An Overview Of Vested
Discussion Topics

• The Mind Shift Change Of Vested Outsourcing

• The Five Rules Of Vested

• Getting Started
What Vested is ...

- **A Mindset** – Based on research from 3 Nobel prizes, Vested uses a “WIIFWe” Mindset to enable value creation (pie expansion) and value sharing (win-win) economics;

- **A Methodology** – The Vested methodology involves following Five Rules supported by 10 contractual elements that formally documents the operating norms, economics and governance business partners need for success. Partial implementation will lead to the 10 Ailments of Outsourcing and a smaller pie for both parties;

- **A Business Model** – If the methodology is followed it created an outcome based business model that drives innovation and creates transformational results;

- **A Movement** – that will change the way companies treat their strategic business partners;
Use Vested if….

• There is an insertion of the supply solution into the business process
• There is need for the most current and future state investment in category knowledge and technologies
• There is a desire for strategic positioning in the marketplace that can be influenced by the supply solution
• The business wants to focus its resources on its core areas of focus
• There is a co-dependency between the buyer/seller for business or operational success
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Conventional Approach

There Is An Inherent Flaw In The Business Model

- Specify Buy Quantities / Manage demand
- Pay for each on a Unit Price or Transaction basis
- Assume all risk for:
  - right product
  - right locations
  - right time
  - right quantities
  - Customer satisfaction
  - System uptime

The more we sell, The more profit we make!

LOW RISK

HIGH RISK

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Modern Approaches

As outsourcing exploded in the 1990s and 2000s and sourcing became more complex as services grew, companies began to realize they were faced with the “Watermelon Effect”

A good supplier might be doing what they were asked and achieving the metrics, but the business was not achieving its needs

An “Outcome” Based approach emerged

Watch out for the “Watermelon Scorecard”
Is There A Better Way To Outsource?

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

– Albert Einstein
• Shifts from a conventional “buy/sell” business model focusing on transactions to an “outcome” based business model focusing on results
• Moves beyond saying “strategic supplier” to developing carefully crafted collaborative agreements
• Creates value through win-win solutions economics (grow the pie, not fight over the pie)
Benefits: The Vested Approach Works!

- **Focus on intended results, not activities**
  - Parties are Vested in each other’s success; risk and reward are shared to align interests
  - Mutually beneficial, shared incentives drive innovation and cost effectiveness

- **Better competition: not just activities/suppliers, but solutions**
  - Mutually agreed Desired Outcomes creates buy-in and focus
  - Shared focus increases likelihood of meeting corporate goals and objectives
  - TCO and ROI emphasis enables sustainable results beyond simple “price” reductions

**Overall better value and enhanced performance!**
Win-Win Is Steeped In Research

- Win-win thinking is based on research known as Behavioral Economics and Game Theory.
- Behavioral Economics emphasizes the importance of cooperation, sharing and over-all group success in contrast to domination and personal gain.
- All players are treated as equally important and valuable.
- When both parties cooperate they both win! When they don’t, they end up with less or both lose.
- Eight Nobel Prizes have been awarded to Behavioral Economists since 1994.

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**Cooperative Games Win!**

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<th>Command</th>
<th>Cooperate</th>
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<tr>
<td>Cooperate</td>
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<td>WIN A LOT</td>
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<td>WIN</td>
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<td>Command</td>
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“The best result will come from everyone in the group doing what is good for himself and the group. It is the only way we all win”

John Forbes Nash-Nobel Prize Winner
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Vested Methodology Prevents Agreement Failures

Vested Agreements Address The Top Five Reasons For Contract Failure

- Buyers multi-supplier environment: 3%
- Poor cultural fit: 5%
- Poor performance: 8%
- Not mutually beneficial: 11%
- Poor communication: 11%
- Poor governance: 13%
- Misaligned interest over time: 15%
- Unclear expectations: 23%

Source: Outsourcing Center Survey. Outsourcing Center

Percent of Respondents

Note: 11% in “Other”
The 5 Rules Of Vested

1. OUTCOME-BASED VS. TRANSACTION-BASED BUSINESS MODEL

2. FOCUSES ON THE WHAT NOT THE HOW

3. CLEARLY DEFINED AND MEASURABLE DESIRED OUTCOMES

4. PRICING MODEL WITH INCENTIVES THAT OPTIMIZE THE BUSINESS

5. INSIGHT VS. OVERSIGHT GOVERNANCE STRUCTURE

Source: Vested®

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1. Outcome Based vs. Transaction Based Model

- Most relationships follow a *transaction-based* business model.
- This can be cost plus or a fixed price per *transaction* where the service provider gets paid a transaction fee for each activity that is performed or sometimes a *performance-based* business model with penalty clauses focused on delivering *outputs* for payment.
- **Vested** moves to an *outcome-based* business model (focused on strategic objectives) where the service provider is paid for achieving results, not just for performing tasks or activities.
The Activity Trap

- Traditional transactional models are inadequate
- The service provider is paid for every transaction – whether it’s needed or not

<table>
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<th>Buying company using 3rd party logistics services</th>
<th>Service providers typical reaction under a Transaction-based Model</th>
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<tbody>
<tr>
<td>I forecast over</td>
<td>We charge you to store and count your product monthly… the more you have the more we make</td>
</tr>
<tr>
<td>I forecast under</td>
<td>We charge rush fees to expedite your products to market</td>
</tr>
<tr>
<td>I manage my suppliers poorly</td>
<td>Your suppliers caused us to rework your product into new packaging. We have to charge you more money to rework</td>
</tr>
<tr>
<td>Inventory working capital is killing me</td>
<td>We don’t own your inventory…we just provide services to you. Actually, we like when you have too much because we charge to hold it</td>
</tr>
<tr>
<td>I specified the wrong shipping requirements</td>
<td>We ship as we are told. You didn’t tell us about the special label</td>
</tr>
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Example shown is for Supply Chain, but this applies across all disciplines
2. Focus On The WHAT, Not The HOW

Joy’s Law: No matter who you are, most of the bright people don’t work for you

“For every P&G researcher, there were 200 scientists or engineers elsewhere that were just as good. That meant there was a total of perhaps 1.5 million people whose talents they could potentially use.”

Vested Solutions seek to capitalize on supplier’s core competency - Seeking to gain value from their focused expertise vs. telling them how to do the work.
3. Clearly Defined/Measurable Desired Outcomes

“You got to be very careful if you don't know where you're going, because you might not get there.”

- Yogi Berra

Vested objectives and metrics are focused on well-defined outcomes…not tasks
Solow’s Law: Business Growth is Driven by Innovation

87% of economic growth is driven by “technical change” that comes from improvements in business process or technical improvements in products.

Labor & Physical Capital 13%
(e.g. buildings, machinery)

The vast majority of today’s commercial contracts are for labor and physical capital rather than for innovation and problem solving!

Vested Pricing Model has multiple cost elements to support value generation for both parties
5. Insight Vs. Oversight Governance Structure

Manage the Business...Not Just the Supplier

**ME**

- Getting the supplier to meet my needs
- It's in the contract, now it's the supplier's problem
- Blame and punish the supplier
- Unpleasant surprises

**WE**

- Finding a way to meet our mutual needs
- Work together to achieve performance and compensation goals
- Communicate the issues, jointly find solutions
- Integrated planning and communications

Vested Governance Model - tiered with a joint management structure
Vested Is A Movement—and Growing!

Some Case Studies

- P&G (Real Estate/Facilities Management)
- **Microsoft (BPO)**
- McDonald’s (Supply Chain)
- U.S. Dept. of Energy (Environmental Services)
- State of Minnesota Dept. of Transportation (Construction)
- Integrated Management Services (Staffing)
- Diversey (IT)
- Water for People (non-profit NGO support in developing countries)

Companies are adopting Vested as a Way to Do Business (e.g. UPS Vested Logistics)

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Microsoft “OneFinance” Results After First 2 Years

Global Process Standardization - 140 to 40 Systems

23% reduction man-hours in “tactical” work - allows for more strategic focus

20% increase in first pass accounts receivable

Only 0.43% misses across all Accenture SLAs

Internal satisfaction for finance customer increased 90%

SOX Compliance from 15 large subsidiaries to all

20% reduction in cost of contract, with 35% projections

$30m in transformation value realized

Results From Microsoft - Accenture OneFinance In First 2 Years

Does Vested Really Work?

I WIN with lowest possible costs

I WIN with higher service levels

I WIN with higher margins/profits

SUPPLIER

BUSINESS CUSTOMER

PROCUREMENT

I WIN with higher margins/profits

7 year contract; added 5 years after first 2 years

Book of business expanded from $185 to $330m

Higher profitability; share of transformation value in profits

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What They Are Saying…

Tim Cummins, CEO, International Association for Contract & Commercial Management  
"Vested offers a robust approach for developing high-performing strategic relationships."

Dawn Tiura Evans – President and CEO, Sourcing Interests Group  
“Kate has hit the nail on the head. 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. It is a critical enabler for Outsourcing 2.0”

Tim McBride – Chief Procurement Officer, Microsoft  
“As the Chief Procurement Officer at Microsoft it is my job to help us adopt next generation outsourcing models and Vested is definitely one of the tools we have in our toolkit that we are exploring”.

Todd Shire, Global Logistics Sourcing Strategy Manager, Intel  
"I predict the buzzword for the next decade will be "incentives." Only when our incentives are aligned will we succeed with collaboration. Vested nails how to get collaboration right."

Brad Mitchell, President of Distribution and Logistics, UPS  
Listed Vested as one of the top five supply chain trends for 2010, stating, “Companies will take a vested interest in Vested Outsourcing”

Wall Street Journal – Six Ways Small Businesses Can Save Money  
Vested is identified as one of “six ways small businesses can save money.”
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Read the Books…Available on Amazon
Learn The Fundamentals

3 Day Executive Education Open Enrollment Class

• Held at the University of Tennessee’s campus in Knoxville, Tennessee.

• The class is ideal for individuals wanting to learn more about how Vested works and buyer/supplier teams wanting to explore if Vested is a good fit for their business deal.

• Attendees receive complimentary soft copies of Vested tools to help them after they leave class.

To learn more visit: www.vestedway.com/3-day-open-enrollment-course

A Vested Outsourcing Center of Excellence
The success of Vested’s adoption required the “how-to” online course for creating a Vested agreement. The “Creating a Vested Agreement” Online Course consists of 15 self-paced, video-based modules designed to help you create a Vested Agreement. Each module delivers critical knowledge, step-by-step practical implementation tools, and a roadmap on how to create a Vested Agreement. Courseware is taught by University of Tennessee Center for Executive Education faculty and the authors of The Vested Outsourcing Manual.

Register online at www.vestedway.com/online-courseware/
## Services To Support A Vested Journey

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<th>Implementation</th>
<th>Mastery</th>
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<td>• Vested Orientation (six free online modules)</td>
<td>• Five Rules online course</td>
<td>• Creating a Vested Agreement online course</td>
<td>• Certified Deal Architect</td>
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<tr>
<td><strong>Support</strong></td>
<td>• Speeches</td>
<td>• 3 Day Vested Exec Education Course Support</td>
<td>• Deal Review</td>
<td>• Re-certification of Deal Architects</td>
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<td>• Half Day and Full Day Workshops</td>
<td>• Compatibility and Trust Assessment</td>
<td>• Onsite Facilitated workshops</td>
<td>• Facilitated Governance Management</td>
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<td>• Business Case Justification (Pony)</td>
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<td>• Website • Blogs • Books • Articles • Social Media (LinkedIn group)</td>
<td>• Case Studies and White Papers • Limited set of tools free with course</td>
<td>• Advanced set of free tools w/online course • Proprietary set of tools w/coaching</td>
<td>• Funded Research</td>
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Contact Us

- Visit the University of Tennessee’s dedicated Vested website at www.vestedway.com
- Contact Bonnie Keith – Faculty at University of Tennessee, President, The Forefront Group-A Certified Vested Center of Excellence, bkeith@theforefrontgroup.com
- Contact Kate Vitasek – the lead researcher and faculty for Vested at kvitasek@utk.edu