

## Viewpoint: Vested Outsourcing For Asset Management & Maintenance

Written by Kate Vitasek, Author, Educator and Business Consultant  
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***The Air Force was curious. So were we.***

Was there a better way to work with suppliers—a way wherein it was possible to create a highly collaborative environment designed to not only lower costs, but also achieve higher service and reliability?

In an effort to help improve logistics support and maintenance operations for its weapon systems, the United States Air Force asked University of Tennessee researchers to explore this question in detail.

The researchers, in turn, set out to study some of the world's most successful suppliers. Their findings: The world's best did things a little differently. Most notably, they moved beyond a simple buy-sell transaction-based approach focusing on price. Instead they adopted longer-term, outcome-based relationships with suppliers—often aimed at seeking higher reliability, lower overall total cost of ownership (TCO) and improved service.

Research led us to a common-sense conclusion: It's not smart to be penny-wise and pound-foolish. Our findings led to the development of a methodology University of Tennessee researchers have coined "Vested Outsourcing".

Under a Vested agreement, buyers and suppliers consciously create a highly collaborative relationship based on mutually defined outcomes. The more successful the buyer, the more successful the supplier is. The Vested model is based on five rules I've outlined in the book *Vested Outsourcing: Five Rules That Will Transform Outsourcing*.

- *Rule 1: Place the focus on outcomes.* The idea is to move away from simple buying and selling of parts and services to a new level of cooperation designed to pay the supplier when they deliver results.

- *Rule 2: Focus on the "WHAT," not the "HOW."* Companies can fall into the trap of tightly defining specifications. Our research shows if you define the specs, you get the specs. If you

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want something better, faster or more reliable, you have to challenge the supplier to rethink the HOW and bring innovation to deliver improved reliability and TCO.

- *Rule 3: Jointly formulate clearly defined and measurable outcomes with your supplier based on collaboration and alignment.* Don't just buy parts and service: Define what a home run looks like and contract for future success.

- *Rule 4: Jointly develop a pricing model with incentives based on performance.* The goal? The more successful the supplier, the more incentives the supplier can make. Want to double your reliability? Double your supplier's profits. The cost savings will far outweigh the extra margin paid to the supplier.

- *Rule 5: Deploy an insight-versus-oversight governance structure.* Don't just manage your supplier: Manage the business with the supplier. Under a Vested relationship, suppliers almost become an extension of the organization, often bringing in experts to work side-by-side with company personnel to solve tough problems or test new innovations.

Vested Outsourcing provides a clear path for creating highly successful collaborative supplier relationships that—*if it's followed*—can deliver decreased costs and increased reliability. That's a real home run if you're in charge of maintenance operations. Make 2012 the year to get Vested with your best suppliers

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*(Editor's Note: An in-depth look at this topic will be published in an upcoming issue of Maintenance Technology.)*