

RealPlay[®] Tool



Is Vested Right For Your Situation?

Business Model Mapping Toolkit

Based on research with...
 **HASLAM**
COLLEGE OF BUSINESS
THE UNIVERSITY OF TENNESSEE, KNOXVILLE

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 Sourcing Industry Group, the International Association for Contract and Commercial Management, 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



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.



*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), the International Association for Contract and Commercial Management (IACCM) 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 14 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 11 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 16.

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.



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 outsourcing 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?" 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 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).

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Step 2: Use the Business Model Mapping Template to determine the best relationship model for what you are sourcing. (map the 14 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?

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
	None	None	Medium	High	Very High	Critical
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.

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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 perspective 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.

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.

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Step 3: Use the Business Model Mapping Template to determine the best economic model for what you are sourcing (map the 11 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 – 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 11 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?
- What is the nature of the workscope?
- 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 will there be an opportunity to drive efficiency. For example, let's return to the insurance company looking to potentially outsource a legacy claims processing function.

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

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 relational 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.

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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.

		Relationship/Contract Model		
		Transactional Contract (Market)	Relational Contract (Hybrid)	Investment (Vertical Integration / Hierarchy)
Economic Model	Outcome-Based Economics tied to Boundary Spanning/Business Outcomes	Mismatch – Not a Viable Strategy	Vested	Equity Partner (e.g. Joint Venture) or Shared Services
	Output-Based (Performance-Based / Managed Services) Economics tied to Supplier Output	Mismatch – Not a Viable Strategy	Performance-Based (Managed Services) Agreement	
	Transaction-Based Economics tied to activities drive behavior	Basic Provider Approved Provider	Preferred Provider	

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. Which Sourcing Business Model is the most appropriate? How did this compare with your original expectations?
4. Did your viewpoint change when you bundled one or more services?
5. 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 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.

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Relationship Model Mapping Template (See page 14 and 15 for Definitions)

Attributes to Determine the Best Relationship Model	Transactional Contract		Relational Contract			Investment
DEPENDENCY						
Cost to Switch						
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	Limited number of capable suppliers	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
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
DEGREE OF RISK TOLERANCE ^{4,5}						
Profit Impact from the buyer's perspective (volume purchased, % of total purchased costs, impact on business growth) ⁵	None	Low	Medium	High	Very High	Critical
Service or product delivery failure impact on end customer/brand experience ^{4,5}	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	Contractual ability for 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 page 15 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
NATURE OF WORKSCOPE/TASKS ²						
Degree of supplier control over outcome 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
Ease at which task/workscape 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: ¹Williamson, ²Eisenhart, ³Prahalad and Hamel, ⁴University of Tennessee, ⁵Kraljic

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



Definitions of Each Attribute:

DEPENDENCY	
Cost to Switch	
Overall cost to switch suppliers ^{1,4}	The overall impact of 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 proximity of the supplier to delivery sites or operational centers of the buyer, supply chain delivery, import/export services and regulations, and impact to 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, 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 supplier's personnel needed to perform essential 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, 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. It is essential to consider the scale and specific competencies needed by the buyer for 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 is available in the market.
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.
DEGREE OF BUSINESS RISK	
Profit impact from the buyer's perspective (volume purchased, % of total purchased costs, impact on business growth) 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, value add, market risk and business dependency (% of buyer's portfolio with one supplier?)

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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.
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 opportunity to drive innovation that will benefit both the buyer and supplier in the relationship. What is the level of importance placed on 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?
NATURE OF WORKSCOPE /TASKS	
Degree of supplier control over outcome 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.
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/workscape can be specified ²	The extent to which the task or workscape can be specified in advance in detail.
CRITICALITY OF THE WORK	
Risk related to operational safety ⁴	The extent to which there is risk to the business if safety was compromised.
Risk related to operational reliability ^{4,5}	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 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.



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.

		Relationship/Contract Model		
		Transactional Contract (Market)	Relational Contract (Hybrid)	Investment (Vertical Integration / Hierarchy)
Economic Model	Outcome-Based <i>Economics tied to Boundary Spanning/Business Outcomes</i>	Mismatch – Not a Viable Strategy	Vested	Equity Partner (e.g. Joint Venture) or Shared Services
	Output-Based (Performance-Based / Managed Services) <i>Economics tied to Supplier Output</i>	Mismatch – Not a Viable Strategy	Performance-Based (Managed Services) Agreement	
	Transaction-Based <i>Economics tied to activities drive behavior</i>	Basic Provider Approved Provider	Preferred Provider	



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
	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 Penalties	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	Limited/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



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.



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 lowest price supported by a purchase order
Total Cost of Ownership Approach	No action—TCO (total cost of ownership) calculations are not used, and price is the only cost consideration because of low-value impact unless delivery or inventory is a significant expense
Risk Assessment	No action—risk is minimum due to market standards, supplier must meet corporate/compliance policies and standards or buyer will choose alternative supplier
Value Assessment and Balance	Buyer focus—lowest price Supplier focus—Receiving the order and predictable payments
RFx Solicitation / Bid Management	Yearly solicitation cycle is typical; however, can be perpetual based on industry <i>Spot buys</i> as frequently as daily Solicitation purpose is to seek best <i>market price</i> Buyer manages bid and supplier selection with no stakeholder input Use <i>request for price</i> Typically 1–2 weeks to select supplier but could be same day
Supplier Selection Drivers	Supplier selection driven by 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 <i>procurement card</i> or <i>purchase order (PO)</i> to buy standard market offerings May use <i>blanket POs</i> if plan on repeat buys from supplier
Pricing Model	Use price based on a <i>transactional economic model</i> (e.g., price per unit, per call, per hour) Select the lowest <i>competitive bid</i>
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 interchangeable based on 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 supplier to verify compliance with government-driven compliance requirements
Exit Management	No exit strategy required



Sourcing Considerations Checklist: Approved Provider Model

Consideration	Attributes
Link to Business Objective	Apply some effort in purchase solution 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 workscope —workscope 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 supplier's ability to affect buyers and sellers' costs Develop 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 supplier's financial stability Determine the best size of the supplier, small or large, to support 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 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 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 purpose is to seek best market price often with unique quality or specification requirements Buyer manages bid and supplier selection with some input by stakeholders Request for price is used 3–4 weeks to select supplier
Supplier Selection Drivers	Supplier selection driven by 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 backup plan

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



Sourcing Considerations Checklist: Preferred Provider Model

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

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



Sourcing Considerations Checklist: Performance-Based Model

Consideration	Attributes
Link to Business Objective	<p>Define solution to support specific business objectives with active inclusion of business stakeholders</p> <p>Develop measurable targets with business stakeholders that align with business objectives</p> <p>Document a clear description of the business objective(s) for eventual provision to supplier</p>
Requirements Analysis	<p>Complete review of historical sourcing solution with business stakeholder involvement</p> <p>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.</p> <p>Define workscope; workscope focuses on the WHAT and limited HOW of workscope; supplier develops HOW using a Performance Work Statement</p>
External Market Analysis	<p>Complete formal market analysis to investigate market behaviors, trends and influences on the category requirement</p> <p>Benchmark best practices to provide the basis for evaluating current practices and identifying possible improvements to build into requirements</p>
Cost Analysis	<p>Develop a cost model with hard and soft cost elements included</p> <p>Identify cost drivers and prioritize improvement targets with business stakeholders</p> <p>Develop a cost management plan with supplier involvement</p> <p>Establish performance targets for specified cost drivers reduction and year over year price reduction</p> <p>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</p>
Supply Market Assessment	<p>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</p> <p>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</p> <p>Determine the best size of the supplier, small or large, to support the delivery of the requirement</p> <p>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</p> <p>Develop a supply base strategy based on intelligence collected to assure continuous support, strong performance and process stability and improvement</p>
Category Portfolio Segmentation	<p>Validate Portfolio Segmentation- indicates requirement is best managed with a Performance-Based Model</p> <p>Develop a formal category management plan with input from business stakeholders establishing goals, objectives and performance targets</p>
Total Cost of Ownership Approach	<p>Complete TCO model to validate supplier value against current costs</p> <p>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</p> <p>Prepare a plan to monitor net landed or net delivered price and operational costs to measure improvements in TCO</p>

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

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Pricing Model	<p>Use an output-based economic model</p> <p>Use price with incentive and/or penalties tied to supplier's performance against performance guarantees</p> <p>Typically fixed price, but can be cost reimbursement</p> <p>Pricing typically split into a base fee (often transactional) and management fee with incentives</p> <p>Define expected pre-agreed savings glide path</p> <p>Define incentives and/or penalties tied to performance</p> <p>Define gainsharing for performance above meeting requirements as appropriate if allowed by company policies</p>
Category Management Governance	<p>Include appropriately scaled governance formally documented in the contract</p> <p>Incorporate mechanisms for contract compliance, financial management, managing issues and risks, performance management, and relationship management between internal stakeholders</p> <p>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 to have a high degree of business continuity over the sourcing cycle</p> <p>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</p>
Supplier Relationship Management	<p>"Business" typically owns the supplier relationship with key stakeholder responsibilities coordinated by the buyer</p> <p>Appropriately scaled SRM framework, including defining and documenting the following mechanisms into the actual contract</p> <ul style="list-style-type: none"> 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) <p>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</p>
Continuous Improvement / Transformation / Innovation	<p>Include contractual clause for supplier performance guarantees for continuous cost improvements</p>
Compliance & Special Concerns	<p>Create an audit plan to verify supplier compliance with government and company-driven requirements</p>
Exit Management	<p>Termination for performance failures</p> <p>Significant impact with supplier exit; develop a formal Exit Management Plan addressing:</p> <ul style="list-style-type: none"> 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 effort to meet the desired outcomes Determine workscope/workload allocation through a process of evaluation with a joint team of business and supplier stakeholders workscope as part of the requirements Define workscope 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 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 focus on reducing overall cost structure (not just the supplier's price) Develop a cost management plan to include considerations of efficiency and productivity and on understanding the value of potential innovations and transformation with the involvement of both parties
Supply Market Assessment	Identify suppliers through market research with the 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 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

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RFx Solicitation / Bid Management	<p>5–7 year solicitation cycle</p> <p>Solicitation purpose is to seek differentiated value add with a competitive pricing model</p> <p>Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria</p> <p>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</p> <p>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</p> <p>2- 4 months to select the supplier</p>
Supplier Selection Drivers	<p>5–7 year solicitation cycle</p> <p>Solicitation purpose is to seek differentiated value add with a competitive pricing model</p> <p>Buyer utilizes cross-functional business stakeholder involvement in bid management and development/priority weighting of supplier selection criteria</p> <p>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</p> <p>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</p> <p>4–8 weeks to select the supplier</p> <p>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</p> <p>Determine the alignment of business objectives between buyer and supplier</p> <p>Assess the supplier's ability to successfully manage the influences in and impact of the market</p> <p>Conduct Compatibility and Trust Survey to assess alignment between both parties for ease of relationship interface and management</p>
Risk Management	<p>Buyer and supplier jointly define and document shared risk and shared reward clause for inclusion in the contract</p> <p>Buyer and supplier jointly develop formal risk analysis, management and mitigation plan with defined tracking and measurement process</p> <p>Buyer and supplier jointly develop formal <i>onboarding</i> and off-ramp process to ensure knowledge transfer, process continuity, and compliance requirements are met</p>
Contract Approach	<p>Highly collaborative relational contract approach designed to be a flexible framework; statement of intent formally embedded into the contract</p> <p>Buyer and supply jointly develop a master agreement for terms and conditions and explicit guardrails</p> <p>Incorporate What's in it for We mindset with a mutually agreed statement of intent</p> <p>Include defined workscope—workscope focuses on “WHAT,” not the “HOW”; supplier develops performance work statement</p> <p>Contract structure includes all 10 Vested elements, including a comprehensive change management process defined in the contract schedule</p> <p>Contract duration typically 5–7 years with a minimum of 3 years with an option to extend contract 1 year at a time up to 10+ years</p> <p>Consider using an evergreen provision to extend the contract based on the supplier's ability to create value against strategic desired outcomes</p>
Pricing Model	<p>Pricing model with incentives to optimize for business outcomes and motivate the supplier to invest in innovation</p> <p>Supplier fee at risk with incentives for achieving and/or exceeding requirements and outcomes</p> <p>Open book cost management where the supplier provides all cost visibility</p> <p>Clearly identified financial guardrails for both buyer and supplier</p> <p>Margin matching mechanisms designed to keep buyer and supplier in financial balance</p> <p>Win together, lose together</p>

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

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Exit Management	<p>Termination criteria co-developed by buyer and supplier</p> <p>Significant impact with supplier exit; develop a formal exit management plan addressing:</p> <ul style="list-style-type: none">Budget for transition costs and resource allocationMutually agreed-on transition duration and pre-identified resource allocations estimates for off-ramp activityFair division of intellectual property rightsFair allocation of assets and investmentsBusiness continuity for stakeholdersContract satisfaction and completionRecord of lessons learned
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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 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 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 cost and risk of this supply solution (i.e., could the SSO be spun off into a subsidiary, a candidate for acquisition, or workscope 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 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

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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 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 services 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 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 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 paid to the business unit when transaction fees exceed 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	Business unit holds formal meetings with the SSO (minimum quarterly reviews); 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: Business unit plans regular interactions to ensure effective relationship development and decision making Business unit defines a formal escalation process for service delivery issues 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; 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 typically managed as preferred, performance-based, or Vested

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Continuous Improvement / Transformation / Innovation	<p>Business unit develops a formal capture and assessment process for improvement opportunities</p> <p>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</p> <p>External shared services: Contract includes defined guarantees for continuous cost improvements through efficiencies or alternate solutions</p>
Compliance & Special Concerns	<p>Internal shared services: Follows business compliance protocols perpetually monitored</p> <p>External shared services: Business unit creates an audit plan to verify supplier compliance with government and company-driven requirements</p>
Exit Management	<p>High impact to the business if internal SSO is outsourced or external SSO is exited</p> <p>Internal shared services: Exit plans are part of the overall business plan</p> <p>External shared services:</p> <ul style="list-style-type: none"> Business unit develops a budget for transition costs and resource allocation Business unit develops a formal exit management plan with longer duration transition allowance because of high impact to business operations with supplier removal and replacement



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 model 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 tested by benchmarking 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 model 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: 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 Business unit typically facilitates governance between key operational stakeholders and business management resources
Supplier Relationship Management	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	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 perpetually monitored as part of the business protocol

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Compliance & Special Concerns	May or may not have high impact depending on the rationale for 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 are included in the plan to manage transitions effectively

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