PROFESSIONAL
Outsourcing

Issue 27 Winter 2016 | **Innovation** | www.professionaloutsourcingmagazine.net

INNOVATION

THINK DIFFERENT

INCLUDING
Robotic ruckus
Legal leaps

PLUS
Feel the benefit
NIIT work

Kate Vitasek of the University of Tennessee introduces the notion of vested sourcing

Vested for success

"When a 'What's in it for We' model creates a balanced win-win deal, the results are truly spectacular."

Most sourcing efforts rely on a transactional, "what's in it for me" sourcing business model. Simply put, the buyer tries to get the best deal for their money; if they can get the same product or service for $1 instead of $2, it's considered a win. Under this scenario, most often it's the supplier that loses, with lower revenue and lower profit.

For more than a decade, the University of Tennessee has studied how some of the world's best companies change this dynamic and create true win-win outsourcing deals. The finding? The best outsourcing deals have a "what's in it for we" (WIIFWe) mindset, where the parties work jointly to create and share value for the buyer and the supplier. When a WIIFWe mindset is coupled with a contract that truly creates a fair and balanced win-win deal, the results are spectacular.

When shared value principles take hold in a relationship, it enables the parties to unlock far more innovation and value than outdated, power-based transactional approaches. In short, the parties become vested in each other's success. The book *Vested: How P&G, McDonald's and Microsoft are redefining winning in business relationships* provides real-life case studies that show the power of real win-win outsourcing deals in practice.

The five rules of vested

But how does one implement a collaborative WIIFWe mindset into an outsourcing contract? That is the challenge UT researchers accepted when they set out to codify their learnings into a methodology that could be repeated and easily taught. The methodology became what researchers coined as "vested outsourcing" (or "vested"). The vested methodology is based on five rules that provide a framework to transform a supplier relationship into a partnership for sustainable outsourcing success.

The vested model fundamentally shifts how a company buys outsourced services. Let's take a look at how the vested five rules work.

Rule 1: Outcome-based vs transaction-based business model

Traditionally, many outsourcing arrangements are built around a transactional model. Under this conventional method, the service provider is paid for every transaction – whether or not it is needed. The more inefficient the entire process, the more money the service provider can make.

Vested, by contrast, operates under an outcome-based model; the service provider aligns its interests to what the company actually wants – success against strategic business goals.

Rule 2: Focus on the what, not the how

Adopting a vested business model does not change the nature of the work to be performed. At the operational level, there is still a need for material to be stored, orders to be managed and fulfilled, calls to be answered and goods to be delivered. What does change is the way in which the company purchases the outsourced services.

Under the vested model, the buyer specifies "what" they want. It is up to the service provider to figure out "how" to put the supporting pieces together to achieve the company's goals. This gives the service provider the creative room to challenge the status quo and seek the best solutions to get the job done.

Rule 3: Clearly defined and measurable desired outcomes

The third rule of vested is to clearly define and measure desired outcomes. Desired outcomes are jointly developed by the buyer and supplier and represent truly boundary-spanning business needs, not simply task-oriented service level measures. After all, who cares if the supplier cleaned the restrooms every two hours, if they are not clean?

Desired outcomes are often also externally facing, measured by the success of how the end-customer views performance. A good example is TD Bank, whose mission is to be "the better bank." TD Bank and its vested suppliers – Brookfield Global Integrated Services (BGIS) and CB Richard Ellis (CBRE) – looked to the JD Power rankings "facility score" as one of the success measures. After all, who better to determine success than the customers visiting the bank?

"The vested model fundamentally shifts how a company buys outsourced services."

Rule 4: Pricing model with incentives that optimise the business

The fourth rule centres on structuring a pricing model with incentives that reward the service provider for optimising the business. A key goal of the pricing model is to incentivise the service provider to drive continuous improvement and to investments in innovation that are linked to the parties' desired outcomes.

There are two principles for establishing a pricing model. First, the model must balance risk and reward for both parties. The agreement should be structured to ensure the service provider assumes risk only for decisions within their control. For example, a transportation service provider should never be penalised (or rewarded) for the changing costs of fuel. Similarly, a property management service provider should never be penalised for an increase in energy prices. Second, the pricing model needs to link incentives to the desired outcomes. The more effective the service provider is at achieving the desired outcomes, the more incentives (or profits) it can make.

Rule 5: Insight vs oversight governance structure

The vested model shifts from a culture of oversight to one of insight. Simply put, the buying organisation turns its focus to managing the business with the ▶

Featuring exclusive invitation only CFO Boardroom

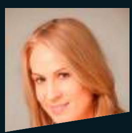
FUTURE OF FINANCE

14-16 February, 2017 | Novotel London West, London, United Kingdom

Accelerating finance excellence: Embracing digital transformation & driving next-generation BPO, SS & GBS

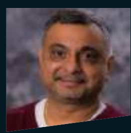
Europe's most progressive F&A speaker faculty includes:

Matt Evans
Global Process Owner
P2P (formerly)
AstraZeneca



Petrina Tinney
Director of SS &
Supply Chain
EirCom

Stéphane Alby
Head of Global
Business Services
Transformation
Kerry Group



Srinivas Krishna
Director, Shared
Services Strategy
& Economics,
Finance Operations
Microsoft

Caroline Stockmann
CFO
British Council

180+ FINANCE PROFESSIONALS

50+ EXPERT SPEAKERS

3 TAILORED STREAMS

40+ VALUE-LED SESSIONS

20+ HRS BUILT-IN NETWORKING

FOR MORE INFORMATION AND TO REGISTER: WWW.FUTUREOFFINANCESUMMIT.COM

EMAIL: EVENTS@SSONETWORK.COM TEL: +44 (0) 207 368 9809

"Dell was the first company to pilot the vested methodology."

service provider, not just managing the service provider. Why? If you've done a good job of selecting a right partner and aligning their interests by using rules one to four, then the service provider will truly have a vested interest in performing because their success depends on achieving success for the buying organisation.

Collaboration in the real world

When UT researchers set out to codify a repeatable methodology, many thought they were crazy. No one was denying the fact that the outsourcing deals the UT researchers studied were successful, but many doubted that it was possible to develop a methodology that could enable others to create similar success stories.

Dell was the first company to pilot the vested methodology. It had outsourced its reverse logistics operations to Genco (now part of FedEx) since 2005. The arrangement worked reasonably well for a time, but the relationship had become strained. Dell's leaders continued to face cost pressures and relied on its "every dollar, every year" procurement principle. From Dell's perspective, Genco's cost-reduction commitments were no longer good enough. Genco was also frustrated with continuous margin erosion.

Dell and Genco turned to vested to reinvigorate their relationship with the specific intent to drive innovation – creating value for both parties. John Coleman, GENCO's general manager, said the vested approach "gave us the freedom to get creative. It's like we broke open a new innovation piñata". The results? A 32% cost per box reduction, a 62% reduction in scrap, record high margins for the Global Dell Outlet and a tripling of margins for Genco.

TECHNOLOGY | OUTSOURCING | DATA | DIGITAL | TRAINING | RECRUITING | CONSULTING | OTHER

Find suppliers the smart way

AboutMatch.co.uk is a **free** platform which helps organisations find their "perfect match" suppliers in the **sales, service** and **back office** space. Enter your needs in our powerful matching engine, and in no time get connected with a shortlist of suppliers who meet your precise criteria.

---

linkedin.com/company/aboutmatch/ @AboutMatchUK **P.** 0330 828 0955 **E.** info@aboutmatch.co.uk

"The contract was entirely restructured to follow the vested five rules."

More recently, TD Bank's Enterprise Real Estate (ERE) forged a vested facilities management arrangement that covers 25m square feet of real estate. TD Bank had been outsourcing its facilities management services since 2009 and had good results. The contract with BGIS and CBRE was entirely restructured to follow the vested five rules – aligning their interests through mutually defined desired outcomes and economics.

The companies inked their deal in autumn 2014 and in just two years were recognised with a Global Innovation Award from CoreNet. Awards are nice, but real results are even nicer. In their quest to be the better bank, BGIS and CBRE helped TD cinch a JD Power award by bringing in the top score in the "facility" category in Canada and the US, with a decisive gap between first and second place. TD Bank also racked up sizeable cost savings well above what anyone thought possible.

The bottom line is the bottom line. The vested approach is helping organisations transform their outsourcing efforts to powerful win-win contracts that are yielding results – not just for the buying organisation, but also for service providers. That is the definition of a true win-win.

Kate Vitasek is an international authority for her award-winning research and the vested business model for highly collaborative relationships. She is the author of six books on vested and a faculty member at the University of Tennessee. She has been lauded by World Trade Magazine as one of the "Fabulous 50+1" most influential people impacting global commerce and has shared her insights on CNN International, Fox Business News and NPR. She is on the National Outsourcing Association's inaugural A-list of outsourcing thought leaders.

CEE Shared Services and Outsourcing Awards

CEE Shared Services & Outsourcing Awards Gala and Forum

Recognizing Excellence and Leadership in Central & East Europe's BPO, Outsourcing, and Shared Services Sectors in 2016

2nd February 2017
Warsaw
Poland

EY
Building a better working world

hipa
HUNGARIAN INVESTMENT PROMOTION AGENCY