

WHAT EXACTLY IS VESTED OUTSOURCING?

Vested Outsourcing is a fundamental business model paradigm shift in how a company and its outsourcing service providers do business. What *LEAN* did for manufacturing that changed the business world in 1990, *VESTED* will do for outsourcing. Steeped in research conducted by the University of Tennessee and funded by the United States Air Force, **Vested Outsourcing** identifies the 10 inherent ailments in today's flawed and old-school outsourcing agreements, and where these ticking time bombs might be lurking within **every** company. Recent University of Tennessee research unveils five key rules for a successful **Vested Outsourcing** agreement, setting the stage for companies to take their outsourcing relationships to the next level. Companies applying **Vested Outsourcing** rules can create a true vested partnership that can yield significant benefits for both parties.

HOW IS VESTED OUTSOURCING DIFFERENT FROM TODAY'S OUTSOURCING?

FLAWS WITH OUTSOURCING TODAY	VESTED OUTSOURCING SOLUTION
Outsource providers get paid to perform an activity, not solve the companies problem.	Contracts for results, not activities. Companies are not paid unless results are achieved.
Companies may say "collaboration"—but behave and contract for their own self-interest (WIIFMe).	The contract itself is structured to deliver mutually beneficial financial gains; Outsource providers make more money when they achieve the client's desired outcomes.
Companies outsource to service provider "experts," who dictate work processes in areas in which the company has conceded deficiencies in knowledge and expertise	Leverages the outsource providers expertise by allowing service providers determine the best possible way to solve the companies problem
Companies have been focusing on "lowest price" versus "best value," which creates hidden costs (e.g. Nobel Prize winning work on Transaction Cost Economics)	Transparency and a big picture perspective expose hidden costs; contract is structured to avoid hidden costs

HOW WILL CREATING A VESTED OUTSOURCING RELATIONSHIP INCREASE THE TOP LINE OR MARKET SHARE FOR COMPANIES OF ALL SIZES?

Companies should approach a **Vested Outsourcing** agreement as a symbiotic relationship because only by working together can everyone succeed. A **Vested Outsourcing** partnership focuses on identifying desired outcomes and then aligns the interests of all players so that all benefit if the desired outcomes are reached. The relationship becomes more collaborative and expands beyond simply meeting the requirements of the original outsourcing agreement. In a **Vested Outsourcing** relationship participants work together to ensure their mutual success. This combined success creates a bigger win for both parties than if just one party is the victor. Success begets more success.

WHY SHOULD EVERY BUSINESS EXPLORE A **VESTED OUTSOURCING** RELATIONSHIPS WITH THEIR SUPPLIERS AND VENDORS?

Vested Outsourcing combines the four influential business concepts of the 21st Century: outsourcing, collaboration, innovation and measurement. Like *Lean*, it is about streamlining and eliminating non-value-added activities regardless of who is doing the work. But **Vested Outsourcing** goes well beyond applying lean principles because it pushes the companies involved in an outsourcing relationship to innovate collaboratively to find the optimized solution, even if it means tradeoffs for one of the parties involved. At its heart, **Vested Outsourcing** is about all parties in the business arrangement going the whole nine yards to unlock the most efficient and effective solutions to the work being performed.

WHAT CORE TENETS DIFFERENTIATE A **VESTED OUTSOURCING** RELATIONSHIP FROM A CONVENTIONAL ONE?

1. Focus on outcomes, not transactions.
2. Focus on the WHAT, not the HOW.
3. Agree on clearly defined and measurable outcomes.
4. Optimize pricing model incentives for cost/service trade-offs.
5. Governance structure provides insight, not merely oversight.

WHAT DO INDUSTRY LEADERS SAY ABOUT **VESTED OUTSOURCING**?

Ask *Tim McBride*, Chief Procurement Officer for *Microsoft*: “As a leader in innovation, *Microsoft* is always quick to experiment with new approaches. Our first approach with **Vested Outsourcing** concepts was in the area of facilities management with *Grubb & Ellis* and we have been quite pleased with the results. Most procurement professionals are hard-wired to ‘win,’ which means if *Microsoft* wins the supplier loses. We have learned that applying a **Vested Outsourcing** philosophy requires a cultural change in how we will need to work with our suppliers. For *Microsoft*, this means exploring **Vested Outsourcing** one program and one supplier at a time—working to build trust with our supply base and business units that outsource to understand that there really is a better way.”

HOW MANY COMPANIES OUTSOURCE?

Outsourcing has become so commonplace that more than three out of five companies (63 percent) participating in a recent study by the research and consulting firm *PricewaterhouseCoopers* have outsourced a business process to a third party. Of the 304 top decision-makers involved in the study, 46 percent said that outsourcing's importance has increased during the past three years. In addition, 42 percent indicated their company's use of outsourcing has increased. Almost one-quarter (23 percent) have outsourcing programs in their current business plans.

QUICK FACTS

Based on research from the University of Tennessee (*number 2 in the world in supply chain research*)

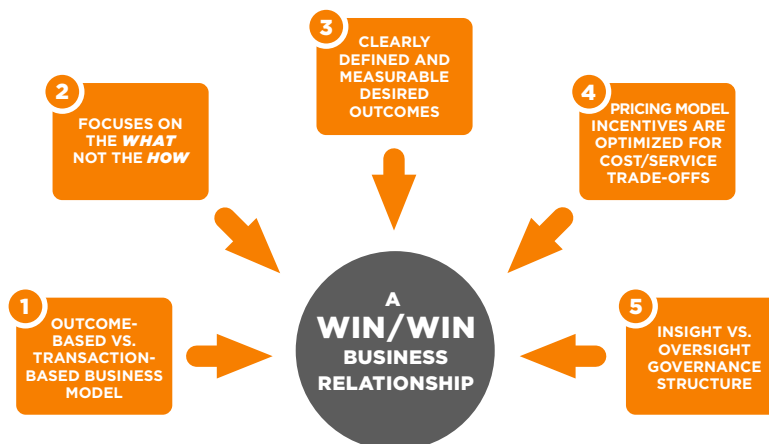
- > Funded by the *U.S. Air Force* to find “a better way to outsource”
- > Applied field research to study some of the most successful outsourcing relationships and contracts
- > Study found that most outsourcing agreements have inherent flaws

Purpose was to **codify** the “**rules**” of outsourcing. **Vested Outsourcing:**

- > Is centered on buying **results instead of tasks and/or activities** (payments are based on achieving results)
- > Leverages “win-win” thinking **associated with game theory**/behavioral economics
 - Win-win” is also known as “solutions concept” and is based on what is commonly known as “game theory.” The most famous of the “game theorists” is *John Nash*.
 - The Nash equilibrium states that no player can benefit by changing strategy while the other players keep their strategies unchanged. That set of strategies and the corresponding payoffs constitute the “Nash equilibrium.”
 - *Nash* shared the 1994 Nobel Memorial Prize in Economic Sciences with game theorists *Reinhard Selten* and *John Harsanyi*; the movie *A Beautiful Mind* portrays his story.
 - **Eight Nobel prizes have been awarded to game theorists. Game theory is at the heart of Vested Outsourcing.**
- > Creates a contract that **follows five rules**
- > **Uses incentives** to encourage transformational results
- > Follows a **structured implementation model** to improve implementation

Is transformational when applied

- > It is being endorsed by *Microsoft*, *Intel*, the *Outsourcing Institute*, *ARC Advisory Group*, and the *International Association of Commercial and Contract Management*.
- > *Microsoft* and other corporations have determined that **Vested Outsourcing** has given them transformative results in facilities management and back-office finance, and they are preparing to deploy **Vested Outsourcing** in additional areas.





ABOUT KATE VITASEK

Author, educator and business consultant *Kate Vitasek* is a nationally recognized innovator in the practice of supply chain management and outsourcing. She is the founder and lead researcher in the concept of **Vested Outsourcing**, which was developed in conjunction with the *University of Tennessee*.

Unlike conventional outsourcing by which companies purchase services for fees, **Vested Outsourcing** is a business model under which companies and service providers work collaboratively.

In **Vested Outsourcing**, *Vitasek* has created a model that will improve outsourcing procedures much the way *Six Sigma* and *Lean* improved production processes in the 1980s and '90s. Based on a research study with the *University of Tennessee* and the *United States Air force*, *Vitasek* has identified the top 10 flaws in most outsourced business models and then shows organizations how to rethink their outsourcing relationships in a way that will lower costs, improve service and increase innovation.

Vitasek's approaches and insights have been widely published. She is the co-author of the *Council of Supply Chain Management Professionals'* best selling book *Supply Chain Process Standards*, and has contributed to other management books as well. *Vitasek* has written more than 75 articles that have been published in respected academic and trade journals, including the *Journal of Business Logistics*, *Supply Chain Management Review*, *Inside Supply Management*, *Aviation Week*, *Distribution Business Management Journal*, *The Manufacturer*, and *APICS Performance Advantage*. *Vitasek* also hosts an "Expert Insight" blog for *DC Velocity* and the *Outsourcing Institute*.

Vitasek is a faculty member and lead researcher for the *University of Tennessee's* Performance-Based programs. She teaches executive development courses and serves as a mentor in the *University's Center for Executive Education*. She also teaches outsourcing for *SP Jain University's* Global MBA program and seminars for the *Warehouse Education Research Council* and the *Council of Supply Chain Management Professionals*.

Vitasek first attained prominence in outsourcing with her visionary call for more efficient practices and with her work within the Aerospace and Defense Industry on performance-based logistics where she co-authored the industry's first book on the topic. In 2007 she went on to lead the *University of Tennessee's* research into the next generation of outsourcing. *Vitasek's* storied career includes positions with *P&G*, *Microsoft*, *Kroger*, *Accenture* and *Stream International* and she has also served on the Board of Directors for the *Council of Supply Chain Management Professionals*.

The *Journal of Commerce* has recognized *Vitasek* as a "Woman on the Move in Trade and Transportation" and *DC Velocity Magazine* dubbed her a "Rainmaker" for her leadership efforts in the profession. She's also been honored as a "Woman of International Influence" and was a *Stevie Award* finalist for "Woman Entrepreneur of the Year."