

Supply Chain News: Is “Vested Outsourcing” the Key to Fixing What Ails Most Outsourcing Relationships?

Moving Beyond a Zero-Sum Game; What’s in it for We, Not Me

SCDigest Editorial Staff

Is the solution to common dissatisfaction on both sides of the supply chain table with outsourcers to have more “vested” relationships?

That’s the message from **Kate Vitasek** and others at the University of Tennessee, who have taken the earlier concept of “Performance-based Logistics” and expanded it to an even deeper concept called **Vested Outsourcing**.

“The key concept behind vested outsourcing is to truly create a “vested” relationship in your outsourcing deal,” said Vitasek in a recent Supply Chain Digest video interview. “It’s not just about pushing work over to an outsourcing provider and having them do activities, you really become vested in each other’s solutions.” (To see the video interview, go here: [Supply Chain Video: Time for “Vested Outsourcing” Partnerships?](#))

Many studies have pointed to disappointing levels of satisfaction with outsourcing relationships with 3PLs, contract manufacturers, and other third parties. Research usually also shows that both companies and outsourcers would like to get more strategic – but that in practice they rarely do.

The University of Tennessee has been studying performance-based approaches to outsourcing for more than four years, seeking to understand if and how a performance-based business model can bring significant benefits to companies and their outsourcing partners.

Initially, funding by the Dept. of Defense was the catalyst for the research. Among the many research findings was that when supply chain outsourcing

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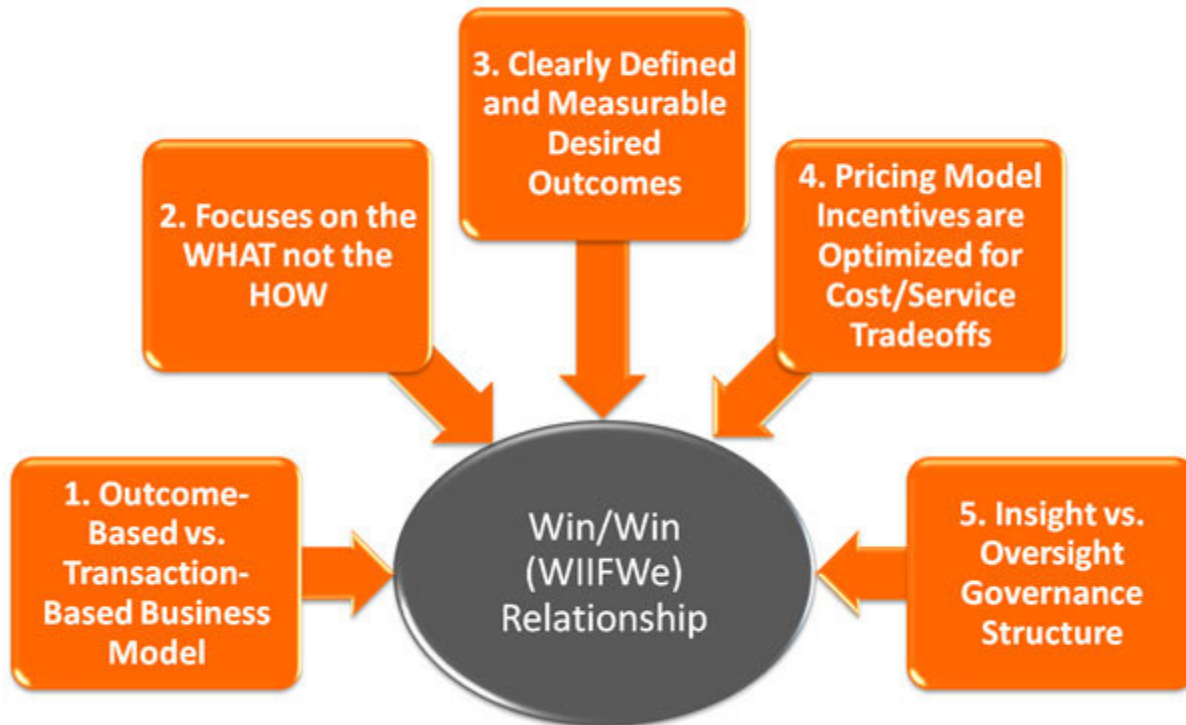
“The term vested really connotes that this is a higher level of outsourcing,” Vitasek says. “It is really beyond putting performance metrics as part of the deal, and really investing in the relationship.”

The concept was in part derived from studying game theory. In zero-sum games, whenever someone wins, someone else has to lose. This basic dynamic in a sense drives too many outsourcing relationships. Conversely, in non-zero sum games, a gain by one player does not necessarily correspond with a loss by another. Win-win game theory emphasizes the importance of cooperation, sharing and over-all group success in contrast to “domination” and personal gain.

“A lot of people say win-win, but it’s hard to do win-win,” Vitasek said. “But we are starting to see a lot of traction in the industry around collaboration, trust and transparency, with companies getting close to striking some real good business deals in

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The Five Rules of Vested Outsourcing



Source: Kate Vitasek/University of Tennessee

outsourcing."

But, she says, too often the actual contract isn't aligned to the business vision, which then leads companies to often "go back to the old ways."

The Five Rules of Vested Outsourcing

The research has led to five key "rules" for making vested outsourcing work, Vitasek says. All of them are based on the foundation of thinking "What's in it for We?" instead of "What's in it for Me?"

- **Use Outcome-Based Versus Transaction-Based Business Models:** Transactional models can lead to the "activity trap" that drives the outsourcing to pile on activities – whether they are needed or not.
- **Focus on the What not the How:** Allow outsourcers to innovate to reach agreed upon

goals; what seems impossible may not be.

- **Use Clearly Defined and Measurable Outcomes:** Measurement drives performance; be careful of "perverse incentives."
- **Optimize Pricing Model Incentives for Cost/Service Trade-Offs:** Traditional contracting models don't typically do this well.
- **Use an "Insight" versus "Oversight" Governance Model:** Command and control approaches are at the core of many relationship failures

In the end, Vested Outsourcing is about "having a win-win business model that is aligned with a contract that supports that," Vitasek says, adding that it is key that the relationship "economics" support innovation.

SCDigest will look at the concept of Vested Outsourcing in more detail next week.