VESTED

HOW P&G, MCDONALD’S, AND MICROSOFT ARE REDEFINING WINNING IN BUSINESS RELATIONSHIPS

KATE VITASEK and KARL MANRODT
with Jeanne Kling
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We would like to dedicate this book to our spouses, who have selflessly given us time, support, and encouragement throughout our careers. We are firsthand believers that win-win principles are a foundation for success in our personal lives. Our marriages are a testament that together is indeed better.

Greg, Susan, and Steven, we are in your debt and appreciate all that you have done for us. We look forward with love to being together for many years to come.

Greg Picinich,
Vested to Kate Vitasek since May 17, 2003

Susan Manrodt,
Vested to Karl Manrodt since June 12, 1982

Steven Kling,
Vested to Jeanne Kling since February 24, 1990
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INTRODUCTION

A meme is an idea that behaves like a virus—that moves through a population, taking hold in each person it infects.

—Malcolm Gladwell

The Air Force was curious. And so were we.

Was there a better way to outsource? What began as a research project to find a better way for the Air Force to buy services, from logistics support for weapon systems to facilities and operational services for its bases, has evolved into a powerful concept: a concept we have coined Vested.

Companies choosing a Vested approach work in a highly strategic manner with their business partners—whether they are suppliers, customers, stakeholders, or employees. But they go well beyond simply saying they have a strategic relationship. Our research revealed these very successful business relationships follow five core principles that are so fundamental to their success we think of them as inviolable rules. This book goes behind the scenes of some of the best business relationships we uncovered in our research. We reveal how the best of the best are following the Vested rules—and, as a result, are redefining how to develop winning business relationships in the twenty-first century.
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EVOLUTION

Our original research—a collaboration among the University of Tennessee (UT), the United States Air Force, and the Defense Acquisition University—studied some of the world’s most successful outsourcing relationships. The goal was simple: Find a better way to outsource services.

Our initial work uncovered some wildly successful government services contracts and others that failed to achieve basic cost and service performance. Just how did the Department of Energy turn a Cold War plutonium production plant into a wildlife refuge when the General Accountability Office gave it less than a 1 percent chance of success? And how was General Electric able to overhaul the Navy’s spare parts planning and engine maintenance process for the F/A-18 Hornet? The overhaul led to dramatic results, including reducing repair turnaround time from 120 to 47 days, raising component availability from 50 to 92 percent, and reducing the fleet’s total cost of ownership by $79 million.

Many argue that it is easy to make such large improvements because the government is often inefficient. With that in mind, we expanded our research to the commercial sector, unpacking how Procter & Gamble (P&G), McDonald’s, Microsoft, and companies like them approached their most successful outsourcing relationships. Surely the commercial sector has dynamic and ever-changing business requirements, just like the Air Force. Was there something the Air Force could learn to become more effective at spending taxpayers’ dollars?

Through UT’s research efforts, we studied companies that achieved transformational, game-changing, and award-winning results. Some of the relationships were new. Others had been in place over 50 years.

What did these organizations have in common? Could we codify them and teach others how to replicate their success?
What we found were radically different types of business relationships. Relationships that transcended traditional buy-sell transaction-based thinking typically focused on the lowest price or operational performance targets through service-level agreements. Relationships that inspired innovation, created value, and rewarded success. Relationships that were, well, Vested in their very nature.

In all cases, companies had a conscious focus on the relationship itself and a commitment to maximize the value for everyone. Together, the parties believed that 1 + 1 could equal 3, 4, or even more. Instead of looking at how each individual company achieves its goals (What’s In It For Me, or WIIFMe), the parties (yes, it could be many!) focused on WIIFWe, or What’s In It For We.

By so doing, they achieved true win-win relationships.

Our research found that these relationships followed five principles. These principles, which we came to refer to as rules, create a competitive advantage for the organizations and are an inviolable part of how the companies work together.

But what good are rules without a way of applying them to your situation?

Our initial research led us to create a systematic methodology to improve outsourcing as a business practice. We called our approach Vested Outsourcing® because the core principle centers on creating outsourcing relationships where companies and their suppliers become Vested in each other’s success. The partners make a conscious effort to drive benefits for both the company that is outsourcing and its service providers.

Our research was poised to resonate with buyers, suppliers, lawyers, academics and industry thought leaders and spread fast.

In fact, the Vested methodology received accolades from longtime outsourcing leaders such as Frank Casale—chief executive officer of the Outsourcing Institute—who stated, “Vested Outsourcing is a game-changing approach that will
quickly become the new gold standard for advanced outsourcing relationships.”¹ The International Association of Outsourcing Professionals quickly endorsed the UT’s executive education course on Vested Outsourcing as part of its Certified Outsourcing Professional™ program.

In February 2010, we released our first book on the topic—Vested Outsourcing: Five Rules That Will Transform Outsourcing. It described our initial research conducted for the Air Force and outlined our Vested Five Rules to building relationships. In less than 20 months, it was in its seventh printing.

We were excited to see companies embracing the concept of Vested. However, practitioners expressed a real need, almost a yearning, to have a step-by-step road map to help them create Vested agreements that followed the Five Rules.

Once again we turned to collaboration to expand our research, this time teaming with the International Association for Contract and Commercial Management to create a follow-up book—The Vested Outsourcing Manual: A Guide for Creating Successful Business and Outsourcing Agreements—published in June 2011.

The goal of the manual? To serve as a how-to guide for companies to develop Vested agreements that allow them to move beyond merely paying lip service to the idea of a strategic partnership and embed the Vested Five Rules into contractual outsourcing agreements and governance structures. Leading experts and innovators have contributed to the evolution of Vested principles and the Vested business model. For The Vested Outsourcing Manual, we teamed with the renowned British deal maker Jacqui Crawford; the very progressive lawyer, mediator, arbitrator, and professional negotiations skill trainer Jeanette Nyden; and Katherine Kawamoto, the inquisitive and passionate vice president of research at the International Association for Contract and Commercial Management (IACCM).
Together, the team created a manual that teaches companies how to develop Vested agreements. The manual is based on the Vested Five Rules and the seminal work of the 2009 Nobel Laureate Dr. Oliver Williamson in transaction cost economics and economic governance. Dr. Williamson’s research reveals companies need to develop contracts based on a “flexible framework.” He encourages companies to work collaboratively and proactively to address their ever-changing business needs rather than to develop rigid and muscular processes that put suppliers in a box, with every change being out of scope and causing tensions.

Dawn Tiura Evans—chief executive of the professional association Sourcing Interest Group—and Jim Eckler from the Center of Outsource Research and Education immediately endorsed the collaborative and pioneering work of UT and IACCM. During this part of our work, we extended our collaborative relationship to include the Sourcing Interest Group and the Center for Outsource Research and Education and began exploring the Vested concept as a sourcing business model in more detail.

Simply put, organizations have tools available when they work with suppliers, and they need to use the right tools for the job. Vested is the right tool to develop strategic relationships that unlock hidden value and innovation.

Today, our work has moved well beyond buyer-supplier relationships. We have studied all types of business relationships across virtually every industry. What started out as the study of P&G’s and Microsoft’s award-winning outsourcing relationships evolved into studies of organizations that often do not even apply the word “outsourcing” to their own practices. Some of those we studied simply believed in finding strategic alliances that create long-term competitive advantage for both themselves and their partners.

We examined over a dozen of McDonald’s most strategic supplier relationships—from farm to fork—and learned the
company’s secret for inspiring its suppliers to invest millions of dollars and years developing products and processes that create a sizable competitive advantage for restaurants under the Golden Arches.

We explored how the Minnesota Department of Transportation worked with Flatiron–Manson, FIGG Bridge Engineering, and Johnson Brothers to rebuild the I-35W Bridge in a record-setting 18 months after its collapse left the citizens of Minneapolis devastated by the loss of life and without a bridge.

We learned how a small business, Integrated Management Systems, provides innovative approaches for staffing that have improved worker productivity by up to 300 percent. Water For People, a nonprofit organization, seems to understand how to build sustainable and successful relationships that effectively eliminate water poverty in some of the world’s poorest regions.

From burgers to bridges to small businesses and not-for-profits, the Vested Five Rules still applied. But our seven years of research did not just turn up good stories. What started as a research project transformed into a methodology and then a business model. It has evolved once more.

During the process of writing this book, we spent hundreds of hours interviewing people about their Vested relationships and documenting their stories—diving beneath the research and directly into the DNA. What we learned is that being Vested or using Vested thinking is much more than a progressive buyer-supplier relationship, a methodology, or even a business model. Vested is a choice—it is how you work with others in your ecosystem, whether they are your suppliers, your customers, or your employees.

People and companies that lack the Vested mind-set often consider Vested principles to be radical. Vested is not for everyone or for every situation. It is for those seeking trust, transparency, and transformation in how they manage key parts of their business.
We hope these stories will inspire you to follow a proven path to develop hyperproductive business relationships of your own. As you read the stories that follow, challenge yourself to answer this question: Just how Vested am I in the success of my business partners? If you do not have a Vested relationship, you are likely holding yourself, your suppliers, your employees, and possibly your entire organization back from achieving the kind of award-winning and transformational success we found in our cases studies.

The organizations profiled are part of a fast-growing movement—a movement of organizations with Vested relationships creating tremendous results by redefining winning. Great change is ahead.
VESTING FOR SUCCESS

To raise new questions, new possibilities, to regard old problems from a new angle, requires creative imagination and marks real advance.

—Albert Einstein

When A. G. Lafley took the helm as the chief executive officer (CEO) of Procter & Gamble (P&G) in 2000, he had grand visions to ensure the venerable consumer packaged goods giant remained at the forefront of innovation as it entered the twenty-first century. What came as a surprise to industry watchers was not Lafley’s focus on innovation but how he planned on leading P&G to success. Lafley declared that “half of our new products [will] come from our own labs, and half would come through them.” He was willing to bet that looking beyond P&G walls would enable the company to produce highly profitable innovations that would drive value for both it and its partners.

A radical idea.

Lafley’s strategy was not a call for the replacement of P&G capabilities but rather for ways to better leverage P&G’s core
strengths. His aggressive goals would require company-wide reinvention, not just in how P&G developed products but also in the way it managed its internal business operations. The direction from A. G. Lafley was clear: P&G needed to prioritize resources to concentrate on its core competencies of marketing and product development. P&G turned to Filippo Passerini to help lead the charge in transforming the company’s internal operations. Passerini and his team would need to figure out how to achieve lower costs and higher service levels for P&G’s internal shared services group known as the Global Business Services (GBS) organization.

“The time was ripe for making the move to outsource,” explained Passerini. “By consolidating and standardizing our services, we…could leverage the greater scale and unique expertise of outsourcing partners. Our objective was to further cut costs and improve service levels. By outsourcing the more repetitive commodity work and keeping in-house only what we considered strategic, we could, in effect, enable ourselves to focus on innovation and developing new business capabilities for P&G.”

The end goal would require innovative solutions that would transform “overhead expense” into an entirely new entity. By the end of 2003, P&G had entered outsourcing partnerships in information technology infrastructure, finance and accounting, human resources, and facilities management worth $4.2 billion. P&G selected Jones Lang LaSalle (JLL), a global leader in real estate services, to manage the transformation of its facilities management services in more than 60 countries.

Although P&G deems all of its outsourcing highly effective, the business relationship with JLL has been, by all factors, wildly successful. In just five short years, JLL went from being a new P&G supplier to winning “Supplier of the Year,” a coveted honor awarded to a select few supplier partners annually. JLL
was especially pleased to earn the title two years in a row—in 2008 and 2009—an extremely rare occurrence.

But just how did P&G and JLL do it?

Jon Chiglo remembers August 1, 2007, as if it were yesterday. Chiglo, a Minnesota Department of Transportation (MnDOT) employee, was enjoying a relaxing evening out at a local restaurant with friends. His wife, a photographer for local media, was a no-show. Missing her and wondering where she was, Jon gave her a call. “Oh, Jon,” she apologized, “News just broke. The I-35W bridge collapsed in Minneapolis and I’ve been called back to work.”

Chiglo stopped dead in his tracks. Bridges do not fall down. He went to the bar area where patrons were watching the Minnesota Twins play against the Kansas City Royals in the Hubert H. Humphrey Metrodome in Minneapolis. The stadium is located just west of I-35W, and public safety officials had decided it was better to continue the game, as postponement would mean sending up to 25,000 people back into traffic only blocks away from the collapsed bridge. As far as the bar sports fans were concerned, it was just a regular night.

Chiglo asked the restaurant workers to switch the TVs from the sports cable channel to news. The screens filled with images of broken concrete, car pileups, smoke, and emergency vehicles. The previously noisy bar fell silent as patrons joined Chiglo in disbelief. In Chiglo’s words, “It was a nightmare. Not just for me as a MnDOT employee but for everyone. It was our worst nightmare.”

MnDOT Bridge #9340 (known to locals as the I-35W Bridge) had buckled and then collapsed into the mighty Mississippi River 64 feet below. One hundred and eleven vehicles tumbled into the water; 17 cars were submerged, and many others were stranded on crumbling and fallen blocks of concrete. A semitrailer caught fire, as did several cars. A school bus carrying 63 children
perched precariously against a guardrail. It was a dangerous and frightening situation.

In the end, 13 people—8 men and 5 women—died, and 145 others were injured.

On September 18, 2008—less than 18 months after the tragic collapse and much to the amazement of, well, just about everybody—the new, state-of-the-art St. Anthony Falls Bridge on I-35W opened for business. At 5:00 a.m., cars lined up for hours for the privilege of following first responders, state troopers, and MnDOT construction vehicles across the 1,223-foot span for the first time.

A typical bridge replacement takes at least five years. But MnDOT did it in less than 18 months and came in under budget. More than simply a replacement bridge, it is a breathtaking piece of architecture and technology that earned the 2009 Grand Prize of America’s Transportation Awards for “representing the best in innovative management, accountability and timeliness.”

But just how did MnDOT do it?

Patrick Malone lived in a teepee right smack over the railroad tracks leading into Rocky Flats nuclear production site for nine months in 1978. The teepee was home to Malone and a few of his fellow activists who wanted the site shut down. There was good reason for citizen outrage. People perceived nuclear production as dangerous and scary. Protesters wanted to get the attention of the Department of Energy (DOE) and the Environmental Protection Agency (EPA). In fact, they wanted to get the attention of anyone who would listen, and Malone’s teepee was one of many strategies used.

The primary mission of Rocky Flats was to fabricate plutonium pits, which are the triggers for nuclear bombs. The cores are comprised of a “hollow plutonium shell about the size of a grapefruit. A typical one explodes with the force of around
20,000 tons of TNT.”3 Public concern began to grow after recurring plutonium fires in buildings 771 and 776 and traces of tritium (a radioactive form of hydrogen) were detected in the local water supply. Making matters worse, government agencies were feuding over who had control. Claiming “national security,” DOE argued that Rocky Flats was exempt from any other agency oversight and retained sole authority to govern facilities under the Energy Reorganization Act of 1974. Distrust among agencies grew to the point that in 1989, the Federal Bureau of Investigation, Justice Department, and EPA launched a surprise raid, “Operation Desert Glow,” to investigate allegations of environmental crimes. Hazardous conditions were apparent, and the federal government immediately shut down production at Rocky Flats while it decided how to best proceed.

According to a report of the General Accounting Office to Congress:

The site’s weapons production activities left high-risk radioactive and hazardous materials and wastes, severely contaminated buildings, and large areas of contaminated soil—all in close proximity to the 2.5 million residents of Denver and its surrounding communities. The job at hand is huge. For example, the total amount of radioactive waste that the contractor is required to package and ship off-site is enough to fill a 19-story building the size of a football field.4

Rocky Flats’s 6,262-acre site had become one of the most dangerously contaminated locations in the world. The EPA placed Rocky Flats on the national priorities list and designated it as a Super Fund hazardous waste site. The official DOE 1995 Baseline Environmental Management Report estimated that the cleanup could take up to 75 years and cost up to $37 billion.5 Other estimates ranged from $17 billion to $100 billion and from 65 years to 100 years.6
With a baseline estimate in hand, DOE hired Kaiser-Hill to manage the cleanup efforts. Kaiser-Hill tapped Nancy Tuor, who was well known for her political savvy and change management skills, to join the management team. Over the next ten years, Tuor would hold several roles at Kaiser-Hill, including that of CEO during the final two years of the cleanup effort. She knew the size of the job at hand: A total closure and cleanup of a nuclear production facility had never been accomplished anywhere in the world. Many deemed success to be improbable or even downright impossible.

But on October 13, 2005—just ten years after the baseline estimates were complete—clean became reality when DOE declared the site officially clean and closed. *National Geographic* magazine called Rocky Flats “DOE’s poster child for cleanup success.” Even more impressive? The private industry/government collaboration came in a staggering $27 billion under initial baseline projections and 65 years ahead of schedule.

But just how do they do it?

A 2005–2006 internal review of Microsoft’s back-office procure-to-pay processes was sobering. Microsoft found it used 77,000 active suppliers and had 140 different systems to support its 96 subsidiaries. The Hackett Group—a benchmarking organization—ranked Microsoft in the bottom quartile in terms of process maturity. It found that valuable human resources were focused on nonstrategic activities, including spending 370,000 hours each year just producing reports.

A small team from Microsoft banded together to determine the best way to revamp the company’s processes. Code-named OneFinance, the team initially spent a significant amount of time in whiteboard sessions strategizing how best to proceed. The conclusion? Create an outsourcing business model whereby
the chosen service provider would have a Vested interest in Microsoft’s long-term success. This would mean creating a true win-win approach; the future outsourcing partner would be highly compensated for helping Microsoft transform its back-office procure-to-pay processes.

Tim McBride, Microsoft’s general manager for finance operations and former chief procurement officer, was on the original team. As the designated procurement representative, he knew what the team was up against: “Most procurement professionals are hard-wired to win. The problem is that Microsoft’s conventional definition of winning means that if Microsoft wins, the supplier loses.” Creating a true win-win mentality would mean changing how Microsoft perceived winning; both Microsoft and its provider would have to share in both the risk and the reward associated with the transformation efforts. Instead of thinking about What’s In It For Me (WIIFMe), it was time to think about What’s In It For We (WIIFWe).

But just how did Microsoft do it?

McDonald’s has a secret sauce.

And it is not the one you are thinking of. It is all about how it treats its suppliers. Suppliers who sometimes invest years and millions of their own dollars to improve McDonald’s products and processes, giving the company a huge competitive advantage in terms of a supply chain unparalleled in quality, safety, assured supply—and costs.

In the beginning there were suppliers such as J. R. Simplot, who perfected the frozen french fry and enabled McDonald’s to serve fries made from the highest-quality Russet potatoes year-round. And Golden State Foods, which developed the famous “special sauce” for the Big Mac. And Jack Katz at Keystone Foods, who sunk millions of dollars in cryogenic freezing technologies to do what former McDonald’s CEO Fred
Turner thought was impossible—create a frozen beef patty that was quicker and easier to prepare and was as juicy, and more tender, than a fresh patty. Cryogenically frozen beef made it possible for McDonald’s to radically simplify its beef supply chain from hundreds of local suppliers to five core strategic suppliers, enabling the company to reduce costs and increase its already unequivocal demand for quality and safety.

Today, the legendary stories continue with U.S. supplier Danaco Solutions LLC, which has invested in fork-to-farm traceability, ensuring that McDonald’s tomatoes are 100 percent traceable and free of salmonella and other harmful bacteria.

Danaco’s Carey Cooper grew up in a family business that processed fresh vegetables, cutting up lettuce, tomatoes, and onions and packaging them for restaurants. Cooper knew the potential dangers of improperly handled produce first hand. “Produce is a dangerous product,” he explained. “It’s grown on the ground and subject to the same harmful pathogens to which meat is susceptible. However, produce isn’t cooked and therefore can be more dangerous if tainted.”

Cooper developed “a better way” to handle tomatoes—one of the most fragile of the produce items moving through McDonald’s supply chain. He established strategic relationships with the three best-in-class growers and implemented improved safety processes and handling procedures.

When the Food and Drug Administration ordered a tomato recall in 2008, Danaco’s solution was already in place. The Danaco team immediately traced the tomato supply chain and determined that McDonald’s tomatoes were safe. Cooper related proudly, “Whether or not you have a tomato on your sandwich or salad may not be a crisis for you—but, as a McDonald’s supplier, it is for Danaco and the growers we work with. All of McDonald’s competitors had signs up for weeks that said ‘out of tomatoes’ or ‘tomatoes available upon request only.’ Not McDonald’s.”
It might not be a big deal to run out of tomatoes, but think about running out of chicken when you are in the chicken business. Suppliers made the difference during the avian flu crisis when competitors ran out of chicken—and McDonald’s did not. McDonald’s unequivocal fairness and focus on creating a tight alignment to its strategic Plan to Win makes the difference. And it is paying off. McDonald’s is topping the charts on Wall Street and in *Forbes*, *Businessweek*, and virtually every other ranking.

But just how do McDonald’s and its suppliers it?

**VESTING FOR SUCCESS**

This book is the biography of a business model, and the idea is very simple. We call it Vested. The premise? Create business relationships with experts outside of your domain to accomplish objectives so bold they have never been accomplished before. We call these relationships Vested because they involve creating a relationship (or relationships) in which the parties have a committed and profound interest in each other’s success. Simply put, the parties are most successful when both are successful.

Vested thinking is different. It often means going against the grain in how suppliers and business partners traditionally approach working together. It requires long-term thinking, not short-term thinking. It is about working with suppliers as business partners rather than relying on tried-and-true procurement processes that use transactional buy-sell principles. It is about moving away from rigid contracts and statements of work and instead creating flexible business agreements based on trust, transparency, and fairness when business happens.

Some think it is a radical idea.

In pursuit of this radical idea, we are going to take you on the journey of how five organizations went against
conventional wisdom and created long-term, deep business relationships based on trust, transparency, and—above all else—mutual success. Think of it as baking a bigger pie. One company is a chef and the other has ingredients. Together they create something neither party could do on its own. You might call it collaboration that works. Or win-win at its best. We call it Vested.

The organizations profiled in this book each took a step back and rethought how they could best achieve their goals—goals so lofty that no one had achieved them before. The stories we share reveal how the parties created business relationships yielding impressive results—results so successful the companies refer to them as transformational, game changing, and even award winning. Each of the stories reveals how the companies applied Vested principles to achieve their success.

We explore how P&G reached outside to bring innovation to the least suspecting corporate function: the mundane world of corporate facilities and real estate management. We share how powerhouses Microsoft and Accenture joined forces to drive radical improvements in back-office finance operations. We provide insights into how McDonald’s and its suppliers have created a secret sauce for managing McDonald’s vast supply chain operations.

But Vested thinking is not just for big companies. You will learn how the Minnesota Department of Transportation bridged the fallen highway and healed wounded hearts with the new I-35W Bridge. And we show how the Department of Energy and Kaiser-Hill literally turned a highly toxic site of weapons of mass destruction into a wildlife refuge—doing what many thought was impossible. We even share how the nonprofit group Water For People is applying Vesting principles in the quest to build partnerships and alliances to eliminate water poverty in developing countries.