



# **VESTED**<sup>®</sup> For Success Case Study

How a Small Business Wins Big with Vested

A Report Authored By:

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## Laying the Foundation

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

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

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

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

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

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

## Rule 1: Focus on Outcomes, Not Transactions

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



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

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

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

## Rule 2: Focus on the WHAT, Not the HOW

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

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

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

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



## Rule 3: Agree On Clearly Defined & Measurable Outcomes

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

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

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

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

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

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

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



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

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

## Rule 5: Insight vs. Oversight Governance Structure

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

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

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

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

## Vested for Success: The Results

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

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



## Acknowledgments

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

## About The Authors

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

**Jeanne Kling** is a Research Associate with the Vested Outsourcing team at the University of Tennessee. Her passion for education runs deep, having been elected to public office three times and serving as President of the Minnesota State Board of Education. The Business and Professional Women Association named her "Minnesota Business Woman of the Year".

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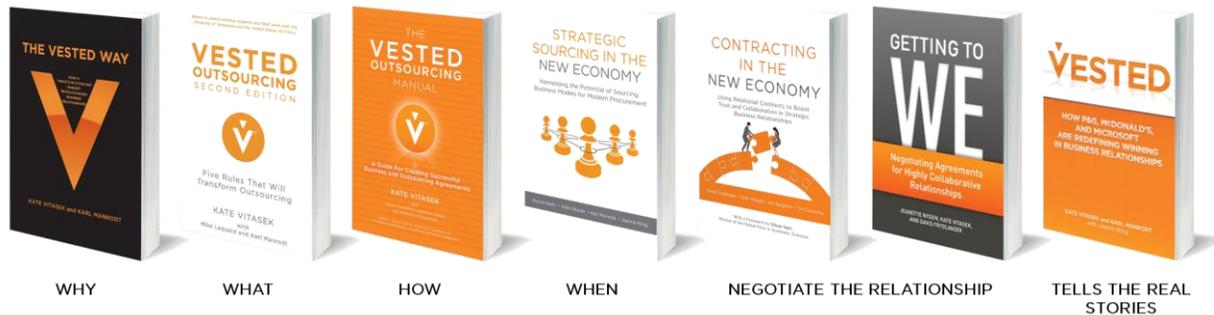
# Vested For Success

How a Small Business Wins Big with Vested



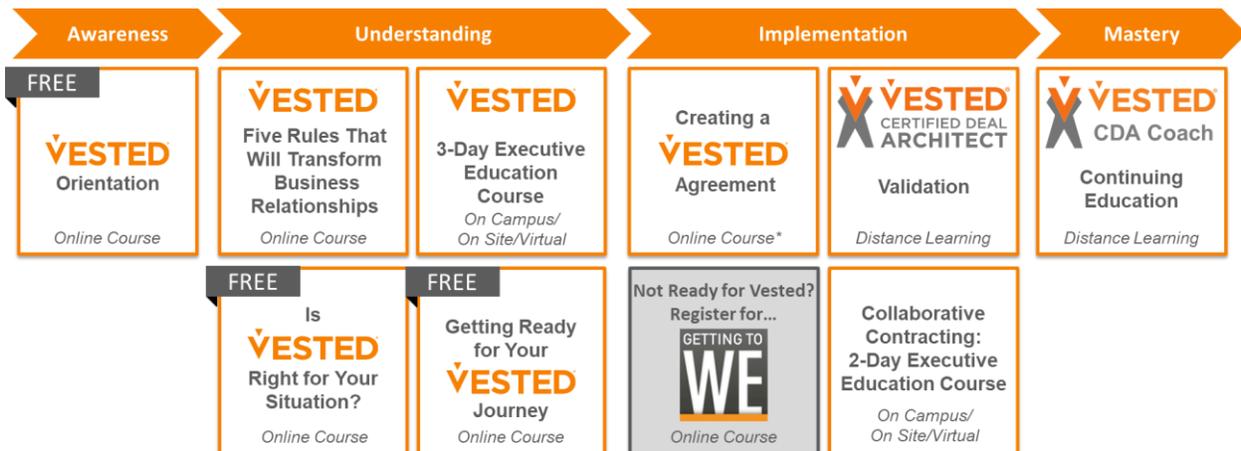
## For More Information

*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.



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](mailto:kvitasek@utk.edu).



\* Prerequisites for *Creating a Vested Agreement* class are:

*Five Rules, Is Vested Right?, Getting Ready, and the Vested 3-Day Executive Education Course*



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