



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

*Intel and DHLSC's European Expansion of Vested*

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## EXECUTIVE SUMMARY

Intel has a fresh perspective on the future. A recent ad campaign simply asserts, “We’re building it.”<sup>1</sup>

A natural consequence of building the future is changing priorities and letting go of the past. In 2012, this meant Intel exiting from its desktop motherboard business to focus on artificial intelligence, cloud computing, and other transformative technologies. While a great strategy for Intel, the exit of the business would mean over a 50% reduction in customer spend for DHL Supply Chain, Intel’s supply of choice for their reverse logistics operations in Europe, the Middle East, and Africa. The decline in demand posed a severe challenge to the viability and sustainability of its reverse logistics operations managed out of the Netherlands.

John Hayes and Ruud de Groot were the leaders within Intel and DHL Supply Chain, respectively, who were tasked to come up with a new solution. Both wished to take their already good relationship to a higher level that would deliver innovation and transformative results to tackle the tough challenges in front of them. To accomplish this, they needed to *do things differently*.

Hayes and de Groot looked to a pilot project in Costa Rica that had transformative results using the University of Tennessee’s Sourcing Business Model called Vested<sup>®</sup>. John Hayes believed Vested provided a new way to reach Intel’s objectives and was enthusiastic to try it. Ruud de Groot believed the project could be a blueprint for how to create a true win-win relationship with a strategic customer.

There were skeptics of course. Many people who believed the Costa Rica Vested pilot project was only successful because it addressed “low hanging fruit.” Todd Shire and Doug Whaley (leaders of the Costa Rica pilot) felt strongly Vested could do well in any circumstance. The Netherlands’ situation featured a healthy relationship getting great results. The question became, “Could Vested succeed in moving the Intel DHL Supply Chain EMEA relationship from **great to transformational?**”

Three years later, Hayes and de Groot have answered the question with a resounding “YES”. Intel’s primary concern of zero impact on customers has been met with a 100% satisfaction score. The Customer Excellence Score went from 93% to 99%. And even though DHL Supply Chain experienced a 45% cut in revenue associated with the drop in volume, innovation increased. And, as innovative solutions flowed consistently, the parties moved toward more transformational objectives.

Indeed, what began as an experimental pilot has evolved into a best practice. The rest of this case study shares the Intel DHLSC journey into Vested as they tried and succeeded in *doing things differently*.



## BACKGROUND

Todd Shire (then Logistics Sourcing Strategy Manager at Intel) and Doug Whaley (then DHL Supply Chain's Global Key Account Manager for Intel) were beaming with pride from the results of their company's first-ever deployment of the University of Tennessee's "Vested" methodology in Costa Rica.\* Unfortunately, while all were enthusiastic about the results, not all Intel and DHL leaders were confident the Vested methodology was replicable across other lines of business and geographies. In fact, some were downright skeptics.

Shire and Whaley did what was a logical next step, recruit champions for a second pilot to help further build the case for using the Vested model. The discussions around where to try the next Vested pilot was an easy one in principle. The reverse logistics contract between Intel† Global Reverse Logistics (GRL) and DHL Supply Chain (DHLSC) came to mind as a logical next step for several reasons.

At the time, Dale Dean was an Intel Commodity Manager managing 3PL contract services. He worked alongside Todd to develop the Vested agreement with DHL Global Forwarding in Costa Rica. Dean welcomed the Vested model as a new way of doing things with DHLSC in the Netherlands. He is passionate about change and says, "The mechanics of change are not hard; they just take an open honest approach to working together. What is hard is changing the culture. If you put a supplier in a box for a lot of years and tell them what to do, cost becomes the main driver. There is no value in it for them to do anything else. Vested shares risk and reward and cultivates new ideas."<sup>2</sup>

### Why Intel and DHLSC in The Netherlands?

Global reverse logistics (GRL) is a department within Intel (Ireland), whose role is to provide warranty services to Intel's direct and indirect customers within Europe, the Middle East and Africa (EMEA).‡ The returned products are recovered where possible and failure data provided to Intel to support product improvements.

GRL utilizes DHLSC as its service provider, to manage an integrated Reverse Logistics network comprising a central depot, four satellite depots, technical screening and multiple freight networks supporting in/outbound freight to customers, repair and international replenishment shipments to Asia and the United States. GRL's inventory is characterized by a high number of stocking units (SKU), diverse product range and a mix of fast and slow-moving goods.

DHL Supply Chain Netherlands is part of Deutsche Post DHLSC Group. As a global leader in contract Logistics, it offers warehousing, managed transport and value-added services.

DHLSC's Beringe, Netherlands operations took over Intel EMEA's reverse logistics business in 2011 from a supplier that had under-performed. Ruud de Groot, the current DHLSC site manager in the Netherlands, worked tirelessly to gain Intel's trust after taking over the contract. By mid-2012, DHLSC was performing well above requirements. And by the fourth quarter of 2012, Intel honored DHLSC for continuously good results with its coveted "Intel Recognition Award." John Hayes, Intel Business Process Development Manager, reports, "We wanted to recognize the work DHLSC had done, going from old ways to new. The

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\* Intel/DHLSC Costa Rica case study is a separate case study.

† EMEA is the term Intel uses for a geographic area including Europe, Middle East, and Africa.



award recognized how far we had come.”<sup>3</sup> The award also motivated the entire DHLSC team and the inscribed crystal vase sits prominently at headquarters.

The parties had built a strong relationship, and the Intel and DHLSC relationship was a good candidate to test the Vested methodology. As Hayes puts it, “There was no low hanging fruit to be picked. Getting transformational results similar to the Costa Rica location would need innovation. ***In short - doing things differently.***”<sup>4</sup>

However, a much more strategic reason led to the decision to refresh the relationship. In 2012 Intel exited its desktop motherboard business in favor of investing in other transformative technologies such as artificial intelligence and cloud computing. While Intel would be out of the business, they would still be on the hook for any repairs and exchanges as part of their warranty program. This change in business direction meant that returns volumes would decline by 40% or more within the reverse logistics network over the next three years during the warranty period.

Intel knew a reduction in volume would certainly challenge DHLSC's ability to sustain the business within the current site. Intel informed DHLSC and sought to renegotiate the pricing based on the new demand projections. This was not good news to DHLSC, since Intel procurement spend is DHLSC's income. The decline in demand posed a severe challenge to the sustainability of DHLSC's business model and the viability of its operations managed out of The Netherlands.

DHLSC developed a proposal outlining a tiered approach to invoicing. An increased price per unit if the demand was reduced and a decreased price per unit if demand increased. Increasing demand would benefit Intel from a lower cost per unit, yet in case of decreasing demand DHLSC would be protected against the erosion of their fixed cost. The proposal was rejected by Intel for several reasons:

- The pricing model would be inconsistent from month to month or year to year, because Intel cannot control returns by the customer, making financial management more difficult
- As returns decline, Intel wanted to see a proportionate reduction in costs
- The tiered approach was complex to implement due to a diverse service mix

The rejection of this approach and the severity of the ongoing challenges the parties were at a crossroads. To Mart Verstraaten, DHLSC Site Manager, the matter came down to a simple fact of life. “We knew that volume was not going to increase significantly. Intel knew that as well. If we only decreased prices, we would reach an inevitable end to viability. We don't have to make excessive margins, but too small a margin is not sustainable either.”<sup>5</sup>

Besides successfully tackling the reduction in demand, there was another difficult challenge. Corporate Intel was still investing in new product areas. It desired transformative solutions that supported new businesses and new products in new markets. DHLSCSC faced the challenge of responding to Intel's need for increased capabilities without making its business model unsustainable. In other words, balancing customer demands and the cost of providing service.

Utilizing standard approaches to deal with these challenges had yielded little improvement. Intel (Ireland) and DHLSC decided to pilot a Vested approach to address the challenges holistically. The Vested model does not change the basic elements of service delivery, but it does change how Intel purchases and manages outsourced services.



The Vested Sourcing Business Model appeared to be a viable option for moving forward to address the challenges that stood in front of the parties.

- *Adjusting to reduced volume:* How can Intel realize the benefit from a significant drop in return volume and DHLSC reduce its cost base but still meet the evolving requirements of its customer in a commercially feasible and sustainable manner?
- *Operational excellence:* How does Intel ensure that customer service does not suffer during the divestment of the desktop board business?
- *Change management:* How do Intel and DHLSC proactively manage change and ensure they control the events rather than the other way around?
- *Transformation:* How do Intel and DHLSC develop capabilities to address the technical, compliance and logistical challenges created by the new Intel business plan?

While many businesses fear a future filled with big problems, Intel does not share the angst.<sup>6</sup>

John Hayes, Intel Business Process Development Manager, and Ruud de Groot, DHLSC site manager, were early champions of the Vested pilot in EMEA for Intel's reverse logistics operations. Hayes describes the situation Intel faced. "We have a very complex supply chain. I wished to set some direction and initiatives to achieve longer-term goals, over a 3 to 5-year horizon. When I saw Vested it spoke clearly to me. Vested, although somewhat risky, seemed to be a good opportunity to apply learnings from our supplier management experience and channel them into action. To be Vested-ready we needed to build trust and organizational maturity."<sup>7</sup>

De Groot was also an early advocate. "Vested suited our personal perceptions about how to do business. Collaboration is key and openness and transparency create trust within a relationship. I reject the tendency on the suppliers' side to play a hide and seek game as part of the management approach. Only with transparency can you actually get the cooperation of the client. For me, when Vested came into my vision, it was an immediate recognition of the importance of trust."<sup>8</sup>

For Hayes and de Groot, the question became, "Can Vested help our relationship go from great to transformational?" It was with this background Intel and DHLSC began to discuss piloting Vested in the EMEA region for Intel's reverse logistics operations.



## PART 1: THE JOURNEY BEGINS

Shire and Whaley now had local champions for a Vested pilot with Hayes and de Groot. While Shire has changed roles, he retains his interest in Intel's progress with the Vested model. "It's an approach that I really believe in. The Costa Rica pilot changed my thinking about general attitudes about relationships and many other things – incentives and behaviors that I wasn't too aware of before Vested."<sup>9</sup>

De Groot believed the Vested model would not only help them solve the tough problems facing them in Beringe, but it could also potentially attract positive attention from the larger Intel corporate organization, showcasing DHLSC abilities. Continued results, should lead to increased opportunities for business growth.

In early 2013, Hayes and de Groot began to socialize the idea of a Vested pilot with essential stakeholders that would need to give a formal "yes" to move forward. There were three primary concerns that Intel and DHLSC wanted to prioritize. First, what would be the effect on the business of the reduction in spend caused by the transition from desktop boards? Second, did both companies have the capability, skills, resources and trust to manage the transition from desktop boards? And finally, could the parties "co-create" the requirements as part of the Vested methodology?

In a letter to stakeholders, de Groot summarized the situation: "Intel Global explores new routes for optimization of business relationships for both Intel and the supplier. The selected route is called Vested Outsourcing. The foundation for Vested Outsourcing is a mature partnership aimed at outcome-based results including an incentive pricing model. (as opposed to mere transactional rates). The ultimate goal is to establish a continued agreement with lower cost for Intel, higher margins for DHLSC, and improved performance. This seems to match very well with DHLSC's current strategies "Customer4Life and First Choice." The focus is on longevity, innovation, customer retention, and expectations of improving margins."<sup>10</sup>

De Groot, known for his participatory management style, invited a wide range of stakeholders to learn the knowledge base of Vested. "People needed to know what we were getting into. My interpretation showed Vested could only make things better for us. If things would not change, it would become very difficult to sustain the relationship. If we did not take advantage of this opportunity, we wouldn't have any sustainable business. Besides that, who would not want to become Vested with Intel? So, by all means, grab that opportunity."<sup>11</sup>

Shire believes the early inclusion of stakeholders is one key to success. Financial, legal, and contract managers need to buy-in to the Vested concept so the operational realities accept the principles. One thing that built confidence among stakeholders from both Intel and DHLSC was the fact the companies had tested the Vested methodology successfully in Costa Rica with impressive results.

Andrew Allan was the General Manager for DHLSC's Beringe site at the time and the first to formally approve the pilot for DHLSC. "I had a lot to think about. We were locked in a kind of stalemate with Intel; you want to extend the contract but the other side of the coin is risk. If the contract goes south you get caught holding the baby. I had the feeling the intent was very good, yet we stood looking at each other and wondering who was going to blink first.

"Vested offered us a collaborative relationship. The revenues with the customer were not massive, so to some extent it was a relatively small risk. Plus, it appeared to be another form of innovation, something we always look for. It was an experiment worth taking.

## Intel and DHLSC's European Expansion of Vested



"In the end, it wasn't so much a decision on my part; it was my faith in Ruud de Groot and his headstrong determination it was the right thing to do."<sup>12</sup>

The willingness to challenge the status quo triumphed. By the end of 2012, Hayes and de Groot were given the formal nod of approval for the pilot with one caveat. Intel required the parties to 'self-fund' the pilot. This meant they did not have a budget. The good news is the parties could rely on Intel's training license with the University of Tennessee, as well as lean on the existing resources from the previous pilot in Costa Rica.<sup>13</sup>

For Intel, the logic for making the shift to Vested was that it was transformative and non-adversarial in nature. This reflected Intel's desire to transform its business approach and to move away from the zero-sum game employed in its relationship with suppliers. The formalized and systematic manner of Vested also aligned well to Intel's internal culture demanding process rigor.

For, DHLSC, the opportunity was to play an equal role in leadership and to demonstrate an innovative approach to the management of the entire supply chain. De Groot speaks to the confluence of his values with those of Vested. "The framework and rules provide a more predictable and transparent environment. The collaboration with John Hayes offered a very clear match of what we wanted to achieve within an equal partnership. I, as a supplier, was convinced I should not only supply a service but also be cost-effective and willing to reduce costs. The arrival of Vested improved my idea of what is possible."<sup>14</sup>

Part 2 explores how Intel and DHLSC applied the Vested Five Rules, ultimately culminating with the parties signing a "Collaboration Agreement" that became an addendum to their existing contract. The contract, signed in late 2013, went into effect January 1, 2014, and would be automatically renewed pending the parties achieving their mutually defined Desired Outcomes.



## PART 2: APPLYING THE VESTED FIVE RULES

Much like the Costa Rica pilot, the parties set out on their Vested journey with a week-long workshop to lay the foundation for a collaborative partnership based on the Five Rules of Vested Outsourcing. There were a few skeptics. But also like Costa Rica, there was a strong nucleus of people willing to “give it a try” and “trust” in each other.

Todd Shire played a critical role to help the skeptics see the value of shifting to a Vested model. Hayes notes, “We felt fortunate to experience Todd’s participation. He was the recognized leader of Intel Vested endeavors and had practical experience using the Vested methodology. It made sense to reach out to him – there is no point in reinventing the wheel.”<sup>15</sup>

Shire started the workshops by sharing his Costa Rica perspective. Then he conducted a series of high-level discussions and assessments designed to not only educate the team, but also provide the baseline assessment of the business. “I acted as an objective facilitator for the Intel (Ireland) and DHLSC Vested start-up. We kicked it off with a week’s worth of meetings at the DHLSC facility. I brought in the Vested coursework; we did exercises using Vested training modules. Intel and DHLSC learned together how thinking needed to change to reap the accomplishments Vested would bring. We also shared the experience of Costa.”<sup>16</sup>

The parties started by developing a baseline for their existing relationship and business. For Intel and DHLSC, baselining allowed a holistic view of the business in an objective manner. This also allowed the parties to openly discuss the presence and magnitude of the “10 Ailments of Outsourcing.” In summary, the workshops helped to:

- Determine the main service, financial and operational drivers
- Understand the current level of performance
- Understand who the stakeholders are and their expectations
- Understand the partner’s relationship within the context of the 10 Ailments of outsourcing
- Determine the strong/weak points of the relationship
- Confirm level of maturity

As part of the baselining effort, the parties identified 40-plus possible initiatives. The companies eventually included sixteen opportunities. These opportunities became known as the “Ponies” that ultimately helped Intel and DHLSC define their Desired Outcomes for the Vested agreement.<sup>§</sup>

de Groot remembers the workshop clearly. “The workshop enabled us to validate our relationship and maturity progress thus far. Both partners wanted to continue developing the relationship and were looking for the Pony. The workshops and the collaboration that ensued were critical. Losing the motherboard business was 50% of our business.<sup>17</sup> Vested became key as it enabled us to speak out as an equal partner. The weeklong Vested workshop provided the opportunity for free-flowing discussion and, ultimately, dramatically improved perceptions. By week’s end, even the guardrails – untenable circumstances – for each party were known and respected.”<sup>18</sup>

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<sup>§</sup> In the Vested methodology, a “Pony” is defined as the difference between the existing current state and the desired future state. Organizations identify “ponies” as potential initiatives that can drive significant value if they are found.



The weeklong workshop also demonstrated that Whaley and Shire were correct in their belief Vested could add value to an already great operation. Consider that before the workshop, Intel and DHLSC both adamantly agreed there was no more “low hanging fruit.” However, during the workshop, the team identified almost forty initiatives that – if implemented – could help them drive transformational change in how they worked. In short, they were designing the future.<sup>19</sup>

### THE VESTED FIVE RULES

The Five Rules are based on award-winning research from the University of Tennessee and are essential for the success of creating a highly collaborative win-win relationship. A truly Vested agreement includes all Five Rules, which are interdependent and work together. The rules build a partnership system designed to create a deal structure where the buyer and supplier both “win” as they work collaboratively to achieve mutually defined Desired Outcomes.

Frans-van Roosmalen, DHLSC Business Unit Senior Account Director DCO Technology E&M Benelux, found great value in the Vested methodology. “Years ago, DHLSC established a program called ‘Customer for Life’, which we continue to use. While Customer for Life is a great program, Vested goes deeper and wider with a roadmap that helps us get to a common vision and mutually defined Desired Outcomes.”<sup>20</sup>

Together, Intel and DHLSC architected the nature of the relationship to follow the Vested Five Rules. A key challenge was how to incorporate the Vested rules into the existing contract. To solve for this, the parties agreed to create a “Collaboration Agreement” that would be an addendum to the parties' existing contract. The remainder of Part 2 is devoted to explaining how Intel and DHLSC follow each of the Five Rules, including formally embedding the Vested rules in the Collaboration Agreement to their contract.

#### Rule 1: Outcome-based Versus Transaction-based Business Model

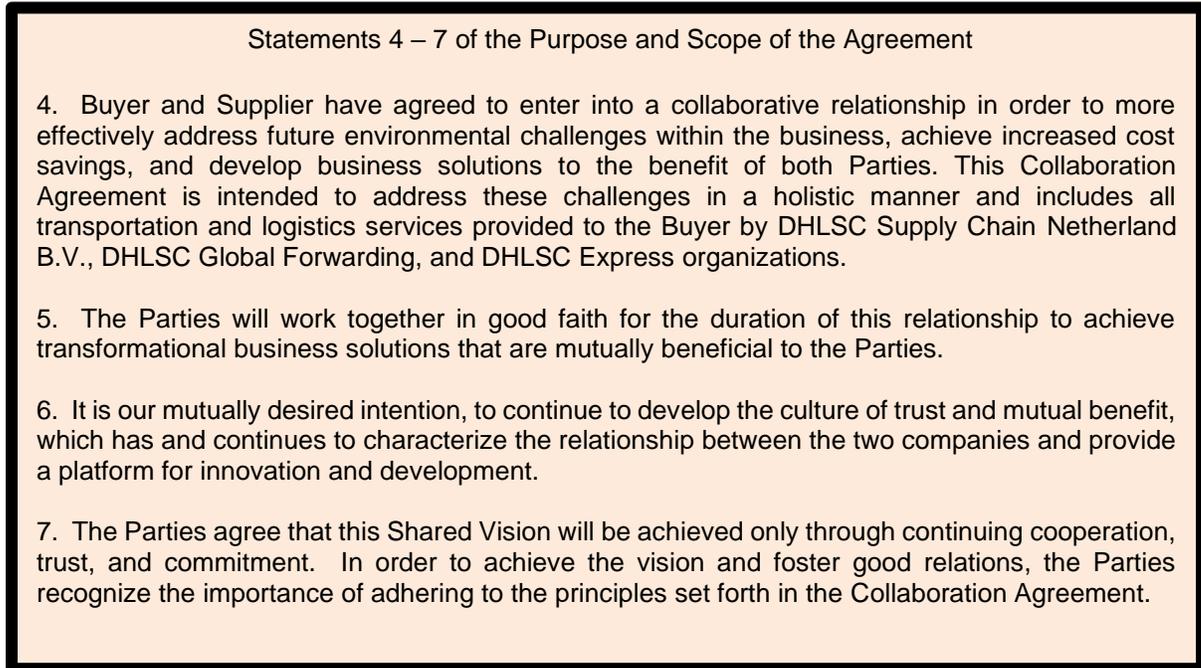
For Intel and DHLSC, Rule 1 is about a radical realignment around a handful of big goals. A key feature of the Vested business model is that it changes the way services are purchased and managed. The business still needs resources to perform tasks, spend has to be managed to plan, metrics need to be met, et cetera. However, what changes under Vested is how the buyer (Intel) purchases and manages the outsourced service, essentially driving alignment around a few big goals (known as Desired Outcomes) rather than a laundry list of activities.

Both parties kicked off Rule 1 by jointly creating a Shared Vision and a Statement of Intent (SOI). This unique document identified a joint shared vision that transcends the self-interests of both parties and supports the focus on a handful of big goals. What makes the joint vision powerful is that it is embedded in the contract and thus formally drives behavior that promotes a cooperative and collaborative environment.

**The Shared Vision** - Written directly into the Collaboration Agreement addendum of the contract - clearly commits the parties to develop a culture of trust and mutual benefit to drive innovation and exceptional performance. Statements 4-7 of the “purpose and scope” of the parties' Collaboration Agreement states, “It is our mutual desired intention to cultivate a culture of trust and mutual benefit which drives continuous innovation and exceptional performance to make the Beringe Logistics operation the best at Intel.”



**FIGURE 1: Purpose and Scope section of the Collaboration Agreement.**



**Statement of Intent** - A key feature of the Collaboration Agreement is the inclusion of seven intention statements for how the parties will work together to foster the culture of trust and mutual benefit. For example, one statement of intent speaks directly to how the parties will apply “perspective” and states:

- During the Term, the Parties will seek to build on the good relationship between the Parties through careful consideration and mutual appreciation of the perspective of the other Party on all matters and questions that arise during the lifetime of the Collaboration Agreement.
- The Parties appreciate there may be occasions where they have differing views and perspectives.
- Notwithstanding the terms of the Collaboration Agreement, the Parties desire to have a harmonious working-together relationship and will counsel all contributors to the performance of this Collaborative Agreement to be courteous and respectful at all times.

**High-Level Desired Outcomes** - To determine the Desired Outcomes, the parties drew on the baseline assessment developed during the workshop. They also consulted with a wide base of stakeholders to identify primary concerns that would need to be addressed. For example, Intel's customer relations management clearly articulated customer concerns and the importance of maintaining service levels. DHLSC finance raised concerns regarding declining spend and margin.

**FIGURE 2: Intel and DHLSC Primary Concerns**



Intel's primary concerns	DHLSC primary concerns
<ol style="list-style-type: none"> <li>1) Ensure no impacts to service delivery as a result of the transition from desktop board business.</li> <li>2) Ensure spend tracks and preferably undercuts the decline in volume e.g. if volume declines 20% then spend should decline 20 percent.</li> <li>3) Implement changes to processes to better meet the new business environment.</li> <li>4) Ensure there is a holistic view of the supply chain.</li> </ol>	<ol style="list-style-type: none"> <li>1) Protect DHLSC's bottom line as Intel spend decreases.</li> <li>2) Ensure the business was sustainable over time and had Intel's commitment.</li> <li>3) Revise the pricing model to meet local requirements.</li> </ol>

The parties ultimately agreed on five mutually Desired Outcomes as part of the initial workshop:

1. An EMEA **Quality Management** structure to ensure outcomes are delivered to SLAs
2. Deliver **Operational Excellence** across the supply chain
3. **Supply Chain Cost Savings**
4. Overall **Supplier Performance**
5. **Change Management** – Specific program implementation within agreed timeframe and cost targets

A key deliverable from the workshop was to develop a list of transformation initiatives that would help the parties achieve the Desired Outcomes while addressing each party's primary concerns.

Dean found the process brought many benefits because the parties approached things with fresh eyes in a structured way. "We needed to put aside posturing and start walking through the process – really seeing what we're doing. When we dug into that, we found there was a lot of redundancy and extra work. As we unpacked that, ideas started flowing. This open conversation does not allow preconceived mindsets. It becomes a safe zone; we can say anything with mutual respect. We can show where our warts are and then they can show theirs. Once that starts, it snowballs. The first few days nobody is saying too much. One or two ideas come out. A couple of days later we talk some more...now we have 60 ideas."<sup>21</sup>

Hayes also found the exercise refreshing and a little surprising. "Intel considered several initiatives to take cost out of the supply chain; there is nothing in it for DHLSC because the initiatives were reducing scope. It can be a hard slog to get suppliers to remove costs out of the system. It tends to be sticks and carrots - a zero-sum game. Within Vested I expected DHLSC to cherry-pick those initiatives that offered the biggest gain for them. But they didn't. DHLSC looked at the overall picture. What amazed me as we took more spend out of the system, our supplier morale grew significantly. We felt no need to apply the stick. DHLSC was coming back to us with ways to improve. DHLSC's response put pressure on Intel to really look at the way we do things."<sup>22</sup>

The group ultimately agreed on 16 initiatives, which were graded (relative to baseline) to support substantive discussion, and at a later point, became the Statement of Objectives included in the contract.



### Rule 2: Focus on the What not the How

With the Desired Outcomes and transformation initiatives identified, the time had come to incorporate Rule 2. Rule 2 is about defining what the buyer wants and allowing the supplier to apply its expertise in coming up with the best solution. It is in this rule where the parties mutually agree on the Statement of Work and the level of detail the parties will use to define the workscope in the contract.

Roosmalen explains the clear advantage for following Rule 2. "When our customers clearly dictate what we have to do **and** how we have to do it, room for innovation is limited. DHLSC is the logistic expert, let us use our knowledge and our tools to find the best way to meet the Desired Outcomes."<sup>23</sup>

The parties went through a "best value assessment" and asked themselves who was best suited to perform the work to ensure optimal end-to-end effectiveness. A key goal was to eliminate duplicative work. Doing the exercise enabled the companies to ensure the most effective use of combined resources and play to each company's relative strengths. For example, Intel allowed DHLSC to execute regional planning while it retained global planning so that the overall months of inventory in the region declined.

Rule 2 would prove one of the most challenging for Intel. Historically, Intel tends to be prescriptive concerning how suppliers implement the workscope under their contracts. The Vested approach required Intel to clearly articulate *what* was important without telling the DHLSC *how* it should be done.

Hayes explains: "Intel traditionally tends to micromanage. Pulling back from that was difficult. Shifting to Vested required Intel to step back from prescriptive behaviors and articulate the most important objectives, without telling DHLSC how the work should be done. The Vested workshop and ongoing discussions with DHLSC helped raise our comfort level to accept new thinking."<sup>24</sup> Following Rule 2 meant Intel needed to shift from telling DHLSC "how" to do stuff in favor of an environment where Intel brings its concerns and issues to DHLSC. It is then up to DHLSC to find the best way to solve the problem and put best practices in place.

For example, one Intel concern was the consistency of service. DHLSC Netherlands may offer the best possible service, but does the consumer receive the same response from DHLSC in a Russian or South African depot? The answer is critical because the very nature of reverse logistics means DHLSC is serving an already-unhappy customer. Hayes asserts, "It's no good if service varies from place to place."<sup>25</sup>

To answer this conundrum, the DHLSC management team took responsibility and audited all the depots. De Groot reports, "When we first started the processes were different across locations. After getting the lay of the land, management set standards that uniformly applied to all depots. Now we can guarantee consistency in excellent customer response no matter where you are."<sup>26</sup>

One thing Intel and DHLSC did to help Intel feel comfortable letting go was to institutionalize a "proof of concept" approach for testing new ideas. This helped Intel team members gain comfort as DHLSC demonstrated it was able to understand and manage risks associated with the various changes that were being proposed.

Hayes adds, "We began to have faith in each other and our mutual Desired Outcomes. When DHLSC saw they were free to operate, applying our best knowledge and experience, we were able to move forward together. DHLSC began to feel comfortable that we weren't going to ambush them down the road. I think it



came down to some of the soft skills and trust. We began acting like partners, which encouraged both parties to take risks.”<sup>27</sup>

### Rule 3: Clearly Defined and Measurable Desired Outcomes

Identifying Desired Outcomes (Rule 1) and the Statement of Work (Rule 2) is important, but it is equally important to identify how to measure success against the Desired Outcomes. The Vested methodology teaches “less is more” when it comes to developing metrics. Also, all metrics must align with the Desired Outcomes. For Intel and DHLSC, the aim was to have a few measures that provide a very good picture of how the supply chain was performing against the Desired Outcomes

As Intel and DHLSC tackled Rule 3, they needed to determine how they would clearly define and measure each of their Desired Outcomes. The companies used the Vested Requirements Roadmap<sup>®</sup> to help them align metrics to each of the Desired Outcomes (**Figure 3**) – following page.



FIGURE 3: Requirements Roadmap Linking Intel DHLSC Desired Outcomes to metrics

	Statement of Objective	Standard	Tolerance / AQL	Who	Data Source	Calculation	How Often Collected
An EMEA Quality Management structure to ensure outcomes are delivered to SLAs	Achieve agreed Quality of Service (QOS) goal across the entire EMEA supply chain	Overall QOS > = 95%	Average over 12 months	DHLSC provides EMEA wide reporting of Supply Chain quality across all stakeholders.	<ul style="list-style-type: none"> <li>Customer complains report, freight delivery performance report, and weekly operations report</li> <li>Customer and Depot escalations report</li> </ul>	Weighted hierarchy of indicators*	Weekly collection  Weekly discussion
Deliver Operational Excellence (OPEX) across the supply chain	Achieve agreed operational performance across the entire EMEA supply chain	95% on time delivery	Average over 12 months	DHLSC provide OPEX dashboard	<ul style="list-style-type: none"> <li>Freight delivery performance reports, inventory reports, and shop floor reports</li> <li>Planning hit rate and MO reporting</li> </ul>	As per current dashboard format but updated to reflect end to end supply chain	Weekly collection  Weekly discussion
Supply Chain Cost Savings	Optimize Intel spend in response to volume decline	Greater than \$121K savings with a stretch goal of \$225K	+ / - 2%	Intel provides update on spend reduction	Intel Finance	Model agreed with finance / DHLSC Supply Chain	Monthly collection Monthly discussion  Quarterly finance review
Overall Supplier Performance	Manage performance to ensure service delivery is consistent and the relationship is easy	Supplier scorecard > = 90%	Average over 12 months	Intel	<ul style="list-style-type: none"> <li>DHLSC internal reports</li> <li>Stakeholder reviews</li> </ul>	As per current format	Monthly collection of data  Monthly discussion at scorecard review
Change Management – Specific program implementation within agreed time frame and cost targets	Implement desired changes within budget and in a timely manner	<ul style="list-style-type: none"> <li>90% of changes implemented on time</li> <li>no negative customer impact</li> </ul>	Average over 12 months				



As the parties developed the Requirements Roadmap, they co-created how they would ultimately measure their success. This included answering four key questions for metrics they would use to define success:

- How would each metric be calculated?
- Who would be responsible for reporting?
- Where would the data come from/which source systems would use for data components?
- What would be the frequency of reporting on each metric?

Answering these questions led to a level of clarity that ultimately enabled the parties to develop a high level of report automation. Consolidation allowed the parties to focus on the genuine and most important objectives in a very straight-forward manner. “Before this, we looked at a whole bunch of metrics. Vested offered focus on the information we needed to gather. It was a very clear emphasized picture. We had basic metrics that were linked to goals to gauge our progress. No more measurement minutia,” relates Hayes.<sup>28</sup>

Notice the plain language in Requirements Roadmap. One example of a metric is how the parties would measure the transformation initiatives. Hayes relates, “Our concern was how customers would react to changes.”<sup>29</sup> Intel and DHLSC discussed what was feasible and agreed on a service level of 90% implementation on time with zero customer impact.

Another of the key metrics the parties moved to was “Quality of Service.” As a supply chain, the Quality of Service objective incorporates customer feedback, as well as a range of performance measures. DHLSC came up with a creative approach for measuring Quality of Service. Using seven different metrics ranging from IT performance, freight performance, warehouse performance, internal audit, and customer performance, they created a single measure that gave a very good holistic measurement of the quality of the entire supply chain. For Intel, this was the first time they had ever had an integrated, holistic view of supply chain quality.<sup>30</sup>

Mart Verstraaten, DHLSC Site Manager, appreciated the structured framework the Requirements Roadmap offered and the collaborative approach to jointly create the dashboard of the future: “In the past, we used to spend all this time on metrics that were always green. If the KPI is always green, you are not achieving progress. Goals with Intel were always stretch goals. With Vested, we went further and set challenging standards aligned to our Desired Outcomes. The shift to Vested enabled us to measure the future – where we were headed – not simply the past performance of operational metrics that were always green. We had always looked at KPIs daily. With Vested, we started to look at KPIs two times each day. Then we moved to once a day, then once a week. The new methodology allows us to create a framework on what we both believe was important – primarily KPIs for cost savings and quality.”<sup>31</sup>

Ultimately the Intel-DHLSC Requirements Roadmap came down to the six key measures – a reduction from approximately 150 metrics, with each metric fully aligning to the Desired Outcomes. Figure 2 depicted the “Requirements Roadmap” the parties developed as part of the Vested methodology.



### Rule 4: Pricing Model with Incentives to Optimize the Business

Vested Rule 4 develops a pricing model with incentives that reward the supplier when the Desired Outcomes are achieved. Not surprisingly, the trickiest part of drafting a business contract lies within pricing.

Up to this point, the joint Intel/DHLSC deal architect team had primarily focused on efforts that were operationally focused – planning, identifying goals, determining how to meet those goals, and improving their working relationship. As the team began to work on Rule 4 – Pricing Model – the team moved to a business focus. This meant rethinking how the parties thought about the economics of the relationship.

While Intel accepted the need to have a pricing model with incentives, one of the biggest issues for Intel was understanding incentives. Intel prides itself on paying a fair price for the service delivered. No more or no less. Therefore, the idea of paying incentives to a supplier was a foreign concept. Hayes explains, “Early on, Intel didn’t fully understand the whole transformative agenda. The common sentiment within Intel is, ‘Why should we pay more, for what the supplier should be doing anyway.’ There were also practical fears that, in a high-cost region (EMEA), we would become globally uncompetitive.”<sup>32</sup>

One of the first things Intel did was ask de Groot to break down what DHLSC considered issues with the existing pricing model and what they would like to see. Dean remarks, “It’s imperative that you give the supplier a seat at the table. Not a small seat. No kindergarten chairs. An equal size seat. When the supplier sees from its vantage point what the problems are and the issue constraints, we can talk through that. It’s back and forth; we can do that for you. We could help shore this area. You are never going to get the best from suppliers or have them open up and tell you the areas they see where they could help if they don’t believe you are really listening to them or if there’s nothing to give them back.”<sup>33</sup>

“Pricing easily gets back to What’s In It for Me in a certain way,” relates Dean. “Suppliers need to make a profit. I think part of it is making sure we had a good understanding of what we had done – the ROI analysis. We build the case of what is and is not, tying in the business and finance people. That has to do with building trust. If we have a healthy supplier, they can invest, they can optimize and pull cost out. They can’t do that if we are paying them too little and making them have a skeleton pool.”<sup>34</sup>

Once the parties understood the theory and logic of Rule 4, they set out to create their pricing model with incentives. The balance of this section shares how Intel and DHLSC worked together to create a pricing model with incentives.

#### Establishing the Principles

A key part of developing the pricing model is the establishment of the principles the companies would use to create the actual pricing model. Intel and DHLSC followed four important design principles:

- When DHLSC achieves Desired Outcomes, it reaps the reward of greater profitability.
- The pricing model must balance risk and reward for the organizations. DHLSC only takes risk for decisions within their control.
- The agreement specifies that DHLSC will deliver solutions, not just activities. Inherent in the business model is a reward for DHLSC to make investments in process, service or associate product that will generate returns in excess of contract requirements.
- Incentives needed to be self-financing from cost savings.

The starting point for developing the pricing model was the Desired Outcomes. The basic premise for the pricing model was two-fold. For Intel, it was about enabling Intel to decrease its spend in line with reduced



returns fairly. The parties agreed to establish a gainsharing incentive that would reward DHLSC for reducing Intel's costs.

For DHLSC, it was about addressing the longer-term sustainability of the business. De Groot says, "In the beginning, Intel only wanted gainsharing. We need more assurance because if we were to reduce costs significantly, we were hollowing out our business and lessening our future."<sup>35</sup>

By now, the companies had grown comfortable having open and candid discussions as part of following the Vested methodology. The result was a creative pricing model framework designed to highly motivate DHLSC to drive Intel's much-desired transformation goals.

### Developing the Mechanics of the Pricing Model

With the principles established, the parties began to develop the actual pricing model mechanics. The basic pricing model was divided into two key components: base service delivery pricing and transformation incentives. **Figure 4** below provides a high-level pricing model framework to guide them in their thinking. In addition, the parties established a margin matching process to ensure the sustainability of the pricing model as well as agreed on how they would fund initiatives that might not be transformational in nature (e.g. basic compliance needs).

**FIGURE 4: Service Delivery Pricing and Transformation Incentives**

	Base Service Delivery			Transformation
	Variable Costs	Fixed Costs	Governance	
<b>Basic Model</b>	<ul style="list-style-type: none"> <li>• <b>Labor</b> Transaction price per (per pick, per ship, etc.)</li> <li>• <b>Freight</b> Transaction freight fee based on per airway bill per kilogram</li> </ul>	Fixed Cost Management Fee to cover "four wall" infrastructure and overhead	Fixed Management Fee	<ul style="list-style-type: none"> <li>• DHLSC receives a 1-year automatic contract extension if &gt;2% annual savings and metrics linked to Desired Outcomes are met</li> <li>• DHLSC shares in costs savings:                             <ul style="list-style-type: none"> <li>• 0-2% savings: 15%</li> <li>• 2-4% savings: 30%</li> <li>• &gt;4% savings: 45%</li> </ul> </li> </ul>
<b>Caps/ Adjustments</b>	No caps; DHLSC charges will match the needs of the business	Rates adjusted on actuals. If costs increase, increase is added to annual savings goal. If costs decrease, these will be reduced from annual savings goal.		No caps
<b>Payout</b>	<ul style="list-style-type: none"> <li>• Freight paid on each freight invoice</li> <li>• Labor paid when invoiced</li> </ul>	Paid when invoiced	Paid when invoiced	Paid semi-annually



The key design principles of the pricing model are shared in more detail below.

### **Base Service Delivery Pricing**

DHLSC's pricing for base services is comprised of three components. The first is variable costs. Labor costs are charged on a transaction basis for DHLSC's labor expenses. This includes a profit margin for DHLSC at below-market margin, making it attractive for Intel to expand business at lower costs and bring in new business for DHLSC – a win-win. The DHLSC also charges a transaction freight fee based on per airway bill per kilogram.

The second is a Fixed Costs Management Fee, which covers DHLSC's costs to cover "four wall" infrastructure and overheads costs.

The third component is "governance," which covers the cost of the DHLSC team dedicated to managing (or governing) the end-to-end supply chain and overall relationship. The Vested methodology recommends that governance costs are paid separately to ensure proper resourcing and to prevent the supplier's temptation to reduce account support as a tactic for increasing profit. For billing simplicity, governance is invoiced as a line item with the fixed costs.

A key part of creating the pricing model was to determine future risk and its effect on the pricing model. The biggest risk for DHLSC was around the reduced volume of returns. The effect of volume on variable costs affected the ratio of fixed to variable costs, which was a key determinant in Intel competitiveness. For that reason, boundary conditions were placed on fixed costs to ensure they were revisited for fairness if conditions changed.

### **Transformation Incentives**

Transformation incentives are the hallmark of a Vested agreement. Intel and DHLSC ultimately designed a two-pronged approach for rewarding DHLSC for investing in transformation against the Desired Outcomes. One involved a monetary "gainsharing" incentive tied directly to DHLSC's success in reducing costs. The second involved a non-monetary incentive where DHLSC is rewarded with an automatic contract extension for achieving the mutually defined Desired Outcomes, pending a minimal 2% cost savings is achieved. Each is explored in more detail later.

#### ***Transformation Incentive – Gainsharing***

As one of Intel GRL's main objectives was to manage costs, it made sense to create a gainsharing incentive where DHLSC would receive a portion of any cost savings they implemented. But the question was how to operationalize a win-win gain-share approach.

De Groot and Hayes looked at the problem with fresh eyes. If the savings goal is \$200,000 and Intel has to give \$100,000 to the supplier as a share, then Intel has to find savings of \$300,000 to achieve the goal. They knew conventional thinking from Intel was "So why would you give money to the supplier to make your job harder?" For de Groot and Hayes, the answer was quite simple: "If you don't apply a collaborative mindset to the problem then you won't even get the \$200,000!"<sup>36</sup>

## Intel and DHLSC's European Expansion of Vested



It was a welcome conversation to Roosmalen, “Too often, we have clients that put enormous pressure on cost and, most of the time, we are able to deliver. However, in the first year we are rewarded through gain-share but the years after, all cost reductions go to the customer and we are actually punished. As Vested dictates fairness, new gainsharing thinking means that some of the erosion will be compensated.”<sup>37</sup>

The final solution used two components. The first was the creation of tiered gain-share incentives and the second involved using a concept known as ‘margin matching’ to prevent the ‘hollowing out’ of the business. The solution also addresses how the parties would manage the physical payout process.

*Tiered Gainsharing Incentives:* Intel and DHLSC liked using a tiered approach for gain-share payouts whereby DHLSC would be given an incrementally larger share of cost savings as it achieved pre-defined targets. By tiering the percentage of savings that would be returned to DHLSC – creating an incentive to continuously identify savings opportunities. The more DHLSC saved for Intel, the greater its reward. It also creates a disincentive to delay savings programs into the next period if targets have been met. Likewise, by sharing cost savings on the first dollar saved, DHLSC is incentivized to continue to generate savings even if it believes it will not achieve a target.

The tiered targets and incentives are outlined below in **Figure 5: Intel DHLSC EMEA Targets and Incentives:**

PERFORMANCE METRICS AND INCENTIVES		
Savings Targets	Performance	Gainshare %
0 -2.2 %	Minimum	10 %
2.2 % - 4.1%	Target	30 %
>4.1 %	Stretch	45 %

*Margin Matching:* The next component was “margin matching.” Margin matching is a concept used in Vested agreements to ensure the buyer and supplier are “winning” at similar rates. Fair margin targets are set with the goal to keep the supplier's margin within the targets. For example, if “business happens” and DHLSC's margin were to fall below a predefined margin target, the pricing model is automatically revisited for fairness. If the business can no longer sustain a minimum target margin for the supplier, the parties can trigger a contractual off-ramp where the parties agree to exit the relationship with a pre-established exit management plan.

Intel and DHLSC agreed margin matching would ensure fairness given the dynamic and uncertain nature of the Intel business. The question became the appropriate margin percentage to apply for margin matching. This is a particular problem because Intel and DHLSC had not agreed to open book accounting. After much debate, it was decided to use DHLSC's operating margin as the basis and the final target margin was agreed using benchmarking.

The parties agreed margin matching would be applied over a three-year period for several reasons:

- To give DHLSC the chance to address sustainability issues and support growth in margin (cost savings incentives would replace lost margin from INTEL's reduced volume)
- Provide time to develop new opportunities to replace the lost business
- To reinforce the partnership approach and the intent to maintain a relationship over the longer term



The parties identified margin matching triggers that – when triggered – would signal the parties to revisit the pricing model for fairness or to trigger an ‘off-ramp’ to allow either party to end the collaboration agreement if certain triggers occur. For example, if Intel’s outgoing EMEA customer ship volume fell below 35,000 units, it would trigger the parties to revisit DHLSC’s fixed costs to see what, if anything, could be removed due to lower volume thresholds.

### ***Transformation Incentive – Contract Extension***

With a gainsharing plan in place, there was still concern that DHLSC would have enough incentive to continue to invest in a business it was ultimately cannibalizing. DHLSC openly shared its concern that even with gainsharing, ultimately the business would be rendered unsustainable as the spend decreased over time.

Intel and DHLSC ultimately came up with a win-win approach for balancing Intel’s desire to achieve performance goals with DHLSC’s desire to maintain the business. The solution was to create an incentive for DHLSC where they would earn an automatic no-bid extension to continue to do the work if they met performance goals. This was a first for Intel, as the Intel policy was to competitively bid all work. In essence, incorporating a no-bid contract extension as an incentive meant, in future years, performance would guarantee contract extension in accordance with evolving expectations.

This was a major shift in Intel and DHLSC’s thinking, but it ultimately helped the parties align their interests to the essence of Vested to create win-win economics. **Figure 6** shows how the parties aligned incentives to the Desired Outcomes.

**FIGURE 6: Intel DHLSC EMEA Desired Outcomes and Incentives**

DESIRED OUTCOME	INCENTIVE
An EMEA <b>Quality Management</b> structure to ensure outcomes are delivered to SLAs	Automatic renewal of contract once goals are met
Deliver <b>Operational Excellence</b> across the supply chain	Automatic renewal of contract once goals are met
<b>Supply Chain Cost Savings</b>	<ol style="list-style-type: none"> <li>1. Gain-sharing on decreases to planned spend, excluding demand-driven</li> <li>2. Margin matching to support sustainability</li> <li>3. Increased revenue from value add activities</li> </ol>
Overall <b>Supplier Performance</b>	Automatic renewal of contract once goals are met
<b>Change Management</b> – Specific program implementation within agreed time frame and cost targets	Automatic renewal of contract once goals are met

Looking from the outside, one might question the fairness of requiring DHLSC to achieve four of the five Desired Outcomes before automatic renewal kicks in. But Groot was comfortable with the approach. First, he was confident DHLSC would meet the requirements. Second, “Extension of the contract for one year



gave us the opportunity to steer our own future and remain Intel's' Provider of Choice for many years. This feels good as we became largely in control of our future with Intel: Objectives are realistic and in reach of DSC, as already proven. Actually, earning our own renewal, by achieving the desired objectives, is an ultimate reward for our continued effort and performance. It is a very rewarding driver."<sup>38</sup>

### Other Considerations

With the core parts of the pricing model put in place, the parties set out to solve the last parts of the puzzle. One was how to support costs associated with an investment in technology. For example, on one initiative DHLSC had to invest in IT changes to support compliance issues. Given there is no return on investment from this activity, a mechanism was developed to share the implementation costs.

Another question was how to further support DHLSC, given the fact it would actively be cannibalizing its base business through transformational efficiencies. Besides the gainsharing and contract extension incentive, Intel also agreed to assist DHLSC in broadening the business. The logic made sense. Why not advocate for DHLSC to be included on other regional bids for new, incremental business? This would make the pie bigger for DHLSC in the face of reduced revenue associated with reduced Intel revenue.

Last, the parties also needed to design the actual mechanisms on how they would manage the actual payouts. This – like Costa Rica – presented a dilemma for Intel GRL because their financial systems and processes did not recognize savings after a year. Also, there were valid concerns about 'guaranteeing' margin for a supplier and the complexity of tracking savings over a protracted time frame. Extending the 'payback' period introduced complexity since it risked counteracting other incentives. For example, in an extended contract what would happen if DHLSC's contract was not renewed? Would DHLSC also lose the future margin? The parties ultimately worked through a process for how they would manage the incentive program.

### Rule 5: Insight vs Oversight Governance Structure

Vested's Rule 5 is about implementing governance mechanisms that foster insight into how goals are achieved. This is a purposeful shift away from conventional "oversight" of the service provider,

As a company, Intel has historically managed suppliers with a great deal of oversight. This has been especially true for Intel GRL because it is primarily a service organization and is very sensitive to customer experience. The Intel logistics network within EMEA is complex and involves many stakeholders. Any misstep can lead to problems with customers. Customer sensitivity reinforced by Intel's results-oriented culture led to an oversight mentality towards suppliers.

Shifting to a Vested model would demand the parties make the shift from oversight to insight. It would mean creating a trusting and transparent culture where the parties freely call each other out when confronted with "What's In It for Me" assertions.

As part of implementing Vested, the companies created governance mechanisms they would use to jointly manage the business. This included how the parties would approach overall ongoing relationship management, transformation management, exit management, and compliance requirements.



### Ongoing Relationship Management

Relationship management mechanisms enable Vested partners to optimally manage the ongoing business needs of the partnership ranging from day to day operational needs to addressing strategic alignment across the management of both parties. A key step was the conscious sharing of the bigger picture, such as expectations of the customer and objectives of the internal Intel business units with DHLSC. Thus, Intel set the tone to act as a trusting partner.

The deal architect team also turned to design principles taught by the University of Tennessee to help them design how they would manage the relationship more effectively.

*Tiered Governance Structure:* The Vested model uses a tiered governance structure. Intel and DHLSC ultimately set up a three-tier governance structure, with an operational management group, a joint operations committee, and a board of advisors.

*Peer-to-Peer Mapping:* The parties adopted a “reverse bowtie structure,” which mapped out the lines of communication between Intel and DHLSC.

The peer to peer mapping ensured communications were free-flowing without having to go through the account managers. The reverse bow tie management structures and communications are very effective, leading to high morale. The end result (in Vested terms) is transforming “What’s In It For Me” (WIIFMe) mentalities to “What’s In It For We” (WIIFWe), a relationship that is mutually dependent for achieving success.

Verstraaten, Site Manager, notes, “Front line workers knew that Intel was always demanding. With Vested, we involved all stakeholders and explained how to do things better. Folks at all levels were able to share their ideas and bring value to the effort with their Intel counterparts. It really changed the dynamic and has enabled levels of collaboration we have never seen before with any other client.”<sup>39</sup>

*Communications Cadence:* The teams paid particular attention to communications, ensuring a regular communications cadence at all levels. Meeting agendas were set and published with broader participation by stakeholders. Measurements and reporting were formalized and systemized making the process very visible and transparent.

*Continuity of Resources:* While the parties did not adopt a “key man provision,” they did “onboard” employees on both sides of the partnership, rolling out training on all aspects of how the Vested partnership works.

De Groot shares a difference in culture that has come out of the improved relationship management efforts. “The Intel team interacts with first-line staff as well as management. But it is in the spirit of collaboration versus micromanagement. Intel folks just mingle; they go straight to the people on the floor. Our office staff feels comfortable going directly to them to address issues through conversation rather than streams of memos. The open approach by Intel strengthens our team effort.”<sup>40</sup>

Hayes adds an important cautionary note: “Whilst the relationships are amicable and collaborative, team members are open to challenge. This is important to prevent the ‘buddy’ relationships forming that can actually hold back a business. This isn’t the case here. Also, both companies ethically are rather similar which assists. Objectivity and governance are maintained.”<sup>41</sup>



## Transformation Management

Managing service delivery is only half of the equation in a Vested agreement. It is equally important to manage the transformational needs of the companies as they seek to achieve their mutually defined Desired Outcomes.

One of the key mechanisms the companies used to manage their transformation initiatives was what Intel and DHLSC referred to a proof of concepts (POC) approach. The POC approach was used for piloting transformation initiatives, which helped them assess risk before implementation. Hayes was a big fan of the POC approach for testing transformation initiatives. He explains one of Intel's biggest concerns was how customers would react to changes. Using a POC before implementation provided a safe way to try ideas and assess data.

For example, one of the transformation initiatives designed to reduce costs was called the "Choke Point" project. A POC was deployed in which DHLSC would pick up the product from Intel's customer and deliver it to a waste site to reduce freight costs and depot handling charges. This allowed the companies to understand the level of loss in the system and understand the impact on delivery times to customers.

The POC did not deliver the results expected and the companies ultimately decided not to proceed with the Choke Point project. However, the capability it developed was used in a subsequent program to counteract account fraud. This is a great example of how shifting to Vested creates an environment that allowed DHLSC the room to learn and innovate.

## Exit Management

A key element of a Vested agreement is to have an exit management provision. Exit management is critical because it establishes how the parties will "unwind" in the event of non-performance or if the agreement is no longer viable for either party. These conditions within Vested are known as 'off-ramps' and recognizes that for both parties there are conditions under which it makes sense to revisit the agreement based on changing circumstances.

While the parties did not formally create an Exit Management plan as part of the Collaboration Agreement, they were thinking in terms of the long-term viability of the relationship. Recall the parties developed an incentive of a no-bid contract extension for DHLSC if they met fulfilled the Desired Outcomes. This in essence meant Intel had created an evergreen contract. The parties would also review the Desired Outcomes and the associated Requirements Roadmap annually. In this sense, neither Intel nor DHLSC would be locked into the agreement if conditions were no longer viable.

## Compliance and Special Considerations

Compliance is always a key consideration for any contract. Consider, for example, the requirement for DHLSC to remain current and compliant with regulations affecting the transportation of goods. This requirement is essential for all Intel-DHLSC contracts. For this reason, compliance and other special considerations remain under the main Intel-DHLSC Master Services Agreement.



**PART 3: VESTED FOR SUCCESS - THE RESULTS ARE REAL**

All business comes down to the bottom line. Shifting to a Vested relationship has had a transformational effect on the Intel and DHLSC business. Across the board, the companies have achieved all of their Desired Outcomes since making the shift to Vested. Roosmalen sums up the success with a smile and slight chuckle in three simple words: “I like it.”<sup>42</sup>

The following section summarizes the results against each of the five mutually defined Desired Outcomes.\*\*

**Figure 7: Desired Outcome # 1 Results Overview**

DESIRED OUTCOME # 1	STANDARD	RESULTS
An EMEA <b>Quality Management</b> structure to ensure outcomes are delivered to SLAs	Overall Quality of Service (QOS) score maintained at, or above 95%	99% average year on year for on-time delivery
<p><i>The bedrock of consistent operational performance is a well-structured and functioning quality management system. The parties collaborated with a variety of stakeholders (customers, freight providers, Intel and DHLSC management, operational groups, etc.) to produce a single integrated measure of quality, called quality of service. Responsibilities for meeting expectations within this measurement were also clearly defined. Getting things right and even improving gave way to less oversight by Intel and reduced levels of internal audit. In addition, the transparency increased Intel's comfort levels and ultimately reduced involvement from Intel's quality and security personnel as DHLSC proved it had achieved this Desired Outcome.</i></p>		

**FIGURE 8: Desired Outcome # 2 Results Overview**

DESIRED OUTCOME # 2	STANDARD	RESULTS
Deliver <b>Operational Excellence</b> across the supply chain	95% on-time delivery	99% average year on year
<p><i>The “operational excellence” metric was a function of inventory availability, depot pick and ship throughput time and delivery performance to the end customer. Overall performance moved from 93% to a consistent 99% average. Improved performance led to a reduction in resources used by both Intel and DHLSC. Consistency in the delivery of operational excellence allowed the team to focus on continuous improvement.</i></p>		

\*\* Results are shown summarizing progress after three years operating under the Vested Collaboration Agreement.



FIGURE 9: Desired Outcome # 3 Results Overview

DESIRED OUTCOME # 3	STANDARD	RESULTS
<b>Supply Chain Cost Savings</b>	Greater than \$121K savings with a stretch goal of \$225K per year	For this specific program, spend by Intel declined 45% over 4 years. Total savings of \$806K over the same period. Average savings per year \$201K.
<p>With a 35% drop in demand for business, Intel spend decreased by 45% through volume reduction and cost savings initiatives identified as part of the Vested agreement. Because of cost savings initiatives, Intel received a 3% reduction (year on year) of spend <i>in excess</i> of the drop in demand. Over the same period, DHLSC protected and increased its margin by 1% and utilized resources freed up from efficiency gains to attract new business to the area (with a granted waiver from Intel).</p>		

FIGURE 10: Desired Outcome # 4 Results Overview

DESIRED OUTCOME # 4	STANDARD	RESULTS
<b>Overall Supplier Performance</b>	>90% measured over a 12-month period	Moved from 87% to 98% yearly average.
<p><i>Intel expects that, as a supplier strives to meet the operational business goals it does so in a manner that does not leave a trail of debris and damaged relationships in its wake. Supplier performance incorporates operational, quality, financial, environmental and relationship measurements to guide the sustainability of the supplier relationship. Intel's overall satisfaction with DHLSCSC improved as a result of transformational activities such as joint investment in the network, improvement in compliance, improved collaboration across the global network and involvement in other areas of the business.</i></p>		

FIGURE 11: Desired Outcome # 5 Results Overview

DESIRED OUTCOME # 5	STANDARD	RESULTS
<b>Change Management –</b> Specific program implementation within agreed time frame and cost targets	90% of changes implemented on time and with no negative customer impact	<i>100% of changes implemented on time and without negative customer impact</i>
<p><i>Intel was originally very concerned about the ability to drive so much change (the parties identified 16 transformation initiatives as part of the initial effort). Improved innovation and collaboration resulted in cost savings (besides demand-driven savings and reduction in scope) in the region of 3% year-on-year and a leaner network as scope was removed in response to the drop in demand for services. DHLSC demonstrated that it understood the business and could manage the customer complexities, with DHLSC significantly contributing to a rise in Intel Customer Excellence Program scores from 85% to 91%</i></p>		

## Intel and DHLSC's European Expansion of Vested



Results are nice. But de Groot will also say recognition for a good job is equally as important as knowing you have hit your numbers. DHLSC is reaping the rewards from expanded business within Intel. While there are no guarantees of more work outside of the specific contract extensions earned as an incentive, the Intel leaders have been so impressed they have become advocates for DHLSC Netherlands. This resulted in Intel including DHLSC in regional bids in other parts of the world and increasing regional collaboration with DHLSC within other parts of the Intel global network (such as the USA and Asia) to DHLSC. These were behaviors unthinkable before Vested.

DHLSC is also being recognized internally. The team operating the Intel GRL business received a DHLSC “CEO Award” (category: Provider of Choice), which came with a significant monetary gift. Verstraaten talks about how the recognition encourages everyone within DHLSC: “With Vested, all our people were involved. They were able to share ideas and bring value to the effort. When we won the DHLSC CEO prize, we invested in our workplace environment. We added a cantina and an outside recreation area. Folks on the first line felt their work was recognized and they shared in the credit.”<sup>43</sup>



## LESSONS LEARNED

Doing things differently requires the courage to challenge the status quo. And a belief the end result is worth the change efforts.

Hayes reflects back on lessons learned throughout the journey. "One of the lessons was that there is real economic value in Vested. It's not just a "share the love" philosophy, but a very pragmatic and systemized structure for achieving transformational goals." <sup>44</sup>

A second lesson learned was in how to "let go." One common fear most organizations have when making the shift to Vested is a concern about a perceived loss of control, especially as buying teams learn to follow Rule 2 (Focus on the What, Not the How) and Rule 5 (Insight vs Oversight Governance Structure). Intel was no different.

Roosmalen says a key lesson for him was the importance of laying a strong foundation of trust. "It's difficult to go Vested if there is no mutual trust. There are barriers you need to get over and people must see that it works. It's not easy to give a lot of control to the provider. Yet if the supplier and buyer share a maturity level, you can take a journey together."<sup>45</sup>

As the companies made the switch to working under a Vested agreement, DHLSC gained confidence it was the driver of "How to get things done." This motivated them to take more control in how things are managed, which led to high levels of morale and motivation within the DHLSC team. For Intel, this meant having a supplier engaged, ready for future challenges.

Andrew Allan, General Manager for DHLSC at the time, puts it very simply, "Vested is so collaborative. The master/slave relationship is gone. You feel like an equal partner."<sup>46</sup> Feeling like equal partners brings empowerment at every DHLSC level. First-line workers and clerical staff are comfortable reminding each other and Intel managers that respectful and fair behaviors are contract specific expectations. Intel sets the tone for this by living the Statement of Intent expectations in its interactions with DHLSC and, thus, empowering DHLSC folks.

Intel's realization of the importance of managing the business with the supplier and managing the relationship instead of managing (or micromanaging) the supplier is a key learning. Intel prides itself on its ability to manage a process to specific metrics to reach the end goal. While these skills were utilized within Vested, Intel and DHLSC both gained a newfound appreciation for the soft skills found in Vested, in particular:

- The power of consciously building and maintaining a trusting relationship
- Effective communication skills, including learning how to be transparent and demanding honesty and Integrity (especially when things go wrong)
- Encouragement of risk-taking due to having trust in each other's abilities
- Recognition that management commitment and engagement is essential
- Awareness of each organization's culture and maturity, including national differences of culture and regulatory environment
- Recognition of accomplishments is important and enable continuous improvement; this doesn't have to be monetary



While the companies have experienced tremendous success, Roosmalen is quick to point out it is not all smooth sailing. Like the Costa Rica pilot, the teams struggled in institutionalizing governance. While the operational management group worked well, the joint operations committee failed to follow the rules governing Vested. In particular, the joint operations committee did not meet as a single body. Intel involved people from finance, quality and controls and there were meetings within DHLSC (Finance, Business development), but not with both teams together. In addition, the teams failed to involve senior levels of management in the committees. One of the unforeseen side-effects of the success of the relationship is that it became harder to engage the broader management team (finance, controls, etc.). Why? Because, at that time, management felt it made more sense to apply resources into other areas.

To further learn from their Vested pilot, the parties enrolled in the University of Tennessee's Vested Validation course to have a formal review of their contract against the Vested Five Rules/10 Contractual Elements. The process pointed out design weaknesses in the actual contract that, if removed, would further improve the win-win nature of the relationship. Ruud comments on his experience from taking the course. "The course was excellent because it really forced me to reflect on the architecture of how we physically designed the contract. Now I can see how we can make the contract and the relationship even stronger."

Hayes and de Groot are optimistic about the future. Yet they are also realistic that there are still challenges they need to overcome, such as:

- How to leverage the positive effects of Vested to increase the level of spend by Intel? This includes determining how the parties will grow volume for DHLSC as Intel actively seeks to include DHL Supply Chain in some of the global bids.
- How to revitalize the involvement of very senior levels of management improvements to ensure Vested continues to flourish and expand?
- How can the parties use their Vested partnership on a more holistic approach to manage Intel's business on a global basis?
- How can the parties learn from the formal Vested Validation that the companies participated in?

De Groot relays his thoughts about investing in Vested. "Vested provides a playing ground with well-defined rules that enabled both parties to grow toward each other and recognize and materialize that indeed genuine partnership creates more value, for all. As we march forward on our Vested relationship, we need to constantly remind ourselves why the rules are essential and challenge ourselves and each other to always be following the Five Rules."



### WHAT'S NEXT?

Shire and Whaley look with admiration at the hard work of Hayes and de Groot to make the Vested pilot between Intel Global Reverse Logistics and DHL Supply Chain a success. They are pleased their faith in the Vested methodology was upheld by their European counterparts. The pilot program has validated the Vested approach in a structured way. The Costa Rican experience achieved success by turning a sub-optimal situation into a good one. The expansion of Vested to Europe enabled Intel to take a good performing site facing a challenging environment and turn it into a great one.

The challenge now is how to make the shift from pilot to practice within other areas. As Intel's commodity manager, Dean is responsible for establishing and managing logistics deals all over the globe. "It is always about the relationship. Ultimately, there has to be an appetite for change and looking forward to the future. The supplier has to see a lot of opportunities to make things better and there must be value for both parties."

Both Hayes and de Groot report that the success of their Vested pilot added credibility to what Shire and Whaley started in Costa Rica. They report, "Having two Vested partnerships in different corners of the globe that have successfully brought transformational results and a much better bottom line for both parties is creating interest in Vested."

While Hayes and de Groot like the enthusiasm, they caution their Intel and DHLSC colleagues to carefully follow the Vested methodology. Simply put, cherry-picking which of the Five Rules to follow will yield less than desirable results. This is because the rules work together as a system. Both adamantly agree, "The Vested Rules work together, or they don't work at all. The mutual commitment to the win-win-success-for-all is what makes the system perform. The Rules are there for a reason. You must follow them to be successful."<sup>47</sup>

Shire agrees, and learned the same lesson in the Costa Rica pilot. "There seemed to be an obvious benefit in following the Vested Five Rules, and I really liked the very structured and well-researched implementation process. However old habits die hard at Intel. For example, at first, we were really challenged to follow Rule 2, which discourages micro-management. As time went by, we all realized that not following Rule 2 effectively was actually holding us back. In the end, what started as a simple pilot became a radically altered mindset that brought game theory to life."<sup>48</sup>

Roosmalen likes the fact the Vested methodology helps organizations move away from a zero-sum game employed in conventionally buyer-supplier relationships and he hopes to see Intel and DHLSC expand their Vested partnership even further. Simply put, he states, "Yeah, I believe in it."<sup>49</sup>



## CONCLUSION

In 2011 Shire and Whaley set out to pilot the Vested methodology in Costa Rica. After achieving transformational results, they wanted to expand the Vested pilot to Europe. In 2013, Hayes and de Groot took the challenge and championed a Vested pilot in the Netherlands.

For Intel, Vested appealed to Intel's desire for transformational results. The formalized and systematic manner of Vested also aligned well to Intel's culture promoting process rigor. For DHLSC, Vested represented the opportunity to demonstrate an innovative approach for managing the entire supply chain. DHLSC also welcomed how the methodology enabled them to be an equal partner in leadership and participation, ultimately enhancing success for Intel.

Both companies found the non-adversarial nature of Vested refreshing, helping them move away from a zero-sum game employed in conventionally buyer-supplier relationships. Hayes reflects, "The old contract promoted an 'us vs. them' culture that could have led to perverse incentives and opportunism. With Vested, our interests are truly aligned through mutually defined Desired Outcomes and economics that reward DHLSC for achieving the Desired Outcomes. Vested helped us move from trying to shift risk to one where we win together. A win for DHLSC is a win for Intel."<sup>50</sup>

In both cases, the Vested methodology helped the companies to achieve transformational results beyond what Intel and DHLSC had ever seen in their previous relationship. But for Hayes and de Groot success is more than the actual results. Both credit the shift to Vested with saving what would likely have been a failed business relationship due to reduced volumes and changing business circumstances caused by Intel's exit of the desktop motherboard business. Rather than negotiate, the parties chose to apply trust, transparency, collaboration, and fairness, which ultimately created a true win-win agreement for both companies.

But change requires the courage to do things differently.

Thankfully the people involved in the Intel GRL and DHLSC pilot were not afraid to do things differently. Allan was one of those people. "Vested steps away from secretive behaviors and embraces mutual commitment." He sums up his mindset, "If the pilot worked, it was a win for all. Besides, it was a chance to investigate new methods. Even if it failed, it offered keen learnings. Doing the same-old-same-old, you're never going to move forward - you will not progress."<sup>51</sup>

The Intel / DHLSC story adds up to a simple fact. The work started and the work continues with open minds, willing spirits, and a determination to:

### ***Do Things Differently!***

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**Jeanne Kling** is a Research Associate for the University of Tennessee. She specializes in the Vested Business Sourcing Model and is a graduate of the University of Tennessee's Certified Deal Architect Program. She has co-authored multiple case studies, white papers, and two books, including Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships. Her passion for education runs deep, having been elected to public office three times, including serving as the President of the Minnesota State Board of Education and serving as the Chair of the National Association of State Boards of Education. The Business and Professional Women Association named her “Minnesota Business Woman of the Year.”



**Ruud de Groot** is a Site Manager at DHLSC. Crafted as a Tropical Land- and Water-management engineer with multiple years of international experience. Ruud de Groot matured in Logistics and Supply Chain Management with DHLSC with over 20 years of successful leadership roles. He gained multiple years of experience with Vested Outsourcing and is co-author of the UT Case study “Vested for Success”. Ruud is a certified DHLSC Customer for Life Specialist and a graduate of the University of Tennessee Vested Outsourcing Certified Deal Architect Program.



**John Hayes** is a Supply Chain Architect for Intel's Global reverse logistics group, responsible for ensuring the global supply chain is optimized and agile enough to support warranty provision and returns across a wide range of goods and customer segments. John's career started in Engineering and progressed through operational management, to a broader business perspective supported by strong operational management, technical and Supply chain experience. John's main interests are in Supply chain management, Supplier relationship management, Vested Outsourcing, Organizational development and general management of change to support tactical and longer strategic aims.



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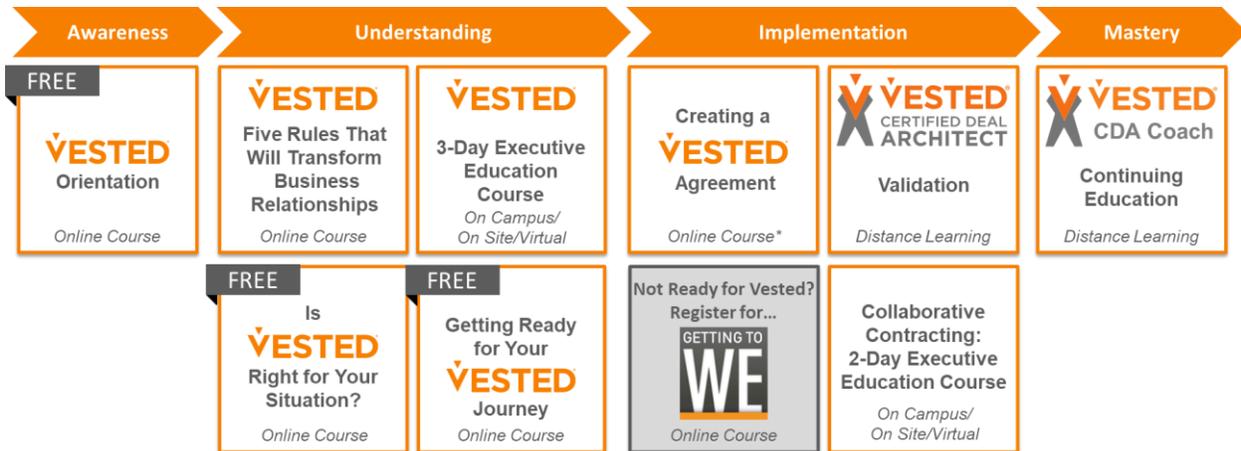
**FOR MORE INFORMATION**

*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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## ENDNOTES

- <sup>1</sup> The Future of Artificial Intelligence | Intel - YouTube; Ad campaign  
<https://www.youtube.com/watch?v=boK-L9YahWU> Accessed August 22, 2017
- <sup>2</sup> Interview with Dale Dean, Kate Vitasek, and Jeanne Kling May 22, 2017
- <sup>3</sup> Online Interviews with John Hayes, Ruud DeGroot, Kate Vitasek, and Jeanne Kling; April 18, April 19, April 21, May 15, May 31, June 27, and July 14, 2017
- <sup>4</sup> Ibid # 3
- <sup>5</sup> Interview with Mart Verstraaten and Jeanne Kling April 28, 2017
- <sup>6</sup> Intel.com: Corporate Info; <https://www.intc.com/investor-relations/investor-education-and-news/corporate-info/default.aspx>
- <sup>7</sup> Ibid # 3
- <sup>8</sup> Ibid # 3
- <sup>9</sup> Online conference with Todd Shire, Kate Vitasek, and Jeanne Kling; May 5, 2017
- <sup>10</sup> Letter from Ruud De Groot Under the title "Next Gen 3PL Relations"
- <sup>11</sup> Ibid # 10
- <sup>12</sup> Interview with Andrew Allan, Kate Vitasek, and Jeanne Kling May 22, 2017
- <sup>13</sup> Online conference between Ruud de Groot, Kate Vitasek, and Jeanne Kling: Resources used include slide sets provided by Todd Shire as well as Books (The Vested Outsourcing Manual and Five Rules of Vested) and online shareware (Modules 1-6, 11, and 14).
- <sup>14</sup> Online conferences with Ruud DeGroot, John Hayes, Kate Vitasek, and Jeanne Kling; April 18, April 19, April 21, May 15, May 31, June 27, and July 14, 2017
- <sup>15</sup> Ibid # 14
- <sup>16</sup> Online interview with Todd Shire, Kate Vitasek, and Jeanne Kling; May 15, 2017
- <sup>17</sup> Ibid # 3
- <sup>18</sup> Ibid # 15
- <sup>19</sup> Information found in the original Costa Rican case study
- <sup>20</sup> Online interview with Frans-van Roosmalen Senior Account Director of the Business Unit Technology and the Region, Kate Vitasek, and Jeanne Kling; May 2, 2017
- <sup>21</sup> Interview with Dale Dean, Kate Vitasek, and Jeanne Kling May 22, 2017
- <sup>22</sup> Ibid # 14
- <sup>23</sup> Ibid # 20
- <sup>24</sup> Ibid # 13
- <sup>25</sup> Ibid # 13
- <sup>26</sup> Ibid # 13
- <sup>27</sup> Ibid # 13
- <sup>28</sup> Ibid # 13
- <sup>29</sup> Ibid # 13
- <sup>30</sup> Ibid # 5
- <sup>31</sup> Ibid # 5
- <sup>32</sup> Ibid # 13
- <sup>33</sup> Ibid # 22
- <sup>34</sup> Ibid # 22
- <sup>35</sup> Ibid # 13
- <sup>36</sup> Ibid # 13
- <sup>37</sup> Ibid # 20
- <sup>38</sup> Email message from Ruud de Groot to Jeanne Kling May 10, 2017
- <sup>39</sup> Interview with Mart Verstraaten and Jeanne Kling April 28, 2017
- <sup>40</sup> Online conferences with Ruud DeGroot, John Hayes, Kate Vitasek, and Jeanne Kling; April 18, April 19, April 21, May 15, May 31, June 27, and July 14, 2017
- <sup>41</sup> Ibid # 40
- <sup>42</sup> Online interview with Frans-van Roosmalen Senior Account Director of the Business Unit Technology and the Region, Kate Vitasek, and Jeanne Kling; May 2, 2017
- <sup>43</sup> Ibid # 39
- <sup>44</sup> Ibid # 40



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<sup>45</sup> Ibid # 42

<sup>46</sup> Interview with Andrew Allan, Kate Vitasek, and Jeanne Kling May 22, 2017

<sup>47</sup> Online conferences with Ruud DeGroot, John Hayes, Kate Vitasek, and Jeanne Kling; April 18, April 19, April 21, May 15, May 31, June 27, and July 14, 2017

<sup>48</sup> original case study

<sup>49</sup> Ibid # 8

<sup>50</sup> Ibid # 40

<sup>51</sup> Ibid # 46