



*Based on research by.....*



## Vested Outsourcing is....

- ❖ A game changing approach to outsourcing that
  - ❖ Leverages “win-win” thinking associated with Game Theory / Behavioral Economics
  - ❖ Is centered around buying **results instead of tasks and/or activities** with the conscious effort to use incentives to drive process innovation which prevents many perverse incentives of conventional outsourcing
  - ❖ Creates a contract that follows “5 Rules”
  - ❖ Uses incentives to transform the work to achieve “tradeups” versus conventional cost/service tradeoffs
- ❖ Based on research from the University of Tennessee
  - ❖ Follows a structured implementation model to improve implementation
  - ❖ Leverages tools and courses created by the University of Tennessee to help companies outsource better
- ❖ Transformational when applied
  - ❖ Supported as the “next generation in outsourcing” by the Outsourcing Institute as a key concept of Outsourcing 2.0
  - ❖ Being associated as the “business concept of the decade” similar to Lean and Six Sigma

# Early Endorsements

**Cliff Lynch, DC Velocity Magazine**

"In the outsourcing world, a genuinely new concept comes along only once every 10 years or so. I have a feeling Vested Outsourcing is one of them."

**Frank Casale – CEO, Outsourcing Institute**

"Vested Outsourcing 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"

**Adrian Gonzalez – ARC Advisory Group**

"I view Vested Outsourcing as a cutting edge approach to structuring and managing service provider-client relationships."

**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 Outsourcing 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 Outsourcing nails how to get collaboration right"

**Ken Ackerman – Warehousing Forum**

"These fresh ideas about outsourcing could change the way in which logistics services are purchased and managed in the future."

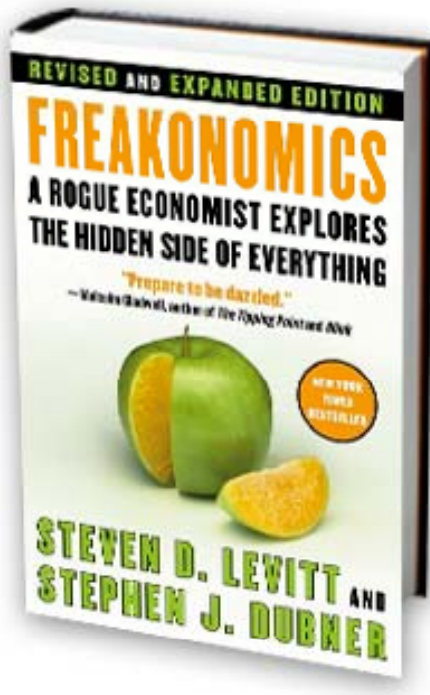


## THE GAME OF OUTSOURCING

## Contracting in Complex Deals is Really Just a Bet



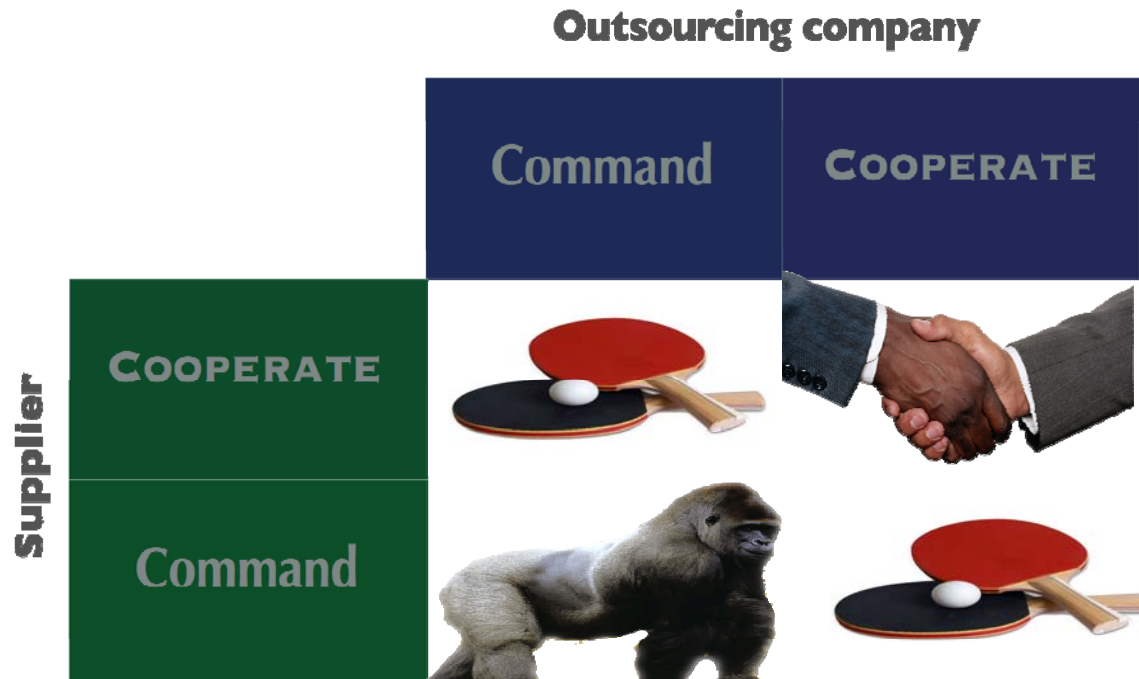
## Why Do We Act this Way?



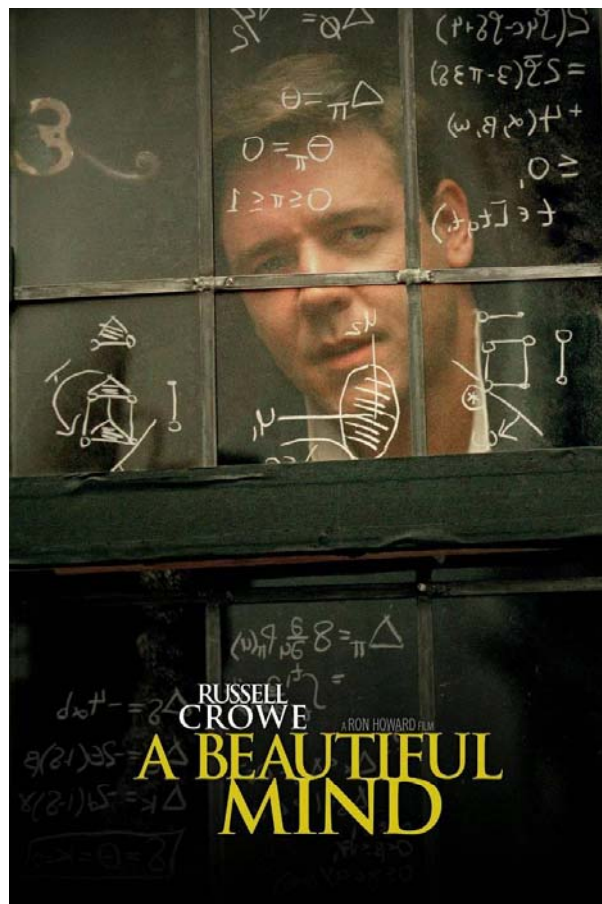
*"Morality is what people should do."*

*Economics is what people do."*

# The Game of Outsourcing



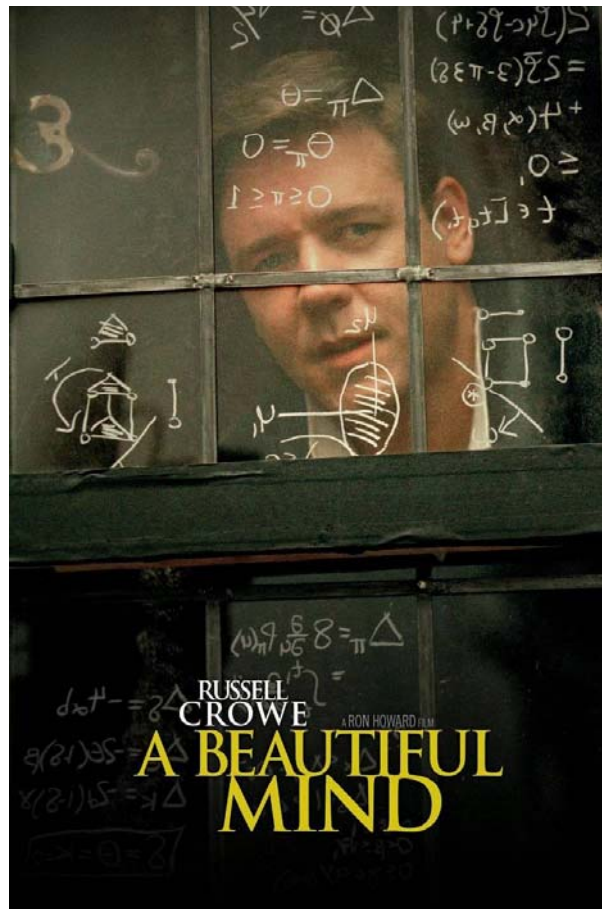
***Win – Win  
is  
Really  
Beautiful!***





## “Adam Smith was wrong....”

- Adam Smith said: “The best results comes from everyone in the group doing what is best for themselves.
- That is incomplete.
- 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.”



## Identifying the Pony

- The Pony is the difference between the value of the current solution and the potential optimized solution
- The Pony represents what the customer could have – but is not able to currently get on their own or with existing outsourcing agreements
- Key is to share the value of the Pony with your providers; the value of the Pony is the resource incentive to fund investment in process improvement
- Use the Pony to derive the appropriate incentive levels for the supplier
  - The bigger the Pony – the bigger the incentives the service provider could earn



# VESTED OUTSOURCING



Five Rules That Will  
*Transform* Outsourcing

KATE VITASEK  
with  
Mike Ledyard and Karl Manrodt

*Based on a research study with the  
University of Tennessee and the United States Air Force*

## DEFINING THE RULES OF THE GAME

1.

Outcome  
Based vs.  
Transaction  
Based  
Model



2.  
Focus  
on the  
WHAT  
not  
the  
HOW



## Joy's Law

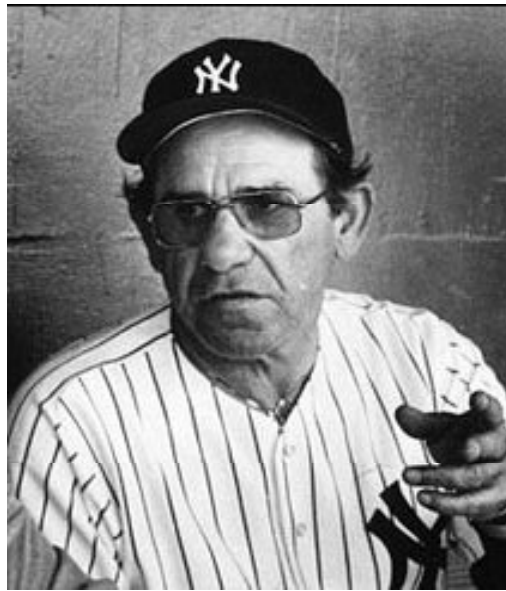
*No matter who you are, most of the bright people don't work for you*



"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."

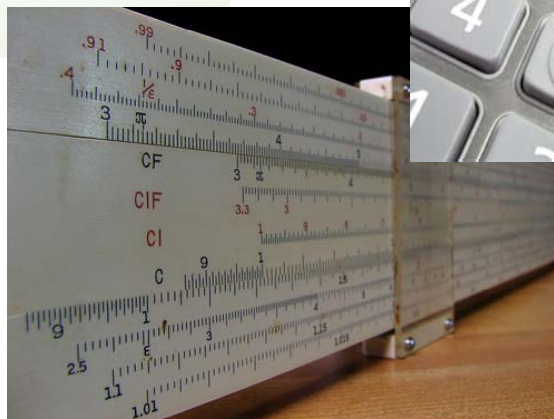
3.

Clearly  
defined and  
measurable  
outcomes



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

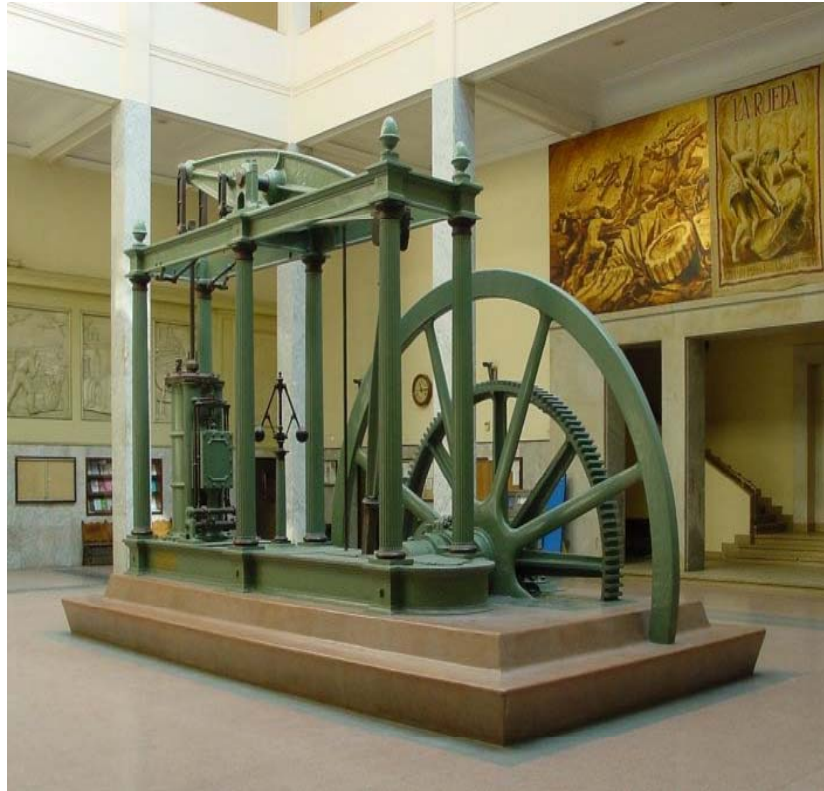
- Yogi Berra





4.

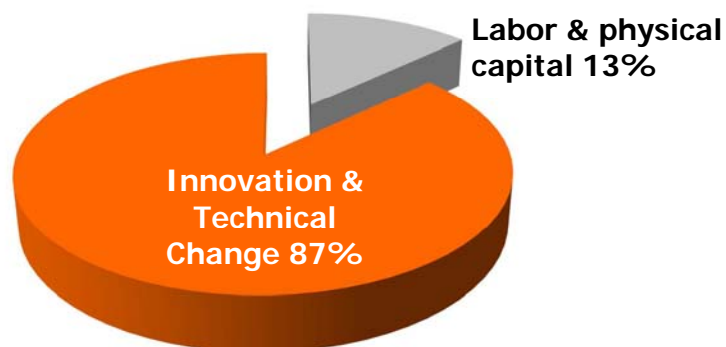
Pricing  
Model  
Incentives  
Optimize  
Cost-  
Service  
Tradeoffs



## Solow's Law

- Named for Robert Solow, Nobel Prize Winning Economist

*Economic growth is driven by "technical change" which is driven by improvements in business process or technical improvements in products.*



Solow's Findings

5.  
Insight  
vs  
Oversight  
Governance  
Structure



# WIIFWe: The Economics of Optimization

REDUCED COST TO COMPANY

- ✓ Vested Outsourcing is the creation of a mutual symbiotic “deal” where all parties win.
- ✓ All parties become aligned to the same quantifiable objectives
- ✓ The rules of the game are clearly spelled out through the contract
- ✓ Contract incentives balance risk/reward, encourages supplier innovation



INNOVATION, IMPROVED SERVICE

IMPROVED MARGINS TO PROVIDER

**Vested**  
OUTSOURCING

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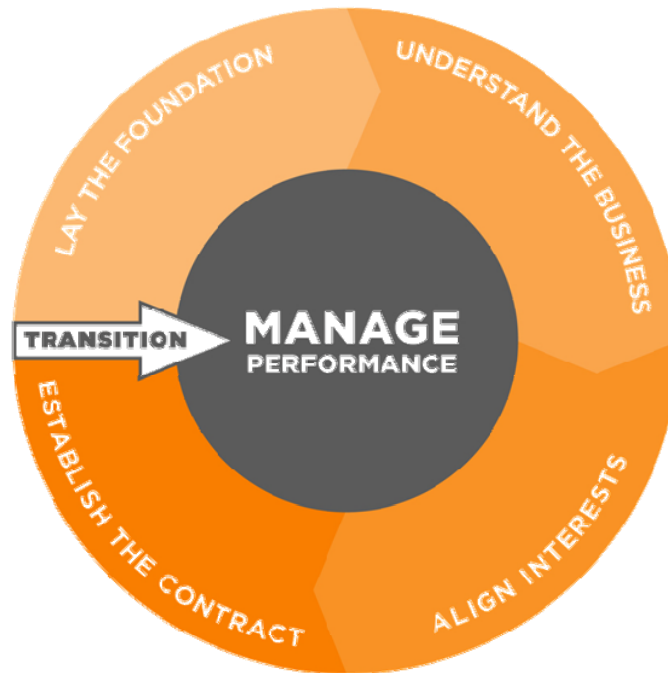


## Getting Started

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# Vested Outsourcing Implementation Plan



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## www.VestedOutsourcing.com

A screenshot of the Vested Outsourcing website as it appeared in 2009. The browser window shows the URL "http://www.vestedoutsourcing.com/". The website header features the Vested Outsourcing logo (a stylized 'V' in an orange circle) on the left and the University of Tennessee Center for Executive Education logo on the right. Below the header is a navigation bar with links: "Book", "Blog", "About", "Media", "Resources", and "Contact Us". The main content area is split into two columns. The left column features a portrait of Kate Vitasek. The right column has an orange background with the text: "Learn the methodology of Vested Outsourcing and how it will transform the economics and effectiveness of outsourcing". Below this, there is a section titled "Introducing Vested Outsourcing" with a paragraph of text. To the right of this text is a book cover for "Five Rules That Will Transform Outsourcing" by Kate Vitasek, with a call to action "ORDER NOW!".

Vested Outsourcing

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CENTER for EXECUTIVE EDUCATION

Book | Blog | About | Media | Resources | Contact Us

Learn the methodology of Vested Outsourcing and how it will transform the economics and effectiveness of outsourcing

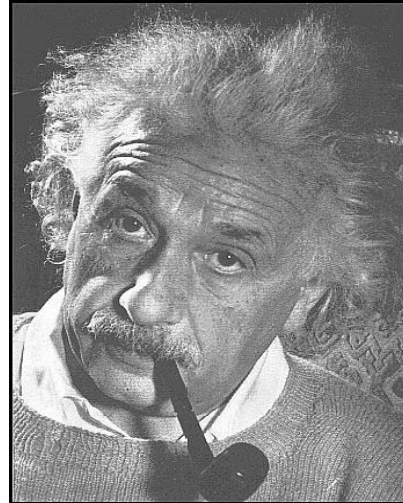
**Introducing Vested Outsourcing**  
The challenges that some of the most progressive companies rightfully waged against conventional outsourcing strategies during recent years have led to the emergence of a new model: **Vested Outsourcing**. Steeped in research conducted jointly by the University of Tennessee and 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

**VESTED OUTSOURCING**  
Five Rules That Will Transform Outsourcing  
KATE VITASEK  
ORDER NOW!

**Five Rules That Will Transform Outsourcing**  
The ground-breaking research that uncovered the five rules that will transform your business is being released on **February 2nd**  
ORDER NOW!



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



Is there a better way to Contract  
for Outsourced Services?

## Questions?

Attend one of our classes <http://vo.utk.edu>

- June 8-10
- October 26-28

Learn More [www.vestedoutsourcing.com](http://www.vestedoutsourcing.com)

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- download tools
- read articles
- watch videos
- review FAQs

Get the book [www.vestedbook.com](http://www.vestedbook.com)

Email me at [kvitasek@utk.edu](mailto:kvitasek@utk.edu)



# How Healthy is Your Relationship?

## *10 Ailments*

## Perverse Incentives....

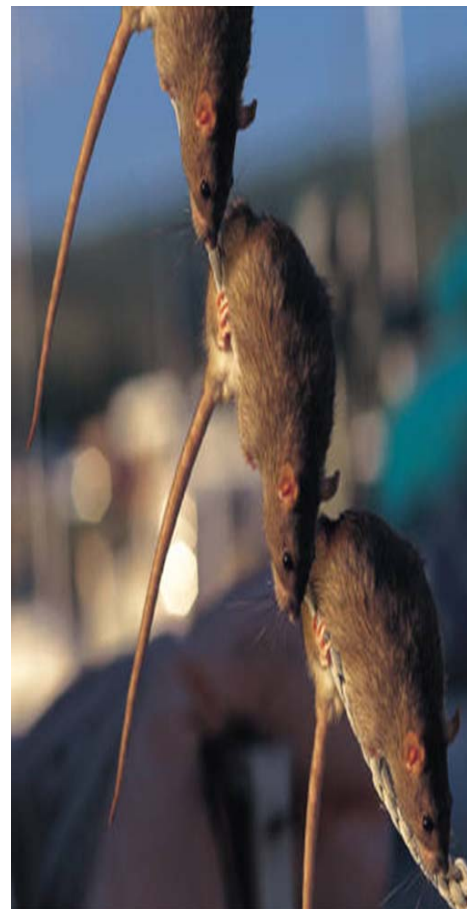
### ❖ Definition of Perverse Incentives

[Def] "A perverse incentive is a term for an incentive that has the opposite effect of that intended. Perverse incentives by definition produce unintended consequences."

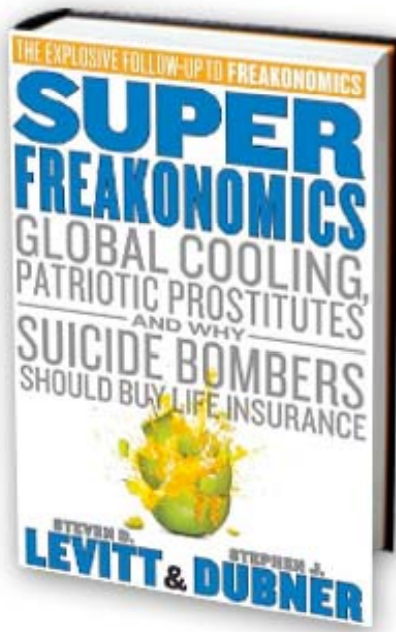
*The Language of Psychology*

- ❖ A classic example occurred in Hanoi when a French program paid people a bounty for each rat pelt handed in. The program was intended to exterminate rats. Instead it led to the farming of rats.<sup>1</sup>

<sup>1</sup> Michael G. Vann, "Of Rats, Rice, and Race: The Great Hanoi Rat Massacre, an Episode in French Colonial History," French Colonial History Society, May, 2003



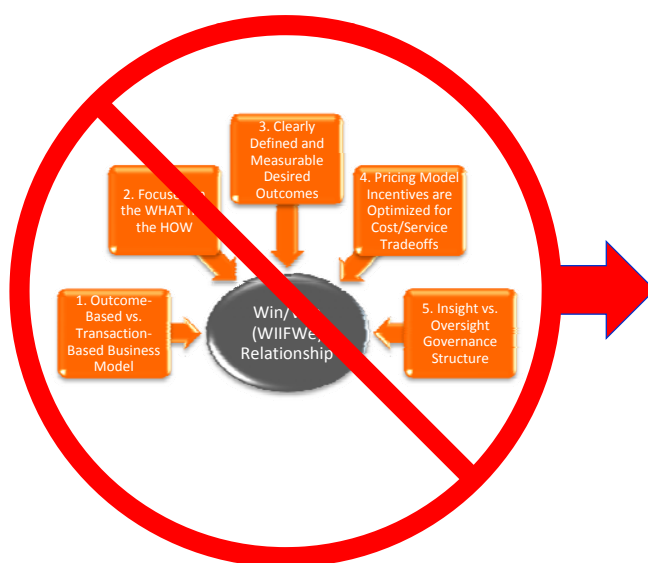
....can happen anywhere.....



*"One of the most powerful laws of the universe is the law of unintended consequences. This applies to schoolteachers, realtors, crack dealers, expectant mothers....."*

....especially in outsourcing agreements!

***Not following the Vested Outsourcing rules typically leads to 10 common Outsourcing Ailments***



#### 10 Ailments of Conventional Outsourcing Models

- 1 Penny Wise and Pound Foolish
- 2 The Outsourcing Paradox
- 3 The Activity Trap
- 4 The Junkyard Dog Factor
- 5 The Honeymoon Effect
- 6 Sandbagging
- 7 The Zero Sum Game
- 8 Driving Blind Disease
- 9 Measurement Minutia
- 10 The Power of Not Doing

## View Our Video Highlighting the 10 Ailments