VESTED For Success Case Study

Telia and Veolia: From Supplier to Strategic Partner

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EXECUTIVE SUMMARY

When entering into an entirely new business relationship model—in this case, a Vested business model—it's vital to do the basic work of understanding the model, knowing your partner, and what you want to accomplish together. But if you are like most companies, you are new to the Vested model.

The journey of Telia Company AB (a Swedish listed telecommunications company and mobile network operator) is a perfect example of the dynamics of the Vested learning and implementation process. Telia, began its Vested journey like most organizations: wanting to understand if making the shift to a highly collaborative Vested relationship is worth the effort.

Telia thought the perfect pilot would be to see if the Vested model could work to streamline the maintenance of its 16,000 technical sites across Sweden. Telia was like many companies in that it had a fragmented network of suppliers; it had more than 20 suppliers operating under more than 60 contracts. Due to the historical organization at Telia, the company had a complex facilities management structure that featured limited coordination between management of the four site-types: mobile networks, fixed networks, rock shelters and tunnels. In addition, there was limited coordination between management of buildings and management of cooling/heating and energy.

After researching the Vested business model, Telia conducted market research to determine whether there were possible supplier partners in the Nordics that would be viable candidates for a Vested model. But the question was how to get started, especially without the experience in-house. The company did not have to look too far for help and guidance and turned to two Vested Centers of Excellence in Sweden: Lindahl Law Firm and the EY advisory group. Rather than just pick one Center of Excellence, Telia decided a combined team that leveraged the core competencies of both EY and Lindahl would be the best idea. EY would provide expertise in facilities and project management, while Lindahl Law Firm would support Telia's first Vested initiative by providing expert legal advice on how to write the actual contract.

Instead of the standard, transactional Request for Proposals procedure, Lindahl and EY shepherded Telia through the collaborative Request for Partner process all the way through the contract signing with Veolia.

The result? The first RFPartner-process ever performed in the Nordics.

This case study explores the successful journey to Vested of Telia and Veolia, a Nordic-based environmental services company.

BACKGROUND

Telia Company[1] is a Swedish listed telecommunications company and mobile network operator founded in 1853 that operates in Denmark, Finland, Sweden, Turkey and the Baltic States.

Tech Sites was the part of Telia's business that manages infrastructure. Their historical organizational structure had led to a hodge-podge of complicated interfaces across four site types – mobile network, fixed network, caves, and tunnels. Previous sourcing decisions and re-organizations had resulted in a total of more than 60 contracts with over 20 suppliers at 16,000 technical sites. There was limited coordination between the management of buildings and the management of cooling/heating and energy at the company's facilities. In addition, there were complex relationships between the technical site organization and Telia's stakeholders.

In addition, Telia's numerous contracts were rooted in transaction-based models, which created misalignment of goals between Telia and its suppliers.

A better and more organized approach was needed. While Telia logically knew that a more consolidated approach to working with fewer suppliers was beneficial, it was also open to exploring other best practices. One of those best practices was a Vested approach that combines relational contracting with an outcome-based economic model. This would create mutual value through a highly collaborative win-win relationship.

Telia did not have to look far to learn about Vested. In fact, Telia was the first company in the Nordics to pilot a Vested approach through a contract involving the roll-out of Swedish fiber Internet cables. Telia had worked with Lindahl Law Firm – a Vested Center of Excellence in the Nordics – to help transition its existing supplier agreements to a Vested agreement.

But this time things were different. First, Telia did not know for certain which of the 20 suppliers – if any – would be the right Vested partner. Simply restructuring an existing contract would not be an option. In addition, Telia's tangled web of contracts made it hard to determine the right approach to what should be in scope and what should stay in house.

Telia turned to Lindahl Law Firm once again for advice. David Frydlinger and Erik Linnarsson, members of Lindahl's Strategic Contract Group and a driving force behind Lindahl's involvement with Vested and relationship-based contracts, met with Telia to discuss their options.

Frydlinger explained, “We started discussing how Telia could make the shift to a Vested model, but we very soon realized that Telia needed a lot more help than just the skills to create a Vested agreement. They would need to do a big run-through of what the present business looked like, as well as go through the optimum competitive bidding process to pick the best partner.”[2]

Lindahl recommended Telia work with EY’s Nordic Outsourcing Advisory team, which is also a Vested Center of Excellence and has exceptional knowledge of facilities management outsourcing.

Robin Warchalowski, Leader and Management Consultant within EY’s Nordic Outsourcing Advisory team – and also a Vested CDA – noted, “Me and David went out to Telia and we met some persons from sourcing and some of the managers from the business side (Tech Sites) and what was really clear to us was that they had spoken to other stakeholders within the company and heard a lot about Vested. Telia had already made the shift to a Vested model with three other strategic supplier relationships with positive results. They had clearly done their homework and knew that Vested was a great fit for complex facilities management deals. But they had no clue which partner might be a good fit.”

However Frydlinger and Warchalowski soon realized that Tech Sites and sourcing had limited knowledge about the suppliers and the scope. So before discussing the optimal sourcing business model it was suggested to perform a classical pre-study to get a better understanding for fact-based decisions.

LAYING THE FOUNDATION

Telia kicked off the Vested journey by having EY conduct a six week "pre-study" that included more than 20 different functions within Telia. The goal was to identify key aspects Telia would need to consider if it made the shift from many small commodity contracts to a large, complex strategic contract. For example, what was the status of Telia's existing supplier contracts? Also, what types of contractual aspects would need to change?

Andreas Sahlen, Telia's Head of Estate Mgmt. & Real Estate Law, commented on the pre-study work. "As the journey began we had to really analyze ourselves and try to look through the supply side. We learned a lot about our own business and how we've treated and handled both the suppliers and ourselves over the years."

The pre-study revealed several key things. First was that Telia had "stiff contracts" that were not flexible in allowing suppliers to optimize maintenance operations. In addition, Sahlen noted the pre-study uncovered how the exiting budgeting process led to Telia putting its money in the in the wrong places. Sahlen added that during this phase Telia also learned that "the way we were handling our business in the maintenance part was not optimal. We were saying we wanted a strategic partner, but we were operating in a very traditional transactional manner with our suppliers. With 20 plus suppliers, our contracting approach was at best typified by an Approved Provider model."

Robin Warchalowski and Alexander Lundin from EY led the pre-study. Robin commented, "Telia had definitely fallen victim to the outsourcing paradox – where they were outsourcing to suppliers who were supposed to be the expert and then telling them how to do the work. For example, one of the Statements of Work was so prescriptive it stated the grass should be a maximum of 3 cm high. Telia desperately wanted the suppliers to innovate but were putting the suppliers in a restrictive box dictating how the work should be done."

Robin continued, “The Telia contracts also definitely focused on the ‘deal’ and not the relationship. There were no common goals and consensus on overall objectives was missing. In addition, the contracts were very one sided. For example, one of the supplier contracts said ‘supplier shall’ 135 times while saying ‘customer shall’ only 10 times.”

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	n/a
7	The Zero Sum Game	
8	Driving Blind Disease	
9	Measurement Minutia	
10	The Power of Not Doing	

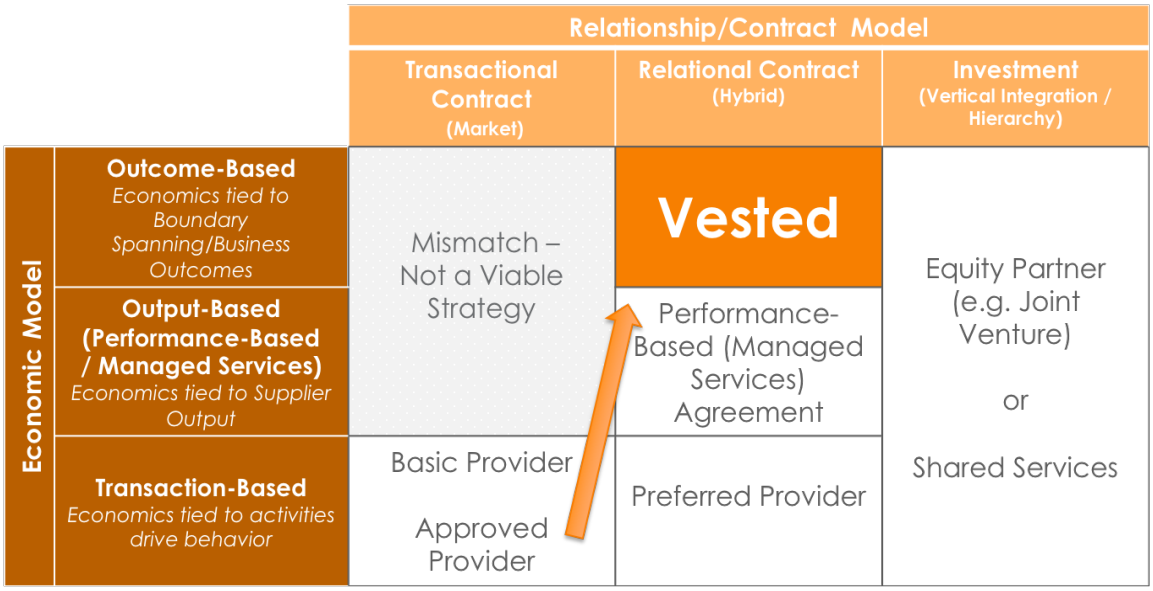
EY/Lindahl helped Telia understand the perverse incentives of their contracts with suppliers by scoring them against the University of Tennessee’s 10 Ailments of Outsourcing benchmark assessment. **(Figure 1 at right)**

Warchalowski and Lundin also interviewed the executives of the three largest existing suppliers which revealed that the suppliers did not find the relationship satisfactory with Telia at all. The few meetings that were held each year focused on arguing about invoices. There was no focus on innovation and since the contracts were so inflexible, there were no incentives to walk the extra mile.

A key part of the pre-study was to validate that a Vested model was indeed a good fit. This meant completing a Business Model Mapping exercise. The results? The complexity and dependency demanded a clear shift to a relational contracting model. In addition, shifting to an outcome-based economic model was the most appropriate way to help Telia unlock the potential value of working with a potential partner.

The **Figure 2** matrix (following page) illustrates the convergence of contract and economic models that helped Telia confirm that a Vested model would be a good fit for their situation. Moving to a Vested agreement was a significant shift for Telia, because it had been operating under an Approved Provider model with over 20 suppliers that serviced various aspects of their operations across four different countries and the Baltic States.

Figure 2



Warchalowski and Lundin summed up of the value of the pre-study. “The pre-study really allowed Telia to understand potential ‘Ponies’ – or transformation initiatives – that would serve as the foundation for a potential supplier to create value for Telia. Telia definitely could see that their effort to go through a Request for Partner process and create a Vested agreement could indeed pay off with joint transformation initiatives with the right partner.”

With the pre-study and business model mapping complete, Telia’s leadership team decided to make the shift to a highly strategic long-term contract, if they could find an appropriate partner.

Telia made the decision based on the following factors:

- Using one or two suppliers would enable supplier control over outcomes
- There were a limited number of capable suppliers, reducing the possibility to use a power-based approach
- The scope was large and complex, including a value potential that Telia and a partner could realize together
- The current set-up was not satisfactory

Now the real work began: selecting the right partner.

PHASE 1: REQUEST FOR PARTNER

Linnarsson and Warchalowski recommended that Telia pilot a relatively new competitive method developed by University of Tennessee researchers known as a "Request for Partner" process. UT researchers had developed the Request for Partner process in collaboration with the Canadian government, which wanted to make the shift to a Vested model, but by law had to go through a competitive bid process rather than opt to restructure an existing contract.

The second key phase was therefore to decide on a strategic partner, or partners. While Telia knew that consolidating the scope of work with one supplier would likely enable the most potential to create value, key stakeholders were nervous. Making the shift from more than 20 suppliers to just one supplier seemed like a risky approach. Telia went into the Request for Partner process with skepticism that one supplier would have the capabilities to do everything Telia needed. In fact, the original plan was to pick two suppliers.

In May 2016, Telia began what would be the Nordics' first Request for Partner process. The Request for Partner (RFPartner) process is a highly collaborative competitive bidding process used when a buyer is actively seeking not just a strategic solution from a supplier but also the ability to assess multiple providers' cultures, mindsets, and willingness to engage in a collaborative relational contract. A key purpose is to select a supplier with the intent of creating a highly collaborative environment where cultural fit and a win-win mindset are essential to managing a longer-term supplier relationship in a dynamic environment.[3]

Getting Organized

As with creating a Vested agreement, the RFPartner approach uses a cross-functional team representing key business stakeholders. Before the team can create a Vested agreement, they must first pick an appropriate partner. This starts with creating supplier down-select criteria. Subject matter expert stakeholders participate in proposal review, solution development and supplier selection. The RFPartner process then feeds into the negotiations and transition planning where the parties together create their Vested agreement.

At first, the joint Telia team operated more as simple cooperators rather than true collaborators. Linnarsson commented, "Procurement and the Business were all very functional silo's. But the Vested process got them out of their silos and allowed them to have a much better understanding both of themselves and their disparate businesses."

Narrowing Down the List of Suppliers

Like most complex sourcing initiatives, the RFPartner methodology uses a multi-stage down-select process. However, unlike a conventional Request for Proposal, the RFPartner process requires a high amount of supplier involvement as the buyer and the potential short-listed supplier collaborate on a potential solution. Suppliers making each "cut" have increased responsibility and involvement in the process, so that buyers can get comfortable with how potential suppliers will "fit" into their organizations.

Telia mapped out a two-month RFPartner process. The process was designed for Telia to down-select from the list of 20-plus current suppliers to what would be five suppliers known as the "long list." From this long list, Telia would short list to three suppliers based on their relationship with Telia and on trust, their proposed solution on how to achieve strategic goals, technical competence, the total cost of operating (TCO) reduction roadmap, and procurement's base requirements.

Telia ultimately short listed three suppliers, including Veolia.[4] This part of the RFPartner process involved site visits to assess supplier capabilities and contacts with one or more of the potential supplier's clients as references. Due diligence meetings also include discussions on performance, and often involve validation of information from the RFP about capabilities and observation of the supplier "in action."

The final short-listed suppliers also spend time in site visits and stakeholder workshops that will help them develop their proposed solutions. These collaborative sessions are designed to have a high degree of supplier interaction where the buyer and supplier develop operational knowledge of each other's team and how well the parties work together.

A key part of the RFPartner workshops was for Telia and the potential partners to develop a high-level roadmap for transformation. Warchalowski explained, "Most Request for Proposals are designed for the buying organization to write a spec and have the supplier bid on the spec. The winning supplier is typically the one that has the best capabilities at the lowest price – or best value. The RFPartner process is designed for the buyer to share their problem and to have the supplier develop a solution for how they will help the buying organization transform to the desired future state."

From the start, Telia understood that Vested was a different approach. But not all of the suppliers understood that Telia was looking for a partner who would help them transform their operations – not just a supplier that could do more of the same type of work they were already doing. Warchalowski said, "Unfortunately, some of the suppliers didn't put

the A team in responding to the RFPartner. Rather than rule them out as a potential partner, Telia did what any good partner would do. They had us take the time to educate the suppliers in relational contracting and Vested."

One of those teams was Veolia. Linnarsson explained, "In the early stages, the Veolia team did not quite understand what Vested was and didn't have the right people on their team. At the evaluation meeting we asked them to bring in their A-team. After this they really stepped up their game and brought in the right team members. The new team from Veolia was fantastic and it became quite clear for Telia to down-select Veolia to the short list of suppliers."

Sebastian Hamlund, Business Developer for Veolia, was thankful for the education and coaching: "Our Certified Deal Architect coach (Erik Linnarsson) was working with both Telia and Veolia and helping us define how we are going behave in this future contract. That made us really secure. Erik explained, 'This is what Vested is, this is why and what Telia is doing.' We began to see how we would measure success and how we as a supplier could become successful under a Vested model."

As the RFPartner process evolved, Telia and the suppliers used stakeholder workshops to help the suppliers formulate their solution. Recall that one of the down-select criteria was on how well the supplier's proposed solution achieved strategic goals.

As part of the stakeholder workshops, Telia and Veolia agreed on the following five Desired Outcomes.

1. Deliver high quality FM-services with high stakeholder satisfaction and high network reliability
2. Contribute to TechSite's transformation program and improved maintenance
3. Create a continuously improved financial result for both parties
4. Become a role model within sustainability
5. Create a OneTech with a winning, safe and innovative culture

Please note: The desired outcomes above were a bit different this early in the process but eventually ended up as stated above

From Two to One

Two candidates emerged out of the RFPartner process as potential partners: Veolia and another leading FM-supplier. There was extensive debate about if the company should move forward with one supplier or two suppliers. "We debated the merits of having one partner versus two," said Telia's Sahlen. "We discussed all the pros and cons for several

hours; it was not an easy decision." He added, "Many were nervous and saw risk in having just one supplier."

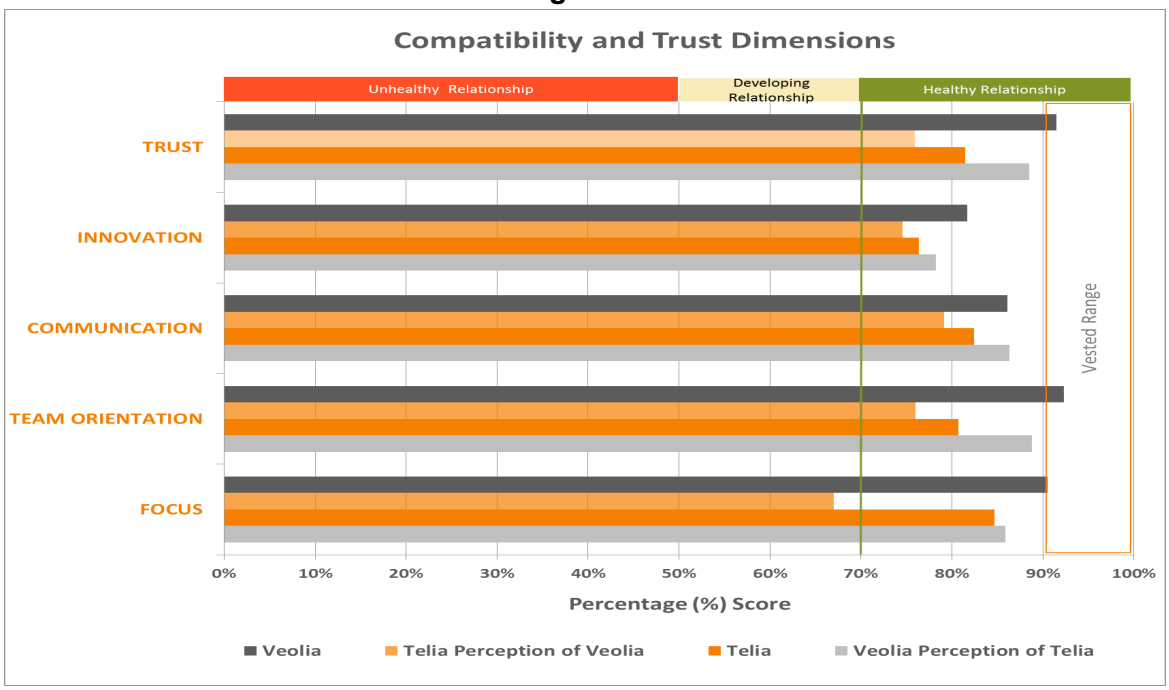
What emerged from the debate was the decision to proceed with just one partner, Veolia.

Sahlen explained Telia's decision. "After spending all that time brainstorming and thinking through the pros and cons, the only possible solution was to go with one partner and just take a leap with just Veolia."

Ingrid Wallgren, the Telia Senior Sourcing Manager on the initiative, agreed: "In the beginning it was a huge discussion if it was the best way was to have one supplier or two. We rightfully had concerns about putting all of our eggs in one basket to take the full scope. But the RFPartner workshops revealed the obstacles and risks were not as big as we feared and we discovered ways of working through the risks in a productive manner. We also knew from the Compatibility and Trust Assessment that we were picking a partner that was a great cultural fit with Telia. This made us feel much more comfortable that going with one partner was the best way."

The results of a Compatibility and Trust assessment showed that Veolia was a highly suitable partner for Telia, especially in the areas of trust, focus and team orientation, as seen in **Figure 3**:

Figure 3



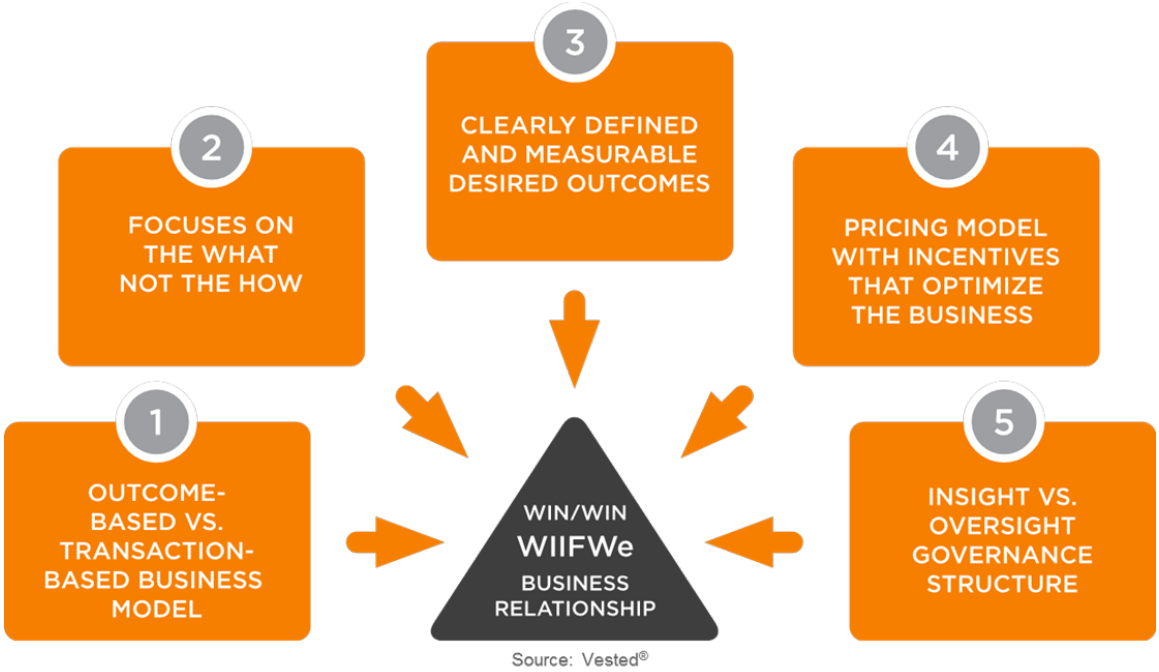
PHASE 3: CREATING THE VESTED AGREEMENT

After about six weeks of pre-study and about two months for the RFPartner process, the Telia and Veolia teams were ready to start their Vested journey.

A Vested agreement shifts from a conventional, transaction-based "buy/sell" sourcing model to a highly collaborative relational contract with an outcome-based economic framework. Linnarsson said, "Vested moves beyond just saying 'strategic supplier' to developing a carefully crafted collaborative agreement that creates value through win-win solution economics and pricing model incentives that grow the pie together. Key to the Vested methodology is the focus on joint desired outcomes that enable innovation and transformation."

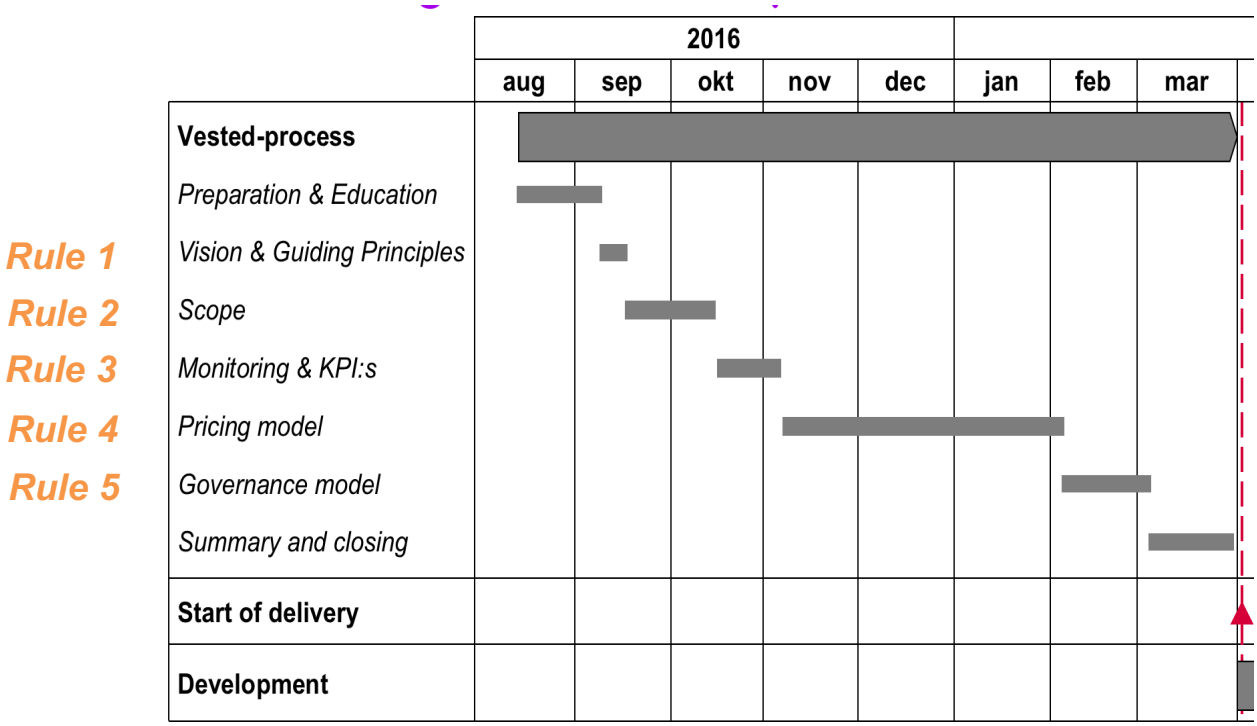
The Vested business model is based on Five Rules,[5] as illustrated in **Figure 4** below.

Figure 4



EY and Lindahl laid out a structured eight-month project plan (including approximately eight weeks of time off for vacations and other non-working time) that launched out of the RFPartner process. (**Figure 5**).

Figure 5



The project plan to create a Vested agreement actually overlapped with the RFPartner process. For example, the short-listed suppliers participated in preparation and education as well as participated in what was known as "Workshop 0" – where the supplier would validate Vested was indeed the right business model as well as draft high-level Desired Outcomes that would form the basis of their transformation efforts.

A key part of the project plan included Telia and Veolia using the University of Tennessee's Creating a Vested Agreement online course to help them understand the foundational knowledge of what it meant to have a Vested agreement.

The parties would take a Creating a Vested Agreement online course module and then come together to a workshop facilitated by EY/Lindahl. The highly interactive workshop format allowed the Telia/Veolia joint team to work through deliverables and make decisions that were essential for their agreement. For example, the team would spend five and one-half days spanning six workshops where they would create their pricing model with incentives (Vested Rule 4 – Pricing Model with Incentives to Optimize the Business). (See **Figure 6** – following page.)

Figure 6

Vested workshops				
Rule 1 **Outcome based vs. transaction-based business model**	**Rule 2** **Focus in the what, not the how**	**Rule 3** **Clearly defined and measurable outcomes**	**Rule 4** **Pricing model with incentives that optimize the business**	**Rule 5** **Insight vs. oversight governance structure**
WS 0 *(Part of RFPartner)* • *Compatibility and trust assessment Business model mapping*	**WS 2** • Finalization of outcomes and targets • Specification of scope and responsibility matrix	**WS 5** • Measurement of outcomes	**WS 7** • Risk analysis • Assumptions • Total cost of ownership model	**WS 12** • High level governance structure • Relationship management • Transformation management
WS 1 • Joint vision • Guiding principles • Outcomes	**WS 3** • Identification of Vested ponies (Innovation/solution ideas)	**WS 6** • Follow-up model	**WS 8** • Selection of compensation model • Draft incentive model	**WS 13** • Transformation management • Exit management
	WS 4 • Specification of scope and responsibility matrix *(cont.)*	**WS 6.1** • Measurement of outcomes (cont.) • Finalize	**WS 9** • Costs and margins	**WS 13.1** • Finalize model
			WS 10 • Costs and margins	
			WS 11 • Governance of price model • Implementation of price model	
			WS 11.1 • Finalize price model	

Guardrails and Desired Outcomes

A key part of the Getting Ready process was that the parties would share their guardrails (or deal "walk-away" points). Telia's and Veolia's **Guardrails** – shown below - were formally vetted and approved by key stakeholders and leadership from Telia and Veolia prior to starting the official Vested process.

Telia's Guardrails

Resource aspects

1. Quality assured resources to be used regardless if sub-suppliers are being used or not, which includes but are not limited to:
    - Relevant certifications shall be held
    - Fair employment forms shall be used
    - Resources working at the sites shall be able to understand and be able to communicate in Swedish

Organization and security

2. Background controls shall be performed on all employees (including sub-suppliers) and all personnel working in caves and a limited number of specific projects must have a security clearance

Financials

3. To find a common economic model where Telia's present supplier OPEX-costs are reduced

Legal

5. Compliance to Telia's policies (Supplier code of conduct, corporate social responsibility & security directives)
6. Telia shall have the right to perform audits
7. A new ownership structure of the supplier (majority owner) shall be a reason for terminating the agreement, it he majority owner is a competitor to Telia Company

Veolia's Guardrails:

- Achieve a Minimum Gross Margin Target
- Acceptable deviations from EBITDA (under certain conditions)
- Intellectual property rights (during the contract, if specifically developed by Veolia it is Veolia's property)
- Willing to accept risk that Veolia can influence
- Insurance risk (indirect damage is not accepted)
- Following company policies such as Code of Conduct, Ethics, etc., cannot be deviated
- Investments (payback in investments minimum 12% and high risk 20% over maximum 7 years

The goal was to "outperform" the parties' guardrails over time by meeting five **Desired Outcomes** that Telia and Veolia agreed upon as part of the RFPartner process.

1. Deliver high quality FM-services with high stakeholder satisfaction and high network reliability
2. Contribute to TechSite's transformation program and improved maintenance
3. Create a continuously improved financial result for both parties
4. Become a role model within sustainability
5. Create a OneTech with a winning, safe and innovative culture

Rule 1: Outcome-Based vs. Transaction-Based Business Model

A foundational concept of Vested is that the buyer and supplier develop a contract for the future, not just to perform the work to meet today's needs. This means developing a flexible contracting framework that will help the parties navigate the dynamic nature of business changes and share risk/share reward on the journey to a formal shared vision and business focused Desired Outcomes.

As part of this process, the joint team created the following shared vision.

> *Together we proactively create optimal conditions for the future way of communicating. Our modern partnership creates common value and success through innovative and sustainable solutions.*

The parties also formally established and agreed to six Guiding Principles which would become the social norms for how the parties would work and make decisions—not only during the contracting phase, but as part of the ongoing governance and management of the relationship after the contract was signed.

The Guiding Principles[6] are: (The Guiding Principles below are generic and were modified in the workshops)

Reciprocity: for a highly collaborative relationship to function properly, the parties must first commit to the principle of reciprocity. Reciprocity obligates them to make fair and balanced exchanges. If one party accepts a business risk, the other must be prepared to do the same. If one party commits to invest time and money in an important project, the other party must be prepared to reciprocate.

Autonomy: autonomy means the parties will abstain from using power-plays to promote one party's self-interest at the expense of the other. At the individual level, autonomy refers to the ability to act based on reasons and motives reflecting the individual's own values and convictions. The specter of bargaining power on the part of one party will cast a shadow over the relationship, absent acknowledgment of autonomy by the parties in the relationship.

Honesty: Honesty is the best policy is as true for collaborative business relationships as it is for personal relationships. Partners must commit to be honest with each other. Fundamentally, honesty obliges the parties to tell the truth, both about facts in the world and about their intentions and experiences. And it follows that individuals and organizations should call out dishonest activity immediately. If dishonesty—rather than

honesty—becomes a social norm in day-to-day business practice, the partnership is in trouble and can't survive as a Getting to We enterprise.

Loyalty: Parties in a collaborative relationship must also commit to the principle of loyalty. Loyalty is vital because it requires the parties to be loyal *to the relationship*. This is a crucial distinction because it means that the relationship—or "relationship first" thinking—becomes an operating norm when the parties' interests are treated as equally important.

Equity: The principle of equity obliges parties to look more critically at the distribution of resources. It might be easy to split things fifty-fifty, but that might not be the fairest approach for the relationship as it moves forward. Equity has two equally important components: *proportionality* and *remedies*. Proportionality means one party may get a larger distribution of rewards than the other to compensate that party for taking greater risks or making investments. An equitable remedy allows the parties to come to a fair resolution when the contract itself may otherwise limit the result or be silent on the matter. Equity is important to maintain harmony and trust in a relationship.

Integrity: Integrity is the final ingredient of a robust relationship, but it is the linchpin on which all the other principles depend. The principle of integrity refers to past events when the parties were involved in similar situations. Integrity means *consistency in decision making and in actions*. Integrity preserves the relationship because it promotes trust between the parties.

Finally, Telia and Veolia revisited the five Desired Outcomes that were developed during the RFPartner process. These five Desired Outcomes were:

1. Deliver high quality FM-services with high stakeholder satisfaction and high network reliability
2. Contribute to TechSite's transformation program and improved maintenance
3. Create a continuously improved financial result for both parties
4. Become a role model within sustainability5. Create a OneTech with a winning, safe and innovative culture
5. Create a OneTech with a winning, safe and innovative culture

Together, the shared vision, Guiding Principles and Desired Outcomes were formally adopted as the anchoring point of the contract.

Sebastian Hamlund, Business Developer for Veolia, was already excited about the prospect of a Vested agreement. But the more Veolia worked within the methodology, the more they liked it. Hamlund reflects, "Usually when we get a new contract we focus a lot on how and price how are we going to make money, and what are you going to do to make

up the money. But with Vested the focus changed. For me an important aspect is that in the Vested model we focus more on the road to success and defining what is important. When working this way success will come just by following the Rules."

Hamlund continues, "We also really liked the fact that we were working with a neutral third party Certified Deal Architect coach who helped both Telia and Veolia define how we are going behave in this future contract. That made us really secure."

Rule 2: Focus on the What, not the How

Before making the shift to a Vested agreement, Telia worked with over 20 suppliers under what could be classified as a typical Approved Provider sourcing business model. Telia took the role of being the expert and telling the various suppliers "how" to do the work. For example, one contract even stated the details of how to install fire preventive equipment in great detail.

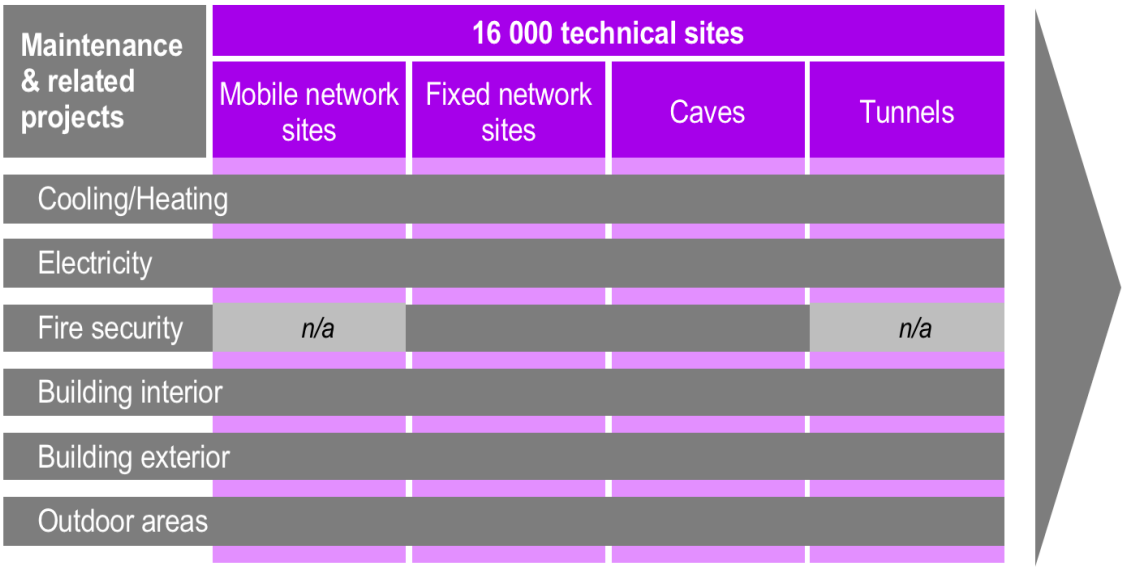
There were over 60 contracts and each was customized for the unique aspects of the business. For example, Veolia and two other suppliers each had a contract for doing preventive maintenance and for Telia's 19 different cave locations. In addition, Telia had 18 other contracts with an additional seven other suppliers for maintenance across Telia's other fixed, tunnel, and mobile locations.

The Vested agreement would mean making a clear shift where the statement of work would describe the what – but not the how. This would enable Veolia to identify improvement opportunities and areas they could streamline work across the 16,000 technical sites. (See **Figure 7**.)

The project plan called for Telia and Veolia to have three workshops to define the workscope. One of these workshops (Workshop 2) focused on identifying the specification (Statement of Work) and developing a responsibility matrix. Vested's Rule 2 is "Focus on the what, not the how". This would mean Telia would make the mind shift that they were hiring the supplier as the expert for Telia across six key scope areas for each of Telia's four main types of locations (see **Figure 7**).

Thus, the statement of work became much less prescriptive under the Vested agreement. This flexibility enabled Veolia to identify improvement opportunities in one site that it could then apply in other sites.

Figure 7



Workshop 3 then took the scope of work and together Telia and Veolia identified the ”ponies” – or improvement opportunities that would kickstart transformation initiatives. In the Vested methodology, a “pony” is defined as the difference between the existing solution and the potential future state. For example, during the site visits Veolia would have seen first-hand the opportunity to create value through various streamlining initiatives, such as applying best practices from maintenance in the caves they were managing to the caves that would now be under their scope.

Rule 2 concluded with Telia and Veolia developing a responsibility matrix. Unlike conventional statements of work, a Vested agreement identifies the responsibility of both the buyer and supplier. Instead of supplier “shall,” the focus becomes how the parties will work together to achieve the Desired Outcomes.

Rule 3: Clearly Defined and Measurable Desired Outcomes

Vested’s Rule 3 is “Clearly Defined and Measurable Desired Outcomes.” Telia and Veolia came together for 2.5 days of workshop time spanning three different days (Workshop 5, 6, and 6.1) where they identified how they would measure success against the Desired Outcomes. **Figure 8** shows the Requirements Roadmap outlining how the parties mapped nine objectives and 11 metrics to the five Desired Outcomes.

Figure 8

Vision	Outcomes	Objectives	Measures
Together we proactively create optimal conditions for the future way of communicating. Our modern partnership creates common value and success through innovative and sustainable solutions.	**1. Deliver high quality FM-services with high stakeholder satisfaction & high network reliability**	1.1 Continuously meet the need of the stakeholders using the sites and create a high stakeholder satisfaction	Stakeholder satisfaction index
		1.2 Minimize the number of network interruptions and the reset time after an interruption	No. of network interruptions caused by supplier
			Percent of fault responses meeting response time
	2. Contribute to TechSite's transformation program & improved maintenance	2.1 Deliver projects in time and on budget	Percent of projects meeting time & budget
		2.2 Optimize the maintenance	Effective implementation index (year 1)
	3. Create a continuously improved financial result for both parties	3.1 Optimize OneTech's Total Cost of Ownership	Total cost of ownership reduction (OPEX, excl. rent & electricity)
			Power Usage Effectiveness (PUE)
	4. Become a role model within sustainability	4.1 Reduce Co2-emissions and optimize energy consumption	Co2-emissions due to travel/transportation
		4.2 Minimize non-compliance of environmental policies	Usage of prohibited and restricted substances (kg)
	5. Create a OneTech with a winning, safe & innovative culture	5.1 Implement and live in a Vested culture	Relationship index, Compatibility and Trust assessment (CaT)
		5.2 Create a high employee satisfaction	Employee satisfaction index (for OneTech)
		5.3 Minimize work related accidents	Sick leave due to accidents

Rule 4: Pricing Model with Incentives to Optimize the Business

Developing a Vested pricing model is typically the hardest part to get right in any Vested deal. This was no exception for Telia and Veolia. In fact, the project plan allocated roughly one third of the time for the team to develop the pricing model as it took to complete the other four Vested rules. Together the Telia-Veolia team worked through five and one-half days of workshop time over six days. The workshops started with a risk assessment and how the parties would allocate risk. Other workshop topics centered on what would be a fair margin for Veolia and how Telia should allocate profit margin across four "buckets" of work – base book of business, out of scope and variable work such as projects, governance, and achievement of transformational goals.

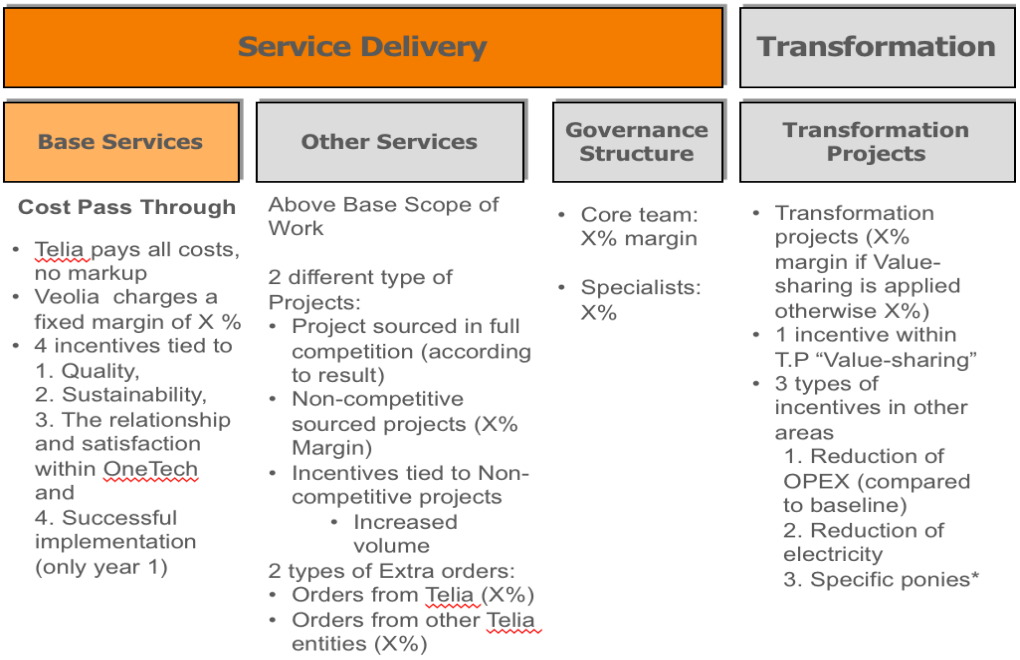
The pricing model was where Telia and Veolia made the leap from a conventional, transactional "price" approach to a pricing model with incentives. Hamlund reflected on just how difficult it was to make the mind shift when it came to the economics of a Vested deal:

> "What we discovered at the start is that it's really important not only for us – but also for Telia – to transparently communicate the intent of the pricing model to the broader organizations. Under the pricing model, Veolia makes less profit on base services. However, we have the potential to earn above market profit margins on our project/transformation initiatives. Shifting to Vested means both Telia and Veolia now look at the financials across the whole portfolio of business together and not just the price of individual projects or services. We are now making much smarter and collaborative business decisions that ultimately motivate Veolia to make investments that will have a high ROI for both parties."

Hamlund credits their coaching sessions with Lindahl for helping them make the mindset shift. "The education was very different from the old way of doing things, particularly with respect to pricing. Lindahl was really, really great in helping to keep us stay focused on how Vested grows the pie and shares the pie mindset as we set out to create the pricing model. Usually when we get a new contract we focus a lot on the' how' and 'price' – trying to translate the customer's work into how we are going to make money, and what we are going to do to make up the money if we end up on the short end of the stick in pricing negotiations. Vested was different. Erik reminded us of our commitments and how we needed to behave and that made us really secure."

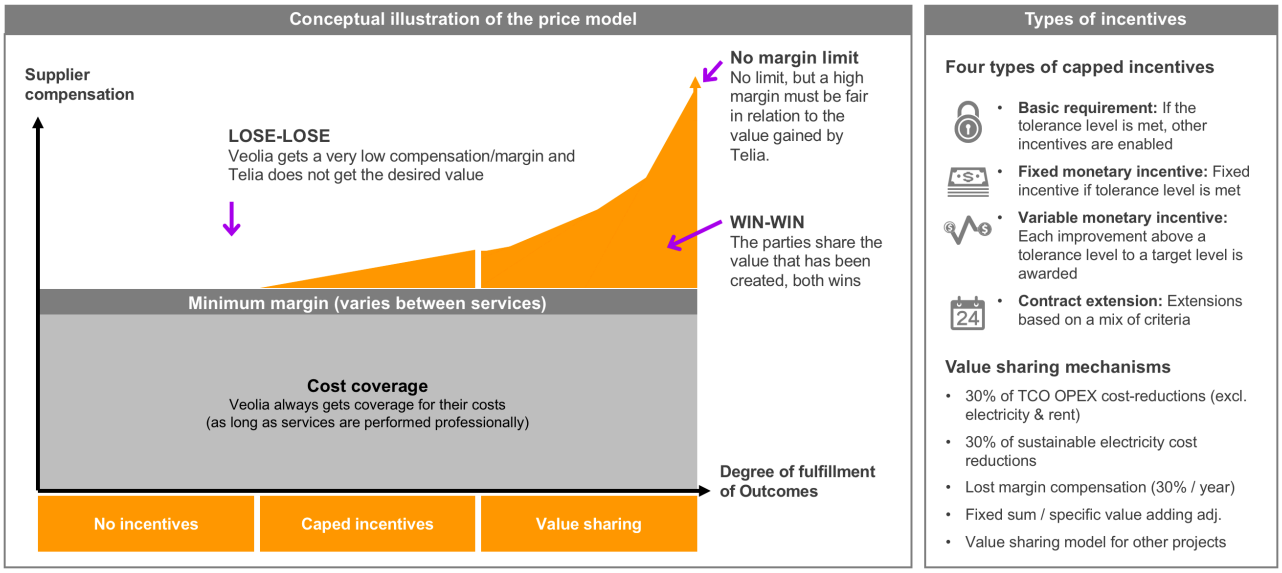
Figures 9 and 10 (following page) provide more detail about the Telia-Veolia pricing model.

Figure 9



A key philosophy of a Vested pricing model is to create win-win economics. As shown in **Figure 10**, the pricing model is conceptually designed to improve the results continually in relation to set outcomes and to fairly share value.

Figure 10



Rule 5: Insight vs. Oversight Governance Structure

With the pricing model under their belt, Telia and Veolia shifted their focus on how the parties would govern the relationship. In Vested, the emphasis is on managing the business with the supplier, not simply of how to manage (and definitely not how to micro-manage) the supplier.

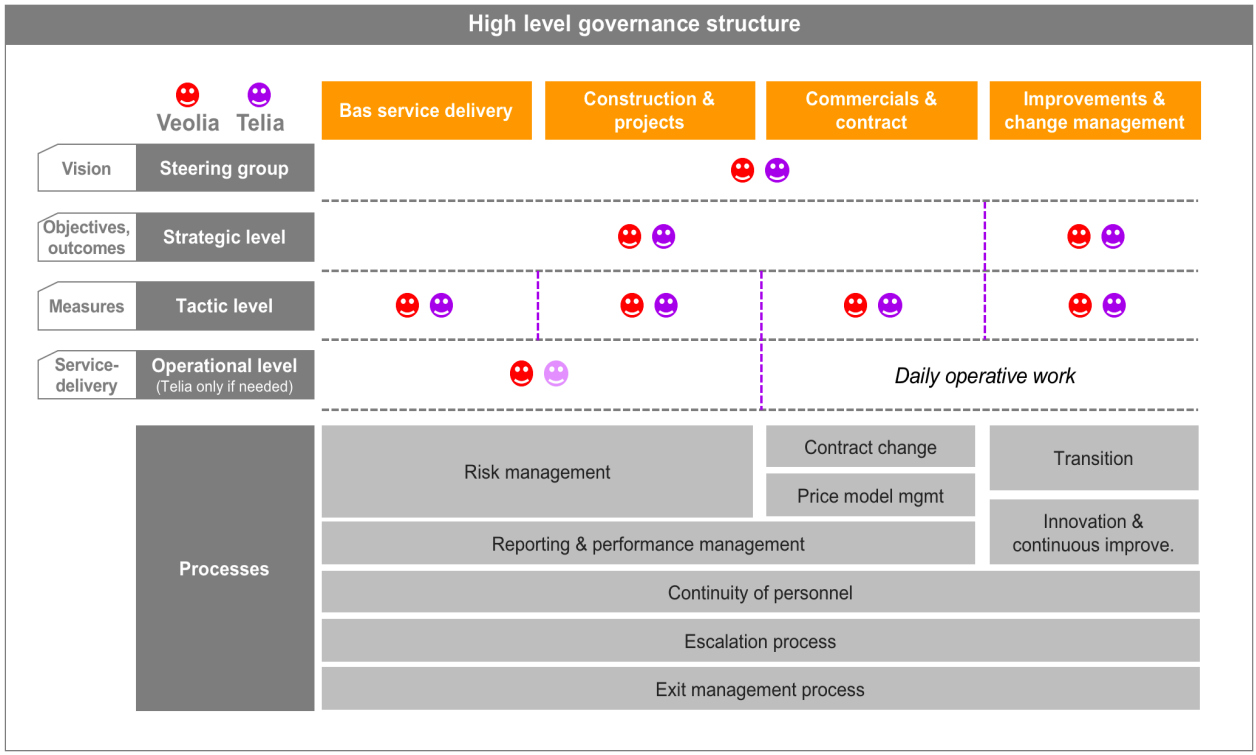
The parties embedded the following key Vested concepts into the design of their governance structure.

1. **Two-in-a-Box** – A key philosophy of Vested is to govern with insight versus oversight. Telia would entrust Veolia to do the work and provide it with the autonomy and flexibility needed to make improvements to the business and solve for day to day issues. But this would not mean Telia would "throw reasonability over the fence" per se. Rather, Telia and Veolia would have counterparts, enabling efficient resolution of issues and rapid approval of ideas on how to improve the business. Telia would play the role of enabler, but not one of a traditional vendor manager.
2. **Managing for Today and For Tomorrow** – Most outsourcing deals are designed to manage for a green operational scorecard, but not manage for the future. In Vested, Telia was buying the future: the Desired Outcomes. This would mean a key aspect of governance was to manage not just for today (operational green scorecard), but also to manage for tomorrow (transformation to achieve the Desired Outcomes). A common mistake many outsourcing teams make is that the operational leaders are tasked with both managing for today and managing for tomorrow. In Vested, these roles are separated and there are dedicated resources on both the buyer and supplier (a two-in-a-box team) to manage innovation and change. The reason for separating the roles is simple; it prevents the companies from getting stuck in day to day operations without ever having time to drive transformation and manage for the future.
3. **Continuous Focus on Results** – Achieving success would mean translating the Desired Outcomes at the shop floor level. To do this, Telia and Veolia translated the Desired Outcomes into nine objectives and 11 distinct measures. These objectives and measures were then driven down to the appropriate two-in-a-box team responsible for achieving results for the areas they were accountable for.
4. **Supporting Processes** – Governance is more than just placing the right people in the right jobs. It is also about having the right processes. This means having a playbook for how the parties will manage not just the technical side of the business, but how they will manage the business. The Telia-Veolia governance playbook consisted of 12 governance support processes. For example, how would the

parties work together to manage and mitigate risk? How would they ensure continuity of resources? Or, how would the parties manage continuous improvement and transformation initiatives?

Figure 11 summarizes the Telia-Veolia governance structure.

Figure 11



VESTED FOR SUCCESS

The Telia-Veolia Vested contract began in April 2017 under the virtual company name of "OneTech". But the journey really began more than a year before that milestone. A year after the launch, OneTech is operating with great success. The parties are successfully operating within all of the Guardrails and are seeing early successes. Some of the early successes include:

Telia Service Improvements

- Greater access to ongoing innovation
- Increased overview and ability to report to other group functions (i.e., Environmental data)
- Shorter lead times (faster cooperation) and reduced operational focus
- Increased cooperation with adjacent businesses in Telia (increased end-to-end focus on end-customer)
- Increased control on fixed and variable cost due to an open-book model ("The money is spent on the right horse")

Telia Financial Improvements

- Reduced the number of supplier-interfaces, significantly reducing transaction costs economics and governance costs of managing 60 contracts across 20+ suppliers – outperformed
- Beat Telia's cost saving target guardrail and further cost structure reductions. One year into the contract (May 2018) this guardrail has been outperformed by over 50%.

Veolia Improvements

- Long-term contract with possibility for supplier to extend contract
- Book of business expanded +50%
- Higher profitability; share of transformation value in profits
- Higher client satisfaction

LESSON LEARNED

For many organizations, the Vested sourcing business model is a dramatic change both operationally and in the mindset for everyone involved. It entails a process that for some can be difficult to assimilate. Using the Vested courseware and a neutral third-party Center of Excellence are essential to creating a well-structured and sustainable Vested agreement. When asked what advice they would give to other organizations considering Vested – both Telia and Veolia pointed out is it important to go through the education and lean on a qualified Certified Deal Architect as a coach.

Don't Skip the Education

Veolia's Hamlund speaks first to the importance of the education. "The education was very different from the old (contracts). It was important that we understood the why of Vested if we were going to do the how to get to a Vested agreement."

He said the courseware did more than just provide the basics of what Vested was. "If you think about some of the basic Vested information or Vested courses we had in our education, we took a lot of inspiration from those in how we structured out deal."

If the online course was where the team got the basics and inspirations, the 17 workshops were where the team got the work done. Wallgren says, "Working with our coaches during the 17 workshops was great. It was actually something that changed my view on making the deal happen. We learned to work together with Veolia during these workshops. We divided the work and we really worked close together get the best out of both companies."

Hamlund added the workshops did more than just allow the team the working time to make decisions and compete the deliverables that would become the essence of their Vested agreement. "It became quite clear in Vested that there are no silly questions. The workshops allowed us to work through our questions in a non-threatening way. We knew were we all in this together. We were all learning – not just the concepts – but how to put the theory into practice for our deal. The really cool part was that by the time we signed our contract we already had a well-established positive relationship and were literally living into our Statement of Intent we created in Workshop 1. This made the transition to working under the new contract much smoother."

Telia's Sahlen agreed the education and lock-step methodology were critical enablers. Sahlen credited EY for keeping the joint Telia-Veolia team on track. "They did a great job of managing the project and keeping us on track. They were constantly there to remind us what was up next and what homework we had to complete prior to coming to the next workshop. This was very important because the homework from the Creating a Vested Agreement online course was key to help us have productive workshops. "

Lean on a Qualified Certified Deal Architect

Telia's Sahlen described the EY/Lindahl team as the "motors" of their Vested initiatives. "While we did a lot of work on our own, having EY and Lindahl to guide us was invaluable."

Hamlund added, "Our joint Telia and Veolia team were new to Vested. EY and Lindahl led us with a firm hand. They really helped make sure our work was top notch and adhering to the Vested Five Rules. Take, for example, the development of the Requirements Roadmap where Telia and Veolia mapped metrics to the Desired Outcomes. At one point, Telia and Veolia had amassed about 30 objectives and even more metrics. But having a CDA who was an expert on the Vested methodology helped the team work through these common mistakes."

One team member commented, "We were beginners, we were amateurs. We really thought that we had really impressive sets of outcomes and measures. But when our CDA coach Erik Linnarsson came to the workshops to work with us on finalizing our homework and getting it ready for the contract, he was quick to point out we were not following the Vested rules. But more importantly, he was patient in helping us understand the why and leading us down the right path. When we got the Rule 4, we could then look back and be super thankful we took Erik's advice. Otherwise it would have been very hard link to the pricing model to achieving all of those objectives and metrics."

Team members also like the role of the consultants and lawyers as a coach. Veolia's Hamlund commented on how and why a "coach" role was invaluable. "The workshops were long days and the coaches were there by our side all-day long. So, it was easy to take the EY/Lindahl coaches aside and get their advice. For example, I could talk to Robin from EY and ask, 'I was just wondering about this, or how should we think about that. What do you think?' The EY/Lindahl coaches were super professionals and knew everything about Vested process. We could call them any time. They made us feel like they had all the time in the world for us and that was quite nice actually."

A Neutral Third Party is Invaluable to Get to a True Win-Win Deal

A key difference when you work with a Vested Center of Excellence is that the advisor is a neutral third party – meaning he or she works for both the buyer and the supplier during the contract development phase (the 17-week workshop phase to develop the contract).

Wallgren and Sahlen liked having someone to continually challenge each organization's thinking without favoritism or an agenda. "Playing the role of neutral facilitator was a key part of the CDAs role," said Sahlen. "It was a good way to build trust and spur innovation."

Telia's Wallgren noted, "The really good part was that our CDA coach was not sitting on one side. They were on both sides, both supplier and buyer. So they were really good at handling the facilitator role and not taking one perspective in the different discussions we had. They managed to drive the discussions from both sides very well. And that was good for us."

Wallgren observed that if you were an outsider on the team and "you came in the room you could not tell (if EY or Lindahl) were working for Telia or working for Veolia; you wouldn't know because they were very neutral. I think it's great that they had the integrity to actually manage that way throughout the whole project."

ACKNOWLEDGMENTS

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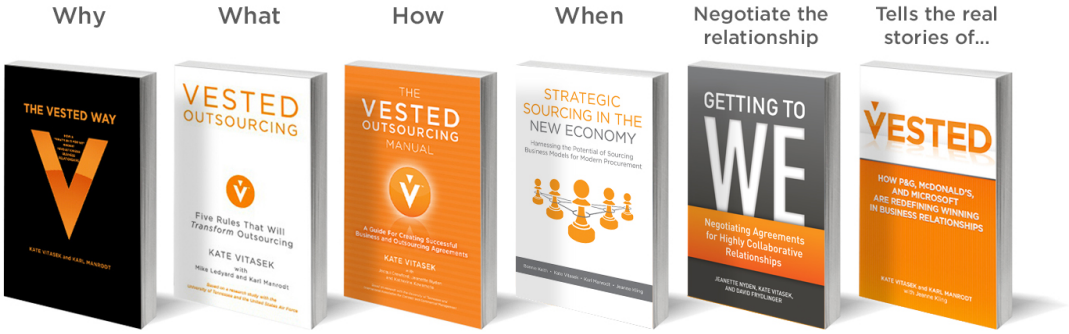
FOR MORE INFORMATION

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored six books on the Vested business model and its application in strategic sourcing.



We encourage you to read our six books on Vested, which can be found at most online book retailers (e.g. Amazon, Barnes and Noble) or at www.vestedway.com/books. Visit the University of Tennessee's website dedicated to Vested at www.vestedway.com where you can download white papers, watch videos, read articles and subscribe to our blog or register for our online or onsite courses.

ENDNOTES

[1] Telia Company AB website: https://www.teliacompany.com/en/

[2] Individuals who want to become experts in crafting Vested agreements can become a Vested Certified Deal Architects. The Certified Deal Architect Program is ideal for individuals responsible for more than one deal, or consultants and lawyers who assist companies with their deals. See http://www.vestedway.com/certified-deal-architect-program/. For the complete list of Vested CDAs, see http://www.vestedway.com/vested-certified-deal-architects/

[3] See the Vested White Paper "Unpacking Collaborative Bidding: Harnessing the Potential of Supplier Collaboration." A free download available at http://www.vestedway.com/vested-library/

[4] Veolia Norden website: https://www.veolia.se/om-oss/varldsledande-inom-resursoptimering/veolia-i-norden

[5] For a detailed discussion of Vested and the Five Rules, see Kate Vitasek, Mike Ledyard, and Karl Manrodt, *Vested Outsourcing: Five Rules That Will Transform Outsourcing*; Second Edition; (New York: Palgrave Macmillan, 2013). http://www.vestedway.com/vested-outsourcing/

[6] For a complete discussion of the guiding principles/social norms see: Vitasek, K. et. al., *Getting to We: Negotiating Agreements for Highly Collaborative Relationships* (New York: Palgrave Macmillan, 2013).