyer's systems and critical processes[4]	None	Low	Medium	High	Very High	Critical
STRATEGIC IMPACT						
Product or service is a core competency or strategic differentiator for Buyer[3]	No	No	No	Possible Strategic Differentiator	Strategic Differentiator	Core Competency
Product or service importance for the company's sustainability strategy**	Low	Low	Medium	Medium to high	High	High
DEGREE OF RISK TOLERANCE[4,5]						
Profit impact from the buyer's perspective	None	Low	Medium	High	Very High	Critical
Service or product delivery failure impact on the end customer/brand experience[4,5]	None	Low	Medium	High	Very High	Critical
Product or service exposure to external environmental, societal or other sustainability risks**	None	Low	Medium	High	Very High	Critical
Service or product delivery failure impact on internal customer experience[4,5]	None	Low	Medium	High	Very High	Critical
Regulatory compliance policy	Meet Standard	Meet Standard	Meet Standard or Higher	Meet Standard or Higher	Meet Standard or Higher	Meet Standard or Higher
Uncertainty of demand[1,5]	N/A	Manage unanticipated demand spikes with multiple sources	Provider response to unanticipated volume spikes limited	The contractual ability for the supplier to respond to spikes	Contractual flexibility for supplier and buyer to respond to spikes to optimize the business	Capacity is set based on captive assets + using market if not asset specific

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Economic Model Mapping Template (See pages 14-16 for Definitions)

Attributes to Determine the Best Economic Model	Transaction-Based			Output-Based	Outcome-Based	
POTENTIAL TO CREATE VALUE/MUTUAL GAIN*						
Potential efficiency gains[4,5,]	None	Low	Medium	High	Very High	Significant
Potential for revenue increase[4,5]	None	Low	Medium	High	Very High	Constant
Potential for innovation[4,5]	None	Low	Medium	High	Very High	Critical
Size of investments needed in to achieve outcomes (buyer or supplier)	Low	Medium	High	High to Invest	Invest	Invest
Opportunities for environmental sustainability improvements**	None	Low	Medium	Medium	High	Very High
Opportunities for social sustainability improvements**	None	Low	Medium	Medium	High	Very High
NATURE OF WORKSCOPE/TASKS[2]						
Degree of supplier control over outcomes, including environmental and social outcomes[2]	Low	Low	Low	High	Medium-High	N/A
Type of success measure desired/required[2,4]	Transactional Task Metrics	Transactional Task Metrics	Transactional Task Metrics	Output SLA Metrics	Strategic KPI or Business Outcomes	Strategic KPI or Business Outcomes
The ease at which task/work scope can be specified[2]	High	High	Medium	Medium	Can Vary	Very difficult or Impossible
CRITICALITY OF THE WORK[4]						
Risk related to operational safety[4]	Minimal	Low	Medium	High	High	Critical
Risk related to operational reliability[4,5]	Minimal	Low	Medium	High	High	Critical
COMMERCIAL PREFERENCES						
Financial risk tolerance for Buyer[2]	High Risk	High Risk	Medium Risk	Medium-Low Risk	Shared Risk	N/A
Financial risk tolerance for Supplier[2]	Low Risk	Low Risk	Low Risk	Medium Risk	Shared Risk	N/A

Source Key of Research Supporting the Attribute: [1]Williamson, [2]Eisenhart, [3]Prahalad and Hamel, [4]University of Tennessee, [5]Kraljic

*These attributes are used to determine both the relationship and economic model

** Need help in assessing the sustainability-related attributes? See pages 17-21 for additional explanation.

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Definitions of Each Attribute:

DEPENDENCY	
Cost to Switch	
Overall cost to switch suppliers[1,4]	The overall impact of economic switching costs. Costs include both hard (transition costs, employee retention costs, system integration with new supplier, new supplier set up costs) and soft costs (time and effort to manage a transition or cycle time expansion causing business delays). Costs can also include the proximity of the supplier to delivery sites or operational centers of the buyer, supply chain delivery, import/export services and regulations, and impact on the buyer's customers.
Physical asset specificity (location, machinery, processes)[1,5]	The extent to which unique investments are required to support a buyer's requirements/solution (specialized tooling, capital equipment, sustainability requirements, process inventory, packaging and labeling, supply chain logistics, dedicated warehouse, IT hardware, customized software, etc.),
Skill level needed for predominant personnel[4,5]	The extent to which the buyer has a dependency on the experience, certifications, capabilities, skills or inherent "know-how" of the supplier's personnel needed to perform essential work, including sustainability aspects of the work.
Level of supplier integration/interface required (systems, support processes) [4,5]	The level of integration required between the buyer and supplier regarding IT systems, cross-company training, support functions, quality processes, sustainability processes etc.
Availability	
Overall availability of service/product in marketplace[4.5]	The extent to which suppliers are available to provide service/products for the buyer's requirements/solution, including sustainability requirements. It is essential to consider the scale and specific competencies needed by the buyer for the product/service when answering this question. For example, there may be 100 suppliers that provide basic custodial services – but only three that are qualified to provide services such as high-end environmental cleaning of hospitals in Canada.
Availability of qualified and skilled personnel [4]	The extent to which qualified and skilled personnel that provide the product or service are available in the market, and how easily these skills can be developed either internally or with other suppliers.
Availability of required technology[4]	The extent to which the technology used to support the delivery of the product or service according to set requirements is available in the market.
Availability of environmentally or socially sustainable solutions	The extent to which suppliers are available that can provide service/product that meets buyer's requirements regarding environmentally and/or socially sustainable deliveries. For example, there may be 100 suppliers providing the needed product – but only three whose deliveries have very low impact on the environment, and which have a proven track record of high social sustainability for their staff. Use the additional detail on pages17-19 if you have questions about how to score this attribute.
Access to buyer's systems and critical processes[4]	The extent to which the supplier needs access to the buyer's critical systems and processes to deliver the products/services.

STRATEGIC IMPACT	
Product or service is a core competency or strategic differentiator for Buyer[3]	The extent to which the product or service is a core competency for the buyer. If it is not a core competency, the extent to which the product or service is a competitive differentiator in the marketplace.
Product or service importance for environmental company's sustainability strategy	The extent to which the product or service can contribute, positively or negatively, to achieve the company's sustainability strategy. Many companies have, for example, set ambitious carbon emission reduction targets, and some products and services can be important to achieve such targets. Use the additional detail on pages 17-19 if you have questions about how to score this attribute.
DEGREE OF BUSINESS RISK	
Profit impact from the buyer's perspective[5]	The level of impact (relative to other categories of spend and costs) that this product or service has on the buyer's profitability, based on the buyer's perspective of volume purchased, % of total purchased costs, impact on business growth value add, market risk and business dependency (% of buyer's portfolio with one supplier?)
Service or product failure impact on end customer/brand experience[4,5]	The level of impact on the buyer's organization/brand resulting from negative external end customer perception if service or product failure occurs. Considerations include the degree of difficulty, cost, resources and time to recover from an event.
Product or service exposure to external environmental, societal or other sustainability risks	The level of impact that environmental, social or other sustainability-related risk factors may have on the company, on the supplier, on the resources used in producing and delivering the product or service. Sustainability risk factors include climate change and related consequences, loss of access to natural resources or human capital as well as negative impact on company reputation from a sustainability perspective. The impact of the risk can be physical, financial or reputational. Use the framework on pages 17-20 if you have questions about how to score this attribute.
Service or product failure impact on internal customer experience[4,5]	The level of impact on the buyer's internal customer experience if there is a service failure or manufacturing scheduling/delivery failure due to product failure. Considerations include the degree of difficulty, cost, resources and time to recover from an event.
Regulatory compliance policy	The extent to which state, federal or other regulations impact the delivery of the product or service. What is the buyer's tolerance and preference to ensure regulatory compliance requirements are met for this particular service or product?
Uncertainty of demand[1.5]	The extent to which demand associated with this particular product or service is unstable or uncertain. Can this volatility be forecasted (seasonality) or managed through improved forecasting?

POTENTIAL TO CREATE VALUE / MUTUAL GAIN	
Potential efficiency gains	The extent to which there are opportunities to improve performance or efficiency.
Potential for revenue increase	The extent to which there is an ability to expand the product/service to support future business/revenue. If the buyer and supplier entered into a highly collaborative relationship, would the potential for revenue increase?
Potential for innovation	The extent to which there is an opportunity to drive innovation that will benefit both the buyer and supplier in the relationship. What is the level of importance placed on the innovation of the product or service by the buyer? How critical is innovation to the strategic objectives of each party?
Size of investments needed to achieve outcomes (buyer or supplier)	The extent to which investment is needed by the buyer or supplier to achieve the desired outcomes. What is the willingness of the parties to share investment risk and rewards?
Opportunities for environmental sustainability improvements	The extent to which there are opportunities to improve on environmental sustainability factors, including decreased emission of carbon dioxide, use of a circular economic model, and reduced need for natural and other physical resources. Use the additional detail on pages 17-19 if you have questions about how to score this attribute.
Opportunities for social sustainability improvements	The extent to which there are opportunities to improve social sustainability factors, including improved diversity and inclusion and improved working conditions. Use the additional detail on pages 17-19 if you have questions about how to score this attribute.
NATURE OF WORKSCOPE /TASKS	
Degree of supplier control over the outcome, including environmental and social outcomes[2]	It is common for a buyer to dictate “how” a supplier should do work (e.g., provide a detailed technical drawing, statement of work outlining the tasks). To what extent does the supplier have the ability to control the work or outcome? This also includes outcomes regarding positive impact on the environment or on social factors such as diversity and inclusion and the work environment.
Type of success measure desired/required[2,4]	The buyer’s preference for the scope and type of measurements (metrics) that are best suited to meet the buyer’s needs.
Ease with which task/work scope can be specified[2]	The extent to which the task or work scope can be specified in advance in detail.
CRITICALITY OF THE WORK	
Risk related to operational safety[4]	The extent to which there is a risk to the business if safety is compromised.
Risk related to operational reliability[4,5]	What is the extent to which reliability and consistency of performance and quality are important in the delivery of the product or service? What is the level of risk to the business if reliability is compromised or is at a low level?
COMMERCIAL PREFERENCES	
Financial risk tolerance for Buyer[2]	The level of risk the buyer is willing to accept in relation to the return on their investment.
Financial risk tolerance for Supplier[2]	The level of risk the supplier is willing to accept in relation to return on their investment.

Supplemental Assessment Detail for Mapping Sustainability Related Attributes

Many teams like to think through the sustainability-related questions in more detail to help them determine the correct “answer” to put in the business model mapping template on pages 12 and 13. Pages 17-20 of this Toolkit provide additional guidance.

Sustainability is a broad topic covering many dimensions. There are a number of terms in use in the market to cover environmental and social aspects of the business. ESG is an often-used term, referring to E(nvironmental), S(ocial) and G(overnance). Here, the term sustainability is used. The term refers to the need to use environmental and human resources in a manner that does not cause significant harm to those resources and allows them to naturally rebuild themselves over time.

To transform the economy into a sustainable economy, companies and other organizations need to align their activities with a number of sustainable objectives. In 2015, the United Nations adopted the 17 Sustainable Development Goals (the SDGs) to be reached no later than 2030. The 17 Goals include such objectives as No poverty, Reduced inequality, Climate Action and Life on land. It is common for companies to connect their business and sustainability strategies to the SDGs. The goals are, however, political goals, mainly intended to be achieved through governmental actions. In addition, 17 goals are a large number of goals to have in focus. In this document, we have considered the sustainability regulations adopted by the UN SDGs and those under adoption by the European Union, which are intended to contribute to the SDGs but also more condensed than the 17 SDGs. Based on this, below is a condensed list of eight common sustainable objectives (not all objectives will be relevant to all companies, but some objectives are typically relevant). The list of objectives will be equally relevant for companies outside and inside the European Union.

1. **Climate change**: stabilization of greenhouse gas concentrations in the atmosphere consistent with the long-term temperature goal of the Paris Agreement through the avoidance or reduction of greenhouse gas emissions or the increase of greenhouse gas removals.
2. **Pollution prevention and control**: preventing or reducing pollutant emissions into air, water or land, other than greenhouse gases as well as improving levels of air, water or soil quality.
3. **Water and marine resources**: achieving good status of bodies of water, including bodies of surface water, groundwater and marine waters or preventing the deterioration of bodies of water that already have good status.
4. **Resource use (including land) and circular economy**: use of natural resources more efficiently by focusing on such actions as reduction of use, increased durability and reusability of products and increased recycling, and prevention and reduction of waste generation.
5. **Biodiversity and ecosystems**: protecting, conserving or restoring biodiversity to achieve the good condition of ecosystems, or to protecting ecosystems that are already in good condition.
6. **Decent work (own workforce and in the supply chain)**: achieving and maintaining decent work, including working conditions (e.g., secure employment, working time, social dialogue and work-life balance), equal treatment and opportunities for all (e.g., gender equality, training and skills development and diversity) and other related matter (child labor, forced labor and privacy). At a minimum level, work should conform to the requirements in the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises, in particular section V: Employment and industrial relations.
7. **Adequate living standards and well-being for end users**: achieving and maintaining adequate standards for end-users, including information-related matters (e.g., privacy and freedom of expression, personal safety and social inclusion (e.g., non-discrimination and equal access to products and services). At a minimum level, living standards and well-being should conform to the requirements in the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises, in particular section VIII: Consumer Interests.
8. **Inclusive and sustainable communities and societies**: achieving and maintaining protection of communities’ economic, social and cultural rights (e.g., adequate housing and food), civil and political rights (e.g., freedom of expression) and particular rights of indigenous peoples. Anti-corruption is included in these sustainability objectives, since corruption is destabilizing communities and societies. At a minimum level, companies should conform to the

requirements in the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises, in particular, section VII: Combatting Bribery and Other Forms of Corruption.

Below is is an overview of how the eight sustainability objectives above and the 17 SDGs are related. In addition, we have listed each sustainability objective's relation to two common sustainability reporting standards: the Global Reporting Initiative (GRI) and the European Sustainability Reporting Standards (ESRS).

The eight Sustainability Objectives in the toolkit	Relevant UN Sustainable Development Goals	Relevant GRI standards(s)	Relevant ESRS
1. Climate change	Climate action, Affordable and clean energy, Industry, innovation and infrastructure	GRI 302: Energy	ESRS E1: Climate Change
2. Pollution prevention and control	Life on land, Life below water, Good health and well-being	GRI 305: Emissions	ESRS E2: Pollution
3. Water and marine resources	Life below water, Clean water and sanitation	GRI 303: Water and Effluents	ESRS E3: Water and marine resources
4. Resource use (including land) and circular economy	Responsible consumption and production	GRI 301: Materials GRI 306: Waste	ESRS E5: Resource use and circular economy
5. Biodiversity and ecosystems	Life on land, Life below water, Zero Hunger, Clean Water and Sanitation	GRI 304: Biodiversity	ESRS E4: Biodiversity and ecosystems
6. Decent work (own and supply chain workforce)	Decent work and economic growth, Reduced inequality, Gender equality, Quality education, Good health and well-being	GRI 401: Employment GRI 402: Labor/Management relations GRI 403: Occupational Health and Safety GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 406: Non-discrimination GRI 407: Freedom of Association and Collective Bargaining GRI 408: Child Labor GRI 409: Forced or Compulsory Labor GRI 410: Security Practices	ESRS S1: Own workforce ESRS S2: Workers in the value chain
7. Adequate living standards and wellbeing for end-users	No poverty, Zero hunger, Good health and well-being	GRI 416: Customer Health and Safety GRI 417: Marketing and Labelling GRI 418: Customer Privacy	ESRS S4: Consumers and end-users
8. Inclusive and sustainable communities and societies	Sustainable cities and communities, Reduced inequality, Gender equality, Peace, justice and strong institutions	GRI 411: Rights of Indigenous People GRI 413: Local Communities GRI 205: Anti-corruption	ESRS S3: Affected communities ESRS G1: Business Conduct

Note that one SDGs is not represented in the list above: Partnership for the goals. The reason is that this goal is a political goal, intended to be implemented by governments.

Instructions

There are five sustainability-related attributes in the business model mapping toolkit on pages 12 and 13. Use the additional information about each attribute and the eight sustainability objectives as input and inspiration to assess how you should "answer" each attribute. Once you have a consensus answer, transfer the answer to the overall business model mapping matrix on pages 12 and 13.

Availability of environmentally or socially sustainable solutions: This attribute is very similar to the other availability attributes. The logic is simply that the lower the number of available suppliers of sustainable solutions, the more dependent the company will be on the chosen supplier to ensure sustainable deliveries of products and services. If you need, you can use the sustainability objectives listed above to think about what a sustainable solution for the relevant product or service would be. When making the availability assessment, make sure that you do not analyze only the suppliers' market material (since no one will say that they are unsustainable) but what and how they actually produce and deliver their products and services from a sustainability perspective. Use the table below to score the availability from high to low below. Transfer your score to the business model mapping matrix on page 12 of this toolkit.

Availability of environmentally sustainable solutions	High	High	Medium	Low	Low	Low
Availability of socially sustainable solutions	High	High	Medium	Low	Low	Low
Aggregate results (transfer to page 12	**High**	**High**	**Medium**	**Low**	**Low**	**Low**

Product or service importance for environmental company's sustainability strategy: Many companies have well-developed sustainability strategies, often including target dates for achieving net-zero greenhouse gas emissions and similar targets. Some products and services are more relevant for executing such strategies than others. Some products may represent a large scope of the company's greenhouse gas emissions. Some services may be key to assisting the company in transforming its business into a more sustainable business. If you need, you can use the sustainability objectives listed above to make a granular assessment against the company's sustainability strategy. Use the table below to score the importance from high to low below. Transfer your score to the business model mapping matrix on page 12 of this toolkit.

Product or service importance for the company's sustainability strategy	Low	Low	Medium	Medium to high	High	High

Product or service exposure to external environmental or societal risks: Many companies are exposed to sustainability-related risks. Production facilities and distribution networks may, for example, be damaged due to weather conditions. Companies may also suffer damage to their reputation as a result of their sourcing approaches and decisions. Analyze this risk exposure related to the relevant product or service. Use the list of sustainability objectives below to get a granular view of possible challenges. Use the table below to assess the attribute and add the aggregated results to the relationship model map**.** Use the table below to score the risk for each sustainability objective and determine the overall aggregate results. Transfer the aggregate result score to the business model mapping matrix on page 12 of this toolkit.

Product or service exposure to external environmental or societal risks						
1. Climate change	None	Low	Medium	High	Very High	Critical
2. Pollution prevention and control	None	Low	Medium	High	Very High	Critical

3. Water and marine resources	None	Low	Medium	High	Very High	Critical
4. Resource use (including land) and circular economy	None	Low	Medium	High	Very High	Critical
5. Biodiversity and ecosystems	None	Low	Medium	High	Very High	Critical
6. Decent work (own and supply chain workforce)	None	Low	Medium	High	Very High	Critical
7. Adequate living standards and well-being for end-users	None	Low	Medium	High	Very High	Critical
8. Inclusive and sustainable communities and societies	None	Low	Medium	High	Very High	Critical
Aggregate results (transfer to page 12)	**None**	**Low**	**Medium**	**High**	**Very High**	**Critical**

Opportunities for sustainability improvements: Many companies have great opportunities to improve and generate substantive sustainability value, e.g., by reducing various forms of emissions, and transforming into a more circular business or by generating value for society through risk mitigating and similar projects, e.g., regarding land, oceans, humans etc. There are also opportunities for building a strong sustainability reputation.

Use the table below to score the opportunity for each environmental sustainability objective and determine the overall aggregate results. Transfer the aggregate result score to the business model mapping matrix on page 13 of this toolkit.

Opportunities for environmental sustainability improvements						
1. Climate change	None	Low	Medium	High	Very High	Critical
2. Pollution prevention and control	None	Low	Medium	High	Very High	Critical
3. Water and marine resources	None	Low	Medium	High	Very High	Critical
4. Resource use (including land) and circular economy	None	Low	Medium	High	Very High	Critical
5. Biodiversity and ecosystems	None	Low	Medium	High	Very High	Critical
Aggregate results (transfer to page 13)	**None**	**Low**	**Medium**	**High**	**Very High**	**Critical**

Use the table below to score the opportunity for each social sustainability objective and determine the overall aggregate results. Transfer the aggregate result score to the business model mapping matrix on page 13 of this toolkit.

Opportunities for social sustainability improvements						
6. Decent work (own and supply chain workforce)	None	Low	Medium	High	Very High	Critical
7. Adequate living standards and well-being for end-users	None	Low	Medium	High	Very High	Critical

8. Inclusive and sustainable communities and societies	None	Low	Medium	High	Very High	Critical
Aggregate results (transfer to page 13)	**None**	**Low**	**Medium**	**High**	**Very High**	**Critical**

Sourcing Business Model Matrix

Instructions: Use the output of Step 2 and 3 to "plot" where you fall in the matrix. The "answer" is a combination of your relationship model and economic model.

Business Model Mapping Toolkit

<table>
<tr><th></th><th></th><th colspan="3">Relationship/Contract Model</th></tr>
<tr><th></th><th></th><th>Transactional Contract (Market)</th><th>Relational Contract (Hybrid)</th><th>Investment (Vertical Integration / Hierarchy)</th></tr>
<tr><th rowspan="3">Economic Model</th><th>Outcome-Based
Economics tied to Boundary Spanning/Business Outcomes</th><td>Mismatch – Not a Viable Strategy</td><td>Vested</td><td rowspan="3">Equity Partner (e.g. Joint Venture)

or

Shared Services</td></tr>
<tr><th>Output-Based (Performance-Based / Managed Services)
Economics tied to Supplier Output</th><td>Mismatch – Not a Viable Strategy</td><td>Performance-Based (Managed Services) Agreement</td></tr>
<tr><th>Transaction-Based
Economics tied to activities drive behavior</th><td>Basic Provider

Approved Provider</td><td>Preferred Provider</td></tr>
</table>

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Part 2:

Sourcing Business Model Architecture “Cheat Sheet”

This part of the Business Model Mapping Toolkit provides a one-page quick reference guide to help you sense-check how to properly architect supplier agreements for each of the Sourcing Business Models.

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"Cheat Sheet" for Architecting Sourcing Business Models

TRANSACTIONAL (MARKET) ◄——— RELATIONAL (HYBRID) ———► INVESTMENT (HIERARCHY)

		BASIC PROVIDER	APPROVED PROVIDER	PREFERRED PROVIDER	PERFORMANCE-BASED/MANAGED SERVICES	VESTED	INVESTMENT (EQUITY PARTNER/ SHARED SERVICES)
BUSINESS MODEL							
Business Model	Economic Model	Transaction Based (per Transaction, Hour or Unit)	Transaction Based (per Transaction, Hour or Unit)	Transaction Based (per activity, hour or unit)	Output Based	Outcome Based	Transactional, Output or Outcome Based
Business Model	Relationship Model	Transactional/ no relationship	Transactional/ Supplier Vetted on "Approved" List	Relational Contract- Emerging Collaboration	Relational Contract- Collaborative	Relational Contract- Highly Collaborative	Investment Based
Vision & Intent		Supply at Lowest Cost	Recurring Commodities at Fair or Lowest Costs	Value Added Capabilities at Best Value	Performance to SLA- Process Efficiencies	Shared Vision, Desired Outcomes & Value Creation	Sustainable Value
SCOPE OF WORK							
Statement of Work & Objectives		"Who" and/or "How"	"Who" and/or "How"	"Who" and/or "How" with Jointly Defined "How"	"What" with a Limited Emphasis on "How"	"What"	"What if", "What for" and "When"
PERFORMANCE MANAGEMENT							
Performance Focus		Simple Three Way Accounting Match	PO Requirements	Activity-Based Service Level Agreements	Output-Based Service Level Agreements	Strategic Desired Outcomes	P&L-Based Measures
Performance Measures		Right Quantity, Right Price, Damage Free	Basic Provider Metrics + Increased Quality Emphasis	Operational + Customer Satisfaction	Operational + Relational (Values & Behaviors)	Operational + Transformational + Relational System-Wide KIPs	Joint Measures of Success
PRICING							
Pricing Model & Incentives		Fixed-Price/Typically No Incentives/Volume Rebates	Fixed Price/Low-No Incentives/Volume Rebates	Fixed Price/Low Incentives/Volume Rebates	Price with Incentives and/or Penalities	Pricing Model with Value-Based Incentives	P&L-Based Equity Sharing
GOVERNANCE							
Relationship Management		Delivery & Pricing Validation (Three Way PO Match)	Some Performance & Pricing Oversight	Limited Supplier Relationship Management	Oversight Emphasis: Supplier Relationship Management	Insight Emphasis: Strategic Relationship Management	Shared Control and Management
Improve, Transform & Innovate		None/Market-Driven	Limiited/Market-Driven	Beginning to Focus on Incremental Improvement	Supplier-Driven to Meet SLAs/Price Glide Path	Joint & Proactive Transformation Management	Core Innovation Capabilities
Exit Management		One-Way/Limited Commitment to Buy	One-Way/Termination for Cause & Convenience	One-Way/Termination for Cause & Convenience	Perf-Based Termination for Caused w/ Safeguards	Joint Exit Management Plan	Divestiture
Compliance & Special Concerns		Compliance-Driven/ Survey-Based	Typically Compliance-Driven/ Survey-Based	Typically Market- Based/Minimum Audit Requirements	Corporate-Based Audit Requirements	Outcome-Based Joint Requirements	Investment-Based Joint Requirements

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Part 3:

Sourcing Consideration Checklist

This part of the Business Model Mapping Toolkit includes seven checklists (one for each Sourcing Business Model) that provide an easy-to-use way to ensure you do not forget any major decisions that need to be made as you work through your sourcing initiative.

The sourcing considerations guidelines on the following pages were jointly developed by The Forefront Group and Kate Vitasek. Sustainability aspects have been added in collaboration with Cirio law firm.

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Sourcing Considerations Checklist: Basic Provider Model

Consideration	Attributes
Link to Business Objective	No action—sourcing solution support primary business objectives limited to expense control or nonexistent
Requirements Analysis	Limited to no action—requisition(s) details requirements
External Market Analysis	Search for suppliers by scanning online sources, catalogs, or other supplier directories, such as diversity publications, and spot market testing through competitive bidding
Cost Analysis	Focus on administration cost only, seeking ease of order to pay (i.e., purchasing cards, pre-identified catalogs, or preset electronic-auction events)
Supply Market Assessment	No action— multiple suppliers are available and can be easily changed
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed with a basic provider business model. Category management is achieved through competitive bidding for the lowest price supported by a purchase order
Total Cost of Ownership Approach	No action—TCO (total cost of ownership) calculations are not used, and the price is the only cost consideration because of a low-value impact unless delivery or inventory is a significant expense
Risk Assessment	No action—risk is minimum due to market standards; the supplier must meet corporate/compliance policies and standards, or the buyer will choose an alternative supplier
Value Assessment and Balance	Buyer focus—lowest price Supplier focus—Receiving the order and predictable payments
RFx Solicitation / Bid Management	A yearly solicitation cycle is typical; however, it can be perpetual based on industry. *Spot buys* as frequently as daily. The solicitation purpose is to seek the best *market price.* Buyer manages bid and supplier selection with no stakeholder input. Use *request for price.* Typically, 1–2 weeks to select a supplier but it could be the same day
Supplier Selection Drivers	Supplier selection is driven by the lowest price standard items or services and administrative ease of ordering/managing
Risk Management	No action—category does not require active risk management due to low value and is mitigated by switching suppliers
Contract Approach	Use a *procurement card* or *purchase order (PO)* to buy standard market offerings. May use *blanket POs* if plan on repeat buys from a supplier
Pricing Model	Use price based on a *transactional economic model* (e.g., price per unit, per call, per hour) Select the lowest *competitive bid*
Category Management Governance	No action—the purchase order (PO) provides the administrative and governing approach. Buyer manages all aspects of category governance
Supplier Relationship Management	No specified SRM (supplier relationship management) plan — "market" governs the relationship; suppliers are interchangeable based on the lowest price. Buyer owns supplier relationship; any interactions are short-term, ad hoc, and reactive based on solving a problem or addressing issues
Performance Management	Utilize a three-way match accounting process to PO (quantity, price and damage free)
Continuous Improvement / Transformation / Innovation	Identify ways to improve administration or category standards where possible
Compliance & Special Concerns	Survey suppliers to verify compliance with government-driven compliance requirements as well as code of conduct.
Exit Management	No exit strategy required

Sourcing Considerations Checklist: Approved Provider Model

Consideration	Attributes
Link to Business Objective	Apply some effort in purchasing solutions to support business objectives such as growth, cost reductions, or unique specifications. Supplier approval and down-selection criteria reflect corporate objectives
Requirements Analysis	Complete review of historical sourcing solution and forecasted changes in use and demand. Review supplier down-selection criteria and supplier past performance Define work scope —work scope focuses on WHO and/or HOW
External Market Analysis	Complete some work effort to understand the supply and demand influences of the market. Assess suppliers to identify any opportunities presented by current market conditions
Cost Analysis	Complete base product or service cost bar focused on hard costs to include buyer costs (rarely includes visibility of supplier's costs) Identify cost drivers that affect product or service choice. Estimate the supplier's ability to affect buyers and sellers' costs. Develop a cost management plan based on cost bar analysis, information from market queries, and inputs from internal stakeholders
Supply Market Assessment	Complete supplier prequalification process and down-selection using criteria that include a strong focus on the supplier's financial stability. Determine the best size of the supplier, small or large, to support the delivery of the requirement. Down-select suppliers from the broad base of supplier options in the market; typically, there are several approved suppliers to support a single requirement. Investigate the supplier's current business state based on its ability to manage market influences and other factors, such as size, geographic advantage
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed through an approved provider business model
Total Cost of Ownership Approach	Do not complete a TCO for generic items where you are just leveraging your volume. Do complete a TCO if the category value is high, has unique specifications, or products or services have special conditions or considerations
Risk Assessment	Conduct risk assessment as part of the supplier qualification process (Some risk is mitigated through supplier prequalification) Complete risk assessment plan for more critical items, to factor in capacity and supply management processes and any unique requirements imposed beyond standard product or service offerings
Value Assessment and Balance	Buyer focus—recurring commodities at fair or lowest price Supplier focus—increased volumes and client reference
RFx Solicitation / Bid Management	1–2-year solicitation cycle Solicitation's purpose is to seek the best market price, often with unique quality or specification requirements. Buyer manages bid and supplier selection with some input from stakeholders. Request for Price is used. 3–4 weeks to select supplier
Supplier Selection Drivers	Supplier selection is driven by a combination of prequalified capabilities, price, and the ability to meet unique requirements (business or specifications)
Risk Management	Manage risk primarily by switching suppliers (multiple preapproved suppliers) Use supplier preapproval process to verify supplier's ability to meet requirements, including basic compliance directives. Identify alternate supply sources as a backup plan

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Contract Approach	Use standard master agreement contract. Use blanket POs for ease of reordering. Include defined work scope (work scope focuses on WHO and/or HOW) 1–2-year contract duration
Pricing Model	Use price based on a transactional economic model. Typically, fixed price per transaction (per unit, per call, per hour) Negotiate a rate card. Negotiate volume discounts/rebates by bundling work scope/consolidating volumes
Category Management Governance	Manage governance through periodic supplier meetings with some business stakeholder involvement. Changeover of preapproved suppliers driven by competitive solicitations Include additional governance requirements as additions to standard contracts. Resource requirements: Buyer with periodic business stakeholder consult and qualification support\
Supplier Relationship Management	Buyer owns supplier relationship once the prequalification process is complete. Supplier meetings are held periodically to include early warnings on shifting performance trends
Performance Management	Utilize a three-way match accounting process to PO (quantity, price and damage-free) with expanded quality/performance criteria based on business requirements. Some oversight of performance and pricing
Continuous Improvement / Transformation / Innovation	Capture and assess improvement opportunities through periodic supplier interfaces and feedback from stakeholders
Compliance & Special Concerns	It may require corporate compliance validation to become a supplier. Develop and use surveys and periodic audits to verify supplier compliance with government and company-driven requirements
Exit Management	Terminate for convenience and cause. Develop a formal plan for supplier change-out that includes an assessment of the impact on business operations with supplier replacement

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Sourcing Considerations Checklist: Preferred Provider Model

Consideration	Attributes
Link to Business Objective	Define solutions to support specific business objectives. Supplier down-selection based on proven track record of performance and ability to meet business objectives
Requirements Analysis	Complete review of historical sourcing solution and forecasted changes in use and demand. Interface with buyer's business stakeholders to detail requirement objectives Define work scope to focus on WHO and/or HOW; begin to jointly define HOW with trusted suppliers
External Market Analysis	Complete industry market analysis yearly at a minimum to ensure an understanding of opportunities and threats. Benchmark suppliers' impact by market behaviors and influences Benchmark best practices in the market to identify potential value offerings that could be applied in the final sourcing solution
Cost Analysis	Complete base product or service cost bar focused on hard costs to include both internal costs and supplier's costs. Identify cost drivers that affect product or service choice. Develop a target cost model with estimated adjustments in cost drivers (based on market pricing queries) to present to the potential suppliers for comment on how suppliers' target cost differs. Develop a cost-management plan based on cost bar analysis, information from market queries, and inputs from internal stakeholders. May solicit inputs from suppliers
Supply Market Assessment	Investigate the supplier's current business state and position in the market based on its ability to manage market influences and other factors, such as size, geographic advantage, value-added capabilities, etc. Determine the best size of supplier, small or large, to support the delivery of the requirement. Complete supplier prequalification and down-selection using criteria that include a strong focus on the supplier's financial stability and ability to meet compliance requirements. Identify suppliers with differentiated capabilities to provide value-added services
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed through a preferred provider business model. A formal category management plan may be developed with input from key stakeholders and will include methods for evaluating additional value benefits to be achieved through a preferred provider model
Total Cost of Ownership Approach	Complete the TCO model to validate supplier value-added pricing against current costs. Prepare a plan to monitor net landed or net delivered price and operational costs to measure improvements in TCO
Risk Assessment	Conduct risk assessment as part of the supplier qualification process (some risk is mitigated through supplier prequalification) Complete formal risk assessment with internal stakeholder involvement (may include supplier input)
Value Assessment and Balance	What's-in-it-for-we mindset seeking fair and balanced exchange. Buyer focus—increase value beyond price and delivery to include quality, efficiency, capacity management with a specific link to buying company objectives, volume discounts/rebates. Supplier focus—increase contract duration, client reference, preferred status, and revenue growth opportunities to gain a larger share of buyer's spend
RFx Solicitation / Bid Management	2–3-year solicitation cycle The solicitation purpose is to seek value-added capabilities at the best value. Utilize cross-functional business stakeholder involvement in bid management and development of supplier selection criteria. Execute periodic requests for information to solicit benchmark information or specific supplier information in advance of the preparation of formal bid or proposal solicitation requests to gain insights on best practices in the market. Use request for proposal for solicitation with possible inclusions of the requested information on cost, pricing models, and examples of successful improvements with other customers. 4–8 weeks to select the supplier

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Supplier Selection Drivers	Complete best value evaluation (combinations of price, value-added supplier offerings, geographic benefit, differentiated market position, technology, and prequalified capabilities) and identify unique differentiators or value benefit. Review the supplier past performance. Verify supplier acceptance of standard contract terms and conditions
Risk Management	Document risk management expectations from the supplier (i.e., a documented requirement for the supplier to produce a risk management and mitigation plan) Identify alternate suppliers, review differences in value offerings between suppliers, and determine the potential impact on costs to change suppliers. Prepare a supplier change contingency plan should there be a need to change suppliers. The supplier qualification process includes risk management capability and the ability to meet specific compliance requirements
Contract Approach	Use a relational contract approach based on a standard master agreement. Contract for legal terms and conditions with a standardized statement of work template for future business requirements Incorporate a what's-in-it-for-we mindset with a mutually agreed statement of intent. Use blanket purchase orders (POs) for ease of reordering. Includes defined work scope to focus on WHO and/or HOW; begin to jointly define HOW with trusted suppliers. Contract duration 2–3 years
Pricing Model	Use price based on a transactional economic model. Typically, fixed price per transaction (per unit, per call, per hour) Negotiate a rate card with volume discounts/rebates by bundling work scope/consolidating volumes. May use an open book compensation model but typically there is limited use due to higher administrative burden. Establish price adjustment targets using a total cost of ownership model as the basis for cost
Category Management Governance	Include appropriately scaled governance mechanisms for contract compliance, financial management, managing issues and risks, performance management, and relationship management between internal stakeholders. Buyer facilitates governance with key internal stakeholders throughout the sourcing cycle. Develop a plan for formal minimum quarterly business reviews with a pre-established agenda for strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, and change control committee
Supplier Relationship Management	The buyer typically "owns" supplier relationship management with business stakeholder involvement. Appropriately scaled SRM framework, including mechanisms for the buyer-supplier interface, formal escalation management, and change management/commercial management. Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier expanded value contribution to buyer's business
Performance Management	Develop activity-based service-level agreements. Develop a formalized cost target tracking process. Develop and use a formal operational scorecard. Create customer satisfaction surveys and develop a management plan
Continuous Improvement / Transformation / Innovation	Develop a plan to capture and assess improvement opportunities through supplier reviews. Include a contracted requirement for the supplier to proactively identify and implement continuous improvement efforts
Compliance & Special Concerns	Create an audit plan to verify supplier compliance with government and company-driven requirements
Exit Management	Terminate for convenience and cause. Develop an exit management plan with a longer duration allowance to reduce business interruption because the supplier typically is integrated into the business operation

Sourcing Considerations Checklist: Performance-Based Model

Consideration	Attributes
Link to Business Objective	Define solutions to support specific business objectives with the active inclusion of business stakeholders. Develop measurable targets with business stakeholders that align with business objectives. Document a clear description of the business objective(s) for eventual provision to supplier
Requirements Analysis	Complete review of historical sourcing solution with business stakeholder involvement Complete current state assessment of the requirement to establish ***baseline*** performance targets against which the supplier's future performance guarantees will be compared and measured. Define work scope; work scope focuses on the WHAT and limited HOW of work scope; supplier develops HOW using a Performance Work Statement.
External Market Analysis	Complete formal market analysis to investigate market behaviors, trends and influences on the category requirement. Benchmark best practices to provide the basis for evaluating current practices and identifying possible improvements to build into requirements
Cost Analysis	Develop a cost model with hard and soft cost elements included. Identify cost drivers and prioritize improvement targets with business stakeholders. Develop a cost management plan with supplier involvement. Establish performance targets for specified cost drivers' reduction and year-over-year price reduction. Develop cost baseline with buyer business and supplier business stakeholders that will serve as the foundation for savings glidepath to validate year-over-year cost reductions
Supply Market Assessment	Complete supply market research to identify suppliers which lead in the category and have sound financials that allow them to assume higher levels of risk. Determine the stability of the supplier(s) position in the market based on their ability to manage market influences and other factors such as size, geographic advantages, and assess whether they are candidates for acquisition or divestiture for the term of the support needed. Determine the best size of the supplier, small or large, to support the delivery of the requirement. Complete supplier pre-qualification and down-selection using criteria with a strong focus on financial stability, supplier(s) strength in the industry, as well as other category requirement-specific support criteria developed by business stakeholders. Develop a supply base strategy based on intelligence collected to assure continuous support, strong performance and process stability and improvement
Category Portfolio Segmentation	Validate Portfolio Segmentation- indicates requirement is best managed with a Performance-Based Model Develop a formal category management plan with input from business stakeholders establishing goals, objectives and performance targets
Total Cost of Ownership Approach	Complete the TCO model to validate supplier value against current costs. Identify factors in addition to price, such as systems capabilities, full-time resources assignments, training provisions or work design efficiencies, that might be applied by a supplier based on the situation and complexity of the requirement that may be incremental to current TCO. Prepare a plan to monitor net landed or net delivered price and operational costs to measure improvements in TCO.

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Risk Assessment	Conduct full risk assessment due to higher dependency on fewer suppliers. Draft contract clauses to transfer appropriate level of risk management to suppliers, requiring supplier contingency plans where applicable to the category requirement being provided. Complete formal risk assessment and risk mitigation plan with the involvement of business stakeholders. Solicit input from suppliers. Formal transition plan for any transfer of work scope.
Value Assessment and Balance	What's-in-it-for we mindset seeking fair and balanced exchange. Buyer focus: replacement of non-core competencies to lower cost, drive performance improvements and gain additional support for other business objectives such as market growth and/or new product introduction. Supplier focus: increase contract duration, the opportunity for increased profit with incentives if meet performance targets, revenue growth, reference client, cooperation for improvement.
RFx Solicitation / Bid Management	3-5 years solicitation cycle Solicitation purpose is to seek cost management and year-over-year cost reductions at a competitive price/value. Create a cross-functional team to represent all business stakeholders and users with the responsibility to create supplier down-selection criteria; down-select criteria should be weighted and include quantitative and qualitative criteria including cultural fit Participate in proposal review and negotiations preparation and planning. Periodically use a Request for Information (RFI) to gain benchmark information that may be applicable. RFI's are also used to test market pricing throughout the period of the selected supplier performance period to track valid pricing trends. Prepare a Request for Solution (RFS) focused on specific supplier-provided benefits such as cost reductions, quality improvements, technology improvements and service scope expansion potential. 2-4 months to select the supplier .
Supplier Selection Drivers	Complete best value evaluation with benchmarked supplier leaders possessing core competency to uniquely support the delivery of the requirements and provide cost-efficiency. Evaluate suppliers against the TCO model to identify the best value supplier approach. Evaluate the ability of the supplier to manage cost and manage or mitigate risks. Down-select supplier based on a proven track record of performance and capability to meet business objectives. Complete best value analysis reviewing other factors in addition to price such as systems capabilities, full-time resource application, geographical capability, training or other work design efficiencies
Risk Management	Document risk management expectations from the supplier, i.e., a documented requirement for the supplier to produce a risk management and mitigation plan. Develop performance metrics to track risk. Document specific risk penalties, i.e., monetary or termination with exit transition obligations Prepare a formal risk management contingency plan. The supplier qualification process includes risk management capability and the ability to meet specific compliance requirements. Jointly develop a formal work scope transition plan
Contract Approach	Use a relational contract approach designed to be a flexible framework. Modify buyer master agreement to develop contract language inclusions for supplier management of risk and costs. Incorporate what's-in-it-for-we" mindset with a mutually agreed Statement of Intent Include defined work scope; work scope focuses on WHAT, with limited focus on HOW; supplier develops Performance Work Statement outlining the HOW. Contract duration commensurate with supplier's investment, typically with a 3–5-year base using options to extend one year at a time.

Pricing Model	Use an output-based economic model. Use price with incentive and/or penalties tied to supplier's performance against performance guarantees. Typically, fixed price, but it can be a cost reimbursement. Pricing typically is split into a base fee (often transactional) and a management fee with incentives. Define the expected pre-agreed savings glide path. Define incentives and/or penalties tied to performance. Define gainsharing for performance above meeting requirements as appropriate if allowed by company policies
Category Management Governance	Include appropriately scaled governance formally documented in the contract. Incorporate mechanisms for contract compliance, financial management, managing issues and risks, performance management, and relationship management between internal stakeholders. The business facilitates governance with a cross-functional team; the buyer plays a support role. Appropriately scaled resources support various governance mechanisms with the goal of having a high degree of business continuity over the sourcing cycle. Develop a plan for formal governance review meetings with a pre-established agenda for strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, change control committee
Supplier Relationship Management	"Business" typically owns the supplier relationship with key stakeholder responsibilities coordinated by the buyer. Appropriately scaled SRM framework, including defining and documenting the following mechanisms into the actual contract. Change management/commercial management "2 in a Box" buyer-supplier interface structure Formal escalation process Formal continuity of resource plan to assure consistent relationship interface (including ***key man provisions*** as appropriate) Clear and separate roles for relationship management, operation management, commercial/contract management (for managing scope changes) Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier expanded value contribution to business objectives
Continuous Improvement / Transformation / Innovation	Include contractual clause for supplier performance guarantees for continuous cost improvements
Compliance & Special Concerns	Create an audit plan to verify supplier compliance with government and company-driven requirements
Exit Management	Termination for performance failures Significant impact with supplier exit; develop a formal Exit Management Plan addressing: Budget for transition costs and resource allocation Mutually agree on transition duration for supplier removal and replacement A fair division of intellectual property rights Fair allocation of assets and investments Business continuity for stakeholders Contract satisfaction and completion Record of lessons learned

Sourcing Considerations Checklist: Vested Model

Consideration	Attributes
Link to Business Objective	Brief down-selected supplier(s) on overall business strategies Develop measurable targets that align with business objectives jointly with business stakeholders and supplier
Requirements Analysis	Complete review of historical sourcing solution Complete current state assessment with business stakeholders to serve as the baseline against which future performance will be measured. Develop desired outcomes and complete the requirements roadmap directly aligned to business objectives with a joint team of buyer business stakeholders and supplier representatives. Determine and document objectives with a joint team of business and supplier stakeholders to drive work efforts to meet the desired outcomes. Determine work scope/workload allocation through a process of evaluation with a joint team of business and supplier stakeholders as part of the requirements. Define work scope to focus on WHAT, not the HOW; supplier develops performance work statement.
External Market Analysis	Complete market analysis to identify potential Vested partners. Conduct ongoing market analysis with a joint team of buyer business and supplier stakeholders to ensure an understanding of current trends and potential opportunities for improvement
Cost Analysis	Develop a cost model with both hard and soft costs with business and supplier stakeholders to serve as the basis against which improvements are made and measured. Develop a protocol for reviewing supplier-provided open book costing with a focus on reducing the overall cost structure (not just the supplier's price). Develop a cost management plan to include considerations of efficiency and productivity and understanding the value of potential innovations and transformation with the involvement of both parties.
Supply Market Assessment	Identify suppliers through market research with a focus on those suppliers that provide demonstrative evidence and record of innovation, transformation, and collaboration. Investigate suppliers' current business state and position in the market based on their ability to manage market influences and other factors, such as size, geographic advantage, etc. Determine the best size of the supplier, small to large, to support the delivery of the requirement. Complete a review of the suppliers' ability to invest in their business to improve productivity and efficiency and drive excellence in the management of the category.
Category Portfolio Segmentation	Validate portfolio segmentation—indicates product or service provided is best managed by a Vested business model. Develop a formal category management plan with key internal stakeholders with defined supply solution guardrails.
Total Cost of Ownership Approach	Develop a TCO model with joint buyer/supplier team members. Prepare a TCO monitoring plan with a defined cadence and a refresh time frame with joint buyer/supplier team members
Risk Assessment	A comprehensive formal risk assessment completed by both business and supplier stakeholders
Value Assessment and Balance	Define **the** what's-in-it-for-we mindset seeking true win-win/value creation. Conduct value allocation evaluation and best value analysis to ensure a balance between the two parties with joint buyer/supplier team members. Define process with joint buyer/supplier team members for measuring and allocating value generation after total cost management and predefined objectives are achieved.

RFx Solicitation / Bid Management	5–7-year solicitation cycle The solicitation purpose is to seek differentiated value add with a competitive pricing model. Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria. Periodic use of a request for information to solicit benchmark information in advance of the preparation of a formal proposal request to gain insights on best practices in the market. Prepare a request for proposed solution or request for partner, which may include requested information on cost, pricing models, and examples of successful improvements with other customers. 2- 4 months to select the supplier.
Supplier Selection Drivers	5–7-year solicitation cycle The solicitation purpose is to seek differentiated value add with a competitive pricing model. Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria. Periodic use of a request for information to solicit benchmark information in advance of the preparation of a formal proposal request to gain insights on best practices in the market. Prepare a request for proposed solution or request for partner, which may include requested information on cost, pricing models, and examples of successful improvements with other customers. 4–8 weeks to select the supplier Evaluate historical supplier performance, benchmarked supplier innovation and transformation experience, and track record of success in the key areas of capability required for the successful delivery of the category requirement. Determine the alignment of business objectives between buyer and supplier. Assess the supplier's ability to successfully manage the influences in and impact of the market. Conduct a Compatibility and Trust Survey to assess alignment between both parties for ease of relationship interface and management.
Risk Management	Buyer and supplier jointly define and document shared risk and shared reward clause for inclusion in the contract. Buyer and supplier jointly develop formal risk analysis, management and mitigation plan with defined tracking and measurement process. Buyer and supplier jointly develop formal *onboarding* and off-ramp process to ensure knowledge transfer, process continuity, and compliance requirements are met.
Contract Approach	Highly collaborative relational contract approach designed to be a flexible framework; statement of intent formally embedded into the contract. Buyer and supply jointly develop a master agreement for terms and conditions and explicit guardrails. Incorporate What's in it for We mindset with a mutually agreed statement of intent. Include defined work scope—work scope focuses on "WHAT," not the "HOW"; supplier develops performance work statement. The contract structure includes all 10 Vested elements, including a comprehensive change management process defined in the contract schedule. Contract duration typically 5–7 years with a minimum of 3 years with an option to extend the contract 1 year at a time up to 10+ years. Consider using an evergreen provision to extend the contract based on the supplier's ability to create value against strategic desired outcomes
Pricing Model	Pricing model with incentives to optimize for business outcomes and motivate the supplier to invest in innovation. Supplier fee at risk with incentives for achieving and/or exceeding requirements and outcomes. Open book cost management where the supplier provides all cost visibility. Clearly identified financial guardrails for both buyer and supplier. Margin matching mechanisms designed to keep buyer and supplier in financial balance. Win together, lose together

Business Model Mapping Toolkit

Category Management Governance	Include appropriately scaled governance formally documented in the contract. Incorporate governance mechanisms for contract compliance, financial management/budgeting. Decision protocol with issue escalation and resolution parameters Performance management Relationship management between internal stakeholders (typically a three-tier structure with an assigned budget and three levels of one-to-one interface for the operating team, core relationship management team, executive team) The business facilitates governance with a cross-functional team; the buyer plays a support role. Appropriately scaled resources support various governance mechanisms with the goal of having a high degree of business continuity over the sourcing cycle. Larger or complex outsourced services have a formal work scope transition and change management teams. Develop a plan for formal governance review meetings with a pre-established agenda for strategy and relationships review, service review, commercial review, financial review, security and compliance review, quality and risk review, transformation review, and management process. Formal communication process, supported by planned cadence to ensure timeliness of interfaces.
Supplier Relationship Management	Identify and document planned opportunities for additional periodic supplier interaction at various levels of buyer and supplier organizations to review supplier performance. Buyer and supplier "business" own the relationship. Appropriately scaled SRM framework, including defining and documenting the following mechanisms in the actual contract: Change management/commercial management. Two-in-a-box buyer-supplier interface structure. Formal escalation process. Formal decision-making process/rights clearly assigned. Formal continuity of resource plan to ensure consistent relationship interface (including *key man provisions* as appropriate) Dedicated resource(s) focused on relationship management. The three-tier structure mirrors overall category management governance with clear and separate roles for relationship management, operation management, commercial/contract management, and transformation/innovation management Formal communications protocol and plan. Formal continuity of resource plan including key man provisions for both buyer and supplier. A joint relationship management scorecard is defined and used to monitor relationship effectiveness. Yearly Compatibility and Trust Assessments are used to monitor potential gaps in the relationship.
Performance Management	Focus on outcome-based strategic business objectives/desired outcomes. Balanced business scorecard jointly managed including operational, relational, and transformational key performance indicators (KPIs). KPIs are perpetually tracked by both parties. A formal total cost of ownership tracking.
Continuous Improvement / Transformation / Innovation	Formal transformation/innovation management framework. Defined processes and protocols for driving overall transformation initiatives through a jointly managed continuous innovation management process. Defined processes and protocols for driving day-to-day continuous improvement efforts or business problems that arise. A formal process documented for updating and managing any changes to the actual contract/pricing model as part of governance.
Compliance & Special Concerns	Compliance with government and jointly developed requirements and practices perpetually monitored.

Exit Management	Termination criteria co-developed by buyer and supplier. Significant impact with supplier exit; develop a formal exit management plan addressing: Budget for transition costs and resource allocation Mutually agreed-on transition duration and pre-identified resource allocation estimates for off-ramp activity. Fair division of intellectual property rights Fair allocation of assets and investments Business continuity for stakeholders Contract satisfaction and completion Record of lessons learned

Business Model Mapping Toolkit

Sourcing Considerations Checklist: Shared Services Model

Consideration	Attributes
Link to Business Objective	Design or select the shared services organization (SSO) to drive cost efficiencies that support business/user groups. Provide economic model descriptions (transactional, output, or outcome) to serve as a guide for the SSO to determine the appropriate link to business objectives based on the economic model used for a specific requirement.
Requirements Analysis	Conduct a review, document the historical solution, and define forecasted changes in use and demand as part of the requirement definition. Define a process and plan for updating requirement information. Define and document category requirement solution objectives and continuous improvement expectations.
External Market Analysis	Participate with the SSO in market analysis and best practices benchmarking continuously to identify opportunities to improve results. Design SSO market analysis reporting process to enable adequate updates to business stakeholders on market influences and impacts.
Cost Analysis	Establish a baseline operational and management cost model using input from internal stakeholders against which the SSO cost performance will be measured. Complete a full business case justification for the make versus buy decision. Develop a cost management reduction plan with internal stakeholders and SSO. Develop a spend reduction plan based on volume consolidation and leveraging with SSO aggregated volumes.
Supply Market Assessment	Benchmark SSOs in the market to validate the cost-benefit and best practices of shared services solutions. Participate with SSO in supply market investigations and source qualification with a focus on process efficiency and quality consistency. Investigate the supply market periodically to evaluate the cost and risk of this supply solution (i.e., could the SSO be spun off into a subsidiary, a candidate for acquisition. or work scope outsourced). Prepare a supply base strategy based on the attributes identified from the supply market investigation. Investigate suppliers' positioning against market behaviors to ensure requirements can be met.
Category Portfolio Segmentation	Category portfolio segmentation indicates that the requirement is best managed through a shared services/equity business model; the same segmentation process will be used by the SSO (with possible support by the business unit) to determine the best Sourcing Business Model to use for specific category requirements. Develop a category management plan prepared by the SSO with input from the business unit; SSO follows the appropriate process for managing each of the Sourcing Business Models according to the spend requirement.
Total Cost of Ownership Approach	Build a TCO model to serve as a baseline against which the cost of the SSO to the business unit is measured. Participate with the SSO in developing category requirement-specific TCOs. Build a plan that supports focus on overall category management and total supply chain costs using an internal cost model; use joint efforts (SSO and business unit) to identify ways to streamline services provided, to improve quality or reduce costs, and to ensure that the business unit can meet objectives.
Risk Assessment	Participate in the completion of a formal risk assessment and mitigation plans with the SSO; the SSO is responsible for managing and minimizing risk with periodic reporting requirements. Prepare a contingency plan should there be a need to change the Sourcing Business Model (e.g., change to outsource to a supplier, spin-off as a subsidiary) or change in external suppliers managing the SSO.

Business Model Mapping Toolkit

Value Assessment and Balance	Business unit focus: lower prices and costs; assured supply with captive supplier SSO focus: increased volumes and the ability to invest in itself to improve capabilities and costs; assured demand with captive buyer
RFx Solicitation / Bid Management	3–5-year solicitation cycle The solicitation purpose is to seek a competitive fixed fee with improved cost management and cost savings. Define objectives setting and final decision criteria with business stakeholders; business management and business stakeholders participate in the final selection of the supplier. Request for proposal or request for a proposed solution is used if a buyer seeks cost savings commitments and other value drivers using an external shared service source. 4–6 months to select an external shared services provider.
Supplier Selection Drivers	Pre-evaluate core capabilities and cost management efficiency .
Risk Management	Prepare formal risk mitigation and management plans.
Contract Approach	3–5-year complex services contract (for external shared services providers) with inclusions to mitigate and manage risk and cost efficiency internally. A formal memorandum of understanding or agreement between SSO and business unit. A periodic formally documented determination of measurements and cost objectives (for internal shared services provider).
Pricing Model	Nonprofit model—Typically transaction fee charged to the business unit; may use headcount or overhead allocation charge but not a preferred approach. For-profit model—Transaction fee charged to business units plus add-on fee (profit). Rebates are paid to the business unit when transaction fees exceed the cost. Annual reset of transaction fee (if internal SSO).
Category Management Governance	Internal shared services: Organizational policies and procedures supported by organization design decision-making and management provide governance. External shared services: Develop and document process for holding formal quarterly reviews supported by additional internal stakeholders.
Supplier Relationship Management	The business unit holds formal meetings with the SSO (minimum quarterly reviews); the business unit is included in specific external supplier reviews as appropriate. Internal shared services: Relationships reflect organizational structure and cross-functional integration behaviors and decision making. Escalation process follows the prescribed company protocols. External shared services: The business unit plans regular interactions to ensure effective relationship development and decision making. The business unit defines a formal escalation process for service delivery issues. A business unit may be a member on the provider's category team.
Performance Management	Develop operational metrics based on chosen economic model (transactional, output, or outcomes) SSO and business unit develop and use a formal operational and relational scorecard. Internal SSOs: Use organizationally defined performance objectives. Develop cost-focused measures; the business unit typically develops a formalized cost target tracking process. SSO and business unit create customer satisfaction surveys and develop a management plan. External SSOs are typically managed as preferred, performance-based, or Vested.

Continuous Improvement / Transformation / Innovation	The business unit develops a formal capture and assessment process for improvement opportunities. Internal shared services: SSO follows the business requirements and objectives for continuous improvements and requires external suppliers to proactively identify and implement continuous improvement opportunities as part of the contracted requirements. External shared services: Contract includes defined guarantees for continuous cost improvements through efficiencies or alternate solutions.
Compliance & Special Concerns	Internal shared services: Follows business compliance protocols perpetually monitored. External shared services: The business unit creates an audit plan to verify supplier compliance with government and company-driven requirements.
Exit Management	High impact on the business if internal SSO is outsourced or external SSO is exited. Internal shared services: Exit plans are part of the overall business plan. External shared services: The business unit develops a budget for transition costs and resource allocation. The business unit develops a formal exit management plan with a longer duration transition allowance because of the high impact on business operations with supplier removal and replacement.

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Sourcing Considerations Checklist: Equity Partnership Model

Consideration	Attributes
Link to Business Objective	An equity partner is purposely created to enable business strategy execution. Corporate objectives are developed jointly by equity partners; business and supplier stakeholders incorporate them into their specific performance goals.
Requirements Analysis	Requirements are provided as part of the standard business operation and execution process.
External Market Analysis	Use of market analysis and benchmarking to evaluate the benefits of using an equity partner mode.l Use market analysis to determine influences and impact on the equity partner. Use SWOT (strengths, weaknesses, opportunities, threats) analysis to validate equity partner value and to determine appropriate adjustments in the model design. Establish competitive cost solutions with internal equity holding.
Cost Analysis	Build a cost model with hard and soft costs, and analyze cost drivers. Assist in building a cost management plan focused on improving profit and loss (cost and revenue). Cost management objectives are established and driven by the business, are focused on being competitive, and are evaluated by benchmarking. The focus of the equity partner is on profitability.
Supply Market Assessment	Use benchmarking to search for best practices, cost efficiency, and innovation practices in the supply market to compare to the equity partnership. Investigate the supply market to validate the equity partner position (i.e., leader or follower) and potential risks that could affect requirements delivery.
Category Portfolio Segmentation	Completed portfolio segmentation indicates the requirement is best managed with an equity partner business mode.l Develop a category management plan jointly with the equity partner.
Total Cost of Ownership Approach	Develop and use a TCO model to monitor cost improvements; the primary focus is on how costs (influenced by the buying unit's behavior as well as operational behavior) impact profit.
Risk Assessment	Prepare a contingency plan to mitigate any identified risks.
Value Assessment and Balance	Business unit: Lower total costs. Equity partners: Increased profitability and potential growth.
RFx Solicitation / Bid Management	5+-year solicitation cycle seeking mitigation of risk and internal cost management.
Supplier Selection Drivers	Typically, no choice: The business unit is directed to use equity partner.
Risk Management	Typically, high-risk/high-reward scenario. Formalized use of company standard risk management planning process; associated with investments.
Contract Approach	Internal cross-departmental documented agreement for delivery of specified requirements.
Pricing Model	Shared costs and sometimes shared profits; predetermined markup based on company policies and financial objectives.
Category Management Governance	Formal monthly reporting and business reviews covered by company policies, procedures, and reporting structures. The business unit typically facilitates governance between key operational stakeholders and business management resources.
Supplier Relationship Management	A business unit may have a seat at monthly business reviews—may be part of the business strategy planning process. Business unit may be included in the business strategy planning process to address specific category requirement influences.
Performance Management	The focus is on TCO and potential profit impact measured against objectives influenced by the category requirement.
Continuous Improvement / Transformation / Innovation	Compliance with government and company policies and practices is perpetually monitored as part of the business protocol.

Compliance & Special Concerns	It may or may not have a high impact depending on the rationale for the discontinued use of the equity partner.
Exit Management	Exit (discontinued use of equity partner) contingency plans are developed by the business as part of the business planning process. Budgets are established, and resources are identified and included in the plan to manage transitions effectively.

THANK YOU !!
to our field-based research partners

The University of Tennessee faculty dedicated to the furthering our research in the area of strategic sourcing and the Vested business model would like to thank our field-based Vested Center of Excellence research partners who continue to work with us in our research to close the gap between theory and practice. Our field-based partners help us test key concepts such as deploying sourcing business model theory into practice.

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