CHAPTER 4

CHANGING THE GAME: THE RISE OF VESTED OUTSOURCING

Is there a better way?

Can companies develop an outsourcing model that prevents the ten ailments outlined in chapter 3?

These are the questions that Todd Shire, Global Logistics Sourcing Strategy manager for Intel, asked when he contacted the University of Tennessee after hearing about its program and outsourcing research.

“We were exploring possible solutions for improving how we outsourced when we came across the university’s original research and we realized that we didn’t need to reinvent the wheel; that there were concepts we could immediately apply. I contacted them even before I even finished the first page.”

At Intel, outsourcing is big business. It had come to rely on outsource service providers across many areas of its business. When Shire first started to work in the logistics group, he began reviewing the nearly 100 different outsourced services Intel had worldwide. Todd explained Intel’s dilemma, which is typical of the classic zero-sum game ailment outlined in chapter 3.

In order to get to the next level for some of our logistics business, we needed to do things differently with our supply base. We had come to realize over time that our approach of frequently bidding our suppliers to chase the best market price was inhibiting innovation—and innovation is a big deal at Intel. Our
suppliers were reluctant to invest in innovation or to propose new processes because of the risk that we will bid their business out and potentially take it away. They simply could not justify an investment in innovation or collaboration because they may not realize the ROI [return on investment]. And many were asserting that Intel was leaving money on the table through over-management and by dictating processes.

Unfortunately, although companies generally want to improve their outsourcing practices, most are not sure where to begin and how to make systematic changes.

The University of Tennessee has been researching this challenge for four years and has taken the lessons learned to create a systematic model to improve outsourcing as a business practice. We call this model Vested Outsourcing because the core principle is to create an outsourcing relationship where companies and their suppliers become vested in each other's success, creating a true win-win solution. This chapter shares the key findings of our research, which we have distilled into five key rules. When applied to a business practice, these rules will improve outsourcing relationships, increase innovation, and improve efficiency. Further, by following these rules, you can determine whether Vested Outsourcing is the appropriate approach to take for a particular service.

PRIMER ON TYPES OF SOURCING RELATIONSHIPS

Traditionally, most procurement professionals and textbooks outline three types of sourcing models, whether a firm is buying a commodity such as furniture or a service such as call center operations. These three sourcing models are:

1. **Transactional.** The supplier is effectively kept at arm's length, and a purchase order is issued for every transaction. This is typical when transactions are infrequent, low cost, or have little impact on the firm. For instance, an office may use a caterer for an annual employee banquet. The supplier is not strategic or critical to the operation of the firm.
2. **Preferred Supplier.** This supplier is prequalified, either through a firm's formal certification process or informally by having a positive track record of proven experience. A preferred supplier often is