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Unpacking Vested Outsourcing

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A Better Way to Structure Outsourcing Contracts

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WANTED: A BETTER WAY TO OUTSOURCE

There have been many articles written about all the things that go wrong in outsourcing relationships. Post-pandemic supply chain woes have put even further strains on buyer-service provider relationships.

Many point to the theory of 'incomplete contracts' as a cause. This theory – which was introduced by Nobel-prize-winning economist Oliver Hart – states no contract is complete because organizations cannot anticipate all future events. For example, global contracts operate under a whole range of uncertainties and gaps in knowledge; the speed of change also causes uncertainty; new competition, regulation, political instability, economic shifts, climate change, technology and communications, social values – these are just some of the areas that can disrupt any outsourcing contract and are probably impossible to predict.

It is clearly impractical to believe that all factors or risks can be anticipated. Rather, the one risk we can be relatively certain about is that unexpected changes will occur. To mitigate this risk, World Commerce and Contracting (WCC) recommends organizations spend more time on ensuring mutual understanding of goals, negotiating contracts that are best able to deal with misalignments that result when 'business happens'.[1] But achieving the shift has proved to be a struggle.

Why? Conventional outsourcing relationships pit the buyer and service provider against each other. On the surface, an organization and its service provider have the same goal: to make a profit. However, they approach this goal from opposite viewpoints. Cost to the organization outsourcing is revenue to the service provider.

The conventional buy-sell approach not only puts the parties across the table from each other, but the transactional economics of the deal also creates perverse incentives. Traditionally, organizations that purchase outsourced services use a transaction-based model. Under that model, the service provider is paid for every transaction (e.g., per hour, per unit, per mile, per shipment, per call). The more transactions, the more money they make. The problem? An inherent perverse incentive for the service provider to *not* reduce the number of non-value-added transactions. Why? A reduction in the number of transactions would result in lower revenue. We call this the Activity Trap.

The Activity Trap can manifest itself in a variety of transaction-based outsourcing arrangements. When the contract structure is cost reimbursement, for example, the service provider has no incentive to reduce costs because profit is typically a percentage of direct costs. Even if the service provider's profit is a fixed amount, the typical organization will be penalized for investing in process efficiencies to drive costs down. In a nutshell, the more inefficient the entire support process, the more money the service provider can make.

Inherent in the Activity Trap is a disincentive to drive down transactions. But does this really happen? Unfortunately, it does. Take for example a logistics outsourcing deal. On a recent site visit, we asked the general manager of the service provider what the large area full of orange-tagged pallets was

[1] Most Negotiated Terms 2020: Negotiating in a Time of Turmoil," World Commerce & Contracting (2020).

for. She replied, “That’s some of our customer's old inventory we need to move to an outside storage facility.” When we dug further, we discovered it was product that was well over five years old – and at the rate it was moving, it would last 123 years. (This is not a typo!) When we pressed further, asking why she did not work with the customer to scrap the material, the answer was, “Why? I charge $18 a pallet per month to store it. I’d lose revenue if I did that!”

Another victim of the Activity Trap – a large technology company – was transferring sales support activities from one Business Process Outsourcing (BPO) provider to another. During the transition, the service provider discovered data required to run certain reports was no longer current, and the new data was being stored in a new format in a different location. In a damage control drill, the buying company learned good news and bad news: The sales manager who had requested the reports had been transferred and the new sales manager did not use these (now-inaccurate) reports. Upon further investigation, the buying company discovered over 300 unused reports were being generated across the company each month at $75 a report − a whopping $22,500 per month.

A third example of the Activity Trap comes from a contract manufacturing relationship. An original equipment manufacturer (OEM) company outsourced final kitting and assembly pack-out for their high-tech products. Under the relationship, the OEM would give the contract manufacturer the bill of materials (BOM) with detailed instructions. One of the items on the BOM was a specific finished goods “pretty box”. The “pretty box” was a full-color, high-quality box meant to serve as a kit to hold all of the various components for a particular device, including the manual, cables, charger, and so on. The contractor needed to assemble the box and then insert the parts properly. Making the box required 12 “touches” by the service provider. The provider charged a flat fee to assemble the box, plus a touch fee for each item placed in the kit. The Activity Trap occurred because the service provider knew that the particular box design was not efficient, but simply did what it was told rather than suggesting solutions for an improved box design that might eliminate touches.

To combat the Activity Trap, buying organizations have been shifting to what is known as performance-based contracts (also often referred to as managed services agreements) which establish a fixed price for a book of services. Under this model, the service provider establishes a price often below a baseline price with a negotiated goal to achieve glidepath savings to drive efficiencies. For example, let’s take the BPO example cited above. The buying organization and the service provider would agree to a fixed monthly “service fee” for reporting. They would create a baseline of to understand the current number of reports and agree on a price. Let’s say they agree on 100 monthly reports at a cost of $7000 which is a $500 savings over their current price of $75 per report.

In theory this works well because the supplier has an inherent incentive to reduce their costs below the price quoted ($7000). However, in practice, managed service agreements often cause their own set of perverse incentives by creating a rigid and fixed scope of work at the fixed fee. Buyers and services providers often become highly frustrated with a never-ending “scope creep” battle. Buyers want flexibility, and service providers push back because added scope reduces their profit potential.

A BETTER WAY

For over 30 years, businesses have been indoctrinated with the idea that the prize in negotiation is to get the deal. The deal is the focus. Hundreds of books teach negotiation from "Getting to Yes," "Get Past No," "Getting More" to even "Start with No." The focus is transactional in nature and on the strategies and tactics for negotiating the "deal." Negotiation is about "this deal," "this time" and under "this set of business and legal terms." Negotiators think, "Get a signature, and you are done." It is a done deal, and the deal is the deal.

What if business relationship negotiations were viewed through a different lens? A lens where the purpose of the negotiation is to establish the crucial foundational elements of the relationship itself in addition to the specific scope, terms, and conditions for the transaction at hand?

Think about that: the "relationship" as the focus of the deal. The specifics of how the parties will manage the relationship become the *vade mecum* (in essence the basic guidebook) for the relationship outlining how the business parties can work together successfully amidst a dynamic business environment of constant change, increasing risk, and unchartered opportunities.

To succeed, organizations have to change the lens through which they look at outsourcing that puts the buying organization and their service as parties with the same goal. The premise? Create a business model where both the organization that outsources and the service provider can maximize their profits, together. This means creating a true win-win outsourcing deal.

WIIFWe Versus WIIFMe

The University of Tennessee has studied how some of the world's best organizations have changed the dynamic of conventional outsourcing and are creating true win-win outsourcing deals for almost 20 years. Creating a win-win outsourcing agreement means shifting your outsourcing relationship from a "What's in it for Me" (WIFFMe) mentality to a "What's in it for We" (WIIFWe) mindset.

Think about it this way using the cartoon at the right. The very word "partner" implies there are two sides. The progression towards a Vested outsourcing agreement means the parties are working together to ensure the ultimate success of each other. The mentality shifts from a WIIFMe "us versus them" approach to a WIIFWe philosophy. Think of WIIFWe as a symbiotic relationship. As the cartoon implies, only by working together can the parties optimize success.

The Power of Perverse Incentives

While it may sound easy to create a true win-win deal – it is not. UT's research found that while organizations may "say" strategic partnership and win-win, in reality these same organizations often have internal policies, procedures and metrics designed to optimize for their self-interest. This promotes functional silo thinking and creates perverse incentives that prevent true win-win thinking.

A common example is a procurement metric known as PPV (Purchase Price Variance). PPV is designed to measure a procurement organization's (or an individual procurement professional's) effectiveness at meeting cost savings targets. The thinking about PPV is simple. If you spend $1.10 on a widget, then you try to get the exact same widget next year for $1.00. The better the price you get, the better your PPV. With PPV, a buyer's goal is to continually push the price down, which puts extreme pressure on the supplier. This may sound like a great idea if you are in procurement – but in reality, the sales team from your service provider is sitting across the table with a conflicting sales quota, and they are often rewarded with a sales commission. Simply put, a win for the procurement professional is a loss for the service provider.

Another good example comes when legal departments mandate suppliers use their standard contract template with standard terms and conditions. While this may greatly simplify the contracting process, there are often clauses that may not be appropriate for some outsourcing deals. Take for example when a buying organization seeks a 60 or 90-day termination-for-convenience clause. These clauses create perverse incentives for service providers to invest in client relationships. One CFO explains: "A 60-day termination for convenience translates to a 60-day contract. It would be against our fiduciary responsibility to our shareholders to invest in any program for a client with a 60-day termination clause that required longer than two months to generate a return." The CFO goes on, "The implications for innovation are obvious. Buyers are crazy to expect us to invest in innovation if they do the math."

Suppliers also have silo-based metrics which create perverse incentives. For example, sales commissions reward a service provider for increasing revenue versus reducing cost structures and siloed operating "towers," or country-specific profit and line goals make it hard for service providers to optimize across the client.

Is Win-Win Really Possible?

Many of you might be thinking, "Win-win is so fluffy. Is it really possible?" The answer is a resounding YES. The book ***Vested: How P&G, McDonald's and Microsoft Are Redefining Winning in Business Relationships*** provides real-life case studies that show the power of real win-win outsourcing deals in practice. In addition, UT's research library currently profiles over 35 public case studies of how organizations are making the shift from conventional "buy-sell" transactional and performance-based contracts to Vested Agreements.[2]

Turn the page to learn how the Vested business works.

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[2] Access the UT research library at *https://www.vestedway.com/vested-library/*

The Vested Business Model

UT researchers codified their learnings into a methodology and business model they coined Vested outsourcing – or simply Vested for short. A Vested outsourcing agreement is typified by an outsourcing relationship where both parties have a stake in working together to achieve mutually agreed business outcomes. The term Vested sums up the mantra of a Vested business model because a buyer and service provider have a *vested* interest in the same business outcomes; a win for the buyer is a win for the service provider – and vice-versa. The parties shift *from a buy-sell value exchange* business model based on transactions *to a business model purpose-built to create value* for both parties.

UT's research has led to seven books including ***Vested Outsourcing: Five Rules that will Transform Outsourcing*** and most recently ***Contracting in the New Economy: Using Relational Contracts to Boost Trust and Collaboration in Strategic Business Relationships.***

The Vested business model leverages components of an outcome-based economic model with the Nobel Prize-winning concepts of behavioral economics and the principles of shared value.

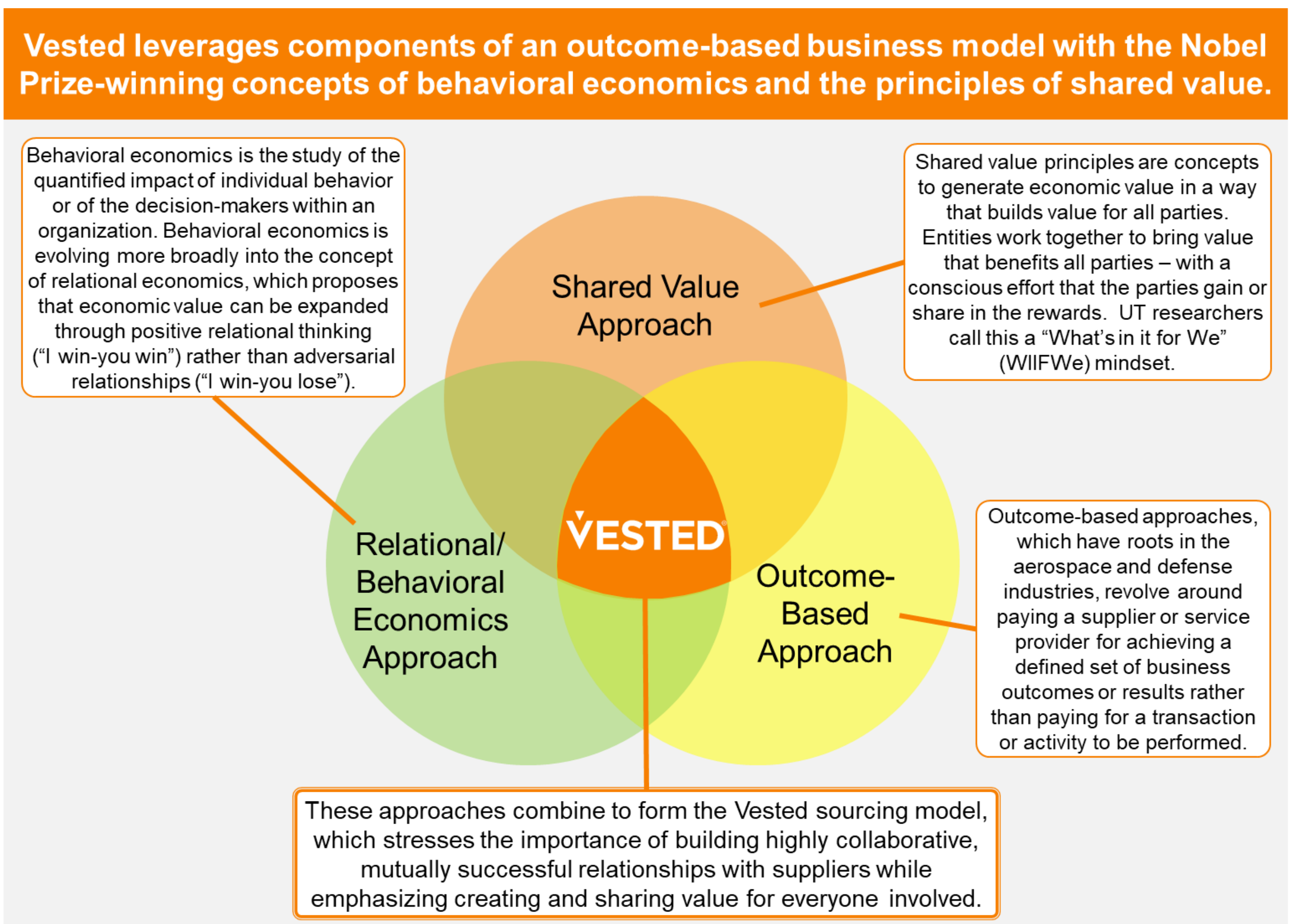

Figure 1: The Vested Sweet Spot

The goal of a Vested outsourcing partnership is to focus on first identifying and then aligning the interests of the players. The relationship becomes more collaborative and expands beyond simply performing transactions and meeting requirements. Rather, a WIIFWe philosophy strives to increase the size of the entire pie (unlock a greater opportunity than is currently realized by either party) versus maximizing the size for any one player (e.g., lower costs at the expense of the service provider's profits). WIIFWe challenges the conventional win/lose mentality and tosses it out the window.

The heart of a Vested outsourcing contract is an agreement on business outcomes referred to as "Desired Outcomes". Desired Outcomes explicitly state the results on which both organizations will base their outsourcing contract. A Vested outsourcing agreement is carefully architected to reward a service provider for meeting and exceeding agreed-upon Desired Outcomes.

In a Vested agreement, the service provider is challenged to apply "brainpower" and/or investments to achieve mutually agreed Desired Outcomes. Some (or a lot) of the risk is shifted to the service provider, with the service provider in essence putting "skin in the game" to achieve the Desired Outcomes such as reduced cost structure, improved service levels or achieving other goals such as sustainability, market share, or improved quality. The service provider looks at how it can best improve processes, technologies and capabilities that will drive value to the buying organization. In exchange, the buying organization commits to allow the service provider to earn additional profit (above and beyond industry average profits for their service area) for achieving the Desired Outcomes. The result is a win-win Vested outsourcing partnership — a paradigm that consciously shifts away from the conventional buy-sell transactional business model to a win-win outcome-based model.

While no two Vested outsourcing partnerships are alike, all good ones achieve a performance partnership with the goal to achieve the *Power of And.* What is the *Power of And?* The *Power of And* occurs when the parties collaborate to drive innovation/ improved service and reduce the cost to the outsourcing organization. The more the parties achieve this – the more value is created and in return, the service provider is rewarded with higher profit margins. Instead of negotiating trade-offs, the parties collaborate to find Ponies that create value.

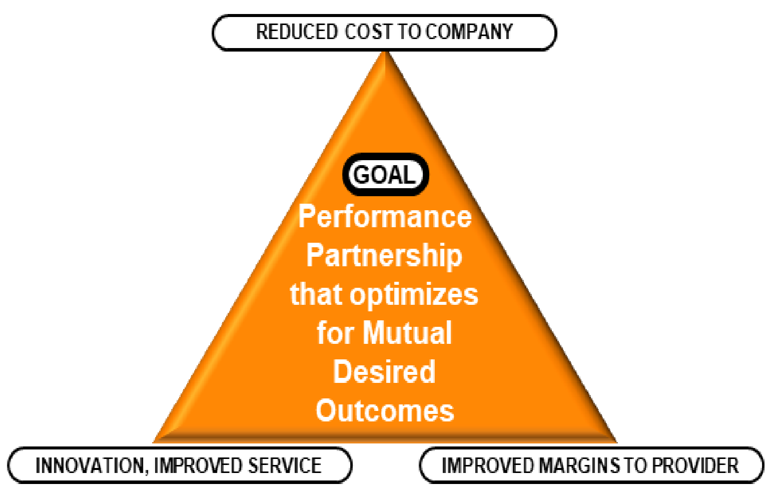

Figure 2: The Performance Partnership

A Pony is a transformative initiative that contributes to achieving the parties' Desired Outcomes. Using a WIIFWe mindset, everyone in the partnership is charted to find Ponies by challenging the status quo and coming up with ideas that can create value. Value is created; value is shared.

THE FIVE RULES OF VESTED OUTSOURCING

How does one implement a collaborative WIIFWe mindset into an outsourcing contract? That is the challenge UT researchers accepted when they set out to codify their learnings into a methodology that could be easily taught and repeated. The Vested methodology is based on 'Five Rules' that provide a framework to transform an outsourcing relationship into a partnership for sustainable outsourcing success. This section of the white paper reviews how the Five Rules of Vested work.

The Five Rules (noted in Figure 3), work together to form a business model designed to help outsourcing partners focus on creating – and sharing value. Rules 1 through 4 establish the fundamental rules of the contract by establishing the Desired Outcomes, scope, metrics and economics of the partnership. Rule 5 establishes how the parties will govern the relationship.

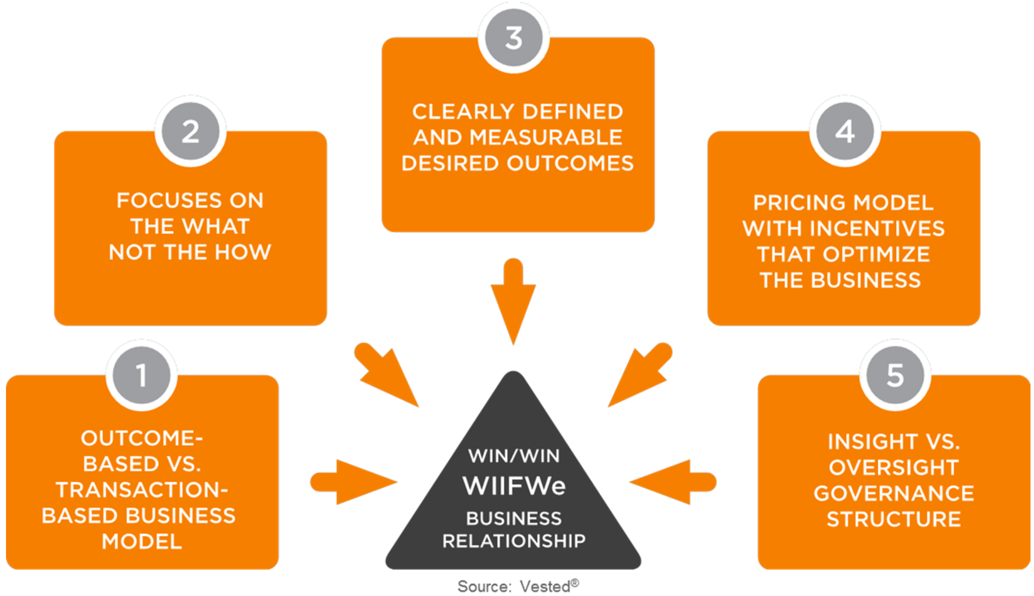

Figure 3: The Five Rules of Vested

Rule 1: Outcome-based vs Transaction-based Business Model

Traditionally, conventional outsourcing agreements are built around a transaction-based model. The service provider is paid for performing transactional services (per hour, per unit, per mile, per shipment, per call). As shown previously, this can lead to the Activity Trap and often results in what we call a Watermelon Scorecard – this is when the service provider is meeting performance metrics targets (e.g., 'green' scorecard), but the green might not be achieving the buying organization's business outcomes (red business outcomes). In short, performance is green on the outside but red on the inside; the organization that has outsourced gets the transaction performed, but not necessarily the best solution.

As part of Rule 1, the parties create a formal Shared Vision and typically five or fewer Desired Outcomes.

A Desired Outcome is defined as follows:

Desire – something the organization wants and does not have.

Outcome – a boundary-spanning business objective – not a transactional service level agreement/activity focused metrics.

In essence, the parties contract for the future (to achieve the Desired Outcomes) instead of anchoring the contract around simply performing transactions.

The parties also embed six Guiding Principles (proven social norms) into the agreement.

Reciprocity	Autonomy	Honesty	Equity	Loyalty	Integrity

By embedding the Shared Vision, Desired Outcomes and Guiding Principles into the agreement, the parties create the foundation for a relational contract that commits the parties to work together to achieve the Shared Vision and business outcomes.

Rule 2: Focus on the What, not the How

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

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

Consider a facilities management outsourcing arrangement. Under a conventional contract, an organization would develop a Statement of Work outlining the work to be done – possibly even the number and skills of workers. This scenario diminishes the service provider's role as the expert. The service provider is constantly in the marketplace and keeping tabs on the latest developments. If the organization has selected a good service provider, they should know the most appropriate way to perform the work. Good service providers almost always have processes, resources or tools that allow them to do the outsourced task more efficiently – so why not allow them to be the expert?

A Vested agreement shifts away from a conventional Statement of Work and has the partners jointly create an end-to-end taxonomy of the work needed to achieve the Desired Outcomes. This includes the scope of the service provider and the buying organization. The parties then create a workload allocation matrix to define who is responsible for what aspects of the work. In essence, a Vested agreement focuses on letting each firm do what it does best and challenges the buying organization to play a key role in supporting the service provider without overlapping and micromanaging them.

Rule 3: Clearly Defined and Measurable Desired Outcomes

The third rule of Vested is to clearly define and measure Desired Outcomes.

As mentioned in Rule 1, Desired Outcomes are expressed in terms of a limited set – typically no more than five – high-level boundary-spanning business-focused goals. It is important to understand the Desired Outcomes are not typical Service Level Agreements or task-focused measures. Rather Desired Outcomes represent the "end game" the parties are trying to achieve.

During Rule 3, the partners spend the time – collaboratively – establishing exact definitions for how each Desired Outcome will be measured. This is done using a Requirements Roadmap tool that links metrics to each of the Desired Outcomes. Typically, a Vested agreement has 12 to 15 objectives and associated metrics used to measure how the parties are performing against their Desired Outcomes. When parties are developing their contractual metrics, the University of Tennessee recommends organizations adopt a "3D" perspective when developing the metrics for their relationship, with metrics falling into three categories.

1. Operational Metrics (measuring success for today)
2. Transformational Metrics (measuring success for tomorrow)
3. Relational Metrics (measuring the health of the relationship)

Rule 4: Pricing Model with Incentives that Optimize the Business

Vested Rule 4 centers on structuring a pricing model with incentives that reward the service provider to go beyond simply performing work and to focus on optimizing the business. A key goal of the pricing model is to incentivize the service provider to drive continuous improvement and to make investments in innovation linked to the parties' Desired Outcomes.

There are four design principles for establishing a Vested pricing model.

1. Pricing Model (Not a Price)

The first design principle is that a Vested business model uses a ***pricing model*** – not a price. Shifting to a pricing model – versus using a "price" – is key because a pricing model enables flexibility important for sustaining a healthy business relationship over the life of an agreement. A properly structured Vested agreement always reflects a fair and balanced economic model where the buyer and service provider win together and lose together.

2. Incentives Tied to Desired Outcomes

A Vested pricing model uses incentives (not penalties). The service provider earns incentives when it performs well and the parties achieve mutually defined Desired Outcomes. The basic logic is if a service provider does a good job at achieving the Desired Outcomes, it generates more value for the buyer, who then makes more profit. Linking incentives to Desired Outcomes aligns the interests of the buying organization and the service provider as they both have a vested interest in generating added value.

Incentives can be a powerful motivator when designed appropriately. A good example of linking service provider incentives to Desired Outcomes is the environmental services contract between the Department of Energy (DOE) and Kaiser-Hill for the successful closure and cleanup of the DOE Superfund site known as the Rocky Flats Closure Project. Kaiser-Hill earned a base management fee of 3.7% (average market margin was 4.1%) with incentives enabling it to earn up to an 11.7% profit margin when pre-defined outcomes were met (e.g., beating budget, raising safety levels, developing innovations that sped up closure, etc.). Kaiser-Hill developed over 200 innovations and ultimately earned incentive payments of $560 million. This may seem excessive until the full story is known: Kaiser-Hill saved U.S. taxpayers $30 billion in costs and closed the site safely 65 years early – something most thought was impossible.[3]

3. Compensation for Costs and Risks in Line with Six Common Guiding Principles

The conventional approach for contracting is to shift risk to the other party whenever possible. After all, if the other party will take the risk, why not let them?

A Vested agreement is different because it sees risk as something that should be mitigated and managed with a high degree of transparency and collaboration – not simply transferred. When risk is shifted to a service provider (either in the form of operational risk, legal terms and conditions, or unknown risk) the service provider is forced to factor the risk into its pricing. This is known as a risk premium. Smart service providers factor in the risk and add a risk premium to their costs. And when forced to project risk, it is in the service provider's best interest to estimate high, which ultimately leads to higher prices than needed.

Viewing risk through the lens of the Guiding Principles (established in Rule 1) versus a risk-shifting or opportunistic lens means risks are not something to shift to the other party but are a fact of the business that must be fairly addressed. A key goal is to collaborate to reduce risk – thus lowering any risk premiums – which ultimately creates value for both the buying organization and the service provider.

4. Margin Matching to Ensure Continual Alignment

Once the parties commit to developing a Vested agreement their pricing model must be designed to win together – and lose together. A properly designed Vested pricing model prevents one party from "winning" at the other party's expense. This means the economics of the relationship ensure the parties always win together and always lose together. When "business happens," the parties are equally affected, which prevents a win-lose scenario that can lead to ***shading***.[4] Shading is a retaliatory behavior in which one party stops cooperating, ceases to be proactive, or makes countermoves. Shading happens when a party isn't getting the outcome expected from the deal and feels the other party is to blame or has not acted reasonably to mitigate the losses. The aggrieved party often cuts back on performance in subtle ways, sometimes even unconsciously, to compensate.

To prevent shading, a Vested pricing model uses a concept known as ***margin matching.*** Margin matching is a technique used to fairly adjust the economics of the deal when pre-established

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[3] *Vested*, Ibid.

[4] To learn more about shading and shirking in contract, refer to the various works of Nobel laureate Oliver Hart – especially those after 2008.

guardrails[5] are reached. The goal of using margin matching is to establish fair economics for the relationship which ultimately builds trust and creates a sustainable working relationship.

Rule 5: Insight vs Oversight Governance Structure

Vested's Rule 5 is centered on embedding formal governance mechanisms into the partnership. Governance is the glue that holds any Vested agreement together, because governance mechanisms outline how the parties jointly manage the relationship.

The Vested model shifts from a culture of oversight to one of insight, consciously laying the foundation of trust and mutual accountability for achieving the Desired Outcomes. Let us look at the meaning of the words insight and oversight to get a better understanding of the difference.

> ***Insight:*** *Power of acute observation and deduction; penetration, discernment, perception.*
> ***Oversight:*** *Watchful care; superintendence; general supervision.*

Simply put, the buying organization turns its focus to *managing the business* with the service provider, not just *managing the service provider*. Why? If you've done a good job of selecting the right partner and aligning their interests by using Rules 1 – 4, then the service provider will truly have a vested interest in performing because their success depends on achieving success for the buying organization.

Many organizations struggle with making the shift from oversight to insight. This can be expected given the history of how outsourcing agreements have evolved. In the early days of outsourcing, many organizations made the mistake of simply throwing the work over the fence to the service provider, with poorly defined requirements and often no performance metrics or service-level agreements. As scary as it may seem, we have seen some organizations with a high percentage of outsourcing agreements operating under no formal governance structure. Fortunately, most organizations that jumped into outsourcing have fixed this problem. The downside is that many have gone to the other extreme with organizations often having a "shadow organization" of personnel micromanaging the service provider.

As the parties work through Rule 5, they design a fit-for-purpose governance structure for their relationship based on proven design principles for effective outsourcing governance.

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[5] Guardrails are the minimum and maximum economic thresholds mutually agreed by the parties. For example, a service provider may have a goal to have a profit margin of 10% and if the economics of the deal fall below 5% the parties agree to review the pricing model assumption and make adjustments.

SUCCESS STORIES (IT REALLY DOES WORK!)

Today over 50 organizations have used the Vested methodology to develop over 80 Vested agreements around the world. Many of these are award-winning relationships – such as Johnson and Johnson's outsourcing relationship with Sodexo which won an IWFM Impact Award recognizing the success of their collaboration to drive transformation in facilities management operations spanning 29 countries across EMEA.[6]

Telenet is the most recent organization to share its success using a Vested business model. The parties made their case study public in the fall of 2021 after seeing first-hand the benefits of making the shift to a Vested model in 2018.

Like most organizations, Telenet did some soul searching before making the leap to a Vested model. In 2016 Telenet – Belgium's second-largest telco provider – found itself in a fast-changing Telecom world. Senior executives chartered a task force to embark on a six-month effort to review the changing landscape of how increased commoditization and digitization would affect how Telenet operated. This strategic review also included assessing core competencies and determining what areas to consider for more strategic outsourcing.

One area that came under scrutiny was how Telenet approached its network operations. Micha Berger, CTO of Telenet, clearly remembers the dilemma. "Field Services was considered a valuable asset for Telenet, but Telenet did not have the flexibility or organization culture to grow this part of the business or to provide technicians the opportunity to expand their careers." After the six months of soul searching, one thing was clear: doing business the way it had always been done would no longer work. Telenet would need to transform and change how it worked so they could fund the additional investments to continue to lead the market and fuel its cycle of sustainable growth.

By the end of 2016, Telenet executives decided to go to market with a tender process to find a strategic partner that could help them transform their network operations. What started with a tender process with 14 potential service providers ended in December 2017 with Telenet formally selecting Solutions 30 as their partner of choice. The parties signed Belgium's first Vested outsourcing agreement in July 2018. John Porter, the CEO of Telenet, is glad the parties took a path to a Vested partnership: "Putting together the partnership with Solutions 30 is one of the best things we have done. The partnership enables Telenet to accelerate the delivery of differentiated customer value propositions and an outstanding user experience." The following pages provide an overview of their journey and results after four years into the partnership.

Shared Vision

"WE excel at servicing our customers' connected world with passionate people and smart solutions."

We will accomplish this Shared Vision by achieving the following ***Desired Outcomes***:

- Provide amazing customer experience (ACE)
- Operational Excellence in the services we provide
- Create economic value through inspiring partnerships

Figure 4: Telenet/Solutions30 Shared Vision

[6] https://www.iwfmawards.org/previous-winners/collaboration-2020/

Driving Transformation

In a Vested agreement, success is measured against the parties mutually defined Desired Outcomes. Together, the Telenet and Solutions 30 Transformation Managers hunted for Ponies. A Pony is a transformative initiative that contributes to achieving the parties' Desired Outcomes. While the Transformation Managers are the change champions, everyone in the partnership creates value by challenging the status quo and coming up with ideas that can create value. Ideas poured in for how the parties could best achieve their Desired Outcomes. In the first two years, the parties implemented 85 transformation initiatives and continuous improvement initiatives.

One of those Ponies was creating an "all-around technician". Originally Telenet used various sub-contractors who each had a specific expertise. One of the first transformative initiatives was cross-training technicians with additional expertise and creating all-around technicians. An all-around technician could solve various technical issues at one location with one stop, thus reducing the need to send different technicians to the same location. For example, when the technicians were in the field, they previously had to go through a bureaucratic process issuing paperwork to get in a subcontractor with a shovel to dig. By cross-training and granting the technicians more autonomy, they could have the flexibility to self-perform some of the work themselves. This resulted in a 30% reduction of cost through efficiencies, shortening travel time and eliminating administrative cost.

Micha believes the future focus and flexibility of a Vested agreement is a key competitive advantage. "The partnership creates an agile environment for both Telenet and Solutions 30 to explore all kinds of opportunities and ideas (Ponies). Even if only 10% of the Ponies succeed, both parties benefit." Both partners truly see each other as valued partners. Micha continues, "Our Vested relationship enables us to collaborate so naturally that we automatically reach out to one another with ideas. The flexibility of the contract gives the space to explore transformation initiatives without changing the contract, which is great."

A Flexible Contract Framework: A Key to a Vested Agreement

One of the great benefits of a Vested relational contract is that it is built on a flexible contract framework enabling contracting parties to pivot when unexpected things happen. Simply put, Vested partners agree to collaborate (versus be opportunistic) when "business happens". When the business needs change, the partners put on their WIIFWe hat and double down on what needs to change to meet the new business conditions.

When the COVID-19 pandemic reared its ugly head in March 2019, it was something nobody could have foreseen, and it caused major interruptions to the way business was done – especially for the telecom industry. For example, the onset of COVID-19 meant home repairs with limited customer impact, and installs of new additional TV services were no longer possible. Telenet also had shops that suddenly closed. The result? A part of the technicians and shop personnel were suddenly at home with nothing to do, while their salaries still had to be paid.

Gianbeppi Fortis – Solution 30's CEO – reflects on how the parties went back to their Shared Vision and Guiding Principles as they collaborated on how to deal with the rapidly changing business environment. "Having an open dialogue about the situation gave everyone a feeling of comfort that the relationship was okay and flexible enough to cope with whatever would follow that no one knew what it would be."

Els Jacobs, contract manager of the Vested contract, was fascinated by how the parties responded to the adversity of COVID-19. "Creativity had become second nature to the parties because of our Vested relational contract – but the innovative spirit of the partnership really thrived when COVID-19 arrived because of the feeling we are all in this together and we need to collaborate to get through tough times. As a result of our flexible contract, we brainstormed on how we could handle the impact of the pandemic in the best way and found creative ways of utilizing technicians in another way."

Several ideas came out of those initial discussions. For example, Solutions 30 technicians began delivering online support where a customer receives a link for a video setup. If the technician cannot provide the appropriate solution, customers leave their old box on the doorstep, and technicians then deliver a new box to their doorstep and activate the box before leaving. The entire solution was up and running in only one week.

Vested For Success: The Results Are Real

By the end of 2021 Telenet and Solutions 30 had been working under a Vested model for just over four years with significant success. John Porter, the CEO of Telenet, is glad the parties took a path to a Vested partnership: "Putting together the partnership with Solutions 30 in 2018 is one of the best things we have done. The partnership enables Telenet to accelerate the delivery of differentiated customer value propositions and an outstanding user experience." The "performance pyramid" below shares some high-level results.

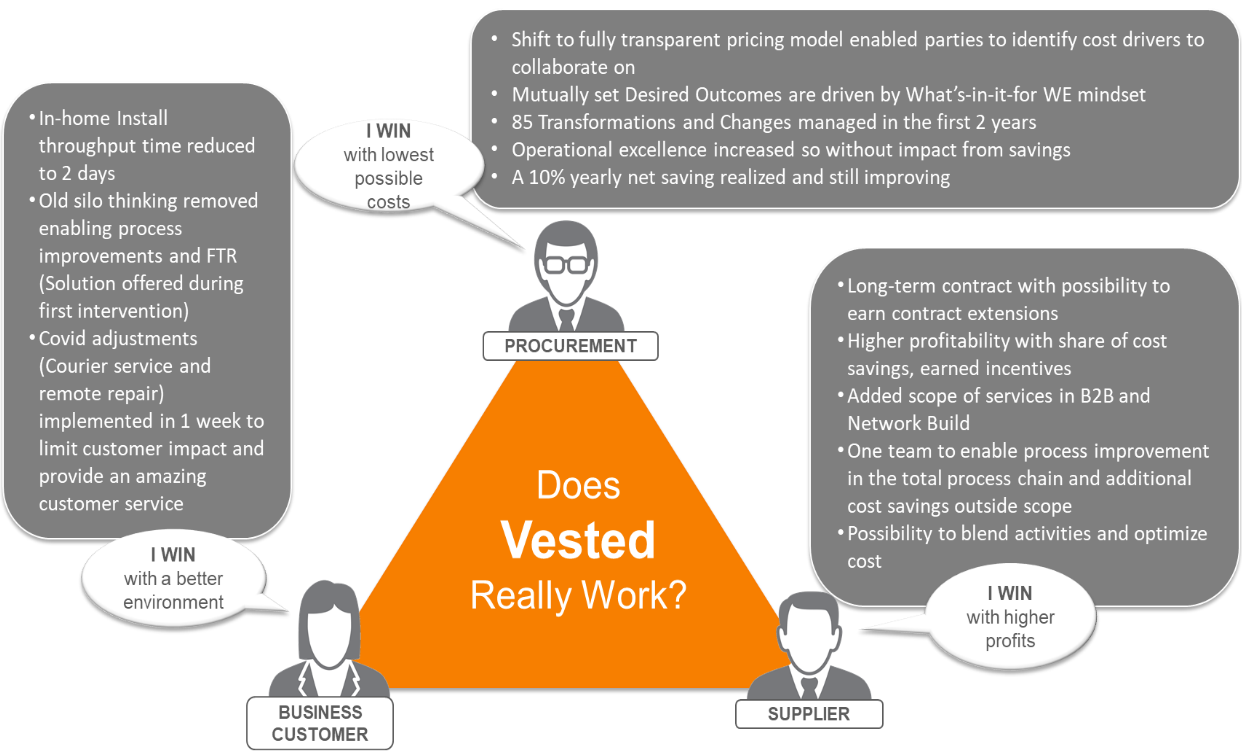


Figure 5: Telenet/Solutions30 Results

THE RISE OF VESTED OUTSOURCING

So, what has changed since the initial research? The biggest change is not in the “Five Rules” (which remain the same), but rather in the adoption of Vested into practice.

When University of Tennessee researchers released their initial research in the first book ***Vested Outsourcing: Five Rules That Will Transform Outsourcing*** in 2010 there were many skeptics and naysayers who called Vested a “fad,” “gainsharing with a new skirt,” or “too fluffy.” But now, over 10 years later, the results speak for themselves. Vested has evolved into a movement that includes over 496 organizations that have sent nearly 3,900 people to study Vested at one or more UT courses offered in its Certified Deal Architect program. Today, over 115 organizations have applied the Vested methodology such as Intel (third-party logistics), Dell (reverse logistics), Vancouver Coastal Health (environmental services), Discovery Health (insurance claims management), Island Health (labor services/union contract with doctors), J&J (facilities management) and the Dutch utilities provider Stedin (outsourced IT services).

Today, the UT research library dedicated to Vested has also expanded to include seven books, 23 white papers, and 35 public case studies that document the success stories of organizations that have successfully made the shift to a Vested outsourcing model with their strategic partners. Organizations such as the Sourcing Industry Group, NEVI (The Dutch Association for Purchasing Management), and World Commerce and Contracting have endorsed the Vested methodology as a progressive business model for creating win-win strategic relationships.

NOTABLE ENDORSEMENTS

Dawn Tiura – President and CEO, Sourcing Interests Group
“The “rules” while often spoken about have never been so clearly defined as they are here. The journey to a truly collaborative agreement is practically guaranteed if you follow the step-by-step process outlined in this great book.”

Peter Sheahan, Founder and CEO, ChangeLabs, and Author of the Best-Selling Book “Flip”
“Vested truly flips conventional outsourcing on its head. Kate has captured what it takes to drive REAL value through your external partnerships. A must-read for anyone who wants to do outsourcing.”

Frank Casale – CEO, Outsourcing Institute
“Vested is a game-changing approach that will quickly become the new gold standard for advanced outsourcing relationships.”

Tim Cummins, CEO, World Commerce and Contracting.
"Vested offers a robust approach for developing high-performing strategic relationships.”

GETTING STARTED

If your organization is ready to explore Vested outsourcing, then the University of Tennessee is ready to assist you. UT researchers—passionate to help organizations put their theories and concepts into practice—sought to institutionalize best practices from their research through a Certified Deal Architect (CDA) program. We offer various courses to guide you on your journey ranging from basic awareness courses that are online and free to more advanced implementation and mastery courses (Figure 6).

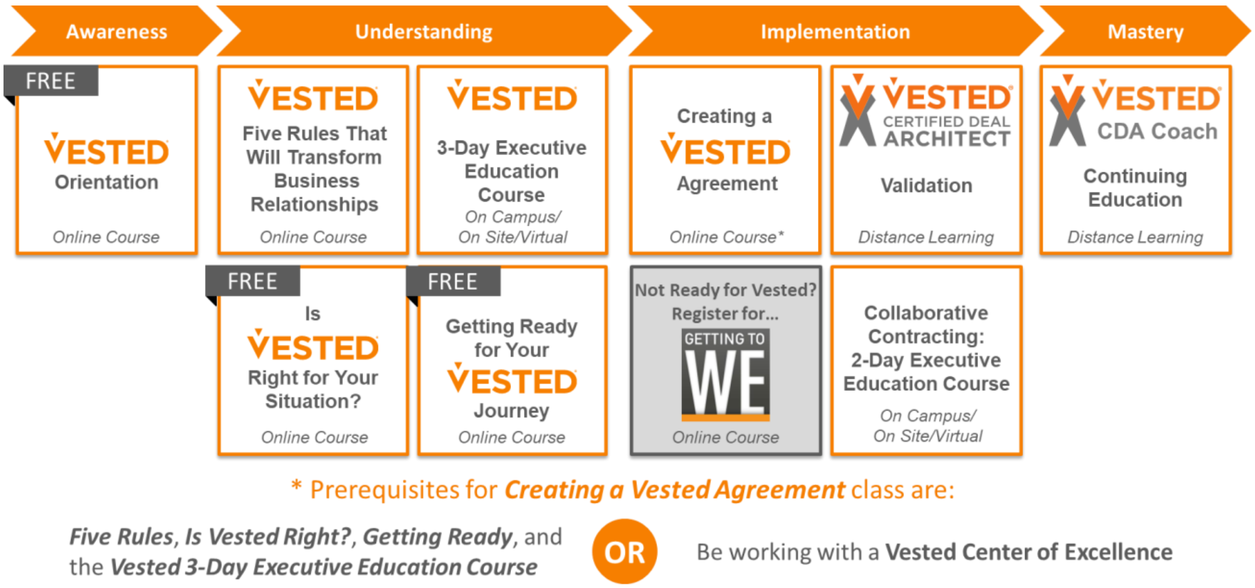


Figure 6: UT Vested Courses

We provide a brief overview of each course in the Appendix.

A hallmark of the University of Tennessee's CDA program is using a process developed by lead faculty member Kate Vitasek referred to a *RealPlay*®*. RealPlay* takes the concept of role-playing to the next level by allowing course attendees to take the material they have just covered in a course and immediately put the Vested theory and methodology into practice with their own situation, creating tangible decisions and deliverables essential for developing a Vested Agreement.

Those wanting a helping hand on your Vested journey can tap into a select group of consulting/law firms who operate regional Vested Centers of Excellence (CoEs). Vested CoEs are certified in helping organizations architect and govern Vested relationships. The CDAs assigned to work with you will have passed UT's rigorous Certified Deal Architect program and have experience in coaching organizations on applying Vested in practice.

CALL TO ACTION

The significant problems we face cannot be solved at the same level of thinking we were at when we created them.

—Albert Einstein

We hope this white paper has encouraged you to take Einstein's advice and think beyond conventional transaction-based outsourcing business models in search of a better way to outsource.

We believe that after reading about Vested outsourcing you will begin to see outsourcing with a new level of thinking. We have witnessed first-hand how those who challenge themselves to follow the Vested Five Rules are able to create innovative solutions that resolve the conflicting goals so often found in conventional outsourcing agreements. As you begin to explore the power of using a Vested model, ask yourself these questions to determine if you are really ready and willing to make the shift to a true win-win contract:

If you are a buying organization, ask yourself:

- Are you ready to rethink the fundamental rules of your outsourcing relationship with your partner? Even if that means challenging the status quo to eliminate shadow organizations that may be micromanaging your service provider?
- Are you willing to change places with the person sitting on the other side of your outsourcing deal and feel good about letting them win?
- Are you comfortable walking away from focusing on "price" to creating a pricing model with incentives focusing on the end-to-end total cost of ownership?

If you are a service provider, ask yourself:

- Do you have the capabilities and willingness to invest in continuous improvement and innovation to achieve your client's Desired Outcomes?
- Are you willing to shift away from the comfort of a traditional transaction-based model to a pricing model based on transparency and shared risk/shared reward?

If you answered yes – we encourage you to explore the resources and courses available on the University of Tennessee's dedicated website to Vested at www.vestedway.com There you can access our research library and courses to help you go through the journey from awareness to understanding and ultimately to implementation and mastery of the Vested business model.

If you are not ready, that is OK, too. We do hope you will at least continue to learn more and one day be a champion of change in your organization. Why? Change is inevitable — even change in how organizations outsource. The tried-and-true buy-sell, I-win-you-lose, non-transparent and transactional business model that has been the hallmark of outsourcing relationships will become less and less effective as organizations face a marketplace that is more complex, interconnected and full of uncertainties than ever before.

APPENDIX: OVERVIEW OF UNIVERSITY OF TENNESSEE VESTED COURSES

Join us for one – or all – of the Vested courses dedicated to helping professionals learn the art, science and practice of developing highly collaborative agreements designed to create value and drive innovation for your organization! Courses are available in a variety of formats to meet your needs (online, onsite and distance learning). Any of the courses can also be delivered in a private onsite or virtual classroom.

Vested Orientation

Just starting to learn about the Vested business model? The ***Vested Orientation online course*** is ***FREE*** and includes thirteen short topics (20 minutes or less) that share the highlights of the University of Tennessee's award-winning research. The course will help you learn the essential principles of Vested. It also includes a free online self-assessment where you can gauge the health of an existing agreement.

Five Rules That Will Transform Business Relationships

The Vested ***Five Rules online course*** consists of 25 interactive, self-paced video topics, each 20 minutes or less, where you will get a deeper dive into the Vested "Five Rules" that are essential for creating a highly collaborative Vested business model. The course provides a perfect blend of theory and practice – sharing real examples of how organizations are applying each of the Five Rules. The course also includes two self-assessments – included to help you understand how you have structured an existing agreement.

Is Vested Right For Your Situation?

Like the idea of Vested but not sure it is the appropriate business model for your situation? The ***Is Vested Right for Your Situation FREE online course*** will help you answer the question "Is Vested right for your situation?" The course includes seven topics starting by understanding the basics of what a sourcing business model is. The course ends by having you complete a *RealPlay* exercise to create a Business Model Map for your potential partnership where you will determine if Vested is the best path for you. The course also comes with a complimentary deal team coaching session from a Vested Center of Excellence.

Getting Ready

You've learned enough about what Vested is. You've completed a Sourcing Business Model Map and know it is a great option for your potential partnership. So, what is next? The ***Getting Ready FREE online course*** is the right place to start your Vested journey. You will start the course with a quick readiness assessment. The course comes with 10 proven tools to help you close gaps in your readiness – including templates and resources to help you develop a project plan for your Vested initiative and determine who is best suited to be on your Deal Architect Team. The course also comes with a complimentary deal team coaching session from a Vested Center of Excellence.

Vested Outsourcing Executive Education Course

The Vested faculty team provides a high-touch environment for attendees to explore the Vested business model in more detail in our ***Vested Outsourcing Executive Education*** course. The course is ideal for organizations that are uncertain about how to start. The course provides the right detail to allow attendees to comfortably communicate and teach their organization, clients, or service providers the fundamentals of the why, what and how of Vested. Attendees walk away with a personal action plan and key steps to start their Vested journey. It is offered in-person as a 3-Day course and as a virtual course spanning five live half-day virtual Zoom sessions.

Creating A Vested Agreement

The ***Creating a Vested Agreement*** course is the centerpiece of the Vested outsourcing educational structure. Organizations typically develop agreements with their business partner at a pace unique for them. For this reason, we've created this unique ***online course*** and comprehensive "toolkit" you can use to help you physically create a Vested agreement – regardless of your location. Whether you are developing a contract for a new relationship or restructuring an existing agreement, this course is a must-have resource that takes you step-by-step through creating a Vested Agreement, and provides clear guidance on how to manage performance to assure ongoing success.

Your deal architect team will work through each of the Vested Five Rules and design your contract ensuring 10 essential contractual Elements are built into your outsourcing agreement. The course provides your deal architect team with a step-by-step Playbook and all of the tools you need for creating a Vested agreement.

Collaborative Contracting Executive Education Course

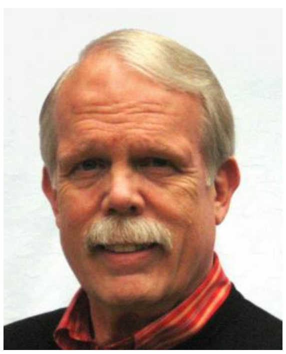
It's one thing to "Get to Yes" – but today's dynamic business environment demands a new negotiation paradigm that allows you to "Get to We" and leverage the power of formal relational contracts. This advanced skills course covers must-have skills for negotiating highly collaborative agreements. This course is ideal for those who are chartered to draft and negotiate their strategic relationships on behalf of their organizations and want to learn the "how-to" of drafting a relational contract. It is offered as an in-person 2-Day course, and as a virtual course in five half-day live virtual Zoom/Mural workshop sessions where attendees put the skills into practice.

Getting to We

Not quite ready for Vested? Then the ***Getting to We online course*** is right for you because it focuses on helping you establish a "What's-In-It-For-We" (WIIFWe) mindset and lay the groundwork for a collaborative relationship with proven relational contracting practices. The ***Getting to We*** course provides organizations with a simple-to-follow, 5-step process and tools needed to embed relational contracting practices in any contract – big or small. The course consists of self-paced, video-based Topics and ***RealPlay®*** tools that will forever change the way you approach your next negotiation.

ABOUT THE AUTHORS

Kate Vitasek is an international authority for her award-winning research and Vested® business model for highly collaborative relationships. Vitasek, a Faculty member at the University of Tennessee, has been lauded by World Trade Magazine as one of the "Fabulous 50+1" most influential people impacting global commerce. Her work has led to 7 books, including ***Vested: How P&G, McDonald's and Microsoft Are Redefining Winning in Business Relationships***, ***Getting to We: Negotiating Agreements for Highly Collaborative Relationships*** and ***Contracting in the New Economy***. Vitasek has also been featured on CNN International, Bloomberg, NPR, and Fox Business News. You can reach her at kvitasek@utk.edu



Mike Ledyard has exceptional credentials in business process design and the management of planning, manufacturing, distribution, product development, and engineering in high-volume consumer goods and food industries. Mike is a veteran of international sourcing, manufacture and the importation of product and tooling, especially from China and Eastern Asia. Mike was selected as one of the Top 20 Logistics & Supply Chain Executives of 2001-2002. He is also the co-author of the books ***Vested Outsourcing: Five Rules that Will Transform Outsourcing*** and ***Keeping Score: Measuring the Business Value of Logistics in the Supply Chain***. Mike was also part of the UT research project team which led to the creation of the Vested business model.

Karl Manrodt serves as a Professor of Logistics at Georgia College & State University. He also served as the Director of the Master of Logistics and Supply Chain Management program, an online master's program for working professionals. He is co-author of eight books including ***Vested Outsourcing: Five Rules that Will Transform Outsourcing*** and ***Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement.*** He is a popular speaker and has given over 150 presentations across the globe. Dr. Manrodt has served on the Board of Directors for the Council of Supply Chain Management Professionals as well as being an editor, reviewer, and editorial board member of numerous academic and trade journals.

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 to put the Vested theory into 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/ 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 paper and resources. For more information, contact kvitasek@utk.edu.