VESTED® For Success Case Study

A Journey to Vested Outsourcing:

The Story of How *Diversey* and *Wipro* are (R)Evolutionizing IT Outsourcing

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Table of Contents

Executive Summary

The (r)evolution in the outsourcing industry is happening. Innovative win-win outsourcing relationships are replacing traditional competitive procurement methods. According to University of Tennessee research, progressive companies now define success as working together with their service providers to achieve mutually agreed Desired Outcomes and improved economic benefits for both the company outsourcing and the service provider. We call these innovative approaches "Vested Outsourcing," because the company and the service provider work together to align the success of the service provider with the achievement of success for the client's business. Each party employs its core competencies to accomplish what each could not achieve on its own.

Under Vested Outsourcing, the service provider is challenged to apply "brainpower" and/or investments to solve the company's problems. It also takes on risk to do it, in essence putting "skin in the game." The service provider looks at how it can best apply processes, technologies, and capabilities that will drive value to the company through transformational improvements. This commitment to delivering projected value and tangible benefits to the company—such as commitment to reduce costs, deliver services, increase market share—shifts risks to the service provider. In exchange, the company agrees to allow its service providers to earn additional profit (above and beyond industry average profits for their service area) for achieving this incremental value.

In short, Vested Outsourcing moves beyond merely saying "partnership" and creates an economic alignment in which the companies have a vested interest in each other's success through a carefully crafted pricing model based on achieving jointly established Desired Outcomes. The core of a Vested Outsourcing arrangement is the development of a business model that enables the parties to thrive in an environment we term, "What's in it for We." Companies are moving beyond viewing their IT providers as a "commodity" that only provides IT services such as Applications Management and Hosting to making them a true strategic arm of the business that helps increase market share and competitive advantage.

The problem is that many companies are quick to say win-win partnership – but they are not contracting for true partnership and are falling short in unleashing the real potential of a fully Vested relationship. This is particularly true in the Information Technology space where University of Tennessee research initially failed to find any companies that indicated they were practicing Vested Outsourcing. Long-time industry leaders such as Marty Pine, who has held senior executive positions on both the buy and sell sides of outsourcing deals, agrees. *"The IT sector is behind the curveball in adopting progressive outsourcing approaches. This is because IT has only really been outsourced since the 1990s while other sectors such as logistics, facilities management, and contract manufacturing have been outsourcing for much longer."*

When Diversey Inc. and Wipro heard about the University of Tennessee's pioneering research on highly successful outsourcing deals they decided to take part in what UT researchers have coined a “Deal Review,” which does an in-depth diagnostic to determine the improvement opportunities into how a deal is structured. This includes a deep dive into the pricing model, governance structure, performance metrics and overall relationship trust levels.

“Diversey Inc. was already thinking about our IT outsourcing efforts as a continuous improvement effort,” explained Brent Hoag, Diversey Inc.’s CIO. Hoag, who took the helm as CIO in 2009, was keenly interested in how he and his team could take their Wipro outsourcing efforts to the next level. *“We already had great success and were about to embark on the third generation of our relationship with Wipro. Our results from outsourcing had exceeded our expectations after each of our major step-change efforts. As such, we were very intrigued by the University of Tennessee’s Vested Outsourcing concept and wanted to learn more. Wipro gladly supported our efforts to participate in the University of Tennessee’s Deal Review process as a way to help us learn how we might take our outsourcing relationship to the next level. We feel that the findings and our journey to Vested Outsourcing are a great example for the IT industry, which many others might be interested in.”*

The Journey Begins…

In 2005, Diversey, a leading global provider of commercial cleaning, sanitation and hygiene solutions for businesses, found itself in a very difficult situation. Faced with heavy debt and flat sales, a new CFO launched a mandate that tasked Diversey's IT organization to lower the company's IT spending from about 5 percent cost (as a percentage of sales) to 2.5 percent. At that time, DiverseyLever had merged with Johnson Wax and the newly merged joint companies had about 600 IT people globally, spread across several decentralized organizations. The two companies had deployed very different technologies. The initial evaluation showed that initiatives such as technology harmonization and internal restructuring would not deliver the target benefits.

Although Diversey's biggest consultancy partner vetoed the idea, Diversey decided—after some initial testing—that outsourcing a large portion of IT with an offshore partner was their only way to reach the aggressive financial targets.

In 2006 Diversey signed a five-year, upwards of $100 million outsourcing agreement with Wipro, a global IT service provider. When CIO Matt Peterson signed his first outsourcing agreement his No. 1 goal was cost reduction—*"and it was a long way down the list to get to No. 2,"* he said.[1] The contract spanned Diversey's entire IT management, including IT infrastructure management, application development and support, and small project management. Wipro partnered with Unisys to provide the global language needs required by Diversey for Service Desk and Deskside services.

[1] Bob Evans, "CIO: Outsourcing Helps His Team Become Strategic," *Information Week,* March 13, 2009.

The First Generation: Lift and Shift

The original agreement focused on reaching Diversey's aggressive organizational and financial targets. A key strategy for the deal was to ensure Wipro "kept the lights on" at a lower cost. The plan included reducing IT costs by outsourcing non-core services, centralizing the IT organization and consolidating data centers. *"The vision was that Diversey and Wipro would create a seamless centralized IT organization resourced by both companies,"* stated Hoag. *"Diversey would continue to own all of the assets and Wipro would be accountable for managing the assets and guaranteeing agreed-upon service levels.*"

The Diversey IT team realized the only way to achieve the aggressive cost savings targets on time would be with a classic "Lift and Shift" approach. The Diversey/Wipro plan paid off. Wipro ramped up to 170 locations supporting 800 IT systems in 12 months.

There would be many known changes – and the dreaded unknown changes. To succeed, both companies realized that they were on a journey together and that changes in the business and service model would naturally require adjustments to governance, pricing and the overall contract. With all the change on the horizon, they agreed that structuring their contract as a flexible framework was the optimal approach for managing the business in a dynamic environment. A key component would include a flexible pricing model that balanced the need for business change while still holding Wipro accountable for minimum service levels and cost savings targets. Ultimately, they agreed that these principles should always be valid for their overall relationship:

- A single global pricing model framework that would be flexible and scalable.
- Sufficient built-in flexibility that provided agreement and direction for future discussions on commercial and pricing
- Fair economic returns to both sides

Provided that baseline volumes and service scope remained as projected, Wipro agreed to a maximum five-year, asset-based fixed fee, payable monthly. Doing this would ensure Diversey met their cost savings targets. To deal with inevitable volume changes, an Additional Resource Component/Reduced Resource Component (ARC/RRC) model was put in place, which was used to link payment to consumption.

Another "unknown" was the projects that the business groups would most likely request. There was simply no way to forecast all of the projects and application changes. The parties approached flexibility in two ways. First, the parties agreed to a monthly fee for application management to cover small projects and maintenance for each application. In addition, Wipro established rate cards where larger projects would be specified using the pre-negotiated rate cards. Projects would be managed with a formal change request process.

"One of the challenges with Wipro was that they were not able to meet our global requirements out of the gate," stated Hoag. Wipro's solution was to subcontract those elements. While that approach would work to fill the requirements, Diversey feared subcontracting would lead to unnecessary transaction costs with the dreaded "markup on markup" associated with subcontracting. Diversey was pleased when Wipro agreed not to markup any subcontracting work or asset purchases.

While costs were important, Diversey was nervous about service levels dipping. Multiple sources had warned of using offshore outsourcing firms such as Wipro. *"One of the things that impressed us about Wipro was that they signed up for guaranteed service levels targets. They were willing to put their money where their mouth was and agreed to a penalty of up to 13% of the total monthly fees if they missed their services levels."* While more common now, at the time this was something other service providers did not bring to the table.

By year two of the five-year deal, Wipro had delivered the targeted financial and organizational benefits that Diversey sought. Also, the parties had successfully collaborated to deliver major improvements to their technical environment, and service levels proved to be stable. Wipro's ability to help the $3.5 billion Diversey significantly reduce IT costs on everything from application maintenance to its data center was a "significant achievement" for the company, stated former CIO Peterson in the interview with Information Week in March 2009. Peterson was proud to point out that Diversey's outsourcing agreement with Wipro had given him and his team the ability to change "from efficient order-takers to actual strategic business enablers" in the company's growth and development."[2]

The companies had developed what many outsourcing relationships strive for—trust and respect.

[2] Evans, Ibid.

The Second Generation: Transformation

With success under their belt, both parties agreed they were ready to embark on the next leg of their journey and spend more time working with Diversey managers on strategic new projects. (You can hear the story in Peterson's own words on this ***Global CIO podcast*.**[3])

The companies turned to end customers and the business groups for guidance. Throughout 2009, a joint Diversey/Wipro team conducted interviews and surveys to get both subjective and objective feedback. Interviews with key stakeholders and users revealed the current outsourced IT support model faced many similar challenges to those that confront the typical manufacturing value chain. These include reducing backlogs, achieving consistent quality, continuously improving process efficiencies, scheduling preventative maintenance, work prioritization, and achieving proper metrics.

The parties set out the following goals:

- Improve the quality and business value of IT services
- Achieve more balance in the IT spend portfolio between infrastructure and value-added services
- Reposition IT to support business optimization and growth.

The real question was how to accomplish these goals. The parties agreed to go back to the drawing board and "reinvent" their outsourcing business model. The decision was to leverage the existing agreement and its favorable terms as the foundation for a new contract, yet add these attributes:

- Align Diversey's IT Outsourcing strategy with Diversey's Strategic Growth Plan
- Shift the IT spend from "keep the lights on at a lower cost" mode to business drivers that included enhancements
    - Commitment to dynamic service levels that would increase over the contract term
    - Penalties based on service quality, process capability and reliability
- Standardize industry processes with (ITIL)
- Encourage transformation initiatives that would drive embedded improvement
    - Flexible staffing model for improved resource capabilities

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[3] Evans, Ibid.

- New generation tools to automate support, provide self-service options
- Implement flexible spend application enhancement pool to reinvest in Diversey's strategic initiatives

- Convert from fixed-price to a variable pricing model
    - Implement a flexible pricing Service Catalog that would drive pricing based on services vs. components
    - Positioned for future savings through service choice and country-level billing for tax savings
    - Customer level billing for both tax and consumption savings

With these major changes in front of them, a new service delivery model was born that required contractual adjustments. In January 2010, both companies signed an early renewal of the agreement, which extended their contract to December 2014 with a total contract value of upwards of $200 million. The scope of the contract was expanded to achieve the above objectives—including fully integrating Service Desk and Deskside support services and adding a Depot Solution.

The parties knew they could not achieve transformation overnight and chose to establish two phases. The focus of the first phase was on transformation to the new contract delivery model. Once standardization was achieved, the parties would focus on what they coined "third-generation" outsourcing, designed to create a customer "pay as you go" model based on business value.

With the contract extension behind them and clear goals in front of them, Wipro set out to execute on their promise of standardizing legacy IT processes based on the Information Technology Infrastructure Library (ITIL) and transforming IT into a value-added organization for Diversey.

Wipro and Diversey knew turning to ITIL for standardization was a smart choice. ITIL is a set of concepts and best practices for managing IT services and operations. Using ITIL provides consistent processes that improve the efficiency and reliability of IT services. The goal was to leverage technology to automate repetitive activities and thus reduce costs, improve productivity and increase quality. Event management, monitoring, administration, diagnostics and reporting are some of the repetitive tasks in IT and these will be automated through the use of a Global Command Center (GCC). The GCC has the monitoring and administration tools needed to provide remote management, diagnostics and administrative support services. The goal of using ITIL for standardization was to promote a proactive approach to environmental management, improve productivity, reduce incidents and shorten resolution times.

As part of the standardization efforts, the parties adopted what they referred to as the "Technical Service Catalog." The Technical Service catalog contains IT services, service levels, lead times and costs. In essence, Diversey pays Wipro for services delivered and includes penalties based on the consistency and quality of the services performed. The service catalog also has the flexibility to vary service costs based on the business value to Diversey. For example, under the old contract, Diversey pays the same amount for every server in their environment. The result, a server that supports a critical core business process, can cost the same as one that supports a less critical non-core business process. The service catalog provides three service classifications: silver, gold and platinum, whereby Wipro varies the service delivered and the resulting costs based on the business value to Diversey.

As part of the agreement, both parties committed to dynamic service levels that adjust over the contract term for optimal results. SLAs and penalties were revised. A big lesson the Diversey IT team had to learn the hard way involved setting SLAs. *"In the first engagement with Wipro the IT team was deeply involved in setting SLAs, but not leaders from other parts of the business,"* Peterson said. *"As a result, Diversey's IT group was meeting its SLAs, but the company overall was not getting full value in customer satisfaction surveys. The big aha? What our IT team thought was important wasn't necessarily important to our customers,"* Peterson explained. In addition Diversey reduced their emphasis on the "at-risk amount."

While standardization and increased service levels were a key element, it was only half of the challenge for Diversey. Both parties wanted to go beyond standardization and identify and deploy transformation projects that would create a competitive advantage in terms of cost and service. Diversey's manufacturing and service operations were under constant pressure to reduce costs, improve quality and increase productivity. For this reason, the second-generation outsourcing agreement with Wipro added a dedicated "Value Management" team designed to support the transformation of the IT support model. This Value Management team would work with the quality management team to implement a program of continuous transformation and improvement based on Lean Six Sigma. The parties agreed to fund the Value Management team through a flexible spend enhancement pool. Under the contract extension, 10 percent of the total fee was set aside to drive transformation and value-add initiatives.

The parties also jointly developed an innovative approach to incentivize Wipro to perform preventive maintenance. A special "Performance Credit" was established based on whether or not Wipro performed preventive maintenance and other proactive services defined in the Technical Service Catalog. By embedding preventive maintenance into the service catalog, Wipro was encouraged to perform the maximum amount of preventive maintenance allowed per the schedules.

Another major transformation initiative was to shift from having Diversey's corporate IT invoiced on a global basis to having Wipro invoice Diversey's operating companies around the world. Tactically, this generated significant tax savings for Diversey. However strategically it also created the foundation for a direct billing consumption model.

One of Diversey's and Wipro's most interesting transformation initiatives centered on Diversey's corporate-wide commitment to finding more sustainable and efficient ways of doing business. Diversey's cloud-based technology platforms allow for a collaborative working environment and help maintain business continuity. But helping employees be more productive is only part of the win. The execution of cloud computing strategies reduced the company's carbon footprint by eliminating 10 company servers and by decreasing the need for business travel and the purchase of redundant hardware and software. The initiative has helped Diversey reduce its carbon dioxide emissions by 73 metric tons.

Wipro was right by Diversey's side in the deployment. Within five months, the company migrated 14,000 accounts to Google Apps in over 60 countries and 18 languages. Since its implementation in May 2009, the cloud-based platform has dramatically improved the way Diversey's employees stay connected through e-mail, calendars, documents and sites.

"Diversey's efforts to cut their carbon emissions while growing their business is a model for sustainable IT," said Dave Girouard, president of Enterprise, Google. *"This recognition is well deserved and reinforces the environmental benefits of cloud computing."*

The dual-prong approach to standardize repetitive process and drive transformation projects has paid off. With a few exceptions, Wipro has been consistently meeting their SLA commitments over the life of the contract.

"The results speak for themselves," explains Hoag. Diversey asked RampRate (www.ramprate.com), a leading IT sourcing adviser, to benchmark the Wipro and Diversey results against comparable outsourcing deals. The key finding was, "Across all in-scope Wipro services, Diversey is paying 27th percentile pricing (i.e. paying less than 73 percent of all companies) for the same services." Normally lower prices are at cost of inferior terms and SLAs, but RampRate also observed that "(Contract term/SLA) are 33 percent better than companies who are paying a similar price for same services."

With an IT scorecard consistently "green," the parties sought to move into their third phase of transformation, which was to convert to a "pay as you go" model designed to better link the services Wipro performed directly to business value.

The Third-generation: Vesting for Success / IT as a Value Add

The transformational focus has led the parties to embrace changes that can drive positive impacts. *"We have learned that the only thing for certain is change – and that we might as well embrace change in how we look at outsourcing,"* explained Werner Graf, General Manager Consumer Product Goods US at Wipro. This philosophy led the companies to embrace Cloud Computing and move to what Hoag calls their third-generation (r)evolution aimed at creating a "pay as you go" environment based on the concept of a Business Service Catalog.

"We wanted to shift the focus and make IT an enabler to the business" stated Hoag. *"By creating a Business Service Catalog and leveraging cloud computing, business units would have access to a wide variety of services. Our vision was that business units would be able to 'pay as you go' for the services they wanted, when they wanted, at service levels they wanted and valued. If we could do this, we felt IT would be seen as adding value to the business versus being an overhead,"* he continued.

With this vision, Diversey and Wipro created the Business Service Catalog concept. The catalog describes available IT Services in easy-to-understand business language and enables business groups to procure IT services on-demand. Handling a "New Hire" is an example of an entry in the IT Business Services Catalog. The Business group just needs to know it should ramp up a new hire while behind the scenes this triggers a series of technical activities, including "Create a User ID", "Build a Laptop", "Install Software" and "Grant access to systems" that reside in the Technical Services Catalog.

As the parties embarked on the third leg of their outsourcing journey, they wanted to make sure they were incorporating best practices. It was during their research they heard about the University of Tennessee's "Deal Review" process. *"Our supply chain group had just gone through a Deal Review and were impressed with the learning. We felt a review by a neutral third party would be good. Both Diversey and Wipro felt that we were doing all the right things, but we wanted to make sure we had all the pieces of the puzzle in place that would motivate both parties to most effectively achieve our Desired Outcomes,"* Hoag said.

Werner Graf added, *"It is our clear intention to make our outsourcing deal a true world-class relationship that delivers substantial value to both parties. We liked the Vested Outsourcing philosophies and we felt the perfect approach would be for the UT team to do the diagnostic and to see if we could indeed challenge ourselves to make our outsourcing relationship even better. The timing was perfect as we were just embarking on our third-generation efforts."*

Deal Diagnosis: Good…and on the way to Great

Research work at the University of Tennessee into highly successful outsourcing deals led to a process that University researchers coined a "Deal Review." The Deal Review process enables companies to do an in-depth diagnostic to determine the improvement opportunities into how well a deal is structured and managed. The Vested Outsourcing Certification Program evaluates the relationship between two (or more) companies in an outsourcing agreement based on the 360-degree methodology. It includes a deep dive into written documentation (contracts, scorecards) about the pricing model, governance structure and performance metrics but also expands into interviewing the key resources and evaluating overall relationship trust levels through an online survey.

Steeped in research conducted by the University of Tennessee and funded by the United States Air Force, the Deal Review scores the existing relationship against five key rules and 10 elements[4] for a successful Vested Outsourcing agreement. It provides the companies with recommendations that can create a true Vested partnership and can yield significant benefits for both parties.

With both parties full of passion and energized to drive their relationship to the next level, it was a smooth process for the University of Tennessee to collect all the relevant documents within two weeks. Key individuals—Management/Visionaries, Service Delivery, Relationship Management, Business Analyst, Procurement/Commercial Management and Legal—were interviewed. In addition, the parties participated in an online "Trust Survey."

A diligent analysis of the trust survey, artifacts and interviews was undertaken, which scored four major components (Foundation, 10 Elements, Trust and 10 Ailments). The main focus of the evaluation is to prove:

1. Whether a flexible framework exists that will allow the parties to successfully navigate a dynamic business environment,
2. Whether there is a focus on business outcomes and results and not simply on performing service transactions,
3. Whether a strong governance structure offering insight exists that focuses on managing the business and not just the supplier,
4. Whether the parties have established high degrees of trust that can enable them to feel confident to chart new courses such as developing innovation or tackling wicked business problems that rely on the best of the best competencies from each company.

The Deal Review revealed both companies were well on their way to creating a Vested Outsourcing relationship. Each of the four major components of the Deal Review scored above average indicating the parties were indeed approaching a highly collaborative win-win Vested Outsourcing relationship. Figure 1 shows the overall diagnosis with the Diversey/Wipro deal receiving an overall deal effectiveness score of 3.7 out of 5 – with 3 being "good" and 5 being

[4] Access the Vested Outsourcing site at http://www.vestedoutsourcing.com for information on the Five Rules, the Ten Elements, the two Vested books and for additional resources.

"Great" with both parties operating in harmony and delivering transformational results and value beyond what either party could deliver themselves.

Figure 1: Diagnosis of the Diversey/Wipro Deal Review

Well on the way to a Vested Relationship!

The agreement shows many Vested traits and has avoided many of the ailments so common in outsourcing agreements.

Each of the four focus areas of the Deal Review is discussed below.

Readiness

Fortunately, both companies had a great foundation and were ready for a Vested Outsourcing relationship. They strongly committed to making the agreement work—no matter what obstacles come up in business.

10 Elements of a Successful Contract

With an overall score of 3.6, the deal shows many great elements. The key to success without any doubt is the strong governance structure (Rule 5) between the parties. The Deal Review revealed impressive degrees of strategic alignment of both companies. Long-term C-level engagements were established and were driving mutual benefits and value for both parties. However, with such strong alignment, the Deal Review revealed the lack of a formal Shared Vision and formally documented Desired Outcomes. Responses in the interview to the question "what is your shared vision" varied greatly. While there were strong general themes across both organizations, there was not a unified clear vision. Without a shared vision, it is hard to be clear on Desired Outcomes, which are results that someone or some company strongly wants to achieve. This is critical when embarking on transformational-type outsourcing work.

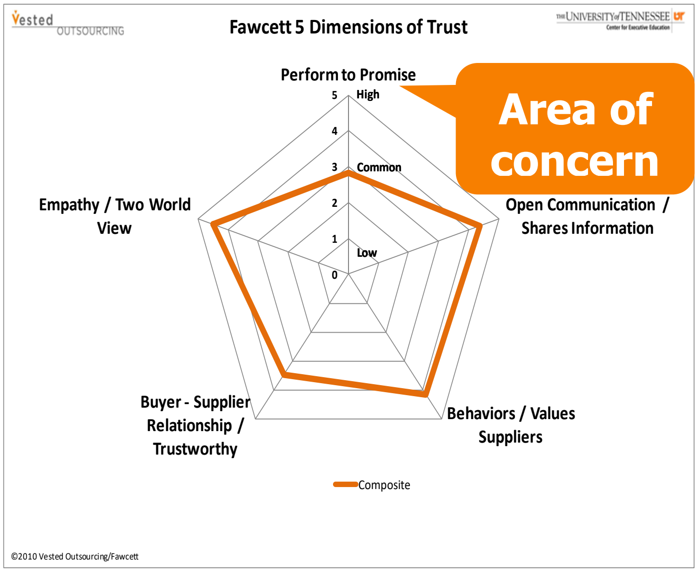
Also, the Deal Review revealed the parties had only informally documented strategic direction and Desired Outcomes and that the Desired Outcomes were not a key component to the agreement itself. The existing deal—while stressing transformation—had focused on documenting the "now" in terms of a traditional statement of work. This is a common mistake, but one that can easily cause a service provider to get anchored in the "now" versus focusing on the "next." University of Tennessee researchers call this the Activity Trap.

The Deal Review also revealed weaknesses in the pricing model. While Diversey and Wipro had jointly adjusted their pricing model over the evolution of their relationship, there were gaps around what is commonly called the supplier having "skin in the game," which are incentives, gain share and risk allocation. The Diversey/Wipro deal focused solely on SLA penalties. While this is effective at driving performance against SLAs, it leads to what UT researchers call "the Watermelon Scorecard" because service providers hunker down to ensure success against the SLAs and often fail to deliver on the Desired Outcomes. Interviews with Jeffrey Dymm, Client Partner for Wipro, revealed a common theme in deal structures that rely too heavily on penalties for SLAs. "*Whether you like it or not, our behavior is rooted in contractual terms. There is a tendency to react more vigorously in areas that hurt you financially. Certainly, resources are consumed managing SLAs when they could possibly be directed towards solving business issues."*

Trust Survey

The deal between Diversey and Wipro revealed a relatively high degree of trust, scoring 3.9. Dr. Stan Fawcett describes trust scores in these ranges as "You are on the brink of embracing trust as the thread to bind your companies together." One weakness was observed in the area of "Perform to Promise" ("Do not do what they say"). In particular there was a mismatch between Wipro's rating themselves vs. Diversey rating them. Both areas have been found many times within the research of the University of Tennessee. Whereas the threat might not be too worrisome for now, studies show those warnings need to be taken seriously and need to be addressed sooner than later to avoid relationship to deteriorate.

Figure 2: Diversey and Wipro Average Survey Score – 5 Dimensions of Trust



Relationship Comments

- "Long standing, trusted relation- ship"
- "Consistently look for opportunities, for value"
- "The most sincere, honest people"
- "Open to continuous improvements"
- "Candid feedback"
- "Intercultural challenges"
- "Not mature enough

Sound relationship!

Survey Results

- Average scores are high and show a positive, open and cooperative relationship
- Work on meeting commitments and maintaining trust
- Strong personal relationships

Outsourcing Ailments

The last diagnostic performed on the Diversey/Wipro deal was to look for evidence of any of the 10 Outsourcing Ailments. Diversey and Wipro were relieved to find that most of the usual ailments had been avoided.

But it was not the accolades the parties were after—it was the spotlight on how to get better and shift from good to great.

"We are not surprised by the findings of the Deal Review. We knew there were opportunities. The University of Tennessee's Deal Review process helped us to see the shortcomings clear in front of us and get a sense of urgency to address them," said Kiran Vedak, Chief Technologist at Diversey.

As part of the University of Tennessee Deal Review process, Certified Deal Architects facilitate a workshop designed to help the companies address opportunities found in the Deal Review process.

First on the list for the joint Diversey/Wipro team was developing a formalized shared vision. *"When you stop and think about it – a shared vision is a very powerful guiding beacon. We couldn't wait to work with the UT team and we began crafting our shared vision within days after getting our Deal Review diagnostic,"* Hoag says. *"The UT team did a fabulous job of facilitating the leadership team from both Diversey and Wipro to develop a shared vision that can guide us for the next several years".*

Figure 3: Diversey's and Wipro's Shared Vision

Dynamically innovate and collaborate to provide information technology services that transform our industry. Together, we deliver measurable benefits and mutual competitive advantage for our ecosystem of people, partners and customers.

"Our shared vision is straightforward, yet powerful," Wipro's Graf explains. *"Simply creating the shared vision and Desired Outcomes with the UT team created a great deal of energy as a team. We were particularly impressed with the entire Requirements Roadmap process and tool."*

Diversey's Chief Technologist Kiran Vedak echoed the importance of the Requirements Roadmap process. *"Coming out of that workshop everyone on the entire team was much clearer about where we're headed. It's kind of like what Yogi Berra says, 'if you don't know where you are going, you might not get there';* we now have a clearly defined and measurable *Desired Outcomes that have become our beacon."*

As part of the workshop, University of Tennessee faculty shared lessons learned and case studies from their research to help the companies gain insight into how they can improve key elements of their deal where there are weaknesses. In the Diversey/Wipro case, the workshop focused an in-depth critique of the Diversey/Wipro pricing model and shared innovative pricing models approaches and techniques.

"We learned the power of using an incentive-based compensation structure when working with a service provider. It was simply fascinating to learn pricing model techniques from some of the world's most successful deals. The session on pricing models was invaluable and will be very useful as we embark on our third-generation outsourcing efforts with Wipro," shared Sarah Alt, Senior Director Global IT Operations.

The Next Generation: The Journey to Vested

Together, Diversey and Wipro have come a long way since their initial outsourcing agreement was signed in 2005. In less than five short years, Diversey's IT has gone from old school and expensive to nimble, cost-effective and greener. In September 2010 Diversey was listed by InformationWeek as one of the top 10 U.S. manufacturers that are leading the innovative deployment of information technology. Overall, Diversey was among the top 200 companies recognized for technology innovation in the world.[5]

InformationWeek Editor-In-Chief Rob Preston explained the importance of this recognition: *"For 22 years, the InformationWeek 500 has honored the most innovative users of business technology. As we start to emerge from the worst recession in decades, the IT focus is now on driving growth -- new sources of revenue, new relationships with customers, even new business models. This year's ranking placed special emphasis on those companies and business technology executives leading that charge."*

"Diversey's recognition in the InformationWeek rankings is a significant achievement and reinforces our commitment to finding new and innovative ways to make our business more efficient and deliver added value to our customers," said Norm Clubb, Executive Vice President and CFO, Diversey. *"Our pioneering work in cloud-based computing is improving collaboration among our 10,500 employees while also demonstrating the ways that IT can reduce the environmental impact of our operations."*

Even with these great achievements, both companies are continuing to improve and grow together. *"The University of Tennessee Deal Review process was definitely worth the time, effort and costs. It was a remarkable value that has already added significant value as Diversey and Wipro strive to mutually invest in innovations that will bring mutual gain for both companies. The UT process also highlighted something crucial to our success within the next year – the importance of having a contract as a flexible framework. Sealed Air is currently acquiring Diversey and although Sealed Air uses Wipro as their service provider – you never know what the future will bring. We set out to structure our agreement as flexible and it has stood the test of time allowing both parties to respond effectively to changes in the business,"* Hoag stated.

Werner Graf echoes the importance of a flexible framework and a trusting business relationship. *"As Diversey enters into a period of known unknowns I can't think of two better components to have – a flexible contractual framework and a trusting business relationship. At the end of the day, we will be able to get through whatever the businesses toss our way."*

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[5] Additional details on the InformationWeek 500 can be found online at www.informationweek.com/iw500.

The Vested Challenge

Those who challenge themselves to follow the Vested Outsourcing rules can create innovative solutions that resolve the conflicting goals so often found in conventionally outsourced business models. The rules of Vested Outsourcing should be the foundation for your outsourcing arrangement.

It's important to realize that you can evolve an outsourcing relationship over time. The best time to create a Vested Outsourcing relationship is immediately after a transition. Don't wait for an RFP to start your journey as then you will be perceived as "selling" versus bringing value.

As you invest in your Vested Outsourcing relationships, help your clients ask themselves these questions:

- Are you willing to focus on outcomes and not transactions? Are you willing to allow the service provider to come up with the best solution?
- Can you describe what you want without describing how to do it?
- Can you define and measure the outcomes you hope to obtain? How will these measures be calculated? Who will be responsible for them?
- How will you develop the pricing model? Are you willing to allow the service provider to make a decent profit if they deliver quantifiable value? Is the service provider incented to help transform the business?
- Are you willing to develop a governance structure that provides insight into the relationship, instead of oversight?

Of course, not all of these questions can be answered right away. But, on the way to your Vested Outsourcing journey, they will need to be answered correctly.

For questions about this case study and general questions about Vested Outsourcing agreements, please contact Kate Vitasek at the University of Tennessee. You can reach her at kvitasek@utk.edu.

To learn more about Vested Outsourcing we encourage you to read the book *Vested Outsourcing: Five Rules that will Transform Outsourcing* and to attend the University of Tennessee's 3 day class on Vested Outsourcing. You can also download tools, white papers, and other resources at our dedicated website to Vested Outsourcing at http://www.vestedoutsourcing.com.

About the Authors

Kate Vitasek

Kate is a nationally recognized innovator in the practice of supply chain management and outsourcing. Vitasek's approaches and insights have been widely published with over 150 articles in respected academic and trade journals such as the Journal of Business Logistics, Supply Chain Management Review, Harvard Business Review, and Outsourced Logistics. Her latest books are must-reads for practitioners on how to outsource better: *Vested Outsourcing: Five Rules that will Transform Outsourcing* and *The Vested Outsourcing Manual*.

Vitasek is a faculty member at the University of Tennessee's Center for Executive Education. She's been recognized as a "Woman on the Move in Trade and Transportation" for her leadership in the profession and was recently honored as a "Woman of International Influence" by Global Executive Women. She has served on the Board of Directors for the Council of Supply Chain Management Professionals and has been called a "Rainmaker" for her tireless effort in educating the supply chain profession. You can reach her at kvitasek@utk.edu

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For more information about Vested Outsourcing: Visit the University of Tennessee's website dedicated to Vested Outsourcing at www.vestedoutsourcing.com where you can download white papers, watch videos, read articles and subscribe to our Vested Outsourcing blog.

For More Information

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

WHY WHAT HOW WHEN NEGOTIATE THE RELATIONSHIP TELLS THE REAL STORIES

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at [www.vestedway.com/books.](http://www.vestedway.com/books)

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory in practice. Course content is designed to align to where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ where you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white papers and resources. For more information, contact kvitasek@utk.edu.