



Five Rules that Will Transform Outsourcing

Based on award winning research from the
University of Tennessee.

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

Albert Einstein

Outsourcing is Broken

Traditional buyer-supplier relationships are like a game of tug-of-war. While organizations “say” strategic partnership, most buyers and suppliers still sit across the table with competing goals. The result? A win for your supplier is a loss for your organization, and vice versa. One executive even remarked, “My organization thinks a win-win is when we get to win twice.” You go back and forth – wasting precious time and energy figuring out how to get the best “deal” – but in reality you are stuck in a transactional value exchange exercise versus focusing on creating value.

Is There a Better Way?

No other question encapsulates the drive for innovation permeating today’s business environment. It is what drives people like Albert Einstein and Thomas Edison to challenge the status quo to create not just better products, but also better solutions. It is what drives business people to solve complex problems to meet customer needs. And it is what drives the health care industry to create new drugs and improve patient outcomes.

So is there a better way to outsource? That is the exact question that the University of Tennessee asked when they created a small research team to study outsourcing practices. In fact, the question was so intriguing the United States Air Force agreed to sponsor the research study. Researchers studied some of the worlds most successful outsourcing relationships as part of their decade long research exploring a better way to outsource.

One of the key themes found across all successful outsourcing deals was a different mindset to outsourcing. Specifically, successful organizations made a conscious shift away from a conventional **“buyer-supplier”** relationship to a highly collaborative **“What’s in it for We”** (WIIFWe) relationship aimed at developing a broad, true win-win solution. They also followed five simple **“rules”**.

University of Tennessee researchers codified these lessons learned into a systematic model to improve outsourcing as a business practice coined Vested Outsourcing – or Vested for short. In brief, the Vested model creates an outsourcing relationships where companies and their suppliers become vested in each other’s success.

A Different Mindset

John Nash, John C. Harsanyi, and Reinhard Selten won a Nobel Prize in 1994 for their work showing that win-win thinking isn’t just a nice thing to say but makes good business sense.

We have all been lulled into the trap that “winning” means that someone else has to lose. The prevailing belief is that if individuals and companies pursue their self-interests, supply and demand will magically lead to innovation, economic growth, and overall economic well-being for humanity. This promotes a drive for short-term gains at the expense of long-term implications. Think about negotiating over price. Get a lower price and the buyer **“wins”**. Pay a higher price and the supplier **“wins”**.

But is it possible to have multiple winners in the game of business? That all depends on your mind-set.

Think about a pie. Do you remember those childhood feuds over the last piece of pie or the scoop of ice cream that was far too little to share? While your Mom likely made you share, did you and your sibling both feel as if you had lost? After all, you didn't get it all. Sharing has come to mean you get less than what is optimal; you lost something you could have, or should have, had. Economist calls this approach a zero-sum game. When faced with that last piece of pie, why not simply look at the world through a lens of abundance. Instead of walking away thinking you have to sneak the last piece, why not respond with “Let's bake another pie.” Seeing the world through a lens where opportunities are not limited and everyone can win opens up an entirely new world to explore. Economists call this approach a non-zero-sum game. In this case, the parties work together to

expand the pie, and the pie keeps expanding. Simply put, parties decide to work together – to innovate - to bake more pie!

You might say that 1 plus 1 equals 5. No, this isn't fuzzy math; rather, it's a different way of viewing the world. Yet, is it possible? Absolutely. In fact, mathematicians and economists have been studying game theory and behavioral science since the 1950's. But it was not until John Nash (profiled in the movie *The Beautiful Mind*) went on to win a Nobel Prize for his work in 1994 with John C. Harsanyi and Reinhard Selten did win-win thinking get traction. Nash's lifelong work into the economics behind win-win thinking shows it's not just a nice thing to say—it really is beautiful. Science now proves that win-win approaches outperform zero-sum thinking in **“repetitive”** longer term games.

Bottom line, using a WIFWe mind-set will create a culture where your business partners will help you innovate – because they have a vested interest in your success

Getting Started

In Vested relationships, people work together on a foundation of trust and transparency where there is mutual accountability for achieving the sought after desired outcomes. Through the careful alignment of desired outcomes and incentives, business partners give their best to each other.

Together they bring the needed skills and resources to not just perform activities - but to achieve transformational success through innovation. In short – the parties collaborate to bake more pies and share in their success. To say that Vested represents a departure from traditional business practice seriously understates the case. Vested changes the fundamental business constructs we all learned years ago.

Does Vested work?

Yes. We profile our eight favorite case studies in the book, *Vested: How P&G, McDonald's, and Microsoft are Redefining Winning in Business Relationships*.

Pick up a copy and learn how...

- Microsoft and Accenture transformed back-office finance operations resulting in award winning results and innovations.
- Procter & Gamble and Jones Lang LaSalle won the International Association for Outsourcing Professionals GEO Award for innovation in outsourcing based on award winning innovations that increased service levels and reduced costs by 33%.
- McDonald's and their suppliers are vested in each other's success as they consistently get ranked as one of the most efficient supply chains in the world.
- The U.S. Department of Energy and Kaiser-Hill transformed one of the world's most polluted weapon sites to a wildlife preserve—65 years early and over \$30 billion under budget.

- The State of Minnesota and Flatiron-Manson invented new ways to pour concrete in the winter—a Minnesota winter, rebuilding the I35 bridge in record time and under budget.

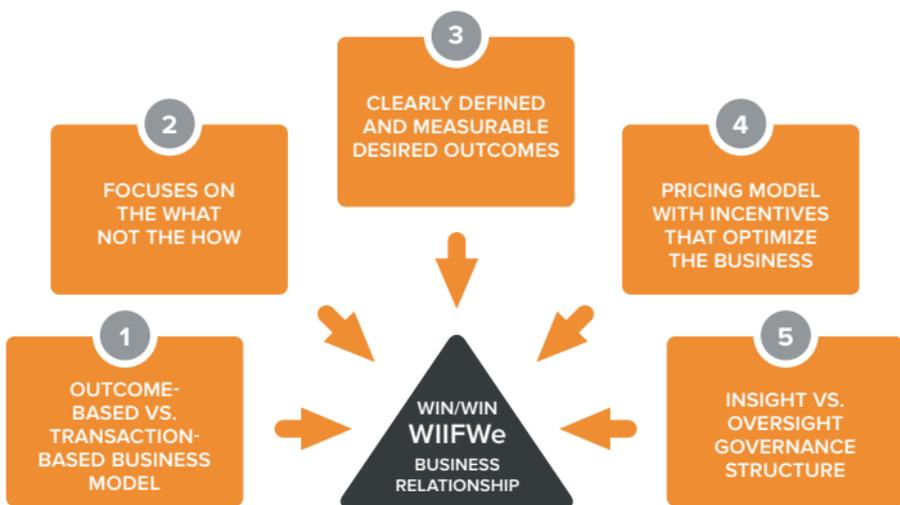
Want to get started? It's as easy as visiting the University of Tennessee's dedicated website to the Vested movement - www.vestedway.com. You'll be able to download white papers and case studies from our research library, check out our open source toolkit, take a free self-assessment to benchmark your own outsourcing relationship, and get started with one of our online courses. In fact, we are so excited to share our research we have made our Vested Orientation course absolutely free.

We know you will be as excited as we are about Vested, so we are even making our PowerPoint slides available as open source. Download the slides and begin sharing the concept within your organization!

VESTED[®]

The Five Rules of Vested

Rules matter. And in Vested relationships the rules are essential to creating a true win-win relationship. Vested follows five simple rules, allowing business partners to shift from simply “saying” win-win to truly craft win-win outsourcing deals. Let’s look at each of the Vested rules and why each is crucial for success:



Rule 1. Outcome vs. Transaction-Based Business Model

This rule is essential because it anchors your business model on the outcomes versus transactions or activities. The buyer and supplier start by creating a shared vision and defining the high level Desired Outcomes that will define the pillars of the partner’s success.

Rule 2. Focus on the WHAT, not the HOW

Buyers that dictate the HOW to their suppliers limit the supplier's ability to innovate. It's like putting your supplier in a box while telling them you want them to think outside of the box.

Rule 3. Clearly defined and measurable outcomes

It's one thing to define your outcomes, but it's also imperative you measure business outcomes, and not just the tasks. Most organizations suffer from the activity trap where they are measuring everything that moves – not focusing on what matters.

Rule 4. Pricing Model with Incentives that Optimize the Business

Vested shifts from focusing on a price to a pricing model with incentives. The partners see a fully transparent pricing model with incentives based on overall total cost, not just price. The economics should ensure you win together and you lose together.

Rule 5. Insight vs. oversight governance

Traditional outsourcing relationships rely on SRM (supplier relationship management) processes to help buyers manage the supplier. In Vested, the WIIFWe mind-set means managing the business with your partner, rather than just managing your partner. Think of climbing Mt. Everest where the buyer is the climber and the supplier is the Sherpa. You navigate the mountain with a spirit of mutual respect and accountability – not by managing the supplier you have hired as your expert!

This brochure was made possible by the generous donation of Tepnel Pharma Services.

The University of Tennessee, Vested faculty and research team would like to thank Tepnel for their generous sponsorship of this brochure. Our research work at the University of Tennessee would not be possible without the generous support of our research sponsors and passionate support of contributors like Tepnel – who are excited to share the power of Vested.

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Introducing Tepnel

Supporting Drug Development, Improving Patient Outcomes.

As part of a leading global healthcare and diagnostics company, our people strive to provide quality control laboratory analysis and biomarker research and development. This helps advance the realization of precision medicine and a value health care system, which improves patient outcomes. We believe that it is our responsibility to provide our customers with high quality, regulatory compliant data.

Customers gain access to our knowledge, experience and ability to help them simplify their studies, which facilitates diagnostic solutions that can work to achieve both incremental and transformational progress towards improving patients' lives. We are successful because of our People. We are Progressive in our way of thinking. We believe in our Principles.

We recognize that outsourcing should be a continuum rather than a destination therefore as Vested outsourcing practitioners, we look to innovate and develop a different way of working with our partners in supporting the delivery of their desired outcomes. Vested is a new way in working in partnership, it requires a systematic change in mind-set, whereby the partners are wholly committed to each other's success creating a true win - win outcome.

Our Intention

We aim to develop a different way of working with our partners around a value based culture, which is mutually beneficial and built on a framework of reciprocity, autonomy, honesty, equity, loyalty and integrity.

Our Motivation

We want our partners and our stakeholders to be a significant contributor to delivering the realization of precision medicine and a value healthcare system which improves patient outcomes.

Our Agenda

We will seek to identify with our partners and stakeholder opportunities to utilize a philosophy, which transforms the business relationship to what's in it for we, a true win-win relationship.

Together we are better.